

The 2007 budget: update

This briefing updates that produced by Shelter on 23 November as a commentary on the budget as originally published. Since then, on 13 December, the local government settlement has provided further detail on spending lines formerly in the housing portfolio. This briefing now incorporates that data.

Summary of main points

- *Additional* spending on affordable housing supply is, *at best*, less than 20% of what is needed. The budget is cut by 6% in real terms in year one, before recovering in later years.
- In comparison to the 2004 CSR, the 2007 CSR has, overall, delivered planned spend on affordable housing 9% higher in real terms. However, this is against a backdrop of heightened expectations of investment and above inflation increases in land and building costs.
- We support measures to increase value for money in housing programmes but argue that their impact remains unquantifiable as yet and cannot be implemented quickly enough to compensate for the shortfall in the budget.
- Our best estimate at this stage is that, far from meeting the target of 30,000 affordable rented homes, the output in the three-year period will be less than 15,000.
- The budget has removed over half of what used to be in the housing portfolio into the local government portfolio.
- There is a high risk that homelessness and Supporting People budgets, now within overall local council budgets, will be seen as soft targets to fund other priorities. Shelter believes that they should be ring-fenced at least until Single Outcome Agreements are fully in place and adequate systems for tracking what happens to services have been developed.

Affordable housing supply

The supply of affordable housing was the primary focus of lobbying in the run up to the 2007 budget. In February the main housing groups submitted detailed proposals¹ to the Finance Minister. This submission, based on detailed research on housing needs, made the case for 30,000 affordable rented homes to be provided 2008-11, at an *additional* cost of £750 million. In May the proposal was resubmitted to the Cabinet Secretary for Finance and Sustainable Growth.

The housing settlement announced in the budget 2007 was a disappointment. As shown in table 1 below, the budget for the supply of affordable homes, on a like-for-like basis, has been cut by 6% in real terms next year, before rising again in years two and three.

¹ See <http://scotland.shelter.org.uk/policy/policy-421.cfm/ct/2/pg/3/plitem/263> for the full submission.

Table 1: Affordable Housing Supply 2007-08 to 2010-11				
	2007-08	2008-09	2009-10	2010-11
Spend (£ million) ²	478.7	463.0	535.8	561.2
Spend (£ million – constant 2007-08 prices)	478.7	450.6	507.5	517.3
Change in £ million (real terms: from 2007-08 base)	-	-28.1	+28.8	+38.6
% change from 2007-08 (real terms)	-	-6%	+6%	+9%
<i>Source: Scottish Budget Table 21.03 and Local Government Settlement Annex K</i>				

Table 1 also shows that the budget then recovers in years two and three, such that the 2010-11 planned spend is 9% higher in real terms than the 2007-08 baseline. However, over the three years the additional spending on affordable housing is only £131³ million, far short of the £750 million needed. At best the additional money allocated is only 17% of what is needed: that might be as little as 11% if some of the new money is diverted into low cost home ownership initiatives.

The Scottish Government has also claimed that the budget for affordable homes in the period 2008 to 2011 is 19% higher than in the 2005-08 period. However, in real terms the difference is much less, at 8.8%.

The Scottish Government has also countered that speculation about shortfalls in housing output as a result of the budget is based on the current ways in which housing subsidy is channelled and that its discussion paper, “Firm Foundations” signals greater efficiencies in investment such that more homes can be built for less public money.

Shelter supports this direction of policy. It is clearly correct to seek to ensure that increases in housing investment are not simply soaked up in above-inflation land price rises or building costs. It is justified to assess rigorously the performance of landlords in relation to spending and to secure the best deal for tenants and people in need of housing. However, we are sceptical about the extent to which this can be taken into account in the budget settlement, for two reasons:

- First of all, “Firm Foundations” sets out a clear direction of travel but there is little that would allow one to quantify the scope of potential efficiency savings⁴.
- Secondly, even if and when these changes can be quantified, they cannot be simply switched on and delivered in full overnight. It is likely to be well into the three-year period, if not beyond, before the full benefits of any efficiencies are realised⁵.

² This differs from the published data in table 21.03 of the budget as it adds back in the budgeted amount for Glasgow and Edinburgh to spend on affordable housing supply: at £119.1 million for each year. Because this amount is ring-fenced within the local government settlement this is the amount that is specifically earmarked for such spend in those two cities. However, it is open to the city councils to spend above that level, drawing on the overall uplift in spend as part of the local government settlement. Adding the £119.1 million back in is essential as it is the only way to compare the 2007 CSR settlement with the overall 2004 CSR settlement.

³ The actual amount in the table above is £123.9 million. This caused by a £2.4 million discrepancy in the 2007-08 baseline which is then amplified over 3 years. The £131 million is consistent with the Scottish Government’s own data and should be used until the discrepancy can be resolved.

⁴ The closest to this is the statement in “Firm Foundations” that prudential borrowing could allow councils to build an additional 500-600 houses per year. The main efficiency measure for RSLs is around appointing a single lead developer. It is impossible, at this stage to quantify the costs and benefits of this approach.

That means that the level of housing output in the spending review period will largely be determined by the finance arrangements in place at the start of the period. In our earlier responses to the budget we argued that the output of affordable homes for rent over the period could struggle to reach 20,000. We now fear that it might fall short of the planned output of 16,500 in the CSR period 2005-08⁶. Our estimate of 14,635 is less than half of what is needed.

