



RESPONDING TO THE CHANGING ECONOMIC CLIMATE

FURTHER ACTION ON HOUSING

**The Scottish Government
August 2008**



FOREWORD

Last autumn, in our Housing discussion document *Firm Foundations: The Future of Housing in Scotland*, I emphasised the importance for everyone in Scotland of having a decent home that we can afford in a place where we want to live. To make sure that this can be achieved, I set out the Government's plans for essential reform of Scotland's housing system, and our longer term ambition for an increase in the rate of new housing supply to 35,000 homes per year by the middle of the next decade.

Housing supply must be increased over the longer term if we are to meet the nation's future housing requirements, ensure greater fairness and stability in the housing market, increase labour mobility and, in turn, increase Scotland's competitiveness. Therefore expanding housing supply will help us to deliver sustainable economic growth in Scotland. Our proposals in *Firm Foundations* were designed to free up supply for that purpose by correcting the historic failure of housing supply to respond to demand from buyers.

This ambition remains highly relevant and I am still committed to it. The level of supply of housing in recent years has not been sufficient to restrain unsustainable growth in house prices.

The Scottish Government predicted a slowdown in house prices in its *Housing Market Review* published last summer. However, the nature and extent of the turbulence in the global financial markets in the last year was both unpredictable and unprecedented. It is clear that the developments in the credit markets will lead to a reduction in house-building in the short to medium term.

It is vital that we create the right conditions to ensure that house-building is best placed to grow again once market conditions recover. We have worked in recent months with local government under the new Concordat between the Scottish Government and the Convention of Scottish Local Authorities (COSLA) and put in place a new housing and planning framework with the aim of delivering in future the right numbers of houses, of the right types, in the right places.

The 'credit crunch' and its impacts will not deflect us from the long term goal of increasing the supply of new housing. In fact, the current housing market difficulties have in part been caused by the shortage of housing supply. However, we cannot and must not ignore its immediate effects on the supply of affordable homes, on first time buyers and existing home owners and on the capacity of the house-building industry. While we have already announced a package of measures in the Scottish Parliament in June, as a result of the worsening credit situation, the Scottish Government is putting in place a number of additional, more immediate, targeted measures to help alleviate some of the most serious impacts of the credit crunch.

This document sets out these further measures, but also makes clear that under the current devolution arrangements, while we can act in some areas, we cannot act alone. In reserved areas, such as taxation policy and income support, we need the UK Government to take action as well.

I believe that the actions set out in this document, together with the wider action being taken across Government to respond to the more challenging economic conditions, will help considerably in relieving the pressures on households across the country. Our work to improve housing and planning systems will also assist us in creating the conditions needed for recovery once market conditions improve.

A handwritten signature in black ink, reading "Nicola Sturgeon". The signature is written in a cursive, flowing style.

NICOLA STURGEON

Deputy First Minister and Cabinet Secretary for Health and Wellbeing

EXECUTIVE SUMMARY

At the end of June, the Scottish Government announced a package of major reforms that will deliver lasting improvements throughout our housing system and also help in responding to some of the impact of the credit crunch. Now, in recognition of the worsening impacts of the credit situation, we are going further by taking the following key actions:

- Bringing forward up to £100 million of our £1.5 billion commitment to the Affordable Housing Investment Programme, first and foremost to accelerate the building of affordable housing to allow us to help more families meet their needs for affordable housing this year and next.
- Setting out the criteria for Scottish Government funding of purchases of unsold stock or land from private developers. We encourage housing associations to bring forward proposals that will satisfy our criteria on meeting need and providing value.
- Funding an awareness raising campaign to encourage more Scots to seek money advice from the National Debtline if they are in financial difficulties. By encouraging more home owners in particular to get help at an early stage, we expect to reduce the number of households facing the misery of repossession.
- Increasing the choice of homes available to buy through our new Open Market Shared Equity Pilot scheme to help more first time buyers to get a foot on the property ladder.
- Pressing the UK Government to take early action to mitigate the impacts of the credit crunch on the housing market and provide a more effective safety net through the benefits system to help home owners to avoid repossession.

In addition, we are also building on a number of measures we outlined in June:

- Building on our plans to support more home owners facing repossession through a new Home Owners Support Fund. The Fund will build on the existing Mortgage to Rent Scheme, by also giving some home owners in serious difficulties the option of retaining ownership of their home on a shared equity basis. To recognise the likely increase in repossessions as a result of the credit crunch, we will provide increased funding of £25 million to support the Fund between 2008 and 2010.
- Pressing forward with our plans to invest £25 million in incentivising local authorities to build new Council housing. In addition to our commitment to encourage Councils to build by ending the Right to Buy on new build properties, we are exploring other ways to further safeguard the supply of social rented housing. One of the options being considered is ending the Right to Buy for new tenants entering the social rented sector.
- Pushing ahead in supporting more first time buyers on low to moderate incomes into home ownership, where that is sustainable for them. We have committed £250 million to the Low-cost Initiative for First Time Buyers (LIFT) from 2008-2011; this will help us to expand support through our shared equity schemes.
- Continuing to engage widely with our key partners – particularly local authorities, housing associations, lenders, the house-building industry and Shelter and other advice agencies – to ensure that our policy and our actions remain focused on our overall ambitions to increase Scotland's housing supply.

