



OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government, Housing and Planning Committee

Tuesday 6 September 2022

Session 6



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LOCAL GOVERNMENT, HOUSING AND PLANNING COMMITTEE
22nd Meeting 2022, Session 6

CONVENER

*Ariane Burgess (Highlands and Islands) (Green)

DEPUTY CONVENER

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

COMMITTEE MEMBERS

*Miles Briggs (Lothian) (Con)

Mark Griffin (Central Scotland) (Lab)

*Paul McLennan (East Lothian) (SNP)

*Marie McNair (Clydebank and Milngavie) (SNP)

Annie Wells (Glasgow) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Mike Callaghan (Convention of Scottish Local Authorities)

Gary Fairley (Convention of Scottish Local Authorities)

Professor Ken Gibb (University of Glasgow)

Aaron Hill (Scottish Federation of Housing Associations)

Fionna Kell (Homes for Scotland)

Sherina Peek (Association of Local Authority Chief Housing Officers)

Ailsa Raeburn (Community Land Scotland)

CLERK TO THE COMMITTEE

Euan Donald

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Local Government, Housing and Planning Committee

Tuesday 6 September 2022

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Ariane Burgess): Good morning and welcome to the 22nd meeting in 2022 of the Local Government, Housing and Planning Committee. We have received apologies from Annie Wells and Mark Griffin. I ask all members and witnesses to ensure that their mobile phones are on silent and that all other notifications are turned off during the meeting.

Agenda item 1 is a decision on taking business in private. Do members agree to take in private item 3, which is consideration of the evidence that we will hear on the affordable housing programme during our pre-budget scrutiny, and item 4, which is consideration of our approach on the Levelling-up and Regeneration Bill's legislative consent memorandum?

Members *indicated agreement.*

Pre-Budget Scrutiny 2023-24

09:31

The Convener: Agenda item 2 is an evidence-taking session on affordable housing provision in Scotland as part of this year's pre-budget scrutiny. We are joined in person by Professor Ken Gibb, who is director of the UK Collaborative Centre for Housing Evidence, at the University of Glasgow; Aaron Hill, who is director of policy and membership at the Scottish Federation of Housing Associations; and Fionna Kell, who is director of policy at Homes for Scotland.

We are also joined online—I think that I can see you all—by Ailsa Raeburn, who is the chair of Community Land Scotland; Sherina Peek, who is acting policy manager at the Association of Local Authority Chief Housing Officers; Mike Callaghan, who is policy manager in the communities team of the Convention of Scottish Local Authorities; and Gary Fairley, who is director of corporate services at Midlothian Council, who is also appearing on behalf of COSLA. I welcome you all.

I will open the session to questions from members and will begin by asking about national targets and outcomes, which I am interested to hear from the panellists about. Before I dive in, however, there is a little bit of housekeeping to do with regard to how I will run the session. Because of time constraints, members will possibly direct their initial question to one of you, but if anyone else wants to come in, please indicate that to me or the clerk. Those who are attending online should indicate as much by typing an R in the chat function.

On national targets and outcomes, do panellists think that the Scottish Government targets for housing needs and outcomes are clear? Furthermore, do the targets need to be revisited? I will start with Mike Callaghan and then bring in Professor Gibb and Sherina Peek.

Mike Callaghan (Convention of Scottish Local Authorities): COSLA's position as an organisation is that we are very supportive of the construction and building of affordable housing, and we have a common position with the Scottish Government in respect of delivering that in our local communities across Scotland. However, my understanding, going back to the past, is that we were not particularly involved in establishing the national targets with the Scottish Government. As for the rationale behind them, we are not, as far as I am aware and from our perspective, clear on how they were developed.

We have always had an issue with some of the rationale behind the Scottish Government's affordable housing supply programme targets. At

the end of last year—in November—COSLA leaders were unanimous in feeling that the benchmarking framework and the differential between local authorities and registered social landlords should be eliminated. We think that that is unfair and that it also passes on a burden of potential rent increases to our tenants.

I can give you a good example of that. In the Highlands and Islands, the construction of houses can cost local authorities up to around £12,000 more than the RSL sector. It is an impediment to local government. We would have much preferred to work on this issue in partnership with the Scottish Government and to have had a joint discussion on how to develop targets for the affordable housing supply programme. We are very committed to and supportive of the programme, but even since the end of last year when it was discussed by COSLA leaders, a range of macroeconomic facts—inflationary pressures, cost of living increases, supply chain factors and the cost of materials—has changed so much that there is even more need for joint discussion on how we establish realistic targets. We also need to take account of the decarbonisation agenda.

The Convener: Ken Gibb, what are your thoughts on the targets?

Professor Ken Gibb (University of Glasgow): I should start by declaring an interest as a committee member of Shelter Scotland.

In a sense, the overall national target is slightly odd, because it relies on research that has been done through national affordability needs assessments. There seems to be strong consensus around that, and it is the starting point for the discussion. To the extent that one accepts the methodology, it is a perfectly reasonable way of approaching the matter, as it is the way in which it is done elsewhere and has a long lineage.

I have two points to make. First—and this amplifies what Mike Callaghan has just said—there will always be issues about the proportion of social housing and the proportion of affordable housing, but there is consensus around the 70:30 split. In a sense, once that split is made, the funding follows, and—we might talk about this later—there are trade-offs if we make any changes to it. If there is a funding envelope, that is what we have to work with, so there are implications to making changes.

My other point—which, again, amplifies what Mike Callaghan has said—is that benchmarking is a really critical factor. There are good things about benchmarking outcomes such as increasing the levels of grant across the board and narrowing the division between RSLs and local authorities. However, the division remains and still seems to be premised on things that have not been

evidenced in a satisfactory way. Back in 2011—a long time ago—we had a financial capacity study in Scotland, which although controversial was, in principle, an important piece of work. In my written submission, I have said that it behoves us to have an externally transparent and accountable financial capacity study, at least to evidence the positions that councils and housing associations find themselves in. More than that, it needs to be disaggregated to pick up the points that Mike has made about specific places.

The Convener: Thank you very much. Over to Sherina Peek.

Sherina Peek (Association of Local Authority Chief Housing Officers): Good morning, everybody. I apologise for the camera not being on.

The question was about clear targets. The targets are clear, but do they need to be revisited? Potentially, yes, they do. My colleagues have set out some of the issues that we are seeing at the moment. With regard to affordable housing, there is the 70 per cent target that we have to achieve by 2032, which is not far away. Given that the economic situation that we find ourselves in is not changing, pressures will continue with the high construction costs and supply chain issues. With decarbonisation come the added issues of what the supply chain for that will look like and the availability of skills and workforce to install, manage and maintain air-source heat pumps, ground-source heat pumps and the like. There are very few people in the labour market, and we are all fighting for the same labour to come on to each site. All those costs add up so that, on average, the cost per unit now is well over £200,000, which is unaffordable and unviable for lots of local authority projects.

Mike Callaghan touched on aligning the benchmarks for RSLs and local authorities. That is definitely needed: the cost of an RSL building is no different from the cost of a local authority one. We are all in the same situation; we are all trying to deliver the target, and it would be fairer to give local authorities that additional element to bring them up to the same benchmark that RSLs have. Those are the points that I want to make in that regard.

