



The Scottish Parliament
Pàrlamaid na h-Alba

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Scottish Government

Local Government, Housing and Planning
Committee
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Dear Shona

**Local Government, Housing and Planning Committee: Pre-budget scrutiny
2023-24**

1. I am writing to you with the Committee's views on the 2023-24 Scottish Government budget.
2. Budget scrutiny is an ongoing process. The Committee began taking evidence on affordable housing from the outset of the parliamentary session. The Committee held an initial session on committee priorities with stakeholders on [28 September 2021](#), a session on housing as part of the draft NPF4 scrutiny on [1 February 2022](#) and a session wholly on affordable housing on [17 May 2022](#).
3. Further to the session on 17 May 2022, the Committee agreed to focus its pre-budget scrutiny this year on affordable housing and held sessions on [6 September](#) and [27 September](#).
4. This letter highlights matters arising out of those sessions that the Committee urges you to take into account as you prepare the budget this year.
5. The Committee was aware of the serious challenges facing the housing sector in Scotland prior to taking evidence on this issue. When the Committee

highlighted this issue in its budget letter last year, the Committee raised serious concerns about the prospect of meeting the Scottish Government's house building targets, noting that the funding for the affordable housing supply programme appeared insufficient to support social landlords and that private house builders did not have the resources to deliver on the programme. The Committee's concerns have only increased this year. The Committee will be pursuing the delivery of affordable housing throughout the session. We recognise that there are issues outwith the control of the Scottish Government, which are impacting on the deliverability of the affordable housing target. Nonetheless we will be holding the Scottish Government to account for meeting Scotland's housing needs.

Home building target

6. We note that in the previous parliamentary session, the Scottish Government planned to deliver 50,000 homes, of which 35,000 would be for affordable rent. However, completions were delayed due to the COVID-19 pandemic and the target was reached in early 2022. We note that the Scottish Government's commitment is to, working with partners, deliver a further 110,000 affordable homes by 2032, 70% of which will be available for social rent and 10% will be in remote, rural and island communities.
7. The Committee is keen to understand how this target was established and whether it is the most appropriate way to meet the differing and complex housing needs across Scotland.
8. COSLA indicated to the Committee that it had not been involved in establishing that target nor was it clear on the rationale behind it.
9. The Committee explored this further with you in evidence on 27 September. While the Committee found your response helpful, the Committee would nonetheless welcome further information in writing as to how this figure was established and how it ensures that Scotland's housing needs are met.

Meeting the home building target in the context of increasing costs

10. Between April 22 and June 22 there were 1,250 completions (119 for affordable home ownership, 111 for affordable rent, and 1020 for social rent). In 2021-22 there were 7,821 approvals (on average it can take around 18 months from an approval to a completion), similar to the previous year but 27% below the average annual number of approvals over the five-year period 2016/17 to 2020/21 of 10,787.
11. The Committee appreciates that the figure of 110,000 was always an ambitious target to meet. The Committee heard from witnesses that meeting this target is becoming increasingly improbable.

12. Last year, Tony Cain, giving evidence to the Committee on behalf of the Association of Local Authority Chief Housing Officers (ALACHO), stressed that the budget for delivering this programme was not sufficient, particularly given the ever-increasing costs with house building.
13. Nicola Barclay giving evidence on behalf of Homes for Scotland, last year also highlighted serious concerns about the financial viability of this programme from a private sector perspective. She indicated that building firms were “walking away from deals” to build houses because what they were being paid to deliver those projects was no longer enough to meet the costs of materials and still get back what they have invested.
14. Since then it would appear that costs associated with house building have only increased and we are in far more serious situation.
15. This year, Sherina Peek of ALACHO highlighted to the Committee that the development costs per home are unaffordable and unviable for local authorities.
16. Aaron Hill of the Scottish Federation of Housing Associations (SFHA) expressed similar concerns from the perspective of housing associations. He noted that when the SFHA surveyed its members recently, they reported that over the past year the cost of developing a home had increased by an average of 17 per cent over the past 12 months, and the increase was similar in the 12 months prior to that. He further indicated that over the past two years, the average cost of building a home has gone from £150,000 or £160,000 to more than £200,000 in many instances.
17. With social landlords facing such considerable challenges in delivering on the affordable housing programme, the Committee explored the adequacy of the grant funding regime to mitigate these costs.
18. We recognise that in October 2021, the Scottish Government implemented a revised grant subsidy regime, following a cross-sector working group review of investment benchmarks. We further note that you have committed to adjust the new benchmarks for inflation on an annual basis, with the Scottish Social Housing Tender Price Index being used for this purpose.
19. Although the grant benchmark levels have increased the Committee heard concerns that they don’t adequately reflect current construction costs.
20. For example, East Ayrshire Council acknowledged and welcomed the increase in grant subsidy but said that the baseline levels and add-on amounts available do not reflect delivery costs or prevailing market conditions.
21. Fife Council pointed out that even with an increased benchmark subsidy this was not reflecting the average unit price. It highlighted that there is a net reduction in funding despite the additional grant subsidy. Fife Council noted that the average grant funding per unit had increased from £59k to £77k (increase of £18k) and the average unit price has gone from £165k to £195k

(increase of £30k) meaning a shortfall of £12,000 between the grant subsidy and the real costs.

