

# Local Government, Housing and Planning Committee

## 22nd Meeting, 2022 (Session 6)

Tuesday 6 September 2022

## Pre-Budget Scrutiny – Affordable Housing

### Introduction

1. At its meeting on 14 June 2022 the Committee agreed to focus its pre-budget scrutiny on funding for affordable housing, continuing its exploration of this issue.
2. This paper sets out the focus of the Committee's work and the evidence the Committee will be taking to inform its consideration

### Background

3. In the previous parliamentary session, the Scottish Government planned to deliver 50,000 homes, of which 35,000 would be for affordable rent. However, completion was delayed due to the COVID-19 pandemic. [The 50,000 target was reached during March 2022.](#)
4. The Scottish Government's current commitment is to deliver 110,000 affordable homes by 2032, of which 70% will be available for social rent and 10% will be in remote, rural and island communities. The Scottish Government plans to invest around £3.6 billion in its affordable housing supply programme during the current parliamentary term. A total of £831 million is available in 2022/23.
5. Budget scrutiny is an ongoing process. The Committee has already taken evidence on affordable housing supply and the budget. The Committee held an initial session on committee priorities with stakeholders on 28 September 2021, a session on affordable housing on 17 May 2022 and a session on housing as part of the draft NPF4 scrutiny on 1 February 2022.
6. While witnesses spoke positively of the ambition in the Scottish Government's affordable housing programme, they also expressed some reservations about the financial viability of the programme. Witnesses were doubtful about the capacity to deliver the promised programme and were also concerned that the costs of the building programme, including meeting the Energy Efficiency Standard for Social

Housing (EESH2) would be passed onto tenants. Concerns were also expressed to the Committee on the impacts of the increasing costs of materials and skill shortages, particularly in a rural setting.

7. The majority of the affordable housing supply programme is funded via Scottish Government grants (accounting for around 56% of total costs) along with contributions from councils and Registered Social Landlords.

8. Following the September evidence session, in October 2021, the Scottish Government implemented a revised grant subsidy regime which resulted in an increase in grant subsidy levels. At the same time, the Scottish Government is also advancing continuous improvement with the sector. The Scottish Government confirmed that the use of a “value for money in new affordable homes” tool and the participation of housing specialists in a programme of procurement support would become part of its approach.

## Focus of scrutiny

### *Delivery and funding of the affordable housing programme*

9. At a most basic level the Committee is considering whether there is adequate funding in place to deliver on the Scottish Government’s affordable housing programme.

10. In particular, the Committee is keen to explore the impact of increasing costs for housing development programmes and how the revised grant subsidy framework is working in practice to mitigate those increased costs.

11. The Committee wants to understand the extent to which different ways of financing and delivering affordable homes can contribute to meeting the targets for affordable house building in Scotland and more generally meeting housing needs in Scotland. The Committee is also keen to hear about the contribution of the private sector to the affordable housing supply programme

12. The Committee also wants to understand how local authorities are meeting the demands of the affordable housing programme whilst at the same time maintaining existing housing stock and meeting the demands of decarbonisation.

### *Impact of spending on the delivery of outcomes*

13. The Committee wants to hear views on how funding could be best used to meet housing needs and deliver on placemaking objectives. The Committee wants to understand if the building of 110,000 affordable homes is meeting Scotland’s housing needs.

14. The Committee also wants to hear how funding for affordable housing is contributing to the delivery of the national outcomes in the National Performance Framework.

15. In addition, the Committee wants to hear about how resources could be prioritised to best meet housing needs if there are reductions in the capital spend for affordable housing.

*Proposed changes*

16. Finally, the Committee wants to hear if there are changes that should be made to the level of funding for the affordable housing programme or if there are changes required in the ambitions for that programme.

## **Evidence programme**

17. The Committee asked for written evidence from local authorities and the witnesses it agreed to invite to give oral evidence to inform the Committee's consideration of this issue. Copies of those responses are attached the annex to this paper.

18. At this week's meeting the Committee will be taking evidence from the following:

- Mike Callaghan, Policy Manager, Communities Team and Gary Fairley, Midlothian Council, Director of Corporate Services, COSLA;
- Professor Ken Gibb, Director, UK Collaborative Centre for Housing Evidence, University of Glasgow;
- Aaron Hill, Director of Policy and Membership, Scottish Federation Of Housing Associations (SFHA);
- Fiona Kell, Director of Policy, Homes for Scotland;
- Sherina Peek, Acting Policy Manager, Association of Local Authority Chief Housing Officers (ALACHO);
- Ailsa Raeburn, Chair, Community Land Scotland

19. The Committee will hear from the Cabinet Secretary for Social Justice, Housing and Local Government at its meeting on 13 September.

### **Clerks**

### **Local Government, Housing and Planning Committee**

**Local Government, Housing and Planning Committee**  
**2023-24 Pre-Budget Scrutiny**  
**COSLA, ALACHO, Directors of Finance Response**

COSLA is a Councillor-led, cross-party organisation which champions Councils' vital work to secure the resources and powers they need, representing all 32 Councils in Scotland. COSLA works on Councils' behalf to focus on the challenges and opportunities they face, and to engage positively with Governments and others on policy, funding and legislation. We're here to help councils build better and more equal local communities. To do that we want to empower local decision making and enable Councils to do what works locally.

CIPFA Directors of Finance Section works closely with COSLA in leading strategic discussions with the Scottish Government around funding and distribution for the essential services and policy areas that Councils deliver on. Members of the Section are those who have responsibility for the overall financial functions across all 32 Local Authorities.

ALACHO is the representative body for local authority housing in Scotland. The chief housing officer from each council is invited to regular meetings to discuss key housing issues affecting local authorities allowing issues to be debated and opinions formulated. The aims and objectives of the organisation are primarily, but not necessarily limited to:

Promoting the interests of Scottish local housing authorities

Promoting the sharing of information and good practice within Scottish local housing authorities and between local authorities and other agencies

Promoting positive and productive relationships between Scottish local housing authorities and other agencies

## **Introduction**

1. COSLA, Directors of Finance and ALACHO welcome the opportunity to submit a brief written submission to the Committee, alongside presenting oral evidence on 6 September. In the following submission, we address the following questions:

How could funding be best used to meet housing needs and deliver on placemaking objectives?

How is funding for affordable housing contributing to the delivery of the national outcomes in the NPF?

How should resources be prioritized if there are reductions in the capital spending for affordable housing?

2. We believe this is an extremely important issue and one which, given the centrality of housing to wider socio-economic, energy, and health-related issues, has the ability to impact broader Scottish Government targets. However, we also wish to question the Committee's focus. Instead of centring on how we can meet affordable housing targets, this submission emphasises that the focus of any discussion on affordable housing should first and foremost be from the perspective of the tenants. In other words, how will existing and future local authority tenants be impacted by the current affordable housing funding model and the implications of the Energy Efficiency Standard for Social Housing (EESH2).

**Q1: How Could Funding Be Best Used to Meet Housing Needs and Deliver on Placemaking Objectives?**

3. We believe that the current funding model and benchmark approach, including the levels contained within it, disincentivises local authorities to meet targets set out in the Affordable Housing Supply Programme. The result is avoidable backlogs and increased delays when homes do begin construction, as well as higher financial burdens on existing tenants and longer waiting list times in temporary accommodation for prospective tenants.

4. Currently, Local Governments and Registered Social Landlords (RSL) are subject to contrasting conditions regarding their ability to secure affordable housing supply grant support to build affordable housing. Due to the existence of a differential in the benchmark offered to Local Government and Registered Social Landlords, local authorities are subject to greater financial barriers than other stakeholders. In 2021, for example, the differential between local authorities and RSLs was:

£6,500 in urban areas;

£12,500 in the West Highlands, Islands, and Rural areas; and

£7,500 for Other Rural areas.

5. The higher benchmarks for local government increase bureaucracy and cause avoidable delays. Local authorities need to submit more detailed assessments than RSLs. This causes increased workloads for the Scottish Government and results in longer lead-times for developments. In turn, this has a negative impact on prospective tenants. Local authority housing waiting lists are already under extreme stress. In 2020-2021, local authorities received 178,260 applications for housing, 13,314 more than in the previous year.<sup>1</sup> Any increase in the approval process will further delay construction. In turn, more and more households will enter temporary accommodation for ever-greater periods of time.

6. COSLA has repeatedly called for an end to the differential. To meet housing needs, future affordable housing funding approvals must follow a different model. Specifically, the benchmark differential between Local Government and RSLs should be closed. The obvious positive impact of this move on local authority tenants will be discussed in further detail below.

## **Q2: How Is Funding for Affordable Housing Contributing to the Delivery of the National Outcomes in the NPF?**

7. We recognise that affordable housing is crucial to the delivery of broader socio-economic, energy, and health-related objectives. Affordable housing could work alongside wider Scottish Government targets surrounding poverty, health and addressing climate change – as prioritised by the Scottish Government in the 2022 Resource Spending Review. However, the current quantum of funding and the approach to deploy this risks undermining these efforts.

8. Firstly, through increased bureaucracy, the current funding model does nothing to reduce already lengthy waiting list times. This increases the number of people in temporary housing. As of 30 September 2021, 13,192 households were in temporary accommodation across Scotland. What's more, this figure is growing and will be further affected by the cost of living crisis and pressures created by the humanitarian response to the war in Ukraine. In Glasgow, the period April-September 2021 saw 684 more households enter temporary accommodation than exit.<sup>2</sup> This is clearly unsustainable and will only be worsened by continuing with a model which causes avoidable delays to the building of affordable housing.