More important, we need to remember that whenever additional costs need to be met, those costs will in essence be passed on to tenants. We are building affordable and social homes, and we need to remember that not all our tenants will be in a position to be able to absorb high rent increases. We need to bear in mind that we are all about affordable rent, so we have to carefully manage how we tread that line. Our duty is to our tenants.

The Convener: Thank you. We will move on, although the next question relates to some of what has already come up.

In response to our call for evidence before this meeting, a few councils suggested that the current subsidy system does not allow them to fully meet the housing needs of people with particular needs, including wheelchair users. Is anyone aware that some housing needs are not being addressed? If so, how could that be improved?

Aaron Hill (Scottish Federation of Housing Associations): I will come on to the specific point about people with additional needs. First, though, colleagues on the panel have touched on the danger of the overall programme being undeliverable, which threatens all types of housing at this stage.

Sherina Peek talked about the cost increases that local authorities have seen. When we surveyed our members a couple of weeks ago, they reported that over the past year the cost of developing a home had increased by an average of 17 per cent. That is just over the past 12 months, and the increase was pretty similar in the 12 months prior to that. Over the past two years, the average cost of building a home has gone from £150,000 or £160,000 to more than £200,000 in many instances, as Sherina has said.

The situation varies by location. We know that, in the Highlands and Islands and rural areas, the issue is much more acute, because it is driven by supply chain issues and inflation. The question, therefore, is whether we can deliver on housing needs generally. If we cannot do that, we will let down a lot of people, particularly people with the highest need.

When it comes to people with additional needs such as wheelchair access, the grant system is fairly flexible and allows for such issues. However, there could be an improvement in identifying need earlier down the line. For a number of months, we have been waiting for the Scottish Government's review of housing for people with varying needs. The review has faced delays because of issues such as Ukraine, the work that is going on to rehouse refugees, and Covid. It would be good to see the review begin, so that we could get into the detail of some of the issues, because the delay is driving a lot of uncertainty right now.

The Convener: Thank you. Does anyone else want to come in on that?

Sherina Peek: I want to pick up on that point. The housing for varying needs review could do with being brought forward, as it would help ensure that the issue forms part of all our new builds. Currently, at least 10 per cent of the new builds that local authorities deliver are fully wheelchair-accessible ground-floor homes. That is

brilliant, but the problem is that we are not always able to build larger homes for families that need ground-floor homes. We are probably not able to build anything more than a two-bedroom home, which means that not everyone who has a specific housing need is having their need met.

We do a lot of work with our colleagues in health and social care to ensure that their service users are allocated housing in new builds. That becomes really difficult to do, though, because health and social care does not have sufficient funding to be able to come in and have clusters on new developments. It is about aligning all the funding and ensuring that when we build, we do so holistically and ensure that multiple service users' needs are met. For example, in the context of bariatrics, things like reinforced floors and widened doorways are needed.

Such things need to be considered much earlier in the design stage, but that is an additional cost. Whom does it fall to? Should it fall to health and social care, or should new-build homes just be built to that standard? The review of housing for varying needs would help set out whose responsibility that cost is and what level of need we are building and future proofing to.

09:45

The Convener: Those are very useful points.

I move to a question around place, which I will direct to Ken Gibb and Ailsa Raeburn. As we have started to hear, many communities in the Highlands and Islands have suffered historical underfunding and forced depopulation, which left them fragile and with declining populations. It is crucial that we support those communities and create ones where people feel ownership.

With that point in mind, and with the emphasis on the importance of place in the Scottish Government's "Housing to 2040" policy document, is there anything that the Scottish Government and its partners need to do to ensure that new affordable homes are developed in sustainable places where people want to live and—I would say—developed in a sustainable way?

Professor Gibb: I do not have as much to say about that issue as I probably have to say about other things. I have two points. One is that there is a 10 per cent target in the affordable housing supply programme for rural, remote and island areas. However, the issue has to do with many things—a lot of broader rurality things are important here—so my primary point, which is broader and has specific rural dimensions, is about the worrying reduction in the small and medium-sized enterprises building sector.

That is particularly important in a rural context, because larger builders will simply not take part in that kind of smaller programme, so that is where the small-sized enterprises are really important to what the programme is trying to achieve. It is a place where the Government, given its objectives and outcomes around rurality, might want to consider what else it could do to support the SME sector. In my submission, I quoted a number from *Inside Housing*, which said that across the UK there had been a 70 per cent-plus increase in bankruptcies among housebuilders, particularly in the SME sector.

The Convener: Ailsa, would you like to come in on that question?

Ailsa Raeburn (Community Land Scotland): Yes—thank you, convener. I missed a bit of your question, but I hope that I caught the thread of it.

With regard to sustainable places and addressing the really serious issues of depopulation in targeted areas across the Highlands and Islands—and in the south of Scotland, which we must not forget is also experiencing depopulation in rural communities—that is where community-led rural housing comes to the fore. Communities that are in charge of developing housing to address those particular issues take a really holistic view of the problems.

In places such as Strontian, we have seen that housing is linked to school, so the community has developed a new school together with housing. In Ulva Ferry on Mull, the depopulation was again very much linked to the school roll and the community developed housing to attract new families. Are we building homes or are we building communities and places?

A really important point for the affordable housing programme is that it is able to take the more holistic view that smaller numbers are more appropriate in very rural and remote areas, perhaps at a level at which RSLs and local authorities are not able to intervene. There are issues around land supply, which communities can perhaps unlock in different ways to RSLs and local authorities. Community-led regeneration considers those broader issues.

Ken Gibb made a point about contractors. Some communities are now looking at building a local contracting base. On Eigg, we are trying to support local suppliers and contractors to upskill, so that we can start to bring back that base of very small enterprises.

Highlands and Islands Enterprise is now considering modular construction and the opportunities for that type of construction approach in particular rural and remote areas, which has worked quite well at Ulva Ferry on Mull.

There are a range of opportunities at the moment and it would be good to be able to bring those together, share them more widely and ensure that those initiatives are supported, so that we can achieve a broader place-based approach to regeneration that goes beyond just housing. I have also mentioned that when communities are looking at housing projects they will bring other types of services, whether that is health services, schools or community hubs, because they have access to the sorts of funding regimes that other suppliers in the sector perhaps do not have.

Those are the points that I want to make about place-based regeneration and community-led initiatives. They have more flexible access to different funding regimes but, on the downside, it is a complex approach and communities need support. That is why the role of the rural housing enablers is important to give communities the technical skills and capacity.

On the targets and how they are working, Ken Gibb mentioned the 11,000 rural houses target that is in the plan. However, those may all be around the large communities in rural areas at the moment. To have 1,000 houses in Inverness is great and addresses a lot of the issues in that area, but having 1,000 houses in the north-west Highlands across 100 or 150 communities would be absolutely transformational for rural Scotland. The nuancing in the target is really important, as well, and that is not being addressed at the moment.

The Convener: Thank you for your insight; it is very useful. We will move on to another theme. No, I am sorry—two more people want to come in.