INTRODUCTION

The consequences of the turbulence in global financial markets have led to widespread impacts on the housing market in Scotland – for both those looking to build, buy and sell houses and for existing home owners.

This document summarises the Scottish Government's latest analysis of the current challenges in the housing market. It sets out the further actions that the Government is taking to help alleviate these challenges and to support the vital delivery of more homes over the long term to ensure that Scotland remains able to fulfil its potential for sustainable economic growth. These actions form part of the Scottish Government's wider response to current economic conditions, designed to provide a stimulus to the Scottish economy.

Following consultation on our housing discussion document *Firm Foundations*, published last Autumn, we announced in June of this year our vision and plans for the future of housing in Scotland. That announcement recognised that financial and housing markets were facing increased uncertainty and that the Government would need to be flexible in its response to pressures arising in the short to medium term.

This update explains the further immediate actions that the Scottish Government is taking to accelerate delivery of affordable homes, help first time buyers and support existing home owners, while working to ensure that the right foundations are in place for a rapid recovery in private house-building. It also explains action that the Scottish Government is pressing the UK Government to take in support of the housing market.

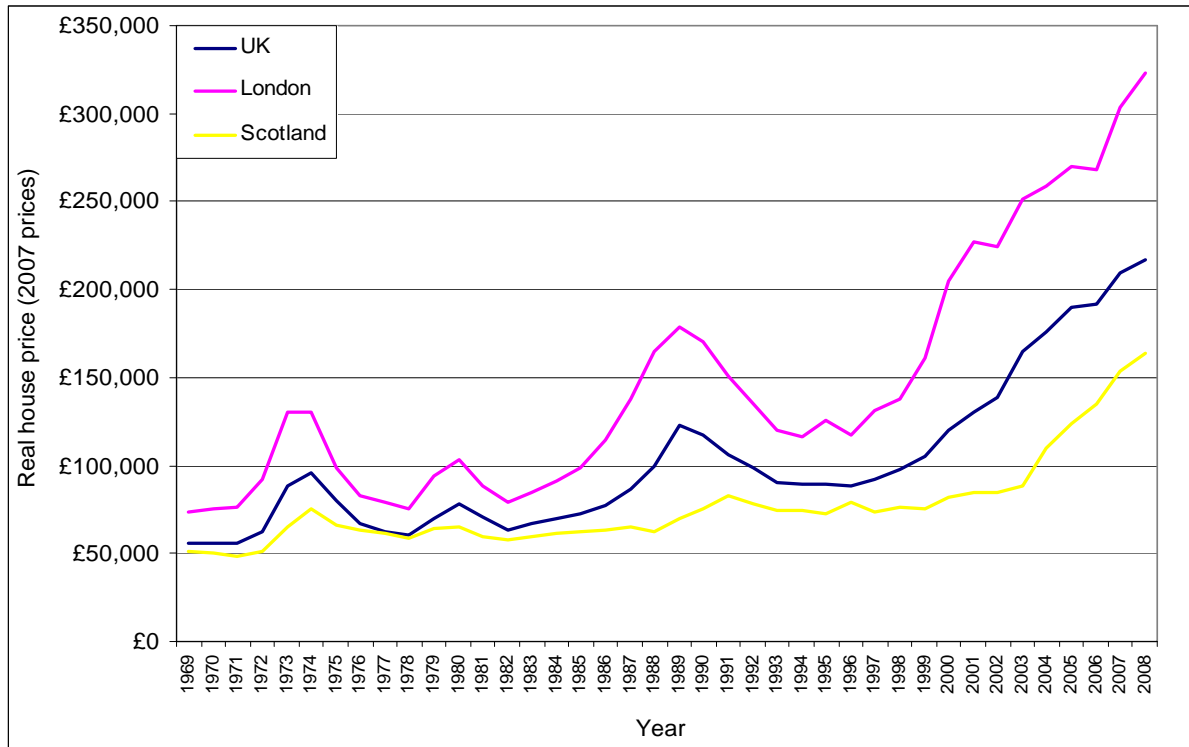
These measures will also assist the Scottish house-building industry, which is currently facing tough conditions. They take account of proposals for action put forward by COSLA, Homes for Scotland, the Council for Mortgage Lenders (CML), the Scottish Federation of Housing Associations (SFHA) and Shelter, all of whom are members of the Housing Supply Task Force.

Origins of the current situation

In June 2007, the Scottish Government published its Scottish Housing Market Review¹, which set out the causes and consequences of the recent house price boom. **Figure 1** puts this in context, showing that Scottish house prices exhibited a greater degree of stability throughout the 1970s, 80s and 90s than was the case in the rest of the UK, and particularly London. However, house prices rose dramatically throughout Scotland in the period from 2002 with annual rates of price growth outstripping those witnessed in England. Real house prices rose by 80% between 2002 and 2007, driven by a combination of cheaper, more accessible, credit and supportive wider economic conditions.

