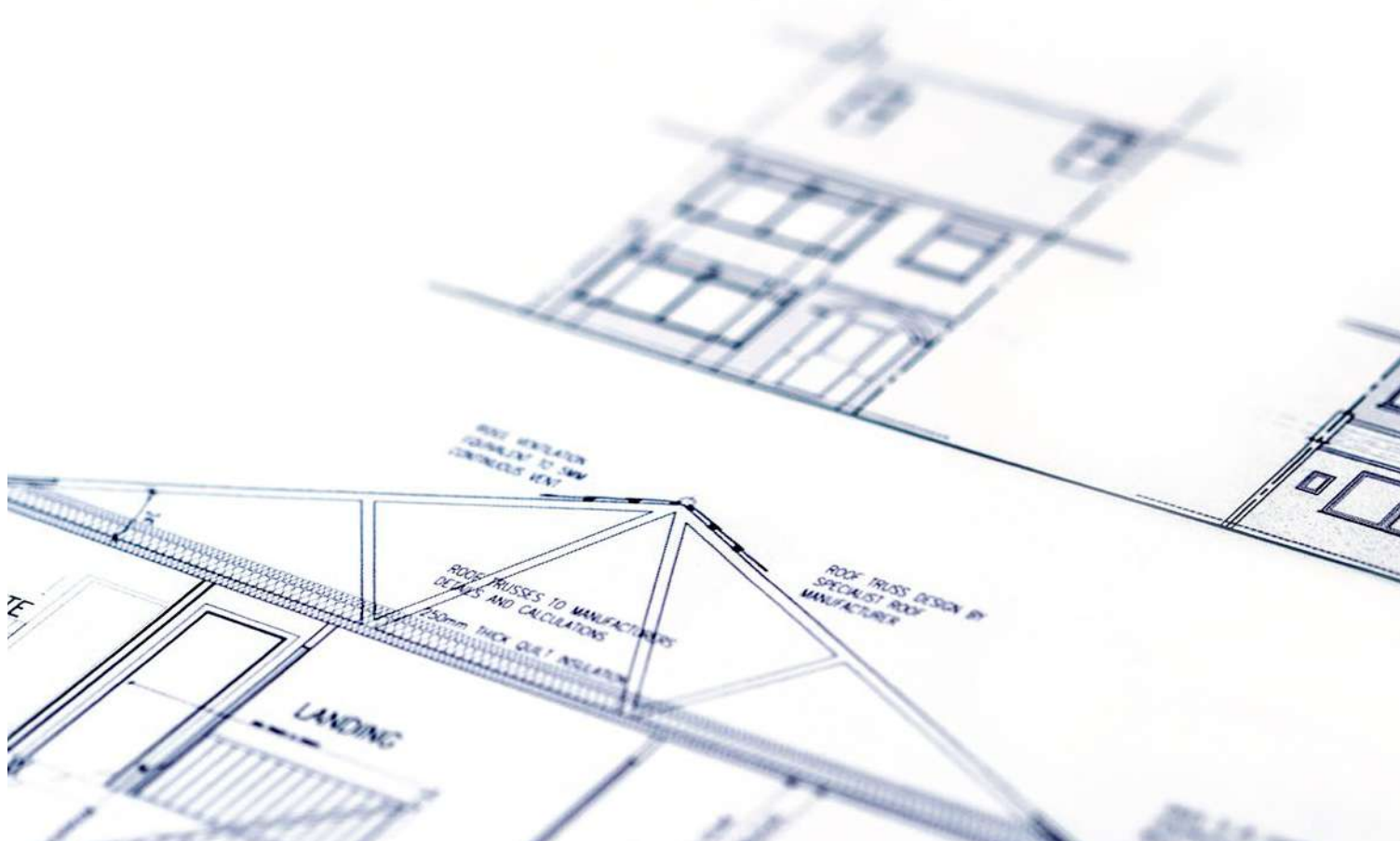


# Affordable housing

The Scottish Government's affordable housing supply target



ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Scotland  
April 2020

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- carrying out national performance audits to help councils improve their services
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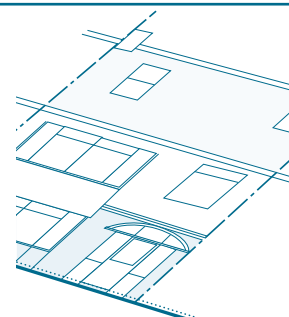
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# Contents



Key facts	4
Summary	5
Part 1. The affordable housing target	10
Part 2. Delivery and impact of the affordable housing target	17
Part 3. Challenges, barriers and the future	34
Endnotes	42
Appendix 1	44
Appendix 2	45
Appendix 3	47

## Audit team

The core audit team consisted of: Carol Calder, Ashleigh Madjitey, Kate Berry, Lynsey Davies and Lindsay Stother, with support from other colleagues and under the direction of Claire Sweeney.

