
improving living in scotland



RESPONSE TO THE SMITH COMMISSION

31 October 2014

ABOUT HOMES FOR SCOTLAND

Homes for Scotland is **the** voice of the home building industry.

With a membership of some 180 organisations together providing 95% of new homes built for sale in Scotland each year as well as a significant proportion of affordable housing, we are committed to improving the quality of living in Scotland by providing this and future generations with warm, sustainable homes in places people *want* to live.

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PROCESS

Homes for Scotland represents members on a wide range of issues affecting their ability to deliver much needed homes.

Our views are endorsed by committees and advisory groups utilising the skills and expertise of key representatives drawn from member companies.

RESPONSE TO THE SMITH COMMISSION

1. Introduction

Homes for Scotland (HFS) is the representative body for the home building industry in Scotland, with a membership of some 200 companies together providing 95% of all new homes built for sale across the country as well as a significant proportion of affordable housing. Homes for Scotland makes policy submissions on National and Local Government policy issues affecting the industry, and its views are endorsed by the relevant local committees and advisory groups consisting of key representatives drawn from our members. HFS is apolitical and has no connections or affiliations with any political party or organisation and therefore seeks to promote no position on constitutional or governance matters.

The comments below represent our member's views in relation to the invitation from the Smith Commission to comment on the possible devolution of further powers to the Scottish Parliament. Our response has been deliberately restricted to matters that directly affect our members businesses and the delivery of new homes in Scotland.

2. New Housing Supply in Scotland

2.1 The Housing Challenge

Audit Scotland, in its 2013 report¹, summarised the situation as follows

“The supply of housing is not meeting current levels of need. Due to the recession, the number of new private homes has more than halved in recent years and home ownership remains unaffordable for many people. At the same time, Scotland's population is increasing and our analysis suggests that it could be more than 20 years before enough new homes are built to meet the projected increase in households in any one year.

To meet this projected increase, Scotland would need 21,230 additional homes each year between 2011 and 2035; that is more than half a million additional homes over 25 years.”

2.2 Given that total housing output in the years 2011 - 2013 averaged c.15,000 units per year, we can estimate that there has already been an under delivery

¹ Housing In Scotland: Audit Scotland July 2013

of a further 18,000 units (3 years at 6,000 shortfall pa), exacerbating an already existing shortfall. Thus the annual output required (to meet the above target) is now in excess of 22,000 units per annum for the next 22 years.

- 2.3 Scotland is mired in a housing crisis as it is simply not building enough new homes (of all tenure types) to meet its need. Housing output is at its lowest levels since 1947. From a 2007 peak to 2012 trough Scotland's housing output across all tenures fell by 42%, whereas in England it fell only 37%.
- 2.4 Shelter Scotland² also estimates that there are 151,100 people on council waiting lists.
- 2.5 **What has been delivered:** Total new housing output (private, social and Local Authority)³ has progressively decreased over the last 6 years, from a peak in 2007 of 25,741 units to 14,781 units in 2013.
- 2.6 Therefore, housing output in Scotland needs to increase by at least 50%, from 15,000 units per annum to in excess of 22,000 units per annum to meet forecast need and demand. Each year that completions fall below this level we add to the already very large stock of unmet need and demand.

3. The New Build Housing Market

- 3.1 Fundamentally the new-build housing markets in England and Scotland are similar and interlinked. Both have suffered severe structural harm and damage as a result of the financial crash. Both have housing outputs that are at near all-time lows, whilst need and demand continue to rise. Both have similar levels of home ownership and aspirations for home ownership. Both have the same UK-wide home builders delivering the vast majority of all new homes in each country. And both have the same lenders providing mortgages and development finance. For these reasons it is important that Scotland remains an attractive and competitive country to invest.
- 3.2 SME's –The continued constraints on bank lending, particularly to SME businesses and specifically to those involved in speculative new housing development continues to be a major problem. This issue is not only affecting the businesses concerned but is also seriously impacting on our overall ability to increase housing output. These smaller businesses provide an essential component of Scotland's housing output – often operating in more rural

² Shelter Scotland website

³ Housing Statistics for Scotland; Scottish Government website

locations or smaller towns; they also deliver variety, choice and innovation in housing design. In addition, they make a positive impact on local jobs, apprenticeships and community development. We have repeatedly called on the Scottish Government for positive intervention to address the challenges facing SME homebuilders.

4. Housing already a devolved matter – has it worked?

4.1 Housing was devolved to Scotland in 1998 as part of the Scotland Act. This means that our industry and HFS members are in a position to review and critique the effectiveness of this devolution of power and comment on whether a series of Scottish Governments, of varying political compositions, have utilised this power effectively. The situation and statistics on new housing supply is set out in paragraphs 1-6 and is self-explanatory, and on this basis many of our members did not feel that housing had benefitted as a result of being devolved to the Scottish Government – indeed some felt that the situation suffered. Consequently, based on the evidence, there was scepticism from some members as to the benefits of further devolution of more powers.

Our members remain highly frustrated with the lack of housing and infrastructure delivery in Scotland. Effective management by the Government of the performance of the local authorities sits at the heart of many of the frustrations. Public sector performance in joining up economic development responsibilities and the planning system remains broken with no real ownership.

Based on this evidence HFS members have struggled to be positive about the likely benefits and success for further devolution.

