

Scrutiny of the Draft Budget 2012-13 and the 2011 Spending Review: Evidence from Shelter Scotland

1. Summary

- Based on the partial information we have at present the overall housing and regeneration budget will be cut by an average of 26% in cash terms over the spending review period as compared to the current year (2011-12).
- Looking specifically at new affordable homes, there was £1.7 billion in the previous CSR (2008-11) to deliver 21,544 affordable homes, of which over three-quarters were socially-rented. The equivalent amount in 2012-15 is £628 million, which is projected by the Scottish Government to result in 18,000 affordable homes of which two-thirds (12,000) are to be socially-rented. So a decline of 63% in money (in *cash* terms) will result, apparently, in only 16% fewer affordable homes.
- The dramatic changes in funding methods will result in a reduced programme of socially-rented homes; place upward pressure on rents at a time when housing benefit is being cut; and rely on a very new model called the National Housing Trust which, more properly, should be seen as adding to the stock of privately-rented homes.

2. Introduction

Shelter Scotland welcomes the opportunity to put forward evidence on the recently published Scottish Government Draft Budget for 2012-13 and the Spending Review which gives indicative allocations for the following 2 financial years.

Our evidence focuses on the allocations for Housing and Regeneration in Chapter 13 on Infrastructure and Capital Investment and, in particular, on the total budget under this heading (Table 13.10). We also refer to the additional housing allocations in Chapter 16 on Local Government (Table 16.02) although only limited information has been provided so far. Drawing on both sources of information, together with subsequent information provided by the Minister, we have also provided evidence on the implications of the budget for new affordable housing¹.

¹ We have focused specifically on the affordable housing budget, or “Supporting Economic Growth / Housing Supply” as it is called in the first line of table 13.10, for two reasons: a) It is the biggest part of the budget and

3. Background

Shelter Scotland shares the view of many in the housing sector that a minimum of 10,000 new build socially rented homes are required every year to meet identified housing need.

In May the SNP pledged to build 6,000 new socially rented homes a year, over the next five year period – the only party to set a clear target.

Early analysis post-election showed that the Scottish Government had only allocated enough funds to build 1550 socially rented homes this year, some way short of the manifesto commitment, with the shortfall to be made up of other forms of 'affordable' housing such as mid-market rent and shared equity. This analysis has not been disputed by officials.

In our joint budget submission to the Scottish Government Spending Review 2012-2015 with CIH Scotland we called for a radical rethink of spending priorities and set out a route map to recalibrate the spending cuts to deliver a bare minimum 6,000 units with a greater proportion than planned being made available for social rent.

We identified that a minimum of £200 million of additional investment would be needed to deliver 4,000 new socially rented homes each year with the shortfall made up of other 'affordable' models. Whilst this remains short of the manifesto commitment of 6,000 and the 10,000 homes we believe are necessary to help those in housing need this represented a programme for what we believed possible in the current financial and political climate given the relatively low priority housing investment has been afforded.

Regrettably the Spending Review targeted the affordable housing investment budget for a massive cut over the next two years. **Whilst we recognize the budgetary restraints, this is the second year that the housing budget has been targeted for a disproportionate share of the cuts whilst other capital budgets such as roads have had their funds increased.**

In the housing debate on 6th October that the Scottish Government reaffirmed its commitment to build 30,000 affordable homes and that they will build 20,000 socially rented homes over the next 5 years. While we welcome this new commitment we remain concerned that the programme remains far short of the clear manifesto pledge and will not go far enough to tackle real housing need in Scotland.

4. Overall Spending on Housing and Regeneration

commonly regarded as the litmus test for housing commitment and b) Other organisations giving evidence will look, for example, at energy efficiency spending.

There have been substantial cuts in the housing and regeneration budget. The overall housing and regeneration budget has been cut by 23% (25% in real terms) between the current year and next and 30% (35% in real terms) by the end of the spending review. Taking the spending review period as a whole, the average cut to the housing and regeneration portfolio as expressed in table 13.10 is 28% in cash terms.

However, not all housing expenditure is found in chapter 13 of the budget. Chapter 16 (local government) details spending on housing as well, the largest part of which is new investment in affordable homes in Glasgow and Edinburgh which has been devolved to those two cities. As below, the actual amounts are simply listed as “TBC” in budget but we know the approximate amount from subsequent announcements. So we can calculate that the allocation for new affordable housing in the local government budget has also been reduced by an average of 15% over the spending review period.

Taking these two items together the overall cut to housing and regeneration is, on average 26% over the spending review period. This cut comes on top of a previous 30% cut in the housing and regeneration budget between 2010/11 and 2011/12.

By comparison, in table 6.01, the total managed expenditure of the Scottish Government overall is due to increase by 4.9% in cash terms over the spending review period and the allocation to the Infrastructure and Capital Investment portfolio over the same period is set to increase by 12.3%.

There has been a massively disproportionate cut in the housing and regeneration budget.

