

# **Housing policies for Scotland: Challenges and changes**

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## **1. Changing structures, new challenges**

There has been a remarkable transformation in the Scottish housing system in the last quarter century. In 1983 one half of all Scots rented homes in the public housing sector; the municipal system dominated non-profit ownership by a ratio of about 20 to 1, and the home-ownership share barely exceeded two households in five. By the start of 2007, two out of three Scots had become home-owners, and the non-market sector was one household in four, with councils holding three homes for each two owned by non-profits.

The directions and instruments of change, albeit applied with differences of emphasis and strategy, remained markedly constant from 1983 to 2003. (More detailed descriptions of change processes in these earlier decades can be found in Maclennan and Gibb, 1985 and Maclennan 1989a and 1989b). The expansion of home-ownership, not least due to right-to-buy sales<sup>1</sup> (with sold units comprising two-thirds of the rise in ownership totals 1986-2006) and favourable<sup>2</sup> tax arrangements for owners, has been at the centre of policy since 1979, and arguably since 1977.<sup>3</sup> The reduction in the provision role of municipalities reflected not just sales but also the switch from bricks and mortar subsidies to Housing Benefit and, more significantly, the switch of capital support from councils to associations and co-operatives. That shift came after 1979 but was reinforced through the 1990s and was maintained after 1997 and after 1999. Stock transfer policies further fuelled the growth of the non-profit sector and the contraction of municipal housing. The public sector transferred homes in broadly equal numbers to home-ownership markets and non-profit providers (see relevant tables in Wilcox, 2008).

There has been little assessment of the key social and economic outcomes from this transformation process. The effects of sales policies, short and long-term, are not an agreed or settled issue in the research community (see Scottish Executive, 2006a). There is little sense of the efficiency of the Scottish housing market and the effectiveness and contestability of the non-market sectors are, in many ways, still mysteries. Viewed from outside, the Scottish housing policy system is driven, and often with the best of intentions, by a narrow interest in social outcomes and a policy and politics community that has an old perspective on how to progress.

Despite the new role of markets, it is still producer interests in market and state sectors that drive policy debate. There is often a singular attachment to means of provision that did not work and a propensity to

pursue almost gratuitous over-regulation of sectors that do 'work' (at least sometimes). This is not an argument for more private ownership and less public policy. Rather, it is a concern that the thinking for Scottish housing policy no longer matches the systems involved and the challenges emerging.

The Government of Scotland initiated a debate at the end of 2007 on directions for Scottish housing policy by launching its *Firm Foundations* discussion paper (The Scottish Government, 2007a). This paper is predominantly intended as a contribution to the emerging debate about the future although it is more wide ranging. Contemporary government discussion papers in Scotland tend to be more narrowly focused and have shorter time horizons than, say, the seminal Green Paper on Scottish Housing of 1977 (Maclennan and Wood, 1978). This paper looks back over the last decade and forward over the next. In that future period it is likely that the Scottish housing system will have run through at least one significant cycle, and it is likely that there will also have been two further elections for the Scottish Parliament.

This paper is timely for a number of reasons. First, increasingly concern is being voiced that policy beliefs in Scotland may no longer dovetail well with economic realities. Secondly, there has been little cross-country contrast of the housing policies of devolved administrations within the UK since 1999. Indeed some significant housing policy commentators still write about 'UK housing policy' almost a decade after any such policy framework ceased to exist. Devolved administrations have now diverged significantly from English policy. Finally, the election of a minority Nationalist government in the Scottish Parliament raises new and different issues for the Scottish policy debate.

The remainder of the paper is structured as follows. Section 2 takes overall stock of housing outcomes in Scotland, and provides an initial overview of the contributions of housing policy in achieving these outcomes. Section 3 identifies the key challenges facing future Scottish housing policy arising from economic growth and globalisation trends. Section 4 looks in more detail at the policy questions that must be answered for the market sectors and Section 5 performs the same task for the social housing sector. Section 6 offers some general conclusions and points up major possibilities for changes in the governance of Scottish housing policies.

## **2. Benchmarking the present**

### **Identifiable government housing expenditure trends in Scotland**

First a note of caution: housing policy expenditures by the Scottish government are not, of course, the only shapers of housing outcomes. At the Scottish level, expenditures on other services, the use of regulation, planning and so on all matter. And UK policies for interest rates and social security are key determinants of system stability and housing payment burdens. Housing is a local system but with significant Scottish and UK level effects, so that multi-order government actions always matter in housing. We discuss autonomy issues below

At the outset, it is perhaps worth putting the cost of Scottish housing policies in perspective.<sup>4</sup>

Over the last decade the market sector has grown faster in Scotland than in England. As it is primarily assisted by tax breaks rather than public expenditure, this tenure trend could have been expected to have a downward pressure on Scottish versus English spending. The decade has also witnessed a major shift away from municipal expenditures that are classed as 'public expenditure' to investment by non-profits that blend public and private finance. The large 1996 share of municipal housing in Scotland allied to the fast proportional rate of stock transfer after 1997 also means a relatively rapid contraction for municipal stock renewal investment. For instance, despite a sustained, confused public debate about the Glasgow Housing Association (GHA), the government of Scotland now spends post-1960 record low levels of real investment in Glasgow's housing. In short, tenure shifts mean that it is difficult to link spending levels to expected outcomes in any precise fashion. More and more of the 'heavy lifting' in Scottish housing has fallen outside of housing public expenditure.

Despite these lower expenditure trends, identifiable (cash) public expenditures on housing in Scotland trebled between 1996/97 and 2005/6; they quadrupled in Northern Ireland but merely doubled in England. Over the same period overall identifiable government expenditure in England grew slightly faster than in Scotland, but less rapidly than housing spending. Thus, public housing expenditure as a slice of total identifiable spending rose in both jurisdictions over the

decade, from 1.9 per cent to 2.3 per cent in England and from 2.4 per cent to 3.7 per cent in Scotland (Wilcox, 2008).

The evolution of the Scottish share since 1996 has not been linear. In the early years of New Labour the share fell to 1.7 per cent (almost closing the gap with the English share, 1.3 per cent, in 1999). Devolution led to a rapid recovery in housing policy expenditure, with the share peaking at 4.4 per cent in 2001. Since then the Scottish housing share has fallen back to 3.7 per cent (by 2006), as the English share expanded. In the budget for 2008 the Scottish government introduced a 6 per cent real reduction in the housing budget (whereas Westminster was raising English spending), though a subsequent intended 12 per cent increase by 2010 was announced. In short, the relative generosity of governments (in Scotland and England) towards housing has declined over recent decades. However, the remarkably low shares of 1997–99 were followed by a post-devolution ‘bounce’ in Scotland and post-Barker expansion in England that has created a more favourable context for policy developments. (A more detailed exposition of spending on social housing investment in Scotland is presented in Section 4).

Government support for housing capital projects in Scotland from 1997/8 to 2006/7 involved a cumulative, real 45 per cent increase. Within that total, the spending share of Scottish Homes rose from just over one-third to just under one-half. The abolition of Scottish Homes’ successor, Communities Scotland, thus means major increases in resources and decision-taking by the Scottish government and/or municipalities. This is a major shift considered below.

At the end of the decade, the Scottish Executive was providing £1 billion of capital support annually, with a near equal split between municipalities (to repair their own stock) and the not-for-profit sector (for new investment and major rehabilitation). The non-profits used their resources to lever in a further £300 million of private investment. How this system will now work is open to some doubt and concern.

## **How is Scotland doing?**

How is the Scottish housing system progressing, if we interpret progress as effectively meeting housing demands and needs, (while noting that the role of housing, and related policies, in connecting housing outputs to broader policy outcomes is also of particular significance)?

A definitive conclusion on progress requires a detailed, substantial analysis of Scottish housing policies over the last decade or more, akin to the Stephens *et al* (2005) report that assessed a quarter century of English policy. Unfortunately, this remains to be undertaken for Scotland. However, some broad trackers of progress are available. In this section we examine trends with respect to dwelling, neighbourhood and environmental quality outcomes, new housing supply, affordability, and broader trends in the structure of the social rented sector.

The 'progress' description below relates, in the main, to the overall Scottish level. At that level, as described below, there are substantial signs of progress on housing sector outputs.

### *Quality*

Housing quality has long been a pre-eminent concern of Scottish policymakers. Scottish House Condition Survey results have shown the Tolerable Standard (BTS) that so many dwellings failed a quarter century ago now almost has no relevance, as more than 99 per cent of Scottish houses currently exceed it (Communities Scotland, 2002). Increasingly since the early 1990s more general measures of house condition have guided decision-making.

In 2004 the Scottish Executive took the bold decision to set a Scottish Housing Quality Standard (SHQS), which all social housing providers were required to meet by 2015 (the standard remains aspirational for the private sector). Approximately 67 per cent of dwellings in Scotland failed the SHQS in 2005/6, a reduction of 10 percentage points over 2002. In tenure terms, 40 per cent of social housing passed the SHQS in 2005/6 (up from 23 per cent in 2002) and 31 per cent of private housing (again up from 23 per cent) (Amabile *et al*, 2007).

As well as housing quality outcomes, housing mix and housing system sorting processes make a significant contribution to 'neighbourhood quality.' A great deal of Scottish housing policy, and much of its claim to distinctiveness, has been justified with the goals of neighbourhood renewal, empowering communities and mixing tenure and income groups. There has been demonstrable progress in the physical, and sometimes economic, status of many poorer neighbourhoods in Scotland since 1996. The proportion of the population in the poorest 15 per cent of areas having a negative assessment of their neighbourhood fell from 26 per cent to 22 per cent in the period 1999 to 2006. This is still three times the Scottish average however, and there is some evidence of increasing

concentrations of the poorest people in the worst places. The significant, sustained effort of the last decade cannot stop now if further progress on neighbourhood outcomes is to be achieved. It is argued below that the macro-processes shaping inequalities will not abate in the decades ahead, and policies will have to work harder to achieve recurrent renewal. It is also worth noting that despite their pre-eminence in policy rhetoric, there is no consistent recording, measurement of progress on, or meaningful definition of 'mixed' or 'sustainable' communities.

Measures of dwelling quality in modern housing policies embrace not just size, sanitation, comfort and neighbourhood quality; they also have regard to the energy and environmental effects of particular kinds and qualities of dwellings. In Scotland, leakages in domestic energy use create one-fifth of greenhouse gas production. To date, Scotland has implemented energy standards for new social housing and raised private sector requirements. However, in relation to the existing housing stock requirements lag well behind the best practice of the Nordic and other west European countries. With new energy rating requirements now proposed as part of the single survey process, better outcomes may follow.

Looking across these indicators of 'housing quality' progress, it is clear that there have been significant gains over the last decade but there remain substantial continuing quality challenges. Quality measures have widened and improved over the decade, but there are real weaknesses in assessing housing investment effects on neighbourhoods and the environment. These will, it is argued below, remain crucial 'outcome' areas for housing programmes, and good government policy needs to develop more relevant data and indicators in this topic area.

### *Supply responsiveness*

Scotland's share of overall UK housing starts from 1996–2006, when its share of UK population and households was falling, increased, albeit marginally from 13 per cent to 13.5 per cent. However, in the market sector, the proportionate increase in supply in England was broadly similar to Scotland, at around one-third. Faster overall Scottish progress arose because housing association output in Scotland rose by 10 per cent but fell by almost 25 per cent in England.

What are we to make of these figures? The volume of housing starts has come to be seen as a key indicator of housing progress across the UK. In particular, there has been much concern since around 2000 regarding

how sluggishly housing starts respond to increased real housing prices. The Barker reviews (2004, 2006), argued that UK sluggishness was becoming worse and that UK supply was, by international standards, inelastic.

The Barker Review (Barker, 2004) recognised the need to expand social housing output in England (and investment has recently expanded faster than in Scotland), and it also raised the importance of improved understanding of the economic consequences of the planning system, more responsive land supply and removal of infrastructure blockages. Rather than recognising the relative international inelasticity of the Scottish system, the Scottish Executive somewhat defensively emphasised that Scotland was less sluggish than England (Scottish Executive, 2004a).

## *Prices*

There has yet to be a rigorous analysis of supply responsiveness of housing in Scotland that matches that of the Barker enquiries. However the Scottish Executive has undertaken two direct analyses of private housing market trends in Scotland since devolution. (It also funded independent analysis of the operation of housing and labour markets [Glass *et al*, 2006]. The general conclusions from this study were that there had not been a general affordability problem in Scotland up to 2005, and there was no case for a national key worker housing scheme in Scotland). The first analysis (Scottish Executive, 2004a), prepared as part of an overall affordable housing initiative conducted in the spring of 2004, concluded that:

- Long-run house prices in Scotland had been growing by around 1.5 per cent a year in real terms (significantly lower than for the UK as a whole).
- Edinburgh was the only Scottish city where there had been a significant long-run upward trend in real median house prices.
- Housing in Scotland remained the most affordable in the UK.
- New house building net of demolitions, running at around 19,000 per year, had been more than keeping pace with household growth of around 17,000 new households per year.
- The Scottish population had been declining and was projected to continue to do so.

