



# **RESPONDING TO THE CHANGED ECONOMIC CLIMATE**

## **MORE ACTION ON HOUSING**

**The Scottish Government  
January 2009**

## EXECUTIVE SUMMARY

The Scottish Government announced in June 2008 its package of major reforms to deliver lasting improvements to Scotland's housing system. Since then, the extent and the impacts of the global financial crisis have widened and deepened. The Scottish Government has acted swiftly and decisively to take a series of new actions to help the housing market - and the wider economy - respond to the challenges facing Scotland, and to ease the effects of the downturn on businesses and households.

In August 2008, we announced that we would:

- bring forward £100m of the £1.5bn spending on affordable housing from 2010-11 to be spent this financial year and next. This will speed up the supply of affordable housing, while also providing support to the house-building industry;
- set out new criteria for the use of public funds in the purchase of unsold stock and land from private developers;
- launch a new Home Owners Support Fund in early 2009 to build on the Mortgage to Rent Scheme and make a new Mortgage to Shared Equity Scheme available to protect home-owners faced with the prospect of repossession;
- invite Scottish local authorities to apply for a share of £25m to help kick-start a new generation of Council house building;
- raise the threshold prices for the Open Market Shared Equity Pilot, increasing the range of properties available to prospective buyers; and
- continue to press the UK Government to take actions - which are outwith Scottish Government powers - to mitigate the impacts of the credit crunch, most significantly on measures to improve lenders' liquidity, reform of stamp duty and improvements to the safety net for home owners.

Since August, we have:

- committed to increase the accelerated housing investment from £100m to £120m - £40m into this financial year and £80m into next financial year;
- commenced delivery of the accelerated investment - details were announced last year of the first £18m of the accelerated funding to support the construction of new affordable homes, the acquisition of sites, and the purchase of unsold units from private developers;

- agreed with CoSLA the arrangements for a further £17m of accelerated funding to be delivered this financial year;
- agreed with CoSLA the criteria and process for allocating the £25m to Councils who are well placed to deliver much needed new Council homes quickly with a view to agreeing funding allocations this financial year;
- given a £10 million boost to the Central Heating Programme to provide help to a greater number of households in fuel poverty by March 2009;
- committed to expand Open Market Shared Equity across all of Scotland with a £60m budget in 2009/10 to help more families to buy, and to help stimulate the lower end of the housing market;
- put in place an Energy Assistance Package to help reduce bills for those who are 'fuel poor';
- launched a high profile awareness-raising campaign for the National Debtline;
- set out the details of our improved Mortgage to Rent Scheme and a new Mortgage to Shared Equity Scheme to be funded from the Home Owners Support Fund which has been increased by a further £10m to £35m over 2 years to meet the anticipated increased demand;
- made an additional £3m available over two years to expand our In-Court Advice and other services and a further £1m to expand Citizens Advice services;
- amended eligibility criteria for legal aid to make sure over a million more Scots will become eligible in 2009 to help ensure people facing difficulties are able to protect their legal rights; and
- arranged to set up a new Repossessions Group of key stakeholders to consider urgently by 30 April 2009 whether legal protection for homeowners in Scotland at risk of repossession is adequate and, if necessary, make specific recommendations on ways in which reserved or devolved legislation should be strengthened.

In addition we have continued to press the UK Government for further appropriate actions to support the housing market and vulnerable home owners – in particular on improving mortgage funding markets, reduced VAT for housing repairs and renovation, improved taxation arrangements for the private rented sector and regulation of sale and rent back schemes. We are also continuing our close engagement with the house building and lending industries to explore their ideas for further actions.

## **INTRODUCTION**

In August 2008, the Scottish Government published “*Responding to the Changing Economic Climate: Further Action on Housing*”, which set out the Government’s analysis of challenges in the housing market, and the actions we are taking to help address them<sup>1</sup>. These actions form part of the Scottish Government’s overall response to changing economic conditions in order to maximise jobs and investment and do all that we can - within the scope of our devolved powers and financial settlement from the UK Government - to help hard-pressed businesses and households.

Since August, further major developments in the international financial crisis have led to widespread action - unprecedented in the modern era - by Governments across the world to stabilise the global financial system. This action has involved co-ordinated moves by countries to support banking systems through the recapitalisation of banks, the injection of further liquidity into the wholesale money market and major reductions in interest rates.

This document sets out progress with the housing interventions that the Scottish Government announced in August and the further housing actions that the Scottish Government is taking as part of its wider programme to stimulate the economy and alleviate the effects of the downturn on businesses and households. It also sets out our response to recent actions by the UK Government which have implications for the housing market and individual households in Scotland, as well as the further action we have asked the UK Government to take.

