



OFFICIAL REPORT
AITHISG OIFIGEIL

Local Government, Housing and Planning Committee

Tuesday 27 September 2022

Session 6



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LOCAL GOVERNMENT, HOUSING AND PLANNING COMMITTEE
23rd 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:

Alastair Dee (Scottish Government)

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

Shona Robison (Cabinet Secretary for Social Justice, Housing and Local Government)

CLERK TO THE COMMITTEE

Euan Donald

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Local Government, Housing and Planning Committee

Tuesday 27 September 2022

[The Convener opened the meeting at 09:01]

Decision on Taking Business in Private

The Convener (Ariane Burgess): Good morning, and welcome to the 23rd meeting in 2022 of the Local Government, Housing and Planning Committee. I ask all members and witnesses to ensure that their mobile phones are on silent and that all other notifications are turned off during the meeting.

The first item on the agenda is to decide whether to take items 6, 7, 8, 9 and 10 in private. Do members agree to do so?

Members *indicated agreement.*

Subordinate Legislation

Scottish Social Housing Charter: November 2022

09:01

The Convener: Agenda item 2 is to take evidence on the Scottish social housing charter, November 2022 from the Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights, Patrick Harvie. Mr Harvie is accompanied by Michael Boal of the Scottish Government's social housing charter and regulation team. I welcome Mr Harvie to the meeting.

Before I open up the session to questions from members—if anyone has any questions—I invite Mr Harvie to make a short opening statement.

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

I am here to provide an update on the actions taken following my attendance at the committee on 1 March, when the committee considered the revised Scottish social housing charter.

In response to the Delegated Powers and Law Reform Committee's query about our consultation with secured creditors of registered social landlords or their representatives, the Accounts Commission and the Equality and Human Rights Commission, I can confirm that we wrote to all eight statutory consultees in the Housing (Scotland) Act 2010 to ensure that there was no doubt about the compliance with the duty to consult on the charter. We sought their views on the revised charter and provided the same 12-week response period in line with the original full consultation. We received responses from all statutory consultees, including secured creditors of registered social landlords, UK Finance, the Accounts Commission, Audit Scotland and the Equality and Human Rights Commission.

The overwhelming response from all the statutory consultees was that they were content with the changes that had been made to the charter. In light of some additional comments that they provided, we have made some further minor changes to the version of the charter that the committee considered in March. We have added to the equalities outcome the need for landlords to eliminate discrimination and advance equality of opportunity; revised the wording of the quality of housing outcome to provide additional clarity; changed the value for money outcome from a standard to an outcome; and highlighted the legal requirement to consult tenants on rents and service charges in the supporting narrative.

I trust that those actions provide the committee—as they have to the DPLRC—with assurances of compliance in relation to consultation with statutory consultees in the review of the charter.

The charter and the regulator's reports provide an improvement framework for tenants and landlords to assess and compare landlord performance, and encourage landlords to deliver improved services for their tenants and other customers.

Finally, as I think I did in March, I want to place on record my thanks to the officials who have worked on what has proved to be a highly successful tool for improving services in the social housing sector, as well as my thanks to all those in the sector and others who have engaged with the consultations. I hope that the committee is content with the revised charter and that it will recommend that Parliament approve it.

The Convener: I thank the minister for his opening statement.

If members have no questions, we move to agenda item 3, which is consideration of the motion on the instrument. I invite the minister to move motion S6M-05578.

Motion moved,

That the Local Government, Housing and Planning Committee recommends that the Scottish Social Housing Charter: November 2022 be approved.—[Patrick Harvie]

Motion agreed to.

The Convener: The committee will in the coming days publish a report setting out its recommendations on the social housing charter.

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

09:05

Meeting suspended.

09:16

On resuming—

Pre-Budget Scrutiny 2023-24

The Convener: The fourth item on our agenda today is to take evidence from the Cabinet Secretary for Social Justice, Housing and Local Government on the affordable housing programme, as part of our pre-budget scrutiny. Shona Robison is joined by Scottish Government officials from the more homes division: Alastair Dee is the area manager; and Colin MacBean is the deputy director.

Before I open the session to questions from members, I ask the cabinet secretary to make a short opening statement.

The Cabinet Secretary for Social Justice, Housing and Local Government (Shona Robison): Thank you for the opportunity to engage with the committee. It is good to be here.

There can be no doubt that recent times have been challenging and that the challenges continue. We have dealt with Covid and are now dealing with a cost crisis that is pushing millions of people into poverty.

The Scottish Government is wholly committed to doing all that we can to tackle those immediate pressures, but our mitigations are constrained and we need the United Kingdom Government to take wider action to increase our budget or to grant us greater powers to borrow. We are already having to find £500 million in savings across Government in order to focus resources on tackling the cost of living crisis. Those savings come from areas where we consider that there is least impact on public services and on individuals, but those choices have not been easy and will have consequences. We are committed to an emergency budget review process, both to identify funding to cope with inflation-driven cost increases and to support those who most need our help during the crisis. That is the harsh reality of having a fixed budget and limited powers.

Despite that, we have put in place measures worth almost £3 billion this year and announced in the programme for government that we will seek to introduce emergency legislation that gives renters security through a rent freeze until at least March 2023 in both the private and social sectors. That legislation will also include a moratorium on evictions.

We will present a housing bill later this year to improve affordability in the longer term, which will include new and strengthened rights for tenants and will take action on short-term lets and preventing homelessness. The warmer homes Scotland programme will also support households

to install energy efficiency measures, thereby helping to reduce energy costs and usage.

