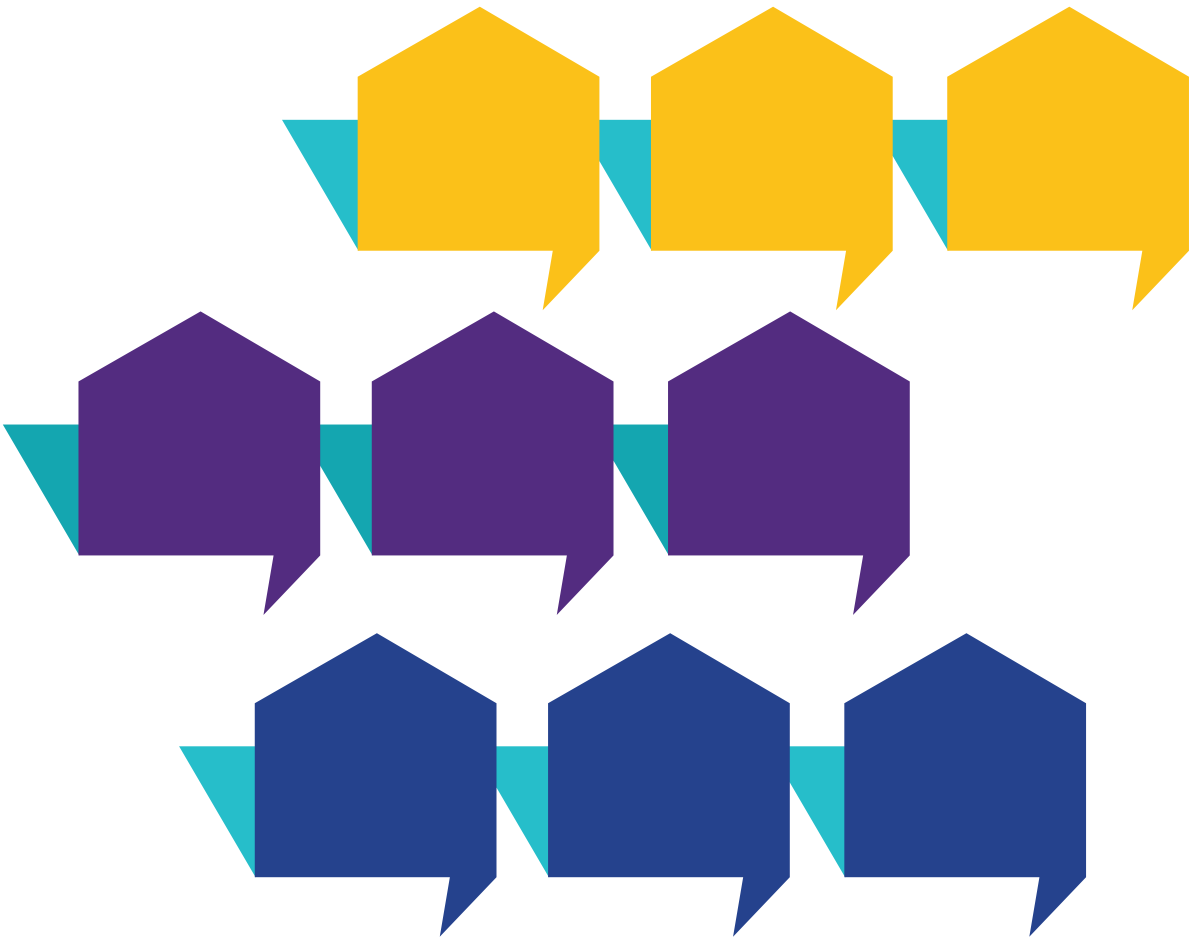
improving living in scotland

HOMES FOR SCOTLAND

Delivering More Homes for Scotland: barriers and solutions



A discussion paper.

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May 2018

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Background to this Discussion Paper

This paper provides an inside perspective on Scotland's home building industry and the housing land market.

It is an essential counterpart to the "Land Lines" discussion papers published by the Scottish Land Commission and is both informative and constructive.

It gives a voice to the industry which lies at the heart of housing delivery and considers the wider practical issues hampering the construction of new homes.

Most importantly, it explores what is required to help home builders deliver at scale to meet Scotland's housing need and demand.

About Homes for Scotland

Homes for Scotland represents some 200 organisations which together deliver the majority of the country's new homes.

We are committed to improving the quality of living in Scotland by providing this and future generations of Scots with warm, energy-efficient, sustainable homes in places where people want to live.

Our aim is to ensure a strong home building industry that delivers more homes and which, by doing so, makes a significant contribution to Scotland's social, economic and environmental well-being.

With current housing completions still over 30% down on 2007 levels, the scale of this challenge is huge. This is starkly demonstrated by the fact that only 17,000 new homes were built in 2016, significantly lower than both the pre-recession annual average of 25,000 and the 23,000 annual target that the Commission for Housing and Wellbeing report of 2015 indicated as necessary to meet Scotland's housing need.

About the Authors

This paper has been jointly written by Homes for Scotland's Chief Executive Nicola Barclay and Director of Planning Tammy Swift-Adams.