Aaron Hill: For me, it is interesting to talk about place and sustainable places, and it is positive that we are doing so. I have two quick points to make.

If we are going to move the dial on this, we need to start seeing housing as infrastructure and joining it up with other infrastructure of national importance. We have missed an opportunity to do that in national planning framework 4: not listing housing as something that is of national importance when it comes to infrastructure is a missed opportunity. On the positive side, if we look at the work that is being done in the south of Scotland on economic development, there are organisations that really get that.

The work that the South of Scotland Enterprise has done on its economic vision talks about the importance of housing in thriving rural communities and places where depopulation is happening. I have heard the chair of that organisation say that his economic vision would only be as good as the homes that people live in. That is being driven by organisations such as Eildon Housing Association, Berwickshire Housing

Association and the Scottish Borders Housing Association being at the table and involved in those discussions and strategies. Making sure that organisations representing the housing sector are at the table during those economic discussions about place and infrastructure is the way that we can transform the discussion.

The Convener: Thank you. You have made an important point about regarding housing as infrastructure and that the draft NPF4 was a missed opportunity to do that. Did you put that in your response to the consultation? That document was a draft and we never know what might come through in a few weeks' time.

Aaron Hill: Yes, we said that in our response. I am sure that we will have an opportunity to talk about NPF4 later; however, it is disappointing that, from a planning perspective, NPF4 should be driving other housing strategies such as "Housing to 2040". As it stands, the linkage between those two documents is not as clear as it could be.

The Convener: Thank you. I will go to Fiona Kell.

Fiona Kell (Homes for Scotland): First, I echo what Aaron Hill said about NPF4. A couple of years ago, the Infrastructure Commission for Scotland identified housing as a national investment, which was pleasing, but it was definitely a missed opportunity not to have that in NPF4.

I will pick up on the issue of SMEs. Work that we did with our members recently indicated that about 35 per cent of all new homes that are built in Scotland are built by SMEs. We also know that, in 2019, SMEs built about 2,000 fewer homes than were delivered pre-2007, before the last crash.

If the looming recession and the current economic conditions have the same impact, I think that we will be in serious trouble with the SMEs. We already know that a number of SMEs have approached us and similar bodies to indicate that they are experiencing real difficulty in delivering affordable homes, particularly in rural communities. For a number of companies, their on-going business viability is currently under threat as a result of the economic conditions. This issue is not one that will be coming up; it is current and sitting with us at the moment. Looking at the support for SMEs should be a priority that is high on the agenda.

The Convener: Thank you for that. When SMEs come to you to express that challenge of delivering, is it about the usual things that we have started to hear over and over again, such as the lack of labour and people with the required skills, as well as the material costs?

Fiona Kell: Yes, absolutely—at the moment, it is particularly about cost and labour. That situation is affecting everyone across the board, but the SMEs, who have a tighter cash-flow position than some of the larger home builders, find that the situation is exacerbated.

Sherina Peek: The points that have been made have been really good, including those about the SMEs. We also have to consider that place is about more than just building and leaving; it is about sustaining, managing and maintaining.

All the different parts that go along with building communities—such as sustainable urban drainage, green roofs, blue roofs and decarbonisation—require on-going management and maintenance. For my colleagues in the Highlands and Islands, it can take days or weeks even to get somebody to come out and fix a broken air-source heat pump. The energy company looks at the cost and benefit of going out and doing one job and, if it does not have other work to do on the island, it is better to wait for there to be a few more jobs.

However, that does not help the communities where people live, when they need the repairs and maintenance to be done, so that work needs to be more joined up. More responsibility needs to be put on the energy companies, so that they have a duty to make sure that they are out and able to take care of the products that they install because the Highlands and Islands are as important as the mainland of Scotland. Obviously, as local authorities and RSLs we cannot really push that from our end, so that needs more of a push from Government or other governing bodies.

The Convener: Thank you. That points back to what Ailsa Raeburn said at the beginning of the meeting, when she described the need for a much more local base, as is happening on Eigg.

Ailsa Raeburn: How we support those SMEs in local communities is absolutely critical. We must recognise the geographical remoteness of a lot of those places because, as Sherina Peek pointed out, getting contractors out is very difficult. People tend to go for traditional models that they know that the guy down the road can fix, so that takes out of scope a lot of the new approaches that we all want to see happening on housing developments. Support for SMEs at a very local level, through the enterprise agencies or other organisations such as Skills Development Scotland and in schools, is absolutely critical. That is a long-term approach, so we need to start now.

The Convener: We move to the next theme, which is progress on delivering affordable homes and balancing priorities. We have quite a few questions to get through, but some of them will be directed to specific witnesses.

Paul McLennan (East Lothian) (SNP): The witnesses have referred to the need for social landlords to balance investment in decarbonising their own stock and investment in new homes. Professor Gibb, I remember that you took part in a previous session in which you talked about the cost, which—I think that I am right in saying—was about £32 billion. The share of that for my local authority, East Lothian Council, would be roughly £600 million or £700 million.

How can both aims be achieved, and how can the Scottish Government use its budget to facilitate that? Is the answer to increase resources or prioritise one aim over the other, or can anything be done differently? At what level is the scoping work being carried out? Is it being done by each local authority or each organisation?

That question goes first to Aaron Hill and then to Mike Callaghan and Gary Fairley from COSLA. I have had previous discussions about that with the SFHA, which has been looking at the issue.

Aaron Hill: It is a really significant issue. Ultimately, the starting point is that housing associations want to be able to deliver on both of those ambitions, because that is the right thing to do for the communities in which we work. However, in the current economic environment, with increasing inflation, that is difficult.

I will take a step back and describe how housing associations are financed, because that is important. When we build new homes, about 50 per cent of the cost is covered by private lending, which is based on the return from the additional rent that will come from those homes.

As it stands, the work to bring existing homes up to standard through decarbonisation does not have an obvious revenue output, so there is no clear sight of where additional revenue will come into the business. Therefore, the previous assumptions that Government and others have made simply cannot be applied to decarbonisation. We know that the work cannot be paid for entirely by the Scottish Government. It will require a partnership with the private sector and private lenders—probably including some new lenders with which we have not worked previously—but we have not yet worked out with the Government what the split will be. That needs to be done urgently.

10:00

There is currently a huge amount of uncertainty around the matter. The Scottish Government is reviewing the energy efficiency standard for social housing, so we do not know to what standard we are building. We are waiting for interim guidance on what should be done while that review is ongoing. The work that is needed to bring in the right

skills and materials cannot be done until we have certainty. We have a looming target in 2032, but we face another year of lost time when we will not know exactly what the finance arrangement or the standard will look like, so the pressure on housing associations will only grow over the next decade.

There are finance models in existence. The Energiesprong approach from the Netherlands has been delivered successfully in a number of places, and the Future Generations Commissioner for Wales has published an interesting framework for how the work could be done. However, every one of those models requires significant Government investment that is way above the current investment. If that investment is not made, it will mean that, ultimately, housing associations will not have the capacity to deliver decarbonisation. If we are going to deliver decarbonisation without that Government support, the trade-off will be that we do not build enough homes.