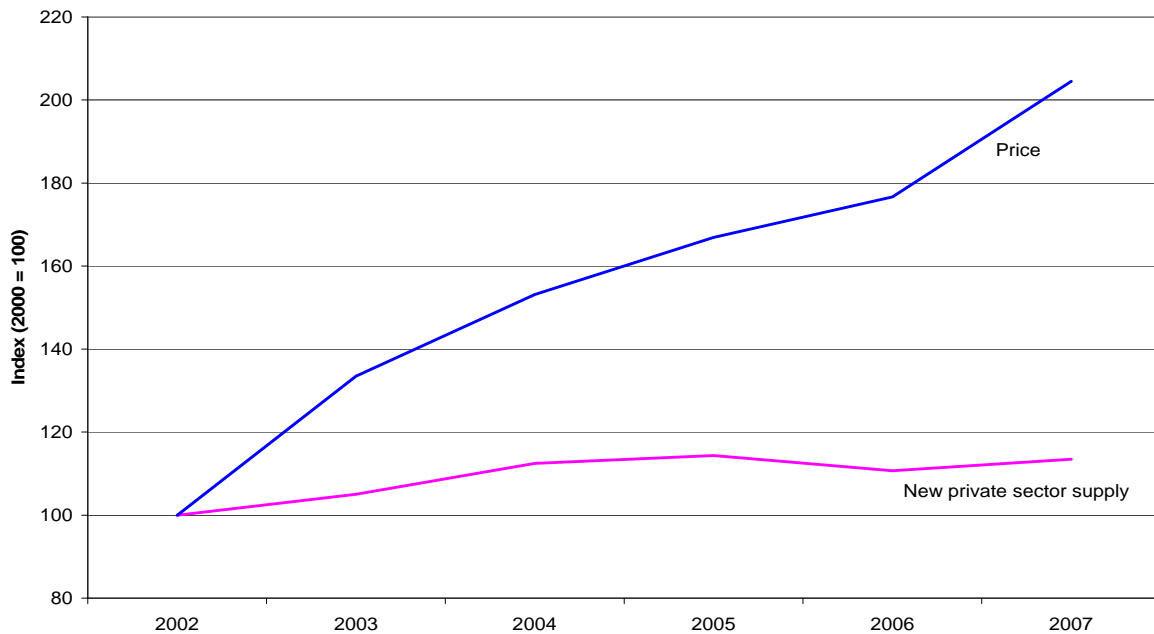
¹ <http://www.scotland.gov.uk/Publications/2007/06/20154930/0>, Scottish Government, June 2007

Figure 1: Long term Scottish, UK and London real house prices



Source: Communities and Local Government (CLG) table 590, adjusted using HM Treasury's GDP deflator

Figure 2: Recent Scottish house price growth and supply response



Sources: Scottish Government summary tables of new house-building in Scotland and CLG table 503

The Review concluded that, while house price increases since 2002 were to a large extent underpinned by changes to long term real interest rates and inflation expectations, there was also some 'overshoot'. Speculative activity driven by expectations of ever increasing house price growth had, to some degree, caused house prices to move out of line with underlying fundamentals. The Review suggested that the market was likely to slow in the immediate

future, but that in the medium to longer term prices would continue to rise in line with earnings growth, unless the supply of housing increased to ease housing affordability. **Figure 2** illustrates that the supply response in the recent past has not been sufficient to restrain growth in house prices. Since the Review, the global economy has seen a ‘credit crunch’, stemming originally from the increase in mortgage repossessions in the US sub-prime market in the second half of 2007. The impact of the credit crunch was both unpredictable and unprecedented, with a severe reduction in the availability of credit across the global economy.

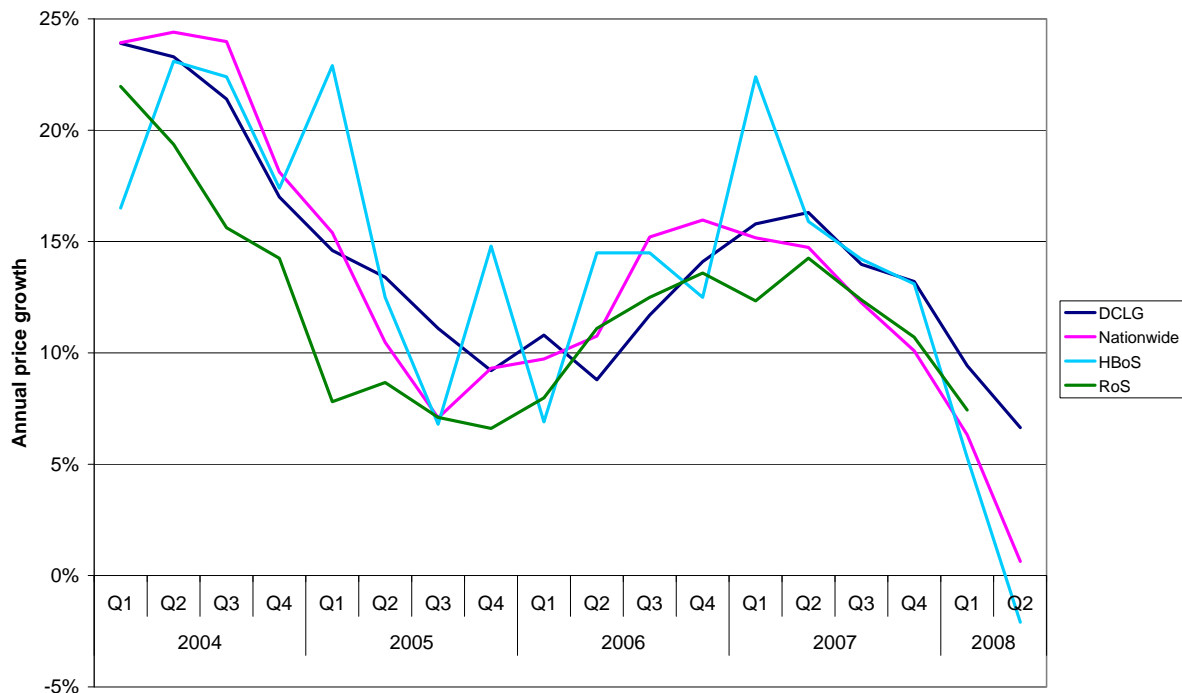
Impact of the credit crunch on the mortgage market

