



OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government, Housing and Planning Committee

Tuesday 17 May 2022

Session 6



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LOCAL GOVERNMENT, HOUSING AND PLANNING COMMITTEE
15th Meeting 2022, Session 6

CONVENER

*Ariane Burgess (Highlands and Islands) (Green)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Miles Briggs (Lothian) (Con)

*Mark Griffin (Central Scotland) (Lab)

*Paul McLennan (East Lothian) (SNP)

*Marie McNair (Clydebank and Milngavie) (SNP)

Annie Wells (Glasgow) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Donna Birrell (Rural Stirling Housing Association)

David Blair (Scottish Government)

Roslyn Clarke (Applecross Community Company)

Dr Stephen Garvin (Scottish Government)

Patrick Harvie (Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights)

Steven Henderson (Wheatley Housing Group Ltd)

Pam Humphries (North Lanarkshire Council)

Frank McCafferty (Wheatley Housing Group Ltd)

Tom Norris (Places for People Scotland)

Colin Proctor (Scottish Futures Trust)

Mark Rodgers (Highland Council)

Neil Rutherford (Scottish Futures Trust)

Elaine Scott (City of Edinburgh Council)

Mike Staples (South of Scotland Community Housing)

CLERK TO THE COMMITTEE

Euan Donald

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Local Government, Housing and Planning Committee

Tuesday 17 May 2022

[The Convener opened the meeting at 09:32]

Decision on Taking Business in Private

The Convener (Ariane Burgess): Good morning, and welcome to the 15th meeting in 2022 of the Local Government, Housing and Planning Committee. Mark Griffin joins us remotely today, and we have received apologies from Annie Wells.

I ask members and witnesses to ensure that their mobile phones are on silent and that all other notifications are turned off during the meeting.

Do members agree to take item 4 in private?

Members indicated agreement.

Affordable Housing

09:33

The Convener: Under the next item, we will take evidence on affordable housing. We will discuss the topic with two panels today. The first panel focuses on the rural context. We are joined by Donna Birrell, chief executive officer of Rural Stirling Housing Association; Roslyn Clarke, director of Applecross Community Company; Mark Rodgers, executive chief officer in housing and property at Highland Council; and Mike Staples, chief executive of South of Scotland Community Housing. Donna Birrell and Roslyn Clarke join us online. I welcome you all to the meeting.

It would be helpful if members could direct their questions to a specific witness, if possible, although I will be happy to bring in others who want to contribute—if you want to comment, please indicate that to me or to the clerk, and I will bring you in at an appropriate point. Donna Birrell and Roslyn Clarke can indicate that they want to comment by typing R in the chat function in BlueJeans.

I will begin with a question for all four witnesses. What are the challenges to delivering affordable homes in your areas of operation? How are you addressing the challenges? Can you share good examples? I will start with Donna Birrell.

Donna Birrell (Rural Stirling Housing Association): Good morning, and thank you for inviting me to give evidence. Rural Stirling Housing Association has a long track record of providing affordable homes in areas that desperately need them and growing rural communities. However, unfortunately, when it comes to the challenges that you talked about, I am sorry to say that that track record is seriously in doubt.

The biggest challenge that we face is that of increasing costs. Tender costs are coming back way in excess of our assumed budgeted figures. That renders projects unviable and unaffordable.

For the purposes of financial appraisal, our cost per unit is about £143,000. That assumption is used at the outset of a project, when we are developing it, to establish both the grant that will come in and our private finance.

I will put the challenge in context. At the moment, we have two projects for which total development costs per unit are in excess of £200,000—the figure for one sits at approximately £252,000, and the other sits at £253,000. As you can see, that is considerably in excess of our standard assumption of about £143,000. To put it bluntly, if we were embarking on both projects

today and planning our due diligence and financial appraisals, we would not develop either of them.

The Convener: Thank you. That is such a stark example. You talked about tender costs being way in excess of your assumptions. Do you have a sense of where those costs are coming from?

Donna Birrell: There are labour shortages and material shortages, and works costs are increasing. In addition to the standard cost per unit, we have to introduce into new-build schemes additional quality measures to meet various standards—for example, fire suppression systems are needed to meet new building standards. Although allowances are provided through the grant system to cover those additional costs, in reality, they do not bear any resemblance to the actual costs. For example, the assumption is that it costs about £3,000 per unit to provide the automatic fire suppression systems that are required, but the actual costs are closer to £10,000.

The Scottish Government, including its more homes division, has been working closely with us and has been very supportive, but I have a concern—as I think most development organisations have, particularly in rural areas—that the cost benchmarks are not keeping pace with what is happening on the ground.

Delivering much-needed affordable housing in rural areas comes with its own challenges, which we have seen over the past 30 years. However, I do not think that I have ever known it to be quite so difficult. In rural areas, there is always a premium when it comes to contractors' overheads and prelims because of the locations, some of which are quite remote.

In addition, we do not get the same level of competition among contractors; it is normally a smaller field. Some of the big-name contractors that operate in more urban areas are not interested in the smaller developments of 10 or 12 units that are typical in rural areas.

The Convener: Thank you. Mark Rodgers, is the picture similar in Highland Council? How is it going there for you?

Mark Rodgers (Highland Council): There are similar challenges, particularly with tender costs. I have responsibility for non-housing buildings as well as for housing. The cost of a school is coming in at up to 50 per cent higher than the original price, just within six months. Stuff that was priced at £40 million in September is now coming in at between £60 million and £62 million. That is also true across housing. That is a big challenge.

Infrastructure is one of the big challenges for us. I will give an example. I am building two houses on the Isle of Rum. Building a house is building a

house, but the challenge is that the electricity supply on Rum is very fragile. For example, the supply to the school is only 40 amps, which is about a fifth of what it would be in a normal new house. Therefore, in many respects—in addition to all the points that you heard from Donna Birrell—infrastructure is a massive challenge in rural areas. It is very difficult to fund such projects within the constraints of the money that we have available. As you heard, in some areas, the unit build cost is in excess of £0.25 million, and, on the islands, it can easily exceed £300,000. That is a particular challenge.

It is absolutely true that we have a limited choice of contractors. Another challenge is the lack of development partners.

There could be an unintended consequence of the drive for greater energy efficiency in housing. For example, a lot of my stock is, on average, 60 years old. I have a choice to make about the money that is available to me. Do I invest in retrofit to make sure that properties are brought up to, and maintained at, the Scottish housing quality standard and the energy efficiency standard for social housing, or do I put that investment into much-needed new housing, in particular for social rent, because there is an absolute crisis of supply and demand in the Highlands?

Those are some of the challenges. I do not want to dwell on the other points, because those were very well covered by Donna Birrell.

The Convener: What you said about the infrastructure and the difficult choices that you have to make is very helpful.

Mike Staples, how is it going in the community-led housing sphere? What are the challenges?

Mike Staples (South of Scotland Community Housing): As a community-led housing enabler, we come at the issue from a slightly different perspective, although we definitely face similar challenges. For the portfolio of projects that we are supporting with communities and that have come to site since Covid, the average increase in cost has been about 35 per cent.

There are definitely challenges in the construction market. A lot of the projects that we support in rural areas are low in scale but high in impact for rural communities. In that smaller scale of development, it is difficult to tender because of issues with infrastructure and aligning to build costs through the rural housing fund. That can be challenging.

However, in a housing environment in the south of Scotland that has shifted massively post-Covid—there have been issues particularly with second home ownership, which have been part of the narrative elsewhere in Scotland, albeit not

previously in the south—a significant challenge for us is that there are more communities. We are engaged with far more communities now than we were at the outset. The challenge for us, as an enabler, is in meeting that demand through the resources of our organisation. That is a big issue for us.

Rural housing enablers in Scotland were funded by the Scottish Government until March 2020, but they are not funded in that way at this point in time. Part of the Bute house agreement involves revisiting that position. For us, that could make a big difference, because models that use a community-led approach can help, particularly through driving partnership and through land reform powers, which can assist with overall development costs.

The Convener: Thank you for giving that perspective.

Roslyn Clarke, from Applecross Community Company, I know all about your achievement in the housing project that you recently completed, and I see that you are going to embark on some more housing. I am curious to hear about the challenges that you have faced and those that you will face with that new project.

Roslyn Clarke (Applecross Community Company): Thank you for inviting me. As you mentioned, we recently completed three all-access houses for affordable rent for our community, which are the first community-owned houses, and the first houses for affordable rent in 18 years, to have been built on the Applecross peninsula. We are pleased that we have been able to achieve that, and we thank all the funders—the rural housing fund and SSE’s sustainable development fund—for helping us to achieve that.

As you are aware, there is a housing crisis in Applecross. Highland Council’s housing needs register is a long list—there are, I think, 42 people on it, most of whom are looking for one-bedroom houses. We have undertaken our own surveys, and similar numbers are showing up there. The lack of affordable housing is preventing young people from staying in our community, preventing others from coming back to it and causing knock-on effects on our economy, such as our local businesses not having enough staff.

09:45

One challenge that we faced with the An Toll Bàn housing development was the lack of competition at tender stage, which has been commented on. We received only one tender for our project. The cost was also higher than expected. I have been advised that that was due to our rural location, where there is a lack of both contractors and competition. We had to finance

that additional cost, which has placed financial pressure and risks on the company, as we have accessed loans that we will have to carry. It has also put pressure on other aspects of our company that provide community broadband, the petrol station and various other vital community services.

Access to land is a key issue for us. It took more than five years for us to access the piece of land for our development, which was only a quarter of an acre. We live on a 26,000-hectare peninsula, but that was the only piece of land that we were able to purchase during the asset transfer from NHS Highland. It took time and effort—and so much grant funding through the development office for funding at Highlands and Islands Enterprise—for us to even get to that point. The time and costs are causing problems, and we are not able to address the crisis quickly enough. Our community is suffering because of that, regardless of whether people are moving away or not moving back.

We have been going through a planning process and have recently produced a community land use plan in which we have worked with the local landowner to identify a piece of land for future development, which is really great. We have recently purchased 6 acres for such development. However, rising prices for materials and construction and the issue of how we will be able to finance future housing developments are big concerns for us.

The Convener: Thank you very much for that answer, which included even more useful detail. It is quite astounding to hear about the land issues that you have experienced.

I have a few more questions, after which I will bring in other members. I will start by directing my next questions to Mark Rodgers, but I ask other witnesses to indicate should they wish to come in. 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?

Mark Rodgers: In purely numerical terms, if we look at outputs we can say that delivery of affordable housing has been fairly successful. I will give the example of Inverness, in which the number of units delivered shows a slight overachievement against the original local housing strategy target as determined by the housing needs and demand assessment methodology. However, the challenge is to ask ourselves whether we are building the right homes, of the right size, in the right place, at the right time, for the right people and of the right tenure. I have to say that the answer is absolutely not. I can be looking at situations in which homeless individuals

have a wait of up to three years, in some circumstances, to be able to access permanent housing successfully. That presents a massive challenge.

Going back to a point that Roslyn Clarke from Applecross mentioned, I think that there is a significant challenge in relation to the need for one-bedroom homes. We need to be a bit more creative in how we deal with that.

I would not necessarily suggest that building one-bedroom properties is the answer. The marginal cost of construction for that second bedroom is small and, while the Scottish Government continues to mitigate the bedroom tax issue, it makes sense to build two-bedroom units to meet the one-bedroom need. People form and break up relationships all the time, and there is a need for people to have somewhere where a child can come to visit, as well as somewhere where they can start a new relationship with someone and expand their family without incurring the cost of moving. I suggest that we need to think about that.

We have had some success, but we have met some cost challenges. Across the Highlands, the cost of purchase of a property ranges from five and a half times average earnings to nine times that amount. That is the big challenge that we face. If we are going to make a substantial difference to that, we will have to significantly increase the amount of social rented housing that we are able to deliver. There is a huge supply and demand mismatch. In areas such as Inverness, Lochaber, Mid Ross, Badenoch and Strathspey, and Skye and Lochalsh, the total number of applicants for rented housing outweighs the total number of available lets by a factor of at least two times and, in some cases, upwards of four times.

Although we might be successful in numerical terms—that is, in terms of numbers of units—I do not think that we have the right stuff in the right place, particularly in relation to social rent. That is the big challenge. Are we talking solely about numbers—for example, 50,000 houses over a certain period of time—or are we trying to get the right supply in the right place? There is a critically important dichotomy. There is a big housing pressure challenge in Inverness, but we must also think about the massive difference that building a couple of houses in a remote location such as Applecross or Rum could have in terms of avoiding depopulation and enabling people to return to or stay in an area and create opportunities for employment. However, as you have heard from everyone who has spoken this morning, the cost of doing that is significant and, although the grant rates are more generous than they were previously, that does not touch the sides

when you are talking about a cost of upwards of £250,000 to deliver a unit.

Those are some of the key challenges. There has been good progress, but there needs to be a refocus in order to address some of the points that I have mentioned.

The Convener: Thank you—that is helpful. The point is that we are seeing increased housing pressure in Inverness because people are having to leave rural areas. I take your point that we need to get the right houses in the right places. It seems like we need to drill down to another level and take that into account.

Mike Staples: The rural housing fund is vital. It is very important that it is there and that there is a long-term commitment to continuity around that funding. The renewal of the rural housing fund is welcome. There will always be challenges around deliverability at grant levels against development cost—I think that we are looking at 40 per cent of development costs coming from the rural housing fund. Again, we feel that using the models that can come through community-led housing that are based on partnership with registered social landlords or using mechanisms such as the land fund or asset transfer to acquire land and buildings can help that deliverability and increase some scale around that.

On the issue that Mark Rodgers raised, we welcome the commitment to 10 per cent of affordable homes being built in rural Scotland. We know that consultation is taking place on the remote, rural and island action plan. It is important that its targets are outcomes based with regard to the social benefits of small developments in the right places, the impacts on repopulation and the local economy—in the south of Scotland, we know that we need to repopulate in order to grow the economy—and a good demographic mix. All of that stuff is as important as the numbers of houses that are delivered.

The Convener: Roslyn Clarke and Donna Birrell, you do not need to come in on this question, but I want to make sure that you remember to put an R in the chat box when you want to come in—I know that, sometimes, it is difficult to respond to questions in a hybrid meeting.

I will ask two more questions. I am asking these ones because I represent the Highlands and Islands and I want to raise a lot of rural and island issues.

The Scottish Government is committed to developing a remote, rural and island plan. What do you think are the most important aspects to include in it?

Mike Staples: You probably expected that I would want to highlight the significance of the enabler support relative to the community-led aspects of the action plan. Again, I touched on the point about outcomes being based on social population and not simply numbers. The ability to build momentum and deliver more can be driven by community-led housing and forged by partnership. That partnership can be driven by the ability to work with registered social landlords and to share risk, the ability to work with landowners and with the land reform agenda. However, the enabling organisations are working at capacity and facing financial challenges. That support is vital to ensure that communities have that comfort in the long term and the support to go through complex project development and delivery.

