

The 2007 Comprehensive Spending Review in Scotland¹

Submission from Shelter Scotland, Scottish Churches Housing Action, the Chartered Institute of Housing in Scotland and Scottish Council for Single Homeless

Summary of main points

This is a submission from Shelter, SCHA, CIH Scotland and SCSH to the 2007 Scottish Comprehensive Spending Review (CSR), covering 2008-2011. The main points are:

- Between 2001-2006 there has been a period of intensive housing and property law reform on a scale not seen for decades. We have a homelessness framework that is applauded throughout Europe. The next parliamentary term should be about delivering effectively on that new legal and policy framework. Delivering effectively means funding adequately.
- House waiting lists, the number of homeless people in temporary accommodation and house prices all show signs of **increasing strain in the Scottish housing system**, none of which were alleviated by the modest increases in investment in the 2004 CSR.
- There is a pressing case for a housing investment programme of no less than **10,000 rented homes per year** over the three years of the CSR. Even a programme on this scale is half of the average annual output in the post-war years.
- The statutory commitment that all homeless people should be entitled to a home by 2012 adds extra urgency to this case for new affordable homes. The programme could help substantially **house newly-eligible homeless people, without any further reduction in lets to people on house waiting lists.**
- The additional cost of this programme would be £750 million over three years. This is equivalent to **0.8 per cent of the total Scottish budget** over that time.
- The programme would generate **£780 million of private finance**, on top of public funding.
- There would also be other significant but less easily quantifiable benefits. These range from: reductions in children living in temporary housing with knock on impacts on **education**; stable accommodation for marginalised groups of young people who are not in **employment or training**; positive impacts on **health** from more new and higher quality homes; greater flexibility to support **economic change**; positive impacts on **community cohesion and tackling crime**; and building on the positive contribution of social housing providers to **environmental sustainability.**
- Failure to meet the need for new affordable homes will place the social housing sector in difficulty. Legal obligations as regards homelessness will be under pressure; social polarisation by tenure and neighbourhood will intensify; and opportunities to provide low cost homes as part of mixed neighbourhoods will remain out of reach.

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1. Introduction

The bi-annual² review of spending priorities has become one of the major landmarks in the political calendar. However, the review taking place in 2007, which will set spending priorities from April 2008 until March 2011, is important as never before for the housing sector in Scotland.

Over the last five years the Scottish Executive has introduced a long-overdue programme of legislative reform on housing that is unrivalled for decades. At either end of the process stand the major Housing (Scotland) Act 2001 and the equally significant Housing (Scotland) Act 2006. The 2001 Act broadly focused on reforms to the public sector; the 2006 Act on the private sector. In between there have been reforms to homelessness law; procedures on mortgage possessions; and three Acts on property law³.

The homelessness reforms, in particular, add urgency to the case for new affordable homes. The legislation states that all homeless people will be eligible for a home by 2012.

But that period of intensive law reform is over. We now have a mature policy framework in Scotland, with long-term targets on homelessness, housing quality and fuel poverty. The challenge for the next five years, and beyond, is to make this framework deliver real change at community level for people who need it.

That is why the spending review is especially important this time around.

There is evidence that there is a real appetite among the public for significant change in housing. In the Scottish Social Attitudes Survey of 2006, members of the public were asked to rank their top priorities. Housing ranked only fifth, behind more familiar totems of health, education, crime and the economy. But when the question was turned to ask people what they saw as priorities around them, the priority attached to housing was second only to crime, and way ahead of access to health services and quality of schools.

That appetite for change is shared among people working in housing. We believe that the housing sector has responded imaginatively and with a shared commitment to delivering on the challenges posed by the Executive's programme of reform. There are few other sectors in Scotland which have taken reforms in such good faith and with such goodwill. But this goodwill is not inexhaustible.

² The spending review is normally bi-annual; however, the 2007 review has actually been delayed for a year. One of the reasons for the delay was that the UK Treasury wished to take a more fundamental look at spending priorities than had been the case even in previous Comprehensive Spending Reviews: another factor in 2007 being an especially important year.

³ There has also been housing reform in other legislation as well: for example, universal registration of private landlords was introduced in the Anti Social Behaviour (Scotland) Act 2004.

The case for additional investment in new affordable housing, compelling in itself, is also about securing a continuing commitment to delivering on reform. If additional money is not made available, there is a risk that people delivering the Executive's reform programme will see it as a breach of faith.

2. Background

The spending review comes at a time when there are signs of significant and continuing shortages of housing.

- There were over 200,000 people on house waiting lists in 2006.
- There were over 8,000 homeless households in temporary accommodation in March 2006, double the number in 2001⁴.
- Average house prices have doubled over the last 10 years⁵. The average age of first time buyers is increasing and the first time buyers as a proportion of all purchasers falling, indicating considerable problems of access to the market⁶.