The constrained availability of lending has had a significant impact on the housing market. CML UK figures show the average interest rate on a fixed-rate mortgage was 5.86% in June 2008, up from 5.62% in June 2007 and 5.05% in June 2006. Interest rates for other mortgages have also increased, while many mortgage products have been removed from the market altogether, such as those with high loan-to-value ratios, with no major lender now offering 100% mortgages. Upfront mortgage arrangement fees have also increased substantially. When combined with media reporting of falling prices in some areas and independent predictions of a more substantial correction, consumer confidence in the housing market has dropped. Against this context, the number of new mortgages approved has fallen rapidly. CML figures for the first quarter of 2008 show that the number of loans for house purchase fell by 20% in Scotland as compared to the previous year (compared to a 40% fall across the UK).

Scottish house prices

The impact on prices has so far been less significant with different sources disagreeing on whether Scottish house prices are rising or falling (there will, of course, be variations within local areas). However, it is clear from all sources that price growth in Scotland has slowed significantly, albeit less severely than in the rest of the UK. **Figure 3** shows Scottish annual house price inflation from four different data sources.

Figure 3: Recent Scottish house price growth



Independent commentators who have provided forecasts for both Scotland and the whole of the UK expect Scottish house prices to be less severely affected than prices in the rest of the UK. The primary factor underpinning the expectation of firmer prices in Scotland is that, despite continuing affordability challenges in parts of the market, affordability across Scotland as a whole is better than the rest of the UK (ratios of house prices to earnings, and mortgage payments to income, are both more favourable in Scotland than the UK as a whole). A further positive point is that house prices have historically been less volatile than in the rest of the UK. However, we are not complacent. There is considerable uncertainty around forecasts of house prices, and falls in the future are a real possibility, especially since changes in house prices tend to follow changes in activity which, as outlined below, has fallen significantly.

Of course, falling prices would not be a negative outcome for everyone, with the impacts on individuals depending on their housing market status and plans. For those looking to buy and to trade up, falling house prices would generally be positive (though clearly, the availability of mortgage finance is presently off-setting any such benefits for first time buyers). For those who have bought recently, falling prices could leave some households in negative equity. The scale and length of the house price boom provides some protection against this becoming a widespread phenomenon, but if labour market conditions deteriorate then some households could face real difficulties in meeting payments or downsizing.

Impact on households

The increased costs of mortgages, combined with rising food, energy and fuel costs, are increasing the financial pressures on existing owners as well as new buyers, and many households are struggling to pay their bills. It is also a frustrating time for many first time buyers who have experienced rapidly increasing house prices since 2000, and have found it increasingly difficult to access the housing market without assistance. Currently, any affordability benefits for first time buyers of stable or lower house prices are offset by reduced mortgage availability and increased borrowing costs. Hardest hit in current conditions are borrowers with no or small deposits, for whom loans have become most costly and difficult to obtain, and borrowers looking to remortgage after enjoying a period of low interest rates on fixed-term deals.

Current expectations across the UK are for repossessions to increase. However, Scotland's labour market remains resilient currently in the face of the ongoing difficulties, and if this remains the case a return to the levels of repossessions seen in the early 1990s should be avoided.

Impact on housing supply and the house-building industry

The house-building industry has been severely affected by developments in the credit markets, both in relation to worsening availability and cost of credit, and through reduced consumer confidence. This will lead to reduced levels of house-building for the private market in the short to medium term. Figures from the National House-Building Council (NHBC) for Scotland² show that, while the number of housing completions in the second quarter of 2008 had held up fairly well in relation to the same period last year, the number of starts had fallen by almost half.

Alongside this, there have been widespread reports of redundancies and falling share prices for firms in the house-building industry. Official figures show that, while the overall labour

² New House-Building Statistics 2008 Quarter 2, NHBC. The figures reflect those builders registered with the NHBC, who together construct more than 80% of new homes across the UK.