The Convener: I want to unpack assumptions and go a bit deeper. You started to touch on the fact that community enablers support communities to do the delivery of their housing, but why is the model of community-led housing so important? It has kind of been said, but it would be good to articulate that.

Mike Staples: Yes. It is important with regard to the capacity to understand and act on very localised needs and demands. It is important with regard to the opportunities that it opens up for alternative types of delivery as a mechanism, as I have said before, for enacting partnership. I will give an example from the work that we have done. The bulk of our projects that are about to complete or are nearing completion relate to long-term-vacant or derelict buildings. The community-led approach has the capacity to tackle housing in a slightly different way, to look at delivering in places that are not being targeted by other providers. That is not to be disparaging in any way about other models, because the partnership approach is at the core of that.

However, community empowerment is critical, particularly post-Covid. We have a really supportive land reform agenda here that enables community ownership of land and buildings and a funding environment around the rural housing fund that can support development. Therefore, there is enormous capacity to upscale that, but the support to communities to undertake projects—the long-term support and expertise to do that and grow confidence—is vital to upscaling delivery.

The Convener: You mentioned that community-led housing initiatives are able to provide different types of delivery. You described using derelict or vacant buildings as well as building new buildings. Would different types of delivery also include different types of tenure?

Mike Staples: Yes, absolutely. That is another vital element of the mix around place making in particular. The committee has spent a lot of time

on national planning framework 4 by looking at localised place planning and communities taking a lead around that. Many of the projects that we work on and which we know that our colleagues in the Highlands work on relate to that idea of creating new places and building a model that is not just housing. We certainly see the community-led housing agenda as inherently about place making and supporting the development of other services alongside housing.

Roslyn Clarke: I agree with many of the points raised. I want to touch on the idea of supply and demand. Obviously, the demand has been highlighted in Applecross, as it has been in many other rural areas in the Highlands. It is even identified in Highland Council's "Local Housing Strategy: 2017/22", and it is a long-term five-year priority. All those things have been identified, but it is land access that is holding things back.

10:00

On community-led housing development, obviously we have local understanding of the requirements and what would be needed, but the issue is our capacity in our community company. We are a volunteer board with just one or two employees, and taking on such a huge project is a significant undertaking for a community company.

I highlight the importance of support from the rural housing fund and different grants, and the importance of technical support—we are not experts on building housing developments—planning support, support from other partnerships, such as support from Highland Council in our planning, understanding place-based development and how to tackle and approach that, and grant funding. It is important to have a wraparound approach that can support our communities and not to put undue pressure on our small community companies.

The Convener: It is very good to hear that from the community's perspective. Your company is volunteer led, and it can be challenging to hold that over time.

Mark Rodgers: I will make a couple of brief observations. As the committee has heard, the challenge is in land acquisition. The Highland Council area is massive—we often say that its land footprint is broadly the size of Belgium. The area is huge, but land ownership is heavily concentrated, and one of the big challenges is being able to get available land. Members heard the Applecross example earlier on. The amount of available developable land in such a vast area is tiny. That is one of the biggest challenges.

A number of us have commented on the need for land ownership reform to be a key part of how we take the issue forward. It cannot be looked at

in isolation; it impacts on everything that we are trying to do.

The point about planning and technical support to the delivery side was extremely well made. I do not know whether local authorities have been entirely honest about that. Have we been as good at giving direct support as we could have been? Perhaps not so much in the past.

My background is originally in homelessness. I never met a homeless person who really cared who had built the house. Homeless people expect us to work together across sectors to provide support. Sometimes we will lead on direct provision; at other times, we need to facilitate and support people to be able to deliver that. If a council is about anything, it is about having a huge range of technical experts and people who are able to provide that support. It is for us to get better at engaging with people, understanding the support that they might need, being much more open about providing that support and thinking about the wider social benefit that can be derived from that, rather than perhaps taking the approach in the past in which it was said, "We're the technical experts. If you wouldn't mind, leave it to us." That has not always resulted in the most successful outcomes. I am being quite candid about that, and I think that that is a point worth making.

Mike Staples made a good point about acquiring existing properties on the open market and renovating empty properties, for example. We should not think about grants and other forms of funding being available only for the purposes of building new properties. In many circumstances, acquiring existing properties and renovating them is not only greener in respect of the energy cost of providing the unit; it is substantially quicker, and it can demonstrably provide just as much value for money. Our thinking needs to be a little wider.

The Convener: I, too, have been interested in the empty homes issue and the work that is being done to bring empty homes online. That seems to be another opportunity in areas. There seem to be quite high levels of vacant and empty homes that we could tap into, as well.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, everybody. We have gone straight into the deep end. I was going to lead on questions about costs, but people have got there well before me.

I want to tease out the possible ways through this. 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?

Mike Staples: That will continue to be a tricky issue until things begin to level off. We can reflect on it only from the southern Scottish perspective. In other parts of Scotland, some of the issues with supply chains and costs relating to materials are probably more extreme than those that we face.

We need to look at the issue from every possible angle. The increase in benchmarks is welcome and important. Any further work on that is important, too. However, as I have mentioned before, we also need to consider what other angles can help—driving partnership, using existing buildings, using communities as an anchor to acquire land or working with landowners.

I will give a specific example. Dumfries and Galloway Council has been a strong supporter of considering alternative mechanisms for delivery. I know that it happens in other council areas but, in Dumfries and Galloway, the income from council tax on second homes has been ring fenced as a flexible grant fund that communities and RSLs can access. That forward-thinking approach by the local authority is making the difference in the viability of some of the community-led projects that we have been delivering.

We are discussing the matter closely with South of Scotland Enterprise. It has an open ear and is keen to try to engage on supply chains, on the localised construction market and on off-site construction, which you will hear more about today. A lot of that will take a bit of time. We are also trying to work with the agency on skills development, which is important.

Many things need to come together innovatively to help projects to move forward.

Mark Rodgers: The challenge is the cost of developing units in many of our locations. As well as the general rural dimension, we find that significant infrastructure is needed and there are abnormal costs, such as land remediation and decontamination costs, peat management in the Highlands or the removal of rocks. There is a lot of land, even land that is not in our ownership, that is difficult and challenging to develop.

It is helpful to have the subsidy, but I do not know to what extent it accurately reflects some of the high costs of developing in certain areas. My colleague from Rural Stirling Housing Association mentioned the challenges of scheme viability in relation to units that come in at more than

£250,000. That is a challenge for Highland Council. Even though we can try to make the argument to justify it from a social value point of view, there are limits to how far we can stretch that funding to ensure that we are able to deliver the housing that we want to.

The key point that I ask you to consider is that, without additional subsidy, additional investment can, in effect, be achieved only through increased borrowing funded through increased tenant rents. That has a direct impact on the social security bill or on the incomes of tenants, most of whom are not particularly wealthy. Therefore, to a certain extent, it is a direct impact on the people who are least able to afford it.

We can try to balance out that investment need from capital grant, but—I do not want to sound like I am being ungrateful about it—in some cases, it is insufficient to deliver the housing that we talked about this morning and that we all need.

Mike Staples spoke about making maximum use of council tax. We continue to do that; we use the maximum allowable council tax on second and long-term empty homes to fund not only new council housing but development loans and bridging finance and to provide funding for land and infrastructure. We are very keen on that.

We look at a range of different ways in which we can try to increase the amount of social housing that is delivered, for example through section 75 contributions and other contributions from developers who are building homes for outright sale. The challenge can sometimes be that the type of properties that we require to meet housing need are not the type that developers want to build. There is a challenge regarding how much we can rely on direct provision by developers. They can make a helpful contribution, but not as much as some people might think.

The Convener: Donna Birrell would like to come in.

Donna Birrell: There has been reference to the danger that some projects might not go ahead. We have a programme of 145 units across eight different sites. Of those, 59 are on site or have been completed, four are likely to progress and 82 are in doubt. In my opening remarks, I mentioned two projects in which we have seen huge cost increases. For our Balmaha project, tender costs are still too high. We have gone through two value engineering exercises. The first savings exercise that we undertook involved looking at different choices of materials and, when that had an impact on planning, going back to planning to seek approval for some of the changes. By the time that we got to the end of that very time-consuming process, tender prices had increased again, which was extremely frustrating.

That small development, which is an exemplar project, includes different tenures. It has housing for key workers who cannot find permanent accommodation close to where they work, two self-build plots and some shared equity properties. We are trying to deliver sustainable communities. However, as another witness has mentioned, there are pressures on rent. If subsidies are not increased, the only other option is to look at increasing private finance. However, that is pegged to rent and rent increases, and tenants are already being squeezed on all sides by rent, fuel costs, food poverty and the cost of living crisis. There is so much pressure on what we can do with rents and on our ability to raise finance.

Willie Coffey: Roslyn Clarke, do you have a final comment?

Roslyn Clarke: I agree with many of the comments. We would welcome any benchmark increase to the rural housing fund, which would go a long way towards supporting future housing developments.

We recently completed our An Toll Bàn project on budget, which was excellent. That was just prior to some of the cost increases coming in, so we were very lucky. We are very nervous about the expected price of future development.

Infrastructure costs are also important. We are in a grid-constrained area. We expect that the infrastructure costs for facilitating a larger development will be significant. That is an additional cost that is not easily reflected in the rural housing subsidy benchmarks. Any support that would enable that would be incredible.

The Convener: Miles Briggs has some questions.

Miles Briggs (Lothian) (Con): I will touch on something that Donna Birrell said about affordable homes helping to sustain local communities. In a rural context, what different models could be, or have been, developed to support key workers in moving to work in different communities? Are there any new models that you have already highlighted, or that you would want to see the Government developing and supporting?

10:15

Mark Rodgers: Key worker housing is a massive challenge. I will give you two examples. We are building two houses on Rum because building that accommodation is the only way that the school can stay open. If the school does not stay open because there is nowhere for the teachers to live, the viability of the island as a place to live is seriously challenged. That is a challenge for us because the unit cost is very high

and the infrastructure is heavily constrained in the way that was just mentioned.

Skye is another good example of that situation. I have regular conversations with NHS Highland about the fact that the challenge is not necessarily the ability to attract staff to apply for and be appointed to jobs; it is that they have nowhere at all to live. There is a range of reasons why that is the case. Housing that would previously have been available for let or that would have come on to the market for purchase is being used for a range of short-term letting activities. The challenge is made much more difficult by the lack of affordable land.

There are two dimensions to the issue. It is partly about how we finance house building and which different financing models we should look at—I have some thoughts on that, which I am happy to share. However, at its most fundamental level, the challenge is land as much as anything else, particularly in Skye, and infrastructure. You can talk about the different tenures that you might like to see and how to finance things, but in some cases there is absolutely no land to build on in the first place, so you must start with that and fix the problem before you can move on to get underneath the bonnet of the issues that you have raised.

Miles Briggs: I grew up in rural Perthshire, and without looking back at my childhood through rose-tinted glasses, I note that both our local nurse and policeman had tied accommodation. Those houses have been sold, and, obviously, there has been a restructuring of how we deliver those services. 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?

Mark Rodgers: That is a good point. There are two dimensions to that. The housing that we are building on Rum will be accommodation that is tied to employment, so there are examples of our doing exactly that.

If we set aside the land challenge for a minute, the NHS angle is interesting, as is the involvement of other public services. If we use the NHS example, you might argue that it would be useful if it made a capital contribution to the provision of housing for specific types of staff. You could widen that further—there is often a viability gap when you talk about housing for people with specific health challenges, particularly those who are long-term sick and are bed blocking. If we were a bit more constructive about how we use the mix of the Scottish Government grant funding, local authority funding and NHS capital grant funding,

we could do a lot to resolve bed blocking issues, as well as to provide accommodation for key workers. That approach works in a number of different dimensions.

There is a wide range of ways in which housing could be funded. We could think about the role of pension funds in contributing to the capital costs of providing those properties. Real estate investment trusts are another example. There is a wide range of ways in which innovative private sector funding can be brought to the table.

Pension funds and REITs are quite well used on a large scale by housing associations south of the border in England. I wonder whether we could consider across the sector how that might be much more widely introduced in a Scottish context.

The challenge that we have right now, which you were quite right to mention, is that the stock that used to be available for tied accommodation for key workers has been sold off and has not been replaced, as yet. As I said, we have made progress and are taking good steps with regard to numbers and output, but it will take many years to plug the gaps that have been created by 40 years of right to buy. That is the truth of the issue.

Miles Briggs: I do not know whether Donna Birrell or Roslyn Clarke wants to come in on that question.

The Convener: Do either of you want to? You do not have to. They are not indicating that they want to respond, Mr Briggs, so let us move on.

Miles Briggs: The Scottish Government's "Housing to 2040" policy document emphasizes the importance of place, and one of the key issues in developing sustainable places and new communities is the provision of a rail link. As far as building new communities is concerned, is any work being carried out—and, indeed, being carried out with you—on the potential reopening of railway stations and the potential to develop larger communities around them? Moreover, have you been looking at developing new towns in your areas?

Perhaps I can start with Mike Staples, and anyone joining us virtually can put an R in the chat function if they want to come in.

Mike Staples: From a community-led perspective, the principles of place and connectivity, and alignment with concepts such as 20-minute neighbourhoods, are really significant. The experience in Dumfries and Galloway, where the bulk of our projects have been developed, is that the point that you have highlighted is a big challenge. Being able to live and work in a lot of places in rural Dumfries and Galloway without being a car user is very difficult to envisage. As a

result, in looking at creating communities and place making, we are also looking acutely at opportunities to live and work in the same place to address some of those issues. We know that the opening of the Scottish Borders rail link has had a big positive impact on the communities there, and we would certainly welcome the same thing happening in certain parts of Dumfries and Galloway.

Miles Briggs: We have seen how communities have expanded with the opening of the Borders railway, but people are still commuting into Edinburgh every day for work. Of course, that situation might have changed during the pandemic, but where are things not connecting up in order to develop communities? Is that anything to do with the infrastructure first approach, which we have been hearing a great deal about and a lot of which is about public services? How do we streamline that to ensure that services are in place and communities have what they need?

Mike Staples: That is a big question, and it is perhaps difficult for individual communities to influence certain factors such as connectivity and being joined up. A lot of our work is orientated towards sustaining the communities that are already there. As for the new towns and new settlements that you have asked about, they can be very much driven by community-led housing projects creating new sustainable communities.

At the moment, we are working to support a master plan for the edge of Dumfries, which involves a much bigger housing development. Although it is ostensibly rural, it does not fall within the rurality parameters of the rural housing fund. However, it will have a big impact on the rural housing market and, indeed, on conditions with regard to key workers, which have already been mentioned. How such links are extended to communities is a bigger question.