It is sometimes argued that the key to tackling shortages of affordable housing is simply to crank up supply across the whole market, waiting for trickle-down effects to reduce house prices at the bottom end. Some commentators, particularly those representing development and construction interests, argue that this could be done, for example, by dramatically reducing planning controls. However, it is naïve to think that this alone would improve access to housing significantly. Because housing supply is mainly in the second-hand market, the price-response to new supply is relatively sluggish. So it would take a huge increase in overall new supply to effect noticeable changes in prices. The capacity of the construction industry to absorb that increase and the environmental consequences of such an increase make it a highly unlikely course of action. In our view it is better to tackle problems of access and affordability more directly and in a more focused way through a programme of affordable homes for rent. If placed alongside reforms to the private rented sector to make it more attractive and *some* initiatives to make home ownership more affordable, such a programme offers the prospect of a swifter and more targeted response to the access problems outlined above⁷.

⁴ This is partly due to improvements in rights to temporary accommodation. But this is not the sole explanation. The number of families with children in temporary accommodation has increased at almost the same rate and their entitlement to temporary accommodation has not changed. At least as significant an explanation is the logjam caused by the reduced availability of permanent accommodation to which to move.

⁵ Increases have actually been largest in some of the areas not usually thought of as hotspots: for example, the 10 year increase in Motherwell is 145 per cent; in Hamilton 138 per cent. Across South Lanarkshire the rise is 135 per cent while in East Ayrshire it is 163 per cent.

⁶ For example, Bank of Scotland research in December 2006, showed that average prices for first time buyers had breached £100,000 for the first time, twice the level of five years earlier.

⁷ It is likely that demand for social rented housing is more complex than simply being what is left over once home ownership affordability is taken into account. Some people who cannot afford to buy a home might still never see social renting as their port of call.

From that point of view, the 2004 CSR was a welcome turning point for housing investment. It marked a new high point for supply of affordable homes since the election of the Labour Government in 1997. The pledge to deliver 16,500 affordable rented homes in 2005-08 was widely welcomed⁸. However, it was not, in itself, a mould-breaker. In the period 1993-95 the last Conservative administration oversaw social housing supply of 16,638⁹. Much still needs to be done truly to establish affordable housing as a high priority.

3. About this submission

The housing sector is a complex one. Many different services are provided, drawing on a diverse range of funding streams. In this submission, we look only at one aspect of the programme: the case for new affordable homes. That is not to say that there are not many other pressing funding needs. From improvement to existing homes to support for people to stay in tenancies, there is a strong case for continued and increased funding. That we do not dwell on them here is not to neglect their importance. But the extent to which the spending review commits additional funding for new affordable rented homes is rightly the litmus test of the Executive's support for the housing sector overall. This is why we focus on that programme here.

4. The case for affordable homes: how many homes do we need?

We believe that there is a compelling case for a programme of no less than 10,000 new affordable homes for rent each year, for the three years 2008-2011. In addition, we see the merit in continuing support for low cost home ownership initiatives such as Homestake and exploration of the potential for housing providers to develop intermediate or mid-rent schemes.

Developing the estimate

Estimating the need for affordable homes is no more an exact science than estimating needs in other sectors, such as health or social care or schools. Nevertheless, important strides have been made in recent years to quantify the scale of unmet need more accurately than ever before. The 2001 Housing Act required local authorities to prepare local housing strategies. As part of that, many have been commissioning local needs studies.

Meanwhile, at a national level, the Executive has commissioned a team of economists from Heriot-Watt University to develop an increasingly sophisticated model for estimating unmet housing need across Scotland¹⁰. Finally, another Scottish Executive commissioned exercise, being undertaken by Newhaven Research, at the present time, is seeking to reconcile the Heriot-Watt estimates at a local level with local authorities' own assessment of need. Unfortunately, this last piece of work is not available to us in the timescale for this submission but we take it as a further sign of the

⁸ The pledge was also to provide a further 5,000 for low cost home ownership, making a total of 21,500. However, as we explain later, we do not think the low cost home ownership programme, worthy in itself, can be treated as meeting the same needs as the affordable rented programme.

⁹ Housing Statistical Bulletin HSG 2001/1. "Supply" in this context refers to new starts by housing associations and public authorities.

¹⁰ Local Housing Need and Affordability Model for Scotland, November 2006

welcome priority being attached by both central and local government to making much more accurate assessments of housing need.

