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Local Government, Housing
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The Scottish Parliament
Edinburgh EH99 1SP

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26 January 2024

Dear Convener,

HOUSING TO 2040 REVIEW

Thank you for your letters of 18 December 2023 and 24 January 2024, respectively, regarding: a short inquiry into Housing to 2040 that the Committee plans to undertake, and your request for our response to key questions identified by the Committee; and the 2024-25 Affordable Housing Supply Budget.

First, we thought it would be helpful to provide an overview of progress to date and some of the challenges being faced.

As you know, [Housing to 2040](#) is Scotland's long-term strategy for housing. It sets out a vision for what we want Scotland's homes and communities to look like by the end of 2040. We want a Scotland where homes are affordable for everyone, where standards are the same across all tenures, where homes have easy access to green space and essential services, and where homelessness, child poverty and fuel poverty have been eradicated.

Overall, there has been good progress on delivering some of the key actions within the strategy with work broadly in line with the intent set out in the document. To give a few examples, we are continuing our work to deliver high quality affordable homes, improving energy efficiency and working towards solutions for decarbonising Scotland's homes, improving the rights of tenants, notably by bringing forward a Housing Bill, and working to end homelessness. In addition, as noted in the Programme for Government, we have committed to progress the provision of longer-term, settled housing for displaced Ukrainians.

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When we published Housing to 2040, in March 2021, we were in the depths of the COVID-19 pandemic. This was, of course, followed by the cost-of-living crisis - set in the wider economic context of, rising inflation and interest rates and the continuing impact of Brexit - and the war in Ukraine. Inflation in the construction sector has also been high, with supply chain and workforce constraints a significant challenge across work on housing supply. This is illustrated in ONS construction-output price data where the index for new housing peaked at 12.2% in April-June 2022 and UK Government data where the annual growth rate in the cost of construction materials for new house building had reached as high as 24.0% in June 2022. Annual growth in average weekly earnings in the construction sector also peaked at 13.2% in May 2021.

The stark impact and unpredictable nature of these events further demonstrates why the bold and challenging ambition we set within Housing to 2040 is needed. It also highlights why achieving the ambitions in Housing to 2040 requires a degree of flexibility and input from across the housing sector.

For that reason, we established formal governance processes through a [Housing to 2040: Strategic Board](#), which the Minister for Housing jointly chairs with COSLA. The Strategic Board comprises housing sector experts and part of the role of the Board is to provide strategic oversight, accountability on progress and support for ownership beyond Government. It met for the first time in March last year, and then again in June and October. It is due to meet again in February 2024.

To date, the Board has shared its reflections on progress on delivering Housing to 2040 and noted areas of strategic challenge and opportunity which have informed the development of its draft workplan. It has also considered the strategic implications of the work of the short-term Housing Review Group and is due to take part in a strategic workshop in February to identify key areas of work for the coming year.

Turning to the set of five specific questions set out in your letter of 18 December, responses to each of these are provided at Annex A.

In responding to your letter of 24 January 2024, I would stress that an important aspect of the flexibility required in Housing to 2040 is dealing with unexpected budget pressures. At a time when there are extreme pressures on housing systems, and each home costs more to build or buy, we have less to invest.

As you know we will invest £556 million in affordable homes across Scotland in 2024-25 (see Annex B), having a positive impact on individuals, families and communities across Scotland. And we will continue to work with delivery partners to optimise value for money, cost-effectiveness and impacts.

However, the UK Government did not inflation-proof their Capital Budget, this has resulted in nearly a 10% real terms fall in our UK capital funding over the medium term between 2023-24 and 2027-28. That flat and falling funding trajectory from the UK Government has significantly impacted our ability to deliver on all our capital infrastructure commitments. This is on top of the disastrous impact Brexit has had on construction supply chain issues, labour shortages and the inflationary pressures driven by UK government financial mismanagement. One of the most difficult choices we have taken is to reduce the funding for our Affordable Housing Supply Programme. We remain focused on our target of delivering 110,000 affordable homes by

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2032 and to support that we will also bring forward the review scheduled for 2026-27 to 2024, with a focus on deliverability.

In parallel, we will accelerate work with the financial community in Scotland, and elsewhere, to boost private sector investment in Scotland and help deliver more homes.