Miles Briggs: Thank you.

The Convener: I call Marie McNair.

Marie McNair (Clydebank and Milngavie) (SNP): My question is directed to Mark Rodgers. Will you tell us more about Highland Council's approach to net zero homes? What investment and progress has been made?

Mark Rodgers: That is at the heart of everything that we do. We have a challenge with our existing stock, which is very difficult to bring up to standard. Wherever possible, we use passivhaus principles for our housing developments. We want to ensure, as best we can, that housing running costs are reduced as much as possible. The easiest way to do that is to embody those design principles in the new stock that we build to make it as energy efficient as possible. For those reasons, everything that we

have been doing in relation to our new build housing has been absolutely targeted towards that, and it is a key part of our design principles to make those properties as efficient as possible.

Sometimes, the challenge is encouraging tenants to use those properties in that way, particularly when it comes to things such as mechanical heat and ventilation systems. There is sometimes a perception that they are expensive, or they are perceived to be expensive because you can hear the motor running when, in fact, overall, the energy consumption and costs of running such homes are very much reduced.

Our off-grid properties are a particular challenge with regard to energy efficiency. A large chunk of our stock is not and never will be on the gas grid—it is as simple as that. Therefore, the issue is the availability of alternatives, such as ground-source or air-source heat pumps. Yes, those alternatives are available but, again, there are issues with the perception of running costs for those properties. Part of the challenge is about the physical building and part of it is the perception of the running costs of the heating and ventilation. We are trying to address those issues coherently and to bring tenants on board, because, in the medium to longer term, the benefits are absolutely clear.

Paul McLennan (East Lothian) (SNP): Mark Rodgers, I want to pick up your point about funding. 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?

On a related matter—I will open up the question—you referred to the ownership of land in the Highlands. Are there any opportunities to work with landowners so that selling their land, including for housing, is a more attractive option for them? What barriers do you see to that?

Mark Rodgers: I will start with your second point. The challenge for us is that landowners often have high expectations of land values and they do not necessarily understand the impact of constraints. For example, earlier, I mentioned abnormal costs and the impact of developer contributions on land values. We found that many landowners do not actually need to sell their land, so zoned sites can lie dormant. I have also talked about the general issues around land ownership across much of Scotland, particularly in the Highland context. Those issues are well understood, but they have a critical impact on housing delivery. As I mentioned, that is a key factor, but land ownership reform will be essential in overcoming that.

The four key things that we need to build are: land assembly, planning permission, money and infrastructure. One of the biggest brakes on that is

getting any land at all and/or getting land that is developable. That is one of the biggest challenges.

It is a bit more difficult for me to comment directly on your first question because, for example, the pension trust and real estate investment trust dimension has been explored much more by housing associations in an English context. I have worked about half my career in England and half in Scotland—half in local government and half in housing associations. There is an inherent conservatism—with a small “c”—in the approach that is taken in Scotland. In many respects, that is not necessarily a bad thing. In fact, in many respects, it has been a very good thing in avoiding some of the challenges that we have seen in the English context. However, we need to be a bit more attuned to being open to using alternative sources of funding.

10:30

Sometimes, the challenge is that those connected with pension funds—I have experience of this from talking to those people in the past—want a certain rate of return to be guaranteed over a period. That can become quite difficult in relation to being tied into contracts in which an income increase according to the retail prices index or the consumer prices index is expected over a period. We need to be very careful that an unintended consequence of that is not, among other things, that the rent that is imposed on tenants also increases by RPI-plus or CPI-plus, because most people’s wages will not go up by that amount and that would create an affordability or sustainability gap for residents.

That approach might solve the infrastructure problems, because funding would be used to build housing, but there would be challenges for organisations in being able to afford to keep the housing, and challenges for tenants in the housing being affordable in the medium to longer term. The matter is not without its challenges, but it should be explored further.

Paul McLennan: How can RSLs and councils develop new homes more efficiently to reduce costs and ensure value for money? That issue has been touched on, but does anyone want to add anything?

Mark Rodgers: I will make one quick point. We find that our partner RSLs in the Highlands either are not developing at all or are not developing at the scale that they used to because, understandably, they are diverting their money into ensuring that their stock is compliant with standards for decent homes, such as the energy efficiency standard for social housing.

From a strategic point of view, we are talking about the need to increase the rate of housing delivery across a range of tenures, particularly in the social rented sector. However, I would argue that, perhaps counterintuitively, some of the things that we are doing to improve existing stock are acting as a direct brake on the ability to use that money to increase the total number of units that are available in the system.

Paul McLennan: Investment decisions relating to getting existing homes up to standard are impacting on the ability or desire of RSLs and councils to build new houses.

Mark Rodgers: Yes. I can use my stock as an example. The units are, on average, 60 years old, and I have 14,000 of them, so I have to get the balance right with my portfolio. I definitely want to accelerate the rate of new build provision, because 10,000 people across the Highlands are on the waiting list. However, if my stock becomes non-viable, the first thing to happen is that I will, quite correctly, get a telling-off from the Scottish Housing Regulator because my stock is not meeting the standards. Ethically, that is correct, because it relates directly to the cost of living in that stock; if the standards are not met, that makes it more expensive for tenants to live in it.

We need to think about those challenges. As we said earlier, the issue is not just about numbers; it is about land reform and addressing the investment requirements for existing stock. We need to take a whole-system approach.

Donna Birrell: I concur with what Mark Rodgers has said. We have just carried out an energy audit of our existing stock to get a handle on, and get some understanding of, the investment needs to meet EESSH2. A study has confirmed that about £10,000 per unit will be needed to meet the standards. The investment that we need to make to achieve the regulatory requirements will have an impact on the level of investment that we have available for new builds. A very difficult balancing act is required; it is extremely challenging.

The Convener: Mark Griffin, who joins us online, will ask the next questions.

Mark Griffin (Central Scotland) (Lab): I want to ask about the sites that are currently under development. What role do modern methods of construction play at those sites? 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?

The Convener: Would you like anyone in particular to start on those questions?

Mark Griffin: I am not sure. Do any of the witnesses have experience of innovative construction methods being used at their sites?

The Convener: Is anybody working with modern construction methods yet?

Mark Rodgers: That is what we will do on Rum. We will probably ship over an off-site pre-fabricated unit in two or three parts, build a concrete pad, connect everything up and deliver it. For a range of reasons, that makes more sense than a traditional new-build solution—breeze blocks and bricks, for the sake of argument—in that particular location.

Prior to coming to the Highlands, I was in Dudley Council, in the West Midlands, for a period of time. We partnered with the local housing association, which used factory-built units. It had its own factory in the West Midlands, which it used to construct those units, so I have some experience of that. We are perfectly open to doing that where it makes economic sense.

When we are looking to build at pace, we should be open to all forms of construction. One size does not necessarily fit all. I have experience of many years of working with a range of housing archetypes, and I would say that the only challenge is that you have to be sure that they will be fit for purpose in the medium to longer term. Council housing, in particular, is littered with lots of examples of approaches that were considered innovative at the time but that have, sadly, proved to be not particularly great in terms of their long-term costs or viability. As a result, some housing had to be statutorily declared unfit for purpose. We have to be a bit careful about that. However, we should be open to innovation when we can use it to deliver units more quickly or when it is more appropriate for a particular geographical location.

Donna Birrell: We are open to using modern methods of construction, and we are actively looking at doing that in one of our most northern schemes, in Tyndrum. We can see where it would produce efficiencies, but the problem is that our schemes tend to involve small numbers of units, and there is a difficulty with scale. If there was more Scottish Government support to make that work, it is something that we would be very interested in.

The Convener: I have a question for Mark Rodgers. Would it help if the Scottish Government considered placing a factory in the Highland area for scaling up with modern methods of construction?

Mark Rodgers: We would be very interested in having that conversation.

The Convener: On Donna Birrell's comment, a company in Barra, in the Western Isles, is using

modern methods of construction and will be supplying the houses for six of the smart clachans in South Uist. Building in a factory can be done on a small scale—I have become aware of quite a few companies across the Highlands that are delivering on a small scale, and it is really working for them. More discussion around that would be great.

Roslyn Clarke: We are very supportive of innovative types of construction for housing. For the houses that we have just completed, a traditional style was undertaken, but we hope to link our future houses with our community-owned hydro station, which is beside the project, and to have almost a district heating scheme that provides embedded renewable energy to those homes, which will help with fuel poverty in our area and support the net zero agenda. Again, the question for us is around the cost and whether we are able to access funding to support that sort of initiative on a small scale.

The Convener: Mark, do you have any further questions?

Mark Griffin: I will move on to affordability of rent, if that is okay. I know that it has been touched on already. 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?

Mark Rodgers: It is a key challenge. I will give you an example of the breakdown of previous and current grant rates. For the 2015-21 programme, a unit cost was about £145,000. Capitalised rent is £70,000 of that, the Scottish Government subsidy is £60,000 and our own land bank subsidy is £15,000. For the 2021 programme, going forward for the next five years, the typical cost for a unit is £175k, although there are some exceptions that I have already touched on—that is not the figure for the most rural communities. The capitalised rent element is £70k and the Scottish Government subsidy is £90k, which is a significant increase that is very welcome and helpful. There is also a land bank contribution.

The challenge, as Mark Griffin has identified, is in how the gap in costs will be filled when we start to look at unit costs in excess of £250k. That is also true for the Rural Stirling Housing Association, which Donna Birrell mentioned at the start of her comments. Whether we are talking about Donna going for private finance or me raising finance through council borrowing that is secured against the assets to deliver those units, the answer is that the gap ultimately has to be filled by rents. That will be the challenge unless one of two things happens: either the grant element is further increased or we look at how the

burden of that gap in funding can be shared. If the answer is that the funding is not coming from anywhere else, it will come from tenant rents.

Mark Griffin makes a very valid point in asking what that means in terms of affordability, which becomes a challenge. Even if you pool your rents across the totality of your stock and you have a large enough stock base to do that, it will, nonetheless, become challenging over time to keep rents at levels that deliver affordability in the proper sense to people who do not have a lot of money to start with. That is the dichotomy at the most fundamental level. To give the Scottish Government some credit, it has recognised that through the increase to the subsidy element.

However, although that works in a number of settings, the question is to what extent it helps us to address the challenges of developing in particularly isolated rural communities, where one or two houses can have a big impact in terms of depopulation—or repopulation, to be positive about it—and employability. I suspect that how we can fund that development is a conversation that all of us across the sector will have to have, and the Scottish Government will have to play a key role in that for the isolated rural and island communities, in particular.

It could be argued that greater capital grant allowances should be considered to address the challenges in remote and rural areas—*islands and remote west and north coast settlements*, and the argument is equally applicable in the Borders and in Dumfries and Galloway. It is for the Scottish Government to think about the social value element of that and how it wants to invest in that, but that also needs to be tied in.

As I said earlier, it is not just about building the house, which is the same process wherever you build it; it is about getting contractors who can do that, in the first place, and the infrastructure challenges. Can you get a road to where that development is going to be, and, at the most basic level, will the electricity, water and sewerage supply stand that development happening? The investment around infrastructure, as well as the unit cost of delivering the physical bricks and mortar, is really key.

Mark Griffin: Thank you. Does Donna Birrell want to talk about the balance between investment plans, including how they have been funded, and the affordability of rents?

Donna Birrell: I echo what Mark Rodgers said: the gap cannot be plugged from our rental income. This year, our rent increase was 3.9 per cent, which is a below-inflation increase, but our business plan is modelled on above-inflation increases. The gap cannot be funded by our tenants, who have the least ability to shoulder it.

We also need to have our private funding in place before we commit to a project. With the two schemes that I talked about that may be in danger of not going ahead, we have already looked at increasing our private finance element by about £5,000 a unit to see whether we can help to bridge the gap, but I do not think that there is scope to move that any further.

10:45

Another point is that, before we go on site, we must have a commitment that private funding is in place. Because schemes are now taking so much longer to be approved and have funding put in place, if we commit to private finance too early and the scheme is further delayed, we will incur additional fees and non-utilisation costs because we will not be drawing down the finance in accordance with the programme that the lender has agreed with us. We can therefore incur fees that are added to a pot that has already been squeezed, which means that existing tenants will be paying for the finance difficulties of future developments. The environment is therefore difficult on all fronts at the moment.

Mike Staples: I have a different perspective, which is from the community-led side of things. An obvious point is that, if communities are picking up the mantle of attempting to address issues of localised housing supply by themselves, the organisations that support them will want to minimise the risk. For community-led development the issue of access to finance and borrowing on projects is important, as Roslyn Clarke will have experienced in Applecross.

It is important to note that community organisations are borrowing commercially. They normally borrow from ethical lenders, but that is not always tremendously affordable. The Scottish Government could provide support on the relationship with finance and borrowing for community-led housing. I know that conversations are being had with the Scottish National Investment Bank on that issue.

An issue that has not already come up in our discussion is the use of rural housing burdens as a mechanism for achieving affordable sale. Again, we would welcome Scottish Government support on the recognition of that product for delivery and for mortgages.

The Convener: Thank you for bringing up that point about rural housing burdens.

That concludes our questions. [*Interruption.*] The clerk is telling me that Roslyn Clarke wants to come in as well.

If any witness wishes to respond to that question, they may do so. I also offer a little time

for them to bring in any other critical points that they want to mention to the committee, such as the one on rural housing burdens. I will go around the witnesses to see whether anyone wishes to come in. I ask Roslyn Clarke to respond to that question first. If she needs to add other points to ensure that we hear them, she should please do so.

Roslyn Clarke: I just wanted to say that accessing a private loan for the housing development that we have just completed was quite tricky. We had to supplement that with additional funding from our community company. We were stretched right to our limit to be able to achieve those three houses.

I also point out that, as we are not commercial developers, we cannot have the same risks on commercial loans that would normally apply. As we look to develop further houses, we are not sure how we would sit as regards any future loan and how the company could carry such risks. It is important to say that any support—in the form of either advice or financial support—that could be made available to small organisations would be really appreciated.

The Convener: Thank you very much for that. Mike Staples, do you have anything to add? You do not have to, but I want to give you the opportunity to do so.

Mike Staples: It would be useful to add a few points from our perspective.

I previously mentioned the significance of the rural housing fund in the long term. It is important to recognise that there is now a significant pipeline for rural community-led housing in Scotland. As you will know, we are working closely with the Communities Housing Trust and, between our organisations, we have a significant forward programme. As I have mentioned several times, the ability for enablers to support that and bring it to fruition, and the level of resource within such organisations, will be critical. From the perspective of community confidence and the pipeline, though, we are in a really strong position to be able to upscale the sector.

The Convener: Thank you very much. Mark Rodgers, do you have anything else that you want us to hear?