- There has been a shift towards smaller households.
- The average price paid by a first time buyer had increased from 2.4 times average income in 1998 to 2.9 times in 2003.

The second analysis proved very different in tone to the first (The Scottish Government, 2007b). Published in June 2007, it found that:

- Scottish house prices had risen dramatically since 2002, with levels some 31 per cent above historic trend and annual rates of growth outstripping England.
- House price growth rates peaked in 2004, but increased again through 2006 and into 2007.
- There had been almost no additional supply response to price rises: while house prices increased by 72 per cent between 2002 and 2006, levels of new build increased by 2 per cent.
- House price inflation since 2002 is essentially explained by changes in long-term real interest rates and inflation expectations.
- There was evidence that the market had in recent years been in part driven by speculation but medium-term house price movements were likely to grow in line with earnings.
- Lower earners across Scotland faced the greatest affordability constraints.
- There was a sharp drop in first-time buyer activity between 2002 and 2004 (subsequently partially reversed), mirrored by an increasing level of buy-to-let activity over the same period, and a shift among younger age groups away from home ownership towards private renting.

In the longer term it suggested that:

‘[The] interaction of demographic changes, income growth, the supply of development land and construction costs will all prove critical in determining the course of future price changes. The surplus of dwellings over households is projected to stay broadly constant based on historic trends in private new build. However, if rates of Scottish household formation turn out to be higher than currently projected, as has occurred in recent years due to increased in-migration from the rest of the UK and beyond, or if the quantity of

new build, development type and location remain insensitive to market signals, affordability could deteriorate further.’

The Scottish Executive affordable housing review conducted in 2004 (Scottish Executive, 2004a) implied that the Scottish housing system is less inflationary than the UK as a whole and less prone to cyclical instabilities. Arguably however, this may be becoming less relevant over time, as the results of a later official review suggest (Scottish Government, 2007b).

As the Scottish ownership tenure share converges to the national average (see above) the salience of consumer behaviour and expectations matters more in terms of overall housing system outcomes. Research through the period 1988 to 1997 (Maclennan *et al*, 1997) suggested that Scottish owners had become more like English buyers in tenure attitudes, housing wealth concerns and equity withdrawal behaviour. If these trends have held up over the last decade, with increasing numbers of marginal home-owners, the market ‘stability’ of Scottish housing will have been decreasing. (More generally, there has been an extraordinary monetary and housing policy complacency regarding UK housing system stability issues over the last decade. It is difficult to understand how policy-makers and bankers who witnessed the period 1989–92 could have largely replicated the process a decade later. This issue is discussed further below).

### *Affordability*

What can we say about affordability trends in Scotland? After 2002, conventional measures of affordability for owners, such as the house price to income ratio rose sharply. However, the house price to income ratio is neither a good proxy for the capacity of a household to make mortgage payments – where variable rate mortgages prevail – nor of the real user costs of housing capital. In relation to capacity to pay, mortgage outgoings to earnings ratios fell for much of the decade as reduced real and nominal interest rates sustained growing demands for ownership.

The burden of home-ownership, measured by mortgage outgoings, has been growing in recent years. So, affordability problems in that sense manifested themselves at the end of the boom rather than over the decade. At the same time the real user cost of home-owner capital (the costs to owners) was at very low levels until after 2005. The apparent ‘affordability’ crisis is to a significant extent an outcome of greater numbers of households with low incomes and assets (relative to national

averages) choosing, or having to choose, homes in the ownership sector. If children now face a 'deposit' hurdle, it is because their parents and grandparents have accrued wealth through rising house prices. Is this a structural affordability crisis, or a temporary blockage caused by lags in intergenerational wealth transmission? And, if it is the latter, is this a real issue for major housing policy spending or does it highlight a policy opportunity to assist recycling of wealth gains within families? This question has yet to be acknowledged by policy-makers.

While house price to income ratios tell us little about affordability in the owner-occupier sector rent to income or earnings ratios have more direct interpretations in the rental sector. So, was there an affordability crisis in renting? Figures from Wilcox (2008) indicate that rent to earnings ratios from 1999 onwards fell in all the non-market sectors and in the residual fair-rent sector. A pervasive renter affordability crisis, with universal Housing Benefit, is not consistent with the data.

Private market rents did show signs of upward pressure however (as reflected in significant rising Housing Benefit rates for private renters), and this is where the real affordability pressures have been felt. Crucially, the 20- to 40-year-olds struggling to enter ownership did face deposit challenges and, if they could not meet them, faced high rent burdens in private rental markets. Of course, other groups were affected, but, while the explicit recognition of 'affordability' issues was an advance over the non-discussion of the 1990s, the interpretation and analysis of these issues for policy purposes in Scotland has muddied rather than clarified the basis for policy. An inherently loose concept has led, outside of the rental sector, to loose policy and remarkable lack of clarity with respect to who is affected and how.

It is important to be clear on this issue. We are not suggesting that low income households in Scotland all find decent housing that commands rents that leave them with adequate resources to meet other, core household needs. Not at all; there are evident problems of poor people and poor housing. What is being suggested is that when the focus of 'affordability' policy moves beyond poorer rental housing, the measures and language of the 'affordability' discussion lack clarity. Scotland has progressed over the last two decades in recognising that housing policy support may be required beyond the poorest households and may involve owning as well as renting. But that progress has not been clear in path and outcome.

## *The structure of the social rented sector*

Scottish Homes embraced the mantra of 'quality and variety' in Scottish housing. Variety related not just to new design, new financial instruments and tenure change, but to greater diversity in the ownership of social rental housing. As noted above, until the 1980s Scottish housing provision was dominated by municipalities rather than the market. Reducing municipal monopoly in the ownership of rented housing after that time was regarded as an important route to raising tenant voice and community participation as well as providing varied, innovative approaches in area regeneration and meeting special housing needs.

A brief perusal of the ownership of the rental housing sector in Scotland since the 1980s reveals a rapid erosion of the municipal share and the proliferation of associations and co-operatives (see Section 4 below). Indeed within the non-profit sector there have been significant shifts in the structure and scale of organisations. Many renewal associations, especially in Glasgow, started small and have remained resolutely so. Some have, over time, grown and diversified. Stock transfer has created not only more but different associations, and more of substantial size. National (UK) associations have raised their activity levels in Scotland.

The non-profit sector, which had always manifested divided interests and approaches between the 'east' and 'west' of Scotland, is now comprised of more 'varied' providers, but the variety has often proved divisive within the movement, and this is most evident in Glasgow. In consequence, Scottish housing policy debate involves not just the usual market versus non-market advocacy groups, and not just the municipal sector as defender of 'old' values. There is just as divisive a debate between the association sector that evolved in Glasgow (mainly) in the 1970s (the community-based sector) and more recently emerging forms of association.

Even more worrying, and the issues are explored below, it is not at all clear that diversity in ownership has led to the end of monopoly effects and increased contestability to improve the use of resources. Structures of ownership should never be confused with system competitiveness. Replacing a large municipal monopoly with a plethora of small, full-service, area based (and dominant) providers may simply replace large municipal monopoly with small-scale community monopolies. In preserving diversity, not least in stock transfer programmes, there has been scant attention to the contestability and effectiveness created.

## **A summing up**

We recognise that every registration for homelessness status and every mortgage default involves a crisis for the individuals involved. And we recognise that there are housing market areas with acute pressures and others with surplus and vacant housing. These individual crises and local imbalances are self-evident in Scotland, yet it would be wrong, on the basis of both historical and international standards, to assert that Scotland's housing system is in crisis.

Quality, flexibility, affordability, variety and diversity are all important features of housing systems. Looking back over the last decade there has been significant progress on all of these output/outcomes areas. Yet systems change has not been well evaluated in relation to the claims, by advocates and government sectors alike, of what housing policy achieves. The development of local housing system analysis across local authorities has been a step change in strategic and operational planning for housing in Scotland. But policy-making, to track and evaluate success as well as plan, needs to change. There has to be a much more explicit capacity within government to take a strategic, informed, modelled view of how the system will change.

There also has to be much greater clarity in the expected outputs from housing policies (quality, affordability, diversity) and there has to be a new emphasis on contestability and efficiency. In particular it is important to the case for housing policy as a core interest of government that it assesses overall housing programme and market outcomes in relation to:

- social impacts (income separation, community empowerment etc);
- economic competitiveness impacts (how housing outcomes impact stability, productivity<sup>5</sup>, mobility, savings, spending etc);
- environmental impact.

These are the measures and questions, preferably benchmarked against similar scale/autonomy level jurisdictions, which should chart and guide Scotland's housing policies in the decade ahead.

Against this, the new government of Scotland has set itself a demanding task if it is to achieve significant progress in Scottish housing. It has, in the short-term, reduced the budget. It has scrapped the collective financing, planning and delivery expertise of Communities Scotland. It has reached a view that Scottish government transfers to municipalities

will, in future, be largely unconditional (or shaped by a few, broad outcome requirements), and this means few emergency levers to pull at the 'centre' should Communities Scotland be missed. At the same time UK resources for public spending are tightening, the housing market bust may be heading north and the processes of globalisation march on.

In sum therefore, no crisis, but patchy progress, persisting problems and changing politics have characterised the last decade in Scottish housing. What are the challenges of change now?

### **3. New times, different challenges?**

#### **Urgent issues**

The government of Scotland recently consulted on its strategic housing issues paper, *Firm Foundations* (The Scottish Government, 2007a). There is much in that paper that would command support across housing lobbies, political parties and housing academics. There are also areas where there could be significantly different interpretations of evidence, for instance the history of right-to-buy in Scotland, or in the suggested directions for policy change, for example restoring development roles to councils that are still un-divested of their own stock

One major aspect of *Firm Foundations* concerns reform and modernisation of the social housing sector. This is not a new concern in Scottish housing policy. The difficulties of social housing that are rightly stressed in *Firm Foundations* exist because the reform process in Scotland has now become so protracted. There has been a failure to manage and deliver change.

When the new government rails against the high and rising cost and grant rates associated with housing association development in Scotland, it is making the same arguments that pervaded Scottish Homes Board discussions a decade ago. It is touching upon the same basic problem that the Dewar administration faced in recognising that it would have taken ten years of the 2001 level of the Scottish housing budget, all spent in Glasgow, to renew the council stock there via the pre-1997 community ownership model.

However social sector reform is an unfinished or delayed business that has lost focus and traction since the early 2000s. A policy thrust that had clear aims and principles circa 2000 had become unclear and confused by 2007<sup>6</sup>. A well organised non-market housing sector will be a key component of future housing provision in Scotland. But reforming what we have is not the new challenge.

Nor is the housing market downswing that now looks to be developing across Britain. In a historical context it is the fifth market downswing in Scotland since the start of the 1970s. And at present it is not an isolated but a widespread pattern across the member countries of the OECD (Government of New Zealand, 2008).

What then are the new challenges? The major new challenge arises because the interface between housing markets and the economic systems within which they operate has fundamentally shifted over the last decade or two (Maclennan, 2008). This requires a more serious rethinking of the structure of housing policy in Scotland than *Firm Foundations* achieves. There are now issues in the field of housing policy that cannot be effectively addressed under the partial perspectives of affordability (social policy for housing) or instability (macro-economic policy for housing). Modern housing policy needs to go much further if Scotland is going to face the market-led growth challenges of the future. We need to make effectiveness, contestability, stability and sustainability core concerns in housing market policies with tenure patterns and ownership growth seen as a second-order issue.

### *Stylised facts*

In broad terms, the key stylised facts (see Maclennan, 2008) that set the economic and demographic context for all advanced economy housing systems are that:

- Financial deregulation, capital market integration and liberalised trade have (with some exceptions) raised opportunities for income and employment growth; competitive, open economies can be major gainers.
- For incomes to grow it is important to have rising levels of human capital.
- At the same time globalisation usually (but not always) raises inequalities of income so that anti-poverty programmes become important, either as an act of social justice or because poverty erodes human capital and competitive capacity.