We are actively engaged in discussions with key stakeholders about how best to recalibrate the role and membership of the Innovative Finance Steering Group to develop proposals to unlock further private sector investment. That process is of course set firmly in the context of the advice given by the Investor Panel last year - and accepted – with focused, co-ordinated early, and sustained investor engagement and outcomes framed by a medium to long-term pipeline of investable opportunities in more and better homes.

As referenced earlier we remain committed to protecting tenants' rights and will shortly bring forward a Housing Bill to deliver a new deal for tenants, which will include the introduction of long-term rent controls and other tenants' rights, as well as new prevention of homelessness duties. This should help provide the clarity and certainty that potential investors want and need.

We hope that this response is helpful to the Committee's review and the set of questions which is its focus alongside the AHSP budget in 2024-25. We look forward to engaging further with the Committee once it has had the opportunity to reflect on the outcome from the evidence sessions scheduled for February.

Yours sincerely,

PAUL MCLENNAN

PATRICK HARVIE

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SCOTTISH GOVERNMENT'S RESPONSE TO COMMITTEE QUESTIONS (18 DECEMBER)
ANNEX A

No	Committee Question	Scottish Government Response
1	<p>Are we building enough homes or bringing enough homes back into use to meet Scotland's current and future housing needs?</p>	<p>The Scottish Government's approach to the planning and delivery of affordable housing is focussed on providing the right homes in the right places. This can include the alleviation of local housing pressures, meeting housing need where it arises, supporting sustainable communities, sustaining fragile communities and improving the flexibility and choice within the local housing system to meet future requirements.</p> <p>It is the responsibility of local authorities through their Development Plan and Local Housing Strategy to determine the appropriate housing required in their area, informed by their Housing Need and Demand Assessment (HNDA). A HNDA is undertaken every 5 years and estimates current and future need for housing. The HNDA evidence base informs a Local Housing Strategy (LHS) that sets out the local authority's priorities and plans for the delivery of housing and housing related services. A local authority should consider the number, location, type, size and tenure of housing required to address the need in their communities. Guidance developed to assist local authorities with preparing a Local Housing Strategy includes a strong focus on Place, requiring local authorities to demonstrate their approach to supporting new and existing neighbourhoods based on Place-Making principles.</p> <p>In Housing to 2040 we have committed to take forward a range of actions to make best use of existing supply, including tackling the blight of empty homes. As a first step we said we would carry out an audit of our empty homes. The independent audit report was published last year and the Minister for Housing wrote to you setting out the further actions we are taking to enhance our approach for empty homes which reflects the wide range and complexity of circumstances that have to be addressed. We will be writing to you shortly with an update setting out the progress already made and future plans.</p> <p>The Scottish Government is also supporting Councils and Housing Associations to bring void homes back into use through the Ukraine Longer Term Resettlement Fund. This Fund has already supported the refurbishment of over 1200 homes with more in the pipeline – many of which will be retained in the long term to help meet demand from those in other forms of housing need when no longer required by those displaced from Ukraine. The Fund was recently extended to 31 March 2025 and widened to enable new build and open market purchase opportunities to</p>

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		<p>be supported. We are continuing to work closely with Councils and Housing Associations on new opportunities to maximise the impact of the Fund.</p>
2	<p>Are we building homes with a focus on placemaking?</p>	<p>The Scottish Government recognises it is important that quality homes are provided in the right places, where people want to live, and that these are well connected to services, facilities, sustainable transport and green spaces for play and recreation.</p> <p>To help build and support thriving communities, we have started to deliver our 5-year Place Based Investment Programme, and in February last year we adopted and published National Planning Framework 4 (NPF4). It sets out to encourage, promote and facilitate well-designed development that makes successful places by taking a design and plan-led approach for providing quality homes and applying the Place Principle.</p> <p>Guidance is now in place and implementation underway on a planning system which is plan-led and focused on delivery, being more directive in shaping places, promoting consistency with the principles of 20 minute neighbourhoods and an infrastructure first approach.</p> <p>This is a long term plan for Scotland, looking to 2045, that sets out where development and infrastructure is needed. Its enhanced status means it has direct influence on all planning decisions and we are working together with stakeholders to monitor and support its implementation. For the first time, it is part of the 'development plan' alongside Local Development Plans (LDPs), so influences planning decisions across Scotland.</p> <p>Our guidance for local authorities and Registered Social Landlords which are delivering homes with grant support through the Affordable Housing Supply Programme signposts to publications that should be considered when designing and delivering homes through the programme. The guidance also notes that projects should be delivered with reference to the Place Standard tool, which is designed to support holistic conversations on, and considerations of, quality of place and the relationship to quality of life.</p> <p>NPF4 also supports new homes on land allocated, provides an opportunity to promote new homes positively and supports improved affordability and choice. It requires at least 25% affordable housing, subject to local circumstances, and provides only limited exceptions for proposals on unallocated sites, to incentivise delivery of allocated sites. It also sets out that LDPs are to identify 'how much' land for housing is to be allocated via the Local</p>