## **SCOTTISH GOVERNMENT ACTION**

Scotland is not immune from the downturn affecting major economies and global markets and the global economic slowdown is clearly now being felt in Scottish homes and high streets. Since the UK is widely considered to be in recession, this is likely to continue over the months ahead.

The Scottish Government has demonstrated that it won’t simply sit back and wait for things to get better. We have acted swiftly and taken decisive action to help the housing market - and the wider economy - respond to the challenges we face,

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<sup>1</sup> <http://www.scotland.gov.uk/Resource/Doc/1035/0064706.pdf>

and are pursuing a Scottish economic recovery programme to help Scotland's businesses and families. This includes action to: reshape our capital spending plans; ensure all government activity, including on planning and regulation, supports economic development; intensify our activity and support for tourism and Homecoming 2009; intensify our work around energy efficiency and fuel poverty; increase advice to businesses and individuals; and improve financial advice to vulnerable individuals. The economic recovery programme has been set out in the Scottish Government's Response to the First Annual Report of the Council of Economic Advisers, published on 15 January 2009<sup>2</sup>.

The measures we announced in August to support the housing market and to help those facing difficulties as a consequence of the changing market conditions form part of our economic recovery programme. Since then, we have made rapid progress in taking forward those measures, as well as announcing a range of further measures.

### **Accelerating Investment in Affordable Housing**

On 19 August, we announced the acceleration of £100m from the Affordable Housing Investment Programme, bringing forward money from 2010-11 to be spent this financial year and next. £60m of this sum is being committed from central government resources; the remaining £40m is being committed by our local government partners.

Since August we have committed to increase the scale of accelerated investment to £120m – with the announcement of an additional £10m following the Pre-Budget report and a further £10m proposed in the Scottish 2009/10 Budget Bill.

The accelerated investment will prioritise new construction and support purchases of land and unsold stock in order to deliver more affordable housing more quickly to help meet housing need. This will have the consequent effect of providing support to the house building industry and will help retain skills and workers so that the sector is better able to respond when market conditions improve.

On 7 October 2008, the Minister for Communities and Sport announced a first tranche of £9m of accelerated funding. £4m has been brought forward to

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<sup>2</sup> <http://www.scotland.gov.uk/Publications/2009/01/15111700>.

support site starts on six housing projects in Moray, Dumfries and Galloway, Argyll, the Borders and Fife. A further £5m will fund land purchases by housing associations to support developments in Highland, Midlothian, Argyll, Dumfries and Galloway and South Lanarkshire.

A further £9m of funding was announced on 27 November. This will provide £3.5m to accelerate site starts and construction on projects in Highland, Stirling, Fife, West Lothian and South Ayrshire. £4.1m will fund land purchases by Registered Social Landlords (RSLs) to support future developments in Orkney, Perth & Kinross, Falkirk, East & West Dunbartonshire, and Argyll. Finally, £1.4m will be used to fund purchases of suitable unsold stock from private developers in Falkirk and Perth & Kinross. In addition, we are taking forward plans with local government and RSLs for announcements of further funding to be made shortly.

In December, we also published a consultation on Housing Investment Reform. The consultation sets out proposals to channel future investment funding through Lead Developers. We will look to Lead Developers to maximise the supply of affordable housing from future investment expenditure.

### **New Criteria for Purchase of Unsold Stock from Developers**

Where it is strategically sensible and provides value for money, the accelerated investment from our Affordable Housing Investment Programme will support Housing Associations who wish to purchase unsold stock from private developers.

As part of this, we have agreed guidance with the Scottish Federation of Housing Associations on circumstances where Housing for Varying Needs standards can be relaxed, with the support of local authorities, to support the purchase of unsold properties. We have also confirmed that we are prepared to provide financial support to housing associations that wish to acquire or develop housing for mid-market rent in areas where such housing would help to meet local need and where such support would represent good value for public expenditure. And we have published the detailed criteria that we will apply in considering requests for such support.

In addition, working with CoSLA, we have agreed to give local authorities greater flexibility in how they use revenue raised from reducing the Council Tax discount on second homes and long-term empty properties. This new

flexibility will mean that local authorities will be able to use the revenue to build affordable homes themselves or to purchase unsold stock from private developers, as well as being able to provide additional funding for RSLs for affordable housing under the current arrangements. Confirmation of the new arrangements will be issued shortly to local authorities.