All that support goes hand in hand with delivering more affordable homes. I am proud to say that Scotland has led the way in the delivery of affordable homes across the UK, with 111,750 affordable homes delivered since 2007, more than 78,000 of which were for social rent, including 19,339 council homes. We will make £3.6 billion available during this session of Parliament for the delivery of affordable homes, so that we can continue the important work that we began in 2007 of ensuring that everyone in Scotland has a warm, safe and affordable place to live.

I was given a timely reminder of the importance of good-quality affordable homes during my recent summer visits. Speaking to tenants is a great way to understand at first hand how important it is that we continue working with partners to deliver affordable homes and contribute to the delivery of national outcomes.

We know that a smaller number of homes can make a huge difference to rural and island communities, and we are taking forward the development of a remote rural and islands housing action plan to meet housing needs in those areas and to help to retain and attract people to those communities. We recognise the continuing external market conditions of inflation and supply-chain impacts, and we are committed to continuing to work closely with all our housing partners to help to mitigate those pressures, where possible, through the operation of our flexible grants system.

I cannot conclude these remarks without acknowledging the struggles that are being experienced by the people of Ukraine. We have extended a warm Scots welcome to them; indeed, Scotland is currently accommodating almost 20 per cent of the total number of Ukrainians in the United Kingdom. We recognise existing temporary accommodation challenges that might be having an impact, but we must and will continue to work hard to reduce the number of all those in temporary accommodation.

I look forward to engaging with the committee this morning on the affordable housing supply programme. I know that there are many challenges facing delivery, but I believe that our strong established partnerships and flexible systems will enable us to continue to make good progress.

The Convener: Thank you for that opening statement and for setting out a range of aspects of this topic. We have a number of questions to take the conversation to a deeper level.

Before I bring in other members, I will lead with the theme of targets, meeting needs and place

making. Something that has come up quite a bit in our conversations with stakeholders is the question of how the target of 110,000 affordable homes by 2032 will be delivered. How was that target set? What evidence is it based on? In what way does it relate to local assessments of need? Is the housing need and demand assessment process fit for purpose in giving us that kind of information?

Shona Robison: The target was initially formulated as a result of the overarching work undertaken in the development of "Housing to 2040", which is, of course, our long-term housing plan and which set out our initial ambition of delivering 100,000 affordable homes by 2032. In considering that previous target, housing need and the views of the sector, we increased the figure to 110,000 affordable homes across Scotland by 2032 in the 2021-22 programme for government.

After discussions with stakeholders covering rural Scotland, I was keen to include a target for rural homes, because I thought it important to drive that ambition in rural Scotland. I am sure that we will come on to talk about this issue, but we know that there are additional challenges in those areas, and I felt that a specific target would help drive developments there. The target emerged from those discussions—and it is, of course, an important part of the Bute house agreement.

Clearly, the relationship with local authorities is also hugely important, given their role as strategic housing authorities. They are best placed to make local decisions and to reflect the particular nature and characteristics of their local areas, all of which then feeds into the national plan and targets. All of that led to a target that we feel is ambitious but deliverable.

The housing need and demand assessment is undertaken at local level, allowing for consideration of local information and circumstances that go beyond the national projections for housing numbers. It covers, for example, tenure, size, type and location of housing as well as considerations of affordability and specialist provision. It is, therefore, a valuable tool in the process.

We need to keep targets under review. We intend to carry out a review at the mid-point to 2032 to assess whether the current plans should continue unchanged or be adapted.

I hope that that answers some of your question.

The Convener: To some degree, yes, but I am still not that clear on what evidence the target is based on.

If we go back to the original target of 100,000 affordable homes, I really appreciate your adding 11,000 extra rural and island homes on top of that,

because those are crucial. You mentioned that the 100,000 target built on the 50,000 target from a previous session of Parliament. Where would we as a committee look to for an understanding of how that number was arrived at? That is still not clear to me.

Shona Robison: As I have said, it is borne out of the strategic housing plans from local authorities and consultations with local authorities and registered social landlords. The target must be ambitious and it must be deliverable. There is no point in our plucking a target out of thin air that is not deliverable. We have had calls to go further, but whatever we do must be deliverable. The 110,000 target, of which 10 per cent will be rural housing, is stretching, not least in the current climate of cost pressures.

It is important that we have a stretching target. Our target is fit for purpose, but we must keep it under review. The midpoint will be important in assessing the progress towards the target.

I should also say that the target is not one that will be met by breaking it down into individual years, with the same number of homes being delivered each year. The challenges and the costs will change so the target will be met in peaks and troughs as we moved towards 2032. The midpoint is important in letting us see what progress is being made and whether there need to be changes at that point.

The Convener: I will continue the theme of meeting needs. In previous evidence, the committee heard about the challenges of providing the right homes in the right locations. For example, in written evidence, Highland Council said:

“Numbers alone should not be the sole determinant, though they are a useful target or ambition ... Government should be honest enough to question whether a lower but more focussed number may be more appropriate. In short, the right homes in the right place of the right size and right tenure at the right time and for the right people, adapted as required for needs is arguably more appropriate and may lead to a lower total number being more appropriate”.

What is your view of this statement?

Shona Robison: Yes, we need homes in the right place and of the right size and quality, but we must also deliver more homes. All that is a balancing act. Local authorities and RSLs are delivering high-quality homes, which is important. It is also important that there is good insulation and that we have energy-efficient homes. Does that mean that there will be fewer homes? There is a balance between delivering at scale and delivering quality.