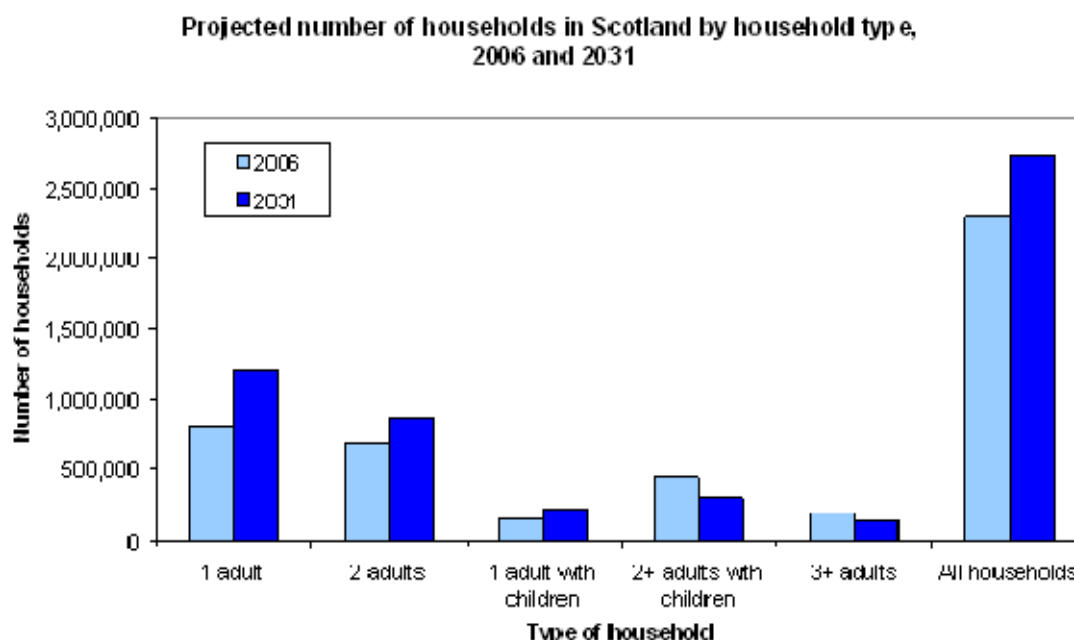
market position for Scotland remains strong, employment in the construction industry fell by 3,000 in the first quarter of 2008, and by 11,000 over the previous year³.

Survey and industry evidence, which provide more up to date information, also suggest difficult times for the industry. Survey evidence suggests that activity and optimism deteriorated significantly during the second quarter of 2008 (though employment levels remained flat).

Medium term prospects

The recent Crosby Review Interim Report⁴ indicated that credit conditions may remain difficult for the next 2-3 years. However, it is clear that the need to increase the supply of housing has not diminished. Significant growth is projected in the numbers of households in Scotland and in the medium term real incomes are likely to increase once again, so the demand for houses is likely to grow. **Figure 4** illustrates the expected growth in households which will impact significantly on the demand for housing, now and in the future.

Figure 4: Projected household growth, 2006-31



Increases in housing supply and responsiveness in the Scottish housing market would help to both avoid the rapid increases in prices seen in periods of high demand and mitigate any subsequent house price falls when conditions cool.⁵

³ <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15084>, UK Government, July 2008

⁴ <http://www.hm-treasury.gov.uk/media/3/E/crosby290708.pdf>, UK Government, July 2008.

⁵ Organisation for Economic Co-operation and Development Economic Outlook 78, chapter III Recent house price developments: the role of fundamentals, 2005

THE WAY FORWARD

Following extensive consultation on its housing policy discussion document *Firm Foundations*, the Scottish Government set out in June of this year its wide-ranging plans for long term reform of Scotland's housing system. This followed the analysis which underpinned *Firm Foundations*, published in the Scottish Government's *Housing Market Review 2007* – an analysis which remains valid – which revealed a historic failure of housing supply to respond to demand.

The plans we announced in June 2008 are designed to correct this failure and to deliver an increased level of housing supply over the long term to meet the country's future requirements and to improve long term housing affordability. Our clear objective to increase the rate of house-building recognises the underlying long term demand for housing, which has not abated and which will be fuelled by increasing rates of household formation.

This objective is central to our ambitions to increase Scotland's rate of sustainable economic growth. It necessitates the creation of a housing supply system that is more responsive to demand and, as part of the reforms to achieve this, we have worked with local government to put in place a modernised housing and planning framework. This is designed to achieve better local assessments of housing need and demand to inform the preparation of local housing strategies, with clear targets for future housing supply. Local housing strategies will in turn inform the future supply of land released for housing through the reformed development planning system.

However, as we anticipated in our June announcement, the changed market conditions require flexibility in Government action. We have recognised the need for further measures which both help people facing difficulties right now, and are consistent with the action stemming from *Firm Foundations* to meet the long term housing requirements of the country, as well as the effective use of Government expenditure.

The primary objectives of the further measures are to:

- accelerate activity on the supply of affordable housing in the short term, to contribute to our linked goals of meeting housing need and supporting first time buyers. This will, as a consequence, provide assistance to the house-building industry, as part of a wider Government package of measures to stimulate the economy.
- provide an improved safety net for owners facing serious mortgage difficulties. While the provision of a "safety net" for home owners is largely the responsibility of the UK government, the Scottish Government wants to ensure that – within the powers it has – a better safety net is in place to support those households who are struggling to afford their mortgages, particularly those who face repossession as a result.

