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Dear Convener,

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

Thank you for your letter of 2 November where you asked me to set out answers to the following for the Committee.

The Committee would welcome further information as to how the affordable homes target was established and how it ensures that Scotland's housing needs are met.

The initial target was formulated as a result of the overarching work undertaken in the development of "Housing to 2040", which is, of course, our long-term housing plan and which set out our initial ambition of delivering 100,000 affordable homes by 2032. (The Programme for Government 2021-22 increased this to 110,000 affordable homes across Scotland by 2032).

In support of both our policy ambition and to support practical delivery, we took the decision to move away from five-year Parliamentary cycles to provide more long-term clarity and certainty about the future of affordable housing and give the time needed for those homes to be planned and delivered in the right places and to the highest possible quality.

While we were keen to provide more foresight, we were also acutely aware that long-term predictions can also be subject to changing circumstances and unforeseen events. This is why we committed to carry out a review of our ambitions at the mid- point of this period to assess whether plans should continue or be adapted. This commitment also supports local authorities, who are key in this process and currently plan for housing through their Local Housing Strategies on a five-yearly cycle.

In addition, the Committee may want to be aware that independent analysis of affordable housing requirements undertaken by Shelter, Scottish Federation of Housing Associations

(SFHA) and Chartered Institute of Housing (CIH), reported similar findings to our own analysis, albeit that it only considered the immediate five-year period.

Meeting the affordable homes target in the context of increasing costs - reflecting 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.

The Scottish Government note the Committee's concerns about the increasing costs associated with developing homes. When applying for grant assistance to deliver affordable housing, councils and Registered Social Landlords are required to self-certify that the amount of funding that they are requesting is the minimum required for a project to be financially viable for that organisation. The amount of grant funding is then compared with the applicable affordable housing investment benchmark to determine how the funding application will be assessed. Projects that can be delivered at or below benchmark follow a streamlined application and approval process, with projects seeking grant funding in excess of the relevant benchmark following a more detailed value for money assessment. Benchmarks are not therefore grant rates or grant ceilings and should not have a role in shaping the expectations of grant funding levels for a particular project.

The Scottish Government fully recognises this is a challenging time for the construction sector. The Affordable Housing Supply Programme operates a flexible grant funding system. This means that any grant applicant that requires grant in excess of the relevant benchmark should – with the support of the relevant local authority – continue to apply for this. Currently, around half of projects requesting funding are at or below benchmark and half above.

As noted by the Committee, the current set of affordable housing investment benchmarks will be adjusted to account for inflation using the Scottish Social Housing Tender Price Index (SSHTPI), with the new benchmarks coming into effect in time for the next financial year.

Scottish Government's reflections on the suggestion from Homes for Scotland on risk sharing

My officials have had previous discussions with Homes for Scotland on risk sharing and have made clear that it is not appropriate for the Scottish Government to become involved in contractual discussions between Registered Social Landlords (RSLs)/Local Authorities (LAs) and contractors. The Scottish Government does not stipulate contract types as a condition of our grant. It is for clients (RSLs/LAs) to agree the terms of any contract. My officials work closely with RSLs and LAs and should they wish to discuss the implications of any contractual agreements they are considering entering into they should raise this directly with my officials through their well-established local relationships. The flexible nature of our grant funding means that we do not have fixed grant rates or ceilings and we will also consider requests for additional grant funding post tender approval should unforeseeable additional costs become known.

Homes for Scotland concerns about planning application delays – they 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 KNOPF.

I recognise the issue the committee has highlighted in relation to timescales for determining planning applications for housing. I agree that performance of the planning system in that regard is not where it should be. That is why the Scottish Government is taking steps to

address this, including increasing the resources available to authorities. Earlier this year we increased planning application fees, by between 25% and 50% for most types of application, providing much needed additional resource for planning services across Scotland, which is helping authorities to retain and recruit staff. When the new fees were introduced in April, the Minister for Public Finance, Planning and Community Wealth made clear that we expect higher fees to be matched by improvements in performance outcomes.

Improving performance is however about more than financial resources alone. Having a pipeline of talented and skilled planners is essential, which is why the Government is working with the High Level Group on Planning Performance to drive forward a programme to enhance resources and skills within planning. Through the High Level Group, the Scottish Government is engaging closely with COSLA and Heads of Planning Scotland to understand the pressures faced by planning services, and to promote a highly performing system. This is particularly important to support delivery of our ambitions for planning set out in KNOPF. The High Level Group is currently progressing a number of pieces of work, including: the Future Planners project, looking at proposals to help increase the numbers of people entering the planning profession; exploring how planning fees can better reflect the costs involved in determining applications to achieve cost recovery; the introduction of mandatory training for elected members in the planning system; and the appointment of a planning improvement coordinator for Scotland.

Turning to the statistic mentioned in the Committee's letter, of 54 weeks for decisions on proposed major housing developments (50+ housing units), it is important for some context to recognise that these statistics relate to a period of time where the impacts of working through the pandemic were very much still live, with some planning authority staff being reallocated to priority areas and adapting to different working practices. It should also be noted that, due to the low numbers of major housing applications, the average timescale can be detrimentally affected by a very small number of lengthy cases. The Committee may also wish to note that, at 32.6 weeks, the median (middle value) was much lower than the mean average (54.3 weeks) and that some authorities are consistently delivering considerably faster decisions, well below the average. A further 4,608 local housing applications (under 50 housing units) were determined in an average of 15.7 weeks, with a median of 9.7 weeks.