9. Secondly, the quantum of funding and grant support for each new unit passes an increased burden of funding required to build Council housing onto existing and prospective tenants, via increased rents, at a time of falling household incomes. Based on a projected total cost of £152,000 per new unit, the Scottish Government has allocated £3.6bn of funding to meet its target of 55,000 new affordable homes by 2026.<sup>3</sup> However, with the expected actual cost of a new unit likely to be upwards of £200,000 (with even higher costs expected in areas such as the Highlands), the Government's proposed grant contribution of 40% will likely fall under approximately 34%. The resulting funding gap will invariably fall on local authorities and, in turn, on local authority tenants. On average across the 32 local authorities, local authority rents in Scotland will increase by 1.36% in 2022-23.<sup>4</sup> At the same time, the number of local authority tenants in arrears is also growing, rising from 7.2% to 8.3% over 2020-21.<sup>5</sup> In the context of ever-growing financial hardship, any increase in rents to cover the Scottish Government's quantum of support to meet affordable housing targets and the policy of a differential benchmark will only result in these figures getting larger. If the Scottish Government wishes to meet its affordable housing targets and protect the most vulnerable sections of the population, it must either increase funding and relieve local authorities of an unsustainable financial burden or reconsider whether its target of 55,000 is ultimately realistic in the current climate.

10. Thirdly, current affordable housing programmes focus on prospective tenants and do not adequately take cognisance of the overall investment requirements for existing social housing. In particular, ESSH2 will require significant investment and, in the absence of adequate levels of support through general taxation, the cost of this investment will fall on local authority tenants. Concerningly, the increased costs of the affordable supply target, combined with the cost of meeting other standards, has not been adequately modelled or assessed but can only lead to significant upward pressure on rent levels. As such, the view of COSLA, Directors of Finance and ALACHO is that, without a fundamental review, the current targets and

associated funding models risks pushing rents for social housing to unaffordable levels for the majority of tenants. Ring-fenced Housing Revenue Accounts are not immune to the cost of living crisis and increased inflation. In the absence of changes to funding models, councils will be forced to choose between more homes or better homes. This is a question of fairness. If Housing Revenue Accounts and rents are prioritised to plug the increasing funding gaps in affordable housebuilding programmes, the existing local authority stock is at risk of being neglected, leading to negative outcomes in health, wellbeing, and energy efficiency for current tenants.

**Q3: How Should Resources be Prioritized If There Are Reductions in the Capital Spending for Affordable Housing?**

11. We believe that any discussion regarding the prioritisation of resources should commit to a partnership approach between the Scottish Government and local authorities. However, doing so will require improved forms of communication and governance. We suggest re-establishing the Affordable Housing Supply Programme Working Group and looking at alternative means of coordinating action with stakeholders such as the NHS.

12. We also believe that the Scottish Government could prioritise resources by meeting targets through alternative methods. For instance, while we remain committed to meeting energy efficiency standards, it is arguable that the added cost of meeting Passive House standards could be better met through adhering to a cheaper, yet still effective, platinum level standard as set out in the Scottish Government's Building Standards Technical Handbook.

13. Finally, in a context of reduced resources, stakeholders should be encouraged to explore alternative ways of increasing housing supply. This could take the form of acquisition of existing blocks of housing, as recently pursued by the City of Edinburgh Council, or increased funding for volumetric housing.

**Local Government, Housing and Planning Committee – Call for Views on the Funding of the Affordable Housing Supply Programme**

**Argyll and Bute Council Response 23rd August 2022**

**Themes**

- Delivery and funding of the affordable housing programme
- At a most basic level the Committee wishes to hear your views on the extent to which there is adequate funding in place to deliver on the Scottish Government's affordable housing programme.
- In particular, the Committee would be keen to hear about the impact of increasing costs for housing development programmes and how the revised grant subsidy framework is working in practice to mitigate those increased costs.
- The Committee is also keen to get your views on the extent to which different ways of financing and delivering affordable homes can contribute to meeting the targets for affordable house building in Scotland and more generally meeting housing needs in Scotland. The Committee would be interested to hear from you about the contribution of the private sector to affordable housing supply via your affordable housing planning policies as part of the planning system.
- The Committee also wants to understand how you are managing to meet the demands of the affordable housing programme whilst at the same time maintaining existing housing stock and meeting the demands of decarbonisation.

**COUNCIL RESPONSE:**

The Resource Planning Assumptions (RPAs) are at a level where the Council can take forward all the new build housing development plans with the Registered Social Landlords (RSLs).

However, the impact of increasing costs seems to be putting the Scottish Government in a compromising position due to the high level of public subsidy required to deliver some projects. In a rural island authority such as Argyll and Bute costs are already high and are increasing to levels where projects cannot be supported by the Scottish Government despite the availability of RPA. This is particularly the case for our islands and remote rural communities.

There seems to be a debate between organisations as to how we measure price increases, the level of increased costs and the impact on the construction sector. The Scottish Government use the Scottish Social Housing Tender Price Index



(SSHTPI) which appears to be based on costs of approved Affordable Housing Supply Programme projects (around 2%). The Building Cost Information Service (BCIS), however, provides a more wide ranging indication of actual increased costs (around 20%) and this appears to be closer to the reality of the Argyll and Bute context. This is a huge disparity that needs to be reconciled definitively.

Transport costs (including ferries), material costs, availability of labour, inability to house incoming workers combined with the availability of work in more central areas are all significant factors that are pushing up rural construction costs well above the national average.

The consequences of this is the revised grant subsidy framework is not keeping up with increased costs that are being put to Councils and the Scottish Government for consideration. The Strategic Housing Fund which has been in operation in Argyll and Bute for a number of years is an example of financing affordable housing and helps in some way to mitigate the high development costs in Argyll.

We would therefore welcome a robust national evaluation of increased costs across Scotland including rural and island areas. In the meantime we would advocate a compromise solution which would enable the delivery of much needed affordable housing in the remote, rural and island communities of Argyll and Bute.

The speculative larger scale private housebuilding sector is limited primarily to the Helensburgh and Lomond area in this authority (i.e. within commuting distance of the central belt). When private housing developments are approved there is a 25% affordable housing requirement on developments of 8 or more houses. This approach works but the issue is the market failure in terms of private housing construction across the local authority area. A key issue is that wage levels have not kept up with the cost of housing to buy. The Council is trying to address this issue in part through the Rural Growth Deal. There is also a need to consider how the public sector can intervene in areas where there is market failure in the provision of private housing for sale or long term rent.

Another key area for us is returning empty homes back into productive use. There are a considerable number of ineffective, empty homes in Argyll and we welcome any further incentives to help make these houses available again.

As a stock transfer local authority we do not have existing housing stock to maintain but our Local Housing Strategy (LHS) recognises the importance of existing housing stock. One of our main ambitions within the LHS is to maintain and improve existing housing stock through mechanisms such as Private Sector Housing Grants, Empty Homes Initiatives and Home Energy Efficiency Programmes.

### **Impact of spending on the delivery of outcomes**

- The Committee wants to hear your views on how funding could be best used to meet housing needs and deliver on placemaking objectives. The Committee wants to understand if the building of 110,000 affordable homes is meeting Scotland's housing needs.

- The Committee also wants to hear how funding for affordable housing is contributing to the delivery of the national outcomes in the National Performance Framework.
- In addition, the Committees wants your views on how resources could be prioritised to best meeting housing needs if there are reductions in the capital spend for affordable housing.

### **COUNCIL RESPONSE:**

As previously mentioned the Council's LHS recognises the importance of new build affordable housing and also the key role that existing housing plays in meeting need and demand. The Council is focused on reducing the number of 'ineffective' houses in the local authority area.

It is vital that all housing related funding streams are maintained in order that we can meet the increasing need and demand for housing. The National Islands Action Plan has brought a focus on repopulation which means that the Scottish Government are committed to delivering housing above and beyond the traditional means of housing need and demand as defined in the Housing Need and Demand Assessment process. The Council welcomes this approach but also urges that the necessary public funding is made available to deliver these national objectives.

In terms of Placemaking it would be beneficial if there was a nationally agreed method of measuring the social impact of delivering new build affordable housing.

The new build housing programme is key to the economy of Argyll and Bute due to the high number of people employed in the construction industry across Argyll and Bute and the number of young people who are given apprenticeships and training opportunities as a direct result of the Affordable Housing Supply Programme. RSLs tell us they are currently experiencing significant difficulties recruiting construction staff as are private sector firms operating locally.

Housing plays a key role in delivering National Outcomes in relation to communities, children and young people, economy, education, health and human rights. Any reductions in the capital spend for affordable housing would be detrimental to achieving some of the most important objectives set by the Scottish Government and Argyll and Bute Council. Capital budgets in relation to existing housing such as Private Sector Housing Grant should also be protected.

### **Proposed changes**

The Committee wants to hear from you if there are changes that should be made to the level of funding for the affordable housing programme or if there are changes required in the ambitions for that programme.

### **COUNCIL RESPONSE:**

Proposed Changes that may assist maximisation of Scottish Government support:-

- RPA Use for Infrastructure
- Could we use RPA to cover installation of infrastructure which may jointly fund affordable & potential private development with a levy to recover contribution if and when any private housing delivery occurs?
- RPA In Place of Housing Infrastructure Fund (HIF)
- We have 3 HIF projects in Argyll at an estimated cost of £5m. Could this come out of the RPA, would it be a simpler process?
- Benchmark Flexibility Reflecting Increased Costs & Site Challenges
- RSLs absorbing current inflationary costs will result in stalled projects and or increased rent levels. Could RPA benchmark be more flexibly applied to cover these costs, especially where these benchmark restrictions are currently restricting the maximum use of available RPA?
- Direct Lease To Employers
- Could RPA fund RSL development to lease units directly to public sector for key workers, ie: HSCP?
- RPA support for Rural and Island Housing Projects
- Could RPA be used to support Community Groups providing match funding for Rural and Island Housing Fund. Either by loans or underwriting to assist their capital contribution.
- Servicing Self Build Plots
- Can the Council / and or working with Community Groups & or RSLs use the RPA to service self- build plots.
- Council use of RPA to purchase / CPO land for affordable housing development.
- Can the Council use the RPA to purchase land to be used for affordable housing, and potentially utilising CPO to do so if required. This could assist unlocking land particularly on Islands in certain circumstances.

**Community Land Scotland evidence to the  
Local Government, Housing and Planning Committee**

**6 September 2022**

**Remote and rural housing**

It is clear in many communities that the private market in housing development has failed. Although values have risen significantly, due to external pressures, development costs have also risen. This makes profit led development impossible in remote rural areas, especially on islands.

Private development tends to be one off larger houses, outwith the budget of local incomes. Many are being built for second or holiday homes.