The effects are well recognised in the formation of economic policy towards innovation in regions and cities and have led to policies that focus on improving the productivity of business and human capital. However, policy development in these areas has ignored the growth and productivity effects of a variety of fixed capital systems that are embedded in place, such as infrastructure, transport, land, housing and the environment. Challenges are global but responses are local, and it is these fixed capital systems that truly ground firms and households. In rethinking housing policies, the economics of housing, land and planning have to be at the heart of policy action. Currently they are not.

When a housing and land perspective is added to the stylised facts on globalisation it can be seen that:

- Increased inequality is invariably reflected, via the housing system, in increased concentrations of poorer households in relatively poorer neighbourhoods: these households may then experience neighbourhood or area effects that have negative effects on their economic and social wellbeing.
- Renewal and income redistribution will remain as policy concerns; despite significant policy efforts over the last decade inequality in Scotland is not significantly reducing.
- Consumer attitudes, tax and finance systems in many countries, and now Scotland too, promote home-ownership as incomes grow, so that the demand for ownership is more income-elastic than the demand for housing; nine out of ten Scots aspire to own homes.
- At the same time housing supply systems, and accessible land supply, are ubiquitously inelastic, though to different extents.
- Economic growth over time has a propensity to raise real property values.
- The deregulation and globalisation of mortgage markets, with local markets now connected to elastic, international supplies of wholesale housing finance, has changed the relationship between house prices and the economy, in ways that have not only raised prices but introduced system-wide instabilities:
  - new, looser approaches to mortgage lending mean that as a housing boom accelerates there is not only a propensity to lend further down the income distribution than in the past but also a higher general loan to price ratio for all new buyers;
  - more new entrants are more exposed than in the past. At the same time the development of equity withdrawal routes means that as house prices rise existing home-owners can increase their indebtedness more extensively and more rapidly than in the past;
  - the transmission of the sub-prime mortgage debacle in the US around global financial systems makes it all too clear that triggers to instability can now be imported too.
- Rising real house prices increases the inequality of wealth more than the inequality of income and will usually create new barriers to

social and spatial mobility for poorer households trying to relocate and/or enter ownership.

- Increased immigration, now evident in Scotland, not only relieves labour market shortages but raises housing demands and will often lead to the formation of neighbourhoods of visible minorities; this can be as true of economic migrants as of refugees and asylum seekers.

### *Redefining challenges and policies*

In Scotland, real income growth, record low interest rates, and expanding household numbers were, for almost a decade, a suite of fundamentals that have driven up land and housing prices. Tax arrangements for housing reinforced demand. Buy-to-let provision has boomed (displacing some new buyers); more younger households have lived longer in private renting, and households with stable incomes have left social renting for ownership, while other renters have simply been left behind unless they were prepared to stretch borrowing commitments beyond prudent limits.

Have some of these households now been permanently rationed out of home ownership? In particular, what is happening to the tenure choices of 20- to 40-year-old households in Scotland now? (Home-ownership rates for this group have been falling in Canada, New Zealand and the USA for some time). Do we understand how the key working-age group for Scotland over the next two decades is now dealing with repaying educational debt, forming relationships, and creating flexible labour market careers? Are different living, locational and tenure possibilities emerging from the experiences of these groups? How are families reorganising assets and debts to help children? These are key issues for Scottish housing policies. They are not recognised in *Firm Foundations* and they have been missing from the last five years of Scottish housing debate.

What needs to be done to move policy forward? In the next section we examine issues and possibilities for the two main investment sectors, market and social housing, and then in the concluding sections examine possibilities for changing the governance of Scottish housing.

## **4 Private housing markets**

### **The housing market: owning and renting**

After the current downswing works through, say by 2010 at the latest, it is likely that the Scottish housing market will resume its upward growth trajectory. The number of first-time home-buyers over the next cycle is likely to be less than that over the last, though the number of immigrants will remain higher than in the past as long as the economy expands. Recovery will evolve to boom and, if the stylised facts that have emerged continue, there will be more low-income households with static incomes facing rising housing and land values.

Much of this cycle stems from UK interest rates, monetary policy and tax arrangements. Mortgage deregulation has largely removed finance constraints on housing demand and it is likely that any UK re-regulation will be aimed at a small margin of cases, so the policy structures for housing demand will not change significantly in the immediate years ahead and will, perhaps five years from now, reinforce the next boom too.

However, within a devolved framework there are still measures that Scottish government could pursue to lessen cyclical instability and forestall some of the costs of dealing with affordability issues. This section considers possible fiscal changes and supply side shifts of the kind broadly alluded to above.

### **Demand and tax changes**

The last decade has illustrated well the effects of the distorted tax treatment of owner-occupied housing in most of the OECD economies (Muellbauer, 2005). Demand surges pushing on inelastic supply systems trigger price changes, but the absence of taxation of the consequent capital gains and higher imputed incomes from housing ownership then reinforce demands for housing.

It is notable that the European systems that have been closer to neutrality in tax treatment across tenures, such as Switzerland and Germany, have been less affected by the boom of the last decade. That said, it is clear, even in those countries where housing is taken seriously and the issues are technically understood, that governments are not prepared to address the issue of capital gains taxes on housing. There

are simply too many households who see house price rises as an unambiguous gain (in much the way that pervasive inflationary wage gains in the early 1970s were widespread and damaging to long-term growth) and government fear allied to opposition opportunism precludes good economic policy.

Of course, core tax policy is a reserved power. Westminster shows little appetite for tax changes that would abate housing booms. Capital gains tax on housing is politically unmentionable. The recently proposed tax on planning gain (Barker, 2006) has been discarded. Inheritance tax, which served as a partial if long-term substitute for capital gains tax on rising housing values, has just been subject to threshold shifts that will reduce taxes that effectively fall on housing capital gains.

In both Westminster and Scotland there is resistance to property taxes, such as the Council Tax, and indeed the government of Scotland has an interest in moving to a local income tax. 'No council tax increase' is the present position of the Scottish Government. That argument always revolves around issues of equity (the elderly with low incomes facing rising housing value assessments and payments etc) and the link between service use and property value. But the government should also recognise that there are potential stability benefits (as Muellbauer has described and argued) from taxing land and housing in relation to their values, and, with revaluations, their gains in values. In a primarily market-owned system, property tax will levy the greatest amounts from those who have the highest net wealth and permanent incomes. Perhaps the Scottish Parliament would be better placed to combat both housing market instability and resource deficits by, for at least a parliament or two, retaining the property tax, and instead varying the income tax rate within the limits allowed by the devolution settlement. Indeed the Parliament would have the option of actually cutting income taxes if property tax rates were significantly increased in the residential sector and net transfers from the Parliament to local authorities reduced.

Reform proposals have to be politically feasible and these few remarks do not make a reform proposal. But they do stress that within the existing devolution settlement there is scope to have a more serious look at the consequences of taxing housing. Indeed as land and housing systems are local and regional in nature the overall issues of the taxation of land and stamp duties on property transfers should be fiscal instruments that feature in discussions of further autonomy in fiscal instruments for Scotland. The Provinces of Canada have property and land tax, including tax on unused land, as an important part of their fiscal resources. Stamp

duty revenues, which burgeoned as housing values, new sales and turnover rates all increased, provided substantial fiscal revenues for housing policy measures in the Australian states for most of the last decade. Measures that promote stability (in housing markets), fairness and elastic revenues should be of interest to any national or devolved administration.

## **Grants to first-time buyers; family and household wealth**

*Firm Foundations* considers the possibility of a grant subsidy to first-time buyers. The government should have regard to former first-time buyer schemes in the UK and indeed more recent experience in Australia. They have all failed because they simply raise prices further and are largely capitalised into housing values (Productivity Commission, 2004). Their presence in a Scottish policy portfolio would discredit the policy quality of the administration, both in relation to ends and means.

More generally in Scotland, as elsewhere, more attention is being paid to equity share schemes. Such schemes, with recent Scottish policy innovations being simpler and more effective than schemes in England, are least effective when they are most needed. They also tend to have a relatively small niche of interest. When prices are rising rapidly, higher prices may induce pressure on household budgets (encouraging equity shares) but the prospect of significant short-term gains (discouraging equity sharing) often leads households to take the pain of high payments. In similar terms, special support for key workers and other targeted groups seldom work in rising markets other than by displacing some less favoured group from the system. Stabilising prices and shifting supply are the better long-term routes for the future.

There have to be serious design and fairness questions about such ad hoc grant and equity supports for younger home-owners, or potential owners at the early phases of the lifecycle, or to key workers. Many of these households face a deposit issue rather than inability to pay a mortgage or high real user costs of housing (see above). As mortgage lending criteria may tighten in the future, one policy alternative for such households may be to receive a government loan for the deposit that would be repaid on future sale. But this may not support more sustainable ownership.

The housing choices that new entrants make often have to be seen as being concerned with the accumulation and retention of wealth within families, often over several generations. More attention in policy thinking

should be given to the ways in which family wealth, often based on parental housing gains, is passed across generations. It may be that the rising public costs of longer periods of old age will induce governments to find ways to encourage older owners to use their past housing gains to pay for old age, through reverse mortgages. Larger inheritances, driven by rising housing values, now often flow past peak housing consumption parents to grandchildren in market entry stages. There may be ways for government to encourage grandparents to make early transfer of equity for housing entry purposes. Indeed the recent changes in inheritance tax in the UK missed a real opportunity to give favourable treatments to the residual bequests of those who had earlier transferred housing deposits to children and grandchildren. This is an urgent issue for the future. Put crudely, why should the declining proportion of workers in Scotland, in the future, pay the housing entry costs of those who will shortly receive inheritances based on housing assets? These are difficult social and family issues but a well targeted housing policy for the emerging times will have to face them.

## **Right-to-buy and routes to buy**

The right-to-buy non-market housing was revised in Scotland in 2001, in ways that reduced overall discounts (towards the kinds of subsidy level that other entrants to ownership would receive), that offered opportunities to suspend the right in pressured areas, and extended the right to parts of the association sector. The bow wave of right-to-buy sales has long passed by (Maclennan *et al*, 2000).

*Firm Foundations* proposed to further revise the right and ministers have announced that newly constructed council dwellings will be exempted from the right altogether, at the same time indicating that councils would now be encouraged to build homes. (How this latter permission will be exercised fairly and efficiently is not clear as councils will also have control over the development budgets for non-profits and this seems to create a real conflict of interest for municipal housing leaders that needs to be resolved).

Our sense of the right-to-buy discussion in *Firm Foundations* is that the government has resorted to the stylised myths about the effects of right-to-buy rather than paying attention to the most recent summary of the evidence (see Newhaven Research, 2005). Policy for right-to-buy in Scotland still seems to come from the gut rather than the brain and to put working class rhetoric ahead of real working class interests.

There are, however, other potential routes to buy, that the government of Scotland could use to help households in the council sector to meet aspirations. They are usually on relatively static wages and see housing prices continually rising. In particular, it could focus on freeing up rather than reducing the stock of social rented housing (unless a council believes it is strategically wise to sell particular homes to manage assets more effectively).

That could be achieved by giving tenants the right to a portable discount. For this to be effective, the discount should only be available to spend on new or newly renovated properties (to ensure a supply-side effect), it should be set as a proportion of the cost of a low cost home-ownership unit in the relevant region and the proportion received should depend on the time for which the recipient has been a tenant. That proportion could also be varied for contributions to local community activities, the state of repair of the tenancy on exit and the proportion of tenant time in work over the tenancy period (thereby encouraging engagement with the labour market). It may also make sense to make the deposit repayable if the recipient leaves home-ownership within five years of receiving a discount.

Such a scheme could create social renting vacancies for say 15 to 20 per cent of the cost of new social housing building. Government could consider funding such a scheme directly, although it could also look to social landlords with rising asset values and low historic cost construction debts to help fund such deposits from their own resources. Whatever the measures implemented, supply side change has to be at the centre of the policy and at least some of that supply has to be in social housing neighbourhoods.

## **Supply-side emphasis**

Scotland needs a housing market supply strategy. It does not currently have an adequate overall estimate of housing supply side elasticity and neither elasticities nor formal econometric models for the major metropolitan housing markets (although it has now commissioned research from the University of Glasgow that will inform its understanding somewhat in this regard).

In this context, land planning is an issue for consideration. Vision based metropolitan plans, including land use statements of intent, need to incorporate market views, and align them with public interests (Barker,

2006). But without some place based notion of where development is to serve the public interest and shape new futures, housing policies cannot be well aligned to either other sectoral policies or economic developments. The Scottish Executive and the Scottish Government have made significant forward steps in recent years by indicating the major frameworks for spatial development across Scotland through the National Planning Framework. But some other aspects of the Barker package of change are less apparent in Scotland.

## **Gain capture**

We have noted above the importance of land and property price gains and the unwillingness of governments to tax these. In the absence of suitable tax arrangements, extraction of gains has been sought through often economically inefficient regulatory, planning and pricing devices.