Mark Rodgers: For me, the approach should be very much about increasing the social rented stock that is available. In some housing markets in the Highlands, there is very little private rented property at all, and what is there is quite expensive. Owner occupation is out of reach for many people when we are talking about between five and eight times people's average earnings being the multiples of income required for people to be able to buy something. That is a challenging

issue. In the Highlands, particularly in rural areas, employment is often seasonal and has relatively low earning potential, which makes it difficult even for two people who are in employment to obtain a mortgage. I mentioned earlier the other challenges that that presents.

We should also look at such challenges through the prism of housing need. Only 25 per cent of people who are on our list of those who need accessible housing are currently being housed successfully. Extreme overcrowding represents only 2 per cent of all applications, but only 6 per cent of applicants with that cumulative need are successful. The challenge for me is that I have applications from 10,000 people in need, across a range of categories. That number is not going anywhere any time soon, and building our way out of the situation will be challenging.

Finally, the current housing needs and demand assessment methodology does not help rural organisations at all. I will not go into detail on that, but our argument would be that, although that methodology works pretty well in the context of central Scotland, it is not delivering outcomes on identifying the stock that needs to be built and delivered across the Highlands. We need to have a much better link with what our own waiting list assessments are telling us about people's requirements, particularly regarding people who need affordable and social rented housing. Either we must not be so tightly bound by the current housing need and demand assessment or we must at least be prepared to discuss whether we should use a different method of assessing such need and output requirements for rural parts of Scotland.

The Convener: Thank you for that insight. That is really useful.

Donna Birrell, do you have anything that you want us to hear, or have we heard it all?

Donna Birrell: I have nothing further to add.

The Convener: Thank you very much.

This has been a very useful conversation. We have gone from highlighting high-level matters such as land being a key issue to the question of infrastructure and the concept that housing is not just about building houses but about the place making aspect. In rural and island communities, the approach cannot just be about sticking up a whole load of houses; our witnesses have touched on the need for place making. We must ask ourselves how we can fund such aspects if there is money for housing but not for shared common spaces such as live-and-work settings. It has been fantastic to hear Mark Rodgers drill down into the figures and describe the reality of how we can fund housing when the cost starts to get up

towards £250,000 per unit. There are also different challenges in places such as the Isle of Rum.

We are grateful to our four witnesses for giving us their differing perspectives, including Roslyn Clarke's view on how the Applecross community has enabled aspects of housing there and Donna Birrell's and Mark Rodgers's perspectives on a slightly larger scale. Thank you so much for coming—I was about to thank everyone for coming in, but some of us have joined the meeting via Teams. It is very much appreciated.

I suspend the meeting to allow for a change of witnesses.

10:53

Meeting suspended.

11:00

On resuming—

The Convener: We are now joined by our second panel to discuss affordable housing. I welcome Steven Henderson, group director of finance, Wheatley Housing Group; Frank McCafferty, group director of assets and repairs, Wheatley Housing Group; Pam Humphries, head of planning and regeneration, North Lanarkshire Council; Tom Norris, managing director, Places for People Scotland; Colin Proctor, director, construction industry and delivery, Scottish Futures Trust; Neil Rutherford, senior associate director, housing and economic investment, Scottish Futures Trust; and Elaine Scott, head of housing strategy and development, City of Edinburgh Council.

Both the Wheatley Housing Group and the Scottish Futures Trust are represented by two witnesses with different areas of expertise. In the interests of time, I will be grateful if a single witness from each of those organisations responds to any given question.

It would be helpful if members directed their questions to a specific witness where possible, but I will be happy to bring in others who wish to contribute. If other witnesses wish to comment, they should indicate their desire to do so to me or to the clerk, please, and I will bring them in at an appropriate moment.

My opening general questions are to all the witnesses, although one witness from the Scottish Futures Trust and one from the Wheatley Housing Group should respond—they will have to divvy things up from across the room.

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?

Pam Humphries (North Lanarkshire Council):

Good morning, everyone. We have a commitment to deliver 5,000 new homes by 2035, and we are just about to complete our 1,000th new-build home. A big part of our programme is purchasing and refurbishing ex-council houses.

We have always had challenges in North Lanarkshire with our sites and ground conditions—I am sure that others have had such challenges. We particularly focus on developing brownfield sites. A number of the sites in town centres and small existing communities were previously developed. We have challenges with ground conditions, infrastructure and Scottish Water being able to get connections. We have always had those challenges, and we have had to work through them. We have to have good lead-in times and do the design and planning work in advance so that we have done as much preparation as possible before we get on site or appoint the contractor.

Obviously, the current challenge is the cost increases—I am sure that everybody will talk about those—and the impact of those on our future projections for the delivery of the programme. Others have commented on balancing that against the existing need for stock. We have an ageing stock, and more than 36,000 homes need various levels of investment. We are committed to ensuring that they are brought up to the best quality.

There are the challenges of funding and ensuring that we continue to deliver the programme, even in the current climate. Some of the rural authorities talked about their current prices, and our tender prices are not much below that—we are now at well over £200,000 a unit. That includes some of our larger sites, where we have been able to get more than 100 units on site, so it is not just because some of the sites are quite small.

We have been addressing that by looking at different methods of procurement, such as ensuring that we use the frameworks, trying to ensure that we get economies of scale from some of the larger sites and joining sites together in town centres. That is probably not impacting on the costs at the moment. The challenges of the costs are outwith everybody's control.

As I mentioned, the buy-back programme is particularly important for us—it always has been and is increasingly so. Not only is it good value for money—it enables us to acquire and refurbish units at under £100,000 a unit and quite significantly under that price in some cases—but it assists us with getting full ownership of mixed-tenure blocks, which enables us to progress work in those blocks when we have not been able to do so before. It ticks a number of boxes: it brings

empty homes back into use and addresses issues when homes have been in the ownership of private landlords and have not been particularly well managed.

For us, the issue is getting the balance right between new build, which helps to address particular needs, particularly for people who have disabilities or who need larger homes, and using the buy-back scheme.

The Convener: Thank you. Perhaps somebody from the Wheatley group can comment.

Frank McCafferty (Wheatley Housing Group Ltd): I would echo much of what Pam Humphries said. The challenges that we have are much the same, and much the same as those faced by the first group of witnesses that you heard from. There are now pressures all the way through the system for delivering new homes, right from identifying land at the start of the process.

We have a significant programme. We have built more than 5,000 houses in the past 10 years, but it will be a challenge to continue that delivery. We work across the sector with local authority partners and partners in the construction industry. We have discussed that.

I echo what Pam Humphries said on costs, and I am sure that other witnesses will say the same sort of thing. We are also experiencing costs of up to £200,000 per unit for not insignificant developments—developments of 30-plus units. That is for a number of reasons.

The other real challenge that we have is tying down prices. I give the example of a project for which we received a tender last July. We have had two increases since then. It is a substantial project and we have still not managed to get it on site but we are at a more than 13 per cent increase on the original winning tender price and are still not over the line on the project.

As you heard from the previous witnesses, the time taken to address some of the challenges is significant and can exacerbate them. In the time that it takes to try to solve one problem, the prices have increased for various reasons. Across various measures, the Building Cost Information Service and the Office for National Statistics are talking about price increases in construction of between 8 and 10 per cent over this year, and that will continue into next year.

Those are the main challenges. Some of the things that we are doing are similar to what Pam Humphries mentioned. We ensure that we discuss those issues with the contractors that we use. We are also considering other forms of procurement to try to mitigate some of the price increases. However, we need to be sympathetic to contractors and the supply chain, because there

are real pressures on them. For example, I have recently experienced costs in steelwork being held by the supply chain for only 24 hours. The timing difficulty is a significant pressure.

We also experience challenges around the planning system and resources in local authority partners. There is much more emphasis—correctly in some cases—on consultation with planners, but that puts pressure on the planning system to enable us to get projects through timeously. That is another issue. Again, we are working with our local authority partners across the authorities where we are active to try to take some pressure off that by doing some consultation by ourselves and by looking at funding proposals through the planning system. We will continue to do that.

I echo a great deal of what Pam Humphries said as well as what was said about some of the other issues that were addressed earlier this morning. The challenges are the same on the same themes but with slight differences and in different areas.

The Convener: Thanks for that. Elaine, how is it going in Edinburgh?

Elaine Scott (City of Edinburgh Council): As the committee will be aware, we face significant challenges with the housing market in Edinburgh, where we operate. Private sector rent for a two-bedroom property in the city is around £1,100 per calendar month and house prices can be six times the average salary. We have a lower supply of social rented housing in comparison to the Scottish average, which means that the pressure on the social rented housing stock is absolutely enormous. Around 150 households will seek to bid for every home that becomes available for social renting.

In the light of the significant homelessness pressures in the city, around 70 per cent of our council house lets go to homeless households, with the remainder largely going to people who are given priority for accessible housing—for example, that might be to get out of hospital or to remain at home. That is the overall context in which we are seeking to deliver affordable housing in the city.

We have an ambitious programme to deliver 20,000 affordable homes in partnership with housing associations by 2027. Until the pandemic, we were making strong progress on that. In 2019-20, as a city, we approved 2,000 affordable homes for site start. The programme was to build a mix of homes but included housing for mid-market rent, so we are looking at other options in addition to the grant-funded programme.

However, we face similar challenges in the city to those mentioned by other witnesses with regard to rising costs. Between 2020-21 and 2021-22, we have seen an increase of £30,000 in the affordable housing supply programme unit cost,

which brought the cost up to around £190,000 last year. However, we also anticipate pretty much every project coming in well above the benchmark as we move forward, because the cost position remains challenging.

The additional challenge for us that I will highlight is that, as a council, we are developing sites that we have purchased on to the housing revenue account from our general fund, but our RSL programme in the city is completely dependent on sites being brought forward by the private sector through the affordable housing planning policy. Therefore, of course, a big concern for us in the current context is that, if we cannot reach a viable project by working with developers on private sites, there is a risk that affordable and private developers simply will not proceed or that there will be significant delays. Therefore, there are big challenges.

As others have said is the case for them, in Edinburgh, the council is seeking to drive forward investment in our existing homes. We have 19,000 homes in council rent, around half of which are in mixed tenure blocks. Therefore, a big challenge for us is working with owners to invest in the private housing alongside the council homes to deliver the improvements that we need. Around 15 per cent of our stock is in multistorey blocks. There are significant challenges with bringing existing homes up to the energy efficiency standard for social housing and net zero carbon. Obviously, we require to fund those through rental income.

We are seeking to deliver a very large and ambitious affordable new supply programme as well as very ambitious investment in our existing estate, all of which is greatly required in the city.

The Convener: Thank you. Perhaps Neil Rutherford from the Scottish Futures Trust can go next.

11:15

Neil Rutherford (Scottish Futures Trust): I agree with a lot of the comments that have been made about the challenges so, instead of going over all of them again, I will just add a couple of comments about other issues.

On resource and capability, which were touched on earlier, we play a role in helping people deliver some of these sites, in looking at strategic sites and so on, but there is a big challenge with regard to capacity, resource and having people on the ground to help with delivery and to make the system work. Sometimes there is also an issue with the complexity of the funding system, because there are lots of different pots of funding out there. I can perhaps use Granton and our work with Elaine Scott and colleagues as an example,

because it involves large-scale redevelopment that takes in a number of strands, including regeneration, net zero, housing and transport. The question is how we bring some of those funds together to get a holistic approach. Indeed, that is quite a common issue across Scotland with some larger sites.

Elaine Scott has mentioned this already, but the primary link to section 75 of the Town and Country Planning (Scotland) Act 1997 and access to land present big challenges. However, some of the approaches that we are looking at might unlock some private sector land through the use of different funding and financing tools. We are keen to look at those kinds of things.

The Convener: I am aware of the complexity of the funding landscape; indeed, I cannot keep track of the different pots of money. However, that seems to be an issue not just in housing but everywhere.

I call Tom Norris.

Tom Norris (Places for People Scotland): I would echo everything that has been said but, on the question of cost, I would say that we are seeing increases but not to the point that it is affecting our pipeline at the moment. Over the next three years, we expect to develop around 1,200 homes, which equates to about £200 million of investment, and I do not think that we are at the point where that programme will be stopped. Another positive aspect is how things have been managed and our collaboration and work with partners in dealing with things.

As our goal is not just to hit numbers but to address issues of place, place making and communities, the access to land question is really critical for us. Land is becoming harder and more expensive to get, and there is more competition to deal with—indeed, I am sure that some of us round the table will be competing on land acquisitions—but the issue is really key for us, as an RSL, as we move forward.

On top of that, we need to invest in our current stock. Although we are developing more and although we feel that we have the capacity to do even more in Scotland, we are investing more in our current stock. After all, we have EESSH2, net zero, SHQS and all sorts of requirements that we have to fund for our existing customers. One of the nuances of this debate is the need for both social rent properties and homes that are more energy efficient and cheaper to live in, and achieving that mix or stretch is a challenge for us. That said, we are upping investment in all those areas.

Finally, on different forms of financing, I should point out that Places for People Scotland is part of a larger group that also includes PFP Capital, which is a fund manager that has a fund in

Scotland and is bringing institutional investors into mid-market rental opportunities in Edinburgh and Glasgow. We have some interesting examples of other ways of bringing investment into the mid-market sector, and the approach has been successful. I should also say that the fund is £182 million in scale.

There are other ways in which we can do things. Our core aim is affordable housing and social rent, but we face a challenge in continuing to keep development going and the numbers flowing through. That is a pretty consistent issue not just for the sector in Scotland but for our UK businesses, too.

The Convener: Thank you very much for those responses to the question about the challenges that you face, which also touched on some other areas.

Willie Coffey: Good morning, everybody. On the cost issue, I was going to ask our local authority colleagues whether they are experiencing the same cost overruns that you appear to be experiencing. 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? I am glad that Colin Proctor is here because, hopefully, he can help us understand why costs are going through the roof. Are the costing models based on existing methods of delivery? We have heard about off-site construction, prefabrication, sourcing alternative materials and so on. Are we changing the model of construction or is it too early to tell whether such a move will be successful?

Colin Proctor (Scottish Futures Trust): There is an interesting dynamic with costs. There are already cost increases in the system because of the new requirements, and the market is experiencing high volatility at the moment. The challenge is that we cannot let the latter overcome the former; we still want to build to the new requirements because that is a good thing to do.

There are short-term and long-term issues, which you have alluded to in your question. There are things to do now and things to think about for the longer term. We have heard that a lot of people are willing to think about innovation and to do things differently. There are different ways of delivering and different procurement methods. We should also think about whether there could be bigger and longer-term changes to the system.

You are right that the market faces labour and materials issues. We are also observing particular market issues in housing. Some of those are geographical. We have also heard already today about lack of competition in the market. That has an impact when demand is high and the supply

chain is less able to deliver, leading to increased costs. There is an interesting dynamic and different sources for increased costs. One common issue across construction is materials. Many materials and components are imported, so a long-term answer might be to do more in Scotland. As has already been said, there are also labour issues. It is an interesting cocktail, and a challenge.