Nicola's career spans 25 years in home building, stretching over sales, land acquisition, planning and development finance. She is therefore ideally placed to articulate how the industry works, pinpoint barriers to expanding delivery and appraise proposed reforms that may impact the companies that currently build Scotland's new homes.

Tammy has over 20 years' experience as a town planner, specialising in development planning, regeneration, policy development and housing. Having previously worked in local authorities, the civil service and the third sector, she uses this insight to collaborate with stakeholders to ensure the home building industry is better understood by those whose decisions affect it.

Both Nicola and Tammy are members of the Royal Town Planning Institute.

Summary

Scotland has a chronic undersupply of homes. This paper looks at the multiple barriers to their delivery and seeks to identify some of the solutions that will increase supply across the country.

The real barriers to the delivery of new homes are the lack of the following:

1. mortgage availability to those who could afford the repayments, due to the requirement for significant deposits
2. home builders, especially of a smaller scale
3. longer-term certainty of funding for social and mid-market rented accommodation
4. an experienced workforce to supply the skills needed to deliver the homes
5. funding for associated infrastructure – roads, water systems, schools etc
6. support for new homes from some local authority staff, councillors and existing residents
7. a planning system that embraces, and can quickly consent, buildable developments

Our proposed solutions are:

1. the continuation of policies that support home ownership for those struggling to get on the ladder (Help to Buy, OMSE, NSSE models), and a consideration of other models at scale
2. more meaningful support for small-scale home builders to help increase industry capacity
3. the allocation of sufficient land in places where people want to live and where home builders can generate a return on their investment
4. the consideration of long-term borrowing for infrastructure investment through pension funds or the Scottish National Investment Bank, with low-risk, long-term returns on their investment
5. an analysis of the New Town Development Corporation model of large-scale housing delivery, identifying options for how a new version could be resourced, funded and implemented
6. finding ways to drive forward a culture of local authority commitment and ownership to the delivery of more new homes in their areas, including a responsibility to align capital budgets with their Local Development Plans and a desire to see the Plans come to fruition
7. working with others to ensure a collaborative, better resourced and delivery-focused planning system that quickly and efficiently facilitates more new homes

We believe that other emerging ideas (such as Compulsory Sale Orders, a Housing Delivery Agency and/or new taxes) need very careful consideration and analysis before they can be supported in policy or legislation.

1.0 Introduction

There is no doubt that we must find solutions to the chronic undersupply of new homes if we are to meet the needs of our growing population. This paper considers whether the answers lie in the land market, which supplies the raw material home builders need to run their businesses, or elsewhere.

2.0 Scene Setting

House prices have risen dramatically in Scotland in recent decades, far outpacing income growth. This is to the detriment of an entire generation which finds itself locked out of home ownership. Some suggest the driving force behind rising house prices has been increasing land prices when, rather, the converse is true: land prices have risen due to rising house prices.

This is one of many assertions made about Scotland's housing land market and the home builders who operate within it. Unfortunately, many of those assertions ignore the true complexities of the housing crisis and thus undermine the importance of helping Scotland's home builders to build more homes.

When home builders want to buy land, they use a "residual valuation" methodology to calculate how much they can offer.

- This involves analysing the current values of second-hand residential properties in surrounding and comparable market areas to calculate the values of the homes they intend to sell.
- All known costs are then deducted from the total anticipated revenue. These will typically include:
  - build and site costs
  - developer contributions and all other costs arising from planning and other consenting requirements
  - sale and marketing costs
  - operating costs
  - fees
  - taxes
  - an allowance for a reasonable return on investment.
- The price offered for the land will also be subject to further deductions not known at the time of offering (such as abnormal ground remediation costs).
- The (residual) price offered for the land must also meet the expectations of the landowner.

The value of the homes to be built and sold is not affected by the price of land. These prices are driven by the existing local housing market and the valuations provided by surveyors acting for mortgage lenders at the point of sale. Those valuations are based on what each home is deemed to be worth – not how much it cost to build.

By the same token, development costs, including those applied by planning policies, can't be "passed on" by home builders to home purchasers by way of increased selling prices.

One of the fundamental reasons that house prices rise is due to high demand and/or a lack of supply in a local market area. They are heavily influenced by the availability of local amenities such as well-performing schools and good transport links.

Another popular argument is that the introduction in 1959 of hope value on compulsory purchased land ended the ability of public authorities to build homes on land that they were able to purchase cheaply. However, the public sector and housing associations delivered the greatest proportion of housing right up until 1979 – 20 years after the 'hope' value policy was introduced.

The sharp drop-off in home building by the public sector after that point has much more to do with the politics of the time. The government that came to power in 1979 sparked a boom in home ownership with owner-occupation rates increasing year-on-year until the global economic crisis of 2008.

Right to Buy legislation gave council house tenants the ability to purchase their homes at discounted rates, but local authorities were not permitted to use those receipts to replenish the public-sector housing stock. Nearly 500,000 local authority homes were sold between 1979 and 2016 in Scotland alone, equating to over 13,500 homes a year being lost from the social housing stock.

The appetite for home ownership was further fed by changes to the mortgage environment that increased demand from aspirant home buyers and pushed up prices.