Planning can also be a process of generating gain. Gains in development arise both from land use planning decisions and from the design of projects and their interface with a range of regeneration, infrastructure and other programmes. Scottish performance in this regard is poor.

In the decade ahead, in the likely absence of tax changes on land and housing, the ways in which planning arrangements are used to redistribute scarcity rents from landowners to poorer households will be a crucial feature of national and local housing policies. So too will the capacity of cities and governments to run land development and master planning vehicles to leverage housing and other policy gains in the growth management process. But this will not be readily achieved by the present skill sets within Scottish housing and planning departments.

## **Rethinking rental markets**

The private rental sector comprises quite different housing products and a range of niche markets (serving groups that range from the homeless unable to be housed by the social sector to millionaires working in the financial sector in Edinburgh). Part of the sector has links with the non-profit sector (see below) but it is also a stepping-stone for many younger households moving into owner-occupation.

Government policy towards the private rented sector in Scotland in recent years, through the introduction of registration requirements and the enforcement of physical standards, has led to higher quality, safety

and management standards. Such changes are welcome. Much of the expansion in supply in the sector, which has actually taken much of the strain of the increased demand for rental housing engendered by household formation and immigration over the last five years, has been in the buy-to-let sector.

*Firm Foundations* could have developed a stronger policy perspective on problems and opportunities in the different rental market sectors. Of course the recently announced reform of housing benefit payments for tenants in the private rental market will also require monitoring to ensure that there are no adverse effects on costs and supply.

Key issues include that:

- There is a still substantial number of 'homeless' households living temporarily in bed and breakfast, and this has long been known to be a long-term waste of public resources. More settled homes are needed for these households.
- There is a growing propensity for councils that will not meet their 2012 targets (a propensity encouraged in *Firm Foundations*) to look to solutions within private renting. Again the long-term costs and community consequences of that outcome *vis a vis* community-based non-profit supply needs to be assessed.
- There needs to be an assessment of whether even the recently revised frameworks for household security are adequate for the larger number of maturing households that will live in the sector in the future.
- The short-term adjustment of buy-to-let investors, who often predicated loan repayments and returns on rising asset values rather than rental yields, may be to seek rent increases as asset value increases halt or reverse.
- In the medium term if rental levels in the buy-to-let sector do not increase then supply may fall; this will reduce rental supply when it is most needed and may put further downward pressure on home-owner values.

More generally, the government needs to assure itself that the buy-to-let sector has stability and efficiency characteristics that will in future serve Scotland well.

## **5 Social housing: the long march continues**

This section examines in detail recent twists and turns on the long march of social housing change in Scotland. Retracing recent steps in this key area of Scottish housing policy are vital not as a matter of history but because they reveal important lessons for the future.

### **A disappointing decade?**

The first devolved administration had a relatively clear sense of policy antecedents and where and how it wanted further change to take place.

As previously noted the incoming New Labour administration in 1997 acknowledged the relatively successful record of Scottish Homes stock transfers and had, not least through the experiences of regeneration on some of the worst estates in Glasgow, Dundee and Edinburgh, come to value the community based housing association sector.

Pre-devolution Labour had introduced, in 1997, the New Housing Partnership (NHP) initiative, which recognised the possibility of wholesale stock transfers from councils to non-profits. (The legislative framework permitting sale of public sector housing to alternative landlords had been in place for many years, having been consolidated within the Housing (Scotland) Act 1987 (Berry, 2006). Immediately preceding devolution, the Labour administration published a Green Paper (The Scottish Office, 1999) that defined a twin-track approach for social housing.

*Investing in Modernisation* emphasised ‘a new way forward for public sector housing in Scotland through the promotion of “community ownership” using resources provided through the New Housing Partnerships initiative’. Community ownership meant both stock transfer and continuing to promote new social investment through the non-profit sector.

The government advocated its interest in actively promoting the wholesale transfer of local authority stock to new landlords on three grounds:

- Community ownership offered the prospect of real voice to all tenants in Scotland, which many had been previously denied by councils, as

well as the extension of community involvement in the renewal of rundown estates.

- It would encourage local authorities to take a greater interest in their strategic and enabling roles in housing.
- It would benefit the sector by making available (through inflows of private capital) volumes of resources for renewal of council housing in the decade ahead that simply could not be sustained from the Scottish budget.

With respect to new social rented housing provision, *Investing in Modernisation* offered a relatively positive message to existing RSLs, with some indications given that organisational changes were considered desirable. The concerns of government at the time were that:

- Because social landlords were typically small organisations (at that time less than two-thirds of Scottish non-profits owned more than 500 units) new ways of joint working would be required to capture scale economies in development and value for money in management.
- The grant rate paid to associations, although it had declined since 1989, needed to fall further. In 1998–99, the grant paid by Scottish Homes to housing associations met approximately 70 per cent, on average, of the cost of new building projects.
- There was a need to extend access to grants for new development to all landlords who registered with Scottish Homes whether on a statutory or on a contractual basis, thus creating a Social Housing Grant potentially available to both housing associations and other relevant landlords.

In the new parliament the first administration took these views and approaches as starting points for change and supported them with a step change in resources and a raft of new legislation after 2000. Did the devolved decade progress policy aims and mechanisms?

## **Devolution and social housing: higher aims, firmer commitments**

The Scottish housing lobby expected the new Parliament to have the time as well as the inclination to focus legislative attention on a policy area that had been relatively overlooked at Westminster in the preceding

decade. Subsequent experience has confirmed that devolution did indeed create the space for greater legislative attention to housing matters. Since 1999, ten major Acts of Scottish Parliament have been passed, either directly or indirectly impacting on Scottish housing issues.

These acts were important not just because they changed some of the regulatory and fiscal means for delivering housing policies but also because they espoused new aims for policy and new obligations and means for producing informed needs assessments. By becoming more explicit about affordability measures, by introducing the Scottish Housing Quality Standard and by adopting ambitious goals in homelessness the Parliament implicitly raised the bar, and the bill, for Scottish housing policies.

Of most importance in the current context were:

- The Housing (Scotland) Act 2001
- The Homelessness etc (Scotland) Act 2003

The Housing (Scotland) Act 2001 embodied proposals for legislative change set out in the consultation paper *Better Homes for Scotland's Communities* (Scottish Executive, 2000). The primary focus of the Act was on the social rented sector, not least to develop a more unitary and cohesive social housing sector by consolidating a number of other Acts that had been passed over the previous 20 years. In this regard, the main provisions of the Act involved:

- the introduction of Scottish secure tenancies and short Scottish secure tenancies as the basis of sector wide rights;
- modifications to the right-to-buy and the introduction of pressured areas (see above);
- transfer of the functions exercised by Scottish Homes to Scottish ministers;
- the introduction of a range of new strategic rights and responsibilities, including a right for Scottish ministers to require a local authority to carry out an assessment of housing needs and provision to require a local authority to prepare a local housing strategy. It placed a duty upon local authorities to keep their strategies under review and provide information concerning the implementation of these strategies to ministers upon request.

More fundamental were the provisions of the Act with respect to homelessness and the allocation of social housing. The Act required that:

- every local authority, when instructed to do so, carry out an assessment of homelessness, and prepare and submit a strategy for its prevention and alleviation;
- every local authority make advice and information about homelessness, the prevention of homelessness and services which may assist a homeless person or the prevention of homelessness, available free of charge;
- the duty of a local authority to homeless people continue until permanent accommodation is secured for them;
- the previous distinction between intentionally homeless people in priority need and homeless people not in priority need be removed;
- RSLs, if requested to do so by a local authority, hold accommodation in their area to provide accommodation for an unintentionally homeless person in priority need within a reasonable period unless there is a good reason for not complying;
- anyone aged 16 be permitted to register on a housing list for accommodation held by local authorities or registered social landlords;
- in operating its housing list a local authority or registered social landlord must give reasonable preference in allocations to the homeless and those threatened with homelessness.

The Homelessness etc (Scotland) Act 2003 continued the radical overhaul of homelessness law in Scotland begun by the 2001 Housing Act. The provisions of the 2003 Act involved (among other things):

- extending the range of groups to be considered as having a priority need and therefore eligible for permanent accommodation;
- the abolition of testing for priority need by 31 December 2012 at the latest;
- a duty on Scottish ministers to publish a statement on progress towards abolishing priority needs testing<sup>8</sup>;
- placing a duty on local authorities to provide a short Scottish secure tenancy with housing support to all households deemed to be intentionally homeless unless one of a small number of specific exceptions applies;
- statutory provision for local authorities to provide homeless households with temporary accommodation, once a positive

homelessness decision has been made, while they wait for permanent accommodation;

- new duties on landlords or mortgage lenders to inform local authorities in the event of proceedings for possession.

These measures were broadly welcomed by the housing sector and have received international recognition for their resolve towards ending unnecessary homelessness. However, they were also met with considerable apprehension on the part of social landlords who feared the resources required to meet them would not be made available. In particular, the abolition of the priority need test was anticipated to mean a significant increase in eligibility and demand for permanent social rented accommodation.

By 2003, the Parliament had therefore formulated higher aims for housing policy, and had also aimed for higher standards in assessing needs and forming strategies too.

## **Housing need and the need for affordable housing**

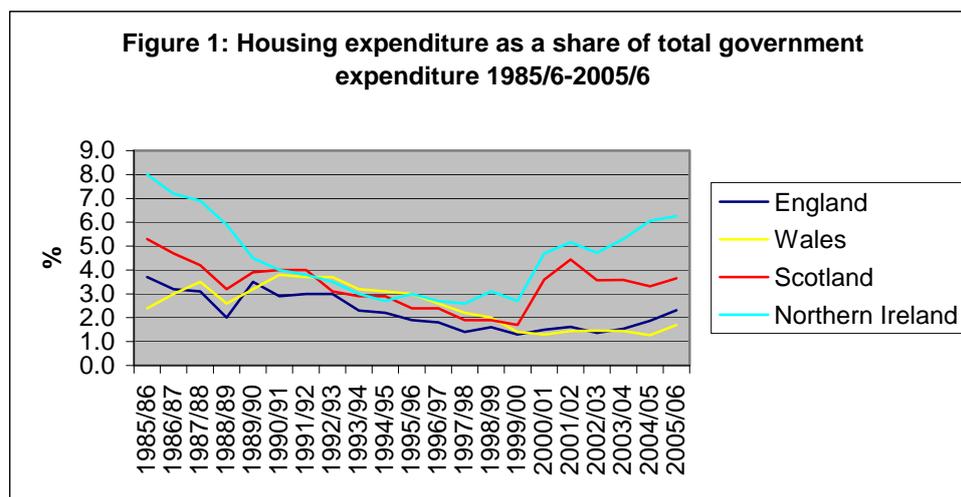
While housing expenditure as a proportion of all government expenditure has been greater in Scotland than in the rest of Great Britain for most of the last 50 years (Figure 1 shows the picture since 1985), housing lobbies in Scotland have consistently held a widely shared belief in a chronic shortage of affordable housing for rent requiring further social housing investment support.

Hard evidence on Scottish housing needs has improved in quality over the last decade or so. An early national estimate of affordable housing need (for 1995–8) suggested a need for around 5,400 affordable housing units per annum (School of Planning & Housing, 2001). The authors of that study concluded existing levels of new social rented housing provision at the time compared quite well with the needs total at the national level, but that supply was poorly correlated with net need at the local authority level.

In the 2002 Comprehensive Spending Review (CSR) process the Scottish Executive confirmed that addressing shortages of affordable housing would be a principal focus of expenditure targets and pronounced that existing information on the scale of the problem was inadequate. The Scottish Federation of Housing Associations (SFHA) responded by lobbying for a significant increase in annual new social rented housing provision (SFHA, 2004). Standing firmly with SFHA was

the Scottish Churches Action Group, Shelter Scotland, Scottish Council for Single Homeless, Chartered Institute of Housing in Scotland, the Rural Housing Service and Scottish Churches Housing Action, all demanding 10,000 new or improved homes at affordable rents every year for five years, beginning in 2005.

The Scottish Council for Single Homeless (SCSH) sought to provide some intellectual ballast for these demands (SCSH, 2004). It carried out a survey of local authority officers in April 2004 and calculated (on the basis of scaling up from 25 responses received) an annual need for 12,600 new social rented homes. Accepting this figure, the Chartered Institute of Housing in Scotland (CIHS), in its submission to the Scottish Executive to inform the 2004 Spending Review, argued a need for £331m per year to be allocated to new social housing development, on top of current spending (CIHS, 2004a).