The Croft House Grant is still available and in use, but final build costs still place new development outwith the budget of many local incomes.

RSLs are active on some of the larger areas (Mull and Western Isles) but these are limited in number and scope. They focus on main settlements, with again scheme affordability outwith their usual models.

Communities continue to be the main developer of affordable housing in many remote and rural locations with costly island activity currently happening on:

- Gigha
- Islay
- Mull
- Colonsay
- Eigg
- Canna
- Rum

As well as many mainland locations in the Highlands and South of Scotland.

**Values vs local incomes**

Local economies are dependent on tourism, fish farming, forestry and public sector employment. Highland and Island salaries are below national median levels (87% of Scottish average.) Living costs in the region are 15-30% higher than urban Scotland.

On Tiree 40% of homes are second homes, vacant or holiday lets. Average sale prices are £260,000 - £270,000 (2021 based on 10 sales). Average local income is £30,000. The Argyll and Bute Council Housing Strategy confirms that 75% of local households are not able to afford average house prices in the Council area. 41% would not be able to afford the lower quartile average housing (for first time buyers.)

**What does community led housing deliver**

As well as addressing very specific local housing need, community led housing also addresses depopulation as it focusses on specific locations where services and facilities are under threat of loss. It helps build capacity and confidence in local communities who then go on to address other local needs. It also secures community support for new development in sensitive areas where other developers struggle to gain community / planning consent. It also builds local community wealth ensuring key local assets are in local democratically controlled hands, ensuring any profits are returned to local people. Communities focus on supporting local businesses and contractors wherever possible. It therefore also contributes to the following outcomes in the National Performance Framework:

- live in communities that are inclusive, empowered, resilient and safe
- value, enjoy, protect and enhance their environment
- have thriving and innovative businesses, with quality jobs and fair work for everyone
- respect, protect and fulfil human rights and live free from discrimination
- are open, connected and make a positive contribution internationally
- tackle poverty by sharing opportunities, wealth and power more equally

Communities are also more likely to consider wider place making objectives with schemes in Gairloch, Strontian and Tomintoul delivering other local services and facilities, as well as housing. They also design housing appropriate to local circumstances, rather than a standard design.

### **Progress**

Community led housing takes a long time to come to fruition. This is due to the need to build local capacity and skills. The Rural Housing support bodies are critical in this process and funding should be continued for their services. 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. These schemes are often too small for RSLs and private developers as outlined above.

More and more communities are taking a lead on addressing local need and we should expect the numbers delivered to rise significantly in the next 5 years.

### **The impact of increasing prices**

The following data is available from South of Scotland Housing for recent schemes. Island costs are higher still.

<b>Project</b>	<b>Total Cost</b>	<b>Original Cost (build) – ex VAT</b>	<b>Final Cost (build) – ex VAT</b>	<b>% Uplift</b>	<b>Note</b>
Langholm (4)	530,168	360,000	482,500	34%	Value engineered final cost
Glentool (3)	574,453	217,472	323,670	48%	
Whithorn (2)	539,913	288,552	358,244	24%	Value engineered
MSQ (7 plus commercial)		2,800,000	6,800,000	142%	Costs impacted by planning changes

**Average uplift on rural project build cost – 35%**

**Local Government, Housing and Planning Committee****East Ayrshire Council Submission****First Panel (column 2)**

***What are the challenges to delivering affordable homes in your areas of operation? How are you addressing the challenges? Can you share good examples?***

The main challenge noted by witnesses relates to costs across the sector, and tender cost in particular. The Council would concur. As a result of a range of national and international factors, costs are increasing and these impact significantly on the viability and affordability considerations and, therefore, the deliverability of projects regardless of tenure and type. Coupled with a raft of specification enhancements to be incorporated concurrently into the builds, the figures referenced and comments made by witnesses relative to tender costs, specification enhancement on-costs and the associated mis-match between increasing costs and recently published Scottish Government grant rates are very relatable.

The statement relative to choosing to invest in existing stock versus new build, and the associated pros and cons of each, resonates with the discussions East Ayrshire Council has already held in advance of preparing Cabinet papers to be presented to Elected Members to inform future programming under the umbrella of the East Ayrshire Housing Asset Management Framework (HAMF) for both the improvement and new build programmes. The clear conclusion arising from these discussions is that the status quo is unsustainable without further mitigation measures. Continuing to promote both without taking account of the wider context would be untenable in terms of capital cost, ongoing borrowing impacts and, most importantly, on-costs to tenants' rents, mindful that Council tenants are amongst the poorest in the sector.

***To what extent does the existing housing funding and planning system help to meet the specific challenges of developing affordable homes in rural areas? How successfully has the Scottish Government helped to address such challenges?***

As reported by witnesses, the Council has a strong track record of delivering new affordable energy efficient homes across the Authority area. Further, the Council seeks to deliver the right types and sizes of homes in the right locations referencing the housing needs and demand assessment, Local Development Plan, Local Housing Strategy (LHS), waiting lists and so on. However, it also relies on the outcomes of the ongoing annual HAMF reviews. Without future-proofing the Council's stock, there is a risk that properties delivered today will not be fit for purpose tomorrow; an issue that is already evident given the legacy impacts of Right to Buy (RTB). Larger sized homes are required to respond to identified housing need as part of the ongoing delivery of communities of interest. However, many properties of this type were sold off in high demand areas under RTB and are particularly expensive to deliver. Importantly, in order to continue to respond robustly in its role as Strategic Housing Authority, the Council has modelled affordability scenarios to determine recommendations as to how best to continue to deliver future-proofed programmes, mindful of the prevailing demography, whilst responding responsibly to the cost of living crisis. The Council would therefore agree with the statement made; the measure of success for the affordable housing supply programme must reflect the delivery of the right types of

homes in the right places at the local level to sustain and regenerate communities, as set out in the approved LHS priority outcomes, rather than the realisation of a target that is disaggregated by Resource Planning Assumption allocations across Local Authorities.

Moreover, given Housing to 2040 proposes to replace the out-dated Housing for Varying Needs standard with an all-tenure accessible housing standard, and rightly so given the prevailing demography and the need for equitable buy-in from the private house building sector. However, the on-costs likely to be associated with the delivery of the Standard in this wider economic context must not be under-estimated.

***Does the solution lie in looking at the subsidy benchmarks? Do we have to increase those again? Is anything being done to enhance the local supply chain network? It was mentioned that the costs of materials are going through the roof. I do not know whether most of the materials are being brought into the rural community or, indeed, into Scotland. Is work being done on that? Is there a role for private developers' contributions to be changed to try to assist with that? Is there any evidence yet that some of the projects are at risk of not going ahead or being delayed because of those escalating unit costs?***

The Council welcomes the recent increase in Scottish Government grant benchmark levels. However, the lack of parity across baseline grant amounts for Councils and Registered Social landlords (RSLs) continues to prevail, thereby impacting Councils' ability to deliver programmes, and to deliver sustainable communities of interest, through effective place-making that reflects local need. As reported by witnesses, the baseline levels and add-on amounts available do not reflect delivery costs or prevailing market conditions. These sums require to be revised not only for any annual uplift, but relative to reported costs in the market, along with details of how uplift figures have been determined and are proposed to be implemented. The Scottish Government acknowledges enhanced grant levels may be sought and awarded where supporting evidence is provided. Given costs reported across the sector due to global impacts and that these are not increasing in isolation, the need to justify costs on a project by project basis by developing landlords fails to acknowledge those prevailing conditions as well as Councils' status as Strategic Housing Authorities where priority need has been identified for delivery at the local level, as set out in the SHIPs. By extension, the same point encompasses RSL partners' projects. The need to justify project costs on a case by case basis, rather than the newly-implemented Scottish Government grant guidance better reflecting the market, is counter-productive to delivery, particularly where a development allows for the inclusion of particular needs homes in support of Authorities' Wheelchair Accessible Housing Targets. The Scottish Government guidance make no reference to any on-costs for their delivery.

Supply chains, partnering work and off-site manufacture can and do promote efficient delivery, but do not, of themselves, mitigate the cost and delivery impacts being experienced in the sector. If they did; it would have become apparent when the first wave of cost increases was reported.

The Council supports the complementary delivery of homes in the private sector through Empty Homes initiative works and targeted second hand purchases in the open market that facilitate the delivery of social rented homes in areas of reported high pressure, to resolve unmet community care need that cannot be addressed through



common housing registers and existing stock pools across partners, and to unlock stalled strategic improvement programme delivery in mixed tenure blocks that would otherwise be blocked with existing tenants' homes being unable to benefit from these programmes. That said, Councils and RSL partners are competing in a buoyant market where house prices are also under pressure, setting aside any on-cost applicable to bring acquired properties up to the agreed standard pre-let.

***Do you have a relationship with other public services, such as the national health service, that would enable you to develop different models for key workers, especially in rural and remote communities? Could you share the risk and develop different funding models with the wider public service?***

The Council collaborates with the Health & Social Care Partnership in the delivery of an assisted living housing model that has been developed locally through multi-partner representation on the Future Homes Project Board that oversees the development and implementation of the HAMF, improvement and new build programmes. The model delivers a successful community-based housing solution with on-site care for residents with a range of complex needs. The award winning model has already been successfully delivered in two towns in East Ayrshire, with a further smaller-scale version currently on site, an expanded model due to start in-year, and another to follow in the Strategic Housing Investment Plan (SHIP) programme proposals.

Significantly, as referenced by one of the witnesses, there is indeed a viability gap in terms of delivering homes for people with specific health needs as there is no acknowledgement of the need for enhanced levels of funding in the refreshed grant guidance. It covers add-ons for net zero, fibre, home work space, etc., but there is no reference made to facilitating community care housing delivery to meet particular needs in the community. At the local level, the Scottish Government promotes the inclusion of supporting information to evidence associated costs at tender stage. In the wider context of people living longer, people living longer with more complex needs and the need for suitable housing solutions to be delivered to support the sustainability of neighbourhoods relative to the Place principle, the Council therefore supports the promotion of mixed sources of capital funding being made available to facilitate the ongoing delivery of this highly successful model, and others, for partners and, more importantly, for residents, their families and communities.