For example, we are looking at modern methods of construction, such as off-site construction—or however you want to describe that—as potential ways of getting as much out of not only the £3.6

billion investment but the additional investment that that brings and that the sector raises.

We are talking to the sector and local authorities about innovative ways to build, including builds that can be done all year round, which would lead to economies of scale. We are also looking at the number of house types. Do we need 50 different types of two, three or four-bedroom properties, or can RSLs and local authorities come together to hone in on a smaller number of house types that can go through planning more quickly?

09:30

All of those things are important, as is looking at operating more as consortia in the delivery of homes. Homes England has done that quite successfully. We should be looking at ways of driving efficiency in the system without compromising on quality.

We need to look at all those things, to make sure that every pound that we invest in the affordable housing supply programme is going as far as it can to deliver as many good-quality energy-efficient homes as possible, in the right places.

The Convener: Thank you. We continue on that theme.

Annie Wells (Glasgow) (Con): Good morning, cabinet secretary. The committee heard from the Scottish Federation of Housing Associations on the need to progress with the review of “Housing for Varying Needs: a design guide”, which has been in place for more than 20 years. Will you update the committee on progress with the review and comment on how it might help to address the delivery of homes for those with particular needs?

Shona Robison: The importance of that guide was set out in “Housing to 2040”. It is not that the current guide is not still providing an excellent standard—it is—but that we want to review it in order to better meet the needs of an ageing population, to help people to live in their homes for longer, and to learn lessons from the pandemic by recognising, for example, the importance of outdoor space and space for homework and study.

We have had to take some time in doing that, in order to get it right—to ensure that the guide is going to be fit for purpose. To be honest, that has taken a bit longer than we would have wanted, but there is a balance between taking time and getting it right.

There has been a lot of informal consultation with stakeholders. The latest that I can tell the committee is that we plan to formally consult on the proposed changes to the guide in the spring of next year. That is a bit of a delay, I will be honest,

but it has been worth taking more time to get that formal consultation right.

In the meantime, there is nothing wrong with the existing guide; however, getting the new guide right has taken a bit longer than perhaps we would have wanted. I am happy to keep the committee updated as we move that work forward.

Annie Wells: That is great. Thank you very much. I have one more question, convener.

Given the emphasis on placemaking in the draft national planning framework 4, how are you making sure that the new homes that are approved through the affordable housing supply programme contribute to those aims?

Shona Robison: Through the drafting of the national planning framework 4, the planning system will shift to being more directive about the quality of places, including by guiding where new development should happen and how those developments can deliver more for new and existing communities. The framework proposes strengthening the planning policy for affordable homes and, in essence, provides a better, more positive and encouraging system for affordable housing—not just in urban Scotland but in rural Scotland as well.

I was asked about the issue at the Communities Housing Trust event that I took part in in Inverness. Planning came up quite a bit in that discussion. For us in Government, although we do not always get this right, it is important that all policies face in the same direction. We have clear ambitions for the affordable housing supply programme, but those will only be as good as the ability to get land availability and the planning system right. We therefore need to get a close eye on the operation and practice of the new framework, to make sure that it makes it easier to deliver affordable housing. It still has to take into account all the concerns that anyone might expect, but it should be more proactive in supporting affordable housing.

The Convener: We will move on to theme 2, which is around the financial capacity of social landlords in balancing priorities.

Marie McNair (Clydebank and Milngavie) (SNP): Good morning, cabinet secretary. Thank you for giving some time to the committee this morning.

Some witnesses have highlighted the challenge of investing in important aims, such as decarbonising existing stock, as well as in developing new homes, without compromising the affordability for tenants.

Shona Robison: We are asking a lot of the sector in asking it to do all those things at the same time. We need to ensure that we support

RSLs. The financial performance of RSLs remains robust, which means that we are starting from a good position. However, we are asking a lot of our RSLs and we need to be cognisant of that.

We need to ensure that decarbonisation of the existing stock and creating new homes that are energy efficient and of a high standard are done in bite-sized pieces. We have asked social landlords to focus on fabric first, while we put in place the building blocks that are important in taking forward investment in decarbonisation.

We have also been very clear that tenant affordability is key. We have said that decarbonising the existing stock and building new homes must be done without compromising tenant affordability—it cannot be done on the back of tenants' rents. As you will be aware, the task force has done a lot of work on how we finance that in a way that is deliverable, affordable and does not put the onus on tenants' rents. It is a challenge.

We have provided some quite significant funding so far, although we have also said that we know that that will not be enough to do everything that needs to be done. We will need to work closely with the sector as we make progress on the changes that are coming over the next few years. We need to support the sector in that.

Marie McNair: Thank you—it is very much a challenge.

In evidence, the Association of Local Authority Chief Housing Officers emphasised the need to listen to existing tenants before determining priorities. How did the Scottish Government consider the needs and priorities of existing tenants when setting its affordable housing supply targets?

Shona Robison: We rely on local partners to consult with tenants. As a Government, we set the budgets and the targets in collaboration with local partners. I meet tenants organisations directly and regularly to hear their views. However, we expect some of the consultation on the detail of the housing plans to be done at a local level by local authorities and registered social landlords. They are required to carry out consultation on rent levels annually. We would expect them to have the reach into communities and local tenants organisations that it would be impossible for us to have. We do our bit on the national level, but we also expect that local consultation to happen.

Marie McNair: You announced that you are introducing emergency legislation to freeze rents, which has been welcomed, not least by the Scottish Housing Regulator, which highlighted that a survey of the national panel of tenants showed that

“7 in 10 were concerned about future affordability of their rent”.