We are beginning to see an issue with prioritisation. People in this meeting have made comments about decisions as to whether schemes should be stopped or how they should be prioritised. Mark Rodgers spoke about the desire to have the right houses in the right places. If we are to move the programme forward, it is important to be able to prioritise. To avoid stopping development, we must think of ways to fund and support it in the short term as we think of longer-term practices.

Willie Coffey: 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?

Colin Proctor: We have been working with the Scottish Government to explore ways of increasing off-site construction. We have been discussing the potential to use local timber with Forestry Scotland. There is some potential, and work is under way to analyse that. A lot of timber is imported, but there is the potential to use local sources which, from what I hear, are not being used as well as they could be.

There is also the potential for other materials or components. The net zero opportunity brings the potential for new components, such as new window and door assemblies. We should be looking to improve Scotland's manufacturing capability. That is a medium or long-term action, but the scale of the programme to build 110,000 houses creates an opportunity that should be explored.

Willie Coffey: Does anyone else want to come in?

Elaine Scott: Our Edinburgh and south of Scotland demonstrator project is significant in relation to what Colin Proctor raised. It is a partnership of Offsite Solutions Scotland—which involves off-site manufacturers in Scotland—the Scottish Futures Trust, the Scottish Government, the City of Edinburgh Council and our regional partners. That involves looking at a new method of procurement, linked to off-site construction, to deliver net zero carbon homes.

We are well into the pilot, having one project under construction and another site identified, and we are looking to build up that pipeline in order to demonstrate that it can make a difference if we do

it at scale. That will give the industry the confidence to invest in the transformation that is needed in how we do things. However, the costs for those initial pipeline projects are high in comparison to what we can afford in the long term, so we need to look at ways of supporting that pilot pipeline programme so that it can become sustainable and deliver in the medium term.

Willie Coffey: Thank you for that. I will move on to another question, which, again, is probably for my local authority colleagues. During the first evidence session, we heard from Mark Rodgers. I am reminded that, two years ago, 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. Mark Rodgers referred to that in his contribution. I hope to get the views of North Lanarkshire Council and the City of Edinburgh Council on that. 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?

Pam Humphries: It is not easy to translate the overall target and overall needs in the housing need and demand assessment into what can be a localised need. For example, North Lanarkshire is a diverse area. If someone was looking only at housing pressure and supply and demand, they might say that, in some areas, the gap between supply and demand is not huge, as we have a good turnover of existing stock. However, the issue is about whether that is the right type of stock in the right areas. People do not necessarily want to move from one part of the authority to the opposite part. There are also issues about accessibility and transport. The picture is therefore much more complex than what can be seen from just looking at the figures.

However, even on that basis, the model is probably very light in its assessment of absolute need. It does not reflect the needs of the area. There is also a whole load of hidden housing need—often within households.

The picture is complex, and it is difficult to get one methodology that can accurately assess, predict and put targets on an absolute figure or the absolute amount of land that is needed. However, certainly in the central belt, we work collaboratively. In Glasgow and Clyde Valley, we work together on our housing need and demand assessment.

Overall, it is as good as it can be, but it is a more complex picture than can ever be done with the methodology that we use at the moment.

Willie Coffey: Elaine Scott, does the model work for Edinburgh?

Elaine Scott: As Pam Humphries said, the housing need and demand assessment tool is a

complex area. We as a region are looking at that, and we have just carried out our housing need and demand assessment 3 for submission to the Government. Overall, that continues to demonstrate very high levels of need for affordable housing, which is an important point. However, we have also recognised that it is not as strong as it needs to be in helping us to understand what the overall need is for accessible housing across tenures. Recently, we commissioned additional work, in an accessible housing study, to assist with identifying the need and demand for wheelchair-accessible housing and other forms of accessible housing. That is even more difficult in some ways because of the range of different data sources that potentially need to come together to be able to give that information. However, through that study we have sought to hear and consider the real-life experience of people who are seeking to find accessible housing so that we can improve access to our accessible housing stock.

11:30

Willie Coffey: Roslyn Clarke and Mark Rodgers mentioned this issue, I think, but are we providing enough access to housing for, for example, young, single professional people? They are single wage earners, obviously, which affects their ability to access the different housing models. Are we doing enough on that, or do we need to do a little bit more to reach out?

Neil Rutherford: I guess that a lot of the work that we have done over the past few years on mid-market rent and reflecting the fact that there are different needs within the housing system, how people enter it and how they work is relevant to that. A number of those approaches grew from the national housing trust initiative. Other members of the panel have been in that space as well.

Perhaps because of people's future aspirations when it comes to renting and owning, shared ownership and shared equity models have fallen out of favour a little bit. However, they have a role to play again and we need to think about how they might come back.

A lot of the work that has been going on is almost additionality. We have the grant programme and then a series of other tools and levers that can help us to deliver housing. Grant can come in different forms. It can come through land and we have had experience with financial transactions—money that is lent, in effect. LAR Housing Trust, which is a mid-market approach, is a good example of a different way in which we can help to deliver housing.

There is a recognition that the system is addressing the issue to some extent. It could go

further, so we need to understand how some of the models fit for people, which brings us back to some of the HNDAs and other measures of demand and need. We need to understand different economic circumstances and what kind of housing is needed where.

Willie Coffey: Are we gathering that sort of data locally to pinpoint or understand what groups people are not accessing the housing market in the way they would wish? Are we examining that and feeding it to the Scottish Government and others so that we can adapt the models?

Pam Humphries: It is difficult at times, because a lot of our analysis of housing need is based on waiting list data, which is clearly imperfect. Often, the people to whom you are referring would not think of council housing or social rented housing or would be advised that their level of need was such that, for the areas that they were considering, they would not be high priority so they would ask themselves what the point would be of putting their names on the list. We try to give people good housing options advice. Part of the impact of that is that people might decide that it is unlikely that they would get a particular house in the area where they are looking so would have to try to meet their needs elsewhere.

We use whatever data is available. In particular, we try to monitor closely what is happening in the private rented sector to see where the higher pressure is. With the SFT and others, we have been looking at mid-market rent models and considering whether there are different models that we can introduce that would help to meet the need. We have not been able to make that work in our area because the local housing allowance is quite low so the gap is too large. We would need to find a way of filling that and our priority is focused on our social rented programme.

That is a long answer to say that we are trying to find ways that we can identify and meet that need, but our main focus is on the most acute need and delivery of the social rented programme.

Colin Proctor: It is not my area of expertise, but I hear some folks saying that there is an opportunity not only to re-examine the existing models and methodologies but to take a step back and look more strategically across Scotland. It is good to hear that the City of Edinburgh Council and its partners are considering a regional approach—is that different from a local approach and how would it be tied to economic planning? That is a different dimension but, from what I hear, it is worth looking at.

Miles Briggs: Good morning, witnesses. I will further develop some of Willie Coffey's questions, with specific regard to Edinburgh; I am an Edinburgh MSP, so I put that interest out there.

There are areas of pressure across Scotland; Aberdeen used to be one, but now Edinburgh is acutely overheated, as many people keep telling me. Do you think that that is understood in the Government, especially given that land costs are greater there? Are those costs also becoming a key problem with meeting challenges in areas that are highly pressured?

Elaine Scott: Absolutely. The pressured housing market in Edinburgh has an enormous impact. We hear, anecdotally, from businesses about the challenges with being able to recruit and retain staff, particularly in the health and social care workforce. People's ability to access affordable housing has a wider economic impact.

Our approach has always been to work in partnership with RSLs, developers and other partners—such as the Scottish Futures Trust—to explore every option and innovation. Mid-market rent has had a big impact on the city. We were the largest participant in the national housing trust, and we delivered around 800 homes for mid-market rent through that initiative. The learning from that allowed us to proceed to set up Edinburgh Living, which is a limited liability partnership between the City of Edinburgh Council and the SFT, to deliver mid-market rent housing. We already own a few hundred homes, and there are homes in the pipeline that we will deliver for Edinburgh Living through our own house-building programme.

We are keen to bring private sector sites into development for Edinburgh Living and others to purchase. For us, with the scale of challenge that we face, we need to look strategically, across the board at the range of opportunities and mechanisms that we can use to support the delivery of affordable housing, regeneration and place making across the city. Most of the land is in private ownership, and we are keen to explore what else we can do to get more private sector sites into development to meet the need for affordable homes in the city. Affordable home ownership and social rent are a huge priority for us in the light of the homelessness pressure that we face.

Tom Norris: I echo what Elaine Scott said. In Edinburgh, MMR and its products have been successful. The Engine Yard is a good example of a collaboration of organisations. The Engine Yard, which is at the top of Leith Walk, has property available for those in need of affordable and mid-market rent, property for the over-55s and development for sale. It is tenure blind.

We have around 2,000 mid-market rent properties in Scotland, and they are ever so popular, so it is key that we have that product available for younger, working people. Mid-market rent costs about half of the average private sector

rent in Edinburgh, which is quite a significant reduction, and the model works.

At the Engine Yard we developed on a brownfield site—an old tram depot—and the model worked well despite all the challenges. We are very keen to see a tenure-blind approach to development, in which there is a mix of everything to cater for a lot of people. In Edinburgh, where rent prices are high, the Engine Yard is a good example, but I recognise that the model might not stack up in other areas. However, we have experience of using the model in Edinburgh and Glasgow, through the fund that I spoke about.

Miles Briggs: That is helpful. All committee members are being made aware of land supply issues. We heard earlier about that challenge in a rural context. In an urban context, I am concerned that the brownfield site developments that are in local plans will not necessarily come on stream. Why is the national planning framework not necessarily the right place to meet the demand for land? Planning departments are also looking at that. In terms of the finance question, we are hearing about the need for that supply of land, but the finance is not necessarily there at the moment.

Elaine Scott: There are two parts to the land supply issue. One part is the overall supply of land, but for us the challenge is whether developers of affordable housing can get control of that land. Developers of affordable housing cannot go out and purchase land, because we simply cannot compete with volume builders and others. As a council, we have been purchasing land from our general fund on to the HRA and then seeking to take forward regeneration and build affordable housing—that is a land cost for the HRA to bear.

The RSL programme is about seeking to secure the policy of having 25 per cent of any development being affordable housing, but that is dependent on private developers bringing forward sites for planning consent, so we are tied into their timeframes for when they want to sell and market homes. Getting sufficient control over land to drive forward affordable housing programmes at the scale and pace that we want is a significant challenge.

Pam Humphries: I will add to that in relation to our area. As I mentioned, it is important that we consider overall allocation of land for housing—I assume that your question was wider than just social and affordable housing. We still have large areas of previous industrial land that is zoned for housing, meets the requirements of NPF4 on 20-minute neighbourhoods and is well located close to public services and public transport. It is important that there is a focus on how we develop that land, whether that is a mix of private and affordable housing or just private.

There are major challenges around the ground conditions and the issues that we talked about before, such as infrastructure and connections, but in relation to the benefits, more emphasis should be put on how we make those sites work before we start opening up more greenfield sites that do not have the benefits of location and accessibility. For us, it is about focusing on how we can remediate and bring back into use some of our brownfield sites, but we have major challenges, as you can imagine.

Miles Briggs: In relation to the cost pressures of decontamination and other additional costs, is it likely that developers will not bring forward those sorts of schemes? Are you regularly told that brownfield sites are more expensive to bring online? Is that being factored in, given all the cost pressures that we are hearing about?

Pam Humphries: Exactly; that is why a lot of those sites, even prior to the current challenges around cost pressures, have not been developed unless we have been able to bring in public subsidy. Contamination is not so much the issue; a lot of the contamination has been addressed, so the sites are safe from that point of view. Environmental standards, quite rightly, improve all the time, but there are ground condition issues. There is a range of challenges associated with putting in the infrastructure and putting in more investment to bring those sites back into use.

11:45

Most, if not all, of those sites are in private rather than public ownership and landowners can have unrealistic expectations about land value. It is important to work in partnership and to see what—if anything—the public sector can bring and how we can work together to make those sites work. We have the land. Why would we open up greenfield sites if we can develop those other sites first?

Neil Rutherford: My point is similar to Pam Humphries's point. We should take a place-based approach to that land, dealing with a number of issues to create good outcomes.

Steven Henderson (Wheatley Housing Group Ltd): I can give an example. We have a long-term partnership agreement with Glasgow City Council, which has been helpful to us, as a larger builder of social and affordable housing. There is no section 75 planning regime for affordable housing there. We have had certainty of land supply as sites have come forward for a multiyear period. That allows us to go out and raise private finance at scale, because we know that we will have a throughput of sites and can make larger-scale arrangements with contractors. Working closely

with local authority partners is key for us as an RSL.

Miles Briggs: Could there be improvements from delivery agencies? Local authorities are playing that role, but in other parts of the country, especially in regeneration projects, we have seen other types of delivery agency. Could bringing in additional private investment help? Pension funds have been mentioned. Would that turbocharge projects and move them forward?

Steven Henderson: Our experience of working with local authority partners in recent years is that those arrangements can be very effective and can support them in their role as strategic housing authorities.

There are circumstances in which it is important to do things regionally, as part of a wider strategic planning framework.

I do not see a strong argument for adding another agency or body to the regeneration landscape. There have been examples of that in the past, such as Communities Scotland. Homes England performs a slightly different function down south, where it funds land. We are smaller and can work more closely with local authorities as a delivery body. I do not see a strong rationale for a national regeneration agency.

Marie McNair: I go back to a previous point about net zero homes. We have heard from City of Edinburgh Council about the Edinburgh home demonstrator partnership. I would like to know how other local authorities are approaching that. Pam Humphries, please tell us about the approach that will be taken by North Lanarkshire Council. What investments have been made and what progress is there?

Pam Humphries: We have increased our standard specification for homes over the years, improving energy efficiency and bringing homes up to building standards sustainability levels 1 and 2. We are now looking to increase the number of photovoltaic panels, going above that standard. We will not be able to fit gas boilers in the future, so it is necessary to look at alternative net zero heating sources.

We have a number of pilot house-building projects on site at the moment. They are not to passivhaus standards, but our contractor, CCG, is building to net zero. We want to assess the impact of those projects. They use air-source heat pumps, an increased number of PV panels and battery storage. That is quite expensive. The total extra cost is about £20,000 per unit. We want to be able to assess the different component parts before we make larger-scale decisions. Battery storage is probably the most expensive element of that. Again, we are trying to look at what is the most efficient way to deliver net zero.

I also echo the point that was made earlier around making sure that tenants know how to get the best use out of their homes. Sometimes so much is going on when tenants move into a new home that gaining an understanding of how to operate the new technology effectively does not always happen. Then we sometimes have issues with condensation.