## Links

 PDF download

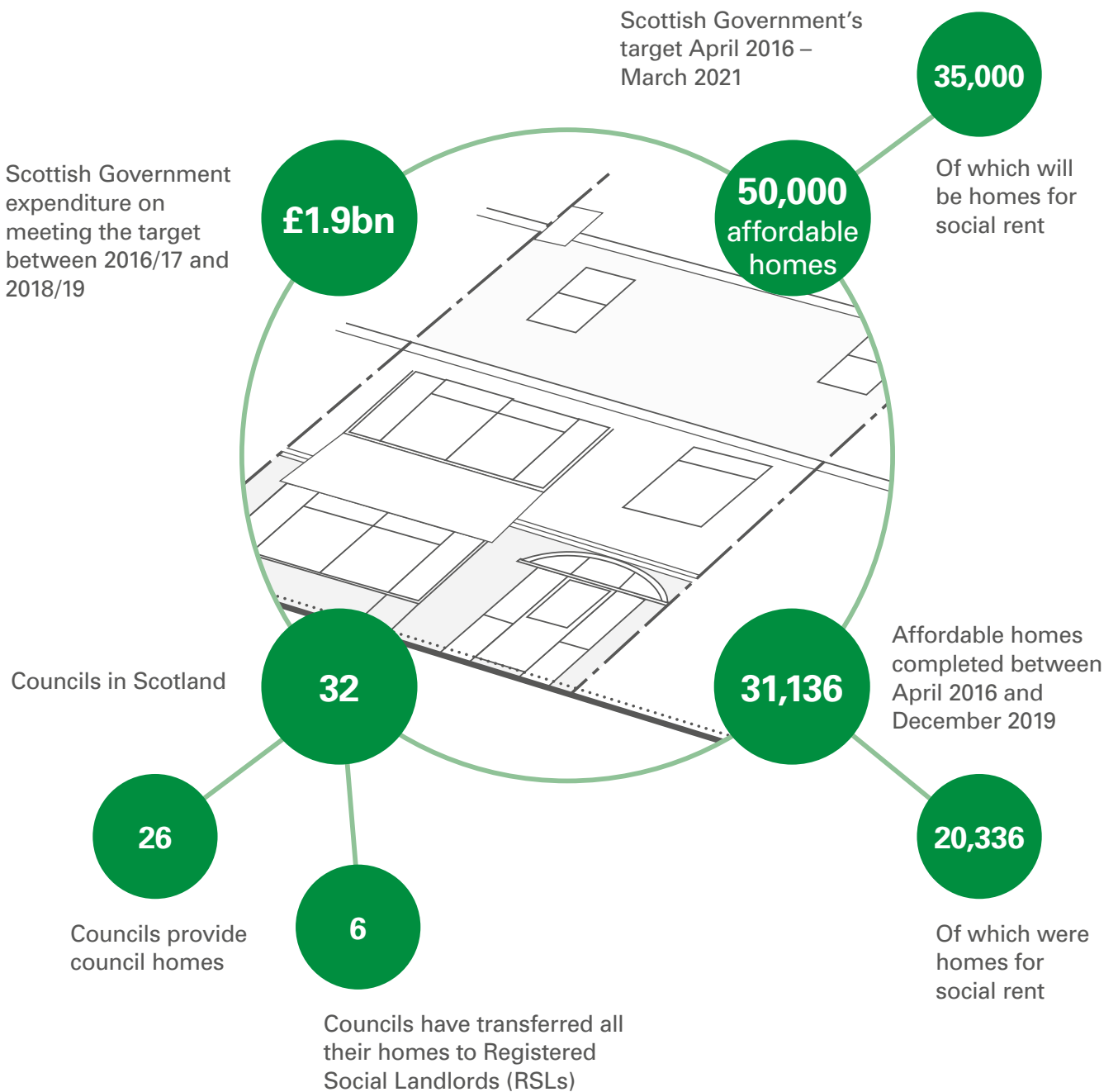
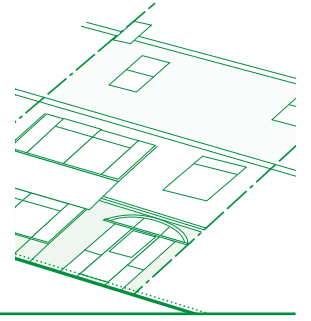
 Web link

 Information box

## Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

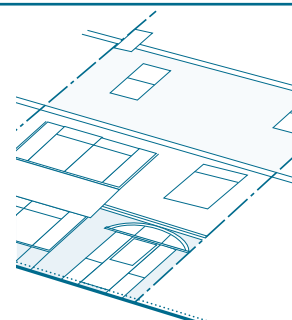
# Key facts



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# Summary

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## Key messages

- 1** Good progress has been made towards the Scottish Government's ambitious target to deliver 50,000 new affordable homes between April 2016 and March 2021. Of these, 35,000 will be social rented homes provided by councils and Registered Social Landlords (RSLs). By December 2019, 31,136 homes had been completed including 20,336 homes for social rent. The Scottish Government plans to invest around £3.5 billion to meet the target. Over the first three years of the programme, it has spent around £1.9 billion. Councils and RSLs have also invested significant sums.
- 2** The Scottish Government reports that the March 2021 target is on track to be met. However, serious risks remain. These include a lack of capacity in the construction sector in some areas and the capacity of council planning and building control services. The planned rise of funding towards the end of the programme, and uncertainty about post-2021 funding, intensifies these risks.
- 3** Councils and their partners have welcomed the increased focus and investment on housing which will help them meet local priorities. Councils are generally working well with their partners, including RSLs, to plan and deliver affordable housing. But improvements are needed in the involvement of health and social care partners. While some councils demonstrate good tenant and community involvement, this needs to be more consistent. This will help ensure the wider benefits of the significant investment are maximised.
- 4** There is evidence that the investment is allowing councils to meet some housing needs in their areas, and some evidence of wider positive benefits to tenants, local communities, and the economy. However, there is no evidence available to show that councils' assessments of need informed the specific numbers and tenure balance of the Scottish Government's target. The Scottish Government did not clearly set out the wider outcomes it intended to achieve from its investment. This, alongside a lack of comprehensive reporting by the Scottish Government and councils on the impact of the investment, means that it is not possible to demonstrate value for money.
- 5** There are various barriers to the ongoing delivery of affordable housing, such as access to suitable land to develop with the necessary infrastructure. The Scottish Government, and councils, are aware of these barriers and are undertaking work to address them. The Scottish

Government has provided only limited information about the funding arrangements immediately post-2021. This uncertainty is affecting councils' and RSLs' ability to plan future developments and may result in a slowdown in the planning and supply of affordable housing. In developing its long-term vision for housing, the Scottish Government needs to make much clearer the ways in which new affordable housing is contributing to wider Scottish Government policy commitments. The Scottish Government should also better demonstrate how the impact and value for money of future investments will be assessed.