Subsequently, SCSH, working jointly with CIHS, produced projections for social housing requirements (SCSH & CIHS, 2004). These projections made explicit allowance for the effects of the Homelessness etc (Scotland) Act 2003 and the anticipated impact of the extension of right-to-buy under the Housing (Scotland) Act 2001. SCSH/CIHS argued that by 2017 under a 'business as usual' scenario (with current investment rates in new social rented accommodation maintained):

- the social rented housing stock would have reduced by a third;
- the number of lets to homeless households might be as high as 58 per cent.

Even if the Scottish Executive raised investment to fund 12,000 affordable rented homes per year from 2006/7 onwards the future, they

argued, was grim: the proportion of total lets going to homeless households could still increase to 42 per cent (up from 23 per cent in 2002/3).

However, at the same time these dire warnings were emerging, the Scottish Executive was undertaking (and funding) further analysis of its own. In July 2003, Communities Scotland published a new study (Bramley, 2003) that again concluded, 'The level of need indicated is consistent with a programme of social housing provision currently running at around 5,000 annually. However, the geographical distribution of net need is quite different from the current distribution of actual social housing investment'.

This was followed by an updated analysis less than a year later (Bramley, 2004) providing estimates for additional affordable provision required for 2003, and projections to 2016. This concluded:

- half of the local authorities in Scotland had a need for additional affordable housing provision in excess of existing supply;
- the net need in these authorities amounted to just under 7,000 units per year;
- there could be a significantly enhanced role for low cost home ownership (LCHO) provision, which could account for about a third of the overall net need.

A final Executive-funded study found that by 2005 the picture had changed again (Bramley *et al*, 2006):

- The central estimate of total need for additional affordable housing in Scotland in 2005 had increased to around 8,000 units per year, with 25 local authorities showing some shortfall, and 5 showing significant surpluses. However, it was noted that the true figure could be as low as 4,700 or as high as 11,350 depending on the assumptions used.
- In the central projection, affordability worsened initially (in 2006) but was then expected to improve over time, leading to a gradual fall in net annual need and an increase in surpluses.
- Affordable housing need was at a particularly high level in 2005 owing to Scotland finding itself at a high point in the housing market cycle, and also because of high levels of in-migration (which subsequently appear to have abated).

- Allowing for access to wealth reduced the overall estimate of need by around 2,600 per year.
- Private renting was more affordable than buying in about a third of all authorities, and allowing for this could reduce need by around 9 per cent of the overall estimate.
- Basing needs estimates on Housing Market Areas (HMAs) led to a substantial reduction in net need, to 4,835 units per year, mainly due to access to cheaper properties and/or available social re-lets in the centre of the Greater Glasgow HMA cancelling out positive need in surrounding local authority areas. In contrast, using former district areas as the basis for analysis led to a national total need figure of 9,560.

These improved needs estimates did little to change the position of the housing lobbies. For instance, a further call for a housing investment programme of no less than 10,000 rented homes a year over the three years of the CSR was made at an estimated additional cost of £750 million of public expenditure (Shelter Scotland *et al*, 2007).

Separately, in an analysis of the Scottish housing market (Scottish Government, 2007b) the Scottish Government reached the fairly bleak conclusion that: 'The evidence points to housing market inefficiency in Scotland, with inadequate responses in housing supply leading to shortages in some areas and inflated house prices. Scotland would be wealthier and fairer if these problems could be addressed.'

Has the new Scottish Government therefore concluded that those lobbying for additional social rented housing investment were right after all, and the findings of its own commissioned research were too sanguine? It certainly took the issue of supply responsiveness to heart, setting an 'aspirational target' of 35,000 new dwellings a year by the middle of the next decade (roughly 10,000 more than at present) (The Scottish Government, 2007a) <sup>9</sup>. However, it has not specified an affordable housing target within this overall target, and it is certainly not minded to provide an additional £750 million to boost affordable housing supply.

Something does not add up, unless it expects more rapid stock transfer or significant gains in non-profit efficiency and gain extraction to 'leverage' existing spending into higher social housing output. But if policy aims and needs estimates have been expansively elastic over the

last decade or so, what has the fate been of the two main delivery tracks for better social housing, namely stock transfer and non-profit investment and efficiency?

## **The rise and fall of Scottish stock transfer policy**

The NHP initiative, which ran till 2004, responded to council funding bids for support to undertake stock transfers, or preparatory work in the form of stock condition surveys of council housing, option appraisal, and transfer feasibility studies. In total, the Scottish Office/Scottish Executive spent a combined £258 million on the NHP initiative (Audit Scotland, 2006), which secured three whole stock transfers in 2003 (Glasgow, Dumfries and Galloway and Scottish Borders) involving 100,000 social rented dwellings. These transfers also involved HM Treasury funded debt redemption of around £1.13 billion (Berry, 2006).

Full evaluations of the outcomes of these transfers still needs to be done but a reasonable interpretation of what is known to date would suggest that council 'strategic assessment and knowledge' has improved in these areas, that there have been significant savings to the Scottish budget (as dealing with the outcomes of municipal housing decay in Glasgow alone was costing the Scottish Office £125-£150 million annually by the late 1990s) and there has been an acceleration of housing renovation and repairs in these localities. However, although there may have been some marginal gains in tenant involvement, the outcomes seem a long way from community ownership and empowerment has been modest. In general none of the system benefits of a more contestable and coherent system of social housing provision, that were central to the vision for the Glasgow stock transfer, have been delivered.

By 2002, stock transfer appeared to be the only route on offer for significant increases in spending on rundown (former) council housing. In November 2002 the Scottish Minister for Social Justice Margaret Curran confirmed to the Scottish Parliament, 'The whole stock transfer of council housing remains the central plank of our housing policy' (Curran, 2002). However, criticism of the process involved in securing stock transfer under NHP led to the introduction of the Community Ownership Programme (COP) in 2004 as a successor initiative. Under the new initiative, local authorities were required to formally apply to join the COP, which brought access to central government support and finance, including to an Early Action Regeneration fund of £152 million.

Seven local authorities gained access to the COP (Edinburgh, Western Isles, Argyll and Bute, Renfrewshire, Inverclyde, Stirling, and Highland). Of these, Western Isles (2006), Argyll and Bute (2006) and Inverclyde (2007) subsequently undertook whole stock transfers, involving a further 15,000 dwellings, but the generally much bigger transfers anticipated from the other COP authorities did not proceed after being rejected by tenants in Edinburgh (2005), Highland (2006), Stirling (2006) and Renfrewshire (2006). These transfers, especially for Edinburgh, were offered on terms that looked generous compared to the Glasgow transfer. Political belief in and appetite for the demanding political processes may have simply drained the Executive's energy for the process.

Our view is that the Executive and ministers really missed the local presence and long experience of Scottish Homes in delivering stock transfer outcomes for government. The Executive alone never had the skills to make this change happen. Those local authorities and tenants who rejected the possibilities have yet to identify how their housing investment needs will be met unless they now receive undue shares of any investment allocation. Although stock transfer remains at this time a theoretical possibility, the COP initiative died with the succession of rejections of 2006. Stock transfer, in the early 2000s form, has been irrevocably holed below the waterline and is no longer a flagship for change but a drifting hulk. Can, and will, it be salvaged? Or is there a flotilla of fine, less costly, efficient alternatives powering towards Victoria Quay? Or will only a reversal to municipal monopoly and of 'pure' public funding satisfy the councils and tenants that have opposed stock transfer?

## **The efficiency agenda, public spending, and the cost of social housing provision**

Nothing in life is certain but death, taxes, and calls for greater public sector efficiency. Present in comparatively modest form in *Investing in Modernisation*, the call for efficiencies was subsequently amplified in *Homes for Scotland's People – A Scottish Housing Policy Statement* (Scottish Executive, 2005a) as part of a more general five year Efficient Government Initiative (EGI) launched in 2004 (Scottish Executive, 2004b).

Initially, the EGI involved £9 million of projected savings annually under the Affordable Housing Investment Programme (AHIP) through improving AHIP procurement efficiency. This was to be measured in

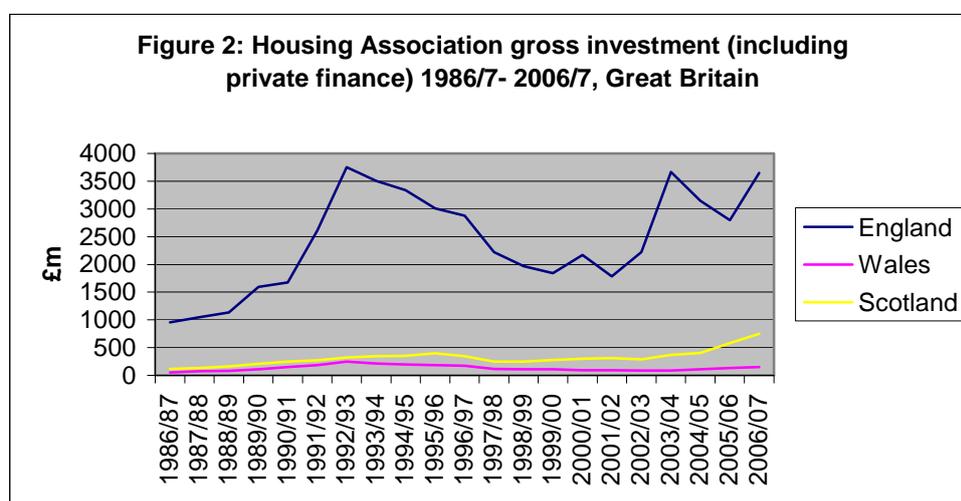
terms of effect on unit output levels and grant funding per unit provided. By September 2005, the Scottish Executive had identified £14m of savings on the AHIP over the three-year period 2004/05–2007/08 (Scottish Executive, 2005b). To ensure this was delivered, ‘Communities Scotland will promote and incentivise larger-scale and longer-term construction contracts through collaboration among registered social landlords’. A Communities Scotland efficient housing investment plan (Communities Scotland, 2005) provided more detail on how the main element of identified efficiency gain was to be delivered, with strategic land banking and recycling of publicly-owned land at less than full market value figuring prominently. (This, of course, is no measure of improvement in efficiency, but yet another example of the absence of any sense of land economics in Executive housing policy thinking.) Also highlighted was work to develop a ‘new national strategy for procurement of social housing’, likely to involve ‘regional procurement groupings’, and to be complemented by a ‘complete change in emphasis from individual project appraisal to programme appraisal’<sup>10</sup>. Bureaucracy, and sleight of hand, rather than solutions that probed contestability solutions, permeated this agenda.

Alongside this procurement efficiencies agenda were plans to improve the efficiency of the strategic management of the Scottish investment programme as a whole. In particular a commitment was made by Communities Scotland to develop a strategic investment framework ‘to target development funding in support of local housing strategies and thereby improve the efficiency of housing investment programme delivery, increase the return on public investment and reduce the administrative costs of investment programmes’. Interestingly, a third set of technical notes supporting the 2004 efficient government plan, published in March 2006, projected the cumulative efficiency savings arising from ‘improving the targeting, effectiveness and efficiency of housing investment’ over three years as £46,000 (Scottish Executive, 2006b). Communities Scotland initiated this debate at the end of 2004 through circulation of an informal strategic investment discussion paper (Communities Scotland, 2004). Proposals in the paper to rationalise existing funding programmes and to extend development programme planning from one to three years were generally welcomed. By contrast, proposals to introduce Regional Housing Boards and to halt the transfer of the management of development (AHIP) funding from Communities Scotland to local authorities proved less welcome, with many believing these proposals would undermine the local housing strategy framework and the strategic housing role of local authorities<sup>11</sup>.

Subsequently, more specific proposals for a strategic housing investment framework were published (Communities Scotland, 2006), involving the use of a database of housing indicators (that fail to capture many of the outcomes that early sections of this paper stress as being important) to provide an indicative geographic distribution of AHIP funds (similar to the HNI/GNI approach adopted in England for many years) together with preparation of an annual Strategic Housing Investment Plan (SHIP) by local authorities. In the event, SHIPs have been introduced (in November 2007), but there has been little sign of the indicator database to date.