***Will you tell us more about Highland Council's approach to net zero homes? What investment and progress has been made?***

The witness comment made in terms of bringing existing stock up to the net zero standard resonates with the Council's position as existing stock was not designed for this type or level of retrofit work. Nevertheless, the Council also wants to minimise the impacts of increasing fuel costs and cost of living increases for householders through the delivery of a whole house approach to improving stock condition, thereby supporting better health and wellbeing outcomes for residents, promoting the sustainability of the investment made and contributing to the ongoing regeneration of neighbourhoods and towns. Likewise, the Council's new homes delivery is being realised through an ongoing partnering arrangement with CCG (Scotland) Ltd. using off-site manufacture. The Council has developed a suite of East Ayrshire house types and standard specification that better aligns with the improvement programme so as to offer a future-proofed asset. Whilst the Council's current programme allows for the

delivery of its first net zero homes to promote further levels of energy efficiency for both mainstream and assisted living proposals, these installations will be monitored and reviewed in terms of their cost effectiveness for the Council and tenants in terms of sustaining the asset set against a backdrop of increasing capital and energy costs.

***There is an opportunity to expand the use of pension funds and real estate investment trusts. Why is Scotland not as advanced as the rest of the United Kingdom in that regard?***

The Council would echo the same caution noted by the witness with regard to the use of private sector investment to fund affordable housing supply programmes. Whilst it is important to explore available options to facilitate development opportunities, where this type of investment is made, there is business requirement for a guaranteed level of return. Where that return is indexed, there is a risk that rents would require to keep pace. In the current climate, where the cost of living is already challenging and inflation rates are increasing, there are real affordability risks for developing landlords and prospective tenants associated with developments funded in this way.

It is significant that one witness reports partner RSLs are already not developing or have reduced the scale of their activity as they are focussing on their existing stock relative to complying with the energy efficiency standard for social housing (ESSH) and ESSH2. As noted, the Council has already modelled its proposed programmes to take cognisance of the impacts being experienced across the sector, mindful of the anticipated cost impacts associated with ESSH2. There is an ethical balance to be struck by Councils as Strategic Housing Authorities where funds are proposed to be diverted from one programme to another or on-costs are to continue to be passed on to borrowing and rents relative to the grant available. The Council's proposals seek to respond to its ongoing duty to current tenants whilst also promoting sustainable programme delivery for future customers within the prevailing financial climate, subject to ongoing review.

***What role do modern methods of construction play at those sites? [sites that are currently under development] For example, how are modern construction methods being employed to reduce unit costs or to increase efficiency in order to reduce costs for the eventual tenants? What is the Scottish Government's role in pushing out that innovation in order to reduce costs for developers and tenants?***

East Ayrshire Council has been delivering its affordable housing supply programme using off site manufacture working with its developer partner CCG (Scotland) Ltd since 2017 and thus far has completed 6 projects with another 4 currently on site, 1 due to start in-year and more for delivery as set out in the approved SHIP 2022-27. CCG is represented on the cross-Service and Agency Future Homes Project Board to help facilitate the programme delivery at a strategic level. In terms of the builds, a suite of East Ayrshire house types has been developed with CCG to reflect the requirements associated with factory manufacture, to offer continuity of delivery across house types and sizes for allocation purposes and a standard specification has been agreed that better aligns with the improvement programme for ongoing maintenance. The builds completed to date have been designed to Silver Standard to deliver high standard energy efficient homes for tenants. The first net zero build working with CCG is currently underway, with a further assisted living proposal to net zero standards due

to start in-year. It is proposed to carry out post-completion monitoring to evaluate performance.

Whilst superstructure costs may be better monitored and interrogated given the like-for-like designs across sites and the on-site phase works are shortened given the kits are erected in factory conditions and brought to site, substructure costs remain site specific and must be factored into the overall project costs. Moreover, where the mix of house types and sizes proposed may not be the most efficient in unit cost terms only, as Strategic Housing Authority, the delivery requires to respond to need. Otherwise, Councils and RSLs face repeating programmes of demolition and refresh in years to come where builds are misaligned with the prevailing demography and fail to take account of trends reported in the HNDAs, HAMF, updated Census data and waiting lists.

Further, project costs are not only informed by site conditions and any associated remediation or consolidation works required, statutory utilities' consents to develop are conditioned and are subject to access, connection, improvement, capacity and timing issues; with their associated on-costs, assuming approvals can be secured. Where significant connection costs are passed on to individual projects, including upgrades to existing systems, or lengthy routes are required to reach connections, the resultant on-costs can jeopardise a project's viability.

Innovation has a place in driving and improving standards to support programme delivery. However, innovation is only one of a range of factors that informs project costs.

***Are investment programmes essentially funded by rent rises? As we see the cost of units far outstripping the grant allocation from the Government, is it unsustainable to fund new builds through rent rises? What impact is that having on affordability levels for your tenants?***

As set out by the witnesses, build costs are supported by grant, private finance/ Council borrowing and rents. Affordability is already a huge issue for many people and for sustained Service delivery. At a time of financial crisis, the answer is not to compound matters by passing the increasing costs of new build delivery onto tenants via unsustainable rent increases to support more borrowing. The recent increase in Scottish Government grant levels has increased the available grant to Councils and RSLs, albeit at differing rates. However, it has neither taken account of the actual cost to deliver future-proofed homes, current and proposed standards, nor the prevailing economic position. The Council is already considering the implications as Strategic Housing Authority and as a social landlord to try to better mitigate the impacts.

**Second Panel (column 27)**

***What are the challenges in delivering affordable homes in your area of operation? How are you addressing those challenges? Do you have any good examples to share?***

The Council would agree with the remarks made by North Lanarkshire Council (NLC) in relation to the impacts of site condition issues, infrastructure and securing Scottish Water connections. As noted, the need for robust pre-contract preparation by the Design Team is vital and requires to be factored into any development programme

timescale. Securing statutory consultees' feedback and approvals and factoring it into any proposal in practical and financial terms can impact viability considerations, let alone start timescales, particularly given the volatility being reported around contractors holding tender prices, as set out by Wheatley Housing Group Ltd (WHG). The reported projected price increases of between 8 and 10% in construction this year and into next year serve to bring affordability concerns around the programme into sharper focus, relative to the recently revised Scottish Government grant funding levels. Importantly, in this regard it is acknowledged that different procurement and packaging arrangements and working at scale to try to mitigate increasing costs is not impacting costs as these are essentially out-with our control given the scale and reach of the crisis.

Again, like NLC, the Council complements its new build housing programme with second hand purchases in the open market and proposes to continue and to upscale this activity, based on the level of acquisitions achieved last financial year. The programme is time and cost effective, can secure properties in areas of high demand, respond to specific particular housing needs and supports the delivery of strategic improvement programmes.

City of Edinburgh Council (CEC) highlights that without the sustained delivery of private sites that have an affordable housing policy (AHP) requirement, that element of the programme delivery by RSL partners could be delayed or stalled. The decision to deliver private developers' sites is a business decision and is out-with the control of Councils and RSLs. However, the impacts would be felt across authorities where the AHP factors significantly in the delivery of affordable homes.

***Are the unit prices that you have mentioned, which are significantly higher than we had before, coming about purely because of the cost of sourcing new materials to service the industry? Are the costing models based on existing methods of delivery? Are we changing the model of construction or is it too early to tell whether such a move will be successful?***

As set out by the Scottish Futures Trust (SFT), a highly volatile market combined with new standards to be met has exacerbated a problem that does not appear to have an end on sight. That increased costs must not detract from the need to achieve and aspire to higher standards delivery is noted. As Strategic Housing Authorities, Councils and their RSL partners would broadly echo this sentiment. However, social rented and affordable housing is in the minority across the sector and has little opportunity to influence global impacts. Delivering locally sourced materials that do not require to be imported and growing our own labour force will help address some of the cost issues being reported. However, these are not short term solutions to current barriers to development as materials require to be sustainably grown and sourced, mindful of the impacts of net zero in delivery as well as construction, and robust training and skills development take time, even allowing for retraining and redeployment opportunities into new skills bases.

To secure ongoing delivery at scale and in line with previous programmes, costs require to be met in one way or another. Alternatively, providers can seek to manage and re-profile their programme aspirations relative to their own affordability and viability criteria and local needs assessments. Either way, social landlords have a duty

to their existing tenants and stock portfolios to address and comply with current and proposed standards.

***Can we begin to solve the issue through local supply chains, or are we completely reliant on imported timber for house frame construction? Can we solve it?***

Interestingly, although CEC notes their demonstrator project is bringing together a range of partners in terms of procurement and manufacture to deliver net zero homes at scale, costs are reported to be high relative to what is affordable longer term. If not via procurement, scale and innovation measures, how are social landlords to develop and deliver sustainable programmes without additional funding support.

***when Audit Scotland looked at the issue of affordable housing, it said that it was not clear how the national targets linked with local housing needs. Do they share that view, or are things different in the urban setting? Do we have the numbers right, or does the model need to change?***

The setting of national targets using tools such as the Housing Needs and Demand Assessment need not be at odds with local needs delivery. The terms of reference used in collating and setting national targets must allow for need to reflect local circumstances, rather than apply a one-size-fits-all tool. It is for Councils and communities through their Community Plans working with Community Planning Partners, and as Strategic Housing Authorities, to better determine how targets are to be responded to and needs best met in a sustainable way, rather than apply a single methodology to elicit one answer using nationally published data that produces high level analysis and does not inform local service development and delivery. Instead, there must be scope available to collect and overlay locally collected data collated using a range of methodologies to provide more recognisable, accessible and valid output proposals to inform Community Plan, Local Development Plan, LHS priorities and so on. In turn, this analysis better informs delivery mechanisms such as SHIPs to promote more sustainable and robust outcomes across communities at the local level. For example, where markets are relatively flat, income levels are low relative to the national average and levels of deprivation are high, the promotion of tenures that are out-with the reach of much of the population, particularly in the current climate, fails to recognise local level need and, importantly, aspiration. Not all delivery is city-based or rural in context.