There are lots of other challenges around that as well, but those are some of the areas that we are looking at in terms of net zero.

Marie McNair: 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. Shelter has quite correctly condemned that. If that policy were reintroduced in Scotland, what impact could it have on the ability to meet the need for affordable homes? I will just pop that question out to everyone.

Elaine Scott: In terms of our ability to take forward net zero carbon, one thing that we are doing in Edinburgh, and I know that other RSLs and local authorities are doing it too, is seeking to consolidate our ownership within blocks. That means purchasing those homes when they become available in the market. Doing that has become really important.

In the context of net zero carbon, we need to find ways to support owners and social landlords within common blocks to be able to jointly bring the homes up to the net zero carbon standard. Because half of our stock is in mixed-tenure blocks, we are finding that, for owners, the costs just for bringing homes up to an appropriate fabric standard are high already. Making them net zero carbon will mean additional costs to that, so ways of jointly supporting owners and landlords to bring homes up to standard are needed.

Given the very big challenges that we face in our ability to house homeless people in temporary accommodation and others in priority need, an extension of the right to buy would exacerbate an already very challenging position.

Marie McNair: Does anybody else want to share a view on that question?

Pam Humphries: As you would expect, we would certainly not be supportive of any reintroduction of the right to buy. As I mentioned earlier, and similar to what Elaine Scott said, a big focus of our programme is buying council houses that were purchased and bringing them up to standard. We have now extended that to targeting particular blocks to bring them up to standard. If there is only one owner in the block, we will allow the owner to stay as a tenant. A large majority of the inquiries that we get are from people who want to sell their house back to us, but remain living in it as a tenant; they might be people who bought it

under right to buy, but cannot afford to maintain it. We are looking at that now in limited circumstances. That is the opposite situation.

Colin Proctor: Some really good points have been made on net zero in this and previous meetings, and we are seeing some innovative work right across the country on progressing net zero. As Pam and Elaine say, they are moving on with the fabric-first approach and getting the fabric of the building right, but the heat source is really important. We are looking at those different ways of looking at sources, and it is really interesting. We hear that Applecross is looking at a heat network solution.

Looking at these things through a different lens, and maybe taking a place-based approach, allows us to think about what we are building new, as well as the existing stock, and to look at heat in a much more strategic way. Widening the lens beyond that can bring in the point around supply chains. We have a big opportunity here, with the large investment programme in new build and in upgrading of existing properties, to look at local supply chains for heat pumps and all sorts of things. That is the exciting opportunity ahead. We are just building the blocks for that.

The Convener: I direct the next question also to the Scottish Futures Trust; the two witnesses can divide it between themselves. We are curious to know how your work is enabling the development of strategic housing sites and any lessons that can be learned.

Neil Rutherford: I guess there are different aspects to that. Some of it is about financing innovation, some of it is about collaboration and some of it is about place. One good example of a place-based approach is at an old school site in Ardrossan. The emphasis is on how that site connects, as housing, to the wider town and other investment that is going on. Things are all being planned together, effectively, so there is access to services, with land and surplus estate, perhaps in the public sector, being reused.

Another example is in Granton. That is more about funding. It started as a place-based project, with an understanding of the role of Granton in the city of Edinburgh. There were elements around the learning journey and the partners who stood around the project. It is now coming down to funding. I made this point earlier: how do we corral all the different funding sources that sit around a project to deliver something at scale?

I can use Winchburgh as an example of the funding type of innovation. The challenge lies with unlocking some of the up-front infrastructure and helping the local authority to manage the bumps and the peaks and troughs associated with section 75 agreements, so that there is effectively a stand-

by facility that has come through government and that can be drawn upon if the profile of build does not follow as planned. There are various ways in which such support can manifest itself.

The Convener: Thanks very much for your response. Those examples are very helpful, and I have made notes to learn more about those places. We recently had a visit to Govan, where something similar is going on.

Paul McLennan: I will ask the same question that I asked the first panel, on private investment. How can new forms of private investment be levered into the provision of affordable homes? Are there new models that can be used more widely?

I want to expand the discussion to the build-to-rent sector, which has grown in Scotland, and the role of equity share. Perhaps you could wrap that into your answers. Tom, you touched on that in your opening remarks, so perhaps you could say a bit more about bringing in private investment, and then anyone else who wants to come in can do so.

Tom Norris: Of course. The experience that we have had is that there is a real appetite, if the vehicles are right, for investment in housing property in Scotland. Our MMR fund is a good example of that. I talked about the rents earlier—in effect, they are still lower rents, and people are interested in investing.

Our development programme through PFP Capital initially involved 1,000 properties, with scale to grow, and £182 million was invested. We are continuing to focus on that. That is an example of a success story. Our group had some learnings in England, and we then developed the work in Scotland. As a general rule, the investment is coming from pension funds.

This is an area of absolute growth, and we are keen to be involved. As with some of the challenges that we are all seeing, it is so important that the numbers continue to work, and our organisation is committed to that. On the return, things are harder on the purely affordable social rent side, for obvious reasons, and how we can do more to bring in additional capital is another question.

There are examples down south of for-profit providers coming into the affordable housing space. We are a non-profit, but there are more moves into that area by people who are there to create profit, which shows that there is an opportunity there.

Paul McLennan: In your opinion, is there enough co-ordination across the sector? I am talking about housing providers, not just the pension providers. Is there a need for more co-ordination across the sector on private investment

opportunities? Is there enough co-ordination on the part of pension providers in relation to investigating what the barriers are, how we can open things up and where the opportunities are?

12:00

Tom Norris: My view is that, purely because of scale, the larger organisations are often the ones that have the ability to bring in big amounts of capital. From that point of view, our approach is to use our vehicle, but that is in collaboration with the Scottish Government and others. There is more to be done in this space around collaboration and engagement, but it still feels quite early in the journey.

Paul McLennan: Do you want to say anything about build to rent or equity sharing? I will open it up to anybody else who wants to comment on that.

Neil Rutherford: Like Tom Norris, we have experience of some of that institutional investment coming in. I mentioned LAR Housing Trust. There is finance that has come from institutions, alongside other tools that the public sector has.

We are also looking at other models. We have the housing delivery partnership model, which involves mid-market provision through local authorities. East Lothian Council has used institutional investment in that area and is looking at more. I guess that, for us, as the public sector, there is potential around some of those approaches. Through collaboration, we are thinking about what we want to get out of those models and how they fit. It can be quite a piecemeal process—people will come to us with deals and suggestions. That is okay, because it helps to grow knowledge, but a big part of it is what we want holistically from that sector. We are looking at those opportunities, as are some others at this end of the table.

Paul McLennan: That is interesting to know. Until last week, I had been a councillor in East Lothian for 15 years. As a constituency MSP, I am well aware of the opportunities around private investment models. I have also met LAR Housing Trust.

Does anyone else want to come in on that point?

Steven Henderson: I draw a big distinction between social rented housing, which must be owned and let by a local authority or housing association, and other forms of intermediate tenure, such as mid market, shared equity and so on. For social rented housing, there is a good history of institutional investment, particularly in Scottish housing associations. Our first public bond was listed on the stock exchange in 2014,

and there are lots of insurance companies, pension funds and so on there. We have been followed by lots of other housing associations, which have done private debt placements, for example.

It is always a battle to keep up awareness of Scotland on the investor radar and agenda, because the debate around social housing tends to be UK wide, and you can get caught up in issues that predominantly relate to England, such as the right to buy and cladding. We have a different position on those issues in Scotland. A lot of good work has been done by people such as the SFT. I would also give a shout-out to the Scottish Housing Regulator, which has been very good at raising awareness among the investor community of the differences in Scotland.

We have had lots of good, positive individual discussions about ad hoc deals on build to rent and mid-market rent, some of which are on-going. Those discussions tend to focus on areas where the local housing allowance supports it, because, for mid-market in particular, the starting rent is the local housing allowance, which is capped. In Edinburgh and Aberdeen, you can do something. In North Lanarkshire, Renfrewshire and Inverclyde, it is very difficult. That relates to the structural nature of the way in which local housing allowance levels are set.

Paul McLennan: What can the Scottish Government and the Scottish Parliament do to mitigate the barriers that you have just mentioned?

Steven Henderson: I have been to evening events in the Parliament to which the investor community and so on have been invited. More of that sort of thing would be very positive, because we have a good story to tell about the positive differences in Scottish social and affordable housing. We do not have the right to buy, and we have a good and supportive grant regime that is the envy of our colleagues in England. The more we can do to tell that story and sell the positives of that among investors, the better. We get our credit rating from Standard & Poor's and we are due to get our result in the next couple of days. You will see lots of these things played through in that report, but I am not always sure that there is awareness of that down south.

Mark Griffin: My question is similar to a question that I asked the previous panel. Do the witnesses have any comments about how their investment decisions and new-build programmes are impacting on rent levels? Are their new-build programmes essentially predicated on rent rises? If so, is that causing any concerns about the affordability of rents? I put that to Elaine Scott, Pam Humphries and Steven Henderson.

Elaine Scott: When it comes to rent increases, we plan over a 30-year period in our HRA business plan. We had assumed that there would be rent increases as we moved forward but, in the light of and in response to the cost of living crisis, the decision was made to freeze our council rents this financial year and last financial year.

However, the ambition remains to deliver our affordable housing commitments and the investment in existing homes. We therefore need to look at how we can do that, and to find ways to bring in the grant funding and other types of funding that could support that, so that all that pressure does not fall on rents as we move forward.

It is absolutely the case that we cannot deliver new build at the expense of investment in existing stock, or the other way around, so, in the Edinburgh context at least, we need to find a way of delivering both those commitments for the city. For us, that is about working with the more homes and better homes divisions, and looking strategically across the support that exists for investment in housing across the board, whether that be for new or existing homes.

Pam Humphries: We have increased the rents over the past few years, in order to support the investment programmes, including those for the existing stock. We are also re-provisioning our multistorey flats. There is a large-scale demolition programme for those, and we will replace them with new homes. The rent increase has supported that investment.

However, as Elaine Scott's council has, we have a 30-year business plan. We have made various assumptions on costs and, as we go forward, we must constantly review and update those and assess what we can afford, recognising all the other cost pressures that tenants are facing. It is certainly a balancing act.

When we started the new-build programme, we made a decision to put a 20 per cent premium on the new-build rents. Our rents are still below the Scottish average but, when the 20 per cent premium is added, they are now just under £100 per week, on average, so we are having to start to look at that, particularly as we go forward with changes in heating types, which might mean that tenants have to spend more. We are therefore having to look at the options, including whether the rent premium is something that we will want to continue with, and the impact of that on the overall programme.

The Convener: Thank you for that. Mark Griffin, do you have another question?

Mark Griffin: I do not know whether Steven Henderson has any points to make.

The Convener: Yes—sorry. Steven, you were named when the question was asked.

Steven Henderson: Yes—I was third on Mark Griffin's list.

We would not increase rents specifically for the purpose of subsidising new build. That is quite an important principle for us. Grant has to be the balancing figure because, if it is not, money ends up being taken from existing tenants and investment in their homes and being used to plug the gap in the new-build scheme. We do not think that that is right, particularly given the context of the cost of living crisis. In addition, as an organisation, we have pressures on our cost base, such as those relating to utilities and inflation.

We welcomed the change to the benchmark grant rates last November—that was a positive step—and we have just about been able to make things keep working with those, although we are already bumping up against some challenges, as has been reflected on. We also welcomed the fact that, as we understand it, the revised subsidy regime will involve an annual review of those benchmark rates. It is important that that happens one year on from last November's resetting, and we hope that it will respond to the inflationary pressures. However, in our business plan, we do not see ourselves increasing rents to plug that gap. That is an important principle.

The Convener: Thank you. Mark Griffin, do you have any more questions?

Mark Griffin: No.

The Convener: I do not know whether this has been covered, but I want to ask a question about my new favourite thing, which is modern methods of construction. Is anyone working on that? We will hear from Colin Proctor, then Frank McCafferty.

Colin Proctor: I will let Frank go first, as he can talk about what is happening on the ground.

Frank McCafferty: We are using and exploring modern methods of construction, which is the term that has been coined. We use the closed-panel timber frame system. The methods tend to be similar, and everyone is fishing in the same marketplace. With the regulations and especially the fabric-first approach, there is a drive towards the use of timber frames, but it is important to look at other modern methods, especially modular construction, because that will take the pressure off the sector and off trades. Modular construction is a good example. Something that is built in a factory does not use tradesmen; it is put together by skilled technicians.

All aspects of construction are valid and good, but spreading work across the different aspects should take pressure off the market, which is overheated at the moment. There is pressure right

across the market, including on the supply of land and materials. That is true across the whole of industry. Anyone who has tried to buy a new car recently will know that. The lack of semiconductors translates into an issue with air-source heat pumps, putting pressure on programmes and increasing costs.

We have been looking at modern methods of construction and will continue to do so. Government support is important. We have been getting advice from the innovation centre in Glasgow about the types of construction that can be used.

Scale is important. If individual projects are bespoke, we lose some of the benefits of scale, such as production-line efficiencies. Given where the market is at the moment, there is an opportunity to take a leap and develop modern methods of construction at scale.

The Convener: Thank you for that very enthusiastic response.

Colin Proctor: That was a good and enthusiastic response. It represents what we have heard today, what we hear from stakeholders around the country and the work that we have been doing to support the Scottish Government in the past 12 months.

It is important to understand that modern methods of construction—by which we mean the move towards manufacturing and off-site construction—are not new. Scotland is well ahead of the rest of the UK in delivering houses through off-site construction. About 80 per cent of homes that are built here use some form of timber frame. That is a good starting point. The examples that we have heard today show that there is a lot of momentum and interest from RSLs and local authorities that are willing to push the boundaries. We are seeing some really innovative stuff happening with modular construction in rural areas.

As Frank McCafferty said, there is an opportunity to take that to another level. The work that we have been doing makes it quite clear that some element of structural change is required. That is a grand term, which means that something new must happen at local or project level. New things should happen at national level, and there is also a requirement for something in between: some form of delivery mechanism that will enable us to move this agenda forward across an appropriate geography. That is what we are trialling in south-east Scotland, where Edinburgh is showing great leadership. We are working across all the local authorities there and several housing associations to find a new business model that will move that along.

That is what is being trialled. We have heard about different approaches to procurement and entering into longer-term partnerships. As Frank McCafferty and others have said, it is really important that, across housing providers, we look at common approaches. There will be a need for an element of common typologies of house types—that is required by industry.

12:15

Another key point is that the process needs to be demand led and we need to be able to structure the future pipeline of work. Industry needs a much more certain pipeline of work in order to look for investment. Given that we have 110,000 houses to build, we need a bit more granularity on that, certainly in the short to medium term, to map out the process. We can then look at different business models for achieving that.

