Scotland’s Housing Budgets After 2014

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1 Introduction

The housing sector matters. It shapes the major outcomes of nations and regions and the wellbeing of citizens both rich and poor. Paying for housing typically absorbs a fifth of national income, ten per cent of the workforce is engaged directly in housing related activities and housing comprises the major component of wealth held by most households. This scale of impact requires governments to have a clear view of not just of how effective housing policy expenditures and tax arrangements are but also how budgetary policies (broadly defined as taxation, spending and borrowing strategies) affect housing activities and housing outcomes. That clarity should, moreover, be at its greatest when resources to support sector policies are most constrained, when economic and social uncertainties prevail, and when efforts towards achieving effective use of fiscal resources need to be renewed.

The UK economy, and its Scottish counterpart, currently faces a prospect of sustained stagnation. To the lingering risk of further short term recession we must add a likelihood of minimal medium term growth. We face at least five difficult fiscal years. In meeting similar challenges, governments around the world are demonstrating a growing propensity to pay no real attention to Keynesian solutions, preferring instead to address the task of debt and deficit reduction by reducing expenditures and avoiding tax increases. While this approach is often self-defeating, because of the growth impairment consequences or increased benefit payments it engenders, many governments nonetheless currently feel obliged to aim towards more contained, often reduced public spending.

In a UK-wide context, since the 1970s, housing policy has fared particularly badly whenever government budgets have been stressed. The economic stimulus benefits of expanding housing investment have been downplayed, and core housing programmes have suffered disproportionately. Sadly, the UK is in this difficult place once again.

The Scottish Government and Parliament would appear to be somewhat more disposed towards supporting housing policies than their Westminster equivalents, and some (but emphatically not all) of what happens in Scotland in this policy area is constrained by Whitehall. But does this mean that Scotland has a clear position at this juncture on how much support to give to housing and how best to do so?

Unfortunately the answer to this question is no. As elsewhere in the UK, discussion of housing policy futures is currently incoherent and arguably at its lowest ebb for more than thirty years. We do not see this as a consequence of bureaucratic incompetence or ignorance of the options but simply a failure of politics and Parliament to fashion the mechanisms and resources to deliver effective change. New supply is bumping along at historically low levels and market rents are rising. While at UK level quantitative easing has failed to induce any alleviation of mortgage credit rationing, country level public capital programmes for housing,
confronted by growing pressures, are now heading towards a fifth of their pre-2010 totals. Capital spending is, moreover, increasingly channelled through ad hoc policy programmes that are much based on one-off windfalls and less directed at the poorest households. Redistribution away from the poor, involving reduced grant rates, is being confounded with increased efficiency and innovation. At the same time, UK-wide reforms to welfare support are set to make housing outcomes worse for significant subsets of the population.

Scottish housing policy lacks clarity, and this is not just a consequence of current constitutional arrangements or of uncertainties arising from prospective constitutional change. There is simply no real political sense of how the Scottish housing market might become more effective, no large scale progress on private rental investment (although the NHT initiative has been welcome), no coherent approach to the organisation of the social rental sector and no forward sustainable investment programme for ‘affordable’ housing. Community based providers now feel marginalised. Debate on how to restructure the housing system is, if anything, currently moving forward more slowly in Scotland than in England.

A Scottish discussion and debate on housing outcomes is therefore long overdue. The purpose of this paper is to use the prospect of alternative constitutional futures to provoke one.

2 Framing a Relevant Debate

While most concern focuses around whether new autonomies will lead to bigger or smaller housing expenditure programmes, this is too narrow a perspective. The central issue that needs to be addressed in the light of possible new constitutional arrangements, identified by Gibb and Stephens (2012) in their assessment of the potential benefits to Scotland of devolving housing benefit and social security matters, is this: would further change in the devolution settlement, up to and including independence, be likely to generate a) greater public investment in housing, b) better housing outcomes and c) better social outcomes - noting that it is not necessarily the case that a=b=c?

Underlying the question of likely housing and social outcomes is a series of uncertainties regarding future budgetary policy in Scotland. We must therefore ask:

- Will Scotland’s constitutional status post 2014 accelerate growth in incomes? (Note that if we think there will be modest income gains then the real case for independence/more autonomy has to be made in better policy design and delivery for key Scottish sectors).

- Will new tax structures or powers be used to shape better resource allocations for housing in the Scottish economy? Tax policy relating to land, housing investment, turnover, wealth and inheritance are used in numerous countries to influence housing outcomes; what does the Scottish polity have in mind in this regard?