The Heriot-Watt work is an important source for this submission. The basic approach is summarised in appendix 1. Its starting point is to assess unmet housing need in 2005, before going on to make a series of estimates about the future. The model posits a broad range of estimates of unmet need in the starting year, 2005: from just over 4,000 households per annum to as many as 14,000. These estimates may be taken as indications of the number of households whose needs will not be met by the private housing market: that is, they approximate to the need for new affordable homes at below market costs. The range is broad because of the number of different assumptions used in the model. Some of the assumptions are highly sensitive in the model, in that even a small change in the assumptions will make a relatively larger impact on the final estimates of need.

New homes and regeneration

The Heriot-Watt team provides a *central* estimate that unmet need is around 8,000 households in 2005. However, it is important to be aware of the research team's caveats before translating this into a programme for affordable homes. Most significantly, this estimate is based only on summing the need in those local authorities which actually have outstanding need for affordable homes. Those areas with surpluses, according to this method, have no needs and therefore do not add to the total. But this does not mean that local authority areas with ostensible surpluses have no need of an affordable housing programme at all. There are other reasons for a programme in these areas: as part of regeneration initiatives, for example, and the imperative to create areas of mixed tenure. At present, there is a programme of between 2,000 and 2,500 affordable homes per annum in these areas. Unless we are completely to switch off new supply in these areas, this needs to be *added* to the central estimate of 8,000 affordable homes. For the sake of the overall national estimate, we have assumed that 2,000 homes need to be added in.

Local housing systems

There are other reasons to suppose that the central estimate of unmet need of 8,000 would translate into a rather larger investment programme. This estimate is based on taking whole local authority areas as single housing systems. This is like saying that a person looking for an affordable home is able to choose equally from all corners of the local authority area. This might be valid in some small, compact local authority areas, but is very unlikely to be true in many areas, especially rural ones. Further, it is least likely to be true of the people most in need of council or housing association housing, who, by reason of income, access to private transport, social networks, illness and disability, or caring responsibilities are likely to have much more restricted search patterns for housing.

The effect of this can be illustrated by the example of Fife. In the central estimate, Fife is reckoned to have a net need of 5: that is, in effect, no net need. But this is a consequence of the relatively high-pressured markets of North East Fife being lumped in with the relatively more accessible markets of west and central Fife. The sub-area with net need is cancelled out by the sub-area with housing surplus. By implication, this is saying that someone living in North East Fife is equally able to meet his or her needs in Dunfermline or further west. If one splits the Fife area into three smaller and more realistic housing systems, the net need rises to 315.

The example above is only one of many such examples and these are fully acknowledged by the Heriot-Watt team. For this reason, the team looks at the smaller areas of the old pre-1996 district authorities¹¹. Using these boundaries, albeit with careful caveats about data availability and quality, the central estimate rises by a further 1500 across Scotland as a whole. Even this might not be the end of the story: for example, the pre-1996 area of Argyll and Bute is still certainly more than one housing system¹². Otherwise the highly pressured area of Oban and North Argyll will be cancelled out by the more sluggish market of south Kintyre, some 100 miles distant.

We are confident that choosing smaller areas – smaller than Communities Scotland’s housing market areas¹³ and the boundaries of unitary authorities – is appropriate for the realistic search patterns faced by people in need of affordable homes. That being so, the central estimate of need would rise further.

Relets, house prices and backlogs of need

So far, we have argued that the central estimate of 8,000 would rise by around 2,000 if regeneration activity were factored in and by at least a further 1,500 if more local markets were used. These figures are summarised later in table 1.

There are a further range of factors which are less easy to quantify and which might cause estimates of need either to rise or fall. These are estimates of relet rates; patterns of house prices and the estimate of the 'backlog' of housing need.

¹¹ The choice of old district boundaries is largely for reasons of data availability; rather than necessarily implying that these are self-contained local housing systems.

¹² It needs to be borne in mind that well over half of current local authorities have roughly the same boundaries as pre-1996. In these cases, the analysis at district level does not go down to a more local level than analysis using current boundaries. As well as Argyll and Bute, the three island authorities and North Ayrshire certainly have one more than one local housing market and arguably, Stirling and Perth and Kinross as well. If one were able to delve down further in these areas the estimate of need overall would rise still further.

¹³ Housing market areas are defined by “containment thresholds” (themselves a matter of judgement) by observing patterns of purchase in the owner occupied market. For reasons above and also in relation to the access and allocation criteria of social housing providers we do not believe that these accurately reflect the actual search choices of people on lower incomes. This view is backed by research by TNS Social Research: “Affordable Housing: Owner Occupied and Tenant Perspectives”, 2004

Each of these factors has an amplified effect on the model. For example, a 10 per cent reduction in the flow of lets of affordable homes would result in a 40 per cent increase in net need of 3,180. Similarly, the impact of house prices and the rate at which the backlog is reduced have very significant impacts on the model.