22. The Committee asks the Scottish Government to reflect on the concerns presented to the Committee about the adequacy of the grant subsidy regime given the significant increase in costs associated with developing houses.
23. The Committee heard this year again too about the capacity of the private sector to contribute to meeting the housing target. Fiona Kell of Homes for Scotland raised concerns about who bears the risk of the increased costs associated with house building.
24. She suggested that there is an opportunity for the Scottish Government to consider some form of risk sharing or underwriting. She proposed that a contract could have a risk pot. She suggested if price rises went over X per cent, everyone could take a percentage share of that so that, if reward is shared, risk is shared as well.
25. The Committee would welcome the Scottish Government's reflections on this suggestion.
26. Fiona Kell also raised concerns about the length of time it is taking for planning applications to be considered. She noted that applications for major housing developments currently sit at around 54 weeks. The capacity of planning departments is an ongoing concern for the Committee and one the Committee will be pursuing in the context of its scrutiny of NPF4.

Parity between Registered Social Landlords and Local Authorities

27. Amongst others, East Ayrshire Council referred to the lack of parity between councils and RSL subsidy benchmarks which was, "impacting Councils' ability to deliver programmes, and to deliver sustainable communities of interest, though effective place-making that reflects local need".
28. We explored this concern with you and welcomed your recognition of the ongoing concerns about this disparity and your commitment to keep it under review. The Committee will continue to explore this issue with you.

Meeting competing demands of decarbonisation and home building

29. Witnesses have questioned the financial capacity of social landlords to invest in decarbonising their existing stock in addition to developing new homes without affecting the affordability of tenants' rents.
30. East Ayrshire Council said, "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."

31. However, since the Committee concluded taking evidence on affordable housing, the Parliament has passed the Cost of Living (Tenant Protection) (Scotland) Bill.
32. We appreciate that the rent freeze in the Bill as it stands only impacts those in private rented accommodation as rents for those in social rented accommodation have been set until the expiry of the Bill. The Bill, however, contains a power to extend the duration of its provisions and could mean that social landlords will be unable to increase rents.
33. ALACHO and SFHA expressed concern about the potential unintended consequences of the Bill for social housing if the Bill is extended beyond March 2023. In particular, ALACHO highlighted that this will severely undermine the capacity of social landlords to deliver on the decarbonisation programme. ALACHO highlighted that if social landlords do not have the resources to fulfil the decarbonisation agenda it will mean not putting in pace heating systems that could reduce fuel bills for tenants.
34. The Committee agrees that it is imperative that both the aims of providing affordable homes and decarbonisation are met. Indeed, as recognised by ALACHO providing for decarbonisation will have a beneficial impact on affordability. Nonetheless, the Committee has severe concerns about the capacity of social landlords to deliver on both aims with the resources they have, in the way currently envisaged and in the current financial climate. The Committee asks the Scottish Government to reflect on the viability of these competing aims with the resources currently afforded to social landlords.
35. The Committee will also be paying close attention to the impact of the rent freeze, particularly as consideration is given to extending its application beyond March 2023. The Committee intends to take evidence on the 3-monthly reports laid by the Scottish Government on the operation of the Act and will be exploring these issues in that context.

Alternative models of financing

36. The concerns presented to the Committee about the financial viability of the affordable housing programme are alarming. Nonetheless, the Committee recognises that alternative financing models could still make the delivery of the programme a more realistic prospect.
37. Last year we noted the commitment in Housing to 2040 to pursue alternative financing models for housing and recognised that these could offer a means to deliver on the affordable housing programme.
38. A number of suggestions were made to the Committee by witnesses for alternative financing. Fiona Kell of Homes for Scotland pointed to shared equity and shared ownership schemes such as the First Home Fund.