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		<p>Housing Land Requirement, 'where' that land is allocated to be deliverable and to create quality places, and to establish 'when' the land will come forward using a pipeline approach.</p>
3	<p>Are we creating and sustaining a mix of housing that is financially and physically accessible to all?</p>	<p><i>Financial accessibility</i></p> <p>There is no one solution to addressing housing affordability and our work to introduce long term controls as part of the next Housing Bill is one measure being taken forward. This is alongside the supply of affordable homes for social rent, mid-market rent and low cost home ownership, with a focus on at least 70% being for social rent, and our successful action to press the UK Government to increase Local Housing Allowance rates. In 2024/25 we will be making £90.5m available to local authorities to spend on Discretionary Housing Payments, an increase of £6.8m over 2023/24.</p> <p>A well-regulated private rented sector is good for both tenants and landlords – whilst also being compatible with investment – and we are committed to further reform, including strengthening tenants' rights and the introduction of an effective system of national rent control for privately rented homes. Our Programme for Government confirmed our intention to introduce a Housing Bill to deliver a New Deal for Tenants, including providing the legislative framework for long term rent controls.</p> <p>For rent controls, we continue work to deliver an effective system that is right for Scotland, robust against challenge and can stand the test of time. Where an area is subject to rent control, the intention is that there will be a restriction on the amount by which rents can be increased in that area and that controls would apply both within and between tenancies.</p> <p>We consulted on the vision and principles for a future model of rent controls as part of the A New Deal for Tenants consultation. That consultation received a high volume of responses, and an analysis of those was published in August 2022.</p> <p>Further to this, we launched an engagement questionnaire on 29 September 2023 seeking views on a range of rented sector reforms and the input from responses there will help us develop the detailed proposals for the Housing Bill.</p> <p>The emergency Cost of Living Act, which came into force in October 2022 to temporarily restrict rent increases and introduce a moratorium on evictions, sought an appropriate and proportionate balance between protection for</p>

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tenants, and the rights of landlords, in the context of the cost of living . The emergency measures have provided crucial additional security and stability for private renters in Scotland, something tenants living elsewhere in the UK have not had. Since 1 April 2023, private landlords with a tenancy subject to the cap can only increase in-tenancy rents by up to 3% or can apply to Rent Service Scotland for approval of an increase of up to 6% in specific circumstances. Once the rent cap is expired on 31 March, we would expect that many rent increases proposed by landlords will be reasonable and therefore proceed as normal. However, to help aid the transition away from the emergency measures, we propose using the power in the Cost of Living Act that allows a temporary change to the mechanism that allows tenants to refer a proposed rent increase to a rent officer to determine the rent. This will help protect tenants from the potential for very high rent increases if their rent was to move back to market level in one step.

Physical accessibility

Accessible housing is an essential requirement of independent living and supports wellbeing. We want disabled people in Scotland to have choice, dignity and freedom to access suitable homes, built or adapted to enable them to participate as full and equal citizens. The Scottish Government is committed to delivering homes that are fit for purpose now and for the future to meet the needs of older people, disabled people, wheelchair users and people with other specific needs.

In 2021-22, 98% of new build homes delivered by housing associations and councils through the Affordable Housing Supply Programme, where information was returned on Housing for Varying Needs, met the relevant design criteria.

Following commitments made within Housing to 2040 to undertake a review of Housing for Varying Needs and to introduce an all-tenure Scottish Accessible Homes Standard, the Scottish Government closed its consultation [Enhancing the accessibility, adaptability and usability of Scotland's homes](#) on 21 December 2023.