- The availability of cheap credit allowed a much wider proportion of the populace to get mortgages. This created new demand for home ownership and, as demand rose, so did house prices. This encouraged more to do the same as people began to see house buying as an investment rather than purely a basic requirement for shelter and security. Over time, access to credit increased further through 110% mortgages, self-certification and so on, creating a self-perpetuating cycle of higher lending and borrowing.
- Cheap credit, buy-to-let mortgages and rapidly-rising house values encouraged many people to invest in additional residential properties and become the buy-to-let investors and landlords we now identify as the Private Rented Sector (PRS). Scotland's PRS sector has doubled in size in the last 15 years and data shows that PRS landlords hold 2.6 properties each, on average. The growth of this amateur landlord sector has further contributed to house price growth as they compete against owner-occupiers, especially for the one and two-bed flats which are attractive to the rental market.

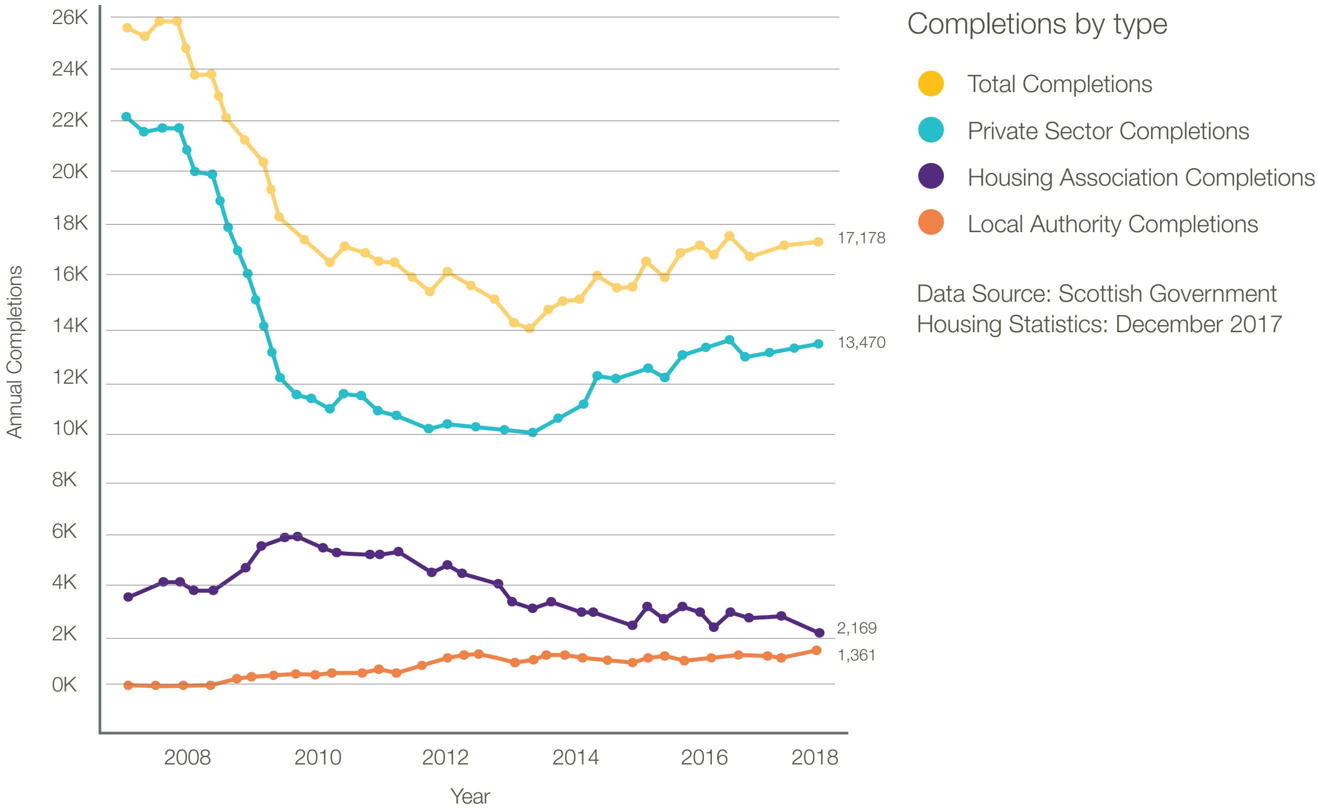
Since 2008, the housing market has changed substantially as higher-risk lending has disappeared and Loan-To-Value percentages have reduced. This is generally seen as a positive correction in a mortgage market that had become overheated and irresponsible. However, ten years on, and despite a recovering market for new homes, mortgages remain hard to access for would-be home owners with the financial ability to service them. This suggests an over-correction of the earlier problem.

Scottish Government figures (Figure 1) show us that new home completion rates in Scotland haven't grown to any great extent since 2008 and have flatlined at 16,000 – 17,000 new homes in total per annum.

> '13,500 homes lost from social housing stock in Scotland each year'

Figure 1

Running Year to Date Housing Completions



Since the recession, those home builders who are still operating have been able to access and secure the land they need to run their businesses, at costs that are viable, in locations where people want to live and where they can economically build.

With fewer home builders operating in the market (as a result of the many small-scale home builders lost around 2008/9), volumes of land sales have been lower than before the crash. Those home builders still in business have increased their market share and many are looking to expand further. To do this, they need to open new offices, enter new market areas and compete for land to sustain their business pipelines.