39. SFHA pointed to the opportunities in relation to decarbonisation, suggesting that the national energy agency could be a facilitator for funding.
40. Professor Ken Gibb highlighted work ongoing in relation to social investment funding. He pointed to work going on in England where housing associations and other charities are involved, and funding is being put into purchasing properties rather than building new developments.
41. The Committee welcomes the Scottish Government's recognition of the need to explore alternative financing models and the establishment of an innovative finance steering group to explore such models. The Committee hopes that this group considers some of the ideas highlighted to the Committee. The Committee is very keen to be kept up to date with the work of this group and encourages the Scottish Government to ensure that this work is progressed as a matter of urgency.

The importance of rural housing enablers and community led approaches to develop new homes in rural areas

42. The Committee welcomes the Scottish Government's commitment to building 10% of the 110,000 affordable homes in remote, rural and island communities. The Committee heard from witnesses about the extreme challenges being faced in meeting that target in remote, rural and island areas where costs of development are considerably higher.
43. Professor Ken Gibb pointed the Committee to the reduction in the number of small and medium sized enterprises in the building sector, which are so vital to delivering housing in remote, rural and island areas.
44. In evidence to the Committee, you recognised this challenge and the Scottish Government's commitment to working with the sector. The Committee would welcome further detail on how you might support this sector.
45. The Committee heard too about concerns in relation to the Rural and Islands Housing Fund. You drew the Committee's attention to the toolkit available to communities to support them in accessing funding. Community Land Scotland, however, pointed to the amount of time communities have to devote before getting to the fully tendered cost stage and confirmation of its stage 2 funding. Ailsa Raeburn of Community Land Scotland highlighted that this is extremely expensive for communities, and it is often difficult to achieve.
46. We explored this issue with you in evidence and welcomed your recognition of this issue and your assurance that a plan will be published next spring seeking to respond to these challenges. We look forward to considering that plan and would welcome any further updates on progress towards it in the meantime.

Delivering homes that meet people's needs

47. It is critical that homes are delivered that meet people's needs. SFHA noted that for people with additional needs such as a requirement for wheelchair access, the grant system is fairly flexible and allows for such issues to be taken into account.
48. However, SFHA argued that there could be an improvement in identifying need earlier down the line.
49. This view was echoed by Sherina Peek of ALACHO. She highlighted that local authorities work with health and social care to ensure that their service users are allocated housing in new builds. However, she further suggested that becomes increasingly difficult to do, though, because health and social care does not have sufficient funding to be able to come in and have clusters on new developments. She stated that it is about "...aligning all the funding and ensuring that when we build, we do so holistically and ensure that multiple service users' needs are met."
50. Both ALACHO and SFHA stressed the importance of the review of housing for varying needs as it would set out what level of need we are building and future proofing to.
51. The Committee notes that review has been delayed. While the Committee welcomes your commitment to the review, it would hope that the review could be progressed with greater urgency and would welcome updates on progress.

Placemaking

52. The Committee explored issues around the placemaking agenda.
53. Argyll and Bute Council said that 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.
54. Fife Council said that it has limited ability to influence placemaking and development layouts with private developers due to their target site financial appraisals.
55. SFHA raised concerns too about the way that housing fits within NPF4. In particular it stressed concern about the absence of a linkage between NPF4 and Housing to 2040.
56. Community Land Scotland stressed the importance of a placemaking approach. Ailsa Raeburn of Community Land Scotland highlighted how a placemaking approach could make a transformational change in rural areas.
57. In evidence to the Committee you stressed how under NPF4, the planning system will shift to being more directive about the quality of places, including

by guiding where new development should happen and how those developments can deliver more for new and existing communities.

58. The Committee expects to consider the final version of NPF4 shortly. It will also be undertaking an annual review of the effectiveness of NPF4 and as part of that will be considering whether NPF4 is successfully shifting the planning system toward a more place-based culture.

Housing strategy

59. Our scrutiny of the Scottish Government's affordable housing supply programme is just one element of the work we have been doing in relation to the housing challenges facing Scotland. We have also considered retrofitting of housing for net zero, short-term lets, the rent freeze and moratorium on evictions, NPF4 and building safety. There are other issues such as empty homes and second homes too that we are yet to explore.

60. All of these issues need to be taken into account when considering how we meet Scotland's complex and challenging housing needs.

61. The Committee is keen to explore with you how the Scottish Government is ensuring that all of these issues are joined up and all of these approaches link-up to deliver on your objectives for housing.

Conclusion

62. We ask that the Scottish Government give careful consideration to these concerns when preparing its draft budget. We also ask that the Scottish Government reflect on how the differing strands of its work on housing converge to ensure that Scotland's housing needs are met.

63. In conclusion, the Committee looks forward to receiving a detailed response to the points raised in this letter and to continuing our dialogue on developing the local government, housing and planning budgets for 2023-24.

Yours sincerely

Ariane Burgess MSP
Convener, Local Government, Housing and Planning Committee