



Local Government and Communities Committee

SPICe Briefing on the Scottish Government's More Homes Budget

1. Introduction

The purpose of this paper is to provide an overview of the Scottish Government's *More Homes* budget to inform the Local Government and Communities Committee's pre-budget scrutiny work.

In 2017/18, the More Homes budget line (£700m)¹ accounted for the largest part of the housing budget. The housing budget in [2017/18](#) also included resources for fuel poverty/energy efficiency (£114m) and housing support (£38m).

2. Background

More Homes Scotland is the Scottish Government's overarching approach to support the increase in the supply of homes across all tenures. As part of the More Homes Scotland approach, the Scottish Government plans to spend at least £3bn to deliver at least 50,000 affordable homes, by March 2021.²

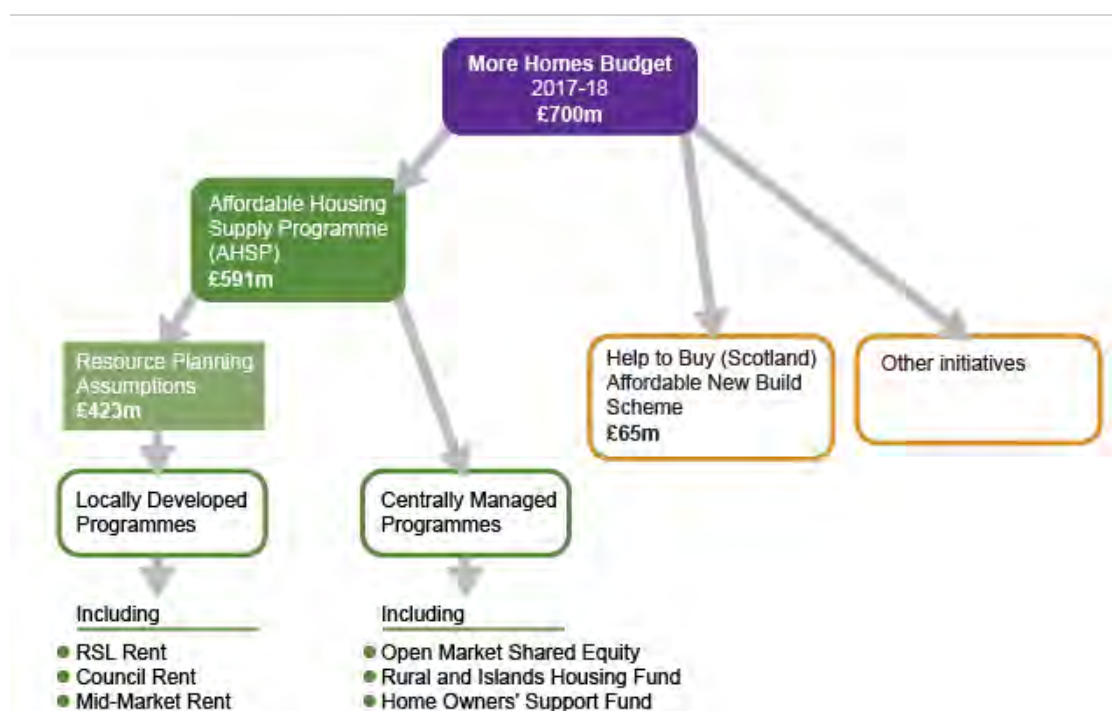
In 2017/18, the More Homes budget is around **£700m**, of which the majority, **£590.6m** (84%), is dedicated to the Affordable Housing Supply Programme (AHSP). The remainder of the More Homes budget, £109m, is allocated to the broader Homes Budget which includes the Help to Buy scheme and other schemes aimed at boosting wider housing supply.

This is summarised in Figure 1.

¹ This includes the Transfer of Management of Development Funding (TMDF) resources allocated to Glasgow City Council and the City of Edinburgh Councils. This appeared in the Local Government chapter of the 2017-18 budget documents.