***I would like to know how other local authorities are approaching that. [net zero homes] What investments have been made and what progress is there?***

As set out in NLC's response, the Council is using air source heat pumps and enhanced specification measures to deliver its first net zero homes at a site in Kilmarnock, working with CCG. Following completion, the effectiveness, affordability and user-friendly impacts of this proposal will be monitored to help inform future proposals and delivery given the forthcoming legislation changes around domestic direct heat sources. It is important to remember that these properties are tenants' new homes, and not buildings that are visited for brief periods of time. Whilst tenants must be supported to understand the technologies installed in their new homes to maximise efficiency, there must be a recognition that people all live differently. The Scottish Government's Renewable and zero direct emissions heating systems in affordable housing projects (phase 2): evaluation - gov.scot (www.gov.scot), dated July '22,

reflects on this point; it is difficult to evaluate performance given the subjective nature of the study.

***The UK Government has suggested that it is thinking of introducing a right to buy housing association homes for the tenants who are renting them. If that policy were reintroduced in Scotland, what impact could it have on the ability to meet the need for affordable homes?***

The Council would agree with the comments made by CEC in terms of any proposed right to buy proposal for housing association homes noted by the UK Government. Given the pressures on Councils and RSLs to deliver net zero in new builds and through retrofit work in existing stock, that includes mixed tenure blocks, at a time when householders are already under significant financial pressure, any proposal to reduce the available social rented stock pool would make the situation worse, particularly where households are unable to sustain their current financial commitments and face the threat of homelessness.

**Building (Scotland) Amendment Regulations 2022 (column 52)**

The 2022 regulations will still permit new homes to be constructed with direct emissions heating systems, which will not be permitted from 2024. In this regard, it is noted the regulations will set more challenging emissions and energy performance targets, i.e. to allow for a simple retrofit/ zero direct emissions source installation option for the owner's future reference.

Any proposals to continue with direct emissions heating systems programmes up to the 2024 deadline will therefore require to factor in the on-cost of this future-proofing. As an exercise, it will require to be compared with zero direct emissions systems where cost is a contributing factor in deciding to continue installing direct emissions heating systems in domestic new builds.

## Submission from Fife Council

Themes

### *Delivery and funding of the affordable housing programme*

At a most basic level the Committee wishes to hear your views on the extent to which there is adequate funding in place to deliver on the Scottish Government's affordable housing programme.

In particular, the Committee would be keen to hear about the impact of increasing costs for housing development programmes and how the revised grant subsidy framework is working in practice to mitigate those increased costs.

### **Response**

**There is a net reduction in funding despite the additional grant subsidy. An example of this being we have gone from an average grant funding per unit of £59k to £77k (increase of £18k) and the average unit price has gone from £165k to £195k (increase of £30k) therefore a net cost impact of +£12k.**

**Prices are still increasing, and developers and their supply chains are reluctant to sign fixed price contracts. Due to inflation and the market conditions, we are now signing some contracts that have inflation linked pricing clauses, rather than fixed price contracts with an increased cost risk sitting with the Council.**

**The additional quality measure benchmarks are insufficient in regard to covering to net zero priced proposals coming from some developers in the market e.g. air source heat pumps.**

**The increased funding does not fully offset the extra costs associated with providing developments incorporating specific needs units e.g. meeting wheelchair targets and providing extra care developments including staff hubs to meet the needs for older persons housing.**

**The cost of living crisis may impact the availability for HRA Capital contributions to fund new build affordable funding.**

The Committee is also keen to get your views on the extent to which different ways of financing and delivering affordable homes can contribute to meeting the targets for affordable house building in Scotland and more generally meeting housing needs in Scotland. The Committee would be interested to heard from you about the contribution of the private sector to affordable housing supply via your affordable housing planning policies as part of the planning system.

### **Response**

**In the past we have relied heavily on delivering our affordable housing programme as predominately social rented housing and as public sector investment becomes constrained, we need to investigate alternative models of delivery including private market rented and Mid Market rented options.**

**In the past 5 years around a quarter of Fife's affordable housing programme has been delivered through affordable housing contributions on private developments through planning policy. There is less control on these S75 developments in terms of housing mixes and this impacts our ability to meet out specific needs and wheelchair targets.**

The Committee also wants to understand how you are managing to meet the demands of the affordable housing programme whilst at the same time maintaining existing housing stock and meeting the demands of decarbonisation.

### **Response Required**

**Initial review of existing stock condition and energy ratings estimates approximately £100m of additional spending to achieve EESSH2 would be required. Current stock is being analysed with support from the Energy Saving Trusts' Portfolio Energy Assessment Tool (PEAT). Draft results will influence and structure a 10 year delivery plan. Current plans are for additional borrowing to support delivery programme which would result in either an increase in the cost of rents or a reduction in the new build programme's ambitions. Delivering EESSH2 will result in choices and compromises having to be made. Additional insulation and a reliance on renewable generation and/or heat sources will be fundamental in achieving targets. The Scottish Government's Social Housing Net Zero Heat Development fund will provide assistance for these priorities.**

### *Impact of spending on the delivery of outcomes*

The Committee wants to hear your views on how funding could be best used to meet housing needs and deliver on placemaking objectives. The Committee wants to understand if the building of 110,000 affordable homes is meeting Scotland's housing needs.

### **Response**

**The Council has a limited ability to influence in placemaking and development layouts with private developers due to their target site financial appraisals.**

**Historically we have concentrated on developing 2 to 5 bedroom cottage flats, houses and specific needs bungalows. We acknowledge that we need to be more creative in developing individual housing sites to enable a wider mix of property types to increase the opportunities for young people and single person households including 3-storey flats.**



The Committee also wants to hear how funding for affordable housing is contributing to the delivery of the national outcomes in the National Performance Framework.

**Response Required**

**The provision of affordable housing contributes to many of the national outcomes in the NPF including:-**

**Children and Young People – development of large family homes. We have an informal target to deliver 5% of our new build programme as 5 and 5+ bedroom homes.**

**Communities – developing affordable housing in areas of housing need to Housing for Varying Needs and Secured by Design standards.**

**Economy – by the creation of construction jobs on site and within the supply chain.**

**Education – by the creation of apprenticeships in the construction industry.**

**Environment – by moving towards net zero housing and embracing new technologies.**

**Health – by providing warm secure housing.**

**Human Rights – by providing housing suitable and available to all.**

**Poverty – by providing a warm safe home that is affordable to run.**

In addition, the Committees wants your views on how resources could be prioritised to best meeting housing needs if there are reductions in the capital spend for affordable housing.

*Proposed changes*

The Committee wants to hear from you if there are changes that should be made to the level of funding for the affordable housing programme or if there are changes required in the ambitions for that programme.

**Response**

**The Council suggests an increase in AHSP benchmark funding is required to cover increased construction costs because of inflation, Net Zero and the provision of much needed specialised housing.**

**Homes for Scotland pre-session evidence submission for Local Government, Housing Planning Committee on 6<sup>th</sup> September 2022**

Homes for Scotland (HFS) wish to work collaboratively with the Scottish Government and all parties to ensure that the delivery of affordable homes continues across Scotland. The delivery of affordable homes is a core part of many home builders' businesses whilst simultaneously providing many social and economic benefits to Scotland. It is important to note that while the delivery of affordable homes is crucial, this would not be possible without the delivery of private homes. Latest data shows that for each private home built, the overall contribution from developers was worth £30,500. Of this, 65% is attributable to the value captured through affordable housing. The remaining 35% is attributable to community infrastructure (e.g., education, transport, sport/leisure, public open space, healthcare, community facilities).

Scotland is approaching a shortfall of almost 110,000 all tenures homes. This, coupled with several other areas of economic challenge means that now more than ever, it is imperative that Homes for Scotland and the Scottish Government work jointly to support the delivery of affordable homes. We have identified several areas which we suggest should be prioritised and could be delivered through partnership working. Following the evidence session on 6<sup>th</sup> September, HFS are keen to work in partnership with the Scottish Government and other parties to discuss how these changes can be actioned.

We have structured this paper in response to the questions set by the committee.

***How can Affordable Housing be best used to meet housing needs and deliver placemaking objectives?***

The delivery of affordable housing in Scotland is a core part of many home builders' businesses. Whilst many home builders deliver homes of all tenures, with different business models structured depending on the tenure/client requirements, there are others who focus on delivering affordable homes for both Registered Social Landlords (RSLs) and Local Authorities (LAs), on a contractor basis.

The home building industry is therefore a vital source of the delivery of affordable homes in Scotland. The Programme for Government 2021-22 notes that the Scottish Government will deliver 110,000 affordable homes across Scotland by 2032.

Due to the inter-connectedness of private and affordable housing, it is difficult to separate the benefits which a single tenure delivers. New housing as a whole generates a number of wider place-based benefits including;

- Improving the appearance of the public realm through good design, creating a positive appearance, and providing opportunities for residents to develop social contacts with neighbours, minimising crime and anti-social behaviour
- Improving access to high-quality, low-cost housing, thereby increasing disposable incomes and reducing material deprivation

- Supporting a reduction in overcrowding, increasing opportunities for independent living and supporting the retention of key workers and young people
- Reducing pressures on the traditional private rental market, helping to reduce rising rental values.

These benefits directly meet the Housing 2040 principles of delivering high quality, sustainable homes, sustainable communities and homes that meet people's needs.

While Homes for Scotland and its members understand and support the Scottish Government's Affordable Housing Supply Programme (AHSP), there are several key areas which require further investment and consideration.

HFS members report that the current single biggest constraint on the delivery of new homes is the local and national planning system. Homes for Scotland submitted a detailed response to the draft National Planning Framework 4, in which we outlined our concerns around:

- The resourcing of planning departments and supportive functions that are required to achieve planning consent. Draft NPF4 puts more pressure on planning and local authorities, which will not simplify or speed up the decision-making process.
- A deliverable housing land pipeline must be maintained for new 10-year Local Delivery Plans. Deliverable means the land is in control of a developer, free from constraint and marketable.
- The draft NPF4 Minimum All Tenure Housing Land Requirements (MATHLR) are too low.
- The Housing Need and Demand Assessment (HNDA) tool is not fit for purpose and is drastically underestimating the housing needs in Scotland.
- The draft NPF4 requires vacant and deliverable land to be allocated for housing as a priority over greenfield.
- There are no guidelines from the Scottish Government on how the new planning regime will transition from the old. This guidance is needed immediately by Local Authorities and home builders to ensure the delivery of housing does not cease.
- Delays to achieving planning approval which is caused by elected members refusing planning applications against the planning officer's recommendation. These decisions are often taken based on local politics rather than a sound planning basis.