You will also be aware that yesterday, the Scottish Federation of Housing Associations said that the freeze will impact the ability to meet targets for building homes and decarbonisation.

What assessment has the Scottish Government made of the impact that a freeze on social sector rents might have on social landlords’ affordable housing development plans? Will it mean a need for increased subsidies to minimise the risk to the delivery of the target?

Shona Robison: There is a lot in that question. As you are aware, through the emergency bill, we are taking exceptional measures in exceptional circumstances, and we will lay out the detail to Parliament in short order. We have made it clear that the bill will include temporary measures until the end of March.

The social rented sector has concerns—for lack of another word—about what will happen to rent levels in the social rented sector beyond 1 April. We have said that we will work very closely with social landlords on whether a cap on social rents should be applied from 1 April and, if so, what level the cap should be at. In doing that, we need to take cognisance of the economic circumstances between now and then, and to have regular reviews. The circumstances relating to tenants being unable to afford their rents have driven us to taking the action that we are taking, so the wider economic circumstances and the challenges of tenants will be key factors in determining what happens from 1 April.

What happened last Friday and the impacts on interest rates and inflation all have to be taken into account, because what happened will have an impact on the social rented sector’s borrowing costs.

One thing is absolutely clear: we will work very closely with the sector. We have to be careful that anything that we do does not interrupt the sector’s investment plans, because those plans, along with local authority investment plans, help to deliver the affordable housing supply programme.

We have quite a lot of things to balance and get right, which will not be easy. However, we are very aware of the concerns of RSLs. Patrick Harvie, the minister who is taking forward the emergency bill, and I have met RSLs on a number of occasions, and we will continue to work very closely with them to ensure that we support them.

Marie McNair mentioned subsidies. We will discuss that issue with the sector in relation to shared risk, who should carry the risk and what the Government can do to support the sector.

Officials have been meeting people at UK Finance, because we are very aware that it is also important that the social rented sector’s lenders have confidence in the sector in Scotland so that they continue to invest. They will also be affected by some of the UK Government’s decisions from last week. We have to consider such issues in the round.

I cannot tell you here and now what will happen on 1 April, because we cannot predict what the circumstances will be like, but we will work very closely with the sector, taking all those factors into consideration, to try to get the measures as right as possible.

Marie McNair: One factor that is driving cost increases and that came up in the evidence is Brexit. Professor Ken Gibb, from the University of Glasgow, highlighted concern about the

“economic change associated with Brexit.”

He said that Brexit is a “contributory factor” to the negative impact on labour supply and on the cost and shortages of materials. Do you share that concern? How is the Scottish Government considering the impact that Brexit is having?

Shona Robison: Brexit, alongside a number of other issues, is having an impact. It has had a direct impact on labour supply and on materials at a time when such issues are being exacerbated, as we are aware, by global supply issues, such as the war in Ukraine, and Covid. All of those things have created a very difficult environment.

09:45

We have been working with the construction sector. Ivan McKee has been leading work around support for the construction sector. Those factors are global factors and it is very difficult for the Scottish Government to resolve them ourselves, but we can look at, for example, the development of local supply chains. We can consider the importance of small and medium-sized enterprises in Scotland in how we create more local supply chains. That will not happen overnight, but it is important that we look to do that in order to have more stability in the system. If we can get that stability and resilience in those local supply chains, the system will not be as buffeted in the future. That comes back to looking at local timber supplies, off-site construction—all the things that can perhaps help us to be less reliant on global factors.

It is a really challenging time for the construction sector. Having said that, projects are still coming in. On the costs of those projects, around half are coming in under benchmark and half are coming in over benchmark. The good news is that projects are still coming in and they are still being

approved. That means that we are still getting shovels in the ground, to help towards that affordable housing supply programme target.

Marie McNair: Thanks. I have no further questions.

The Convener: We move to rural-focused questions from Miles Briggs.

Miles Briggs (Lothian) (Con): Good morning, cabinet secretary and officials. Thank you for joining us.

In your opening remarks, cabinet secretary, you touched on the remote, rural and island housing action plan. The Scottish Government plans that 10 per cent of the 110,000 affordable homes will be located in remote and rural communities. Can you update us on where the Government is with that and what percentage has been delivered?

Shona Robison: First, let me say that the £30 million rural housing fund is there to encourage development in rural Scotland. We still have access to the affordable housing supply programme, and that fund is there to try to encourage development—along with the Scottish land fund, I should add. The rural housing fund is demand led, so it requires projects that people want to take forward. I talked about peaks and troughs earlier, and that fund will be very much guided by the projects that come in.

I think that around 6,000 homes had been delivered in rural Scotland previously. The good news is that over the first year of the operation of the new target, 1,600 new homes have been delivered in rural Scotland. If that trend were to continue, it would give us quite a lot of confidence that we are seeing an uptick in the delivery of homes in rural Scotland. However, the caveat is that there are peaks and troughs, so the situation will be dependent on those projects coming forward.

It is important that there is support. That takes me back to my visit in Inverness; it is important that organisations are supporting local communities to bring forward projects and get them through the feasibility stage and on to submission stage. All those things are quite technically difficult, and community housing trusts have an important role. I spoke to some of them at the event in Inverness. A toolkit has been developed to support local organisations with projects, and some organisations had access to the land fund and the rural housing fund to get projects to fruition. That is still taking too long, and we need to consider how to shorten timeframes to get more projects through, but there is some optimism, given the 1,600 figure.