We are also strongly focused on creating the conditions to support an eventual recovery in house-building once market conditions improve. The recent structural reforms to the housing and planning system⁶ are of major significance in preparing the ground for a quick upturn in house-building when the market recovers. A key focus of the work of the Housing Supply Task Force, chaired by the Minister for Communities and Sport, is how best to ensure the house-building industry has sufficient capacity in the future.

⁶ In particular Scottish Planning Policy 3: Planning for Housing and joint Scottish Government and COSLA guidance on Local Housing Strategies (available at: <http://www.scotland.gov.uk/Publications/2008/07/25092557/0> and <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/supply-demand/lhs> respectively)

Revising our plans for investment in affordable housing

In 2008-11 we will invest a total of £1.5 billion to improve the supply of affordable housing. This will enable us to support delivery of at least 21,500 new homes for social rent and low-cost home ownership. Our annual plans are for investment this financial year of £493 million, rising to £566 million next year and £591 million in 2010-11. The relatively low figure for this year and the increases in subsequent years reflect the allocation of public expenditure that we received from the UK Government.

We have reviewed these annual plans with a view to ensuring that they continue to secure the best possible value for money in the changed economic climate. We have concluded that the current spare capacity in the house-building industry provides an opportunity to make more rapid progress in delivering new affordable housing by accelerating our investment. Consequently, we have decided to revise our plans and bring forward to this year and next up to £100 million that had been earmarked for 2010-11. Some £60 million of that we are committing to now from our own programmes. The other £40 million is subject to discussions with our local government partners under our partnership agreement. The aim is for the whole £100 million to be available for spending this year and next, rather than in 2010-11 as originally planned.

Our revised plans should permit expenditure of £513 million this year, £646 million next and £491 million in 2010-11. In addition to achieving a cost effective acceleration in supply, this will provide immediate and direct support to the construction industry and to those who work in it or depend on it for their livelihoods.

Most of our investment programme is channelled through housing associations as developers of new stock for rent and low-cost home ownership. Our revised plans will allow associations to identify opportunities for accelerated investment in affordable housing, delivering more homes where they are needed, sooner than otherwise would have been the case.

We expect associations to use their enhanced buying power to capture the benefit of more reasonable costs and to translate this into more affordable homes. We want to give them as much flexibility as possible in deciding how to strike good deals with builders. Their first objective must always be improving the supply of affordable housing where it is needed most at the best possible price. Subject to that condition, they should give particular consideration to developments that would do most to maintain employment levels and retain skills in the construction industry.

Commissioning new developments will probably offer the surest means of meeting need for affordable housing and maintaining employment and retaining skills. However, in some cases, it may make sense for associations to buy completed stock that a builder has been unable to sell on the market, or to acquire for future use undeveloped land that has become surplus to a builder's requirements.

New criteria for purchase of unsold houses from developers

Where associations are considering the purchase of unsold stock, they must satisfy themselves that such purchases would be an effective use of public funds. We will be discussing with the SFHA some simple criteria that we will apply to ensure that proposals from associations to buy such stock would deliver houses where they are needed at best cost to the public purse. The criteria that we have in mind are:

- Meeting priorities – We will look for clear evidence that proposals to buy unsold stock would help to meet identified need for affordable housing in an area, and in particular are

consistent with the priorities identified in local housing strategies and with meeting the 2012 homelessness target.

- Delivering value – We will use our existing appraisal mechanisms to assess the value for money offered by proposals to buy unsold stock and on that basis will look for evidence that proposals take advantage of the spare capacity in the market.
- Supporting flexibility – Following discussions with the SFHA to identify means of streamlining the administrative arrangements for distributing Housing Association Grant, we will consider relaxing the Housing for Varying Needs standards, where proposals to buy unsold stock would meet an identified local need at a particularly good price; and we will consider providing subsidies to buy unsold stock for mid-market rent where it would meet an identified local need and represent good value for money.
- Commanding local authority support – We will require confirmation that proposals to buy unsold stock command the support of the relevant local authority.

This substantial re-ordering of our investment plans will provide a stimulus for the construction industry at the point where it is needed most and can do most good. It illustrates our determination to use the resources available to Government to stimulate economic activity and to make progress in improving the supply of affordable housing. We stand ready to respond positively and flexibly to proposals from the associations that assist us in securing these objectives.

Building New Council Housing

The Scottish Government will invest £25 million to encourage local authorities to use their resources to build new council houses. This, combined with our commitment to ending the right to buy for new build social housing and the progress that some councils are already making on new build, signals the end of an era that saw only six council houses built from April 2003 to March 2007. Encouraging local authorities to invest in new homes:

- helps to address the lack of affordable homes for rent in many parts of Scotland;
- provides an opportunity for councils to revitalise their housing businesses; and
- supports economic activity and employment across Scotland.

Our aim in developing plans to encourage new build is to support the development of as many new homes in the right places as practical. To do this we intend focusing our support where it makes a difference to the viability of a potential new council housing development. We also want to focus on developments that meet the need for social rented housing locally and that help councils to meet their 2012 homelessness requirements.

Striking the right balance between encouraging rapid progress and allowing local authorities time to consider the implications of new build will be important. This is why we intend allocating our support in more than one tranche. Details on how the money will be allocated are still being discussed with our partners in local government to ensure it will have maximum impact and that processes involved are as non-bureaucratic as possible.