Homes for Scotland recognises that while there are many reasons behind the flatlining of housing numbers as shown in Figure 1, the impact of the sheer lack of operators within the industry should not be underestimated.

3.0 Barriers to Delivery

Significant blockers to delivering more homes in Scotland include the lack of:

1. mortgage availability to those who could afford the repayments, due to the requirement for significant deposits
2. home builders, especially of a smaller scale
3. longer-term certainty of funding for social and mid-market rented accommodation
4. an experienced workforce to supply the skills needed to deliver the homes
5. funding for associated infrastructure – roads, water systems, schools etc
6. support for new homes from some local authority staff, councillors and existing residents
7. a planning system that embraces, and can quickly consent, buildable developments

4.0 Solutions

If we are serious about increasing the supply of new homes and ensuring home ownership is an achievable goal for all generations, we must start looking at realistic solutions to these issues.

Mortgage Availability

It must be understood that Scotland operates within a UK-wide mortgage market. Therefore, until the UK mortgage market corrects itself, we need intervention models that can help people to purchase a home. This should include a continuation of the following:

- Help to Buy for new build private homes
- NSSE (New Supply Shared Equity) for affordable homes for sale
- OMSE (Open Market Shared Equity) predominantly for second-hand private homes

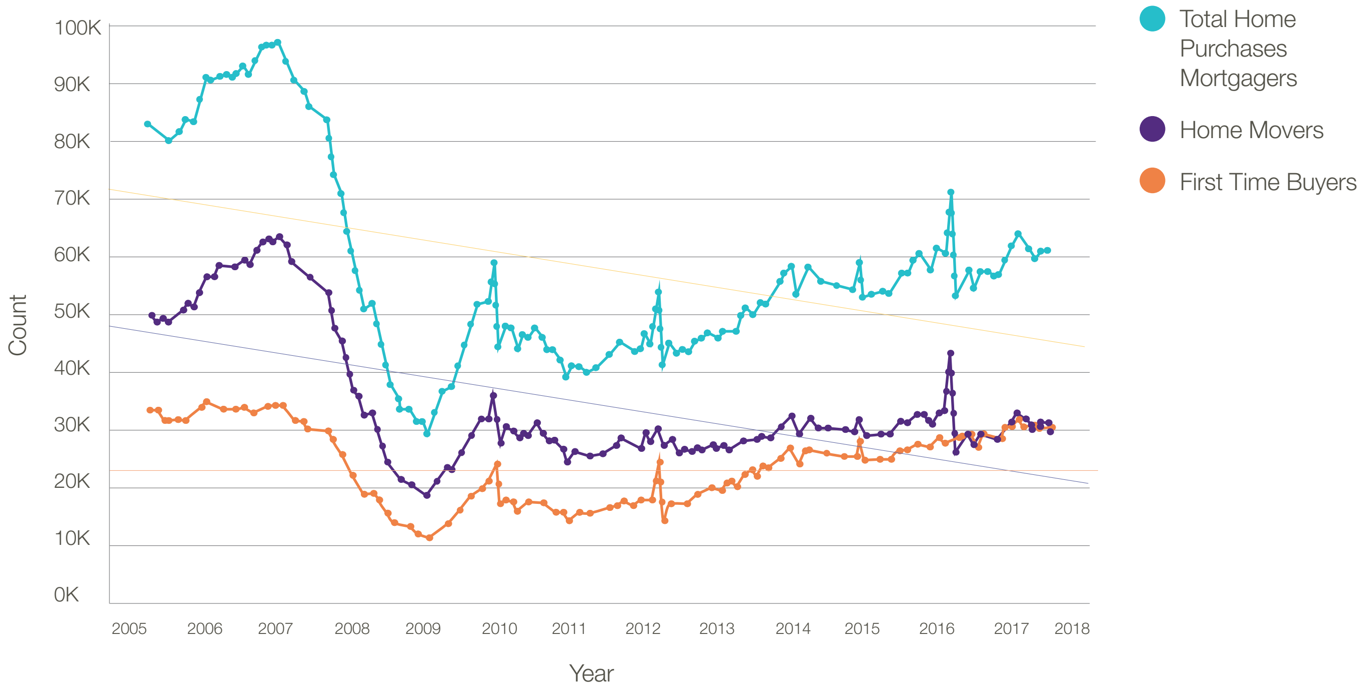
These buyer-focused initiatives, introduced by Government after the financial crash, have played a significant role in increasing mortgage access. They help with a proportion of the purchase price, so people aspiring to buy a home can do so without the need for a significantly large deposit. They fill the mortgage-access gap to some extent, though not completely.

Figure 2 (opposite) shows that we are starting to see an increase in First Time Buyer mortgages, which has been assisted by the schemes mentioned above, and the relaxation of some of the tighter lending criteria in place following the recession.