Miles Briggs: That is helpful. A concern about which the committee has heard a lot and of which I

am sure that you are acutely aware is the decline in the number of small to medium-sized builders, who often develop and take forward such projects. You mentioned funding being demand led. Given the current cost-of-unit price, what can the Scottish Government do to support smaller developers, especially when they are looking to develop affordable housing, which is often on a small scale?

Shona Robison: There is no hiding the fact that it is a tough time for the construction sector and for SMEs, in particular. It is really difficult. Some of the larger organisations, developers and builders have resilience because of their size, but—to be blunt—SMEs do not always have that. All the factors that I talked about earlier really impact on SMEs. Ivan McKee has been doing important work with the construction sector on how we can support SMEs, by looking at local supply chains and how SMEs can get themselves into pole position to bid for work on contracts, whether as contractors or sub-contractors.

We also have to consider that one of the difficulties in the Highlands and Islands is to do with capacity to meet demand and that, sometimes, it is not possible for local SMEs to meet demand.

We will continue to work as a Government on how we can support our SMEs to take advantage of opportunities. The global factors and the cost base for SMEs are really challenging, but we will continue with that work.

Another important aspect that I should have mentioned in relation to the meetings that Ivan McKee and I have had with the construction sector is the sector's concern about contracts and risk sharing. If costs go up, should they be met by the contractor alone or by the customer, that is, the housing association or local authority? I think that it has to be a shared risk. Clearly, as a Government, we do not get involved in contracts; that is for local partners to resolve. However, we met RSLs, councils and the construction sector to put out a message about flexibility. To ensure that contracts and projects continue to come in, there has to be a level of flexibility as we navigate through these challenging times. I think that that message has landed with both the construction sector and the customer—our RSLs and councils.

Miles Briggs: I want to pursue a point that Marie McNair raised on forecasting and financing for housing associations, which are quite clear that the impact of the Scottish Government's rent controls will mean their having to look again at their 10-year financing and consider whether projects will be affordable. Given that the committee will not see the bill until next week and that we have not had the chance to consult a wider group of stakeholders, what impact

assessment has the Scottish Government undertaken to consider whether the approach will pull the plug on many vulnerable potential developments?

Shona Robison: First, I absolutely recognise those concerns and that is why Patrick Harvie and I have spent a lot of time discussing the issues with the social rented sector. We are addressing the way in which we are going to work with the social rented sector by establishing a joint group of officials and the social rented sector, to work through those issues in more detail.

It is fair to say that the vast majority of social sector rents have already been set up to 1 April 2023, because they are set earlier in the year. The social rented sector is concerned about what will happen from 1 April, rather than what will happen in the next few months. It is worth saying that, as a starting point, rent levels in the social rented sector are considerably lower than in the private rented sector.

It is important that the Parliament sees the bill when it is published. The question will be whether the powers and mechanisms in the bill extend beyond the end of March 2023. I set out earlier all the factors that we need to take into account. You mentioned the rent freeze, and I do not underestimate what the social rented sector is saying about that, but the sector will also be really concerned about interest rates going up and the costs of borrowing. It is not just one issue. All of that means that we must be very cognisant of the sector's investment plans and must reassure UK Finance and the lenders that Scotland continues to be a good place in which to invest in affordable homes and the social rented sector.

The financial stability and position of the social rented sector is very good. That is a good starting point. As we go forward over the next few months, we will balance all that with the sector's investment plans and, importantly, the affordability of tenants' rents, as well as the economic climate. We will have to balance all those things with the sector to ensure that tenants are supported and the sector continues to deliver on its investment plans. We will talk to the sector about the Government's role in all of that, in order to ensure confidence.

I am sure that we will continue to discuss such matters in detail, not least once the bill has been introduced. Please be assured that we are spending a lot of time working on those issues with the sector, because we recognise their importance.

Miles Briggs: Given what you said about this having to be a timed intervention—for six months—and the fact that we have just agreed to the Scottish social housing charter, which provides

a framework whereby rents can be discussed between housing associations and their tenants, why has the social housing sector been included in the bill at all? It sounds like that might create more problems for the sector over the six-month period than is necessary.

Shona Robison: It was important for fairness that the approach should apply to both the private and social rented sectors, because it will set the framework for anything that happens after March. We are looking at six months in this context, but we are putting in the levers for what might happen beyond those six months.

It is important that the social rented sector looks at what it can do to support tenants—as it has already done and will continue to do. Every time that I have had a meeting with the social rented sector, whether that was with individual RSLs or the SFHA, I have been struck by people's absolute determination to support their tenants. They do that by minimising rent increases, making sure that tenants are aware of and supported through any rent arrears that they have, and avoiding eviction, which is very much a last resort. The social rented sector is doing all that and will continue to do it, and that is important.

10:00

Of course, Government has taken other action to support the sector and tenants directly through increased support through discretionary housing payments and the ability to consider not just rent arrears but support for energy costs through that mechanism. There is also the tenant grant fund, which we are pivoting towards dealing with the cost of living, and we will keep that under review in the emergency budget review. We are considering how we can support tenants to avoid rent arrears and to tackle rent arrears when they arise. That is not the only action that we are taking—there are many other supports as well.

The Convener: I will scoop up one more rural question—as a Highlands and Islands MSP, I am particularly keen to get a bit more information on this. It is clear from what you have said that you are aware of the importance of rural housing enablers and community-led housing in developing new affordable homes in rural areas. Community Land Scotland told us in written evidence that there are

“unnecessary complexities in the funding”—

I think that it was referring to the rural and islands housing funds—

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

I am interested to hear your thoughts on that comment. In what way will the forthcoming remote, rural and island housing action plan address those issues?