This was a technically complex and sizeable piece of work, with the scope of the consultation being twofold. Firstly, it proposed updates to Part 1 of the Housing for Varying Needs design guide to enhance the accessibility, adaptability and usability of (a) homes delivered through the Affordable Housing Supply Programme and (b) accommodation delivered by local authorities through the Gypsy/Traveller Accommodation Fund (or subsequent funding). Secondly, it introduced the principles which we consider underpin the all-tenure Scottish

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		<p>Accessible Homes Standard – as well as setting out proposals for updates to building standards and guidance which will apply to (a) all new build homes and (b) homes delivered through the conversion of non-residential buildings into housing. A report on the feedback received will be published in due course</p> <p>Through our Affordable Housing Supply Programme, we have flexible grant funding arrangements which ensure that specialist housing provision, which is identified by local authorities as a priority, can be supported. Therefore, when applying for grant assistance at tender stage to deliver affordable homes for wheelchair users, local authorities should request the minimum level of grant required for a project to be financially viable for their organisation, whilst ensuring rent affordability. We have also published guidance for local authorities on the setting of Local Housing Strategy targets to support the delivery of more wheelchair accessible housing across all tenures.</p> <p>We are also taking forward a review of the current housing adaptations system and will make recommendations on how best to improve and streamline the system. The Scottish Government also published updated practical guidance on the delivery of adaptations and equipment services and this guidance will contribute to the housing adaptations review.</p>
4	<p>Are we building homes and retrofitting existing homes to provide for affordable warmth and zero emissions?</p>	<p>We have already made progress with our ambitions by introducing new energy standards within Scottish building regulations, which came into effect on 1 February 2023. These have a strong focus on a fabric-first approach for new buildings and other measures that are effective in reducing the energy needed by new buildings.</p> <p>The new standards also support the implementation of the proposed New Build Heat Standard (NBHS) and new regulations set out in the Building (Scotland) Amendment Regulations 2023, which were laid on 8 June 2023. This represents a significant development in the transition to clean heat, ensuring that new buildings are future-proofed with no need for owners to undertake retrofit works. The NBHS means that no new buildings constructed under a building warrant applied for from 1 April 2024 will be built with polluting heating systems, like gas and oil boilers. Instead, these new buildings will be required to use clean heating systems which produce zero or negligible levels of greenhouse gas emissions at point of use. This action represents a significant, positive step towards achieving the Scottish Government’s wider ambitions for net zero buildings.</p>

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To support this, we have a broad range of delivery programmes to provide advice and support for property owners relating to energy efficiency and clean heating. In total, we have committed to allocate at least £1.8 billion over this parliament to help kick-start growth in the market and support those least able to pay.

Following a commitment to the Scottish Parliament, in response to Alex Rowley MSP's [Proposed Domestic Building Environmental Standards \(Scotland\) Bill](#), the Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights [confirmed](#) that the Scottish Government will make legislation by December 2024 to deliver further improvement to the energy efficiency of new buildings, drawing inspiration from the internationally recognised Passivhaus standard.

To develop proposals, a further review of energy standards within building regulations was initiated at the beginning of 2023 and will consider standards for both new homes and new non-domestic buildings. Initial review focussed on engagement with a wide range of key stakeholders to gather views on the likely extent and practicality of delivery of an equivalent standard.

Officials are also engaging with UK government counterparts and industry representatives on the planned 'future homes standard' for England, scheduled for 2025, to understand how broader work on skills, capacity and solutions can inform our review.

A [Working Group](#) was also convened with a role to offer advice and expertise to the Scottish Government to help define how an equivalent to the Passivhaus standard will look in Scotland.

Turning to affordable homes specifically, to avoid the cost and disruption of future retrofit, we have accelerated the introduction of zero direct emissions heating systems in all new build and conversion projects delivered by councils and Registered Social Landlords through the Affordable Housing Supply Programme.

From 1 December 2023, applications for grant funding should contain homes that have zero direct emissions heating systems – unless there are compelling reasons why the local authority or Registered Social Landlord considers that this would not be appropriate, or where a valid building warrant was in place prior to 1 December 2023.