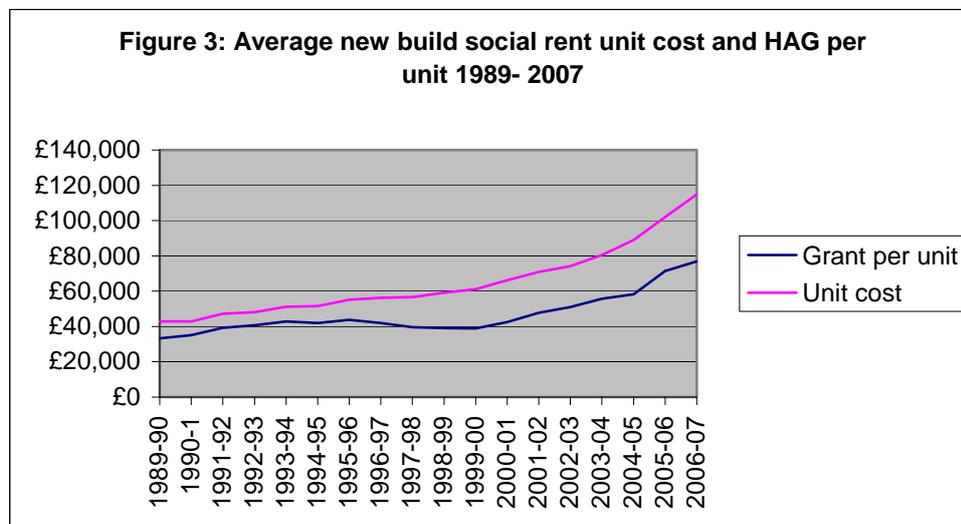
## **Public spending and the cost of affordable housing**

Gross housing investment trends for housing associations in Scotland over the last decade, with comparative trends in England and Wales, are indicated in Figure 2. In cash terms, having declined somewhat in the years immediately preceding devolution, investment has subsequently risen rapidly, in particular since 2003/4, to reach a value of £751 million by 2006/7. Investment has clearly risen rapidly in England also since around 2002, albeit in a less smooth manner, suggesting that the Scottish trend is not necessarily a benefit arising from devolution per se. Have the procurement efficiencies sought by the Scottish Government been achieved in the context of recently increasing housing investment?



If they have, they have been masked by much broader developments. Grant per unit of social rented housing increased in cash terms in Scotland from £38,940 in 1999/2000 to £76,917 in 2006/7, an increase of 98 per cent over 6 years. In part this reflects an increase in unit grant rate from 63 per cent to 67 per cent, but more fundamentally it reflects an increase in the unit cost of providing new social rented accommodation – from £61,154 to £114,805 (88 per cent) over the same period. Figure 3

shows trends in Housing Association Grant (HAG) rate and unit costs since 1989.



Sources: Communities Scotland

Table 1 compares the price of all new build units in Scotland at the lower quartile with the average cost of a new social rented dwelling over the period 1990–2006. It shows that at the start of this period the unit cost of a social rented dwelling was, at £42,840, 8 per cent more expensive than a lower quartile new build property in Scotland. In the mid 1990s the relative cost of a newly built property for social renting worsened relative to the lower quartile price of new properties as a whole. However, since 2001 the relative cost of new social rented units has improved, and by 2006 it was the case that a newly built social rented dwelling cost 88 per cent of the price of a lower quartile new built unit generally.

As would be expected from this relative improvement, new house price inflation generally in Scotland has been greater than the increase in the cost of a new social rented unit. Over the period 2000–6, new build prices at the lower quartile more than doubled (+106 per cent), while the cost of a new social rented unit increased by approximately 73 per cent.

Table 2 shows average HAG per new social rented unit in Scotland relative to England over the period 1997–2006 (note the figures for England for 2004–8 are provisional/projected). At the start of this period, average grant per unit was significantly higher in Scotland than in England – some 75 per cent higher, at nearly £39,700. However, the per unit cash subsidy in England rose more quickly than in Scotland between 1997 and 2004, and by 2004 the value of this subsidy in Scotland was only 87 per cent of that in England. Subsequently it has again risen strongly in Scotland.

Simple conclusions about relative efficiency of affordable housing provision in England/Scotland should be avoided. There are a number of possible reasons why a) development costs have risen so significantly since 2000 and b) in ways that differ to a degree between Scotland and England. These are that:

- The cost of new housing generally has risen due to rising land, construction, design or fee costs. Of these, land costs might be expected to play the most significant role in terms of different experiences in specific localities.
- Differing policy frameworks in England and Scotland have caused unit development costs and/or unit HAG subsidy to differ. This in turn could take a number of specific forms:
  - differing approaches to rent policies and HAG rates may have increased the former and reduced the latter in England compared to Scotland over time;
  - conversely, a longer and more determined experience of using planning gain policies for augmenting affordable housing provision in England may have altered the geography of new housing provision in England relative to what it would otherwise have been, increasing the amount of new housing supplied in high house price areas, but at the cost of rising HAG subsidy levels (rather than rates) (Newhaven Research, 2007);
  - a different possibility is that quality standards have diverged over time, meaning that the problem of making meaningful comparisons is becoming more intractable.
- Related to the last point, differences in the structure of the housing association sector in Scotland and England may have affected the relative efficiency of procurement, and the degree of competition faced by contractors in the procurement process.

**Table 1: Price of new social renting units relative to new build generally**

Year	All new build lower quartile	RSL average unit cost	RSL unit cost as a % of all new build lower quartile
1990	£39,670	£42,840	108.0
1991	£45,984	£47,253	102.8
1992	£49,000	£48,174	98.3
1993	£48,250	£51,270	106.3
1994	£49,356	£51,542	104.4
1995	£50,000	£55,241	110.5
1996	£49,995	£56,317	112.6
1997	£53,995	£56,612	104.8
1998	£58,995	£59,147	100.3
1999	£61,062	£61,154	100.2
2000	£62,995	£66,240	105.2
2001	£66,495	£70,932	106.7
2002	£76,950	£74,177	96.4
2003	£91,000	£80,457	88.4
2004	£108,700	£88,934	81.8
2005	£122,500	£101,932	83.2
2006	£129,950	£114,805	88.3

Recent research has concluded that a large part of the story on development cost increases rests on trends in land value and availability (Gibb and O’Sullivan, 2008). A second major consideration has been increasing costs associated with land remediation, and the amount of remediation work required on brownfield land coming forward for development as social housing. This re-emphasises the importance that the government has to give to more efficient land reclamation and delivery in Scotland

**Table 2: Average HAG per new social rented unit, Scotland and England 1997–2007**

Year	Scotland	England	Ratio Scotland/England
1997	£39,687	£22,642	175.3
1998	£39,030	£25,072	155.7
1999	£38,940	£29,209	133.3
2000	£42,567	£37,517	113.5
2001	£47,703	£48,638	98.1
2002	£50,986	£57,619	88.5
2003	£55,673	£63,456	87.7
2004	£58,203	£66,886	87.0
2005	£71,371	£66,886	106.7
2006	£76,917	£61,907	124.2

The analysis by Gibb and O'Sullivan confirms however that procurement methods in Scotland do not appear to always deliver efficiency, and the case for lead developers working through multi-year programmes and for more standardisation in property development is sound. It also confirms that a) these will not deliver reductions anything like the increases seen since 2000, b) there does appear to be a differential quality dimension to Scottish social housing relative to that being produced in England and c) the RSL movement in Scotland delivers wider social benefits that need to be recognised lest efficiency measures generate a policy framework that throws the baby out with the bathwater.

## **A summing up**

The new government of Scotland has inherited high quality housing and homelessness policy aims from its predecessors. It has committed to increasing the volume of housing output but has reduced spending budgets for the time being and dispensed with its housing agency. It has also inherited two key strands of social housing policy that are problematic – floundering stock transfer policies and increasingly expensive, in public spending terms, association investments. At the same time the emerging efforts in using council led planning gain routes for affordable provision have been largely unfruitful (Scottish Executive, 2003, 2005c; Newhaven Research, 2007; The Scottish Government, 2008).

How can the new government move forward?

## **Déjà vu?**

Nearly a decade on from *Investing in Modernisation, Firm Foundations* hits some considerably altered notes regarding the social rented sector. With respect to stock transfer it says:

‘We have no objection in principle to this course and would be prepared to consider proposals for full or partial transfers, particularly in cases that qualify for the Treasury to write off the debt associated with the stock being transferred. However, we are prepared to consider such proposals only where they have the support of tenants and are based upon a business case that demonstrates how the new RSL will acquire the capacity and resources to achieve compliance without any additional financial support from us.’

This position actually differs from Scottish Executive policy in only two regards, but both are important. It leaves the pursuit of stock transfer to councils rather than pro-active government policy. And it requires business cases (as did the old regime) for transfer but now rules out any case where additional government support might be required to make an initiative work. In taking this position the government seems to be rejecting both any notion of community benefits from transfer per se and the possibility of private finance adding to renovation programmes. The government needs to translate the implications of this decision into either other budgetary requirements to meet policy aims or to revise programme aims downwards. Stock transfer is no longer a policy flagship policy, but it is not clear whether it is headed for the wrecker's yard or a full refit.

What of RSLs roles in new social housing provision? As noted above the new government's concerns about efficiency in grant use are 'auld sangs'. *Firm Foundations* says:

'The increasing cost of providing social housing has fed directly into increasing levels of subsidy paid by government...Part of these increases can probably be attributed to inflation in the construction industry and in the price of land. But whatever the cause, continuing to increase the amount of subsidy per house is unsustainable. It is also incompatible with our commitment to getting better value for all public expenditure. Above all, the more steeply costs rise, the more difficult it becomes to increase the number of new houses we can build for social rent and other forms of affordable housing. If we are to meet the need for affordable housing without placing an unreasonable burden on public expenditure, we need to change radically the means by which government subsidises, and social landlords build, new affordable housing.

'Whatever the factors contributing to these rising costs, it seems evident that the costs of managing *existing* homes are [also] rising rapidly to an extent that is not sustainable for tenants, landlords or the Government...'

Up to this point this is a briefing text that could have been written for ministers in 1998 let alone 2008, not least when the small scale of development and management associations is seen as a significant part of the problem. But then comes the real difference:

- Reintroducing the council new provision role: 'We propose that government should offer incentives for local authorities that are prepared to undertake new council housing. We envisage these incentives taking the form of subsidies that will be awarded on a competitive basis.'
- Changing the associations grant system: 'We propose...a new approach that allocates subsidy to a few larger scale, longer-term programmes...we would channel all subsidy to one developer for them to take the lead in meeting the need for RSL housing across a housing market area, or other large area, over a period of several years.'
- Allowing non-registered providers access to grant: 'There is a risk that...the requirement to be registered may deter some prospective landlords from providing houses for social rent ...we wish to explore whether, in some circumstances, we could safeguard public funds in a more light-handed fashion. For example, it might be possible to make subsidies available on a contractual basis.'

Clearly new winds now sweep the landscape of Scottish social housing policy. From whence do they come? Where will they lead?

### **Next moves: helpful cycles or difficult trends?**

Currently emerging market-driven changes in land prices, as demand for land and property slows down in line with wider economic change, may make a significant contribution to reducing future RSL development costs as well as improving land availability. But again, this will be a market phenomenon, not an efficiency benefit arising from government initiatives. Moreover, such a benign development may well not reverse fully the real increases in costs associated with new provision of affordable housing for rent. In light of this, how much priority should future new investment in social renting be given by government?

The search for efficiencies, both procurement and strategic, will continue, and has considerable potential for fundamentally altering the nature of the social housing movement in Scotland and relationships between central government, local authorities and RSLs on affordable housing issues. And with new proposed measures appearing to suggest a more centralised, perhaps monopolistic control for councils in disbursing and securing development funds it should not be forgotten that it is the allocative inefficiencies of municipal monopolies that have had major

negative effects in the past. How existing homes are used, maintained and chosen is as important an issue in resource efficiency as cost efficiency in production. The Scottish government needs to grasp this point or it will simply fashion more consumer and community insensitive solutions. As the Scottish government progresses its efficiency agenda the scope exists for growing discord between it and social landlords. Does any of this matter?

In significant part the answers to these questions depends on what and whom social housing is actually for (Hills, 2007; Maclennan, 2007; Newhaven Research, 2006). Ultimately, these are political issues, but the political debate that leads to their resolution needs to be properly focused.

What and whom is social housing for?

### *An uncertain future*

There has been significant long-term structural change in the demographic structure of the social rented tenant base.

- Single pensioners have replaced families and couples as the most common type of household.
- There has been a fall in the absolute number of single older people and a sustained growth in single adult households under retirement age in the social rented sector in both absolute and proportionate terms.

These demographic changes have occurred in the context of long-term growth of private housing provision and relative and absolute decline in the scale of the social rented sector. Both household real income growth for former tenants and policy efforts to target social renting to the advantage of the most vulnerable and homeless have served to accentuate the welfare dimensions of social housing and reinforce public perception of the tenure as accommodation of the last resort.