Figure 2

UK Mortgage Transactions Home Movers, First Time Buyers, Buy to Lets, Totals

Housing Statistics: UK Finance
Non Seasonally Adjusted (NSA) Adjusted (SA)



We should also consider other models that would enable access to home ownership such as ‘Rent to Buy’. This model eases the transition from renting to home ownership, allowing tenants to move into the home they would like to buy but rent it for the first few years at an amount that includes a proportion set aside for a future deposit. This gives them the option to buy the property later, once their deposit is large enough. To an extent, this has been trialled through mid-market rent initiatives in Scotland but not to the same extent as England.

Unless we return to pre-recession volumes of responsible mortgage lending, we will struggle to satisfy demand from aspiring home buyers. Demand will continue to outstrip supply and house prices will continue to rise, ironically pushing home ownership even further out of reach for many.

Small-Scale Home Builders

Banks have all but stopped lending money to small-scale developers to purchase land and build homes. This has had a catastrophic impact on the depth and range of home builders available to build the new homes that are needed.

Given how hard it now is to achieve all the necessary consents to get on site, or to service developer contribution obligations as a small-scale home builder, this trend looks set to continue unless action is taken. The level of information required by planning officers before they process an application is prohibitive to those without access to significant levels of finance. It costs tens, if not hundreds, of thousands of pounds by the time all technical reports have been commissioned, detailed designs produced, fees paid etc. Mainstream banks are reluctant to finance this upfront work; they prefer to only provide development funding for viable sites that have planning permission in place.

Even if a small-scale home builder can access funding, it takes months and often years to get all consents in place. The money spent is not recouped until the homes start to sell. For a small development, the profit associated with the project may not be released until the very last house has been sold. All sales up to that point are just covering costs, which are higher for smaller builders in any case as they do not enjoy the economies of scale afforded to larger developers. This is a very high-risk business and it is little wonder few have returned to, or entered, the industry post-recession.

Homes for Scotland is working alongside the Scottish Government to look at how we can work collaboratively with all relevant stakeholders to encourage small-scale home builders back into the market. Providers of development finance and local authority planners will be among those we encourage to engage in this work.

‘Mainstream banks prefer to only provide development funding for viable sites that have planning permission in place’

Funding for Affordable Housing

Figure 1 (page 7) shows that the volume of homes built by housing associations and local government, predominantly for affordable rents (either mid-market or social), have also declined following a spike in housing association completions in 2009/10. We are, however, starting to see an increase in supply following the Scottish Government's drive to deliver 50,000 affordable homes in this parliament, aided by substantial financial support to achieve that target. We must ensure that support continues post 2021, with further targets supported by continuing funding streams.

Private housing developments are required to provide an element of affordable housing, with Scottish Planning Policy suggesting up to 25% of the homes on each site. Financial support from the Scottish Government for its affordable housing programme has enabled private and public-sector home builders to work together to unlock sites. The grant funding for the affordable homes can act as a catalyst to allow a developer to open up a site that may have significant upfront infrastructure costs. This partnership working has become commonplace across Scotland and we support the continuation and expansion of these relationships.

Access to land is facilitated by these relationships and, collectively, the developers create mixed communities where the needs and demands of many residents can be met.

Skills

In the wake of the downturn, we estimate that half the industry's workforce was lost. The resultant skills shortage and its impact on capacity remains a major factor in the ability to increase home building rates. Attracting more people into the sector is vital, and Homes for Scotland is working with Skills Development Scotland, CITB and the Scottish Government to try to address this complex issue.

The move towards offsite manufacturing is one potential way of addressing the skills shortage. This is being pursued by several companies across Scotland with demand for their products already high and facilities running near to capacity. If this is to become a significant part of the solution, we need to look at ways of scaling-up to a level that can sustain the numbers of new homes required. Could there be a role here for the Scottish National Investment Bank to help with the initial funding required to expand and increase the capacity of local manufacturing facilities?

That is not to say that offsite manufacture is without its own challenges. We must work collectively with warranty bodies and mortgage lenders to ensure they can give their full support to the construction methods of these homes. A kitemark system has been suggested, for example, which may provide comfort to those investing in the homes.

Infrastructure Funding

Infrastructure funding and delivery is one of the biggest blockers to the delivery of new homes and can make it harder for existing communities to welcome new development. Home builders' business models take account of the cost of delivering the standard infrastructure associated with development. The planning system has a well-established process in place for securing developer contributions (also referred to as planning gain or Section 75 Agreements) towards the services that will be used by the new residents, thereby managing the impact of the increasing population on existing communities. This doesn't (and is not intended to) cover all of the infrastructure and services in an area, just those specifically required because of a particular development. The use of Section 75 agreements has increased over time and they can have a significant impact on the viability of a development.

Problems arise when the cost of the infrastructure needed to support development is very high, for example:

- expensive one-off items such as secondary schools, slip roads onto the trunk road network or railways stations; or
- the cumulative impact of several smaller items such as primary schools, waste water treatment works or roundabouts.

The nature of land allocations over the last ten years has seen a greater reliance on larger strategic sites of over 500 homes, which require more significant infrastructure investment. The lack of a common "infrastructure-first" approach to forward-funding these strategic developments is a huge problem and has a major impact on the industry's ability to provide the homes that have been allocated in plans and for which there is a clear need.

