PROFESSOR KENNETH GIBB

WRITTEN SUBMISSION

Introduction

I am grateful to have the opportunity to comment on the housing aspects of the Draft Budget for 2014-15 and also how it relates to the relevant indicators of the National Performance Framework (NPF). My submission briefly reports on progress since the investigation by the Committee into the 13-14 Draft Budget, it notes several specifically private sector housing policy challenges going forward and identifies further broader challenges that may impact on NPF outcomes.

Affordable Progress

Since the completion of the 2013-14 Draft Budget scrutiny, there have been several important positive developments concerning resources for affordable housing policy. The housing budget has grown strongly (the largest real terms annual increase across all headings, according to SPICe, 2013) for two main reasons, by first securing and consolidating the decisions of the *Financial Capacity, Affordability and Development Subsidy Short Life Working Group* and also second through the additional contribution made by the distinctive Scottish version of Help To Buy.

Shoring up affordable housing supply has been achieved by higher grant rates (£16,000 extra per unit), additional funds to maintain the overall programme (£44m) and certainty about the fully funded programme in 2015-16 – all will greatly help achieve social and affordable supply targets. Moreover, In particular the levels of grant and phased payments will help hopefully return associations to development in sufficient numbers.

But risks remain regarding the 30,000 supply target, notably the supply of, and the terms and conditions of private finance (a continuing concern also raised by the Working Group) and the business development problems facing social landlords as a result of welfare reform costs in the form of higher arrears.

It is also worth pointing out that while maintaining the level of 6,000 units is an important and laudable achievement, this is still only around the average level for social/affordable completions over the last dozen or so years. This is below the annual 8-10,000 level of national housing need that has been a benchmark since 2005.

Funding, via Barnett Consequentials, has also supported new shared equity private housing (£120m over two years) announced earlier in the year and (just last week) a further £220m over 3 years for Help to Buy 2. The Scottish version is distinctive in that both market interventions are only for new build homes (the latter priced up to £400,000 per unit – lower than the £600,000 ceiling in England). The focus on new build is constructive and helps to mitigate concerns about a demand bubble that have been strongly and widely voiced regarding HTB2. But note also that the money is a repayable loan from a restricted loan and equity investment funding route – it has to be repaid and cannot be recycled.

Clearly not all of the HTB2 properties can be considered affordable supply (and it applies to existing owners too).

Private Sector Challenges

The private housing market is relevant to the work of the Committee because of the fundamentally systemic nature of the housing sector and the interdependencies across tenures (e.g. S75 planning agreements for affordable housing or the role private renting plays in tackling homelessness). Key areas of concern include private house building, mortgage lending, house prices and the private rented sector.

Private house building is at historically low levels in both Scotland and England. After the shock following the financial crisis annual completions have generally continued to fall ever since. This is bad for the industry and its capacity, the wider economy and in the longer term for the development of mixed communities. The Scottish version of HTB clearly helps the industry but we should recognize how far it has contracted. Stable market conditions, complementary policies and their local application and in particular avoiding further speculative instability will be in everyone's interest if it can resuscitate the new build market sustainably.

Aspects of the private market are effectively reserved and we should note the current interest by the Bank of England in monitoring and if necessary responding to evidence of speculation through intervention in the lending industry and even monetary policy. There must be a concern that this will focus too much on the metropolitan housing market and take insufficient account of more peripheral housing markets at different stages of market recovery i.e. Scotland and the North.

Scotland will shortly have its own new housing market lever in the form of the Scottish buildings and transactions tax that will replace SDLT in 2015-16. We do not know yet what its rates will be but that it will be progressive and tax at the margin rather than as a 'slab' tax. I would hope that future Governments will resist the temptation to tinker with it but rather leave it to do its mildly counter-cyclical behavioural work on prospective buyers as prices increase. Setting the rate should take account of this small but potentially useful feature.

Finally, the Government has recently published its private renting strategy which seeks to develop a sector where high standards are enforced and where the sector is open and attractive to large scale investors and ultimately can help support the economy and the flexibility required of a modern housing system. The market rental sector has grown considerably in part due to the dysfunction of the home ownership market in recent years and part of the sector is now an important part of the solution to tackle homelessness and it has been subject to major HB cuts and reforms. Future housing policy development must take full account of the rental market – it is where most short run housing solutions (and problems) occur and it is now a significant quantitative part of the system.

Broader Questions

I would make four broader points, several of which featured in last years ICI 2013-14 Draft Budget report.

- While evidence of innovation is welcome, the adequate and affordable supply of private finance for social housing remains a concern.
- Last constructed in the middle of the last decade, Scotland requires an up to date national benchmark estimate of housing need.
- The profile of the bedroom tax controversy and impacts on the ground are of course imporant in different ways but we should recognise both the wider range of HB cuts across low income households as a whole and the changes still to come with Universal Credit.
- There still seems to be little interest in evaluating the efficiency, effectiveness and outcomes of the various new programmes we have in sufficient depth (except afterwards as an ex post exercise).

Conclusions

This has been in many respects a positive year for housing funding and should provide a welcome degree of stability into the system at least until 2015-16 and hopefully beyond. How does this outcome and the wider housing system perspective speak to the three key housing NPF indicators?

- build more new homes
- provide solutions to those in housing need
- support GDP growth to UK level

New build as a whole will be supported by the interventions identified above in the context of a slowly recovering market. Sustainable market recovery, more affordable housing, the continuing evolution of the housing options preventative model and the longer term fruits of a positive private rental strategy can help meet need and allow a more balanced flexible housing system to support the economy's potential – but that is a long term vision of what might happen if we have a period of stability and consistency. This budget at least appears to be moving in that direction.

Reference

SPICe (2013) *Financial Scrutiny Unit Briefing: 2014-15 Draft Budget* SPICe: Edinburgh.

Prof Kenneth Gibb
October 2013