Our commitment to ending the right to buy for new build social housing removes a major barrier that councils currently face in deciding to build new homes. More generally, the right to buy has resulted in more properties being lost from social rented stock than have been built in recent times. This ongoing depletion of social housing stock is unsustainable and underpins our commitment to ending right to buy for new build social housing. Such action will not only encourage the building of more council housing, but it will also contribute to

increased supply of affordable housing more generally. In conjunction with key stakeholders we are also exploring other ways to further safeguard the supply of social rented housing. One of the options being considered is to end right to buy for new tenants entering the social rented sector. This would help safeguard social housing for the future but would not affect the right to buy entitlements of existing tenants. We will consult upon our proposed options as soon as is practicable.

Supporting First Time Buyers

In June, we announced plans to spend £250 million over three years on the Low-cost Initiative for First Time Buyers (LIFT) to help first time buyers into home ownership, primarily through our shared equity schemes, where ownership is a sustainable option for them. This increase in funding will help us to support more buyers on low to moderate incomes who would not otherwise be able to afford to buy their own home. The shared equity schemes offer advantages to buyers as many lenders do not require buyers through LIFT to pay a deposit. The schemes also reduce the level of risk taken by first time buyers as the buyer only funds a proportion of the purchase price themselves.

We launched our new Open Market Shared Equity Pilot scheme as part of LIFT in January 2008. There have already been over one hundred sales under the new scheme since April and we plan to further assist first time buyers by expanding the number of properties from which prospective buyers can choose. Reflecting more recent house price data, we are increasing the threshold prices⁷ under the scheme. In some areas, this will have a significant effect and will double the number of properties which buyers can purchase through the scheme. This should in turn provide a boost to house sales in the areas where the scheme operates.

Eligible buyers can buy any property in an area where the scheme is operating which is within set threshold prices. These prices are set to represent the value of the cheapest 25% of properties sold in an area to ensure that the scheme is meeting buyers' needs, rather than fuelling people's aspirations to own a bigger property.

While some buyers may not wish to buy at this time and we encourage all potential LIFT buyers to seek independent financial advice before buying a house, LIFT is there to provide support to those who do want to buy.

Increased Protection for Home Owners

Primary responsibility for supporting home owners facing financial difficulties rests in the tax and benefits system, control over which is reserved to the UK Government. However, there has been a decline in the effectiveness of this safety net since it was originally introduced. This is why we have called on the Chancellor to improve the safety net provided by the Income Support for Mortgage Interest scheme (see page 16). Recognising the potential for a greater demand for support from households in mortgage difficulties, the Scottish Government is putting in place a new Home Owners Support package. This consists of a £25 million Home Owners Support Fund over two years that will build on the existing Mortgage to Rent Scheme, along with a strengthened package of money advice and debt support for home owners.

⁷ Details on the Open Market Shared Equity Pilot and its new threshold prices are available at <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/BuyingSelling/lift>. Where updated house price data shows falls in average prices, the previous threshold level has been maintained, but all threshold prices have now been rounded up to the nearest £5,000.

Mortgage to Rent Scheme

The Mortgage to Rent scheme in Scotland already helps many households facing repossession to remain in their own homes by allowing a social landlord (a council or Registered Social Landlord) to buy the property and then rent it back to the household at a social rent level. This scheme will continue to form a key part of the Support Fund. We have commissioned an independent evaluation of the Mortgage to Rent scheme, and expect to publish its findings during the autumn. We will use the evaluation to improve awareness of the scheme, deliver better value for money and reduce bureaucracy in the application and approval process.

Mortgage to Shared Equity Scheme

The new Home Owners Support Fund will offer a wider range of assistance to owners facing repossession than was available before. Through Mortgage to Rent, we will continue to help those home owners who have a small or no amount of equity in their homes, but we must prepare to help more people. By developing a Mortgage to Shared Equity scheme, we also aim to help home owners in similar circumstances, but who have built up a level of equity in their property. By releasing some of the equity in their homes, we will help people to reduce their level of secured debt and allow them to remain in their own home.

Staircasing down within LIFT

We plan to give households who have bought a property through the Scottish Government's shared equity schemes the opportunity to decrease their equity stake in their property – known as 'staircasing down' – if they are in mortgage difficulties. To do this, the Scottish Government will buy a sufficient percentage stake in the property back from eligible owners. This will allow the owner to pay off some of their mortgage and therefore reduce their monthly payments.

Improved money advice for home owners

We are simultaneously seeking to improve awareness of the advice services available to those in financial difficulty, and working to ensure everyone receives the best advice possible. Money advice agencies are being provided with training through the Money Advice Training, Resources, Information and Consultancy Services (MATRICS) initiative, which is funded by the Scottish Government, to ensure their knowledge, skills, and practices are up to date, and we will provide additional training on the new Mortgage to Shared Equity scheme when that is launched. We are also simplifying the process of seeking accreditation and re-accreditation against the Scottish National Standards for Information and Advice Providers – not to dilute their effect, but to encourage more advice organisations to sign up to the standards.

We are also taking steps to improve awareness of the National Debtline where people can obtain free, confidential help on their financial difficulties and be guided to other agencies if advice on other matters is required. The Debtline is part-funded by the Scottish Government. A new publicity campaign to encourage more Scots to seek money advice at an early stage will be launched in the autumn.