² The affordable homes target covers the period 1 April 2016 to 31 March 2021.

Figure 1: Overview of the More Homes Budget 2017-18



3. Grant and Financial Transaction Funding

The More Homes budget is composed of a mix of grant funding and ‘Financial Transactions’ funding. In recent years, the Scottish Government has received Barnett consequentials resulting from a range of UK Government housing-related equity/loan finance schemes.

The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector, but has some discretion in the exact parameters of those schemes and the areas in which they will be offered. The Financial Transaction funding will ultimately be repaid to HM Treasury, probably over a period of around 30 years, reflecting the long term nature of the support involved. Grants, on the other hand, do not have to be repaid.

In 2017-18, around £471m of the ASHP is grant funding while £119.5m is Financial Transaction funding. Most of the broader More Homes Budget is Financial Transaction funding.

4. Affordable Housing Supply Programme (AHSP)

The AHSP funds a variety of schemes to help the supply of “affordable housing.” Affordable housing includes housing for:

- **social rent** provided by registered social landlords (RSLs) and councils
- **mid-market rent** (housing with higher rents than social rented housing, but lower than the equivalent market rent)
- **affordable home ownership**

5. ASHP - Locally developed programmes

In 2017/18, the majority of the ASHP, £422.6m, (71%) is for locally developed programmes.

The Scottish Government gives each local authority a Resource Planning Assumption (RPA) which they use to plan for the provision of affordable housing in their areas. The affordable housing is mainly provided by local authorities and Registered Social landlords (RSLs).³

In June 2017, the Scottish Government announced the indicative three-year RPAs 2018-19 to 2020-21, to help councils develop their plans for affordable housing in their areas. Table 1 shows these RPAs with 2017-18 figures for comparative purposes. A local authority breakdown of the RPA's 2018-19 to 2020-21 is available in Annex 1.

Table 1: Local Authority Resource Planning Assumptions.

Year	£m
2017-18	422.6
2018-19	532.7
2019-20	591.6
2020-21	630.2

Source: Scottish Government news release 13 June 2017 [£1.75bn boost for investment in affordable housing](#)

Even though the total figure for the AHSP for 2018-19 onwards is not yet known, it is clear that there will be a substantial uplift in the resources available for locally developed programmes. From 2017-18 to 2020-21, total local authority RPAs are planned to increase by 49%.

Strategic Housing Investment Plans (SHIPs)

Local authorities develop SHIPs which set out strategic investment priorities for affordable housing over a 5 year period to achieve the outcomes set for the local housing strategy. SHIPs are the key documents for identifying strategic housing projects to assist the achievement of the Scottish Government' 50,000 affordable home target.

SHIPs are submitted to the Scottish Government on an annual basis and form the basis of Strategic Local Planning Agreements (SLPAs) which are discussed with local delivery partners and then agreed with councils. SLPAs then form the basis of individual RSL and local authority programme agreements.⁴

³ Note, a small element of the RPAs is for central programmes

⁴ Scottish Government [guidance](#) on SHIPs was issued in July 2017

Under the Transfer of Management of Development Funding (TMDF) arrangements, Glasgow City Council and the City of Edinburgh Council manage the development programme in their areas on behalf of the Scottish Government.

Subsidy Levels

The Scottish Government publishes indicative subsidy benchmark levels at which RSLs and councils are expected to develop new homes at. In 2015-16, it cost around £120k to build a new RSL social rent property. Scottish Government subsidy accounted for around 54% (£65k) of the average RSL new build social rent cost.⁵

The subsidy benchmarks were increased in 2016, following the work of the [2015 Subsidy Working Group](#) which identified some cost pressures.

For social rented properties, subsidy benchmarks for councils are lower than RSLs benchmarks. For RSLs, the benchmark subsidy varies depending on the geographical location of the property. For both councils and RSLs a higher subsidy exists for properties that meet a “greener” standard. There is flexibility within the subsidy framework so that projects requiring a greater level of subsidy can potentially be approved.