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## Recommendations

### The Scottish Government and councils should:

- evaluate the impact of the current programme on housing needs and the economic impact of the investment in affordable housing
- work in partnership with RSLs to implement performance measures to demonstrate the value for money of new-build homes, and work to demonstrate the social value of investment.

### Councils should:

- ensure consistent and early engagement with, and involvement of, tenants and the wider community in developing affordable housing plans to ensure they help to improve local outcomes
- ensure that their arrangements with health and social care partnerships maximise their input into the planning for, and investment in, affordable housing to meet health and social care priorities
- improve reporting on the delivery of affordable housing to demonstrate how housing needs have been met and how it is contributing to wider improved outcomes, including those listed in the national performance framework.

### When planning for post-2021 investment, the Scottish Government should work with councils and RSLs to:

- clearly set out a long-term vision and funding arrangements beyond the parliamentary term
- clearly set out the outcomes it expects to achieve by its investment and how it will contribute to other policy objectives such as human rights and equalities; reducing homelessness, poverty and child poverty; improving health and wellbeing and responding to the climate emergency; as well as contributing to the national performance framework outcomes

- assess the contribution of funding streams for affordable housing on outcomes and review the grant funding distribution arrangements and grant subsidy benchmarks to ensure that they are fit for purpose and are aligned to meet the outcomes of investment
  - improve its reporting on the affordable housing supply investment programme to ensure information is as comprehensive as possible and includes the location of homes delivered within each council area
  - ensure that the data for understanding housing need at a national and local level is as robust as possible and use this data to more effectively inform future spending plans to make sure that the right homes are built in the right places
  - consider the appropriate balance between investing in new homes and improvements to existing homes, whilst ensuring that rent levels for existing tenants remain affordable.
- 

## Background

**1.** Affordable housing makes a substantial contribution to many Scottish Government policy areas such as health and wellbeing, homelessness, economic growth, reducing child poverty and supporting sustainable rural communities. It can also improve outcomes for communities.

**2.** The Scottish Government's affordable housing supply target is one of several objectives under the Scottish Government's More Homes approach which aims to increase the supply of new homes across Scotland. The More Homes approach sits within the wider context of the Scottish Government's four housing and regeneration outcomes. These are:

- a well-functioning housing system – availability of choice, homes people can afford and growth of supply
- high-quality sustainable homes – safe, warm resources – efficient and promoting wellbeing
- homes that meet people's needs – accessing and keeping a home supporting independent living
- sustainable communities – economically, physically and socially sustainable.

**3.** The Scottish Government has set a target to deliver 50,000 affordable homes, including 35,000 for social rent, between 2016/17 and 2020/21, which are funded through its Affordable Housing Supply Programme (AHSP). The delivery of affordable homes through the programme includes the following:

- Homes for social rent provided by councils and RSLs. RSLs are mainly housing associations or housing cooperatives that meet the legislative and regulatory criteria to be registered with the Scottish Housing Regulator.

- Homes for mid-market rent (MMR), which have higher rents than social rented housing, but lower rents than privately rented properties in the surrounding area. These homes are mainly provided by RSLs.
  - Homes for affordable home ownership, aimed at people who would not be able to buy a home without further financial support.
- 4.** Most of the affordable housing delivered under the programme will be new-build. However, the programme also funds 'rehabilitations', where existing properties are improved, and purchases of existing properties.
- 5.** The AHSP supports the delivery of affordable housing through several funding streams to councils, RSLs, other providers of housing and the public. The investment is shared between local programmes, which are planned in partnership with councils, and programmes managed centrally by the Scottish Government.
- 6.** Councils have important strategic roles. They are responsible for developing plans for local programmes for their own areas. These plans are then delivered by the councils, their RSL partners and, in some cases, through agreements with private house builders.
- 7.** The Scottish Housing Regulator is the independent regulator of social landlords in Scotland. Its role is to monitor, assess and report on social landlords' performance of housing services provided to tenants, people who are homeless, gypsy/travellers and factored owners. It also monitors, assesses and reports on the financial wellbeing and standards of governance in RSLs.

## About this audit

- 8.** The aims of this audit are to:
- report on progress towards the Scottish Government's affordable housing target and assess what impact it has had
  - consider what more the Scottish Government and councils need to do to support the continued increase in affordable housing for those in need.
- 9.** The audit does not consider:
- wider housing affordability issues such as private rental costs or the Scottish housing market – it recognises, however, that these will have an impact on the availability and deliverability of affordable housing
  - Scottish Government and council investment into reducing homelessness – this is because there is significant scrutiny work ongoing through Parliament, the Scottish Housing Regulator (SHR) and Shelter Scotland around homelessness
  - housing and support services for older people beyond whether the housing delivered is fit for purpose within the context of an ageing population. The Accounts Commission and the Auditor General have committed to a further audit on this.