House prices are difficult to predict. The Heriot-Watt team argues that we are at or close to the high point of the house price cycle and that a period of 'correction' is more likely than not. If part of gradual process such a correction would be very welcome. However, similar predictions have been made very frequently in the past. At best this is an unpredictable variable.

The backlog refers to that group of people already in housing need who require homes. In 2005 this is estimated to be around 170,000 households. Since it is not possible to house everyone at once, it is assumed that the backlog can be reduced at the rate of 10 per cent per year, so that after 10 years it will have cleared. There is no over-riding reason for choosing 10 per cent: the Heriot-Watt team illustrates the impact of choosing different backlog-clearance rates. At worst provision of more affordable homes will simply accelerate that rate at which the backlog is reduced: in itself, no bad thing. In our view, ten years is a long time to wait for all outstanding needs to be addressed.

As above, the lets of affordable homes are very significant in the model. If there are a higher number of lets then it means that more of the pool of people who cannot access housing in the private market can be absorbed by the existing supply of social housing. There is some reason to suppose that the estimate of the future flow of lets in the model is optimistic. For example, all lets are treated as making an equal contribution to meeting housing need¹⁴. However, in some of the most disadvantaged neighbourhoods, the high number of lets might do quite the opposite: rather than being a genuine source of supply, they are an indicator of instability; a constant churn of people in and out of housing, which is doing little to address actual need. If major initiatives such as the Scottish Housing Quality Standard and regeneration schemes serve to improve the quality of social housing and the neighbourhoods, then a very positive effect will be to stabilise turnover, with knock on effects on community stability and engagement and levels of antisocial behaviour.

This positive development would also reduce the flow of lets, however. As above, the model predicts that a 10 per cent reduction in lettings would increase net need by 3,180. However, because, this would also reduce the flow of households *exiting* from the sector, there would be a partial cancellation, the quantity of which is not easy to predict. As a result, we have chosen to err on the side of caution and not factored in any allowance for reduced turnover, even though its impact would certainly increase the overall need for new homes.

Table 1 summarises the scale of need to be addressed.

¹⁴ The Heriot-Watt model estimates future flow as the mid-point between vacancies and actual lets and so takes some account of homes that may be deemed unlettable. It is unlikely fully to consider the scale of low demand, however.

Table 1: Summary of potential affordable housing investment programme	
Central estimate of unmet housing need in 2005	8,000
Allowance for housing supply in regeneration areas	2,000
Allowance for sub local authority housing markets	1,500
Allowance for reduction in lettings	NOT FACTORED BUT POSITIVE
Total	11,500

The table does not include an estimate based on clearing the backlog more quickly than in 10 years. Nor does it include any different assumptions about house price movements.

The annual programme¹⁵

So, a programme of at least 11,500 affordable homes a year is justified by the best data we have available. The estimate could well be larger, if different and, we would argue, more realistic assumptions are made about relet rates and house price trends. We have not factored them in because they are difficult to quantify. It does, however, give us confidence that there is little prospect of cavalier over-supply.

It would not be wise to attach precision to the estimate of 11,500. The assumptions that lie behind it are sensitive and complex and could lead to higher or lower estimates. We have suggested a programme of 10,000 homes a year for the following reasons:

- It is capable of being delivered within reasonable assumptions about the sustainable growth of development capacity among landlord bodies, developers and building trades. This is especially so if the programme is delivered over three years in a stepped way: that is, annual output of 9,000, 10,000 and 11,000.
- While the order of magnitude is robust, we have recognised some of the areas where precision is difficult and erred on the conservative side.
- To the extent that 10,000 is an under-provision we think that some of the additional need can be absorbed by initiatives like Homestake and, potentially, intermediate rent schemes. We look at this more fully in the next section.

¹⁵ It is important to note that the Heriot-Watt team produces an estimate for a baseline year of 2005 and then projections for 2006, 2011, 2016 and 2021. That is, we do not have estimates for each of the CSR years 2008-11. However, given that estimates actually rise in 2006 and even by 2011 are of comparable level to the 2005 baseline, the case for the programme of 10,000 a year is robust for the three CSR years. The Heriot-Watt team projects longer-term improvements in access to housing as a result of affordability improving (although this is far from certain) and the backlog being reduced. But these long-term improvements largely lie beyond the CSR period.

Affordable homes and homelessness

There is one other way of looking at the estimate of the need for affordable homes. That is, to look at needs generated by changes to homelessness legislation. There is no doubt that one of the main pressures on the 2007 spending review is the Executive's commitment to equalise homelessness rights by 2012. By that date, all homeless people (with the partial exception of a small group of intentionally homeless people¹⁶) will be entitled to permanent housing. This is an internationally acclaimed commitment, which puts Scotland at the leading edge of homelessness policy in the developed world. It is certainly a commitment that should inform the most important spending announcement for a decade¹⁷.