Shona Robison: The action plan has to address all those issues. The key stakeholders have been clear and have been informing the development of the plan by raising the issues that you have just articulated and others and setting out what needs to be done. It is about trying to reduce as much as possible the timelines that I talked about earlier when it comes to getting projects from inception through to having spades in the ground, and it is about the capacity to provide support for local communities—and the myriad other issues that we know the plan needs to resolve.

Having said that, it is reassuring that we are seeing more affordable homes coming through in rural and island communities. The 25 per cent increase that was delivered in 2021-22 compared to 2020-21 is cause for optimism that things are improving, although that comes with all the caveats about peaks and troughs. The plan will absolutely help to keep the momentum going. It is important that we listen to organisations such as Community Land Scotland and make sure that the plan addresses the issues that they raise.

The Convener: You will be aware of an issue that the committee has heard about, in that communities need to come up with about £110,000 before they can even access the money that is available in the funds. Is that being considered in the plan? I am also interested to hear what the timescale is for the plan.

Shona Robison: That issue with the feasibility stage has been raised on a number of occasions and is being addressed.

We expect the full plan to be published in spring next year. The work has some priority strands, about which I will be able to give an update prior to that—probably towards the end of the year. I will be happy to write to the convener with that information, if that would be helpful in advance of the full plan being published.

The Convener: Thank you. That would be very welcome.

We move on to a new theme: grant subsidy benchmark levels and progress with delivery. I invite Mark Griffin to lead on those questions.

Mark Griffin (Central Scotland) (Lab): The grant subsidy benchmark system exists, and the cabinet secretary will know that there is some flexibility in it to allow the approval of projects beyond the benchmark. Given the level of inflation in the construction industry, has the Government given any consideration to increasing benchmark

levels in advance of the formal process in April 2023, to avoid the delays that can happen when applications are subject to an extra level of scrutiny?

Shona Robison: The first thing to reiterate—and you have probably heard me say this before—is that benchmarks are not grant rates or grant ceilings, and they should not have a role in shaping the expectations of grant funding levels for any particular project. Benchmarks are tools for determining the appraisal route for grant applications. As I said earlier, when we look at approvals, we see that half the projects are coming in at benchmark and half above the benchmark.

The current set of benchmarks will be adjusted to account for inflation using the differential in relation to the Scottish social housing tender price index for the year to December 2022, which is populated by data that has been received from RSL and council-approved projects. Alastair Dee might want to come in with further detail.

Alastair Dee (Scottish Government): When the working group met last October, it looked at certain circumstances in which it would review the benchmark in advance of the next expected increase. At the moment, as the cabinet secretary said, under the benchmarking system, projects have continued to be delivered across Scotland: some have come in at or below the benchmark and some have come in above it. The expectation is that the information that we receive through housing tender returns for every project that has been approved this year, which provide real-time, live data, will feed into our understanding of progress, so that we can compare that data against the benchmark. That will result in our updating the figures from 1 April 2023, which will allow a new set of benchmarks to be put in place. That work will begin shortly, although I am not entirely sure of the timeline. Certainly, the plan is to start the work so that things are in place for the start of the new financial year.

At the moment, the benchmarking system is allowing projects to progress, and projects continue to move through the system. However, as Mark Griffin pointed out, some projects will be subject to slightly more scrutiny than others. I would describe the benchmarking system as an administrative tipping point. For example, in my team, if stuff comes in at benchmark, we can check the accuracy of what is being discussed and submitted, speak with the RSLs or councils and move those projects through almost immediately. We will look at stuff that comes in above benchmark in a bit more detail and we will talk about it—which is understandable, given the amounts of money that go into individual projects.

However, that is not causing any massive delays in any way, shape or form: it is a case of looking at and understanding why prices are where they are before we move projects through the system. I have not rejected a single approval that has come in on that basis—I am talking about the south-east area of Scotland, which I manage. It is just that projects that are above benchmark get a bit more scrutiny.

Mark Griffin: The cabinet secretary said that roughly half of approvals are at or below benchmark and roughly half are over it. When the programme started, were such proportions expected? Is that a sign that the benchmark system is working? Is it generating more work than was expected because the applications that are over benchmark need more detailed scrutiny?

Shona Robison: Given the backdrop of all the pressures that we heard about from labour costs and supply costs, I am quite comfortable with the figures. For a while, when I saw Brexit, Covid and global factors all pressing on costs for projects, I worried about whether projects would continue to come in under benchmark, to be honest. That half are still under benchmark—although there is a bit of geographical variation in the figures—is perhaps a better position than I might have envisaged, given all the pressures. We need to keep an eye on things, but that is not a bad position to be in at this moment. What is crucial is that we still have the flow of projects to keep momentum going on the programme.

Mark Griffin: The differential in benchmarks between RSLs and councils has been a sore point for the Convention of Scottish Local Authorities for a long time. Last year, you told the committee that the differential was there because of differences in the availability of borrowing to RSLs and councils. Will that ever be resolved to councils' satisfaction? Will there ever be parity in benchmarking?

Shona Robison: As you said, the issue was quite contentious—local authorities strongly said one thing and RSLs strongly said another thing. The revised benchmarks struck the right balance, because they represented a significant closing of the gap between the council and RSL baseline benchmarks. As you pointed out, the differential exists because of the difference between the borrowing opportunities that are still open to councils and those for RSLs when delivering the programme, which it would be wrong not to recognise.

That is where we landed, on getting the balance. We acknowledged that there was an argument for closing the gap but said that there should still be a differential, given the borrowing position. Given the continued pressures on the social rented sector and RSLs, that was probably the right decision, but we will keep that under

review and continue to listen to all representations. I am comfortable with where we are.