**10.** During our audit we:

- reviewed documents such as the Scottish Government guidance for councils, councils' strategic housing investment plans (SHIPs) and local housing strategies (LHSs)
- analysed Scottish Government data on the delivery of affordable housing
- carried out fieldwork in four case study councils: Aberdeenshire, Argyll and Bute, the City of Edinburgh and South Lanarkshire. In these areas we interviewed council officers responsible for housing strategy, planning and community engagement, elected members, tenants and RSLs operating in the area
- interviewed representatives from the Scottish Government's More Homes Scotland Division and other stakeholders such as the Association of Local Authority Chief Housing Officers (ALACHO)
- met with members of the Regional Network of Registered Tenants Organisations.

**11.** We used case studies to understand what is happening at a local level in a small number of council areas. We also obtained evidence of other councils' arrangements through interviews with stakeholders and by reviewing documents. We selected the case study areas based on the following criteria:

- a mixed sample of those operating in urban, rural and remote contexts
- councils with their own house building programmes
- one council which had transferred all its housing stock to RSLs
- councils receiving larger and smaller levels of funding contributions from the Scottish Government in 2019/20 and 2020/21
- councils which had overspent or underspent their contributions from the Scottish Government in 2017/18.

Where we have converted financial data into real terms throughout the report, we have based this on 2018/19 prices.

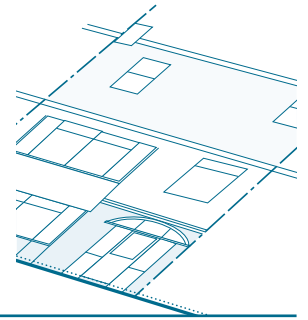
**12.** [Appendix 1 \(page 44\)](#) lists the members of our project advisory group, who gave feedback and advice at important stages of the audit.

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# Part 1

## The affordable housing target

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### Key messages

- 1** The Scottish Government has an ambitious target for affordable housing and plans to invest around £3.5 billion to meet its target. The target is a response to evidence of the need for affordable housing, although defining affordable housing is complicated. There is no evidence to show that councils' assessments of need informed the specific numbers and tenure balance of the Scottish Government's target. The Scottish Government did not clearly set out what outcomes it expected to be improved from its investment.
- 2** Councils and RSLs have welcomed the increased focus and investment in housing which will help them to meet their local priorities. Councils have important strategic roles for planning new affordable housing in their areas. Within this complex planning system, they balance their knowledge of local need with what they can realistically achieve.
- 3** Good progress has been made towards the target. The Scottish Government is closely monitoring the target and reports that it is on track to be achieved. However, serious risks remain. Funding was planned to rise towards the end of the programme which increases the risks to the successful delivery of the target. These risks include a lack of capacity in the construction sector in some areas and the capacity of council planning and building control services. The lack of certainty on Scottish Government funding plans post-2021 also poses a risk to achieving the target.

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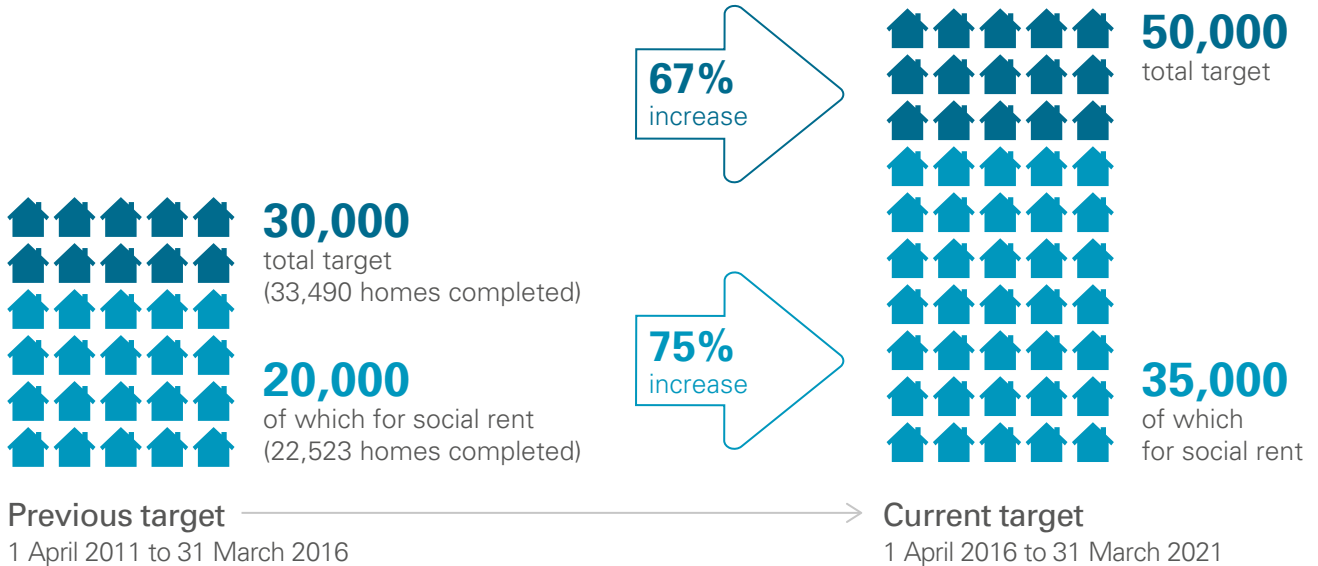
### The Scottish Government has an ambitious target to increase affordable housing supply

**13.** The Scottish Government's affordable housing supply target represents a substantial increase of 67 per cent compared with the previous target of 30,000 affordable homes ([Exhibit 1, page 11](#)). The Scottish Government is investing significant resources to meet its target. Between 2016/17 and 2020/21, the Scottish Government expects to invest around £3.5 billion in its Affordable Housing Supply Programme. This compares with £1.9 billion over the previous programme ([Exhibit 2, page 11](#)).