### **Building New Council Houses**

As part of our commitment to increase housing supply and to meet housing need and demand, the Scottish Government is investing £25m to help kick-start a new generation of council house building. This, along with our commitment to end the right to buy for new build social housing, will make building new houses a more attractive option for councils.

We have reached agreement with CoSLA on criteria to ensure that the £25 million is focused on councils with housing need and the resource capacity to take forward projects in the near future. Agreement has also been reached on the process for allocating funding and bids from Councils which have opted to apply for support from the fund are currently being considered with a view to agreeing funding allocations this financial year.

### **Additional investment to tackle fuel poverty**

The Scottish Government is committed to doing everything, within its devolved powers, to help pensioners and families on low incomes who are facing fuel poverty. We are taking further action to alleviate the effects of high energy costs on households in fuel poverty.

On 18 October, we announced that an additional £10m would be made available for investment, by March 2009, in the Scottish Government's Central Heating Programme. We also made clear that, from April 2009, the Scottish Government's fuel poverty programmes are expected to be extended to include families on low incomes with children under five or with disabled children under 16.

We are also now supporting extra marketing activity by Scottish Gas to encourage those who are eligible to apply for help through the Central Heating Programme.

On 19 November, we announced that we will implement the recommendation of the Fuel Poverty Forum to put in place an Energy Assistance Package for the fuel poor. This will provide more help and advice on all aspects of fuel poverty – checking those vulnerable to fuel poverty are on the best fuel tariff and maximising their income and improving the energy efficiency of their homes. Energy companies have agreed to work with the Government on providing a package of insulation measures, funded under the Carbon Emissions Reduction Target (CERT), to fuel poor households, and the Government will fund enhanced energy efficiency improvements to those households hardest hit by higher fuel bills. We expect many rural homes that are hard to insulate and not on the gas grid will be able to benefit from energy efficiency measures under the new Energy Assistance Package.

### **Supporting First Time Buyers**

£250 million has been allocated over three years to help low-income first time buyers through our Low-cost Initiative for First Time Buyers (LIFT) to access home ownership where that is sustainable for them. On 19 August, we announced that we would increase the threshold prices used in the Open Market Shared Equity Pilot Scheme in order to give first time buyers a wider choice of properties they can access under the scheme. This has led to increased interest in the scheme from potential buyers and the number of sales has also increased significantly.

To respond to the exceptional current economic circumstances, we have gone further still. The First Minister announced on 19 October that the Open Market Shared Equity scheme will be expanded for a time-limited period from the current ten local authority areas where it operates to cover the whole of Scotland. This expansion will be supported by a £60m investment in the scheme in 2009-10 to help around 1500 first time buyers on low incomes to access home ownership. The scheme is expected to be ready to take applications from buyers in the new areas from early in 2009. This will in turn help stimulate the housing market in many local areas by helping some of those householders struggling to sell their homes.

Across Scotland, over 650 shared equity homes have been sold since April last year. We are aware however that a significant proportion of the New Supply Shared Equity developments have been affected by the economic downturn. We have therefore put in place new arrangements to ensure that unsold new-

build shared equity properties can be converted for mid-market or social rent where appropriate and we are keeping this situation under close review.

### **Increased Protection for Home Owners**

The Scottish Government is committed to doing everything possible within the powers we possess to help households across Scotland who are at risk of repossession during these difficult times.

Last year, we raised our concerns about repossessions with the Council of Mortgage Lenders (CML) and CML took action to impress upon its members the vital importance of working with home owners in arrears to try to avoid repossessions wherever possible. CML issued guidance to its members in October, which will apply across the UK, to encourage lenders to consider every alternative to court action.

The Mortgage Rights (Scotland) Act 2001 provides significant protection for those at risk of repossession. However, we are taking forward, as a matter of urgency, additional measures to enhance protection for home owners in Scotland.

Firstly, we will develop and expand current advice services for people facing repossession and other legal problems with debt. We are making £3m over 2 years available to expand the coverage and capacity of our In-Court and other advice services. This will ensure that more people are able to access support and receive assistance when they are in court facing repossession, and, more importantly, before they get to court. These additional improvements come on top of the announcement by the Cabinet Secretary for Justice on 7 November that over a million more Scots will become eligible for legal aid in 2009.

Secondly, we are setting up a Repossessions Group of key stakeholders to consider urgently by 30 April 2009 whether the legal protection provided for homeowners in Scotland at risk of repossession is adequate and, if necessary, make specific recommendations on ways in which either reserved or devolved legislation should be strengthened. This Group will also consider what else the Scottish Government, the UK Government and others, such as lenders, advice agencies and legal services might do to help those at risk of repossession and reduce the risk of such repossessions occurring, taking account of the Scottish

Government's improved Mortgage to Rent Scheme and new Mortgage to Shared Equity Scheme.