Furthermore, local planning authorities have a statutory obligation to determine planning applications within 16 weeks. Recent Scottish Government data shows that the actual average decision for a major housing application was 59 weeks and even with a processing agreement in place only 33% of decisions are made within the agreed timescales.

Over the next 10 to 15 years.

The knock-on effect of these challenges on the delivery of homes of all tenures (including affordable homes) is significant.

In April 2022, the Scottish Government applied a significant increase on planning fees, with SME developers taking the hardest hit (See Appendix A). The intention behind the increase was to ‘lead to improvements in planning performance’, which to date has not been realised.

***How is Affordable Housing contributing to the delivery of the National Outcomes in the National Performance Framework?***

Homes for Scotland published a report in March 2022, highlighting the social and economic benefits of home building in Scotland. The report demonstrates how the home building sector across all tenures directly delivers a number of the national outcomes as set out in the National Performance Framework.

The report is separated into 4 broad themes: Inclusivity, Quality of Life, Environmental Sustainability and Economic Growth. Below is a sample of how the home building sector contributes to the national outcomes. Please note that the data refers to the calendar year of 2019 (used as last ‘normal’ year pre covid):

<p><b>Inclusivity</b></p> <p>Education, Fair Work &amp; Business, Poverty</p>	<ul style="list-style-type: none"> <li>• £108m – total value of contributions towards schools and pupil places</li> <li>• £332m – total value of contributions towards affordable homes (c. £20,000 per private home built)</li> </ul>
<p><b>Quality of Life</b></p> <p>Communities, Health, Poverty</p>	<ul style="list-style-type: none"> <li>• £179m developer contributions towards infrastructure, (schools, healthcare, transport, public open space) – c. £20,000 per private home built</li> <li>• 89% new homes built to EPC rating B or above, reducing fuel bills, improving access to Affordable homes through reducing rental costs, reducing number of children living in poverty.</li> </ul>
<p><b>Environmental Sustainability</b></p>	<ul style="list-style-type: none"> <li>• 88% of construction waste recycled by HFS</li> </ul>

<p>Environment</p>	<p>members and associated diversion from landfill</p> <ul style="list-style-type: none"> <li>• 4,110 homes built by HFS members on brownfield sites</li> </ul>
<p>Economic Growth</p> <p>Economy, Fair Work &amp; Business</p>	<ul style="list-style-type: none"> <li>• £3.4bn – total value of the Scottish home building sector including home building firms, subcontractors and firms in the supply chain and related services</li> <li>• 45,000 jobs – direct construction employment by home building firms and subcontractors</li> </ul>

Homes for Scotland marker  
National Outcome marker

Our report highlights the inter-connectedness nature of both private and affordable homes. Without private homes being built, there will be no provision to support the delivery of affordable homes.

***How can resources be prioritised if there are reductions in the capital spend for Affordable Housing?***

There are several key areas that HFS believe should be assessed if resources were reduced.

- Investment and an assessment of the current planning system, taking into consideration the significant delays to process planning applications, the lack of qualified planning officers, the poor/difficult communication between planning officers and planning applicants, and the increased planning fees which to date, have failed to demonstrate any benefit to those submitting planning applications.
- A flexible and realistic understanding of the pressures that are being presented to home builders with regards to upcoming regulatory changes deriving from the Heat in Buildings Strategy, National Planning Framework 4, the impact of inflation on supplies and the skills shortage in the sector.
- Consideration of increasing the benchmark funding on affordable housing and streamlining the grant approval process to alleviating the potential of a breakdown in contractual relationships with home builders and RSL/LA.
- Recognition and support for SME home builders to ensure that they can continue to deliver affordable homes across Scotland.
- Prioritising investment into skills and labour to ensure that the home building sector has a workforce fully equipped to tackle with the skills required for energy efficient homes to meet the Scottish Government’s net-zero targets.

- Prioritising investment into public education and awareness around the attitudinal and financial changes that will be expected of them with regards to net-zero.

***What progress has been made by the home building sector towards the Scottish Government's Affordable Housing supply commitment, and to what extent do good quality homes contribute to sustainable communities being developed?***

The delivery of many affordable homes comes directly from private home builders. The delivery of these homes come from both section 75 obligations (Developer Contributions), or as the home builder acting as a contractor for an RSL/LA. Many of the home builders, specifically SMEs, build affordable homes within their community, providing both social and economic benefits for local people.

As explained in our Social and Economic benefits of Home Building report, in addition to the delivery of housing that people can afford, the provision of new, high-quality housing (of all tenures) plays a key role in supporting the development of sustainable communities. Well-planned new housing developments improves access to places of employment and to shops, schools and other local facilities. A focus on sustainable travel and transport reduces the need to travel unsustainably and promote active travel choices. This helps to support the development of communities that are economically, physically and socially sustainable, as well as helping to support the success of 20-minute neighbourhoods.

There are a number of indirect benefits derived from spending by residents in new homes. As new residents drawn into an area spend money on goods and services locally, this can have a positive impact on other sectors of the economy, such as retail and leisure. It is estimated that residents of the additional homes built across Scotland in 2019 generated £605 million of one-off spending. This additional expenditure supports a range of retail and leisure jobs in local service sectors, helping to support the vitality of local economies. On average, this level of spending has the potential to support in the region of 5,200 jobs in retail, leisure and hospitality sectors.

***What is the impact of increasing house prices on housing development programmes, and how is the revised grant subsidy framework working in practice?***

In April, HFS brought to the Scottish Government's attention our concerns around a 'stalemate' position on contracts between home builders and RSLs/LAs. The impact of Covid, Brexit and the crisis in Ukraine has caused significant delays and, in some cases, an inability to source some products. Some products are delayed by up to 12 weeks, which impacts the delivery time of homes. As we have continued to gather evidence from our members, it has become apparent that the inflation on some materials has increased

significantly enough that some home builders have and will consider projects unviable. Some examples of these inflationary costs can be seen below:

- Insulation increased by **72%** since Q4 2020
- Steel increased by **78%** since Q4 2020
- Timber kits increased by **60%** since Q4 2020
- Fuel increased by **286%** since Q4 2020
- Concrete products increased by **c.40%** since June 2022 #

Several HFS members who deliver a significant number of affordable homes as a contractor to an RSL/LA have reported that they forecast a decline in the number of affordable homes delivered next year of between **10-100%**.

RSL/LA are often unable to share any fluctuations in risk / cost due to their borrowing ability and the grant funding regime. Some HFS members have advised that if an element of risk sharing cannot be agreed between the Scottish Government / RSLs and the homebuilder then they will be unable to take on any new Affordable Homes contracts.

[Recently published data from England](#) shows that there has been a 75% increase in the number of SME home builders who have through this very same issue, been forced to close their business. It is highly likely that this trend will follow into Scotland in the coming months. With inflation predicted to continue, and other external factors impacting the cost price of materials/shortage of skills, there will undoubtedly be a negative impact on the ability of home builders to deliver homes at previously agreed tenders. This is particularly likely to impact SMEs businesses with smaller reserves or more constrained cash flow positions.

HFS are keen to engage with the Scottish Government to discuss how an element of risk sharing and the introduction of fluctuation clauses in these contracts could be used to ease this.

### ***What is the scope to finance and deliver Affordable Homes in a different way?***

As we have already outlined, the delivery of homes of all tenures is highly interconnected and facilitating the delivery of all homes will increase the supply of affordable homes. A genuine commitment to a more partnership-based delivery model will be essential in future years.

Increasing funding available for both shared ownership and shared equity schemes would support more people to own their own home. The Government pays for a small share in the property and the balance is funded by individuals. The availability of government finance at this level that reflects current house prices could encourage more provision of this type of affordable housing.

The Scottish Government's Help to Buy scheme and more recently the First Home Fund (FHF) directly helped households at the more affordable end of the housing market. The success of FHF in particular has demonstrated that

some support from government could unlock this part of the market. This type of loan financing also generates income for government allowing for future re-investment opportunities.

We have already advised that the existing AHSP system including benchmarks, application process and funding structures could be more flexible to encourage risk and reward sharing across all parties and thus stimulate further provision.

In conclusion, there are a number of competing challenges in relation to the delivery of affordable homes across Scotland. Inflation on materials and planning system barriers are causing immediate problems, slowing down the delivery of homes. Upcoming regulatory changes across the Heat in Buildings Strategy and NPF4 will present further issues in the coming months. Additionally, the home building sector is dealing with wider economic challenges including a predicted recession, the conflict in Ukraine and other political uncertainties, all of which bring renewed challenges. It is imperative that Homes for Scotland, the Scottish Government and all political parties work in partnership to ensure that both affordable housing, and housing as a whole continues to be delivered, providing a warm, safe place for the people of Scotland.



## Local Government, Housing and Planning Committee Pre-Budget Scrutiny Call for Views - SFHA

### Introduction

SFHA is the membership body for, and collective voice of, housing associations and co-operatives in Scotland. Representing over 90% of the housing association and co-operative sector in Scotland, we exist to represent, support and connect our members.

A warm, safe affordable home is the basis of a good life. Housing associations and co-operatives build the best homes for affordable rent in Scotland and maintain them to an excellent standard, whilst also helping create thriving communities. With the right political support, SFHA's members can build the homes that Scotland desperately needs.

We are looking forward to giving evidence to the Committee later in the year, and hope this short submission is useful in advance of that.

### Summary

We understand that the Committee wishes to focus on the budget for affordable housing. Our members are central to achieving Scotland's national target of delivering 110,000 affordable homes by 2032, with at least 70% for social rent.

The development of new social housing is funded through a combination of public and private funding, with the funding provided by Scottish Government essential to ensuring social rents remain affordable for tenants.