## Exhibit 1

### Scottish Government's affordable housing targets

The current targets are substantially greater than the previous targets.

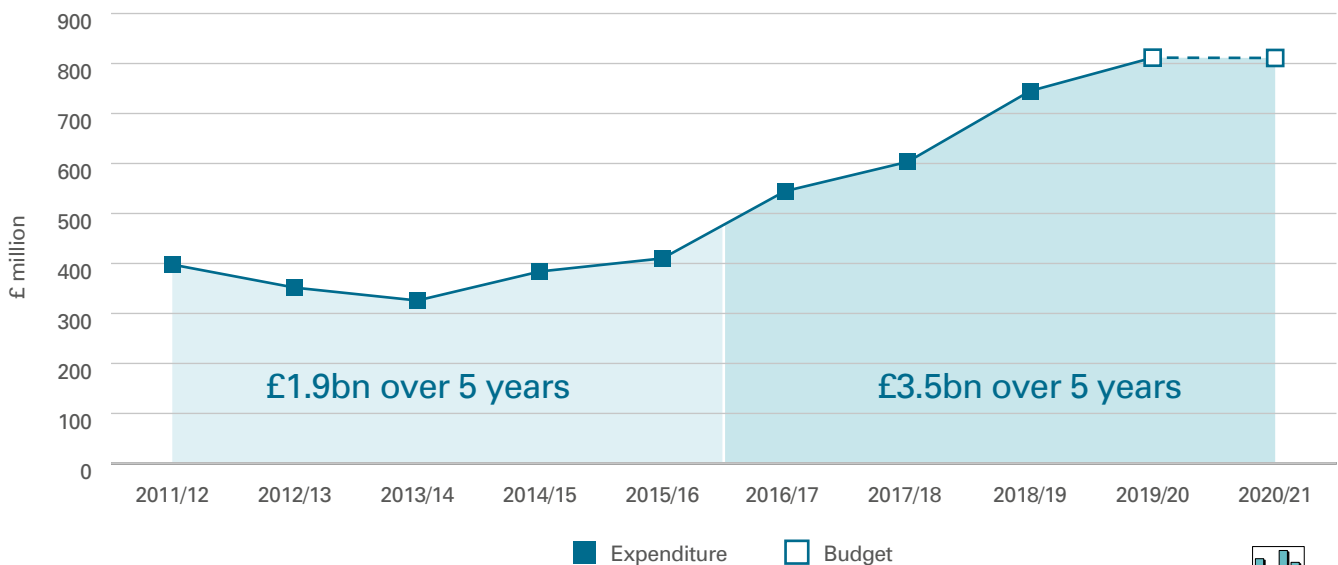


Source: Audit Scotland using Scottish Government Affordable Housing Supply Programme quarterly statistics

## Exhibit 2

### Scottish Government Affordable Housing Supply Programme expenditure and budget 2011/12 to 2020/21

Expenditure on the previous five-year programme was £1.9 billion. Planned spending for the current programme is 84 per cent higher at £3.5 billion.



Notes:

1. Values have been converted to real terms, with 2018/19 as the base year. From 2019/20 onwards these are forecast values of the GDP deflator.
2. Using the non-rounded figures, the percentage increase from the previous programme is 88 per cent.
3. The Scottish Government provided the audit team with minor revisions to the published expenditure data for 2016/17.

Sources: Audit Scotland using Scottish Government Affordable Housing Supply Programme out-turn reports 2011/12 to 2018/19 and budget information 2019/20 and 2020/21; and *GDP deflators at market prices and money GDP September 2019*, UK Government, 2019

### **Defining affordable housing is complicated**

**14.** There are many ways to define affordable housing as it depends on many factors such as household type, household income, the location and size of a property, and the local housing market.<sup>1</sup> Social landlords are responsible for setting their own rents and they have different rent-setting policies reflecting the context of their areas and their housing stock. While this local approach to defining rent affordability is appropriate to reflect the local context, it means that there is no one common definition of affordability and it can be confusing for tenants and the public.

**15.** During our fieldwork, stakeholders, particularly those who were not closely involved in delivering affordable housing, told us they were not always clear what the Scottish Government meant by affordable housing. The Scottish Government's target is based on the tenures of affordable homes to be delivered (social rent, mid-market rent and affordable home ownership). Within the programme guidance, the Scottish Government makes some assumptions about affordability. For example, there is an expectation of the rent an RSL will charge for new social housing funded through the programme.<sup>2</sup> But after the first let, the RSLs' own rent setting policy will apply. The Scottish Government also expects council social rent levels to be kept affordable, balancing this with local market conditions and contributions to the overall cost of the home. The Scottish Government provides guidance for councils carrying out their housing needs and demands assessments (HNDAs) ([Exhibit 3, page 14](#)).<sup>3</sup> This uses broad assumptions about future affordability for the purpose of planning housing.<sup>4</sup>

### **It is not clear how the national target links to local housing needs and wider outcomes**

**16.** Housing is a long-term asset, so it is important that the right types of new homes are provided where they are most needed. Setting a broad national and numbers-based target creates the risk that the homes delivered are not located in the places with the greatest levels of need, or are not the right type to best meet people's housing needs.