- How will public spending and borrowing be defined and controlled? This is a particularly important issue for housing, given the variety of ways in which it can be owned, funded and financed, so what will the rules of the game be?
• Will new autonomy/constitutional arrangements raise the capacity for innovation within the Scottish Parliament and lead to better, more efficient housing policy formation? We have previously noted (Maclennan and O’Sullivan 2008) that while the Scottish Parliament has shown itself to be highly aspirational in terms of housing policy aims, it has been weak on funding and delivery mechanisms, perhaps because goal setting has occurred in a context where the Parliament has chosen to raise none of its own revenues. Will combining tax and spending decisions create a new harder edge in the design and delivery of future programmes?

• If the 2014 vote is for independence then Scotland will have, at least nominally, some sovereignty over monetary policy. Monetary policy has major housing market implications (for example the Bank of Canada has played a key role in the past in stabilising the Canadian housing system). Moreover, as recent EU experience shows, budgetary and monetary policies have to be synchronised. What will this mean for Scottish fiscal policy and housing budgets? Arguably, as the Scottish economic cycle and housing market change are more closely correlated with and connected to England than any other EU state, UK monetary policy is likely to better aligned in timing than EU policy. How would the government of an independent Scotland take account of the housing system in decisions about monetary policy?

• If independence is rejected but fuller fiscal autonomy prevails, how will Scottish areas for decision be harmonised where necessary with policy change at Westminster – for example in areas such as welfare and environmental policy (Foley, 2012)?

In seeking answers to these questions and, more generally, in scoping the real implications of shifts in sovereignty, it is also important to acknowledge the distinction between formal autonomy (possession of the right to use a policy instrument) and real autonomy (in essence the ability to use it in a meaningful way to deliver change) (Maclennan and O’Sullivan, 2012). The increasingly connected nature of global markets in goods, capital, finance and labour has, over the last forty years, attenuated the economic policy autonomy of most countries in relation to monetary and fiscal policies. This has been particularly true of smaller economies (though arguably smaller scale can fashion cohesive agility in the face of external change). Norway, Ireland and New Zealand, three similar sized countries to Scotland, have all experienced significant reductions in monetary policy autonomy in recent decades.

Recent EU experience, including the financing difficulties facing regional governments in Spain and Italy, highlights also that the central agents in a monetary union cannot be blind to deficit and debt policies across member states. National fiscal autonomy is, in effect, falling sharply - not just in the obvious cases of Greece, Portugal and Ireland, but in countries such as Denmark and the Netherlands too. So unless an independent or fiscally autonomous Scotland were to tax more heavily to finance new spending it is not clear how, in the medium term, new autonomy will translate into enhanced public borrowing. Will any of the proposed autonomy arrangements result in any real gains in borrowing capacities?
France has recently demonstrated that the structure of taxation within an economy that participates in a wider economic union can be markedly altered. However, whilst France can, no doubt, afford to lose a few of its offended elite to Belgium, whether fiscally induced mobility reduces tax takes as rates rise is still an open question. That said, clearly independence offers a choice to Scotland of broad tax structures that differ from the rest of the UK. If we believe all of the myths about ourselves then, in the spirit of Andrew Carnegie, we will tax unearned and inherited wealth somewhat more severely than in the rest of the UK or, as we say we believe in rewarding effort and are more committed to sustainable development, effect a shift from taxes on labour to taxes on carbon use. Maybe Scotland is more inclined to adhere to social democratic principles than the rest of the UK and is greener in its aspirations also – or maybe this is just delusional thinking (Park et al, 2012 note in this context an apparent lurch towards individualism in British sentiment). Either way, there is currently no real sense of what the tax structure of an independent Scotland would actually look like. How can a democratic choice of constitution be made, unless voters know what tax arrangements this will lead to? What are the real tax policy alternatives - and what will they mean for housing? Which tax policies will best achieve housing outcomes anyway?

Similar questions obviously arise in relation to the benefits dimension of spending and housing policy. How will Scotland fare if the benefit system is now to be run from Edinburgh? How will housing subsidies be structured in the new Scotland? Will we move towards an ex ante system of housing allowances? What will we do about pricing housing? (More so than in any other part of the UK, housing pricing in Scotland is a disorganised mess. It has long lacked principles in implementation and there has been no political courage to tackle the key issues involved that produce unfair outcomes and generate poor stock utilisation).

These questions also raise further really important questions about current capacities and competences, not of the constitution but of our bureaucracies.

As Gibb and Stephens (2012) point out, devolving HB via a block grant settlement within the context of wider UK-maintained social security systems is risky and politically unattractive. However, we are unconvinced by their suggestion that a devo-max devolution of all social security expenditure plus income tax/national insurance, VAT and corporation tax to the Scottish Government would prompt fundamental redesign of Scottish housing policy (involving a shift to a more European structure of income maintenance and housing cost subsidisation; redesign of financial support towards a more tenure neutral basis and reform of rent structures). Apart from anything else, it is unlikely that housing would be a high early priority in the list of things to deal with under such a momentous shift in fiscal power.