Table 2: Subsidy Benchmarks (based on 3 person equivalent benchmarks unless otherwise stated)

	West Highland, Island authorities and remote and/or rural Argyll	Other rural	City and urban
RSL social rent – greener	£84,000	£74,000	£72,000
RSL social rent - other	£82,000	£72,000	£70,000
RSL mid-market rent – greener	£46,000		
RSL mid-market rent - other	£44,000		
Council social rent – greener*	£59,000 (flat rate benchmark for council projects)		
Council social rent – other	£57,000 (flat rate benchmark for council projects)		

*To qualify for the higher “greener” subsidy, new homes must include energy for space heating, as detailed within Section 7 of the 2011 Building Regulations. Source: Scottish Government website - <http://www.gov.scot/Topics/Built-Environment/Housing/investment/ahsp/2015-subsidy-working-group>

⁵ Scottish Government Affordable Housing Outturn Report

6. AHSP - Centrally Managed Programmes

In 2017-18, the Scottish Government retained £68.5m for the central programme which includes for example, the Home Ownership Support Fund, the Rural and Islands Housing Fund⁶ and grant funding for the Housing Infrastructure Fund.

Two elements of the central programme are published with the RPAs – the GHA amount of £16.1m and £3.9m added to the North Lanarkshire Council figure in respect of Cumbernauld regeneration

There is also £119.5m available in Financial Transactions which funds for example, the Open Market Shared Equity Scheme (OMSE), the loan element of the Rural and Islands Housing Fund, Charitable Bonds and new Mid-Market Rent invitation.

This is summarised in Table 3 below.

Table 3: Summary of AHSP budget

	£m
Resource Planning Assumptions (including central programme elements)	422.6
Central Programme element not included within the RPAs	48.5
Financial Transactions	119.5
Total AHSP Budget	590.6

7. Progress towards 50,000 affordable homes target

Over the period 1 April 2016 to March 2021, the Scottish Government aims to deliver at least 50,000 affordable units, of which 70% (35,000) will be for social rent. All units that receive funding under the AHSP count towards this target.

Progress towards this target is measured by the Scottish Government's Affordable Housing Supply Programme statistics that are available on the Scottish Government's website here: <http://www.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/HSfS/NewBuild/AHSPtables>

The latest statistics provide information on the number of completions from 1 April 2016 until the end of June 2017. Table 4 shows that, during this period, 8,928 units have been completed. Of these completions, 62% were for social rent, 25 % were for affordable home ownership and 13% were for affordable rent.

Just under two-thirds (63%) of the completions were new builds. The remainder were off-the shelf purchases or rehabilitations. The majority of off- the shelf completions took place under the Open Market Shared Equity Scheme which allows low income households to purchase an existing property on the open market.

⁶ Further details are on the Scottish Government [website](#)

Table 4: AHSP Completions 1 April 2016 to 30 June 2017.

Type of Activity		Completions
Social Rent		
RSL	New Build	2,988
	Off The Shelf	65
	Rehab	492
Council	New Build	1,455
	Off The Shelf	215
	Rehab	203
Home Owner Support Fund	Off The Shelf	80
Total Social Rent		5,498
Affordable Rent		
	New Build	959
	Off The Shelf	208
	Rehab	17
Total Affordable Rent		1,184
Affordable Home Ownership		
New Supply Shared Equity/ Shared Ownership	New Build	222
	Other Affordable Home Ownership**	30
Open Market Shared Equity	Off The Shelf	1,994
Total Affordable Home Ownership		2,246
Total Affordable Housing Supply		8,928

Source: Scottish Government Housing Statistics Affordable Housing Supply Tables: <http://www.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/HSfS/NewBuild/AHSPtables>

It is difficult to assess whether the Scottish Government's housing supply target is on track to be met. Assuming the 50,000 completion target was split evenly across the five years then to be on track to around 3,500 more units would have needed to have been completed by the end of June 2017.⁷ However, the profile of funding is uneven over the years and, as highlighted above, the RPAs are set to increase substantially in the next few years. Therefore, the number of annual completions would be expected to rise towards the end of the five-year period.