There is a lot of work to do. We have been calling on the Scottish Government to run a sector capacity assessment on the matter. That was recommended by the zero emissions social housing taskforce, and we are still pushing for it. We have seen some positive movements in the past couple of months following the publication of ZEST's "Achieving net zero in social housing" report, but it would be good to see that work brought forward.

Paul McLennan: Have your members done the detailed scoping work to determine how much decarbonisation will cost over a certain period? The housing stock will be of a different quality as well. How detailed is the work that the SFHA has carried out?

Aaron Hill: That will vary between our members, to be honest. The starting point is that we are building to the highest standards in Scotland, so the gap that we have to bridge is smaller than that for many other areas of housing.

The work is progressing at varying speeds. The net zero heat fund, provided by the Scottish Government, had a channel for such research. Bids have gone in for that and we are waiting to hear back; we know that the fund was massively oversubscribed. However, it is difficult to do the scoping work and to be certain about costs while the review of EESSH is continuing. The review is positive—we need to get the standards right—but it adds uncertainty into the equation.

Paul McLennan: Mike Callaghan or Gary Fairley—I am not sure which of you would be best—might want to speak to the issue from a local authority perspective. How are local authorities balancing the need to decarbonise with the need to build new housing stock?

Mike Callaghan: I will start. It is a very good question, because there are some immense challenges. I mentioned our position at the end of last year, but—as Aaron Hill said—there are so many new challenges, with Ukrainian arrivals to our country as well as inflationary pressures on supply chains and the cost of materials.

As Aaron Hill rightly said, EESSH2 is not optional—we have to strive for decarbonisation and energy efficiency in our housing stock. We are presented with a number of challenges in respect of affordable housing. In order to maintain good progress, there is a need for reflection. Local authorities, the Scottish Government and other key stakeholders need to reflect on and take account of how we take the matter forward, and how we get a better balance and alignment in Scottish Government priorities.

We agree on the need to create more affordable housing for local communities throughout Scotland but, at the same time, we have other targets from other parts of the Scottish Government on EESSH2 and the decarbonisation of housing. There is a need for balance and alignment with regard to what is achievable and where resources will come from to enable us to achieve our joint objectives.

There is also a need to consider alternative ways of working and to co-ordinate action with other public sector organisations. For example, the national health service has significant recruitment issues, and it needs more staff. A lot of those staff are coming into the country from overseas, and they need housing. That is another dimension to the challenges that we have.

Paul McLennan: I do not know if Gary Fairley wishes to come in on that, but I will ask him the same question, about the scoping work that has been carried out by local authorities of the detailed—or at this stage, estimated—costs. Where are local authorities in that regard? A scoping exercise would be the first step—it was mentioned by the SFHA, and by COSLA in terms of looking at detailed plans. How far has that work progressed among local authorities?

Gary Fairley (Convention of Scottish Local Authorities): Local government welcomes the targets for more and better homes with respect to decarbonisation. Your question gets right to the heart of the issue of assessing the affordability of the targets. For me, the starting point is to focus on the affordability of rents for tenants. It is fair to say that we are probably still in the foothills of getting into the nitty-gritty of the assessment, looking at what is deliverable with the resources that we have and the current level of subsidy from general taxation. Ultimately, either tenants pay through their rents or taxpayers pay through Government subsidy. We have not done a local

assessment of that, and I have not seen any national assessments of whether the targets really are deliverable or of what they could mean for the trajectory of rents.

Our tenants are now facing all sorts of pressures around the cost of living. The affordability of rents will differ across the country, and it will have shifted since the programme targets were set under the housing to 2040 strategy. That is the issue now: all local authorities and other layers of government now need to turn their attention to the implications of the targets and to the calculations that sit behind their deliverability.

Paul McLennan: Thank you. Professor Gibb, you spoke to us before about the report that I mentioned. Given what you have just heard, do you wish to add anything? I still remember our evidence session with you on the subject, which I quote quite a bit. What are your thoughts about striking the balance?

Professor Gibb: This is the nub of the issue; I talk to students about these things. There are three issues—using rents to contribute to the new-build programme, using rents to contribute to decarbonisation and using rents to contribute to asset management and housing quality standards. That puts tremendous pressure on the affordability of rents in the time ahead, which is concerning.

We are still at quite an early stage with the decarbonisation process. Landlords are putting a lot of time and work into decarbonisation, which they view as a necessary and important but risky activity. I have been in debates about decarbonisation before, when social landlords have said that they worry about innovation risk. They worry that, after they press ahead with an initiative using a certain technology, it will turn out three years down the line that it was clearly not the best thing to have done. They cannot know that in advance, so they are understandably hesitant.

As Aaron Hill said, there are really important issues about partnerships of funding, how to bring in new partners and how to find new ways to obtain long-term funding. Those issues are at a societal level; they are public policy issues. The people at the Scottish National Investment Bank perhaps need to be more involved.

I will make a further observation directly from anecdotal evidence. The housing association whose board I am on is working hard to understand the implications of doing EESSH1 and what might follow on from that. The review is being watched closely.

Sherina Peek: Several people have pointed out the competing priorities for local authorities. We also have our capital investment programme, and we are still working our way through bathrooms

and kitchens that need to be replaced on a cyclical basis.

We will have to meet EESSH2, which will be coming out, and decarbonisation requirements. On top of that, we are trying to build new homes, all of which cost considerable sums of money. When we ask our tenants what they want the priority to be, the answer is making their homes comfortable, warm and fuel efficient. The starting point has to be how we best serve our tenants.

I know that the Scottish Government wants all 110,000 new-build homes to be built by 2032. However, with the best will in the world, local authorities and RSLs cannot do all the priorities and meet all the timelines and targets. Our question is therefore what the Scottish Government wants the priorities to be. We need to take it into account that we are landlords and that, at the end of the day, we should be listening to what our tenants say and making sure that their homes are the best that they can be and are energy efficient.

There is also the just transition. We need to remember that, across the 32 local authorities, quite a few have mixed-tenure stairs. That poses another issue for tenants who are a minority in a block around getting renovations done to their homes to make them as energy efficient as possible. We must make sure that owner-occupiers and private landlords can participate in an affordable way.

To go back to our tenants, another point is that they have to pick up all the additional costs in some way. We need to remember that our tenants are the least able to pick up large rents. Professor Gibb pointed out that we all have apprehensions about the infrastructure and all the different technologies that are coming out, and about whether our tenants are being pioneers or being used as guinea pigs to see what works best. Another question is how we future proof, which costs additional money, so that, in 10 years, we will not be thinking, "Oh crikey, we shouldn't have used air source—now hydrogen or whatever is the preferred model."

We are taking account of all those different risks. However, we must not forget that tenants are at the heart of what we do, and we need to make sure that they come on the journey with us willingly and that it is not being done to them. It involves a lot of upheaval and potential decants. If we put hot water storages back in, they will lose a cupboard. I know that those things are small, but that is how people enjoy their homes.

