



WHAT YOU NEED TO KNOW ABOUT SCOTLAND'S DRAFT BUDGET 2016-17

Background

The Scottish Government published its draft budget on 16 December 2015 setting out financial plans for 2016-17¹. This follows the UK Government's Autumn Statement and Spending Review published in November which outlined plans for further spending reductions over the five year parliamentary term². By 2020 Scotland's budget will have been reduced by 12.5% in real terms since 2010.

This briefing sets out the provisions within the Scottish Government's budget which will have the greatest impact on the housing sector including:

- Increased funding for affordable housing;
- Reduced funding for energy efficiency work;
- Welfare reform mitigation;
- Introduction of a 3% surcharge for second homes and Buy to Let (BTL) homes.

Funding for affordable housing

The budget for 2016-17 includes an increase of £90 million for affordable housing and a commitment to deliver between 8,000 to 9,000 affordable homes. This increase in funding is welcome and constitutes the first step towards a significant increase in the supply of affordable housing. However, it is not yet clear whether the Scottish Government has accepted proposals to increase subsidy rates in line with recommendations from the Subsidy Working Group.

The report of the Subsidy Working Group submitted to Ministers in June 2015 concludes that if affordable housing delivery is to maintain current momentum, or indeed to increase, subsidy benchmark levels need to be raised by between £9,000 and £14,000 per unit³.

Funding for energy efficiency work

The draft budget suggests an increase in funding for energy efficiency work to tackle fuel poverty from £89 million included in the budget document in 2015/16 to £103 million in 2016-17's draft

¹ <http://www.gov.scot/Publications/2015/12/9056/downloads>

² <https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents>

³ <http://www.gov.scot/Topics/Built-Environment/Housing/investment/ahsp/2015-subsidy-working-group/Subsidy-Group-2015-report>



budget. However, this does not take into account the actual spend in 2015-16 of £119 million including an increase in the budget agreed during the scrutiny process and consequential on Green Homes cashback.

This reduction is disappointing given the Scottish Government's earlier commitment to designate energy efficiency work a national infrastructure priority⁴ and the lack of progress on reducing fuel poverty levels in recent years.

Welfare reform mitigation

This budget commits funding for the continued mitigation of the 'bedroom tax' and investment in the Scottish Welfare Fund in line with current funding levels for welfare reform mitigation.

The continuation of welfare reform mitigation funding is welcome. However, it is not clear how long the Scottish Government can continue to make funding available or how it will deal with further cuts to benefits announced in the UK Government's Autumn Statement and Spending Review which will have a significant impact in Scotland in future years.

The budget does include a commitment to begin development of a Scottish social security system, including the introduction of a social security Bill. We expect that this process will be used to establish a more long term approach to the delivery of social security in Scotland and look forward to working with the Scottish Government on the development of a new system tailored to local needs.

Surcharge for second homes and BTL homes

The draft budget includes proposals to introduce a 3% surcharge on top of the Land and Buildings Transaction Tax (LBTT) for the purchase of a second home or BTL home costing over £40,000. Similar provisions were announced by the UK Government in November.

The introduction of the surcharge should benefit first time buyers by discouraging the purchase of multiple properties. The proposal may also have an impact on the private rented sector (PRS) by discouraging small businesses from expanding their portfolio. However, it is unlikely to have a significant effect on larger businesses or institutional investors who would be more able to absorb these costs. This may contribute to the Scottish Governments' aim of encouraging the development of a more professional PRS with fewer landlords who own just one or two properties.

The budget document does not specify how the additional funds raised will be used. CIH Scotland would like to see the additional funds received through the surcharge reinvested into the housing sector.

⁴ <http://news.scotland.gov.uk/News/Climate-change-action-heats-up-19c8.aspx>