The Heriot-Watt team quite rightly makes the point that homelessness is not a separate category of housing need but part of general needs. Many people who apply as homeless are, or have been, on mainstream house waiting lists. However, it goes on to make some projections about the future direction of homelessness trends which, we would argue are, at best, questionable and, at worst, based on local authorities potentially suppressing true levels of homelessness. We do not share the Heriot-Watt team's confidence that *true* levels of homelessness will reduce substantially in the CSR period¹⁸.

We have not sought to add in homelessness flows to estimates of need. The main issue is not so much if and how homelessness adds to overall need; more about the extent to which a homelessness application becomes the sole or main route into housing. So we agree that

¹⁶ Even though intentionally homeless people will not be entitled to permanent accommodation, they will have an ongoing entitlement to accommodation of some kind. So they still need to be factored in to an overall estimate of need.

¹⁷ In his speech to the Scottish Labour Party conference in February 2006, the Prime Minister singled out the "*most progressive homelessness legislation in Europe*" as being one of eight major achievements since Labour took office in Scotland. In 2003, Scotland was awarded an international human rights award for its approach to homelessness. In December 2006 a high level debate about homelessness in France, led to the French president drawing inspiration from Scotland to introduce a new right to a home in France.

¹⁸ Part of our critique is the way in which the Heriot-Watt team has factored in quite large falls in homelessness acceptances as a result of prevention activity, drawing on analogies from England. We all support prevention activity in Scotland but note that the policy context here is different. There is no comparable target to that in England to halve numbers in temporary accommodation, a target which is driving some authorities to divert people away from making a homelessness application rather than necessarily preventing homelessness itself. We also question the method by which the extent to which different prevention variables contribute to falls in homelessness are quantified. Further, we are not persuaded that increases in *average* income will – as assumed by the Heriot-Watt team – lead to reduced homelessness. People who become homeless are most likely to be found at the bottom of the income distribution: that group which has seen least gain from average income rises in the past. Finally, although demographic changes towards an older population - where homelessness is least frequent - suggest reductions in overall homelessness, a counter trend is towards more single person households, which has been noted as the main demographic trend underpinning rises in single homelessness.

homelessness and other people in need are not separate categories. The debate is really about who gets housed in which order.

This is an area that is mired in judgements about who deserves what, and also where perception can cloud reality. At the moment less than a third (29 per cent) of lets of social housing go to homeless people: that is, for every homeless household that is housed, two households from waiting lists are housed. That is not consistent with claims that homeless people are swamping waiting lists. Pressure will be higher in some areas than in others: all the more reason for a programme of new affordable homes to ensure that homes are built to relieve pressure in these areas.

As a starting point, we have made three assumptions:

- That current levels of homelessness acceptances at around 40,000 a year will remain the case for the next five years. This is based on the upward trend in homelessness acceptances showing signs of levelling out recently.
- That the current level of lets will remain broadly constant, leaving aside the additional new rented homes that we argue for. In practice, this might be optimistic given the continued decline in the number of homes available.
- That it is desirable for both homeless people and people on waiting lists to be able to access homes. There is a judgement about where a tipping point is reached, but we are aware of the dangers of backlash, resentment and perceptions about the role of social housing if very high levels of lets are to homeless people.

So, we assume that the 2005-06 levels of homelessness acceptances remain stable at around 40,000 each year. At present, of those 40,000, around 30,000 are eligible for permanent accommodation. That means that between now and 2012 another 10,000 people will become eligible each year for permanent accommodation¹⁹. However, not all of them will require access to a council or housing association home. It is reasonable to assume that around 50-65 per cent will access social housing directly, while the remainder make other provision or will in some other way not need to be rehoused elsewhere at that point. So the additional number of people needing permanent accommodation will be around 5,000-6,500²⁰.

The table below shows, broadly, how a programme of additional affordable homes would parallel rises in the number of homeless people needing homes. At first glance, after a period where additional lets from new supply lags behind the increase in homeless people needing homes, the

¹⁹ We assume that authorities will not wait until the last day of 2012 to achieve this. They are required to get halfway there by 2009: that is, in our scenario, 35,000 of the 40,000 will have to be assessed as being in priority need by 2009.

²⁰ The 50 per cent estimate is taken from the Heriot-Watt report. The upper estimate of 65 per cent is from analysis for the national Homelessness Monitoring Group. To some extent the fall-off of homeless people is a result of poor systems, which cannot be condoned. But it is also likely to reflect the fact that some people do find other solutions to their problems.

affordable housing programme then seems to run ahead of the need for homes for homeless people. However, the figures in the right hand column are approvals: homes which are built and ready to occupy will follow some time later.