Trends in the tenant base, and wider policy developments (such as implementation of care in the community and the community regeneration agenda), have expanded the nature of the social housing management function over time to include more than the physical management of dwelling stock. 'Housing management' extends now to provision of services to actively support people wishing (or having) to live in social rented accommodation, and wider action to promote the welfare

of communities more generally, such as involvement in local employment creation and open space management activities. While formal operational definition of the housing management function remains elusive (Newhaven Research and Wilcox, 2007), it is clear that these developments have created problems in the continued search for greater efficiencies in the delivery of housing management services.

The emerging context for social housing in Scotland is likely to remain a challenging one. Continued long-term economic growth is likely to chip away at demand for social housing over the next 10 to 20 years. This could well require landlords to restructure their businesses within the context of a scaling down of the sector as a whole. Social trends will also do little to help as the number of single person households grows and consumers' housing preferences continue to shift away from flats to houses. In particular, the increase in younger single tenants is likely to be accompanied by higher turnover rates and more demanding and tougher customers to satisfy (Newhaven Research, 2007). (Of course rising fuel and energy costs may induce more demand for smaller homes in the longer term. While governments need to start thinking now about the kinds of housing choices that will face people two decades ahead, the next decade will still be dominated by the preference patterns of the present).

Yet this does not necessarily imply that social renting has had its day, or that it is becoming less socially relevant. As Hills (2007) notes:

'[It] is not hard to make a strong argument for social housing at sub-market rents to be a significant part of how we try to meet overall housing and distributional aims. Arguments about higher quality than private landlords, avoiding discrimination, affordability, the avoidance of area polarisation, and avoidance of strong disincentives for tenants to work and save, are potentially all very powerful.'

Hills also correctly points out that while there are inherent costs to rationed systems of housing provision, including differences in treatment between those who do and do not make it through the rationing process, limitations on choice for those who do, limitations on mobility and general lack of consumer power over providers, they do not necessarily outweigh the benefits.

## *The vision thing*

Several possibilities for a new 'vision' for social housing have been suggested in recent years, such as that offered by The Chartered Institute of Housing (1999):

'Existing social landlords could be transformed into new agencies – the name chosen could reflect the way in which social housing is to be 'rebranded' – which would build new developments only for mixed income groups, whether for sale, market rent or subsidised rent. Equally importantly, they would seek to diversify their existing stocks of housing by encouraging sales in some areas, buying on the open market, and refurbishing property for market renting, sale and subsidised renting. They may start off with homogenous stocks of rented housing, serving mainly people on benefit, but they would aim to diversify over, say, a ten year period into catering for wider needs – without losing their original market... The new bodies would have to be constituted so as to use public and private funds, and be able to manage their asset base in the ways that best suited their objectives. They could meet needs in the market place that are not currently met – for example, they could sell houses with long-term maintenance packages attached to them, they could do 'private' renting with good quality management and repair services.'

However, in restricting itself to housing this type of vision may be unduly narrow. It is hard to disagree with Hills' view that:

'[If] social housing is to fulfil its potential, new approaches are needed. At their root we need to move beyond an approach where the key function is one of rationing and trying to establish who is not eligible for social housing to one where the key question is "How can we help you to afford decent housing?" and "Here are your options". Within this, housing in itself is not the only issue. The overall policy aim may remain achieving "a decent home for all at a price within their means", but historically we may have given too little attention to the last part of that – doing enough to support people's livelihoods and so boosting the means at their disposal.'

In sympathetic vein, Burke (2005) has offered a more radical vision of the future where:

'Social housing is more than about providing affordable shelter for households however these are defined through allocative rationing. It

should also be about ensuring that our cities and towns have economically and socially sustainable urban forms, it should be a check or balance on price or rent increases in the private sector, it should be about providing opportunities for assisting households to integrate into the economy and society, not about further marginalising the already marginalised, it should be a mechanism for urban and economic development in locations, e.g. some older outer suburbs, where there is currently under-investment and evidence of urban decline. Finally, it should be a vehicle for facilitating choice, by enabling even low-income households to acquire a housing product or service of their choice and appropriate to their personal requirements.'

While Maclennan (2007) has also argued (with respect to England) that although there remains a clear case for a social rental sector:

- There must be an end of the policy era that has left the social rental sector as the end of the line. It has to become a solution that tenants will choose.
- Tenants should be able to move within and between tenures more easily.
- Tenants should also be offered more mixed renting and owning options, and more generally opportunities to share in the uplift of property values over time.
- There needs to be a radical reassessment of how housing policy promotes the overall effectiveness of the diverse collection of housing providers within any area. At present local system effectiveness is nobody's responsibility. Housing management has to be reconceived as a citywide or regional industry driven by contestable effectiveness rather than divided by housing provider and geography.
- Social housing organisations should increasingly become multi-sectoral local housing agents with active asset management activities. They should also be empowered to engage in land development and service provision roles that promote community-led and neighbourhood-based renewal.
- Stock transfer policies need to be revitalised to promote local housing system change and community renewal rather than simply landlord change.

Collectively, what these contributions imply is that the debate in Scotland needs now to be refocused. The amount of resource available for social housing is important, as is the efficiency with which it is used. But agreeing what we are trying to use it for, what outcomes we seek to achieve, and what cultural and institutional changes we have to accept to deliver is a much more fundamental (and much more challenging) set of issues to address first. The world in which tenants now live, governments govern and economies compete is not the early 1920s. John Wheatley was a magnificent Scot for his times but it is increasingly irrelevant for the government and the main opposition party to hark back to his heritage, to compete for council housing kudos. His values need to be pursued in a different setting.

With a market sector to rethink and a social housing system to still restructure, the government must lead change. With seriously constrained finances it needs to be realistic and imaginative in establishing a new governance structure for housing policies in Scotland.

## **6. Governance for change**

### **Governance for a new housing policy purpose**

Governance involves identifying the management, inter-governmental and partnership arrangements that shape policy and strategy design as well as vehicles and actions for change. Different governance arrangements may be required for different settings and purposes. Even with a single mission and context more than one approach may work.

*Firm Foundations* touches upon governance questions and recent Scottish government actions have indicated that a different governance of housing policy is being envisaged for the future. But will it be fit for purpose? Will it deal with the emerging challenges?

We have stressed the pervasive role of housing and housing system outcomes in shaping economic competitiveness, environmental sustainability, social cohesion and inclusion. Housing outcomes, in large and small ways, impact a whole range of major policy issues ranging across public health, educational achievement, environmental quality, labour mobility, immigration, savings and so on. We have also stressed that the more narrow policy concentration to date on affordability and stability has missed many of these important issues. This issue should be addressed with some urgency.

Our notion of a modern purpose for housing policy framework is one that raises and manages resources (financial, property, social, organisational and human capital) through fiscal, regulatory and other means to deliver the housing outcomes that serve major national aims. Defined in this way, housing policy has to have a core standing in national government.

### **Housing ministers for housing outcomes**

The countries that have developed modern approaches to housing policies – nations at the leading edge of change in housing policy thinking now – are England, New Zealand and Australia. In all of them, housing ministries have recently been strengthened, not least by their ministers having a Cabinet seat. In sub-national jurisdictions with scales and levels of autonomy similar to Scotland, such as the Australian states and the Canadian provinces, ministers of housing have Cabinet posts to match the complexity of the issues involved.

The Scottish civil service has recently restructured in an interesting attempt to fashion cross-sectoral interactions between different sector and portfolio policy groups (health, housing, policing etc) to produce 'joined-up' action to deal with complex problems. That change is welcome. However, the Scottish Government's placement of housing as a minor part of the Health Secretary's portfolio is unlikely to be helpful in difficult resource allocation times, nor does it help shape a cultural rethinking of what housing does and what housing policy is for. The health to housing policy linkage is important (and has been in Scotland for more than a century) and touches on issues from chest disease to child obesity. But it is only one of the social policy arguments for housing, and only one of the arguments about how to align public spending.

The key housing linkage for the next few decades, given the stylised facts noted earlier, is not with health outcomes. The emerging critical link is to income generation and distribution. It is clear that globalisation will confront nations with higher housing and land costs and with limited income growth for at least the bottom half of the income distribution. The basic economics of this is that Scotland can expect the share of economic rents, or the scarcity premiums that will pass to landowners and existing home-owners, to grow faster than income at the lower end of the distribution.

Governments can either choose to accept worsening outcomes for those in the bottom half of the income distribution, or they may choose to act. If they choose to act, that may either be by directly addressing affordability burdens or poor quality homes through government subsidy and tax concessions, or by the recapture of economic rent. And if they choose to recapture economic rent, that may involve either new national or local taxation instruments or, as we currently see in many places, using negotiated gain-capturing processes through the land planning system. In numerous countries, from California in the USA to England, the latter approach now plays a major role in the provision of new affordable homes.

We discuss this issue further below. At this point we simply note that housing needs to link to health but not sit under it. We would urge the First Minister to deal with this difficulty, and to lead a rethinking of Scottish housing policies, by having his Office request a cross-portfolio report on policy spending, well measured housing outcomes and their consequences. (As part of that process it will be important to identify how policy change from the UK level, such as changes in social security provisions and interest rates, are enhancing or hampering rates of

progress). Leading the development of that report should be the key role of a housing minister, and that minister should be responsible for the contribution of housing outcomes to wider government aims rather than simply being a minister for affordability and homelessness.

## **Subsidiarity, autonomy and holistic government**

The thrust of national housing policies in most countries has been towards more devolved power and local autonomy. The general case towards more local control arises because housing systems, like labour markets, transport and infrastructure systems, have strongly localised demand and supply features. They are primarily local systems. Moreover they must be coherent at two different local geographic scales. First, there is much evidence (not least from Scottish Local Housing System Analysis) that housing markets operate across metropolitan regions, and it is at that scale that labour market, environmental and transport links are also most important; housing is a key component of the well-organised city-region (Maclennan, 2008). Secondly, there is wide recognition that housing outcomes interact with a range of public services and private goods at the neighbourhood scale. Neighbourhood renewal, and indeed the effective creation of mixed neighbourhoods in growth management, requires linking housing, other policy provision and planning at neighbourhood scales.

While the key choices and outcomes in housing are local, at neighbourhood and metropolitan levels there are still at least three interests on the part of national governments. First, there may be significant imbalances across, say, municipalities in the extent of housing needs and the scale of local resources, so that some judgement will have to be made about central-to-local redistribution of programme support. Secondly, central government may run non-housing programmes (such as health) that need to be aligned with local housing strategies to ensure best programme outcomes on wellbeing. Finally, local activities may have wider regional, national and even global effects. For instance local land use planning decisions influence densities and locations of housing development and they in turn help shape levels of greenhouse gas production, while unresponsive land supply policies may have inflationary effects that impact on national fiscal and monetary policies.

Good housing policy governance therefore requires not just co-operation across sectors, but across different levels of government and has to deal with geographies that do not mesh readily with municipal boundaries.

How is this to be best done in Scotland? In pursuing these interests which agents, which governance systems, should the government support?

These questions apply whether Scotland remains as a devolved administration within the UK with the same or augmented levels of autonomy, or whether it becomes independent. There has been little attention to how housing may differ in an independent Scotland. There is not yet any clear post-independence vision for Scottish housing: how housing would feature in macro-economic policy, whether (tied to the euro rather than sterling) there would be a need to shift to a fixed mortgage rate system, or what resources might be committed to programmes. The possible architecture of any possible post-independence housing policy lies beyond the scope of this paper. But the importance of good housing outcome for Scotland requires this debate to be initiated soon. *Firm Foundations* lies in the paradigm of more or less devolved autonomy for Scotland and is no template for constitutional choices. The comments in this paper are also focussed on that framework.

## **Changing policy governance**

There have been at least two major changes in the governance of housing policy in Scotland in recent decades. Prior to 1980 a strongly technocratic Scottish Office supported, for essentially social policy reasons, policies that focused on providing inputs (technical advice and finance for tightly defined housing outputs) to municipalities and New Towns. Municipalities were usually non-strategic and non-comprehensive in their approaches to policy and focused on providing council houses to meet general needs. Most kept rents and maintenance spending low, there was almost no tenant or community involvement and there were few pressures for efficient management performance. From 1935 onwards, Scottish ministers also had a direct 'quango', the Scottish Special Housing Association (SSHA), to provide public housing in areas that needed extra resource or technical support

Ideas about how to change that system evolved after the early 1970s and were largely manifested in the beginnings of the wider promotion of housing associations by the Housing Corporation, which had a Scottish board comprising two members of the wider corporation, and operated in a minority of Scottish councils.