Thirdly, whilst our actions should help many families avoid repossession, we are also putting in place an additional safety net for those against whom proceedings are brought. The provisions in Section 11 of the Homelessness etc. (Scotland) Act 2003 will come into force on 1 April this year. As a result, lenders and landlords will be required to notify the relevant local authority when they take action to repossess a property. This will give local authorities early notice of households at risk of homelessness, allowing them to get in touch with these families and, if necessary, plan to find accommodation for them.

### Home Owners Support Fund

#### *Mortgage to Rent and Mortgage to Shared Equity Schemes*

We are putting in place arrangements for implementation of our new Home Owner Support Fund (HOSF). Drawing upon an independent evaluation of the existing Mortgage to Rent scheme, we will consider how the operation of the scheme can best be improved to assist people facing repossession who have little or no equity in their homes. HOSF will also see the introduction of an innovative Mortgage to Shared Equity (MTSE) scheme to help those home owners in mortgage difficulties who have more equity in their homes. By releasing some of the equity in their homes, owners will be helped to move on to a shared equity basis, while retaining full ownership of their home. This will reduce their mortgage payments and help them more readily manage their finances.

The revised Mortgage to Rent scheme and new Mortgage to Shared Equity scheme will both begin on 16 March 2009. Last June, we announced that financial support for the new HOSF would be increased to £25m over two years, but, due to its priority, we have since committed a further £10m to the fund, making £35m in total, to respond to the increasing demand for the Mortgage to Rent scheme. We now expect to help over 200 households stay in their homes with support from the HOSF this financial year.

#### *Staircasing Down within LIFT*

We have developed and are finalising procedures for RSLs to allow home

owners who have bought a home through the Low-cost Initiative for First Time Buyers (LIFT) shared equity schemes to reduce their equity stake in their home if they are facing mortgage difficulties. We are also in close dialogue with the lending industry to ensure its support in allowing borrowers to reduce their mortgages.

### *Improved Money Advice for Home Owners*

We are placing a strong focus on providing advice and support to homeowners in financial difficulties to reduce the risk of repossession actions getting to court in the first place and we want to ensure that everyone in financial difficulty receives the best possible advice to avert repossession. The Scottish Government already part-funds the National Debtline at a level of £100,000 per year. As announced in the 19 August publication, we launched last autumn a major awareness-raising campaign for the National Debtline, with £382,000 of Scottish Government funding, to encourage more people facing difficulties to seek money advice at an early stage.

## **UK GOVERNMENT ACTION**

As explained in our August publication, the Scottish Government does not have powers to act in a number of key areas reserved to the UK Government, which impact on the housing market. We have therefore, since problems first began to emerge, pressed the UK Government to take urgent action to improve the operation of the credit markets and to introduce a range of other measures to support the housing market and improve the level of protection available to individual households.

### **Stabilising the financial system**

The major developments in global financial markets in recent months led to the announcement of dramatic measures by central banks and governments aimed at ensuring the stability of the financial system. These major developments and response measures have implications not only for the Scottish housing market but also the wider Scottish economy, and in turn have implications for the appropriate response to the changed economic climate.

We are pleased that the UK Government and the Bank of England have taken action to stem the escalation in the problems in the financial markets through the recapitalisation of financial institutions and reductions in the base rate of

interest. We hope that these actions, taken together, will restore and maintain confidence and stability in the financial system and ensure that the banking system has the necessary funds to maintain lending and lead to easing of lending conditions in the mortgage markets, and ultimately limit the length and depth of the economic downturn.

The Prime Minister noted that one of the key objectives of the injection of capital into the banks was to return lending to 2007 levels so we regret that mortgage lending has not yet increased significantly as a result of UK Government intervention. We hope that the recent announcements (15 December) reducing the fees for, and extending the lifetime of, the Credit Guarantee Scheme will go some way to allowing banks and building societies to lend to the economy.

We welcome the UK Government's announcement on 14 January to offer further support to small and medium sized businesses and would hope that this scheme will be able to offer assistance to house-building firms operating in Scotland, as they will have an important role in reviving the housing market.

We also welcome that the UK Government is, as announced on 19 January, acting on several of the recommendations in the Crosby Report. The temporary guarantees of good quality, transparent forms of asset-backed lending will, we hope, directly provide banks with the security needed to increase new mortgage lending. Furthermore, we hope that other liquidity-improving measures, including guarantees on corporate lending and the extension of the Special Liquidity Scheme window, will mitigate the negative impact on the wider economy of restricted finance and indirectly help to restore credit-lines to the mortgage market.