However, we would wish to emphasise the following points:

4.2 Budgets & spending timing cycles – whilst policy and spending decisions are currently under the control of the Scottish Government, its actual funding is largely received from UK Treasury via the Barnett formula. However, this creates a frequent and unwelcome situation whereby new policy announcements or spending decisions are made at Westminster, with Scotland then receiving consequential funding. The effect of this is that there is then an inevitable delay while the Scottish Government decides on how it wishes to allocate this ‘new’ consequential funding. A perfect example of this was Help to Buy, announced in the Chancellors March 2013 Budget and implemented immediately in England from 1st April. The Scottish Government was in receipt of consequential funding (the exact details of which were sketchy) but then a combination of time taken for Ministerial decisions and the creation of a delivery system resulted in the Help to Buy (Scotland) scheme not being launched until some 6 months later. This ‘delayed’ approach to the

launch of new initiatives creates the impression of Scotland being 'behind the curve' and always in 'catch-up' mode.

If the Scottish Government was given more control over its own tax-raising powers and budget this would result in greater control of its spending decisions and less reliance on 'following' spending decisions taken by Westminster.

4.3 Need for an attractive & competitive business environment - If Scotland is to tackle the above-mentioned housing crisis, secure its fair share of investment and remain attractive it must be competitive and have an 'equal playing field'. Otherwise investment decisions by UK-wide home builders and lenders (the main providers of mortgages and development finance) could be attracted southwards where better market conditions prevail and better return on shareholder funds can be achieved.

4.3 Housing as a priority – Given the widely accepted conclusion that significant numbers of new homes are required, we would encourage the Scottish Government to ensure that this receives the appropriate amount of profile, commitment and Ministerial support. We would also urge it to use the powers it already has – both in funding and planning - and focus upon housing delivery. Amongst other social and welfare benefits, housing is proven to be a major contributor to economic growth and employment – every new home built supports 4 jobs.

4.4 Predictability & Stability – Scotland should also seek to develop a predictable and stable political and regulatory environment which encourages investment. Businesses seek long-term predictability and the ability to plan. Stable taxation and policy environments encourage this.

a. Land and Buildings Transaction Tax – This newly devolved tax-raising power will come into effect in April 2015. The current proposals, which are now progressing through the Scottish Parliament, will create a different model, with differing tax levels compared to England. It is too early to comment on whether this new model will prove to be an improvement, and we have called for changes in the way it is calculated, but the removal of 'slab' rates is welcomed. We hope that the Scottish Government will seek to review this tax in line with the evolving housing market and increasing house prices to ensure that it remains fair, reflective and proportionate.

- b. Red tape & bureaucracy** - Our members are often frustrated by overly burdensome bureaucracy and 'red-tape'. In the homebuilding industry this manifests itself most commonly in the planning process – which is also a devolved matter. We would therefore wish to avoid any fragmentation of policy, standards and governance without a viable and justifiable rationale. This applies also where powers are devolved from central governments to local authorities. Whilst subsidiarity is welcome as a generalisation, it should not be assumed to be appropriate or relevant in all cases.

5 Potential new powers, which would impact on the new-build home industry

As mentioned above, based on their experience, analysis and assessment of how past Scottish Governments have handled the devolution of the housing portfolio, many of our members were not positive about the general suggestion that more powers should be devolved to the Scottish Government. Therefore, our members would only welcome new powers or policies that demonstrably promote growth, business stability, investment and job creation.

Therefore, in considering this section we adopted a principled and evidence-based approach of only raising issues and recommending change where we felt there was strong evidence that the current method of governance or control was ineffective, inappropriate or did not reflect the needs of Scotland, or there was a strong likelihood that new powers could deliver improved, positive outcomes. We would not like to see the devolving of any new power that would add undue complexity or compliance problems to business.

5.2 Investment & Borrowing Powers – Delivery of the many thousands of new homes needed will require investment in infrastructure. We would therefore like to see the Scottish Government and Local Authorities provided with the tools and borrowing facilities to enable investment, where appropriate, in infrastructure.

- a. Infrastructure delivery** - There are numerous developments that have been zoned or consented for development but are not progressing due to the scale of the up front costs required for schools and infrastructure. At the moment Scottish Government states that they are not able to forward fund those projects due to their inability to borrow money even when the development in question could repay the investment over the duration of the project. We are aware that the Scottish Government will be receiving additional borrowing powers but it is essential that the quantum they are allowed to borrow is sufficient and that they can and will borrow to kick start the large scale projects that are stuttering across the country.

b. **Private Rented Sector (PRS) housing** – this form of tenure has seen recent rapid growth, but as with all sectors, more new PRS homes are needed. To deliver this new stock may require Government guarantees or similar interventions. We would like to ensure that the Scottish Government has a full set of powers and tools to enable this growth, if it so decides.

5.3 Health & Safety – The Health & Safety Executive has a UK-wide remit operating with uniform regulations and rules across the whole of the UK. There is no evidence or calls from our members to suggest that the Scottish homebuilding industry needs or wants a separate regulator, which could potentially result in differing standards and consequently higher costs of compliance.

5.4 Training & Skills – Construction industry training is led by the CITB, with a UK-wide remit, utilising a levy system. This approach generally delivers a good service and there is a belief that Scotland probably receives more than its share of grant and spend. Governance has recently been reviewed and changes made - but it is too soon to know whether this will suit Scotland's needs. However it is important that training and skills development remains tailored for Scotland's needs and reflects its different construction methods and approach to apprenticeships.

5.5 Housing benefit – We make no comment on the merits or otherwise of devolving the control of housing benefit payments to the Scottish Government. However, we would not wish to see any change that would negatively affect the Scottish Government's ability to fund and deliver new housing stock for social or affordable rent.

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