The fact that we have tenants who will be in abject fuel poverty and that we have a lot of vulnerable tenants who will need a lot of additional support has never been more acute in our minds

than it is at the moment. We must not forget tenants who are disabled and use equipment and oxygen that needs to be plugged in—they cannot simply turn off their electricity and not use it. Anything that we do to improve homes must not push our tenants into further fuel poverty.

Paul McLennan: I am conscious of time. Most people have kind of answered my next question, which is about the extent to which the development of new affordable homes by councils and RSLs is impacting on tenants' rents and affordability. We have heard expansively about the impacts of retrofitting. Does anybody want to add anything? I think that most of the witnesses have mentioned the subject.

Aaron Hill: The rent decision that housing associations will have to take this year is the most difficult that they will ever have had to take. It is widely accepted that housing associations will raise their rents by significantly below inflation, which will put enormous pressure on business plans in a way that we have not seen before. When we ally that to the decarbonisation and new-build agenda, we will this year see money taken out of the business plan over the long term, which makes the situation harder.

Affordability will be the key driving factor for every housing association when it makes its rent decision this year and in future years. Ultimately, we will have to balance the pressure that that places on the business plan over the long term in relation to the ability to repay finance and deliver on the ambitions that we have talked about. However, as I said, I think that this year's increase will be significantly below inflation.

We support our members extensively with their assessments of affordability. We have an affordability tool, which is provided by Housemark and has all the latest data on the cost of living. All decisions will be informed by that. As you can imagine, the tool is putting out some very difficult figures this year.

10:15

It is interesting and positive that we do not have Government rent controls for the social housing sector in Scotland. In the stats across the United Kingdom, social rents in Scotland are lower than those in Wales and England, which I think is a direct result of there being no Government intervention. Government intervention often drives uncertainty and can have the unintended consequence of a housing association taking the maximum rent rise that it can take under Government policy.

In Scotland, affordability has remained at the heart of rent setting, in a way that it has not done elsewhere. It is important that we protect that

independence and housing associations' efforts to deliver on affordability. We know that the lower rents in Scotland drive the fact that poverty rates are lower than those in other parts of the UK. Housing associations will remain committed to affordability.

Paul McLennan: That is great—thank you.

Gary Fairley: The evidence points to a reduction in the percentage share of the funding of new builds that is funded by Government grant under the affordable housing supply programme; our submission says that that share could fall to 34 per cent or lower. The Government subsidy per unit for new affordable housing is on a downward trajectory, at a time when social housing providers are addressing all the competing demands that we have been talking about.

Professor Gibb: I will build on what Aaron Hill just said. In the past week, it has been alarming to see the plan in England to set a 5 per cent rent cap across the social sector. In Scotland, we have a long tradition of Government not intervening and of letting rent structures flow—as it were—to a large extent. The 5 per cent cap might put a lot of pressure on people in other parts of the UK to do something similar. We need to be clear about the consequences of that, which Aaron Hill described.

Paul McLennan: Thanks for that.

The Convener: Do you want to ask question 11?

Paul McLennan: Yes—it is a question for Aaron Hill, who has touched on this issue in relation to new affordable homes. Why is the Scottish social housing tender price index used to measure the increase in prices when it comes to building new affordable homes? Is there a more appropriate measure to use?

Aaron Hill: We are ambivalent about the measure that is used. In the current circumstances, it is important that it picks up inflation in real time. I gave you the stats on development; we are seeing even greater increases when it comes to maintenance. Over the year, inflation has been at 20 to 35 per cent on materials and at 10 to 15 per cent on labour. More than one housing association has told us that a like-for-like maintenance quote for this year has come back 50 per cent higher than last year.

However the Scottish Government assesses inflation on the benchmarks, it is really important that it gets real-time information. Previously, the Scottish tender price index has not been fleet of foot and has probably not picked up real-time information quickly enough. However, as part of the benchmarks review, the Scottish Government is being more proactive about getting such information directly from housing associations and

is developing a fuller picture than it has had previously—I hope that that moves.

I have to say that the Scottish Government has been incredibly flexible and incredibly helpful in the current circumstances—more and more bids for funding are coming in way above benchmark, and the Scottish Government has genuinely fulfilled the spirit of the previous review. A challenge is that the next review of the benchmark level is not due until the end of this financial year, by which point the benchmarks will be entirely out of keeping with the position when the cabinet secretary announced them. There is therefore a question about the triggers for reviewing the benchmarks more quickly. Again, that means that information needs to be much more live and real-time.

The Convener: Thanks. We will move on.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, everyone. I will pick on Mike Callaghan and Gary Fairley from COSLA to ask whether issues that East Ayrshire Council—my council—raised in its submission are shared by councils across Scotland.

One of the big messages in East Ayrshire Council's submission is about the decision whether

“to invest in existing stock”

or in “new build”. It is clear that many councils will have to face that choice. East Ayrshire said that it is “untenable” for it to consider both strategies without an on-going assessment of the impact of borrowing and all the factors that colleagues around the table have mentioned so far. As COSLA representatives and spokespersons, do you share the view that it is in effect untenable for councils to do both?

Mike Callaghan: Each local authority has its priorities. There is a need for affordable housing, but there is also a need to maintain existing stock, which includes upgrading it where necessary and looking at decarbonisation initiatives.

The bottom line is that local authorities have obligations to their tenants in respect of their properties. It is really quite a hard ask. As a landlord, a local authority has to ensure that existing housing stock is maintained and upgraded where necessary. That is only to be expected but, at the same time, the authority needs to look ahead at the need to provide more affordable housing in the local community.

That is a difficult position, and East Ayrshire Council's submission probably reflects the financial position of a number of local authorities across Scotland. With regard to local government finance, public sector funding is thinning, and there are all the other financial pressures that local

authorities are under from a range of other priorities for housing.

I am not sure whether Gary Fairley wishes to add to that.

Gary Fairley: I suppose that, under the current funding model, “untenable” sounds like a fair assessment. Significant costs have been reported and evidenced for the zero carbon agenda for social housing, along with costs for the continual upgrade of housing and for building more houses. It would be untenable to do all those things without that having a very adverse effect on rent levels.

I go back to our discussion this morning about the affordability of rents for tenants and what those rents can sustain in terms of any form of capital investment—whether that involves investing in more homes or in better homes. That comes down to the level of Government subsidy, through general taxation, that is brought to the table to support the investment demands. A mature conversation about that has not happened, and it needs to happen to discuss what is deliverable within the funding models and what needs to change to achieve the ambitions that everybody has.

Willie Coffey: East Ayrshire Council said that it is more important to build the types of housing that the local community and population need, rather than hit a numerical target of 110,000 houses across Scotland. Does that ultimately lead us to a place where we will perhaps end up not hitting that target but focusing on local needs instead?

East Ayrshire also noted the difficulty in replacing and building some of the larger properties that were lost during the right-to-buy years. Such properties are more expensive to build, which would impact on the ability to deliver on a numerical target. Is that concern shared by other authorities across Scotland? That question is for both Gary Fairley and Mike Callaghan.

Gary Fairley: I am happy to come in on that. It perhaps demonstrates what we talked about in response to some of the earlier questions on wheelchair-accessible housing. We need to look at the local housing needs assessment, and at what type of houses are required, rather than focus on a target for a specific number of houses.