Section 75 agreements allow home builders to make a fair contribution towards this infrastructure, but they cannot fully fund it. We have a serious issue in Scotland in identifying and funding the infrastructure needed to support new housing development and create sustainable communities with the schools, health care facilities, community halls, public spaces etc that are needed to bring them to life. Sites are allocated in Local Development Plans throughout the country, but many of them will not come forward unless a solution can be found. This undermines the plan-led system as well as public trust and investor confidence.

A new form of "land value capture" has been proposed by some commentators as a potential way of delivering homes and infrastructure. It involves the public sector (as "providers" of a planning allocation or permission) capturing all or some of the difference between the existing use value of land before it is allocated or granted planning permission (e.g. agricultural land value) and the value of the land with detailed consent.

The current model of collecting developer contributions via Section 75 agreements already fulfils this role, enabling the planning authority to draw in money arising from home building to subsidise infrastructure and public services. The cost of these (as described in the outline of the residual value model on page 4) is taken into account in the amount a developer agrees to pay a landowner for his/her land. If developer contribution requirements are too high, and the price offered for the land becomes too low, the landowner won't sell and homes will not be built.

A land value capture model, or the introduction of an infrastructure levy, all pursue additional income from the same source – the profit made when land is sold for development. This is a finite pot. The viability of development or attractiveness of a land sale can only be squeezed so far.

As to whether land value capture would really increase the supply of land, infrastructure and homes, it is important to recognise that large areas of semi-urbanised Scotland already have significant levels of allocated but undeveloped land. This is for many reasons and considering land value capture as the means of unlocking these sites ignores the complexities of the issue. Land values in Edinburgh (which have been used by others to demonstrate the potential benefits of LVC) are not representative of most of Scotland. In many parts of the post-industrial central belt, for example, land values are so low due to previous contamination and the clean-up costs required, that any land value that could be captured would be negligible.

Rather, we should focus on access to long-term funding for infrastructure at low interest rates, potentially through pension funds, prudential borrowing or the Scottish National Investment Bank. These loans would be repaid as developments progressed and homes are sold. Home builders would continue to make fair contributions through the Section 75 model.

‘The lack of a common "infrastructure-first" approach to forward-funding strategic developments has a major impact on the industry's ability to provide the homes that have been allocated’

Support for Home Building

Sitting above all the technical and financial barriers to development is the low receptiveness to home building at the local authority and neighbourhood level. The need for new homes is recognised by the Scottish Government but culture, perception and practice are all issues at the local level that have a great bearing on our ability to deliver the new homes that people across Scotland genuinely need - and aspire to.

We as an industry need to do more to showcase the benefits of the great new homes and places we are delivering across Scotland. But we need support. Local authorities must champion the need for more new homes in their areas and recognise that suppressing the supply of new homes causes more problems than it solves. The Scottish Government could make it much clearer to local authorities that they must meet their housing supply targets. In Scotland, compared to other parts of the UK, the home building industry continues to fight an uphill battle in gaining wide, cross-sector acceptance and recognition that the undersupply of homes is a consequence of public policy and action, not a choice made by home builders.

We must consider how the current planning reform agenda can create a culture of commitment and ownership by local authorities to enable development in their areas. There must be a responsibility to align capital budgets with Local Development Plans and a real desire to see the Plans come to fruition. This would change the nature of interactions between users of the system and those managing it.

The Planning System

Scotland's planning system is under review and, at the time of writing, the Planning (Scotland) Bill is passing through the parliamentary process. This provides a crucial and rare opportunity to ensure our plan-led system becomes able to deliver the new homes that are needed to satisfy need and demand. The Bill seeks to address a range of issues on plan-making, collaboration between sectors and planning performance.

To deliver more homes, changes will need to be made far beyond the auspices of the Bill:

- development management decision-making and the negotiation of Section 75 agreements needs to be faster and more efficient
- planning teams in local authorities must be better resourced, as must other key services such as roads and building control teams
- the current way of planning for housing and monitoring delivery (as described in the 'Housing Land Development Agency' section, below) needs to be recalibrated

Planning must be undertaken in a way which brings people together, sharing both the burden and the privilege of preparing development plans and considering how they can be delivered. This should involve local authorities genuinely collaborating with (not just consulting) the home builders operating in their areas and the existing and aspiring residents of the places where new development needs to take place.

Planning performance also needs to be a more inclusive activity, with customers of the planning system helping identify what aspects of planning work should be scrutinised, how performance on those issues should be measured, whether what is being achieved is good enough, and whether reports on performance accurately reflect the experience of those operating at the coalface of home building.

Crucially, there should be a clear and unequivocal framework in place for ensuring – from evidence gathering to performance monitoring – that the planning system is fully geared up to support the delivery of new homes, in the volumes required to meet Scotland's housing need and demand. It also means delivering homes in the places where people want to live, and where home builders can make a return on their investment.

Not all delivery issues are attributable to the planning system, but it is not an "either or" situation. The planning system must become genuinely focused on delivery – with planning authorities accepting and recognising their share of the responsibility for that. They need to be better resourced to overcome current challenges, and to ease pressures. It is vital that increased planning fees aren't seen as the only solution to resourcing issues. Two problems will arise if they are. Firstly, as with anything else that adds costs to the home building process, if fees rise too high they will be a deterrent to applicants, especially in areas where investment is already more risky. Secondly, seeking 'full cost recovery' for planning applications and other development management activity doesn't equate to more resources for planning. It just increases the extent to which planning applicants subsidise local authority budgets. It isn't acceptable for this to continue. The planning system exists in the public interest, not just to serve applicants. There must continue to be public investment in it.