By the end of the 1980s, after a decade of increasingly prescriptive but diminishing financial allocations to municipalities, and expansion of the Housing Corporation budget (promoting what were recognised to be successful community-led renewal initiatives in rundown older neighbourhoods in urban, then rural, Scotland), Scottish Homes was established. Scottish Homes integrated the Scottish Special Housing Association (SSHA) and the Housing Corporation into a single body and despite early expectation that it would drive up rents, stop supporting associations and promote private renting and home-ownership it developed a somewhat different reputation. Over time it largely developed the measures and practices that become the mainstay of Scottish housing policies until the last few years<sup>13</sup>.

Scottish Homes helped fashion a much larger and diverse housing association sector, engaged the sector with private finance leverage possibilities, and promoted low cost home-ownership through Grant for Owner Occupation (GRO) grants (which never absorbed more than 10 per cent of the programme). The ethos of most of the agency's work was partnerships in renewal.

Scottish Homes Board, at an early stage, took the decision to transfer its own stock (some 90,000 homes inherited from the SSHA) to local or newly created housing associations and also transferred marketing, design and training services no longer required in-house. The resources raised from these disposals were almost entirely recycled back into new housing investment by the non-profit sector. This was hardly mindless or ideologically driven privatisation. Social housing sectors in other countries call this asset management, though it is still a weakly developed skill in Scottish housing.

The agency was governed in a number of ways. A five-year strategic plan had to be submitted to and approved by the Secretary of State. An annual strategic investment plan that set targets for outcomes and budgets for spending was agreed between the board and the Secretary of State. The rhetoric of the significant anti-Scottish Homes lobby that it was 'unaccountable' was never true.

Scottish Homes was well regarded within the UK and internationally, and was highly professional in its understanding of housing issues and delivery, in linking housing and renewal and in diversifying tenures while promoting the ethos of community ownership and partnership working. It was also well regarded by the incoming Labour government in 1997 and the Dewar administration after devolution<sup>14</sup>.

Even so, the need to find new alliances around the new politics of the Scottish Parliament after 1999, not least with local authorities, to speed the 2001 Housing Act into being, led to the removal of the quango status of Scottish Homes and its transformation into an executive agency directly answerable to ministers through the Scottish Executive Development Department. The Minister for Communities (including the housing portfolio), Wendy Alexander, pursued that decision while fully intending to maintain the standing and purpose of the agency. However, events then led inexorably to the decline not only of Scottish Homes but its successor, Communities Scotland. The minister moved on. The process of absorption of Communities Scotland into the Executive was somewhat akin to watching a constrictor surrounding, paralysing and then swallowing a previously nimble llama. Integration involved disputes over car allowances, salaries and status. A raft of excellent staff left, often to be replaced by civil servants who stayed a few years in housing and then moved on also. Professional expertise in housing became no longer a key part of the agency skillset. At the same time Communities Scotland became the first victim of what has become a steady municipalisation of the policy culture of the Scottish Parliament. A growing proportion of MPPs and ministers cut their political teeth in local government, often where 'quangos and agencies' were the natural enemy. Communities Scotland's functions atrophied, its status became confused and its influence withered away until the new government abolished it.

Now the government in Scotland, for the first time since 1935, has no agency at hand to promote professional excellence in housing design, planning and management. Nor in future will it have an agent to engage with local partnerships on housing issues. Does this matter? It is fair to say that throughout the period after 1990 many Scottish local authorities significantly improved their strategic capacities, became more engaged with tenants and communities and developed enabling skills. Some did not and therein lays a problem for the new administration.

A government operating at the scale of Scotland could develop effective, modern housing policies without an agency or quango if it ensured that the nation has:

- adequate professional skills, research and knowledge for policy change;
- delivery vehicles that are effective and partnership oriented;
- governance mechanisms that ensure national aims are met through local actions.

In the absence of such systems it is unwise for the Government of Scotland to assume that a well-informed, innovative housing system will emerge out of bottom-up municipal actions. It is equally unwise to assume that a long corporate government failure in Scotland to deal effectively with land renewal and supply will similarly be resolved. There is no place in good Scottish policy for a misplaced optimism that denies the reality of how things actually work.

Improving governance does not mean reinventing Scottish Homes or Communities Scotland. It does, however, mean recognising that the policy challenges identified here require roles for the Government of Scotland, municipalities, coalitions of municipalities that make up wider functional regions and indeed for more localised neighbourhoods and communities that the current governance framework cannot deliver.

We have already indicated ways in which the Scottish government could change capacities and processes at the national scale but other changes might be considered including:

- Ensuring effective and innovative housing management across the housing and neighbourhood renewal sectors by:
  - establishing an independent housing regulator and monitor, outside of Audit Scotland, that becomes a champion of change and a source of best practice;
  - setting up a Scottish national centres of expertise in housing and neighbourhood management that have real national and international impact.
- Establishing and capitalising a national land renewal and development agency. An alternative would be to create such an agency for each of the major metropolitan areas and have boards comprised of a majority of municipal representatives. To give further impetus, the Government could:
  - establish a centre of excellence, as above, to promote a new convergence of housing and planning expertise with economic analysis;
  - introduce some limited planning or development assistance that could be accessed by coalitions of municipalities taking

mutually supportive housing, infrastructure and planning decisions to deal with metro issues.

- Ensuring that resource allocation to local authorities delivers agreed outcomes for housing:
  - the government has proposed the ending of ringfencing of resource allocations to local authorities; this is premature in relation to housing, not just because of present difficulties and likely failures to meet targets for 2012, but because there are some authorities who still have not yet fully developed an approach to housing provision that values partnerships, communities and non-municipal investment routes; the removal of ringfencing should perhaps be awarded only to authorities that actually meet the outcomes required over some initial period;
  - there should be a community housing forum in all authorities and a mechanism to ensure that municipalities listen to them.
- Encouraging the umbrella bodies for the non-profit providers in Scotland to operate more effectively, and to encourage them to develop roles beyond resource lobbying, including mutual support as in the Dutch non-profit housing sector.

We are not prescriptive about the exact methods that the government should adopt to meet the emerging challenges for housing governance in Scotland. The ideas presented above are simply propositions to feed a badly needed debate on what is really required for the future. In recent years Scottish innovation performance in policy for housing and neighbourhoods has been poor. With England now strengthening its quango influence through the creation of a Homes and Communities Agency (HACA), bringing land and housing powers together (and abolishing the, by Scottish standards, relatively successful English Partnerships) it is clear that Scotland has to raise its game in this area. We don't have to have an HACA, but we do need to have a culture in policy that will take these issues seriously and vehicles that will deliver future change. Municipalities without well defined outcome requirements are unlikely to either address the inherited problems from the past – of reforming social housing or boosting market stability – let alone the new challenges of globalisation. Scotland's housing system needs a new governance to change.

With the publication of *Firm Foundations* the Scottish Government has recognised that Scottish housing is at a crossroads. Which turn will it take? If that turn involves undue emphasis on tenure as an explicit policy outcome (rather than a residual), undue sensitivity to the special pleading of particular interest groups, often cynically wrapped up in high moralistic garb, or undue attention to what it perceives as its own narrow political interests it will serve the people of Scotland badly, and condemn the housing sector to another decade of missing the big picture.

Housing system flexibility, supply responsiveness, efficient extraction and redistribution of economic rents, inter-generational transmission of housing equity without distortion of housing market operation, consumer voice and translation of aspirations into reality have been the underlying themes of this paper, and they are the underlying themes that will play out within the Scottish housing sector over the next decade. The Scottish Government must recognise them and rise to the challenge.

Above all, efficient and stable markets with more elastic supply schedules will be central to a better housing system for Scotland in the future and much needs to be done to create the supply side policy that will achieve these changes. The government of Scotland should concentrate on fashioning effective housing, markets and planning and leave tenure choices to the people. And for those without adequate resources they have to progress social sector reform.

## Notes

1 In Scotland right-to-buy sales occurred in the New Town sector (to 1997), the Scottish Special Housing Association/Scottish Homes (to 2003) as well as from housing associations and councils. Four out of five sales were from the municipal sector.

2 After 1997, as in the UK as a whole, mortgage interest tax relief was reduced, and removed by 2001; the non-taxation of imputed rental incomes and capital gains for owners do however constitute a significant tax-break.

3 The 1977 Green Paper on Scottish Housing, while never articulating the subsequent negative landscape for municipal housing investment, did argue both for an expansion in home-ownership and a rise in the non-profit share, see Maclennan and Wood (1978).

4 It is worth noting that since the JRF Housing Finance Programme of the early 1990s, there has been no detailed measurement of the scale or pattern of housing subsidies in Scotland, or England for that matter. A subsidy occurs where households pay less than the market price for a good or service. Below market prices can arise from government expenditures on support (to producers and/or consumers), or where a resource (existing social housing) is provided at administered prices, or where tax regimes offset particular consumption and/or investment costs.

5 A great loss for the Scottish, and UK economies, was that so much of the gains from hard-won wider economic stability and productivity growth was used to generate higher prices for land and housing. The consequences of a less flexible land and housing system were mirrored in rising land and housing costs, and super-normal and (sometimes illusory) wealth gains from simply holding an asset rather than from effort and entrepreneurship. If the new government of Scotland is really going to deliver on its aims for population growth and productivity improvements for the Scottish economy, then it will have to think harder and more explicitly about how housing price outcomes impact productivity, immigration and population. So far the Council of Economic Advisors, somewhat prosaically, has drawn attention to planning as a growth inhibitor. This view is too general and too incomplete to adequately grasp the economics of the housing market challenges facing Scotland.

6 Nothing illustrates these remarks better than the now stalled progress of the Glasgow Housing Association. Even before the GHA signed its agreements with the banks the principle of the proposal, to create a new system of decent and decentralised social housing in the city, had been overrun. Patching a cash flow problem with a development programme of 3,000 units flew in the face of the spirit of the proposal and alienated the community based housing association sector. Cutting back the peak borrowing limits simply imposed short-term savings that precluded the potential long-term benefits of more decentralised operations. The Glasgow transfer has saved the Scottish budget hundreds of millions in expenditure but the policy aim was lost by short-term thinking (see Maclennan, 2005). The ad hoc forms and variable generousities of subsequent proposals, some that succeeded and some that failed, smacked of inconsistent opportunism rather than principle in the reform process.

7 The other Acts are the Abolition of Feudal Tenure Act 2000; the Building (Scotland) Act 2003; the Local Government in Scotland Act 2003; The Title Conditions (Scotland) Act 2003; The Antisocial Behaviour Act 2004; the Tenements (Scotland) Act 2004; The Housing (Scotland) Act 2006, and the Planning (Scotland) Act 2006.

8 A ministerial statement on homelessness duly appeared in 2005 (Scottish Executive 2005d). While noting the progress that had been made to that point, the statement picked up on tensions being reported in many authority areas arising from perceptions of disproportionate numbers of lets being made to people presenting as homeless. (Between 9 per cent and 54 per cent of local authority lets in 2004/5 were to homeless households. Nationally, the figure for RSLs was 14 per cent). The Executive saw fit to point out 'there still appears to be a belief that homeless people are "less deserving" than others in housing need and homeless people are still isolated from the communities in which they live in a number of ways'. A further ministerial statement on homelessness is expected in 2009.

9 Levin and Pryce (2007) have subsequently made a convincing argument that the lack of supply responsiveness in the period 2000–6 had more to do with the way asset markets work than market inefficiency as such.

10 In announcing the 2007 Comprehensive Spending Review settlement John Swinney, the Cabinet Secretary for Finance and Growth, noted that the new administration had come to office committed to delivering

efficiency savings at a level of 1.5 per cent on an annual basis, but had now decided to set the level at 2 per cent each year, which he expected would release £1.6 billion by the end of the spending review period for investment in front-line services. At the time of writing further implications of this for housing are not known.

11 Initially, after 1999, ministers took the view that authorities that divested themselves of their stock could seek control over development funding budgets should they have the capacity to run them effectively (they had, in effect, removed the conflict of interest that arises from controlling funds for the competitors for their own stock). This was consistent with the principles of stock transfer policy. Ministers after 2002 progressively relaxed this position, thereby undermining any real power that Communities Scotland had to negotiate on their behalf within council areas.

12 In this context, 'resource available' means all the resources being used to provide social housing currently, not just the amount of money made available to fund new additions to the stock, and the appropriate notion of 'efficiency' would extend to include the issue of appropriate social rent levels and policies, which are currently judged to be somewhat irrational (More *et al* 2003; Wilcox *et al* 2007).

13 Readers should be made aware that one of the authors of this paper was on the Board of Scottish Homes for ten years and the other was its Chief Economist.

14 Duncan Maclennan was a Special Adviser to Donald Dewar from the opening of the Parliament in 1999 until the First Minister's untimely death in October 2000.

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