Mark Griffin: You mentioned the Scottish social housing tender price index. Given everything else that is going on in the world and with UK interest rates and inflation, is that index robust enough? Does it provide a data set that is robust enough for RSLs and councils to be confident that they will be able to meet the costs of building the homes that we know that we need?

Shona Robison: I will bring Alastair Dee back in.

Alastair Dee: As I said, for every new-build project that is approved, we require a housing tender return, which gives live data on what is happening in the sector, whether that is up in the Highlands and Islands, in East Lothian or wherever. That is the closest stuff to having a finger on the pulse as we have got.

Our grant recipients—the councils and the RSLs—are going in, working through the contracts, getting the best price and supplying us with detailed information. That goes into the Building Cost Information Service, which then produces the index, which is divvied up geographically so that it can be seen.

10:15

The system has been running for many years. In my opinion, it is tried and trusted, and it is understood. The fact that it has such live data is strong. As the cabinet secretary and others have said, we are in unusual times, but a system that is consistent around Scotland and that provides a consistent dataset provides a strong way of looking at things.

Paul McLennan (East Lothian) (SNP): Good morning, cabinet secretary. I will touch a little on the affordable housing supply statistics, which showed a slight decline in the number of approvals from quarter 1 in 2021 to quarter 1 in 2022. What are your thoughts on there being any specific reasons for that? In addition, you touched on trying to reach the target of building 110,000 homes. Will that impact on the budget?

Shona Robison: Covid had a big impact, in that it paused construction. We have also talked about issues including Brexit. Those things led to a drop in building, then there was an increase, again. There are peaks and troughs. As we go forward to 2032, external factors will continue to have an impact. The announcements last Friday, the shock to the markets, the increase in interest rates and so on will have other impacts, but we will not see the figures on that for another year.

The peaks and troughs are why I talked about the midpoint of the review to 2032, to take stock of

where we have got to and of whether there is a need to back-end any catch-up that might be required, should we have such impacts.

I have forgotten the other bit of your question.

Paul McLennan: It was about the budget.

Shona Robison: Yes—importantly, it was about the budget. In the resource planning allocations, we gave a five-year allocation of £3.6 billion. It was important to give certainty over five years. We are not always able to give multiyear allocations, because of all the difficulties in budgeting that we all understand. However, being able to do so has made quite a difference in terms of being able to give that certainty. That can help plans to go forward, so that, through their own borrowing, projects can generate added value to that £3.6 billion. In some cases, projects have doubled their funding.

That said, we are always looking for innovative ways of financing the affordable housing supply programme. We have looked at how we can use financial transactions to the best of our ability. Financial transactions funding of £134 million has been allocated to the budget in 2022-23. Use of FTs is quite complicated. It is not straightforward. However, we can helpfully use them.

We have also allocated £74 million to the charitable bond scheme in 2022-23, to provide private finance to RSLs and to generate charitable donations to increase provision of social housing.

We are trying to be imaginative in how we might make the money go further, if you like. We have asked officials to establish what is called an innovative finance steering group to look at innovative finance models that we have perhaps not used, in order to grow that pot even further.

We are constantly challenging ourselves, quite apart from our taking up the challenge that comes externally, because we want to do more. The sum of £3.6 billion over the current session of Parliament is a lot of money, but we need to grow it. We can grow it through the private finance that RSLs can raise and through contributions from local authorities, but if there is more that we can do for some additional programmes, we will look to do it.

Paul McLennan: That is really heartening, because the matter has been discussed in the committee. I will move on, but we will probably raise that again.

My next question is about “The Outcome of the Targeted Review of the Capital Spending Review—Updated Spending Allocations for 2023-24 to 2025-26”, which was published in May 2022. It mentions

“a lower than expected capital settlement from the UK Government”,

which represented a reduction of around £750 million. Will that have implications for the affordable housing budget in the future? If it will, how will spending be prioritised, in that regard?

Shona Robison: Whether it is capital moneys or resource moneys, the Scottish budget is constantly under pressure—and increasingly so. However, the affordable housing supply programme is a key priority for capital spend for the Scottish Government, so I am therefore confident about its position in any capital spending review.

That said, we have to be innovative and look at other ways of growing the pot. I have just rehearsed some of that. We need to get the biggest bang for the bucks. The pressures that we have talked about over the past hour or so can all reduce the value of what we get for that £3.6 billion, of what is raised by RSLs and of local authority contributions. It all shrinks as costs go up, so we have to be front-footed and look at what other finance we might be able to lever in to take account of that. We can perhaps use some of the innovative thinking to deal with the troughs.

I am happy to keep the committee updated on the work of the finance group, as we go forward.

Paul McLennan: That would be helpful.

Shona Robison: We are trying to get the right expertise round the table to look at what else we might do in that space.

The Convener: Willie Coffey joins us online.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, cabinet secretary. I have a couple of questions for you, although you partially answered one of them a moment ago. They are about alternative funding models that might be deployed to assist. You mentioned the innovative finance steering group, which is very welcome.

Part of the committee’s discussion has been about the possibility of using pension funds as a source of investment. What is the Government’s view on that? Some of those who have given evidence have commented that that might be risky—especially with index-linked investment that requires a similar return, with an impact coming through on rents, as well. What is the Government’s view of that possible way of sourcing new investment for housing?