In practice, the most likely outcome of current political positions and processes in Scotland is that there will be some increase in the level of fiscal autonomy afforded the Scottish Parliament after 2014. But this will be quite limited and it is unlikely that Scotland will have the range of fiscal powers possessed, for instance, by an Australian State or a Canadian province. While for this and other reasons already discussed it will not do to assume that new autonomies will necessarily mean much more real power to shift housing outcomes, there
will clearly be scope for changes of emphasis in post 2014 Scotland. These need to be identified and discussed. We need to be sure that we have the evidence and the analysis as well as the bureaucratic capacity and political leadership to deliver better housing outcomes from any changes that are made - the political debate needs to produce more than rhetoric.

Though there will be limited scope to change fundamental tax structures, especially in relation to mobile factors of production, there are lines of action that would deliver more from the present Scottish resource base. Much of this would arise simply from being smarter in policy making and from a more meaningful alignment of spending and taxation. In this context, our research to date does not suggest that smaller countries per se produce better housing policies. Policy quality seems to relate not to the scale of a nation, or unit of government, but to the quality of leadership in the policy making process. We also note that in smaller, strongly autonomous regions and in most small nations, government structures usually involve modest roles for local authorities. In such countries, it is the senior tier of government that is most active in shaping housing policies, in organising finance and investment and in making strategic plans. Scotland has a structure of housing government that does not sit well with a strong ‘national’ government role. We believe that remaking the structure and quality of housing governance within Scotland would have much greater significance for housing outcomes than independence or devo-max per se. But is there any real interest in creating a governance of Scottish housing that actually matches the provision, needs and financing challenges of the present?

Without the need for any further transfer of power, Scottish housing would benefit from:

- Use of existing tax powers to stabilise the market and induce a more orderly supply of land.

- A more transparent budgetary process that identifies key intended outcomes in measurable ways, clarifies real budget support for programmes and highlights additional resources leveraged by public spending. By linking spending to tax policy statements a Scottish housing sector budget could be formed, managed and scrutinised.

- Retreat from ‘localism as municipalism’ (Macleannan and O’Sullivan, 2012). COSLA has failed to be a source of housing policy innovation and it is clear that council boundaries are still a fundamental barrier to effective housing service provision and planning in Scotland.

- Further rationalisation of the ownership of non-market housing (given the recent relative successes of the stock transfer authorities in Scotland) and a restructuring of service provision.

- More effective leveraging of existing social housing assets in Scotland.
• A housing regulation regime that pays more attention to how local housing systems function as a whole, and their financial effectiveness.

• An urgent review of the structure and roles of local government versus Holyrood. Is the Concordat delivering anything? Do ‘single outcome agreements’ etc generate effective policy outcomes? How would we know?

3 Concluding thoughts

We believe that Holyrood-Westminster wrangling, whilst inevitable as independence and devo max are debated, is an unproductive distraction of attention from the making of progress in areas where devolved power already exists (and is likely to expand). Just when we need housing experts, bureaucrats and, above all, the Scottish polity to face up to an emerging real crisis in Scottish housing we are, instead, about to divert key attention and effort to constitutional posturing.

We are drawn to the conclusion that though the tone of Scottish housing policy statements is somewhat cleverer and kinder than their English equivalents, there is remarkably little substantive difference in housing programmes between the two countries. After more than a decade of devolution (Wilcox et al, 2010), policy positions (with the exception of RTB policy) do not differ that substantively on: forms of support for new affordable housing development; social housing budgets, grant rates, rent policy and regulatory arrangements; priority groups for owner occupier support, stock condition improvement; regeneration; homelessness, and strategy development. Policy positions have neither diverged nor converged that significantly since 1999 and Scotland has yet to explore a hundredth of the possibilities already open to it.

Nor is there any hard evidence that Scottish households want something so very different from its housing (and welfare) policies than do households in the rest of the UK.

Whatever changes follow from the 2014 constitutional referendum, they are not going to quickly release Scottish governments from the need for fiscal tightness and spending cuts, and there will be no easy return to the scale of housing spending programmes experienced in the noughties, or even the nineties. But Scotland, within likely powers, could become better and different. Setting clear outcomes and budgets for housing would help. Remaking governance would be a major step forward. Exploring new routes for housing policies to meet emerging challenges is also important, notably:

• A housing/social work/health policy nexus that responds to the Christie Commission agenda.

• A housing/infrastructure/economy policy nexus that responds to the growth agenda.

But can Scottish housing respond to either of these agendas effectively in practice?
What would it take to energise either/both in terms of resources, but also incentives and skill sets?

And, fundamentally, do we have the focus and the talent to achieve these changes within the moderately enhanced fiscal autonomy that Scotland is likely to experience after 2014?

References


