

Building homes and protecting jobs: the case for a fiscal stimulus through additional housing investment in Scotland

1. Introduction

Scotland needs more affordable homes. There are over 200,000 people on local authority house waiting lists. Around 40,000 households are accepted as homeless each year, with almost 10,000 languishing in temporary accommodation at any one time. In the short term, at least, pressures are likely to grow as access to the private market is restricted and as new challenges – such as the target to house all homeless people by 2012 – loom larger.

Leading housing organisations, including Shelter, the Scottish Federation of Housing Associations and the Chartered Institute of Housing have estimated that a programme of 10,000 affordable rented homes each year for three years is needed to address these unmet and future needs.

This estimate of 10,000 homes is based on detailed housing needs research and was first published and submitted to Government in January 2007.

Currently, only around 4,500-5,000¹ affordable rented homes are completed each year, mostly by housing associations. While that will increase a little in 2009-10 as a result of the Scottish Government accelerating some funding; the flip-side is that the level of output will also decline in 2010-11.

Injecting the additional capital investment needed to provide more homes is challenging. However, these are extraordinary times and governments – both UK and Scottish – have recognised the case for public investment in order to reduce the impact of downturns in the private market.

This is no more true than in the housing sector, where new building has dramatically reduced over the last year² and where tens of thousands of jobs are at risk or have already gone.

2. A fiscal stimulus package

A group of leading housing or public sector organisations has prepared a package of housing investment in England. This has been submitted to the UK Government and senior politicians at the end of February 2009 and is intended as a contribution to the Budget statement on 22 April. The package includes building several thousand new rented homes, providing additional grant support to social housing providers and introducing a new infrastructure fund to pump prime development of sites that are currently stalled.

¹This is an estimate: it has proved very difficult to get robust data on the number of homes funded each year.

² New housing starts in all tenures declined by 43% between the third quarter of 2007 and the third quarter of 2008.

3. A fiscal stimulus for Scotland

The package prepared in England does not have any direct impact on Scotland as housing policy is a devolved function. However, through the operation of the Barnett formula, should investment in housing be increased in England there would be a knock on effect for the allocation of funding to the Scottish budget. So, for example, if the budget for housing investment were increased by £6.35 billion (which is one possible estimate) then the knock-on effect would be to increase the Scottish block by up to £635 million.

Scottish ministers have discretion to spend that money to meet Scottish priorities. But, in this paper Shelter argues that there are compelling arguments as to why any **additional** funding coming to the Scottish budget should be directed into housing programmes.

4. A programme for Scotland

Based on preliminary discussions with housing providers in Scotland, Shelter has estimated that new and additional funding £635 million over two years could be allocated thus:

- £485 million to directly fund an additional 6,000 affordable rented homes over two years.
- £150 million to be allocated to a rolling infrastructure fund.

The 6,000 homes would be on top of an existing programme of rented homes for the two years of around 5,000 per year³. So, over the years 2009-10 and 2010-11 the number of rented homes built would increase from 10,000 to 16,000, or around 8,000 a year on average. This is still short of the 10,000 target but would represent the largest publicly-led housing programme for almost thirty years.

For present purposes it is assumed that housing associations would be the main providers of these new homes, particularly as it is important to make an impact swiftly. However, councils building directly will also be an option in some parts of Scotland.

The infrastructure fund is designed to pump-prime both public and private activity on sites that are currently stalled. In recent years, private developers have paid some or all of the site infrastructure costs – such as water, sewage, roads and community facilities – through planning agreements. However, the capacity to do this has reduced dramatically with the housing market downturn. This is why we propose a specific fund to cover these up-front costs with developers paying into it retrospectively as the private market picks up again. Thus the infrastructure fund would be the source of future receipts.

Funding site costs in this way would help kick-start the private market, as well as supporting an increased level of direct public housing provision.

³ This is also an estimate as the Scottish Government has not published any indication of the likely distribution of a programme of rented homes in 2009-10 and 2010-11.

5. A programme for economic recovery

The primary case for expanded housing investment rests on the outstanding needs to be met. However, housing investment is also a very powerful driver of wider economic activity. Industry body, Homes for Scotland has warned that 26,000 jobs have already been lost in the construction sector and many of these are skills which may be lost to the industry permanently. So, in the absence of other action, there is a risk of shortages of skilled labour when the private market picks up, setting in motion a further inflationary spiral. This effect has been documented by the Office of Fair Trading in its analysis of the housing recovery following earlier recessions.

So a programme of additional housing investment as outlined here could act as a brake on future inflation. It could also sustain just over 10,000 jobs directly in the development process or indirectly in the supplier industries. The impact would be greater if, through the investment package, particular emphasis was attached to innovation in the industry – for example, around enhanced environmental standards generally or reducing the carbon footprint of homes specifically⁴.

There are a number of other positive economic impacts which would come from a programme of this scale. These include: dampening housing market volatility which has fed wider economic volatility in the past; increasing labour market flexibility and mobility; and providing stable accommodation for some of the most disadvantaged people who are disconnected from jobs, education or training.

6. Conclusion

At this critical time for the Scottish economy, a programme of increased social housing and infrastructure investment offers the opportunity to provide a rapid fiscal stimulus that would provide a substantial boost to a particularly vulnerable sector of the economy and safeguard substantial numbers of jobs. At the same time, such a programme would represent a significant step forward in tackling the urgent and growing unmet need for additional social housing, while providing a platform for a rapid upturn in overall housing supply also once the housing market recovers. Though ambitious, we believe that our proposals in this paper are achievable. They could and should be designed in such a way as to provide some financial return to the public sector over the longer term.

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⁴ An analogy might be drawn with the package of investment announced for the car industry in January 2009, in which Government support is offered in return for industry pledges to develop green car technology.