With soaring costs across the construction industry, and an urgent need to invest in zero-carbon homes, our members need continuous investment to deliver the affordable homes we urgently need **without** increasing costs for tenants.

Our members are constantly innovating to find new ways of generating income, and ensuring they provide value for money to tenants and the public purse. However government support and an enabling regulatory environment are essential to ensure housing associations can successfully develop these income streams, and avoid putting greater pressure on tenants.

As this submission will make clear, housing associations are key to ending homelessness, tackling poverty and dealing with the climate emergency. Housing associations are anchor organisations in their communities, and are well placed to create real, positive change across diverse policy areas from health and educational inequalities to decarbonisation.

For that reason, we believe that funding for affordable housing should be prioritised alongside health, social care, and social security spending in the coming budget, and that investment must increase year-on-year to ensure housing associations can build the homes Scotland needs.

## **Progress towards the Scottish Government's affordable housing supply commitment**

Housing need in Scotland is driven not just by Scottish Government targets but also by public demand : SFHA [research](#) this year found that two-thirds of people in Scotland did not believe there was enough good-quality low-cost housing available for rent in their area.

The Scottish Government has committed £3.4 billion to building affordable homes between 2021-26, which is a significant investment. However, the latest [housebuilding statistics](#) are worrying, showing that approvals for new properties built by housing associations have dropped by 44% in the year to end Sept 2021. Although there was a 13% rise in housing association completions over the same period, the signs are not good for future development. Meanwhile, the cost of development continues to rise. [SFHA research](#) has found that average tender prices for newbuild social properties increased by up to £24,000 in the five years to 2021, and this has only accelerated as Brexit and the pandemic continue to affect global supply chains and inflation continues to climb.

The Scottish Government's most recent report on grant investment increased Registered Social Landlord (RSL) benchmarks by between £8,000 and £13,000, which we very much welcomed. Importantly, this report also confirmed that benchmarks will not be considered grant rates or grant ceilings: this allows for some flexibility for our members as they deal with constantly fluctuating prices.

The febrile nature of supply chains and regular price increases mean that the planned annual review of these benchmarks will be vital to their ongoing success. To build confidence in the sector, it is important that the mechanism for assessing inflation in supply chains has credibility, and Scottish Government should continually review the suitability of the inflation measures they use to inform this review. Previously, the use of the Scottish Tender Price Index has caused concern in the sector. Over the long-term, the use of more real-time data from housing association and local authority tender submissions would be more appropriate and it is pleasing to see Scottish Government moving in this direction.

Rents in the social housing sector are consistently around half of the level charged in the private sector. Rents are set in consultation with tenants and have remained broadly proportional to average tenant income. Housing associations and co-operatives rely on rents for the majority of their income, and use them to finance sorely needed new housebuilding, maintain their existing stock and offer a diverse range of services and support to tenants. Most housing associations froze their rents or increased them below inflation during the pandemic, and introduced rises well below inflation this year.

The social housing sector is already playing an important role in the transition to decarbonised forms of heat in line with Scotland's climate change targets. However, this needs to be aligned with fuel poverty objectives and supported with adequate

capital investment. Given the new context of energy price volatility, the importance of the ‘fabric first’ approach, in which buildings are made as energy efficient as possible before investing in alternative heat sources, is even more important in maintaining affordability for tenants while striving towards net zero. As our members strive to meet demanding targets on decarbonisation and support their tenants through a worsening cost of living crisis, it becomes ever more challenging for them also to develop the new social homes that are required, particularly given the rising costs and supply chain problems they are facing.

It’s particularly important to address this quickly because of the difficulty in “turning on the tap” again once construction has slowed. In previous economic downturns, housing associations have been a reliable source of work for the construction industry due to the often counter-cyclical nature of government investment, and it is worth considering the role the sector can play in economic stimulus during the current economic difficulties Scotland faces. Without a steady flow of construction projects, contractors will move out of the sector and skilled development staff will be lost: it would then be time-consuming and expensive to rebuild these skills and capacity.

We are pleased the Government has accepted the advice of the Zero Emissions in Social Housing Taskforce and brought forward its review of the Energy Efficiency Standard for Social Housing (EESH2), to give RSLs the certainty they need to plan their long-term retrofitting programmes.

However, if a just transition is to be achieved, any targets for the social housing sector need to be supported with adequate investment from Scottish Government to ensure the required upgrades do not compromise rent affordability. It is extremely unlikely that the funding of retrofit work can operate on the same assumptions, and borrowing arrangements, that have existed for new development for many years, and creative thinking and new ways of working will be required. The scale of the challenge to decarbonise existing homes is enormous, and without sufficient government support, the level of borrowing required will pose significant challenges to many housing associations’ business plans, and mean trade-offs with development ambitions.

While we welcome the support available through the £200m Social Housing Net Zero Heat Fund, this remains a finite pot which will only be available until 2026 and represents only a small fraction of the expected costs for the sector which could exceed £6bn even when based on modelled costs. The Zero Emissions Social Housing Taskforce has therefore called for a longer term, more strategic and fairer allocation of funds based on a ‘sector capacity assessment’ and we would like to see this recommendation progress further as part of the EESH2 review.

In short, if we are to achieve the next housing target, the Scottish Government must commit to increasing investment year on year to ensure housing associations can build the homes Scotland needs, and balance the multiple and competing pressures we face.

## Meeting housing needs and delivering on placemaking objectives

We were pleased to submit evidence to the recent consultation on the National Planning Framework. This sets out a welcome vision and ambition to create better places and communities across the country, and, importantly, reflected the importance of tackling the climate emergency as well as a continued focus on the Infrastructure First principle. However, we are worried the draft does not recognise the significant need for more affordable housing in Scotland, which the Scottish Government set out in *Housing to 2040*. In its current form, NPF4 lacks explanatory detail of how better places will be achieved and funded: a draft delivery plan is required to set out this detail. Ultimately, the government's ambitious housebuilding targets will not be realised without the right planning system in place, and we are concerned some of these proposed reforms, if not properly resourced, may inadvertently exacerbate Scotland's serious shortage of affordable houses.

In particular, we would like to see the recognition of housing as a National Infrastructure Priority within the Framework.

Scotland already faces a serious shortage of homes. There are over 130,000 people on housing association [waiting lists](#), and this doesn't include the 'hidden homeless' or people in unsuitable accommodation. In 2020, our [joint research](#) with Shelter Scotland and the Chartered Institute of Housing Scotland found that 53,000 homes are needed in the next five years just to address the backlog of housing need in the country: these figures predate the impact of the pandemic on housebuilding and don't account for the Covid-related failure to meet the previous target of 50,000 new homes during the last parliament.

In this climate, planning reforms which impose additional duties for underfunded local authorities will only slow the rate of development approvals, at a time when the sector needs barriers to new housebuilding removed, not erected.

Within the draft NPF4, we have concerns about the 10-year Minimum All-Tenure Housing Land Requirement, which sets out the minimum amount of land each local authority is expected to assign to new housing over the next decade. While we appreciate the numbers proposed are minimums, we are concerned this will discourage ambition when it comes to identifying enough land to build the significant number of affordable homes required to meet government targets set out in *Housing to 2040*.

The Framework is designed to proactively encourage the development and reuse of derelict land and buildings where possible. We would like to see more detail on how developers will be supported to bring this land back into use, given that many of the 'easy' sites which will not require remediation work to make them viable are already under development. The Government does provide some relevant support through the Housing Infrastructure Fund, though this will need to be increased to accommodate the amount of development required to meet Government housebuilding targets.

We support the implementation of the 20-Minute Neighbourhoods principle, but we would like to see more detail on how it will be adapted for and implemented in rural

and remote areas, and how it will link up with *Housing to 2040* and the Rural & Islands Action Plan. Generally, we would like to see more detail on how the Framework will address the specific challenges of planning and housing development in rural areas.

### **Funding for Affordable Housing's contribution to the National Outcomes in the National Performance Framework**

No other sector is better placed to help contribute to a wider range of the national outcomes than social housing. The safe, warm, suitable homes housing associations and co-operatives provide are a vital foundation for our young people to grow up loved, safe and respected so that they realise their full potential, while the communities SFHA members work hard to create and support are at their core inclusive, empowered, resilient and safe.

Joint [research](#) between SFHA, the Joseph Rowntree Foundation and others found that affordable housing creates direct economic and social benefits. It established that building 53,000 affordable homes between 2021-26 would create around 200,000 jobs and contribute more than £2 billion additional output per year, as well as additional Scottish tax revenues of £100 million.

It also found that increasing affordable housing supply in rural areas helps sustain fragile communities which are experiencing population loss. As well as offering housing at social rent levels, housing associations support rural communities by providing energy efficient housing which helps to tackle fuel poverty – an issue that disproportionately affects in rural areas. The employment and training opportunities provided by housing associations and co-operatives can also help to build more resilient rural communities.

The research also showed that good quality, warm energy efficient affordable housing may help to improve people's physical and mental health and wellbeing. And as housing associations increasingly let a large share of their vacant homes to people who are statutorily homeless, often as part of nomination agreements with local authorities, social housing is helping to reduce homelessness.

Notably, the increased level of social housing in Scotland, with the consequent lower rents than in the private sector, [directly contribute](#) to lower levels of child poverty.

Housing associations also nurture a healthy and active nation by designing new developments with green spaces and along 20-minute neighbourhood principles wherever possible. Cycling Scotland recently [awarded](#) 12 housing associations across Scotland over £267,000 to improve cycling and walking facilities for their residents, while work to improve access to local green space is [exemplified](#) in Southside Housing Association, Glasgow, which was awarded £537,215 from the Green Infrastructure Fund to transform the green space in the Cardonald community.

The national outcome which social housing contributes to most fundamentally is that “we tackle poverty by sharing opportunities, wealth and power more equally” – this cuts to the core of what social housing does. Our tenants have a significant say in how their homes and communities are run, our low rents and high-quality homes alleviate poverty, and housing associations offer a wide range of services – from money

management to employability support – which help people make the most of every opportunity available to them.

Social housing is a vital element in the achievement of the Framework’s national outcomes. They simply will not be achieved if we do not place the right to a safe, warm, affordable home at the core of our offering to the public, and we would like to see this reflected in the Spending Review priorities.