**17.** In general terms, the Scottish Government's target is a response to clear evidence of the need for more affordable housing in Scotland. For example, in 2015, the Chartered Institute of Housing (CIH) Scotland, Shelter Scotland and the Scottish Federation of Housing Associations (SFHA) published research that concluded there was a need for at least 60,000 affordable homes across Scotland over the next five years, although the research was not specific about the number of social rented units that would be required.<sup>5</sup>

**18.** While councils and RSLs have welcomed the investment in housing as it can help to meet shared local priorities, there is a disconnect between the national target and local assessments of need. Councils are responsible for assessing housing need in their area through a strategic planning process ([Exhibit 3, page 14](#)). The Scottish Government does not collate information from councils' local assessments of need and there are some difficulties in doing so. For example, not all assessments cover the same time period and some councils use different data sources based on local circumstances. There is no evidence available to show that councils' local assessments of need informed the 50,000 affordable housing target and 35,000 social rent target. The Infrastructure Commission for Scotland identified a need for greater coherence at both regional and national levels towards the assessment of housing needs and demands.<sup>6</sup> This may help to make a better connection with any future nationally set targets.

**19.** The disconnect between the national target and local assessments of need, means that it is not possible to determine whether the Scottish Government's investment is targeted most effectively to deliver new affordable homes of the right types in the right locations. This limits the judgements that can be made on the overall impact of the investment on national housing need.

**20.** Although the More Homes approach contributes to the wider housing and regeneration outcomes, the Scottish Government did not clearly set out how the target links to these outcomes or the National Performance Framework (NPF) outcomes, or how it would measure the impact of affordable housing delivery against these wider national outcomes. The NPF was revised in 2018 with three of the 11 outcomes referring to housing specifically: communities, poverty and environment. However, affordable housing can also contribute to improving other outcomes such as those relating to health, education, children and young people, equalities, and the economy.

### **In developing their housing plans, councils balance their knowledge of local need with what can be achieved**

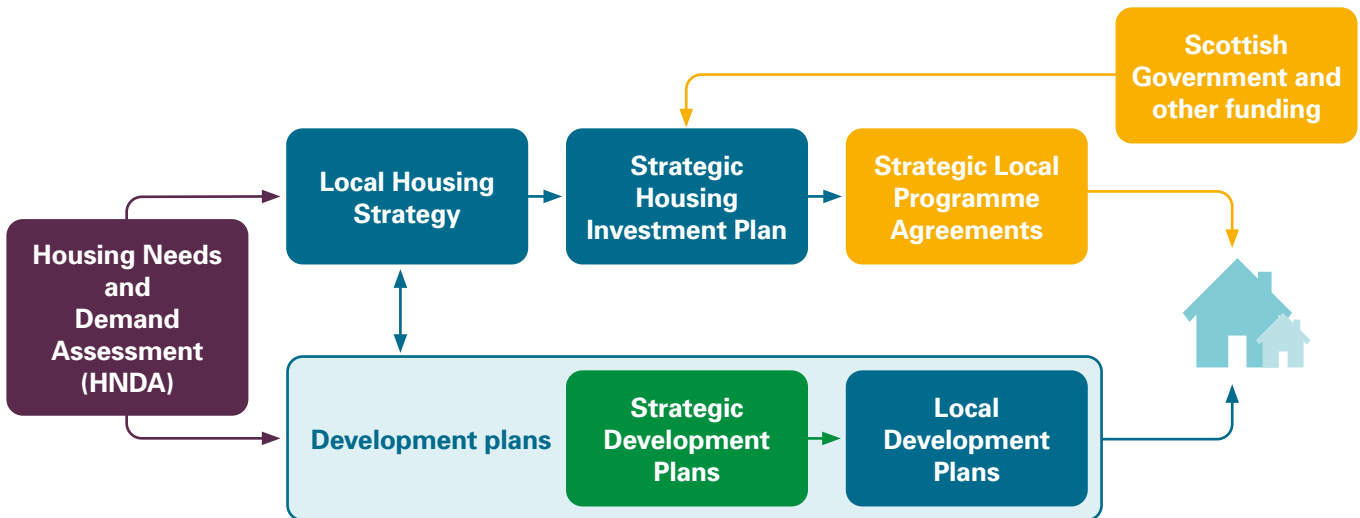
**21.** Councils have important strategic roles. They plan the delivery of affordable housing within a complex system through a series of linked plans, underpinned by legislation, Scottish Government guidance and oversight arrangements ([Exhibit 3, page 14](#)). Councils carry out a HNDA which is the starting point for estimating current and future housing needs in their areas. This forms part of councils' housing and land use planning strategies.

**22.** Councils' decisions about the affordable housing projects to include in their SHIPs are prepared in the context of the Scottish Government's funding arrangements established to support the national target ([paragraph 31](#)). Practical issues, such as the availability of suitable sites, and the availability of other funding, also influence how projects are prioritised and ultimately what gets built.

## Exhibit 3

### Planning for housing at a local level is complex

The new homes that are delivered are the result of a range of policy decisions and practical considerations.