The infrastructure funding issues outlined previously are another area where new solutions need be looked for outside the planning system and beyond the pockets of landowners and home builders. Section 75 agreements can only fund so much infrastructure before they make development unviable. The same would be true if we moved to an infrastructure levy or a hybrid model.

'We must consider how the current planning reform agenda can create a culture of commitment and ownership by local authorities to enable development in their areas'

5.0 Consideration of other Proposed Solutions

Compulsory Sales Orders (CSO)

The emerging CSO model is designed to unlock vacant and derelict land that is not in productive use. It would not require the local authority to purchase the land. Rather it would take it to auction for sale to another private owner. This would be a "stick" to encourage land owners to use their land or lose it. It is not clear what checks or support would be in place to ensure the next owner moved quickly to develop it, or whether the reasons for inaction would be explored properly before an order was made.

The creation of CSOs would require legislative change. Any such change must be evidence-led. A robust analysis of the land that would potentially be impacted by these orders should be undertaken before the proposal is developed further. We need to show what the consequences of the policy would be – both positive and negative. The Vacant and Derelict Land Register would seem the obvious place to start. This is compiled from data gathered by local authorities and is publicly available. Homes for Scotland has mapped each site and found a significant proportion already under development whilst others are working their way through the regulatory system.

Many of the sites are in public ownership, including NHS, police, fire and rescue and local authorities themselves. Would a local authority be charged with auctioning off its own sites, or those of public sector partners? Are best value rules a barrier? If public land disposal is seen as a solution, why isn't the public sector leading by example and selling its own sites now?

Analysis should also look at whether the volume of vacant and derelict land has been increasing or decreasing over time. It may be that many of the sites are there due to the economic crash of 2008, not because (as is often assumed but never evidenced) landowners and/or home builders are holding on to land over longer periods of time than is necessary. The register is only a snapshot in time, perhaps reflective of the depth of the recession and the impact it had on some land values.

The ultimate test should be whether CSOs would increase the supply of land for housing and deliver more homes? Our analysis suggests not. Many of the sites under scrutiny are already coming forward, and others are not in locations suitable for residential development (eg active industrial estates). Others likely have levels of contamination that render the land unsuitable for redevelopment and/or economically unviable.

If CSOs are to be successful, any land put forward for auction must be assessed for home building potential. Adequate access and the availability of utilities is essential. The cost of decontaminating the site must not be prohibitive. Preferably, any CSO should also be accompanied by a planning brief, approved by the planning authority, setting out options for the site. There could be a legal obligation to comply with the brief within a certain (achievable) timescale, or the site be re-auctioned.

There would need to be clear evidence that a site was not being marketed and progressed despite there being clear planning authority support and an absence of other barriers to development. Assessing all this will cost the local authority time and money, so a full cost-benefit analysis should be undertaken before any change of legislation is triggered. There is nothing to stop a proactive planning authority from looking at these things now.

Housing Land Development Agency

Scotland does not have a single body responsible for ensuring enough new homes are delivered. The Scottish Government, through Scottish Planning Policy, suggests that local authorities should put plans in place to deliver enough homes to meet local need and demand. Local authorities (to varying degrees) seek to identify enough land but balance the ability of the private sector to deliver against other planning considerations as well as expressed public opinion. When plans fail to deliver in the numbers required, it is often the private sector that gets the blame – whether or not it has advised at the plan-preparation stage that the sites within it will be hard (or impossible) to deliver. When targets are missed, no-one is held to account in a meaningful way. Some planning authorities argue their land supply is adequate when the private sector disagrees, and this is only arbitrated through individual planning appeals.

The proposal for a national housing delivery agency is therefore worthy of consideration. It has been suggested it could be tasked with making sure enough land is available for new housing across Scotland. Through the current planning system, local authorities are responsible for identifying land for new housing within their areas. The number of new homes required is calculated through the Housing Needs and Demands Assessment. The planning authority then decides whether to aim to meet that need and demand in full in their Local Development Plans (LDPs). Many decide not to, setting lower housing supply targets. Housing sites are identifiable in the LDP which are subject to public consultation, examination and Scottish Government sign-off. Assumptions are made about other sources of supply (legacy allocations, sites under construction, windfall sites etc), so the suite of new sites is only ever a portion of the total supply relied upon. If the plan fails to meet its own housing supply target this may be picked up at the examination stage, but the options available to reporters to rectify any significant issue are limited. Ministers have on occasion openly criticised planning authorities whose LDPs fall significantly short on housing targets but formal powers to intervene are not used and may not be strong enough. Once a plan is adopted, a Housing Land Audit is used to monitor performance against requirements to maintain a five year supply of effective housing land. There is currently no standard methodology for this and the definition of “effective” is under review. There is, however, scope through the Planning Review to recalibrate the approach taken.

We would need to consider how any new agency would interact with these processes, or whether it would take over all or part of the roles currently performed by planning authorities, Reporters or Scottish Ministers.