Statistics published on 12 September⁸ show that affordable housing approvals were up 30% on the previous year, showing a positive pipeline in place for the 50,000 affordable homes target.

8. Broader More Homes Budget

In 2017-18, around £109m is available in Financial Transactions for the broader More Homes budget. About 60% of this (£65m) is available for the Help to Buy

⁷ The five year period comprises 20 financial quarters. Assuming an even distribution around 2,500 completions would be expected each quarter.

⁸ <http://www.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/HSfS/NewBuild/AHSPtables>

(Scotland) Affordable new build scheme, other innovations such as the loan element of the Housing Infrastructure Fund are also part of this budget.⁹

Help to Buy (Scotland) Affordable New Build Scheme

The Help to Buy (Scotland) Affordable New Build and Smaller Developers Scheme assists people to buy a new build property from a participating developer. These schemes replace the previous Help to Buy (Scotland) Scheme which was in place from 2013 to March 2016. The new scheme is more targeted on affordable housing. The value of properties purchased under the scheme cannot be more than £200k.

The scheme is a shared equity scheme. Buyers are expected to pay at least 85% of the home's total purchase price and the Scottish Government will hold the remaining % share under a shared equity agreement. The buyer can increase the share they hold in the property. When the property is sold the owner must pay the equity share back to the Scottish Government.

Units funded through the *Help to Buy* scheme are not counted as part of the Scottish Government's Affordable Housing Supply Target (see below)

As Table 5 shows, over the period 2016-17 to 2018-19, £195m has been committed for this scheme, of which up to £50m could be spent in 2018-19 (the scheme is demand led). In response to a PQ¹⁰, the Scottish Government says it intends to make decisions early in 2018 on the future of these schemes beyond March 2019.

Table 5: Help to Buy (Scotland) Affordable New Build and Small Developers Scheme budget 2016-19

Scheme Year	Budget
2016-17	£80m
2017-18	£65m
2018-19	£50m

Source: S5W-02266 lodged by Pauline McNeil MSP

Table 6 shows that over the period April 2016 to March 2017, there have been 2,370 Help to Buy sales. The average Scottish Government Help to Buy Stake is around £27k while the total Scottish Government stake is around £64m.

Table 6: Help to Buy (Scotland) Affordable New Build and Small Developers Scheme April 2016 to March 2017

Sales	Total Value of SG HtB stake (£000)	Total value of purchases (£000)	Average SG HtB stake (£)	Average purchase price
2,370	64,100	425,200	27,000	179,400

⁹ Further details are on the Scottish Government [website](#)

¹⁰ S5W-11747 lodged by Pauline McNeill MSP

Source: <https://beta.gov.scot/publications/help-to-buy-scotland-monitoring-information-report/>¹¹

9. Outturn Information

Since 2008-09, the Scottish Government has published ASHP outturn reports, which includes details of how the ASHP budget was spent, including some information by local authority area. The reports tend to be published in February each year, around ten months after the financial year end. The latest outturn report covers the year [2015-16](#).

The 2015-16 outturn report notes that in 2015-16 the available budget was £461m. The budget was underspent by around £74m (around 16% of the available budget). The reason cited for this was because of less than anticipated take-up of grants in the central programme and loans from the demand led programmes.

Audit Scotland, in its report, *The 2016/17 audit of the Scottish Government Consolidated Accounts*, showed there was a £62m underspend in the Communities, Social Security and Equalities Portfolio. The report said,

“The underspend primarily related to capital spending in housing. Higher than expected levels of capital receipts were received which were offset against spending. In addition, spending on the Infrastructure Loan Fund established in 2016/17 was lower than planned as it relies upon sites becoming available from councils and private developers.”