#### Housing need and demand assessment (HNDA)<sup>1</sup>

- starting point for estimation of housing needs and demands
- reviewed around five years
- Scottish Government provides a modelling tool for councils to use
- Scottish Government assess whether these assessments are 'robust and credible'

#### Scottish Government and other funding

- Resource Planning Assumptions from the Scottish Government provide the available budget for grant for local programmes
- other funding sources include other funding from the Scottish Government, councils and RSLs

#### Strategic local programme agreements

- Scottish Government funding commitments over three years

#### Local housing strategy

- sets out a strategic vision for the delivery of housing and housing related services and the outcomes that it will seek to achieve
- sets out investment priorities
- five-year plan
- reflects wider policy goals
- reflects housing supply targets which are based on the HNDA and take account of wider policy and practical issues
- councils keep under review
- is subject to a review by Scottish Government officials and peer review involving council officials
- subject to consultation

#### Strategic housing investment plan

- sets out proposed projects that will contribute to delivering against investment priorities for five years
- proposes projects for Scottish Government funding
- based on LHS priorities
- updated annually
- subject to consultation
- the Scottish Government provides feedback to councils

#### Development plans

- set out the long term vision, based on national and local priorities, for development in the areas they cover, including supply of land for housing and appropriate affordable and specialist housing policies
- subject to consultation

#### Strategic development plans<sup>2</sup>

- four city regions covering Aberdeen, Dundee, Edinburgh and Glasgow
- review within four years

#### Local development plans

- within city regions – two years to adopt following SDP approval
- outwith city regions – five years to adopt

#### Notes:

1. Councils can work in a housing market partnership area, with other councils, to carry out a housing needs and demands assessment.
2. The Planning (Scotland) Act 2019 will abolish the requirement for strategic development plans.

Source: Audit Scotland

## Good progress has been made and the Scottish Government reports that it is on track to meet its target. However, risks to its delivery remain.

### The Scottish Government has good governance arrangements in place to oversee progress towards the target

**23.** The programme is managed through a central team and five area teams covering different regions in Scotland. At the outset of the target, additional staff were allocated to each area team to help councils and their partners respond to the increased scale of the target. The area teams work well with councils and their partners to agree and progress affordable housing programmes within their areas.

**24.** A programme coordination group oversees the AHSP and delivery of the target. The group reports to the More Homes Scotland Board, which includes all members of the More Homes Scotland management team. The board meets quarterly and receives updates on progress towards the target from the programme coordination group. At each meeting, the board considers a comprehensive risk register setting out the risks to the delivery of the target and any actions planned in response.

**25.** Recent action taken by the Scottish Government to help councils and RSLs to meet the target includes:

- supporting councils to buy more existing homes rather than build new ones that take longer to deliver, where this is in line with local priorities
- bringing forward the reallocation of money for local programmes earlier in the year to accelerate plans and deliver additional homes ([paragraphs 35–37](#)).


### Good progress towards the target has been made

**26.** The Scottish Government did not set any milestones for progress towards the target or any expectation of the number of homes to be delivered in each council area. This is because each council is responsible for planning its own programmes. As funding will increase towards the end of the five-year programme ([paragraph 31](#)) there is a rise in the number of homes due to be completed in the last two years of the programme.

**27.** At December 2019, good progress towards the target had been made:

- Sixty-two per cent of the overall 50,000 target had been met ([Exhibit 4, page 16](#)).
- Fifty-eight per cent of the 35,000 homes for social rent target had been met.

### There are a number of risks to delivering the programme

**28.** In its assessment of **progress towards the target** , undertaken in September 2019, the Scottish Government reported that the target could be met. This assessment was based on the number of approvals made since 2015/16 and planned approvals for the remainder of 2019/20. As it can take at least 18 months from the approval of a new home for social rent to its completion, most of these approvals had to be made by December 2019. However, uncertainty about the Scottish Government's investment plans post-2021 may have affected social



#### Progress towards the target

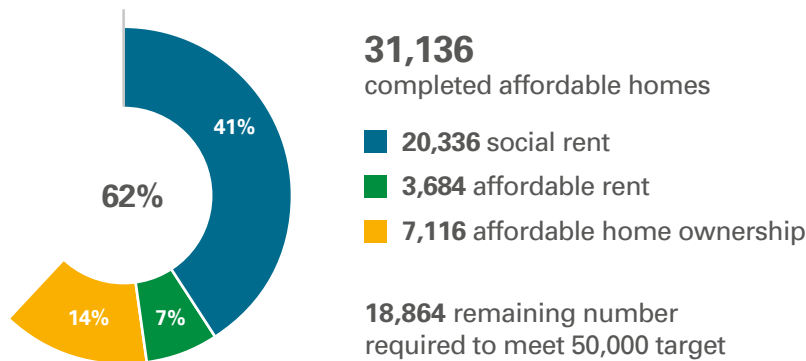
Progress towards the target is measured by official statistics on the number of homes that are 'completed' as recorded by the Scottish Government's Affordable Housing Supply Database. Statistics also measure 'approvals.' This is the point at which funding for a new home is approved.

landlords' willingness to put forward projects for approval during the latter half of 2019 ([paragraph 114](#)); there is a risk that any projects that do not complete by March 2021 may not be fully funded.

## Exhibit 4

### Progress towards delivering the affordable housing target by tenure

62 per cent of the target was delivered by December 2019.



Source: Audit Scotland using Scottish Government Affordable Housing Supply Programme quarterly statistics

**29.** By December 2019, 31,622 homes for social rent (90 per cent of the social rent target) had been approved.<sup>7</sup> It is not possible to assess how many of these homes will be completed within the target period. Councils and RSLs with recent approvals for new-build homes will need to progress quickly to start work on site in order to complete before March 2021. The high proportion of homes due to be completed in the last two years of the programme increases the risks to delivering the target. These risks include:

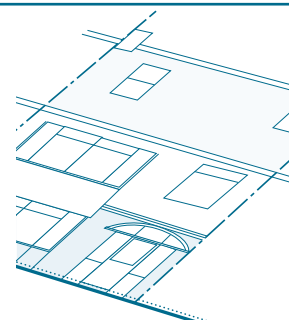
- delays in construction as a result of a lack of skilled labour in the construction industry in some areas ([paragraph 96](#)) which could be exacerbated by the UK leaving the European Union
- delays in obtaining planning permission or other necessary building consents as a result of pressure on council planning and building control staff ([paragraph 101](#)).