Shona Robison: The steering group will be established in the autumn. We need to give it a bit of latitude to look at all the potential sources of investment. I would not want to rule anything out, but it will ultimately be for the Government to look at the group’s recommendations. We will look at

the risks, because I am mindful that anything that is directly linked to fluctuations on an on-going yearly basis could have an immediate negative impact on rent levels. That would not be a sustainable position for tenants to find themselves in. Anything that we do in relation to innovative finance has to be sustainable and has to give tenants some security in relation to affordability of rent levels.

Mid-market rents provide an important function for those who are able to afford those rents, which are still considerably lower than rents in the private rented sector. They meet a particular need for some parts of the population, which is important. There has been expansion of mid-market rents, which will continue to be an important element. There might be some financing models that can help with that part of the market.

However, we will apply any recommendations having looked at them through the lenses of affordability and sustainability.

Willie Coffey: Thank you. Does the Scottish Government have any views on the UK Government's Levelling-up and Regeneration Bill and, in particular, its various missions that relate to housing, which is, of course, a devolved responsibility? Has there been any consultation of the Scottish Government on any aspect of that? Has the UK Government signalled its intention to fund any of those policy intentions?

Shona Robison: There has been no consultation on any housing elements of the bill, certainly as far as my interests are concerned.

We have made clear our position on the bill and our concerns about it, which have been well rehearsed. Although housing policy is entirely devolved, we have no control over matters such as housing benefit, mortgage tax relief and levers that drive inflation and interest rates, all of which impact on housing.

However, the fact that delivery of housing, building of housing and building regulations are entirely devolved matters has allowed us to develop a distinctive Scottish approach that recognises the importance of affordable housing as a key lever in tackling poverty. One of the reasons why child poverty levels are lower in Scotland is the relative affordability of housing in Scotland when compared with elsewhere. We have been able to take a different approach on, for example, the right to buy, security of tenure and energy efficiency.

We would be very concerned if there was any move that would impact on that area of devolved policy. That is one of many concerns that we have about mission creep, if you like, by the UK Government into devolved matters.

Willie Coffey: Mission 10 says that all renters will have a "secure path to ownership". How will that play out in Scotland, given current Scottish Government policy?

Shona Robison: I noted that, at the tail end of his tenure, the previous Prime Minister announced the extension of the right to buy to the social rented sector—to housing associations. Obviously, we will have no truck whatever with that. We lost about 50,000 social rented homes when the right to buy council houses was introduced by the Thatcher Government, and it has taken us a long time to replace those homes. Through acquisitions and the ability of local authorities and RSLs to purchase off market, we are trying to regain some of that territory.

Therefore, opening up the right to buy is the very last thing that we would do, and we will resist any attempts by the UK Government to interfere in such matters. As far as I and the Scottish Government are concerned, housing is entirely devolved to the Scottish Parliament, and I do not think that there would be any appetite in the Parliament—I certainly hope that there would not be—to go down the right-to-buy route.

Willie Coffey: I am glad to hear that, cabinet secretary. Back to you, convener.

The Convener: Thanks, Willie. Thank you, cabinet secretary, for your responses. I have a few follow-up questions.

At the beginning of your opening statement, you touched on the challenges around not having the powers to borrow. Would you go into that a little bit more? You might have touched on it in response to Paul McLennan and Willie Coffey, but would you give us a bit more on what we would need in order to be able to fulfil the commitment on our affordable housing supply programme?

10:30

Shona Robison: Do you mean the Scottish Government's powers to borrow?

The Convener: Yes.

Shona Robison: The very limited scope of the Scottish Government's powers to borrow affects not just housing but the whole gamut of our ability to respond, whether in respect of social security measures or borrowing during the Covid pandemic to support households and businesses, which is what every other Government did. We are very constrained, which places huge barriers and restrictions before us. It means that within what is, largely, a fixed budget, we have to prioritise, so increased spending in one area means reduced spending in another. That is why the fiscal framework must be reviewed as a matter of urgency; finance colleagues have been working

with the UK Government to try to agree the parameters of that.

Borrowing powers clearly have to be a key aspect of any revision of the fiscal framework so that we can operate like other Governments, including many devolved Governments. Even local government has more borrowing powers than the Scottish Government. It is a critical issue; an increase in borrowing powers would allow us far more flexibility to be able to respond to peaks and troughs, the challenges of global factors and emergency events that come up, such as the cost of living crisis. It would allow us to respond far better than we can through our fixed budget.

The Convener: Thank you very much for offering to update us on the remote, rural and island housing action plan. That will be very much appreciated.

I am also interested in hearing about the setting up of the innovative finance steering group. You said that that will be done before the end of the year. We would appreciate updates on that and an understanding of its timescale. How long will that group be in existence? It would also be useful for us to know its remit.

Shona Robison: I am happy to write to the committee with that detail.

The Convener: That would be brilliant. Thanks very much.

I thank the cabinet secretary and her officials for their evidence. That was our final pre-budget scrutiny evidence session. We will write to the cabinet secretary with our findings and recommendations on the affordable housing supply programme after the October recess and in advance of the budget's publication.

Subordinate Legislation

Building (Scotland) Amendment (Amendment) Regulations 2022 (SSI 2022/209)

10:33

The Convener: Our final item in public is consideration of an instrument that is subject to negative procedure. As it is a negative instrument, there is no requirement for the committee to make any recommendation. As members have no comments, does the committee agree that we do not wish to make any recommendation in relation to the instrument?

Members indicated agreement.

The Convener: We agreed at the start of the meeting to take in private the final items on our agenda. As we have no further public business to consider, I close the public part of the meeting.

10:34

Meeting continued in private until 11:20.

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