5. The Consequences of the Cuts in Housing and Regeneration Spending

The main impact of the cut is likely to be on new affordable housing which is the largest single part of the programme.

The Scottish Government estimates that £628m will be available over the spending review period for new affordable housing². This compares with approximately £1.7 billion for broadly the same purpose in the period 2008-09 to 2010-11 (Scottish Budget p185).

The £1.7 billion in 2008-11 delivered 21,544 affordable homes, of which over three-quarters were socially-rented. The £628 million in 2012-15 is projected by the Scottish Government to result in 18,000 affordable homes of which two-thirds (12,000) are to be socially-rented. So a decline of 63% in money (in *cash* terms) will result, apparently, in only 16% fewer affordable homes. We look at this further in section 5 below.

² This is calculated by adding the £155.3/133.5/160 million in line 1 of Table 13.10 to the £250 million over 3 years for local government announced by the minister the day after the budget but entered only as TBC in Table 16.02.

Ministers will, quite accurately, point out that an affordable housing supply programme of £628 million is comparable to the minimum proposal of £610 million that Shelter Scotland and the Chartered Institute of Housing in Scotland made in our joint submission to the Spending Review. Indeed, we welcome the extent to which the Scottish Government has acknowledged this proposal. However, we also made clear that this minimal programme, based on the 6,000 affordable homes to which ministers are committed annually is founded on some optimistic assumptions and significantly short of the 10,000 new affordable rented homes that are needed each year to meet the needs of those who cannot afford to buy or rent at market prices. Scotland needs more not fewer affordable houses:

- There is a projected increase of just over 19,000 households per annum over the period 2008 to 2033;
- Since the credit crunch, the number of first time buyers buying with a mortgage has fallen by almost half;
- 156,000 households were on local authority house waiting lists (excluding transfer requests) in March 2011; and over 41,000 households were accepted as homeless or potentially homeless by local authorities in 2010/11.

6. Getting More from Less – Will it Work?

The Scottish Government maintains that it can still achieve its target of 6,000 affordable houses per annum over the Spending Review period, despite the considerable cuts described above, through a variety of measures which it claims will achieve better value for money. These are:

- a. Building proportionately few social rented houses and instead providing relatively more shared equity and intermediate rented houses which require less subsidy;
- b. Radically cutting the subsidy available for RSLs for socially-rented houses from over £77,000 per house in 2009/10 to less than £40,000 for the houses to be funded through the newly created Innovation and Investment Fund
- c. Using the National Housing Trust to provide affordable rented housing with minimal subsidy.

It remains to be seen how effective these innovations will be, but there are serious concerns which the Scottish Government needs to address. The socially-rented sector provides housing for the very poorest households in Scotland which is not the case for shared equity schemes which help households to access the owner occupied sector. Reducing the subsidies for socially rented housing is only likely to be possible, in the medium to longer term, through significant increases in

rents to pay for the increased borrowing costs³. And this is at a time when the DWP is seeking to introduce changes to housing benefit to reduce spending.

Currently, the approach adopted by National Housing Trust, is to develop partnerships between local authorities and developers with financial guarantees provided by the Scottish Government. The aim is to provide rented housing at rents of, on average, 84% of market levels for periods of between 5 to 10 years after which the houses will be sold by the developers in question. The houses will be let on short assured tenancies, ie with little security. To date no houses have been completed under this scheme, but various projects are underway. Given the rent levels and the other weaknesses of this approach, we believe that these projects should be counted as additions to the privately rented housing stock rather than as a contribution to affordable housing targets.

So the programme outlined by the Scottish Government begs a number of questions before we can be sure that it will deliver what it says it will deliver. On the other hand, if it *can* sustain such a programme for so much less money why was the budget cut so dramatically? Surely there are few other areas of public expenditure which have demonstrated a willingness to get more from less?

7. The Need for Greater Transparency

A full assessment of the housing and regeneration budget requires more information than has been currently provided. The information that is currently available is very broad – grouped under opaque headings such as “Supporting Sustainability” and “Supporting Transitions” without any further supporting detail. Worse, still, the local government part of the Budget contains significant elements of housing investment, most of which is not detailed at all but some of which, in broad three-year terms, was announced by the Minister in a speech the day after the Budget.

8. Conclusions

Shelter Scotland is very disappointed that the housing and regeneration budget has been identified for such huge cuts over the spending review period. This will lead to a reduction in the number of new, affordable houses built over this period as compared with the previous spending review period and other cuts which it is not possible to identify from the limited information available. Although the Scottish Government hopes to achieve its target of 6,000 houses per year through reduced subsidies and other measures, there are question marks about the longer term viability of this strategy and its ability to help those most in need.

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³ The Scottish Federation of Housing Associations is currently surveying those of its members who have received funding at the reduced grant rates to understand what the implications might be for things like rents, location of building, reserves and land-holdings. We understand a similar exercise is planned for councils.