A new procurement model is emerging, which will be able to interface with industry in a different way. The industry is keen on that. Our work with the Scottish Construction Leadership Forum tells us that we need to enter into new relationships with industry.

There is a new business model across partners, which we are terming “horizontal collaboration” across housing providers. That gives us a new way of aggregating demand, shaping the products that we want to deliver and providing some sort of certainty. There is also a new economic model, which needs to be led at national level so that supply chain opportunities can be brought in and we can look to achieve consistency across the whole market.

To step this up to the scale that is required and deliver the momentum that is required, we need to consider how we make those changes. The work that is coming through in Edinburgh is really exciting. A foundation for that is being built, but we need to scale it up to national level. The Scottish Government has committed to that in “Housing to 2040”. It is the right thing to do to deliver the programme and to do it in an efficient way. It is not a white knight and it will not solve everything, but to meet some of the challenges that we are talking about, to develop a programme approach and to deal with supply chain and competitiveness issues, it is really important that we move ahead with that at pace.

The Convener: It is great to hear your articulation of the new procurement, business and economic models. We have heard from this panel of witnesses and the previous one that the land issue underpins everything, so we must tackle that.

We will have to leave it there, for now. We have had another very useful conversation about

affordable housing, which the committee is keen to continue pursuing. Thank you for joining us and sharing your perspectives.

I suspend the meeting to allow for a changeover of witnesses.

12:17

Meeting suspended.

12:22

On resuming—

Subordinate Legislation

Building (Scotland) Amendment Regulations 2022 (SSI 2022/136)

The Convener: The next item on our agenda is evidence on the regulations from Patrick Harvie, Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights, and from the Scottish Government officials David Blair, programme director on cladding remediation; Steven Scott, head of the technical unit for building standards; and Dr Stephen Garvin, head of building standards.

I welcome the minister and his supporting officials to the meeting. At last week's meeting, we had an interesting discussion about the regulations with stakeholders in which we touched on a number of issues relating to fire safety in buildings more generally, along with challenges in respect of access to insurance. Members will be aware that, on Thursday 12 May, the Cabinet Secretary for Social Justice, Housing and Local Government made a ministerial statement providing an update on the single building assessment programme.

Before I open up to questions from committee members, I invite the minister to make a short opening statement.

The Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights (Patrick Harvie): Thank you, convener, and good afternoon.

I am happy to address the committee to update members on the progress of the Scottish Government's work on fire safety and energy regulations. I will first cover fire safety and then energy.

In late 2020, a fire safety review panel was convened to examine how to ban the highest-risk cladding materials from taller buildings and the role of BS 8414. Last week, the committee heard from Peter Drummond of the Royal Incorporation of Architects in Scotland, who chaired the review panel. I am grateful for the valuable contribution that was made by all members of that panel.

The review process was rigorous and lengthy, and the panel needs to consider a range of issues thoroughly before we undertake a public consultation. The outcome of the review was that regulations have been made to ban the highest-risk metal composite materials from any further use as cladding or internal linings in all buildings. They also ban combustible cladding from

residential and other high risk buildings that are over 11m in height.

We have also introduced regulations to ensure that all replacement cladding should meet the new standards. Those changes are the latest in a series of changes that have been introduced since the tragedy at Grenfell tower, including the introduction last year of sprinklers in all new flats, social housing and certain shared multi-occupancy residential buildings. We had previously set requirements for two staircases as well as effective floor signage and fire-service activated evacuation sounders in buildings over 18m.

As the convener mentioned, we are also taking action on unsafe cladding on existing buildings, on which the Cabinet Secretary for Social Justice, Housing and Local Government made a statement to Parliament last week. I do not intend to cover that in my opening remarks—if the committee wants to ask questions, I will try to deal with some aspects, but others may be for the cabinet secretary to deal with.

The energy improvements that we are introducing in October will deliver another step towards improved energy and emissions performance in our buildings, and new homes in particular, with a strong focus on a fabric-first approach and on practical ways to reduce energy demand. We will be going further on that in 2024, with more significant changes to require new buildings to use zero-emissions heating systems. The current changes support that intent by future proofing installed heating systems in advance of those further regulations.

I am also keen that we continue to understand how we can achieve outcomes that are equivalent to those resulting from very low energy standards such as passivhaus. Again, I acknowledge the contribution of the review panel on energy standards, which was chaired by Stephen Good of the Construction Scotland Innovation Centre. We had more than 170 responses to the energy consultation and, although some concerns were expressed about the pace of change, there was no doubt that there was overwhelming agreement that change is needed.

I am happy to take questions from the committee.

The Convener: Thank you for your opening statement. I will begin by asking a few questions. Can you assure the committee that fire safety will be a key consideration in any Scottish Government programme to retrofit existing homes with insulation? What practical steps is the Scottish Government taking to ensure that new fire hazards are not being introduced to existing homes?

Patrick Harvie: The current standards resulted from a specific review of the type of cladding materials that have been causing the most significant concern since Grenfell, and the specific changes in this set of regulations will address those issues. Nonetheless, it is clear that the wider transformation of the energy performance of our homes needs to be undertaken in a way that is not only safe in terms of fire risk, but which contributes to healthy air quality in buildings and addresses direct energy issues. I do not know whether Steven Scott or Stephen Garvin wants to add anything from an energy or fire perspective.

Dr Stephen Garvin (Scottish Government): We have made changes to the requirements so that any replacement cladding needs to meet the current standards from 1 June. That would include a requirement for non-combustible materials to be used in the cladding system for buildings over 11m.

With regard to the safety of the cladding system itself, that would include what I would describe as an overcladding system, which would need to go through a building warrant process. If existing cladding is being replaced with a more efficient system, it has to meet the current standards. That is the key point in the current changes that will affect existing buildings and their safety.

The Convener: Thank you for the confirmation. What are the practical implications for developers of the new building regulation 3.28, which requires buildings to be designed to reduce the risks to occupants' health from overheating, and what impact might the regulation have on home owners' use of their property?

12:30

Patrick Harvie: The standard introduces a requirement to mitigate the risk of summer overheating in new homes and new residential buildings that are used in a similar way. We are aware that that is a lower risk in Scotland than in other parts of the UK, but it is important that we establish that overheating can be considered a risk in new build, and that we examine how to mitigate the likely impacts of our future climate.

The initial provisions take a fairly simple approach, focusing on the issues of heat gain through windows and the removal of heat build-up through effective ventilation. There is also an option to model the risk for more unusual or highly glazed building types. Designers will address that by limiting excessive heat gained through the location and specification of windows and by improving the ventilation of buildings. Those measures will provide occupiers with more assurance that their homes are warm and easy to heat, but also comfortable in the summer months.

The Convener: I have a question about direct emissions heating. What practical impact might the requirement to design and construct buildings with direct emissions heating systems that are capable of reducing the building's energy demands have on the design and use of new homes?

Patrick Harvie: Our proposal is that, under the 2024 new-build heat standard, direct emissions heating systems will no longer be permitted in new buildings. A further consultation this summer will set out details of plans to remove gas, oil and biofuel boilers as options from 2024. The 2022 regulations still permit the construction of new homes with those heating systems, but they set more challenging overall emissions and energy performance targets. The 2022 standards will ask for any building with a direct emissions heating system to be designed for a simple future retrofit and the installation of a zero direct emissions source, with information on that option to be provided to the owner.

From this year, wet heating systems in all new buildings should be designed to operate at lower temperatures to optimise the efficient operation of zero direct emissions systems such as heat pumps in the future.

The Convener: Thank you for your responses. Mark Griffin has a few questions.

Mark Griffin: The regulations set the height from which non-combustible cladding materials must be used at 11m. I welcome that, as it seems to be a robust approach, but what was the rationale for choosing the height of 11m? Will that decision be kept under review?

Patrick Harvie: The new building regulations are broadly in line with the proposition that was consulted on, and the response to the consultation was supportive of the general approach that we are taking.

Dr Garvin might wish to add something about the origin and why 11m was considered as part of the development of the proposal.

Dr Garvin: The height of 11m came in from October 2019, from the work of the review panel in 2018 and 2019. The rationale was to align with firefighting from the ground—put simply, in the vast majority of situations, the fire service can comfortably get a jet of water on to the side of a building up to a height of 11m. That is the rationale—it is a trigger height.

We have now made a further change to the regulations requiring non-combustible materials above 11m. That requirement will come in on 1 June, but the rationale for 11m is about firefighting from the ground.

There is further consideration. The UK Government and counterparts in Wales and Northern Ireland have set a height of 18m before their regulations kick in. We are all considering what is the right thing to do on trigger heights and we are exchanging information on that so, if further evidence or research emerges on the right trigger height, we will of course come back to the matter. With Local Authority Building Standards Scotland and others, we monitor the introduction of the new standard and how effective it is in practice.

Patrick Harvie: It is worth reinforcing the point that the 11m height does not apply to the most highly combustible cladding materials, which are banned from all new build. Other types are permitted up to 11m.

Mark Griffin: Will you outline why the ban on using highly combustible metal composite material is limited to material with a thickness of up to 10mm or a gross calorific value of more than 35 megajoules per kilogram? Will you set out why those values were chosen?

Patrick Harvie: Again, as that is a highly technical matter, I will rely on officials.

Dr Garvin: The fire safety review panel considered the matter in some detail. The intention was to address the metal composite materials that were used at Grenfell tower and have been used on other buildings. We have seen from the evidence of that event and from subsequent testing the extent of fire spread that can happen.

We looked into the market for that type of material and we think that the overall thickness is generally thinner than 10mm, so the ban covers the range of products that we have. The important thing to note is that, if manufacturers begin to try to game the system, we will introduce further change. We did not want to capture a wider set of products that, when used in the right location and for the right purpose, are perfectly acceptable materials.

If people are still using such material or if, in the future, some of the corporate memory begins to fade around it, we can regulate to keep it out of the market to close off the matter. If there is evidence that things are not being done properly, we will bring it back to ministers for further consideration.

Patrick Harvie: The Scottish Government, UK Government, Welsh Government and the Northern Ireland Executive are taking a similar approach to the definition of the materials that we are talking about. A degree of consensus seems to have emerged as each Administration has undertaken reviews since Grenfell, and there seems to be general agreement on the definition that is being used.

Mark Griffin: That is reassuring. We heard from witnesses last week about concerns that manufacturers might try to game the system, so it is helpful to know that that will be kept under review.

We have heard concerns about the application of BS8414 as a route to compliance for cladding on buildings. I know that the situation has changed so that any application to use it must be notified to the Government's building standards division. Is that robust enough, given the concerns? Does the minister have concerns about BS8414 being used as a route to compliance?

Patrick Harvie: Following the work of the review panel, we are satisfied that the approach that we are taking will give adequate safety. If I recall rightly, the European Commission is working with colleagues to look at alternative approaches to large-scale testing. I suspect that practice will continue to develop with regard to how fire safety tests can be used. Until that work bears fruit, the approach that we are taking on implementing a ban is the one that will give confidence to building occupiers and the construction sector that their safety is guaranteed.

Dr Garvin: I just add that the regulations prevent the use of BS8414 above 11m for housing blocks and other relevant buildings. An applicant could come forward with a BS8414 test to support a building warrant application below 11m, although we would be notified even of that.

One thing to note is that, through the building standards futures board, we are developing a compliance plan approach for higher-risk buildings. That will include a role of compliance plan manager, who will actively manage compliance and gather information during the design and construction process. We are looking to improve that process to reduce the opportunity for non-compliance, so that, in this case, the system that has been tested and is intended for use in the building is the one that actually ends up there.

The Convener: We will move on to wider issues.

Marie McNair: Good afternoon, minister. In the evidence that we took last week from a range of experts, there was strong support for the Scottish Government's single building assessment. Can you provide an update on the single building assessment pilot, please?

Patrick Harvie: Yes, although some of those issues were dealt with by the cabinet secretary in her statement to Parliament last week.

The single building assessment is intended to overcome a difference between the UK and

Scottish tenure systems, in that in Scotland there is not a single building owner.

The committee will be aware that the single building assessment is about the safety of buildings and the people in them, and it includes a generic fire risk assessment as well as an external wall appraisal. It needs to be carried out in a professional and rigorous manner, and only by undertaking that work can we identify where changes to existing systems might need to be made. There is a fairly high degree of confidence that the majority of buildings will be found to be safe, so the mere conducting of an assessment should not give people cause for severe anxiety. However, the work needs to be undertaken to identify where those changes have to happen.

Training of surveyors to undertake the external wall appraisals is under way. We expect that to improve the capacity of the sector to deliver the assessments that are necessary. Reducing the level of competence of those who are undertaking the work is really not an option, so we have to work with the sector to increase the supply of competent professionals who can undertake that work. I think that the committee will understand the need to work with the sector to increase capacity but also to make sure that those assessments are conducted to the required standard.

It is also an important principle that the assessments come at zero cost to home owners, and the Government has ensured that they will.

12:45

Miles Briggs: Good morning to you, minister, and your officials—or I should say good afternoon. We are all a bit behind—it has been a long meeting.

How many buildings in Scotland have had combustible cladding removed or remediated since the Grenfell tragedy of 2017?

Patrick Harvie: As I said in my previous response, the committee will be aware that the single building assessment process needs to be undertaken to identify where we believe changes need to be made. David Blair might want to come in here and say whether there has been any assessment of the numbers.

David Blair (Scottish Government): Building on what the minister has said, I point out that we do not collect data on the country's entire stock for that purpose. Instead, we focus on the most high-risk buildings. We have the high-rise inventory, which is a published data set identifying buildings of all tenure above 18m, and we are continuing to refine that.

As for the number of buildings that have been assessed, we are kicking off our pilot programme

with 26 under active consideration. As the cabinet secretary said last week, we are looking to expand that rapidly. Over the course of the next few weeks and months, we will be writing to the balance of the expression of interest group that applied last year, which will take the number of buildings in the pilot—the most high-risk buildings, if you like—from 26 to more than 100. From next April, we will be expanding that by approximately another 100 or so.

We are taking a methodical approach to finding, assessing and working with the most high-risk buildings, but we do not collect data on the whole of the housing stock. Part of the work that is under way is to improve the quality of the data set, particularly for mid-rise buildings, where there are more unknowns.

Miles Briggs: How many of the 26 buildings identified in the single building assessment pilot have received payments to enable the assessments to take place?

David Blair: With regard to the status of the SBA—and to be consistent with what the cabinet secretary said last week—I should say that, of the 26 buildings in the pilot, 16 are in the review phase and 10 are undergoing active survey work or are in a state of completion. I do not have the exact data, but the number of payments that we have made is in the single digits. We published our spend data last week and, if it would be helpful, we could refer you to that offline.

Miles Briggs: I note that the UK Government has passed on a budget of £97 million to ministers. Why has more progress been made by the Department for Levelling Up, Housing and Communities in getting that money out there than there has been in Scotland?