If an agency was created which had the power to purchase, develop and sell land, the obvious question must be how would it be resourced? At a time where we are struggling to fund local authorities, and the basic infrastructure required to deliver more homes, it is not clear where the additional funding would come from to purchase land and pay staff to run the agency.

However, we have seen the clear success of the New Town Development Corporations in the past so if a model seeks to replicate that approach then it is undoubtedly worthy of further consideration, but will require adequate resource and expertise to be a success.

‘The ultimate test should be whether CSOs would increase the supply of land for housing and deliver more homes?’

Taxation

A number of commentators have considered new ways in which to tax land. It is not the intention of this paper to discuss the wider issues around introducing new tax regimes, however, it is worth remembering that land transactions are already taxed in several ways:

- ### Land and Buildings Transaction Tax

Each time a piece of land or property is sold, the purchaser pays Land and Buildings Transaction Tax (LBTT). A developer pays LBTT when he purchases the land at 4.5% (if the value is over £350,000); another developer would also pay LBTT if he bought some of the land off the original purchaser. The home buyers will pay LBTT when they purchase their newly built homes, as will all subsequent purchasers (at rates ranging from 0% to 12% depending on the value of the properties). This tax is straightforward to collect and adds to government reserves with little or no effort on the part of the collector.

- ### Developer Contributions

As discussed earlier, home builders contribute funding for infrastructure through various mechanisms including Section 75 agreements. This may be in the form of money handed over to the local authority for a specific purpose related to a development, or in the form of physical infrastructure. Most private housing developments in Scotland are also required to provide a proportion of affordable housing (with Scottish Planning Policy suggesting this should equate to up to 25% of the total homes on each site). This may be land that is handed over to an RSL or Council; it may be the homes themselves; or it may be the monetary equivalent that the Council can then spend on affordable homes elsewhere.

This has the effect of a local development tax and effectively means home builders cross-subsidise infrastructure provision that would otherwise fall on the public sector. The cost ultimately comes off the land value (i.e. the landowner pays). The use of developer contributions has increased significantly over time, both in terms of overall value and range of application. Recent research into the potential of replacing current arrangements with a levy approach has identified the limit to which infrastructure can be funded through new development before viability is compromised. If the "ask" is too high and the land price falls too low, the land sale does not take place and no homes are built.

- ### Capital Gains Tax

Sellers of land will also pay Capital Gains Tax (CGT) on their receipts at a rate of 18% or 28%, depending on the tax band the seller is in (after a personal allowance has been allowed for).

To demonstrate the potential total tax-take from a standard development, a home builder has provided the following typical "real" (anonymised) example. Section 75 agreements are counted here as a tax as they take that effect in practice:

		TAX
Gross land price	£10,376,680	
Section 75 fee		£2,225,000
Section 75 indexation*		£475,630
Other abnormals	£1,326,050	
Total fees/abnormals	£4,026,680	
Net price	£6,350,000	
LBTT on land sale		£276,000
CGT at 28% of net price		£1,778,000
Total tax (incl S75)		£4,754,630 (46% of gross land value)

* to take account of future phased payments

Of the total land value originally offered to the landowner, 46% of it is taken as tax.

• Other taxes

In addition to the direct taxes listed above, the companies involved in this industry pay business rates; their employees pay income tax and the local authorities receive council tax for all new homes. The level of tax already being contributed to the economy by the home building industry must not be underestimated.

'Of the total land value originally offered to the landowner, 46% of it is taken as tax'

6.0 Conclusion and Summary of Our Solutions

We must find solutions to the chronic undersupply of new homes if we are to meet the needs of our growing population. Access to land is one part of the equation. However, the significant blockers to the delivery of more new homes today are the lack of:

1. mortgage availability to those who could afford the repayments, due to the requirement for significant deposits
2. home builders, especially of a smaller-scale
3. longer-term certainty of funding for social and mid-market rented accommodation
4. an experienced workforce to supply the skills needed to deliver the homes
5. funding for associated infrastructure – roads, water systems, schools etc
6. support for homes from some local authority staff, councillors and existing residents
7. a planning system that embraces, and can quickly consent, buildable developments

If we are serious about increasing the supply of new homes, we must look at realistic solutions to these issues. Having considered some of the solutions currently being discussed, we remain convinced that the solutions we have outlined in this paper, and as summarised below, are the right avenues to pursue if we really want to deliver the new homes Scotland needs.

1. the continuation of policies that support home ownership for those struggling to get on the ladder (Help to Buy, OMSE, NSSE models), and a consideration of other models at scale
2. more meaningful support for small-scale home builders to help increase industry capacity
3. the allocation of sufficient land in places where people want to live and where home builders can generate a return on their investment
4. the consideration of long-term borrowing for infrastructure investment through pension funds or the Scottish National Investment Bank, with low-risk, long-term returns on their investment
5. an analysis of the New Town Development Corporation model of large-scale housing delivery, identifying options for how a new version could be resourced, funded and implemented
6. finding ways to drive forward a culture of local authority commitment and ownership to the delivery of more new homes in their areas – a responsibility to align capital budgets with their Local Development Plans and a desire to see the Plans come to fruition
7. a collaborative, better resourced and delivery-focused planning system that quickly and efficiently delivers more new homes

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