Mike Callaghan: Gary Fairley is absolutely correct. Each local area has different demographics. We will need more specialised housing in some areas for people with disabilities and older people, depending on the demographics in the local authority area. It is a matter of balancing that, addressing the issue for each area and coming to a local solution. Local communities face continuing challenges on housing right across Scotland. We want to strive to achieve targets where we can, and to work with the Scottish

Government and other stakeholders to see whether more housing can be built but, as Gary Fairley said, we must consider the financial challenges. What can be done to achieve that?

Willie Coffey: East Ayrshire Council also commented on grant levels. Aaron Hill mentioned the flexibility that the Scottish Government has already shown. If a council provides sufficient evidence, hopefully a grant is made, and the funding can be made available. However, East Ayrshire Council said that the process works on a site-by-site or project basis. Is there an issue there, such that we need to improve the process and make it a bit more seamless?

Gary Fairley: The issue with benchmarks and the lack of parity between RSLs and local authorities means that there is a disincentive to proceed with sites that may be well above the benchmark. Secondly, there is an additional administrative burden in going through the assessment: the process to secure the subsidy is more complex. At best, that means delays in sites coming forward or going to construction; at worst, it means that sites do not come forward where a higher level of subsidy might have been financially viable.

Fionna Kell: Mr Coffey used the word “untenable”, which is a word that I have been hearing a lot from members. We represent private home builders and RSLs. We estimate that, of the 6,000 or so affordable homes that were delivered last year, about 5,000 were delivered by our members. Those either came through a section 75 contribution from the private house building arm or were delivered by contractors. That contractor side is the contracting arm of larger home builders.

In August, we asked all our members about the issue of affordable housing. In their responses, the contractor arms told us that they estimated that there would be a reduction of between 10 per cent and 30 per cent next year in the number of homes that they would build, as contractors, for RSLs and local authorities. One of them went as far as estimating that there would be a 100 per cent reduction. That reduction is a result of contractors being unable to enter into contracts that are simply unviable.

We accept that the Government is able to show some flexibility in the contracts, but the sheer pace of inflation at the moment means that it is often impossible to enter into a fixed-price contract, as the suppliers will not fix their prices. We have heard well-articulated reasons why RSLs and local authorities are unable to pass on additional rent costs to their tenants, which is fully understandable. The rest of the risk often sits with the contractor, and contractors are now saying that they cannot take on the risk either, because it will put their businesses under. A number of them

have told us that there could be a reduction of anywhere between 10 and 30 per cent. In one instance, a contractor said that they were now moving out of the market completely. That is quite worrying when we consider the overall number of homes that need to be delivered.

10:30

Sherina Peek: To pick up on Fionna Kell's point, that is exactly what our local authorities are seeing: the tenders are not coming in at fixed price. We are cautious and obviously risk averse, and we will not want to proceed with unviable projects. We do not want to go ahead with them and then ask for forgiveness after we have overspent and hope that money is paid back to us. We will be cautious and, as my colleague Gary Fairley said, that will mean that we cannot take forward projects.

Another constraint that none of us has picked up on is to do with land. Local authorities have a certain amount of land available, and are probably unlikely to buy more land, as they have to do so against other people in the open market. When we buy land, it might not always be in places where people want to live or where it is needed. Local authorities are trying to contend with all those issues when it comes to pulling together their programme for affordable homes delivery.

On the point about local authorities saying that it is untenable to build, that is definitely the feeling of the members that I have spoken to. I am definitely hearing the sentiment that, even if building is not untenable, there will certainly be a slowdown in the delivery of new affordable homes.

Willie Coffey: I have a final query for our COSLA colleagues, if they are still online. It is reported that the UK Government might be thinking about bringing back the right to buy for housing association homes. East Ayrshire Council made a specific response to that point, saying that it could make the situation worse, especially in the current climate. Do our friends and colleagues from COSLA share that view?

Mike Callaghan: That is a really good question. I agree with the council's position. The right to buy is the causal factor that will mean that less housing stock will be available for social renting, when we actually need to increase our capacity, investment and availability in that area. That reintroduction would have negative implications, certainly for local authorities but for housing associations as well. There would be less social housing availability across Scotland, which would not be at all desirable.

Aaron Hill: I agree with Mike Callaghan on the point about the right to buy. Many people who live in social housing aspire to own their own homes,

and it is really important that they are provided with a range of home ownership options. We could do many more things such as shared ownership, which staircase people up to full ownership of homes without losing social housing stock. The reintroduction of the right to buy, be that for local authorities or housing associations, would have a detrimental impact on our ability to meet the needs of those in poverty and those who require social housing.

Willie Coffey: Thank you. I will hand back to other colleagues.

The Convener: We move to questions on the same theme from Marie McNair.

Marie McNair (Clydebank and Milngavie) (SNP): My first question has been touched on, but I will ask it to see whether anything further needs to be said. What impact will the reported rise in insolvencies among small and medium-sized house builders have on the local delivery of affordable homes? I put that question to Fionna Kell first, and then to anyone else who would like to add anything.

Fionna Kell: As we have touched on, there will undoubtedly be a reduction in the number of homes that are built—that is simple economics and a basic mathematical equation—and we know that the impact has been felt among SMEs.

It is important to emphasize the social and economic value that we put on delivering homes of all tenures. We estimate that, in 2019, approximately 22,000 homes were built in Scotland across all tenures, which contributed about £3.4 billion gross value added to the Scottish economy, supporting more than 79,000 jobs. A reduction in the number of homes that are built impacts directly on the housing needs of the country and on the social and economic contribution that home building can make. It is worth recognising that that is across all tenures.

We know that about 30 per cent of the affordable homes that were built last year were built directly through a section 75 contribution, so they were a direct result of private homes being built. If the number of private homes that are being built falls, the number of affordable homes that will be built will also fall. It is important to look at the overall contribution that is made by housing of all tenures to the society and economy of Scotland, particularly as we go into tough times ahead.

Professor Gibb: That is an important issue. In many respects, what seems to be happening to the SME sector is symptomatic of other worrying concerns.

I am beginning to sound very depressive, but a lot of housing commentators are predicting a housing market downturn. Although house prices

are still rising by 8 to 10 per cent per year, there seems to be mounting evidence that that will be reversed—that transactions will fall and that prices may also fall. As Fionna Kell has just said, that has direct effects on the economy. We know that house building, house construction and housing activity in general have large multiplier effects. That works also in reverse, if those things dry up.

Our generation seems to be in the peculiar position of having unprecedented inflation and moving into a recession that also has many global factors behind it. That will have impacts on the housing system as a whole, and will probably lead to intervention by the UK Government through things such as stamp duty, which is the go-to policy—it is not a particularly brilliant or clever policy, but it is what the Government often seems to use, because it is the easiest thing to do. However, if people are not transacting, such an intervention will not make that big a difference. We need to think about it in the bigger context.

Another thing that will have a big impact on shaping the future of the affordable supply programme is the ability to build social housing when the market finds that more difficult than at present, even though, as Fionna Kell has just said, it is not at all easy just now.