The Scottish Government's position on targets for affordable homes has changed a number of times since the budget was announced. Initially, it said that it would not set a target. Then it said that it believed that 18,500 affordable homes would be produced if the same subsidy system were continued. It has since said that it expects to produce in excess of the 21,500 affordable homes target in the 2005-08 CSR period. All of these figures include low cost home ownership as well so are not directly comparable with our estimate for rented homes above. However, the speed with which Government targets have changed does pose some credibility problems.

For that reason, we are disappointed that the Scottish Government's main response to the budget has been to challenge the target of 30,000 affordable rented homes, which has been drawn from government-sponsored research and presented to the Government many months ago. We stand by that estimate as a robust and achievable target for affordable rented homes in Scotland.

2. The moving millions

At least as significant as the absolute changes in the budget are the major shifts in the way the budget has been presented. This represents the most radical shift in the housing portfolio since devolution. This time last year, the planned housing portfolio for 2007-08 accounted for just under £1.1 billion. The revised figure for 2007-08, for comparative purposes, is £474.2 million. That is, over half of what used to be in the housing portfolio is no longer there, having been shifted into the local government budget from 2008-09 onwards.

This lack of transparency has been a regular refrain in Shelter submissions to various parliamentary committees since 1999; but is much more significantly so this time around, simply because of the scale of discontinuity with historical data and the fact that no numbers are attached to the spending programmes that have had the ring-fence removed. The significance of the "moving" millions is illustrated in table 2 below.

⁵ "Firm Foundations" recognises that the new regime cannot start until at least April 2009; however, it talks about efficiencies in the year beginning April 2008. How these can be secured when a lot of the programme is already committed is not clear.

⁶ This estimate has been derived by applying a 0.65 multiplier to the affordable homes figures given in table 1 (65% is the proportion of spend in the 2007-08 affordable homes programme which goes to renting). Then we applied that figure to the average HAG per unit in 2006-07 of £79,000, assuming, in light of efficiency aspirations, that it does not increase during the spending period. Finally we added in the 1800 council homes that "Firm Foundations" gives as the maximum number that could be built using prudential borrowing over a three-year period. This gives a total of 14,635. There are a number of caveats around this estimate, but they would not affect the order of magnitude of the estimate.

Table 2: The “Moving” Millions <i>(all figures in £ million)</i>		
Programme	Planned Spend in 07-08 (previous Executive’s figures)	Status in 08-09 and beyond
Supporting People	383	Rolled up in Local Government settlement
Development funding for RSLs / others in Glasgow and Edinburgh ⁷	119	Ring-fenced until 2010-11
Housing Support Grant and Hostels Grant	8	Part of annual managed expenditure: allocated to LAs that need it
Private Sector Housing Grant	94	Ring-fenced until 2009-10
Assistance to Glasgow owners	Not separately identified	Ring-fenced until 2010-11
Tackling and preventing homelessness	39	Rolled up in local government settlement
Landlord registration	Not separately identified	Rolled up in local government settlement
IDENTIFIABLE TOTAL	643	
<i>Source: based on Scottish Budget: table 17.02 and the Draft Scottish Budget 2007-08 (published in 2006)</i>		

Of the identifiable £643 million in table 2 above, around two-thirds in turn (£422 million) of the total is now part of the general settlement for local government. Other parts will be allocated within the local government portfolio, but subject to ring-fencing at least for part of the spending review period. These items, together with the ring-fencing details are listed above in table 2.

The main items to be merged with the overall local government pot are the Supporting People fund (up to £400 million per year) and the homelessness budget (around £40 million per year).

While local government generally may welcome the additional flexibility that comes with these changes, there is widespread concern within the housing sector that housing and related budgets which are not ring-fenced will be seen as soft targets.

The worry seems justified when one looks at the priorities set out in the Scottish Government / CoSLA concordat, published alongside the budget. Neither homelessness nor housing support are listed as specified commitments on pages 4 and 5 of that document. They do not feature as high level targets or, in any specific way, as national outcomes. It is only when the concordat lists indicators that homelessness features (indicator 22 relates to the 2012 homelessness target). Housing support does not feature specifically in any one indicator, although it could be argued that programmes or projects funded by Supporting People contribute to the achievement of up to 16 of the 45 indicators/targets.

Shelter is particularly dismayed that homelessness, in which Scotland is recognised as leading the way in Europe and beyond, is absent from the list of commitments. We cannot understand the logic of having an indicator for a policy area for which there is no commitment. It seems by including it as an indicator, homelessness is an implied commitment. If so, why not say so?

⁷ Most funding for new housing supply is managed by Communities Scotland and is therefore retained within the national housing portfolio. However, in Glasgow and Edinburgh, responsibility for development funding has been transferred to the local authorities. This explains why, in these 2 areas, spending is now part of the local government settlement, albeit ring-fenced throughout the spending period.

Given the current low level of priority attached to homelessness and housing support Shelter believes that there is a high risk that these already pressured budgets will be further “raided” to prop up other priorities.

So we believe that, in the short term, it is premature to remove ring-fencing while Single Outcome Agreements are not yet in place. The concordat says “SOAs will be expected to be in place across all councils *during* 2008-09”⁸. Given that they will not be in place at the start of the year Shelter argues that ring-fencing should be retained at least for year one.

In the medium term Shelter is not reassured by the lack of detail in the concordat as to how commitments are monitored and what action is taken to address deviations from priorities.

14 December 2007

Contact: Gavin Corbett, Shelter Scotland, 0844 515 2468 or gavin_corbett@shelter.org.uk

⁸ However, in his oral evidence to Local Government and Communities Committee on 5 December, the Cabinet Secretary indicated that he will be working to ensure that SOAs are in place by April 2008. This seems ambitious.