Table 2: Flow of additional homeless people and additional lets from new supply compared		
	Additional homeless people needing housed²¹	Additional lets from new supply
2005-06	-	(BASELINE NEW SUPPLY LETS = 5,000)
2006-07	800 – 1,100	600
2007-08	1,700 – 2,200	800
2008-09	2,500 – 3,250	4,000
2009-10	3,300 – 4,400	5,000
2010-11	4,200 – 5,400	6,000
2011-12	5,000 – 6,500	NEXT CSR PERIOD

Taking 2005-06 as the baseline year (as this is the latest year for which we have data on homelessness numbers and impact on lets), the output of affordable rented homes is 5,049 homes. Raising output to 10,000 on average, in the years 2008-11 would, in itself, provide all or most of the annual additional lets needed to accommodate newly eligible homeless people, without encroaching any further on the housing of people on mainstream waiting lists. That is, the benefit of the programme we have described is that both homeless people and people with other needs could be housed without one placing undue pressure on the other. The proportion of lets to homeless people could remain relatively stable at around a third of all lets.

In itself, this calculation is not an estimate of housing need. But it illustrates how the programme we have outlined could help to achieve one of the Executive's most significant targets.

5. Costing the programme

The affordable rented programme

We have argued for a programme of 10,000 affordable rented homes per year. The cost of the programme is outlined below. This is based on the current costs and grant levels in the Communities Scotland investment programme.

²¹ This assumes a simple annual stepped increase in the number of homeless people accepted. In reality, of course, progress will be more erratic. There is good reason to suppose that progress will actually be swifter. For example, one local authority is already piloting the equalisation of homelessness rights, early in 2007, five years ahead of schedule.

	Number of units	Costs (£ million – all in nominal prices)	Additional cost on 2007-08 baseline (£ million – nominal only)
2006-07	5,629	336.70	-
2007-08	5822 ²²	350	-
<i>2008-09</i>	<i>9,000</i>	<i>540</i>	<i>190</i>
<i>2009-10</i>	<i>10,000</i>	<i>600</i>	<i>250</i>
<i>2010-11</i>	<i>11,000</i>	<i>660</i>	<i>310</i>

The programme of rented homes that we propose would therefore cost an additional £190 million in year one or £750 million over three years. This in the context of an overall budget for the Scottish Executive which comes to over £90 billion over three years. The *additional* money needed for our affordable housing programme would take up around 0.8 per cent of the Scottish budget. This additional programme of investment would take total housing investment up to just over 4 per cent of the Scottish budget. This includes Supporting People funding, which provides assistance for people to stay in homes, and is largely funded by money that used to be held by the Department of Work and Pensions which has now been transferred to the Scottish budget. Taking this out means that the total housing budget, with our additional programme added in, would be around three per cent of the total Scottish budget.

This is, of course, a modest proportion of the budget. It *is* a significant increase on current levels of expenditure, but later we argue that the programme would also secure many additional benefits, both in increased private funding and in delivering on other major political priorities.

Low cost home ownership and other initiatives

The Scottish Executive expects its affordable housing programme to produce almost 8,000 units in 2007-08. However, this is made up of approvals for low cost home ownership initiatives, which account for around 2,000 of these approvals. We support these initiatives and, indeed, wish to see their potential and that of other schemes exploited still further. However, we do not think that they should be counted as equivalent to the affordable rented programme for three reasons:

- Firstly, that they do not meet the same needs. Low cost home ownership schemes have a role in assisting some households at the margins of the mainstream market, but probably more importantly as a means of diversifying tenure in areas of regeneration. To the extent that the subsidy simply increases the bidding power of people within the mainstream market, unless it is very precisely targeted it will fuel house price inflation.

²² The detailed programme has not yet been published – this figure is based on the pledge to provide 16,500 rented homes in the three years to March 2008. By subtracting the outturn output for 2005-06 of 5049 and the approvals for 2006-07 a programme of 5,822 in 2007-08 can be assumed.

- Secondly, it is also about efficient use of public money in meeting housing needs in the long term. With schemes like Homestake and Rural Home Ownership Grants the subsidy attaches to the original purchaser but, over time, that will be dissipated²³. On the other hand, in the affordable rented programme, the property is available repeatedly for allocation to people in housing need.
- Evaluations of earlier low cost home ownership schemes show that they aid earlier entry to home ownership than otherwise would be the case, rather than people getting access to housing who otherwise would not be able to do so.

For these reasons we have not included low cost home ownership initiatives in our analysis of additional funding needs.

Similar arguments can be applied to the private rented sector and the Heriot-Watt team factors in a small possible contribution from this sector in meeting housing needs. Against this, it can be argued that, in most cases, if one can afford private rents then one could afford a mortgage for the equivalent property. There is a potential role for housing benefit in supporting some households in need in the private sector. However, while there is such uncertainty about the impact of the new local housing allowance it is best to assume that this contribution will be modest.