Aaron Hill

Director of Policy and Membership, SFHA

August 2022

## **Funding and Delivering the Affordable Housing Supply Programme – Submission from Ken Gibb**

### Background

This written evidence is a contribution to a discussion of recent and intended progress with the Scottish Government's Affordable Housing Supply Programme (AHSP). The contribution reflects on commitments to deliver quality new housing, to meet housing need and sustainable placemaking, and to support the attainment of National Performance Framework (NPF) Outcomes, as well as manage pressures created by rising prices, the cost of finance and scarcity of materials and labour. It also responds to the question about what might be done to prioritise scarce resources for housing if there is a reduction in the capital programme for affordable housing.

The context that this takes place in reflects the multiple effects of recovery from Covid-19, the working through of economic change associated with Brexit, the emerging cost of living crisis, fiscal challenges and rising interest rates. This is also a challenging time for local government in terms of resources but also in terms of capacity to implement and enforce a wide array of housing-related policy actions from the Scottish Government.

### Background Evidence

The pandemic delayed housing supply, including affordable supply, and this led to a later date for the achievement of the target 50,000 units for the 2016-21 parliament in the first quarter of 2022. Partly as rebound from the pandemic, the financial year 2021-22, saw the total number of affordable supply completions reach 9,757, the highest total since 2000-01. Breaking down the 50,000 affordable supply completions, 69% were social renting, 19% for affordable home ownership and 12% for affordable renting<sup>1</sup>. The new target is to deliver 110,000 affordable supply units by 2032, 70% of which will be social renting (and 10% in remote, island and rural communities). The previous 20 years suggest this will be a stretching annual average target, even before we consider the challenges now facing the delivery of affordable supply completions.

The Scottish Government has also published its capital funding plans for 2023-34 to 2025-26 (May 2022) in a context of UK Spending Review squeeze, the commitment to net zero and surging inflationary pressures. The More Homes budget, as a proxy for the capital programme for the AHSP, budgeted for £605m in 2022-3 and lower levels thereafter (£544 in 2023-4, £481m in 2024-5 and £517m in 2025-6) with the five years' estimate from 2021-22 to 2025-26 at £2.822 billion (Annex A The Outcome of the Targeted Review of the Capital Spending Review). The AHSP also includes a combined £293m in 2023-24 and 2024-5 for Financial Transactions Capital (FTC) supporting shared equity and charitable housing bonds.

It is noteworthy that the 2018 revisions to the National Performance Framework specifically linked to housing via three of the 11 outcomes: poverty, community and

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<sup>1</sup> Housing Statistics for Scotland Quarterly Update: New Housebuilding and Affordable Supply (14 June 2022)

environment. However, Audit Scotland<sup>2</sup> argued that this should be expanded to include health, education, children and young people, equalities, and the economy. The More Homes Affordable Housing Supply Outturn report (2020-21) suggests that the programme maps directly onto eight national outcomes, adding human rights and economy to poverty, communities, environment, plus health, education and children & young people.

Delivery of the AHSP involves a process that connects local government to the Scottish Government. Local housing strategies informed by local housing needs and demand assessments (HNDA) generate strategic housing investment plans which are linked up with the Government's resource planning assumptions via strategic local programme agreements, wherein investment priorities are determined locally and bids to build by providers are considered<sup>3</sup>. Annual funding allows room for underspends to be reallocated by the Scottish Government. Audit Scotland and the Infrastructure Commission argued that it is not clear in practice how local measures of need marry up to national assessment of housing need on any consistent basis. Subsequent reforms to HNDA tilt the assessment balance towards a more top-down and centralising approach.

A key feature of the new AHSP is the recent upwards revision of the subsidy benchmarks operated by the Scottish Government to inform grant per unit for different categories of new supply within the programme. The final report (August 2021) proposes an *'increase by between £14,500 to £26,000 for a council social rented home (an increase of between 25% and 46% depending on geography); by between £8,000 and £13,500 for an RSL social rented home (an increase of between 11% and 17% depending on geography); and by between £9,500 to £14,500 for an RSL mid-market rented home (an increase of between 22% and 33% depending on geography)'*. The key changes are the increases in all benchmarks, a narrowing (though retention) of the differential in the benchmark that provides a higher benchmark for RSLs than councils, the inclusion of council-led MMR and inclusion of specific quality elements (e.g. fire suppression measures).<sup>4</sup>

### Reflecting on Key Challenges

What are the key challenges to securing the commitment to 110,000 completions by 2032?

While it is clearly helpful that the programme supports higher levels of subsidy benchmarks, and that these will be annually updated by the Scottish Social Housing Tender Price Index, there are sector concerns that this is still not keeping pace with rising costs of development. If this puts too large a constraint on internal resources and borrowing to fund the growing gap, fewer approvals, starts and completions will occur. More broadly, there remains value in now repeating the 2011 financial capacity study carried out by Bramley and colleagues. The old arguments about the relative ability of councils to borrow more cheaply and to access public land, etc., let

<sup>2</sup> Audit Scotland 2020 Affordable housing – Achieving the Scottish Government's Affordable Housing Supply Target.

<sup>3</sup> Glasgow and Edinburgh, through TMDF arrangements, have a more devolved approach.

<sup>4</sup> Scottish Government (2021) report on the work of the 2021 Affordable housing investment benchmarks working group (August)



along the financial capacity of RSLs need to be re-tested for the very different climate we now face. This should be the context for future benchmarking discussions about the underlying financial capacity of housing providers (perhaps by the time of the mid period review of the AHSP).

Colleagues in CaCHE (White et al, 2020) have argued that social housing and mixed developments can be a beacon for good quality place and housing design but that it needs to have a set of design standards akin to building standards (and this would be true for all housing, not just the affordable element). Delivering this will have cost, time and capacity challenges but the social returns to this could be transformative.

A key challenge is local delivery and the continuing decline of small and medium-sized builders. The increasing reliance on a small number of larger developers and contractors reduces flexibility, constrains the ability to deliver smaller numbers of units outside of major population centres, and raises risk of non-delivery because of that lack of diversity of provision. Just this week, *Inside Housing* reported that 390 UK housebuilders have gone bust in the last full financial year, an increase of 75% in annual terms. There is no reason to think this does not affect Scotland similarly<sup>5</sup>.

In 2020, Audit Scotland (p.32) identified the multiple delivery priorities on social landlords that are pushing up rents. These include, for the existing stock and for new build: general cost pressures, energy efficiency targets, achieving minimum standards on SHQS requirements plus other planned capital improvements, fire safety and suppression standards (now incorporated into the subsidy benchmarks), adaptations funded from Housing support routes, as well as the impacts of welfare reform and arrears on budgets. Adding the cost of contributions to new build through rents specifically, shows the complexities facing social landlords as they seek to prioritise. Of course, as Audit Scotland point out, there may be savings and economies that individual landlords can make but they also face different capacities to reduce costs and these may also impinge on their ability to meet these priorities. The cost of living crisis and its consequences for social landlords also has to be factored in. Will a reduction in new supply be part of that response?

Finally, the construction sector faces multiple pressures: rising costs in labour and materials, and shortages of supplies. Post-covid there has been some degree of on-site delays despite the temporary rapid growth in construction output following re-opening after lockdown, although anecdotally this appears to be clearing up, at least for longer standing delays. But the SME sector problems and rising bankruptcies are a further worrying indicator.

### Dealing with Scarce Resources

In this context of multiple challenges and economic uncertainty, the question was posed – what should be prioritised if budgets have to be cut? A first response would be to defend the AHSP on the basis of need as evidenced in the Scottish needs analysis (Dunning et al, 2020) and the strength of the commitments made by

<sup>5</sup> <https://www.insidehousing.co.uk/news/landlords-forced-into-rethink-amid-soaring-number-of-contractor-insolvencies>

Government (and opposition parties) to the programme. There is also the central place of the AHSP relating to the national outcomes agenda in terms of reducing poverty (especially child poverty), helping reduce unmet need, e.g. for those experiencing homelessness, noting the economic benefits associated with the programme including its diffusion to local areas and to rural, remote and island communities, as well as the contribution the programme makes through EESSH and its successor to testing out housing decarbonisation innovations, and the wider economic effects of backward and forward linkages in the wider economy.

Second, a wider case for social housing has been made and should be articulated again. In Gibb, et al. (2020) and Boyle and Husband (2020), a strong case, both economic and social, is made for the wider net benefits to society and the taxpayer, including preventative savings. They also build on the additionality principle i.e. that social and affordable housing is not deadweight but rather is additional, in the economic sense, to what the market can provide (Savills, 2019, make a strong additionality argument for affordable and social supply and draw on evidence for this from the English housing ministry's formal 2015 appraisal guide for public investment to do so).

Third, if resources are to be cut within the programme, how could that be done to minimise impact on the programme, given these desirable features of the AHSP? Gibb and James (2021) report the decision in Northern Ireland by the housing minister to target all capital grant for social housing only and then to invest in affordable homes investment through government loans - Financial Transactions Capital (FTC)<sup>6</sup>. This was done in the full knowledge of the success in Scotland made by Places for People and the LAR model to do this with FTC along with private investment patient capital. Could this approach expand the use of FTC beyond these sources and the Charitable Bonds scheme, ensuring that a larger proportion of AHSP funds remains in social housing beyond the target of 70%?

Fourth, there may be other financial innovations that could play a role e.g. the greater use of social investment finance in homelessness interventions, or bottom up developments among social providers to seek to use combined buying power to reduce development and construction costs. Could there be more use of revolving funds (a feature of FTC is that it can be and often is re-used).

Fifth, we would reiterate the Audit Scotland call for a stronger central to local planning framework for the delivery of the AHSP that meets local need in a joined-up way with national priorities, a new comprehensive financial capacity study to inform the medium term balance between grant and provider contributions, as well as a commitment to support and grow capacity in housing planning and development

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<sup>6</sup> A good summary of the FTC system can be found at

<https://spice-spotlight.scot/2018/03/09/financial-transactions-real-money/>

control more generally. This is essential for good placemaking, housing evidence-informed strategy, and more responsive land use planning.

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