Marie McNair: I direct my next question to Ailsa Raeburn. Your submission states:

“There are unnecessary complexities in the funding and planning processes which, if addressed, could speed up the process and enable more communities to deliver hyper local schemes that meet local need.”

You touched on that in an earlier response, but will you expand on it and suggest any improvements that could be made?

The Convener: Ailsa, can you hear us? Did you hear the question?

Ailsa Raeburn: Sorry, but I am having really bad connection issues this morning. My—*[Inaudible.]*—has gone off so I am using my phone. Apologies if the sound is not very clear.

I heard Ms McNair’s question. When it comes to opportunities to speed up and make the process easier for hyperlocal schemes, access to land is an issue that is within the committee’s remit. It is about ensuring that communities have better access to land, through the community power to buy, land reform legislation and funding.

The continuation of the rural and islands housing funds was extremely welcome. As has been referenced in other conversations, the rural and islands housing team is incredibly helpful in trying to bring schemes forward, but there are issues over how the fund works, with small tweaks needed to the fund around benchmarking and feasibility from stage 1.

At the moment, the fund does not take account of the energy efficiency targets, so communities are having to find additional funding for that. Some of the conditions can be too prescriptive on tenancy and tenure type. There is a need for mixed tenure, which makes a lot of the schemes work—in particular, schemes that are based on place making.

The process is also very time consuming, and the community has to get to the fully tendered cost stage before it gets confirmation of its stage 2 funding. That is extremely expensive for communities, and it is often difficult to achieve.

There are changes that can be made to the housing fund and the way that it works, but they are really only tweaks and nothing substantive. The intermediary organisations, such as community housing organisations, are absolutely critical in the process because, as all the other participants will know, developing housing is a very complex and technical process, and communities do not tend to have those skills. Bringing in intermediaries and supporters is therefore really helpful in contributing to making projects go forward.

We have touched on the role of planning. In particular, Aaron Hill made a point about housing being seen as key infrastructure in NPF4. That was certainly the focus of our submissions on NPF4. Housing is one of the building blocks of a successful Scottish economy, but that is not reflected in NPF4 at the moment. I hope that that point can be made when the committee comes to hear about NPF4 progress.

There are a number of issues around land supply, funding, planning and support for communities, all of which are within remit and could be tackled without huge additional resources requiring to be invested.

We have spoken at length about the issue of contractors and skills shortages. Communities are looking for very local ways of trying to address that, and, obviously, they often work on very small four, six or eight-unit schemes, which are much more deliverable by local contractors than the larger-scale ones that most RSLs deal with.

Marie McNair: Fionna Kell’s submission says:

“some home builders have and will consider projects unviable.”

You touched on that earlier, but will you provide a bit more detail on it? What can the Scottish Government do to address the issue?

Fionna Kell: A large part of the issue of unviability comes down to who shares the risk for the unprecedented cost inflation that we are seeing. We have touched on that. The supply chain will not fix prices, so it is more difficult for

contractors to fix their prices, and RSLs and local authorities understandably do not want to enter into those contracts, so the whole thing comes down.

Maybe there is an opportunity for the Scottish Government to consider some form of risk sharing or underwriting of some of that. A contract could have a risk pot. If price rises went over X per cent, everyone could take a percentage share of that so that, if reward is shared, risk is shared as well. There is something in that.

The issue of improving the overall operating environment for building homes and speeding up the process has been touched on. Planning applications for major housing developments currently sit at around 54 weeks, which is simply not acceptable. Just last week, we talked with an SME that has three housing sites in the planning pipeline. It has a number of sites that are coming to an end shortly. With the forthcoming sites being subjected to continual delays in the planning cycle, it is considering what it can do with its workforce. There is a risk of people in the workforce having to be laid off if it cannot guarantee continual workstreams.

A number of things could be done so that the overall policy environment is seen to be more supportive in recognising housing as an economic and social contributor. Government can intervene in those areas, and that does not necessarily require substantial investment at this point, as has been touched on already.

Marie McNair: Thank you.

I have a final question. Professor Gibb, in your submission, you put the scale of the challenge in context, including

“the working through of economic change associated with Brexit”.

Will you expand on that and say a bit more about the impact of Brexit?

10:45

Professor Gibb: I am thinking about work that construction industry academics have done on the initial impact on labour supply, the cost of materials and the shortage of specific materials. Brexit is a contributory factor—at least—when it comes to our exchange rate and external competitiveness, so if we are importing supplies, there are negative impacts in that sense, too. As, I think, we are all aware, it is clear that there are severe labour supply shortages in the entire supply chain relating to building or investing in a home. Whether we attribute that solely to Brexit or not, Brexit is certainly a contributory factor.

Marie McNair: Thank you.

The Convener: We move on to our third theme, which is the scope for different ways of financing and delivering affordable homes and prioritising resources when capital funding is under pressure.

Miles Briggs (Lothian) (Con): Good morning. I thank the witnesses for joining us.

The conversation about the state of the market has been quite negative up to this point. When it comes to solutions and ways of ensuring that we achieve the targets to which we signed up, do the witnesses think that there are new opportunities for financing and leveraging more money into the sector? Are there opportunities for longer-term investments such as pension funds to invest in housing schemes? Are different models available to enable us to realise the potential that we want to realise for housing construction? Perhaps Fiona Kell will go first.

Fionna Kell: This is undoubtedly the time to be a little more innovative in that regard. There is definitely more opportunity for shared ownership and shared equity schemes to support people. Approaches such as the first home fund, which operated very successfully last year and helped people towards the affordable end of the market, should be allowed. What is particularly interesting about that type of loan funding is that it generates income for Government, which ultimately allows Government to reinvest in it.

A number of our members are seeing a lot more innovation come from south of the border. I am not an expert in the area, but I understand that it is to do with the way in which RSLs north and south of the border can borrow—I am sure that colleagues on the panel can advise on that. From what I hear, RSLs south of the border are able to take more innovative approaches as a result of different borrowing structures. I do not know whether anyone else on the panel wants to come in on that.

Aaron Hill: I am happy to do so—and I will try to be a bit more positive on this one. On what else might be out there, we are seeing increased institutional investment in England and increasingly in some associations in Wales, with people accessing the bond market.

Pension funds have been mentioned repeatedly during my time in housing, but the approach has not quite got there. There have been examples of such investment, but what all the models really need is scale, and there needs to be collaboration and partnership in the housing association sector to get there. It is a question of how Government, the regulator and others help to drive that.

The greatest opportunity for innovation around finance is probably in decarbonisation. I talked about some of the pressures and where they apply to housing association business plans and

business models. The interesting question is whether we can get some of the lending that will be required off balance sheet. Could we set up a special purpose vehicle? Could we use, for example, the national energy agency as a facilitator of some of that funding? I think that Ken Gibb mentioned the Scottish National Investment Bank and the Scottish Futures Trust; there is a role for such bodies in coming together and potentially providing a vehicle, so that such lending does not sit on housing associations' balance sheets and affect our ability to build in the way that I talked about. That opportunity is definitely worth exploring.