Housing investment and added value

One of the advantages of investment in housing is the additional money levered in from private finance. The affordable rented housing programme alone would bring in £780 million in private funding²⁴. This is money in loans from financial institutions which cover the additional scheme costs not met by public money. So, if the average housing association home costs £86,000 to build, 70 per cent of these costs would be met by public grant. The remaining 30 per cent would come from private finance²⁵.

²³ In Homestake, some schemes have special conditions attached which ensure that the housing association can always retain a “golden share” of equity in the property. This is one way in which public subsidy can share in price appreciation in a continuing way. However, this applies to only a small minority of Homestake approvals. In the majority of Homestake schemes, purchasers can “staircase” up to 100 per cent equity. In this case, there would be a one-off receipt which, itself, would reflect changes in value and which could be ploughed back into investment in new homes. However, in the long term, there is nothing to stop that property rapidly moving out of reach for households on modest incomes.

²⁴ Based on average Housing Association Grant rate of 70 per cent.

²⁵ One of the most significant sources of private finance is through housing stock transfer, in which case the transferred body can borrow freely based on its net income and assets. In the case of transfer with debt write-off, the redistribution of debt is the subsidy which opens up access to private finance. However, transfer is almost entirely about investing in existing stock or replacing stock that needs to be demolished, rather than generating additional new lets.

These are very obvious and tangible benefits from investing in housing. There are equal if not more important additional benefits. It is less easy to quantify these but their contribution is positive and significant.

The most obvious examples are outlined below. There is a large and growing literature on some of these additional impacts, too voluminous to cite here. However, we would be happy to go through specific impacts in further discussion.

Education: housing problems such as overcrowding and living in temporary accommodation can have direct impacts on how well children get on at school as well as affecting their more general development and life-chances. Stable accommodation is often a vital building block for a group of vulnerable older teenagers who find it difficult to access and retain work, training or higher education.

Health: good quality housing has been recognised as one of the main determinants of health and well-being. Much of the attention, rightly, has been focused on improving the existing stock of poor quality housing, where damp, cold conditions have obvious links to respiratory health. But, an expanded programme of new affordable homes also has a key role to play in raising the overall standard of housing. More specific health priorities can also be eased by increased availability of housing: for example, reductions in bed-blocking in hospitals as accommodation becomes available to move to.

Crime and antisocial behaviour: for decades housing providers have been at the frontline of efforts to address low level crime and antisocial behaviour. An affordable housing programme, which improves the quality and design of individual homes and neighbourhoods, can be the vital backdrop to more focused efforts to deal with crime at the point of occurrence. Improved rehousing of ex-offenders is integral to reduction of re-offending rates.

Community cohesion: where there is fierce competition for housing, it is all too easy to create scapegoats. At various times they can be 'incomers', homeless people, asylum seekers or economic migrants from eastern Europe. Of course, it is important to confront prejudice head-on, but this is so much easier to do when it can be demonstrated that all sections of the community can access services. The success of far-right groups in England in exploiting problems of access to affordable housing, while not replicated in Scotland, foreshadow difficulties if left unresolved²⁶.

Economic prosperity: the housing sector itself accounts for a significant number of jobs, in construction, development and management. Homes are the single largest part of the country's fixed assets. But a mixed sector is also vital for the economic flexibility and mobility that is the

²⁶ The success of the British National Party in Barking and Dagenham in Essex at the English council elections in 2006 was mainly attributed to their highlighting access to housing.

bedrock of a modern economy. This needs home ownership at a sustainable level, a vibrant private rented sector and a social rented sector that offers genuine choice.

Environmental sustainability: new housing by social housing providers has been at the cutting edge of new approaches to housing which reduce energy use, carbon emissions and waste and open up access to renewable energy. An increased social housing programme will help Scotland meet international obligations to combat climate change²⁷. In addition, one of the consequences of over-heated housing markets has been a rise in longer-distance commuting, as people move further afield to secure an affordable home.

The future role of social housing

While a programme of 10,000 affordable homes a year would be the largest programme for a generation²⁸, it is important to be clear about how modest the programme really is. Compared to most of the second half of the twentieth century, it could be described as modest and certainly nothing like a return to the mass building programmes of the 1950s to 1970s. For example, in the five years between 1950 and 1955, the annual output of public sector homes in Scotland was around **36,000** homes: around 180,000 in total. Taking the whole period 1945-1995, the annual output was around 20,000 public sector homes, twice as much as we are suggesting now despite the impacts of the introduction of the Right to Buy in 1981.

Just as importantly, no-one is seriously talking about the volume building of large mono-tenure estates as in the past. The delivery of affordable homes is on a smaller neighbourhood scale now and invariably provided as part of mixed tenure programmes²⁹.

