

DRAFT BUDGET 2014-15

SUBMISSION FROM HOMES FOR SCOTLAND

Context

Homes for Scotland is the representative body of the Scottish home building industry, with 180 full and associate members. Its members build around 95% of all new homes for sale built each year, as well as a significant proportion of the affordable housing output annually.

Questions posed and responses from Homes for Scotland

How has the Scottish Governments budget over the years 2012-13 and 2013-14 supported these areas of interest?

Within the scope of the specific areas of interest and indicators referred to in the paper, HFS would make the following points all of which have the potential to impact positively or negatively on two of the 'National Indicators' – *'Increase the number of new homes'* and *'Increase the number of businesses'*:

- Access to finance, particularly for SME's – this continues to be an extremely problematic area, with many of our SME members reporting great difficulty in accessing bank finance at realistic rates. Access to new funding for speculative housing development is extremely difficult to obtain and this consequently affects SME existence and also exacerbates the national housing crisis due to their inability to deliver the much-needed new homes.
- The NHT scheme is broadly welcomed and has assisted some members to resolve specific issues on live developments. Whilst welcoming its launch we are now keen to see it develop and adapt to a changing market and new challenges.
- MI New Home¹ – this industry led scheme, but supported by Scottish Government guarantees, has been particularly successful and has provided an essential route through which credit-worthy borrowers have been able to obtain 95%LTV mortgages, which in turn has assisted the home building industry. It should be noted however, that this scheme best suits medium to larger homebuilders due to the operational costs involved.
- National indicator *'Reduce Scotland's carbon footprint'* – whilst fully appreciating Scottish Governments commitment and obligation to reducing carbon emissions, we would like to raise a concern with the potential negative cost impact that would fall on the construction of new homes if standards are increased. The additional construction costs to reach increasing thermal efficiency levels (and carbon reductions) are a burden that is not reflected in house price valuations, lender considerations and also are not yet widely appreciated by homebuyers (refer to Scottish Government Sustainable Housing Strategy²). The consequence of this is that as construction costs increase to meet new standards sites will become commercially unviable and

¹ <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/BuyingSelling/minewhome>

² <http://www.scotland.gov.uk/Publications/2013/06/6324>

housing output will further decline along with risk to business continuity. Scottish Government needs to adopt a pragmatic and balanced approach to this delicate situation, by prioritising economic growth and increasing housing output. We look forward to the publication of the Sullivan Report³ which will provide a revised 'roadmap' to reducing carbon emissions from new homes. In addition, we believe that resources could be more effectively utilised and more carbon saved by focusing efforts and resource towards the retrofit of older homes.

- Help to Buy Scotland⁴ – whilst not yet launched, we look forward to the benefits of this scheme when available. Scottish Government has committed £120 million to a shared equity scheme, which should deliver a major boost to both potential homebuyers and homebuilders.
- Other Scottish Government Shared Equity schemes - the Scottish Government has continued to support shared equity initiatives during the period, allowing people on low to moderate incomes to access home ownership. In addition to supporting the New Supply Shared Equity with Developers Initiative which has been helpful to builders on sites where the restrictive criteria could be met, funds have continued to be allocated on a limited basis to open market schemes which can be beneficial in terms of keeping the housing market moving.

What progress has the Scottish Government made in delivering its overarching purpose-focus Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth-through its spending decisions over the last two years and in relation to NPF targets and indicators?

Our single response to this question would be that housing output (one of the 'National Indicators') has continued to decline over this period and is now at its lowest level since 1947⁵. It is acknowledged that Scotland is not alone with this problem, due to the financial crisis of 2008, however it is clear that much more needs to be done if the number of new homes required (according to official statistics) are to be delivered and the purpose, as described above, is to be achieved.

Is the NPF an effective method of measuring performance and are sufficient resources being allocated to track progress against the targets and indicators?

No additional comment, apart from that all indicators need to be thoroughly tested and examined to ensure that they do not drive unintended actions and outcomes. For example, a drive to reduce carbon emissions from new homes may result in fewer homes being built, thus not achieving the original carbon reduction target and as an unintended consequence further exacerbating the housing shortage and economic output, along with all the issues that result from this.

³ <http://www.scotland.gov.uk/Topics/Built-Environment/Building/Building-standards/SullivanPanel>

⁴ <http://www.scotland.gov.uk/News/Releases/2013/05/Shared-equity-17052013>

⁵ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS/NewBuildSummary>

How should resources allocated to the economy, energy and tourism portfolio in the draft 2014-15 budget be applied to support these core areas of interest and NPF targets and indicators and achieve long-term economic growth?

Concerted efforts are needed to remove all known obstacles that have the potential to hinder increases to housing output, economic recovery and growth. Collaboration is needed between national and local government and other policy-makers to ensure housing output is increased to meet Scotland's housing needs and any internal competing objectives removed. In addition, we need to remain aware of the relative competitiveness of Scotland compared to other parts of the UK. Investment decisions by major homebuilding PLC's will be influenced by the relative costs of building, availability of land, bureaucratic challenges and attractiveness of markets.

Failure to address this housing shortage will ultimately require more resources being used to tackle the many issues arising as a result of under-supply, thus negatively impacting on long-term growth.

What alternative spend would you propose to better support each core area of interest and from what area should such resources be diverted?

Investment in housing has the potential to have wide-ranging positive impact. Sufficient supply and better quality housing has a number of benefits including – better educational achievements, improved health and wellbeing, economic impact and growth, job creation, increased tax receipts, reduced welfare dependency and the list goes on.

The growth of a quality, professionally-managed private rented sector is development that is widely encouraged and welcomed, however this may require innovative financial solutions and policy making. The use of Government Guarantees has been a successful concept and we would like to see how this may be adapted to this sector.

The major barriers to increases in housing output and economic growth are generally related to the financial burdens imposed on developers for their contributions for the funding of new infrastructure (e.g. funding of schools, roads etc). Unrealistic burdens make many developments unviable and no-one benefits. We need to see innovative financial solutions and 'joined-up' thinking on how to make new developments viable and enable the provision of new infrastructure.

In summary, we would call for a strategic review of housing provision in Scotland with a bold commitment to deliver the required number of homes across all tenures, where people want to live. This is likely to require some resources to be directed from other areas, but if planned well could deliver a long-term return on investment. Consideration needs to be given to identify the linkages and see how housing can positively impact upon welfare dependency, educational under-achievement, life expectancy and ill-health, thus having the potential to deliver longer term social, economic and budget benefits.