Professor Gibb: There are a few smaller innovations that can be useful in certain contexts, and we could do more with them. I completely agree with what Fionna Kell said about risk pots and things like that; I remember talking about that back in 2008-09, when we were talking about how to provide different forms of state support.

Another thing that we talked about then, which still seems relevant now, is buyers working together to use purchasing power to get benefits in the supply chain—again, it is about scale.

Something that I have been working on recently in England is social investment finance, which is really interesting. In partnership with the Department for Levelling Up, Housing and Communities, in London, people are doing a series of follow-on projects that relate to the bringing into hotels and suchlike of homeless people during the lockdown. A range of housing associations and other charities are involved, and funding is being put into purchasing properties, sometimes for temporary accommodation—but it is high-quality temporary accommodation—a lot of which is in the second-hand market. The Simon Community and the University of Edinburgh are working on a similar project in Scotland.

Social investment finance is a source of funding for which there is a considerable appetite out there. It is not a panacea but it can be useful for certain things, particularly the bits in the middle, if we are trying to rely on finite housing support to back housing first and other approaches. It might offer another way to help such projects work.

All those things are relevant. Another thing that is interesting is financial transactions capital. That is demand led, to some extent, so it is difficult to plan; there is quite a lot of it in the capital budget. However, it has been vital to shared equity and other things of that kind, such as the charter bonds model. There are examples, through the Scottish Futures Trust and through Places for People, of affordable rent projects that work very effectively without using pension funds, using financial transactions capital. The approach has the added advantage that was mentioned of providing a

revolving fund: you can use the funds again when you get your share back.

Miles Briggs: That was helpful. As no one else wants to come in on that, I will move on.

Homes for Scotland has made suggestions about Government support schemes. Help to buy has been scrapped in Scotland. If we are heading into a period in which it will be more difficult for people to find a deposit to enable them to buy a home, what should the Scottish Government do? Should it put that scheme back in place, to help people to get deposits, or is there a different model to support private buyers and to enable private homes to go on being built? Fionna Kell, we heard you express concerns about a 30 per cent reduction in the number of affordable and social rented homes that will be delivered by a strong private build. What is your view on the future of help to buy and other models of support?

Fionna Kell: Undoubtedly, as we go into more turbulent times, something like help to buy and the first home fund could be useful again. What differentiated the help to buy fund in Scotland from the approach elsewhere was that the thresholds in Scotland made the fund much more targeted, so it had a much more positive impact. Such an approach could be looked at. There is no doubt that the first home fund has been useful, as I said. I talked about the interconnectedness of the market. Buyers of a first home are the first part of the chain of private homes for sale, so it would be useful to have something that would stimulate that part of the market and get it moving.

Something interesting that we have talked about in the past is land and buildings transactions tax. As Ken Gibb said, stamp duty can be a bit of a blunt instrument, but we could think about how we use LBTT to encourage people to purchase greener homes. Can we link LBTT to the purchase of more energy-efficient homes? Is there also the potential for a reduction in council tax for people who buy such homes?

I appreciate that all those approaches have big implications. However, there are definitely things that we could look at.

Miles Briggs: That was interesting. Thank you.

As no one else wants to come in on that point, I will move on, in the interests of time. What are the witnesses' views on the UK Government's Levelling-up and Regeneration Bill, and specifically on the missions in it that relate to housing? For example, the UK Government wants renters to have a secure pathway to ownership by 2030. What do the witnesses think about the bill and the impact that it will have on devolved areas?

If no one wants to comment, I will hand back to the convener.

The Convener: No one has picked up that levelling-up fund business yet. It is something that is coming towards us soon.

Willie Coffey wants to ask a question about pension funds. I believe that Aaron Hill was talking about the need for a scale-up in that regard.

Willie Coffey: My question is on the point that Miles Briggs raised about the use of things such as pension funds and real estate investment funds to lever in money. Is there a risk that, as my colleagues in East Ayrshire Council have said, the issues that follow on from the use of that funding model—guaranteed rates of return, indexing and so on—will translate across to the rent that might be demanded of tenants, and rents might require to be indexed?

Aaron Hill: There definitely is a risk of that. Ultimately, that is one of the reasons why we have not seen huge amounts of pension fund investment or other institutional investment in the sector. The situation is changing, given the economic circumstances, but when returns on investment have been at historically low rates, as has been the case recently, that has raised the spectre of whether certainty, which is what social housing provides, will become more attractive than higher rates of return. There might be a trade-off there. Ultimately, the issue of scale and the fact that there have not been huge returns have meant that that model has not been used to a great extent. If it were to be, we would have to navigate some of those issues. If rent policy ended up being driven by investment rather than vice versa, that would be a significant unintended consequence.

The Convener: That concludes our questions. Thank you for speaking to us this morning. I have certainly picked up quite a few things to think about.

I am sorry—I see that Gary Fairley wants to come in on that final question.

Gary Fairley: I just want to highlight that, under the current funding model, local authorities can quickly secure borrowing to fund investment from the Public Works Loan Board through the Treasury. Again, those rates are based on gilts, and that supports the fundamental issue of the availability of rent. The situation would probably be challenging for private sector pension funds, which look for a return that will be higher than the cost of borrowing through the PWLB arrangements.

Professor Gibb: I would like to make a slightly tangential point that is relevant to what Willie Coffey was talking about. We are doing some work on rent controls, and one of the things that we have looked at is how investment banks in Europe behave in the presence of rent controls. We talked to a Swedish real estate business that

invests in properties on behalf of pension funds and insurance companies. It has properties in Sweden, Germany, Denmark and Holland as well as in the United Kingdom, and it is quite happy to operate in rent-controlled systems in which, clearly, rents are not able to be indexed. The issues are worked through and a series of risks are looked at. As part of a diversified portfolio, that seems to work quite effectively.

Again, this is not really on point, but when there is so much discussion of supply withdrawal and investment problems around rent-control models, it is interesting to see how real estate businesses operate in that context and export their model quite successfully into countries with different kinds of rent control.

The Convener: Thanks for pointing us to the fact that things are done differently in other parts of the world.

Sherina Peek: I would sound a note of caution when we are looking at the various models and thinking about what they would mean for local authorities. If a local authority was expected to take a 20 or 30-year lease on a block of flats, based on other models, it would probably be expected to be responsible not only for the management and maintenance of the block but for the cyclical repairs, too. That raises the question of where those tenants go after 10 or 20 years, because the blocks are not going to be empty. Having paid the rent and provided whatever return the owner wanted, the local authorities might have to buy the units or bring them back up to whatever standard is in place at the time, which will have changed in 10 or 20 years.

In terms of what the long-term investment and gain looks like for local authorities under that model, it is not always as beneficial as just building our own homes and owning that asset outright.

The Convener: Thanks for that point.

As I was saying, we have come to the end of our time—it is exactly 11 o'clock. Some good points have been raised that I know that I, at least, will have to look at in a little more detail. Next week, on 13 September, we will take evidence on the same topic from the Cabinet Secretary for Social Justice, Housing and Local Government.

I thank everyone who has contributed to this morning's discussion. As agreed previously, we will take our next item in private.

11:00

Meeting continued in private until 11:34.

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