There has been some recent speculation about the future role of social housing in Scotland³⁰. This is a contentious discussion, particularly around the scope for public policy to shape the long-term trends. However, there is general recognition of the fact that the social rented sector will continue to shrink as a proportion of all housing, albeit at a less dramatic rate than in the last 25 years and the trend towards more single person households, some with additional support or care needs, will continue. The debate is really about what that *fact* means for the *role* that social housing will play in the future.

We cannot do justice to that debate here. The important point is that nothing outlined in this report could be caricatured as running against that grain. The programme we describe, while ambitious in a recent context, would still be placed alongside sale of homes to sitting tenants and demolitions

²⁷ Other things being equal, simply building more homes will have a negative environmental impact. However, there is a world of difference between building new modest-sized homes to complement existing neighbourhoods and development of new six bedroom homes estates in commuter dormitories.

²⁸ The last comparable level of output was in 1977, when social housing output was 9,870.

²⁹ The only instances of large-scale building for a single tenure are now in new-build estates for owner occupation.

³⁰ See, for example, "The Future for Social Rented Housing", CIHS, 2006

on the one hand; and provision of new private housing on the other. Even with a programme of the scale we have set out, the social rented sector will still shrink somewhat.³¹ Our programme will slow that rate of decline and, just as importantly, could reposition the role of the sector as a positive choice for people looking for modern decent homes.

5. Making it happen

We have argued for a programme of not less than 10,000 homes per year for the three years of the spending review. We have shown that this would be modest compared to social housing programmes of the past. We have also shown that this would cost an additional £750 million or 0.8 per cent of the Scottish budget over the three years. We have argued that this programme would:

- Meet existing and emerging housing needs that have been identified more precisely than at any time in the past.
- Secure implementation of the Executive's flagship commitment on homelessness which has been lauded at UK and international levels.
- Provide significant added value, both directly, in private finance levered in; and indirectly, in relation to other priorities such as education, health, crime, community cohesion, the economy and the environment.

The 2004 Spending Review was a turning point. The increased social housing investment announced then was the first sign that the Scottish Executive recognised the value of new affordable homes and was prepared to challenge almost two decades of under-investment.

But the 2004 CSR alone has not signalled any fundamental shift in the overall number of new affordable rented homes. The 2007 CSR is an opportunity to build momentum from that turning point and to deliver on the potential that a period of intense law reform has promised.

There is high expectation of this spending review. There are thousands of people who are responsible, day to day, for delivering the Executive's programme of housing and area renewal. They have been prepared to engage with that programme in good faith, believing that arguments for future investment and affordable housing supply would be so much stronger as a result. This is a once in a lifetime opportunity to cement that pact.

That expectation is also held by thousands of people in temporary accommodation, tens of thousands of people stuck currently on house waiting lists and in inappropriate housing.

³¹ All four organisations support reform of Right to Buy, at the very least to make it more responsive to local housing strategy. But even with lower levels of Right to Buy, in the future, partly as a result of policy, partly as a result of underlying demographic and economic changes, there will still be a flow of homes from the social rented sector into owner occupation.

We have described the positive benefits of this increased investment in new affordable housing. We are confident that the Scottish Executive will recognise and rise to the challenge of that case. If it fails to do so, prospects are much less encouraging:

- The flagship homelessness target might be under pressure: in most areas, rising numbers of homeless people competing for fewer good quality lets could stoke up resentment and even fuel further increases in homelessness as waiting lists clog up. In some areas there may be an absolute shortage of lets to meet legal duties.
- Social housing would continue to suffer from a tarnished image. Ironically, failure to reverse historic under-investment may put at risk past and current investment and accelerate the trend towards North American style welfare housing. This, in turn, would affect efforts to improve community cohesion and tackle crime and antisocial behaviour.
- Opportunities to create diversity and tenure mix in private sector developments would be lost if social housing providers were not able to bring finance to the table.

The 2007 CSR is a unique opportunity to build on successes and consign past failures to the history books.

Appendix 1

The Heriot-Watt model

The model calculates a snapshot of total need for affordable housing in Scotland in 2005. It also provides estimated projections of need for 2006, 2011, 2016 and 2021. It calculates the net need for affordable housing by deducting the number of social housing relets from an assessment of gross need, which is a combination of:

- new households unable to afford to buy in the market;
- migrant need for affordable housing;
- owner-occupiers needing to move into social renting for a variety of reasons; and
- the backlog of existing unmet need.

The estimated number of new households unable to buy in the market is compiled using estimates of the number of new households forming during the year, their incomes and house prices. The backlog of households with existing needs is derived for each of four aspects of need – shortage, suitability, condition and affordability. The baseline assumption is that 10 per cent of a local authority backlog will be met each year.