### **Supporting the housing market**

The UK Government also announced a number of specific measures at the start of September aimed at supporting the housing market. These included announcement of:

- *a one year **Stamp Duty Land Tax** holiday to all residential property purchases of less than £175,000*

We had asked the UK Government to consider a temporary suspension of stamp duty on all residential property sales below £250,000. While we

welcome the announcement by the UK Government to suspend stamp duty for one year on sales below £175,000 in value, we believe that the current system, where large increases in duty are required at arbitrary thresholds, needs to be improved. We would reiterate our call to the Chancellor to redesign the system at the first opportunity, in liaison with the Scottish Government and the other Devolved Administrations.

- *a reduction in the time before home owners become eligible for **Income Support for Mortgage Interest (ISMI)** after becoming unemployed*

We welcome the UK Government's decision last year to shorten the waiting period (on a temporary basis) to 13 weeks before ISMI can be claimed by home owners who have lost their jobs as this is an area where we had pressed the Chancellor for action in order to improve the safety net for home owners. We also welcome the fact that interest will in future be covered on mortgages up to £200,000 (up from the current £100,000 limit) to ensure that ISMI support reflects average house prices in the UK. We called on the UK Government to bring forward the initially proposed start date of April 2009 to help those who are facing difficulties right now so we welcome the decision that the changes will now apply from this month.

We also broadly welcome the UK Government's plans for a wider scheme to allow some borrowers to defer a proportion of their mortgage interest payments for up to two years, but have concerns that this may not benefit many additional households and may increase their debts over the longer term.

- *Response to the Office of Fair Trading report into **sale and rent back schemes***

We welcome the findings of the Office of Fair Trading (OFT) following its market study into sale and rent back schemes. The OFT questioned whether many consumers would be aware of the full costs and risks associated with sale and rent back transactions and recommended that such schemes be subject to statutory regulation by the Financial Services Authority (FSA). In its response, the UK Government agreed with the OFT's other recommendations, which were to increase consumer awareness of the risks of such schemes and to clarify housing benefit eligibility for applicants who go through sale and rent back, but only agreed to consult further on the need for compulsory regulation. We believe it is imperative, given the state of the housing market,

that the UK Government takes speedy action to regulate the sale and rent back market and provide real protection to home owners. The Scottish Government has therefore written to UK Ministers urging them to act quickly on this to protect vulnerable home owners.

### **Impacts of UK Government action**

It is too early to discern what effects the range of actions taken by UK and other governments will have on the Scottish housing market. While the Scottish housing market is still holding up fairly well in comparison to the rest of the UK, it is far from immune. The most recent statistics suggest that there has been a further slowdown in the housing market since the assessment we made in our August publication.

This underlines the need for significant further action and we have continued to press the UK authorities to implement a range of further measures to support the housing market and people of Scotland.

### **Further requests of UK Government**

We have called on the UK Government for further actions which will:

- ensure owners using **sale and rent back schemes** receive better protection as soon as possible;
- encourage stable **investment in the private rented sector** to ensure the sector is equipped to respond in a sustainable manner to increasing demand for private rented housing by introducing exemptions from Inheritance Tax where properties are let at affordable rents; revisiting the rules for residential Real Estate Investment Trusts (REITs) to encourage institutional investment in private rented property; and addressing the anomalous position of stamp duty for bulk purchases (see below);
- pursue targeted **VAT relief for repairs and maintenance** in a wider range of situations than currently provided for, including helping owners who most need it to improve the condition of the houses they own, improving the position for RSLs and allowing VAT exemptions for repairs to listed buildings, crofts, common parts of houses and measures to assist private landlords with the costs of repairing empty properties to meet housing need.

- take forward a wider review of the **Stamp Duty Land Tax system** in partnership with the Devolved Administrations to address both the arbitrary thresholds and the anomalous position for bulk purchases, which deters large-scale investment in housing, particularly in the private rented sector (as bulk purchases are charged at the higher rate of 4% if the total cost is over £500,000, rather than the rate due for each individual property).

We are disappointed that none of these points were addressed by the Chancellor in the Pre-Budget Report and urge the UK Government to consider these points further. We are also calling on the UK Government to act in wider areas, which impact on housing, specifically by:

- reducing taxation on the energy bills of households; and
- relaxing inflexible Treasury accounting rules to permit the Scottish Government to access its unused funds in UK bank accounts for immediate investment in economic activity in Scotland. This totals around £1billion of funding, including over £120million held by OFGEM for investment in renewable energy projects in Scotland.