

## **A grant and loan scheme supporting young crofting families to access homes**

Review of Croft House Grant Scheme: SCF response to Scottish Government consultation, March 2015 – Supporting Paper

### **Preamble**

*From the Scottish Parliament Rural Affairs and Environment Committee's 5<sup>th</sup> Report, May 2009: -*

**“The Committee calls for the reinstatement of the loan element in croft house assistance, recognising that the pre-existing method appeared to be cost-effective and that alternative sources of credit may no longer be readily available. We also call for the grant element to be increased to reflect inflation within the building industry over recent years.”**

Scottish Crofting Federation (SCF) welcomes the opportunity to contribute to the Scottish Government's consultation on the review of the Croft House Grant Scheme.

Government support for crofters' housing, like the crofting system itself, has contributed historically to the retention of working communities in some of the country's most remote and fragile mainland and island areas, and it dates back almost a century. From the 1920s onwards, the Board of Agriculture for Scotland subsidised the construction of the typical two-up, two-down, storm-windowed croft houses that sit solidly and harmoniously in the crofting landscape. These usually were built with thick stone walls, but could be of poured concrete in areas where aggregates were plentiful. Other designs also attracted assistance, such as the single-storey dwellings with stone gables and timber-frame construction clad with corrugated iron, intended to be built quickly in areas of land resettlement such as at Portnalong and Fiscavaig in Skye. Following World War II, crofters were encouraged to build very substantial, state-of-the-art homes. These bungalows can still be seen throughout the Highlands and Islands with their hipped roofs and tall chimney stacks. They have three bedrooms (which originally had fireplaces) and a bathroom, and were being built at a time when very many crofters still lived in blackhouses. From the 1960s onwards, the Department of Agriculture developed seven styles of bungalow which crofters could build with the assistance of the Crofter Building Grant and Loan Scheme (CBGLS). The thirty years that followed brought about a huge leap forward in the quality of rural housing in the crofting counties. The houses were bright and spacious with three or four bedrooms and a very large, convertible loft space. This generous accommodation allowed for large families, elderly relatives, or bed and breakfast businesses. By today's standards they were not energy efficient, with large, single-glazed, steel-framed windows, and often with deep, uninsulated sub-floor voids, which must have had their effect on fuel bills.

### **Crofter Building Grant and Loan Scheme**

In 1986 the average building cost for a croft house was £27,860<sup>1</sup>. Government support through CBGLS was £22,200 (£8,700 grant plus £13,500 loan at 7% for up to 40 years or until the borrower was aged 71). These levels of support remained unchanged until 2004 when CBGLS was abolished and replaced by CHGS. In 1986, Government support covered 82% of building costs. Also in 1986, the 40 year public sector cost of a croft house in the Western Isles was calculated at £12,289. The cost of an equivalent council house in the same area was

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<sup>1</sup> Department of Agriculture and Fisheries for Scotland statistics

£41,713. **The CBGLS was therefore excellent value for public money<sup>2</sup>** and it also provided a stream of work for small contractors in the crofting areas, retaining income and skilled workers in the local community.

The above levels of support remained unchanged, despite inflation, until 2004 when CBGLS was abolished and replaced by the Croft House Grant Scheme (CHGS). The loan element was done away with and road and water supply costs ceased to be supported.

### **The Loss of the Loan Element**

The justification for removal of the loan element was that, at the time (2004), commercial mortgages could be had more cheaply. The credit crunch soon proved the folly of that. In any case, crofters with low, irregular and seasonal incomes would always find it hard to access mortgages. Additionally, because of their lack of understanding of crofting tenure, mortgage lenders require title to be taken for the house site. This results in further expense for the crofter and the severance of the house / croft tie. The former loan was affordable and could be budgeted for. The rate of interest was fixed at 7% and the loan could run for up to 40 years provided it was paid off by the time the borrower was 71. Although figures on defaulting on the loan have not been published it is understood to be negligibly low.

***Inexplicably, loan repayments were not credited back to the scheme, so the total sum of crofter housing support was regarded as Government expenditure even though 60% was a loan attracting very lucrative interest revenue.***

In numerous surveys it has been shown that crofters want the loan element re-instated, even when the interest rate was significantly above the current mortgage interest rate. Crofters want the loan more than the possibility of increased grant rates. This was reflected in the *Scottish Parliament Rural Affairs and Environment Committee* call for re-instatement of the loan element quoted above. Despite the Committee's recommendations, the Scottish Government has refused to consider reinstating the loan element. ***It is SCF's opinion that a loan element is essential for young crofters to manage to benefit from a grant.***

### **Croft House Grant Scheme**

The rates set at the inception of the scheme in 2004 (£22,000, £17,000 and £11,500, geographically targeted) were based on the old CBGLS which itself had not been uprated since 1986. Eleven years later there has still been no increase. ***In 2008, SCF calculated that the rate of support had declined from 82% (in 1986) to 14% of total build cost.<sup>3</sup>*** Inevitably this decline will have continued since 2008.

***This is not an acceptable way in which to manage a scheme that is supposed to give assistance in a constantly changing financial environment.*** A regular review, say every 3 years, should be built in to the scheme. This would help take account of actual building costs and the amount of grant / loan available for building croft houses would be raised (or lowered) in line with the real cost of building in remote areas.

### **Future Croft Housing Support**

If a scheme of crofter housing support is to make any sense, then surely it must be linked to the actual cost of house building. Due to its very low intervention rate the grant is currently missing its target. ***It is means-testing in reverse and discriminates against young people.*** A young crofting family will be looking at servicing a mortgage of in the region of £100,000 in order to take advantage of the scheme. (This is against a background of low, often seasonal, insecure incomes). It would make more sense to reverse this situation by ***introducing an absolute cap on the total project cost*** the scheme will assist and thereby target croft housing support to the young who need it at a rate that will realistically help them.

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<sup>2</sup> Mark Shucksmith, Report on CBGLS for Scottish Crofters Union, 1987.

<sup>3</sup> On the basis of a build cost of £125,000 plus site servicing

***A grant and loan package of at least £75,000 would be needed to restore support to anywhere near its level of 30 years ago.*** With this apportioned as with CBGLS it would comprise £30,000 grant and £45,000 loan set at a realistic interest rate, the revenue of which would return to the scheme. This would mean public assistance would at most be £30,000.

Innovative government support for croft housing (and rural housing in general) might sensibly involve affordable design and construction techniques, own labour input, local materials, energy retention and easement of over-specified planning requirements such as access roads. It would also address the fuel poverty issue, recognising that the Western Isles, where most use is made of CHGS, also has by far the worst incidence of fuel poverty in Scotland (and therefore probably in Europe)<sup>4</sup>.

**In conclusion, it is the opinion of the SCF that this scheme will only work with realistic grant and loan rates being targeted to those who need support with incentives for innovative design and construction.**

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<sup>4</sup> Fuel Poverty Evidence Review; Scottish House Condition Survey; Scottish Government 2012