The Scottish Government has been clear that performance of the system should be judged on more than just how quickly applications are determined, and the performance of the planning system is not the sole responsibility of planning authorities. Applicants submitting good quality applications at the outset and responding timeously to requests for additional information, and consultees responding on time, can also have a positive impact on determination timescales. The authorities and applicants are encouraged to work together to make applications acceptable, rather than refuse them at the first attempt, and it is only right that this takes time. This point is backed up by the fact that over 94% of applications are approved each year.

The Committee asks the Scottish Government to reflect on the viability of the competing aims of providing affordable home and decarbonisation with the resources currently afforded to social landlords.

We are aware of the potential tensions between new supply and the retrofit agenda. It is for landlords to decide what is best for their business in terms of balancing their priorities. Capacity will vary between landlords dependent on their stock profile and business plans. We have committed £3.5 billion towards the delivery of affordable housing this parliament to ensure as much certainty as possible. The recent Budget 2023-24 announcement confirmed that £751.945m will be made available for affordable housing next financial year. We are

also engaging with the sector via the social housing resilience group on a wide range of issues including those associated with the retrofit agenda.

Further information on the Innovative Finance Steering Group and work to explore alternative financing.

I welcome the Committee's focus on innovative finance and attracting investment to support the affordable housing sector. I expect that the Innovative Finance Steering Group will – over the lifetime of our current affordable housing target – be able to take a strategic look at the opportunities to support open and competitive processes to achieve both value for money and sustainability. I will keep the Committee updated.

The importance of rural housing enablers and community led approaches to develop new homes in rural areas - in particular, further details on how Scottish Government might support the SME construction sector

We recognise the important role that rural housing enablers play in supporting access to affordable homes in rural and island communities. The Rural and Islands Housing Fund has now become a recognised feature of our Affordable Housing Supply Programme backed by up to £30 million this parliamentary term. The fund is helping to increase the supply of affordable housing of all tenures in rural and islands areas and supporting community-led approaches by organisations including community bodies by enabling them to take a more active role in meeting the housing needs of their communities.

The Scottish Government is supporting plans for a more sustainable, productive, innovative and diverse construction industry. Accounting for £7.85 billion of Gross Value Added (GVA) and annual turnover of £19.7 billion in 2019, the sector also provided employment to 130,000 people in 2020. There were over 40,000 businesses operating in the sector in 2021 - 99% of those were small enterprises (0-49 employees).

The Scottish Construction Leadership Forum (CLF) is the main forum for Scottish Government/Industry interaction. A Recovery Plan, co-developed with industry, was launched in October 2020. Actions delivered include an industry data dashboard and a skills directory of courses focused on Scotland's construction industry, launched in May 2022. As the sector's recovery becomes well established, the focus is turning to transformation into the fair, diverse, profitable and sustainable industry Scotland needs.

As part of the development of the Remote, Rural and Island Housing Action Plan, my officials will also be engaging with stakeholders to better understand and overcome the barriers to delivering housing in these areas.

The Committee would welcome any further updates on progress towards the Remote, Rural & Islands Housing Action Plan.

A separate letter on progress with the Remote, Rural and Islands Housing Action Plan will be sent to the Committee week commencing 19 December 2022.

Delivering homes that meet people's needs - while the Committee welcomes the review of Housing for Varying Needs, it would hope that the review could be progressed with greater urgency and would welcome updates on progress.

The Housing for Varying Needs design guide is a detailed technical document and, as mentioned during my appearance at Committee, is still considered to provide an excellent

standard. However, we want the guide to help better meet the needs of an ageing population, to help people to live in their home for longer, and to learn lessons from the pandemic by recognising the importance of outdoor space, and space for home working or study.

During October, my officials had a productive meeting with both ALACHO and the SFHA to discuss the review. We have also prioritised additional resources to help to progress the work as quickly as is practicable and I will, of course, continue to keep the Committee updated as we move forward.

Housing strategy: 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.

Housing to 2040 is our long-term strategy for housing. It sets a vision where homes are affordable for everyone, where standards are the same across all tenures, where homes have easy access to green space and essential services, and where homelessness, child poverty and fuel poverty have been eradicated.

That ambitious vision requires us to look at the housing system as a whole and to work closely with local authorities, housing providers, landlords and the construction and house building sectors.

I have established a governance process to support delivery of Housing to 2040. A Strategic Board gives oversight, provides accountability on progress and supports ownership of the strategy beyond Government. The Board comprises of Scottish Ministers, the COSLA Wellbeing Spokesperson and senior stakeholders from the housing sector. It will meet for the first time in early 2023 and will play a key role in ensuring our work is joined up and collaborative in order to achieve the Housing to 2040 vision.

I hope that this response is helpful in answering your questions and look forward to further positive engagement with the Committee in 2023.

Yours sincerely,

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