Patrick Harvie: Throughout all this—and I am afraid to say that this happens quite often—it has been difficult to get clarity from the UK Government in a timely way either on the consequentialists that are available or, indeed, on other ways in which we might have worked together more closely and more collaboratively to address this entire issue. Miles Briggs will recall the frustration that the cabinet secretary expressed in the statement about the inability of not just the Scottish Government but the Welsh Government to successfully make the case for the UK to work constructively and around the same table with us on a shared and coherent response to this situation. I also point out that some of the approaches that the UK Government is taking for England alone make use of the availability of UK-level reserve powers. There is a great deal in this entire situation about which one could have made a very strong case for collaborative working between the Governments in the UK, and it is not for want of trying that that has not happened.

As for the work that needs to happen now, we clearly have to continue with the single building assessment to identify where specific changes need to be made and to work not only with home and building owners but with the developer community to ensure that this activity can be funded.

David Blair: It is worth bearing in mind that the English tenure system has a fundamentally different structure. There is a particular in-built advantage in having a legal owner of the skin of a building, and it has made designing a programme of intervention based on a funding model a degree easier than it has been in Scotland, where we obviously have to transact with home owners collectively. The existence of factors accelerates the process of development a bit, but only up to a point, and it is not a comprehensive solution for the many blocks in Scotland that have no factor. That is one of the reasons why it has been somewhat easier—though not easy—to start work in England.

Miles Briggs: I heard what the cabinet secretary had to say, and the minister has repeated it today, but I would point out that a lot of progress has been made in Wales on things on which we have not really seen work begin—and I am thinking specifically of the Welsh Government's proposals for buying out owners. There just seems to be an issue with progress in Scotland compared with that in Wales, even though the same devolved powers are available.

Finally, would the Scottish Government consider underwriting professional indemnity insurance for surveyors and fire safety assessors?

Patrick Harvie: Again, I will ask David Blair to respond.

David Blair: Nothing is off the table at this point. One of the lessons that we have learned from working closely with our colleagues across the UK—as far as that has been possible—is that there is no one-size-fits-all or perfect solution to any of these issues, many of which overlap. With regard to PI insurance, the UK Government's primary intervention is in the form of a state-backed scheme that we understand is continuing to face some delays and difficulty. Nevertheless, it has been welcomed by the sector, and we will consider what will be eventually delivered.

We have to use the tools that we have as an organisation, a body and a devolved Administration, but as I have said, nothing is off the table. We have a number of options with their own different risk profiles, including hiring our own fire engineers or self-insuring providers, and we will evaluate all of them very rapidly as we move towards a new delivery model for the SBA that is more about direct commissioning. How those

choices are brought to bear will become clearer to us, and we will be thinking these things through over the next few months.

Paul McLennan: Good morning, minister—I mean, good afternoon. I have fallen into the same trap.

At last week's meeting, we heard about people being trapped in zero-value homes and having issues with accessing affordable buildings insurance. Can the Scottish Parliament offer any practical help in that regard?

Patrick Harvie: The presence of potentially unsafe cladding—and I stress the phrase “potentially unsafe”, because, as I have said, we are confident that the assessments will find the majority of buildings to be safe—has had a significant impact on people. Indeed, I have met people in my region who are in that situation—I am sure that other members will have had the same experience—and we in the Government get regular correspondence from people who are unable to move.

However, I come back to the point that this is the fundamental reason for carrying out the single building assessments, and the progress on that was reported in the cabinet secretary's statement. We are taking action to roll the approach out faster and to more buildings. We fully expect that most buildings will be found to be safe; however, where any risk is found, it should be remediated, and the Government has always made it clear that developers have to play their part and step up to remedy buildings with unsafe cladding. Even some of the people to whom I have spoken who are in this extremely difficult situation are not making the case—or, at least, have not made the case to me—that the taxpayer should effectively bail out developers in meeting a cost that it is believed they ought to bear. There is a general acceptance that the developer community needs to play its part in ensuring that that work takes place.

Paul McLennan: I understand the point that you are making, but what about those developers who do not comply? What are the next steps that can be taken in that respect? As you will have seen, there are some developers who are more compliant and quicker to move on things than others, and I just wonder whether in the meantime until developers are actually complying, the Scottish Government can do anything through legislation or some other approach to push things forward.

Patrick Harvie: Some of the relevant powers here are reserved to the UK Government, particularly around insurance. The regulation of insurance is not something that we are able to intervene in through devolved powers. Insurance premiums are obviously a matter for individual

insurers. We are working with the Association of British Insurers through the cladding stakeholder group and, through that forum, we are seeking fair treatment for home owners by the insurance industry.

The answers to all the issues lie in working together to reach solutions that will work for people, and that will include insurers and lenders. As for what we believe would help people most, where developers or others step up to carry out remediation work, the insurers should trust the single building assessment process to deliver a safe building and return the market to acceptable premium levels.

I was pleased to hear from the committee's meeting last week that the ABI and many of its member companies welcome the single building assessment approach and what it can deliver.

Paul McLennan: I have a follow-up question. Last week, we heard calls for the single building assessment form to form the basis of a building MOT system, with the creation of a central repository of information on buildings as they are constructed. Would the Scottish Government support that? Does it have views on that?

Patrick Harvie: I ask Stephen Garvin whether that is being explored in those terms.

Dr Garvin: The idea of an MOT is being considered. We are looking to create a register of safe buildings, harnessing the data that is gathered in the single building assessments and presenting it in a format that is usable by the building owner, the factors, insurers and lenders. That is a development that we want to see, and we will develop it further from the current high-rise inventory.

Willie Coffey: I have a supplementary to Paul McLennan's question about zero valuation, which we discussed last week. We think that it was based on the EWS1 standard—using external wall systems form 1—which, we discovered, disnae have any legal basis in Scotland. We think that it is not a statutory process. We were left wondering how people in Scotland can have a zero value attached to their property from a scheme that is not a regulatory standard in Scotland, and that potentially does not legally apply. Could you offer the committee any clarification on that issue?

Patrick Harvie: The cladding stakeholder group meets regularly to explore such issues, engaging with the Royal Institution of Chartered Surveyors, UK Finance, the Law Society of Scotland and other organisations. The responsibility for the buying and selling of property needs to involve a proportionate approach, only requiring EWS1 for blocks that fall within the guidance from the RICS.

The system was put in place by the lending industry. Although we understand why that approach was taken, we believe that it must be applied proportionately. In Scotland, it is being applied flat by flat, rather than in relation to whole blocks. That is a result of the common ownership model that we have here, which David Blair was describing earlier.

However, we are working with stakeholders to try and ensure that they will accept a whole-building EWS1 as an output from the single building assessment process.

Willie Coffey: What would happen in circumstances where a home owner disagrees with a zero-value assessment of their property and chooses to challenge it? As I say, our understanding is that that assessment does not have any legal basis in Scotland.

Patrick Harvie: I ask David Blair to jump in again.

David Blair: I am more than happy to.

I have had a number of conversations along these lines with people at UK Finance, and they are always at pains to try and educate us on this. I will try to convey my understanding of it.

The EWS1 form does not provide a valuation in itself because—I do not say this in a critical way—it is a simplistic way of answering a complicated question about the risk of a building for lending purposes. It is probably unfair to name them, but at least one lender takes quite a nuanced view of it: whatever the weighting is, they have a process that means a property has zero value if it gets a B rating that suggests that there is combustible cladding, which acts as a trigger for the lender to refer it to their specialist team so that they can think about it and gather more information on the suitability of that block.

13:00

In Scotland, the EWS1 form is based on the flat, rather than a whole block. That requires lenders to be a bit more responsible and think it through and gather evidence about the rest of block, so that they can revisit their valuation. In practical terms, no property that is classed as zero valuation is truly worth nothing. What that valuation means is that it is very difficult to get a standard mortgage on standard terms. It makes it much more difficult because the risk is perceived to be much higher. The problem is that the level of risk is very difficult to price and that compounds the issues in the buildings insurance industry, which has had difficulty pricing the risk for blocks. Where that feeds in, we get some really difficult dynamics.

The single building assessment process, which will consider including an EWS1 on the whole

block, will give a more solid answer and then a plan can be agreed for the whole block. That is the start of the assurance journey for UK Finance and other stakeholders; from our perspective, that is the start of getting the green light for that block, whether that is a green light to start with or after a process of remediation.

Willie Coffey: Nevertheless, are people not in a position at the moment where their houses or properties are valued at £0 unless and until the remediation can be carried out? We heard examples last week of people being told that their properties are valued at £0.

Patrick Harvie: The short answer is yes. As we have said, the work that needs to happen in order to address the situation that those people are in is the SBA process and the subsequent actions, where the assessments determine that that is necessary.

The Convener: I have three more questions. What commitments have house builders made to fund remediation and mitigation works under the Scottish safer buildings accord? What happens if a developer chooses not to sign up to the accord?

Patrick Harvie: Once again, I turn to my officials for support on the detailed aspects of that question.

David Blair: It is a fast moving agenda. Our approach to the Scottish safer buildings accord has partly been to borrow from what the UK Government has been able to achieve with large-scale developers, but we have also cast the net wider in terms of the types of developers and stakeholders involved—we want homeowners, UK Finance and others to be part of the process. That is in response to a very powerful message from all stakeholders that they wanted a collaborative approach to be taken to solving the problem.

On progress, we have met seven or eight of the leading developers; we prioritised meeting developers that have signed the UK pledge. That is so that we can try to determine the appetite for extending their responsibilities to Scotland, on a common basis. We feel that that is a reasonable expectation; the cabinet secretary was quite clear about that in her statement.

I will keep this at a general level. The feedback so far has been more or less universally positive about the appetite to remediate buildings on a common basis. To be clear—I am borrowing from the wording of the UK pledge—that is an agreement to remediate buildings from the last 30 years to current building standards. That is the standard that has been set already in England; we are asking for the same thing.

We are working with Homes for Scotland on the mechanism for engaging not just the Homes for

Scotland members—the 60 biggest players—but a much broader sector of small and medium-sized developers. We will develop a process and take it forward in the next few months.

The Convener: What is the Scottish Government doing to support training of surveyors and fire safety assessors to ensure that there is a sufficient pool of qualified staff to deliver the single building assessment programme within a reasonable timescale?

Patrick Harvie: As I mentioned in my opening remarks, we are working with the industry to ensure that capacity grows to meet demand for assessments, as they come through. I am not sure whether we have any more recent updates on the work that has been done to ensure that skills and capacity are growing to meet demand.

David Blair: I do not have more on that. Can you comment on the RICS funding for training, Stephen?

Dr Garvin: We meet the RICS and the Institution of Fire Engineers regularly and we are working with them on that. The RICS has a course for training surveyors on appraisal of the external wall systems of buildings. That will help us with capacity. I am afraid that we do not have up-to-date numbers, but we know that people are already progressing through that course. We are working with the RICS on a bolt-on to that training, so that the single building assessment process will be added to it, and so that surveyors will be aware of the expectation in that regard, of how to deal with building owners—I say, “deal with”, but I hope that you know what I mean—and of the outputs and standards that are required for a single building assessment. That is in progress.

We can provide information for the minister to come back to the committee with an update on that training and how it is progressing.

The Convener: Thank you very much. Finally, the committee heard calls for greater independent monitoring and assessment of building work through use of clerks of works, which is something that our predecessor committee called for. What is the Scottish Government doing to require or facilitate use of clerks of works?

Patrick Harvie: Again, I will turn to officials for an answer to that question.

Dr Garvin: My answer is not so much about the clerk of works but is to reiterate the point about our approach in the building standards system and the work that we are doing through the building standards futures board, which builds on the earlier—post-Edinburgh schools and post-Grenfell—review of compliance and enforcement. The review panel was chaired by Professor John Cole. One of its key recommendations was on a

compliance plan that would, for high-risk buildings, begin at the pre-application stage.

Recently, we have consulted on bringing in the role of compliance plan manager, who would have oversight of compliance throughout the process. We are still working through the detail of that. We want to trial it through cladding remediation programmes. We are also working on a pilot with a local authority on a new-build school campus project. That will give us greater robustness around the compliance plan.

Generally, on the public side of things and in social housing, having a clerk of works would be the norm in any case. However, the compliance plan manager role would apply in the case of any high risk building, regardless of whether it was in public or private ownership.

Willie Coffey: On that point, who will ultimately certify that a new-build house is compliant with all the standards? Will it be the compliance plan manager, a clerk of works or the person who issues the building warrant? Who is going to look at the fabric and construction of the new build to say whether they meet all the standards for fire safety and other regulations that apply to the construction process? Who will sign on the dotted line to say that the building is compliant?

Patrick Harvie: The compliance plan manager would have responsibility for all aspects of compliance—not only for the fire safety issues that we have talked about, but for wider compliance with building regulations

It might be worth our while to write to the committee with an update on the pilot that Stephen Garvin mentioned, and to let members know how it is developing and when we expect to be able to evaluate it more fully.

Willie Coffey: That would be very welcome. Thank you.

Miles Briggs: On the same point, Dame Judith Hackitt’s review—which applied to England—was quite robust in pointing out that building regulations were not fit for purpose. Has the Scottish Government looked at that review? Are we likely to see a review in Scotland and could that review form the basis of a building safety bill or something similar?

Patrick Harvie: I am not aware of any suggestion that we need an entire bill on the matter, but committee members will be aware that the changes that we are making are just the latest in a series that we have made, since Grenfell, relating to fire safety issues. We are planning more changes on the energy side of things. Our approach is to have more continuous development to address existing concerns and future

challenges that our building stock will face, rather than to take a single big-bang approach.

Stephen—do you want to add anything to that?

Dr Garvin: I can add a little bit. I referred to the review of compliance and enforcement. The review panel concluded that Scotland's system is not broken in the way that Dame Judith Hackitt concluded it was broken in England, but that it could be improved. To approach that improvement, we created the building standards futures board and its workstreams, with a focus on compliance enforcement. However, a number of aspects contribute to that—including a workforce strategy for building standards verifiers, digital transformation and other things.

Miles Briggs: The concerns that were outlined in the English report point towards Scottish building standards potentially needing a wider review. Do you accept that, given that it is likely to happen in England with the Building Safety Act 2022?

Patrick Harvie: It is pretty clear that building standards are continuously under review and evolving. Since I have been a member of the Scottish Parliament, there have been regular updates and continuous incremental improvements to building standards.

As Stephen Garvin indicated, there are differences in context between Scotland and England. We need to ensure that we hear from the widest range of stakeholders about the Scottish situation, and we need to continue to develop and improve based on the challenges and requirements here, rather than to echo actions that are taken in England, for the English context.

The Convener: I thank the minister and his officials for that helpful discussion. As we agreed at the start of the meeting, we will take the next item of business in private.

13:14

Meeting continued in private until 13:25.

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