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In addition to all of this work that is already underway, we are also currently consulting on proposals to prohibit the use of polluting heating systems, like gas boilers, in all privately owned and privately rented homes and non-domestic properties after 2045, and to require some building owners to do so earlier than 2045. The proposed Heat in Buildings Bill will contain powers which mean:

- privately-rented homes will need to meet the minimum energy efficiency standard by the end of 2028;
- owner occupied homes will need to meet a minimum energy efficiency standard by the end of 2033;
- properties will not be allowed to use polluting heating after 2045;
- those buying a home being required to end their use of polluting heating within a set period of time following completion of the purchase; and
- local authorities may require any building owner to end their use of polluting heating once they have the opportunity to connect to a heat network.

Socially rented homes will remain subject to a separate and equivalent performance standard which we are consulting on, in parallel, to deliver the same outcomes as for the rest of the housing stock. This revised Standard will be designed to ensure that all 630,000 homes in this sector transition to clean heating before the end of 2045.

We will also consult on ways to set the minimum energy efficiency standard. We believe that a home achieving the equivalent of an Energy Performance Certificate (EPC) 'C' rating has achieved a 'good' level of energy efficiency. The consultation proposes our preferred approach, which is that the minimum energy efficiency standard would require homeowners and landlords to install as many of the following list of energy efficiency measures as would be technically feasible for their property: loft insulation, cavity wall insulation, draught proofing, heating controls, hot water cylinder insulation and suspended floor insulation. This would exclude the most costly measures such as external wall insulation.

Our proposal to require earlier action in privately rented (PRS) homes to achieve the minimum energy efficiency standard recognises that tenants do not have the ability to make these changes themselves. Placing this early requirement on the landlord will reduce energy costs in a manner consistent with our fuel poverty targets and a just/ fair transition.



5	<p>Are we ensuring that new and existing homes are safe and of a high quality?</p>	<p>The quality of housing in Scotland has improved steadily over a number of years due to the action of this Government. The introduction of the Scottish Housing Quality Standard in social housing in 2012 and strengthening of the Repairing Standard for the private rental sector shows our commitment to making improvements.</p> <p>We have also taken action to improve the quality of the homes delivered through the Affordable Housing Supply Programme. For example, we have introduced guidance to ensure that new build homes delivered through the programme have private or communal outdoor space with room for people to sit outside alongside space for home working and study.</p> <p>The building standards system in Scotland is established by the Building (Scotland) Act 2003. The system regulates building works on new and existing buildings to ensure that such works meet reasonable standards aiming to secure the health, welfare and convenience of persons in or about buildings; further the conservation of fuel and power; and further the achievement of sustainable development. A key focus of our work is ensuring that our standards and guidance set a challenging but achievable level of regulation and performance for new buildings to meet.</p> <p>However, we recognise that there is still much to do which is why, as part of Housing to 2040, we set out our plan for a new housing standard, to be set in law. Our aim was that this would cover all homes new or existing, including agricultural properties, mobile homes and tied accommodation. We aimed to ensure that there would be no margins of tolerance, no exemptions and no “acceptable levels” of sub-standard homes in urban, rural or island communities, deprived communities or in tenements. This would mean our existing homes keep pace with new homes, with no one left behind. We remain committed to these ambitions. The Minister for Housing has written to you setting out our plans to take forward this work on a renewed timetable, recognising the importance of these changes as well as the challenging environment to take forward our ambitions.</p>
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Comparison with Previously Published Budget for 2024-25

Affordable Housing Supply Programme (AHSP) Budget £m	2024-25 Budget	Prev. Published 2024-25	Difference £m
AHSP - Cdel	414.417	480.900	-66.483
Transfer of Management of Development Funding (TMDF)	92.245	92.245	0
AHSP – Financial Transactions	49.200	140.000	-90.8
TOTAL AHSP	555.862	713.145	-157.283

Comparison with 2023-24 Budget

Affordable Housing Supply Programme (AHSP) Budget £m	2024-25 Budget	2023-24 Budget	Difference £m
AHSP - Cdel	414.417	489.1	-74.683
Transfer of Management of Development Funding (TMDF)	92.245	92.245	0
AHSP – Financial Transactions	49.200	170.600	-121.4
TOTAL AHSP	555.862	751.945	-196.083

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