10. Recent Developments

Rental Income Guarantee Scheme

On 12 October 2017, the Scottish Government announced¹² the launch of a Rental Income Guarantee Scheme (RIGS) to boost new investment in the Build to Rent Market. RIGS guarantees 50% of any gap between actual and projected rental income of a development. The aim is to provide investors and landlords with greater certainty of rental income during the initial years of letting. The scheme is operated on the basis of a contingent liability with no budget requirement for capital grant or loan. It is designed to be self-financing over its lifetime with the income from guarantee fees to be put towards the anticipated calls and administration costs.¹³

Self-Build

On 8 November 2017, the Scottish Government announced¹⁴ that a new £4m self-build loan fund offering financial backing to people who want to build their own homes will be available from autumn 2018.

¹¹ Outturn information on the previous scheme 2013-2016 is available here:

<https://beta.gov.scot/publications/help-to-buy-scotland-monitoring-information-report-2013-2016/>

¹² Scottish Government news release 12 October 2017 *New Scheme to Boost Investment in Housing*
<https://beta.gov.scot/news/new-scheme-to-boost-investment-in-housing/>

¹³ Information provided by Scottish Government officials 23 November 2017

¹⁴ Scottish Government news release 8 November 2017 [Help to build own home](#)

The fund is being set up following a pilot in the Highlands. A Challenge Fund to support pilot projects that will help to expand the custom and self-build sector is also open for applications (the deadline is 1 Dec 2017).

Older People

In October 2017, it was reported¹⁵ that the Housing Minister, Kevin Stewart MSP, said that affordable housing is to be made more accessible to the over 60s. These include access to the Open Market Shared Equity Scheme and the Help to Buy Scotland scheme. Retirement or supported homes could also be included under shared equity schemes. It is not yet clear whether there will be any change in the 2018-19 budget to facilitate this.

Kate Berry
Senior Researcher
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Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.
The Scottish Parliament, Edinburgh, EH99 1SP www.scottish.parliament.uk

¹⁵ BBC news 25 October 2017 [Affordable housing in Scotland opened up to over-60s](#)

Annex 1: Affordable Housing Supply Programme (AHSP)

Long term Resource Planning Assumptions (RPAs) 2018-19 to 2020-21

	2018-19 £m	2019-20 £m	2020-21 £m
Aberdeen City	16.027	18.133	19.346
Aberdeenshire	25.313	28.638	30.554
Angus	7.511	8.497	9.066
Argyll & Bute	15.150	17.140	18.286
Clackmannanshire	5.074	5.741	6.125
Dumfries & Galloway	18.049	20.420	21.786
Dundee City	14.958	16.922	18.054
East Ayrshire	10.446	11.818	12.609
East Dunbartonshire	6.506	7.360	7.853
East Lothian	8.907	10.077	10.751
East Renfrewshire	5.223	5.909	6.304
Edinburgh City	37.269	42.117	45.147
Eilean Siar	7.533	8.522	9.092
Falkirk	9.995	11.307	12.064
Fife	28.572	32.325	34.487
GHA Reprovisioning	9.500	1.000	0.000
Glasgow City	85.731	96.883	103.853
Govanhill Early Action Programme	5.000	5.000	5.000
Highland	37.541	42.473	45.314
Inverclyde	8.867	10.031	10.702
Midlothian	7.611	8.610	9.186
Moray	7.474	8.455	9.021
North Ayrshire	13.261	15.003	16.007
North Lanarkshire	30.772	34.301	36.335
Orkney Islands	2.680	3.033	3.235
Perth & Kinross	14.340	16.224	17.309
Renfrewshire	13.846	15.665	16.713
Scottish Borders	13.167	14.897	15.893
Shetland Islands	4.291	4.855	5.179
South Ayrshire	10.503	11.883	12.678
South Lanarkshire	23.592	26.690	28.476
Stirling	7.965	9.011	9.614
West Dunbartonshire	8.634	9.768	10.421
West Lothian	11.397	12.894	13.757
Total	532.703	591.602	630.218