improving living in scotland

HOMES FOR SCOTLAND

Rt. Hon Alistair Darling - Chancellor
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

17th November 2009

Dear Chancellor,

<u>Pre-Budget Report - Measures designed to support the Economic Recovery</u>

As we are sure you are fully aware, Housebuilding and Residential Property Investment were amongst the first sectors to be affected by the global financial crisis and resultant economic recession. This was due to a dramatic reduction in the number, range and type of mortgages being offered both to customers who purchase and the companies that develop new homes across the UK.

Two years into the downturn Scottish new home building output and the number of registered housing starts here are found to be touching all time lows. In response our members were forced to stop opening new sites, only building on existing ones where actual sales had been confirmed, or in the case of large scale regeneration projects where significant investment in up front infrastructure is required, simply mothball operations until market conditions improve.

These trends have had a very draconian effect on employment within our industry. We estimate up to half of the directly employed workforce in Scottish house building, (that's 26,000 people), have now been lost from our sector. Those skilled and educated professionals, tradesmen and managers are not all now unemployed, but they have now moved into other forms of construction, different economic sectors, taken early retirement or even been lost completely from the UK economy as they are attracted or poached abroad. Such trends clearly substantially weaken our ability to respond to demand for new homes as it returns, but more importantly in the short term, this will add dramatically to a still volatile and unpredictable economic climate.

We recognise that bold, large scale and innovative measures have already been undertaken by the Government to stabilise the whole banking system or recapitalise individually damaged financial institutions. Also in the context of improving consumer confidence and mortgage availability, the wide-ranging Bank of England actions to reduce interest rates and improve liquidity were also most welcome.

Looking closer to home the industry has responded in an attempt to help itself via a whole series of new products or processes designed to rebuild transaction levels, including;

- Special incentives,
- Shared equity models,
- Discounted mortgages,
- Future valuation guarantee's, and,
- Private rental investment vehicles.

These combined measures, together with greater stability in financial markets in more recent times, have meant that transactions and confidence are tentatively beginning to return, but at rates of between 40-50% below "normalised" trading levels.

Yet with housing being such a basic and fundamental human need, any failure to provide sufficient roofs over peoples heads, irresponsible of tenure, has serous social impacts.

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In the light of these realities, the case for a continued UK wide economic re-inflation package to weather the worst of the current recession could not be stronger. It is imperative that should you be considering such a series of measures that these will have direct consequential benefits for Scotland, with corresponding application and effects here.

We believe your economic re-inflation package must continue to have three central strands – proactive new public investment, further financial market interventions all aligned to long term taxation incentives. Our views on the kind of measures that would be most appropriate and effective for our industry are outlined below.

Public Investment

- Is required both Centrally and especially at a Devolved Government level.
    - Should be focused on massively accelerating the provision of publicly funded roads, transportation, schools, health and community facilities; without which development cannot proceed.
    - In addition, given the current lack of new home supply or activity within the private market, it is necessary to support and facilitate further accelerated and increased affordable housing investment via Devolved Government partners, Housing Associations and Local Authorities.

The above measures have cross party support in Scotland

Financial Market Intervention

- Despite trillions of pounds of public support for the banking sector to date, the actual evidence of its impact is sadly lacking. Three additional focused interventions would have a very marked effect.
    - Place explicit new obligations upon state owned banks to pro-actively lend to SME's, the mortgage market, and in support of genuine new investment, to match with the level of retail banking demand being found on the high street.
    - Introduce a Government backed Mortgage Indemnity Guarantee (MIG) scheme to underwrite higher risk Loan to Valuation mortgages and so ease availability of mortgage finance to First Time Buyers currently priced out of the market by exorbitant deposit requirements.
    - Work with the FSA to re-balance the capital adequacy requirements that currently place punitive charges upon those institutions who wish to offer mortgages above 80% LTV's for low risk customers or companies, thus increasing the quantum of funds that can be used to support new home purchase.

Taxation Incentives

- Are required both at an individual and corporate level.
    - Individuals:-
        - Extend the Stamp Duty reduction, or even abolish the duty completely in the interim, on house purchase transactions in their entirety for a proscribed period of 12-18 months, using this period to fundamentally review and graduate the applicable thresholds to avoid market distorting arbitrary levels, prior to a re-introduction when new build housing activity levels have actually improved.
        - Substantially reduce VAT - on any transactions associated with repair, renovation and refurbishment of a home.

    - Corporate:-
        - Revise the qualifying trades for Venture Capital Trusts, Self Invested Personal Pensions or Real Estate Investment Trust type investment vehicles to include investment in residential property - thus encouraging tax efficient private investments to return to the market and innovative models of professionally managed private rental investment vehicles to grow anew.
        - Extend the VAT reduction period - remove burdens on business to encourage investment and entrepreneurial spirit back into the economy.

By carefully considering the concepts outlined above, and then including them within the announcements of your impending budget statement, you will send a further powerful message to the individuals and corporate bodies of Scotland during an election year that the UK Government remains attune, listening and prepared to act in their best interests wherever it has the opportunity to do so.

Therefore we would commend a continued package of measures to re-inflate the economy as we tentatively look towards recovery, and would be delighted to discuss their potential impact on our industry in greater detail with your Scottish Secretary when the opportunity arises.

Yours,

Jonathan Fair
Chief Executive
Homes for Scotland

Open Letter

Also cc.
Lord Mandelson
Jim Murphy – Scottish Secretary.
John Low – Chairman, Homes for Scotland.