We expect to announce further details of the new Home Owners Support Fund provisions in the autumn after discussions with stakeholders on plans for the Fund. In particular, we will be working with lenders to ensure that they can continue their work to offer as much flexibility and support as possible to owners facing difficulties so that repossession can be avoided wherever possible.

In addition, in June we signalled our intention to commence the provisions in the Homelessness etc. (Scotland) Act 2003, requiring creditors and landlords 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 plan appropriate interventions. We are currently agreeing with COSLA a suitable date for commencement. We expect that the other measures we have outlined will minimise the numbers at risk of homelessness, but it is clearly important to plan for all eventualities.

THE UK GOVERNMENT'S ROLE

The Scottish Government does not currently have powers to act in a number of the key areas reserved to the UK Government, which impact on the housing market. The Scottish Government has written to the Chancellor, highlighting the state of the housing market in Scotland and pressing the UK Government to do everything possible to improve the operation of credit markets. The letter, which has been copied to the Governor of the Bank of England, also presses for early action in the following areas.

Stamp Duty

We have asked the UK government to consider temporarily suspending stamp duty land tax on all residential property sales below £250,000 in value. This would particularly assist first time buyers as 97% of their purchases in Scotland are below that level. First time buyers have a key role in stimulating the housing market as they do not have to sell a property first before they can buy and enable those already on the market to move.

It is clear that damaged sentiment has been a consequence of the current problems, and could potentially contribute to a decline in activity and prices beyond that which would be reasonable given underlying supply and demand in the market. Therefore, alongside UK Government actions to support the mortgage finance market, we believe that a temporary suspension of stamp duty would be a reasonable step. Clearly, however, it is crucial that the UK Government implements any such proposal immediately. Uncertainty and delay would only exacerbate the existing downturn.

While a temporary suspension would be useful, the Scottish Government believes that the current system, where large increases in duty are required at arbitrary thresholds, needs to be improved to avoid the distortional effect it has on the housing market around the threshold levels. We have called on the Chancellor to redesign the current stamp duty system at the first opportunity in liaison with the Devolved Administrations and key stakeholders.

Crosby Review

Sir James Crosby is currently carrying out a review to improve the functioning of mortgage markets and recently published an interim analysis. The key problem being addressed by the review is the drying up of the mortgage-backed securities markets as a source of funding for mortgage lenders. A number of options are considered to support this market:

- an extension of the Bank of England's 'Special Liquidity Scheme' (often referred to as a 'repo facility'⁸) to cover the new issuance of mortgage-backed securities (as opposed to pre-December 2007 issuance as covered by the existing Special Liquidity Scheme);
- the possibility of supporting a 'gold standard' for such lending which would increase market confidence; and

⁸ Further information on this proposal is available on the CML website:
<http://www.cml.org.uk/cml/media/press/1788>

- a temporary guarantee on all high-quality mortgage-backed securities.

We have asked the Treasury to consider these options in more detail, and have advocated rapid action from the UK Government on this.

Income Support for Mortgage Interest

The Scottish Government shares the concerns of organisations such as Shelter, CML and Citizens Advice, about the restrictions on Income Support for Mortgage Interest (ISMI). ISMI allows home owners who are unemployed to claim income support to meet the cost of their mortgage interest payments and should provide an important safety net to help people who have lost their job to avoid having their home repossessed. ISMI was cut back significantly in 1995, with the expectation that it would be supplanted by protection provided by private insurance schemes. However, private insurance schemes have not filled the gap. In most cases owners need to wait for nine months from the date of the claim before they can receive ISMI and the amount of interest which can be paid has not increased in line with increasing house prices (interest is only paid on mortgages of up to £100,000). Therefore, in many cases homes may still be repossessed. We have called on the UK Government to revisit the operation of the scheme as soon as possible so that it can provide a more effective safety net.

VAT relief on repairs

We have also urged the UK Government to consider giving VAT relief for repairs to listed buildings, crofts and common parts of houses, along with targeted measures to help private landlords with the costs of repairing empty properties. This should help stimulate investment in repairs in the current market conditions and will also bring benefits in relation to tackling climate change, helping households minimise the impact of increasing energy costs and helping to tackle disrepair in Scottish properties.

CONCLUSION

These actions form part of a wider programme of Government action and engagement on housing and planning, focused on our national goal to increase housing supply over the longer term. And, in doing so, to ensure that housing makes its maximum contribution to the Government's overall ambition to fulfil Scotland's economic potential.

As part of that wider approach, we are engaging closely with lenders to share our knowledge of market conditions and to explore the scope for them to take into account the lower volatility of the Scottish economy and housing market. We are working with developers, Registered Social Landlords and local authorities, notably through the Housing Supply Task Force, to consider how we can help the house-building industry bounce back to full capacity once market conditions recover. And our recent structural reforms of the housing and planning system will ensure that we have the long term framework in place to ensure that enough land is brought forward to provide new housing of the right kind, of the right numbers and in the right places.

As we move forward, we will continue to engage widely to ensure that our policy and our actions remain focused on our overall ambitions to increase Scotland's housing supply.