This leads us to conclude that the target, and particularly the social rent element, is at serious risk of not being met.



# Part 2

## Delivery and impact of the affordable housing target



### Key messages

- 1** Over the first three years of the programme, the Scottish Government has invested around £1.9 billion to meet its target. In addition, there has been significant investment from RSLs and councils.
- 2** Councils are generally working well with their partners to plan and deliver new affordable housing in their areas. Councils have effective working relationships with RSLs. But there is mixed involvement from health and social care partners. Some councils demonstrate good tenant and community involvement in plans for new affordable housing, but this could be more consistent. This will help to improve the impact from the investment.
- 3** Across all council areas, new affordable housing, including housing to meet the particular housing needs of older people and those with disabilities, is being delivered. The delivery of affordable housing varies according to local needs, circumstances and priorities.
- 4** The investment is meeting some housing needs, and there is some evidence of positive benefits to tenants, local communities and the economy, although the Scottish Government's, and councils', monitoring and reporting of wider impact is limited.
- 5** Increasing capital investment by councils and RSLs, to fund new housing and improve their existing stock, may result in increased rents. This could ultimately affect how affordable rents are for tenants.

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### The Scottish Government has spent £1.9 billion to meet its target to date, and there has been significant investment from councils and RSLs


#### Most of the money is spent on grant funding for local programmes

**30.** Between 2016/17 and 2018/19, the Scottish Government spent £1.9 billion (in real terms) to meet the target. Of this, £1.5 billion was spent on grant funding for local programmes ([Exhibit 5, page 19](#)).

**31.** The grant funding arrangements have helped councils to plan to meet the target. The Scottish Government provides each council with a resource planning assumption (RPA) which sets out the minimum amount of grant funding that is available to spend on local programmes in each area

[paragraph 109](#) explains how these are distributed). In June 2017, the Scottish Government gave councils a three-year RPA allowing them to plan with more certainty over the medium term.<sup>8</sup> In addition, the Scottish Government increased RPAs towards the end of the programme to give councils and their partners time to plan to meet the increased target. In real terms, RPAs in 2020/21 will be 53 per cent higher than in 2016/17.

### **An increase in grant subsidy benchmarks has helped social landlords to build new homes but some report cost pressures**

**32.** In 2016, the Scottish Government increased the amount of **grant**  it provides to social landlords for each home they build. The decision was made following a report of a Joint Subsidy Working Group that included representatives of councils and RSLs. The increase in grant, of up to £14,000 per home, has allowed social landlords to build more homes to help meet the target.

**33.** Some social landlords, however, now report that the cost of building new homes is increasing ([paragraph 97](#)). Some councils also have concerns about the lower grant levels for councils compared to those for RSLs. Scottish Government grant for new council homes was introduced in 2009 and the principles were agreed with COSLA. Following the work of the Joint Subsidy Working Group, council subsidy benchmarks were increased although the difference in subsidy benchmarks was maintained. One of the reasons for lower grant levels was that councils could borrow money at lower interest rates than RSLs. During our fieldwork one council reported that the cost of borrowing is now similar to that of RSLs.

**34.** The Scottish Government can approve higher grant subsidy levels in certain circumstances to allow plans for new homes to proceed. We saw examples of this during our fieldwork, including an RSL development in Argyll and Bute where development costs were high. It is difficult to assess how often higher grant levels are approved as the Scottish Government does not record this information.<sup>9</sup>

### **Monitoring through the year allows the Scottish Government to reallocate funding but it is not always clear how these decisions are made**

**35.** If the annual funding cannot be spent in a council area within the year, for example, because plans have slipped, the Scottish Government can reallocate funds to another council. Scottish Government guidance advises councils to over-programme their SHIP to allow for slippage in their plans. This approach helps to make sure that annual budgets are spent.

**36.** It is not always clear how decisions to reallocate funding are made. While the Scottish Government attempts to reallocate funds within the same region, there can be wide variations between RPAs and expenditure on local programmes in each council area ([Appendix 2, page 45](#)). Between 2016/17 and 2018/19, expenditure in 17 council areas was greater than the RPA, and in 15 council areas it was less than the RPA. Variations can be large, for example over the period 2016/17 to 2018/19:

- expenditure in Aberdeen City Council area was 47 per cent greater than the RPA
- expenditure in East Renfrewshire Council area was 60 per cent less than the RPA.



#### **Scottish Government grant subsidy**

Social landlords use Scottish Government grant subsidy, in addition to their own funding, to build homes. Without enough grant, social landlords may find it hard to provide the new homes they want to, in the right locations, while keeping rents affordable for their tenants.

The Scottish Government sets grant subsidy benchmark levels. These vary depending on the provider, geographic area, tenure and energy efficiency standards. The benchmarks for RSL homes also vary according to size and vary from £44,000 to £84,000 per home. For councils, there is a flat rate benchmark of £57,000 per home or £59,000 for a 'greener' home. Further details are in the [Scottish Government guidance MHDGN 2019/01](#).  Subsidy, at variable levels, is also available for social landlords to purchase existing homes.

37. Many factors influence whether funds can be spent within each year, including the unpredictable nature of house building, how deliverable councils and their partners plans are and local priorities.

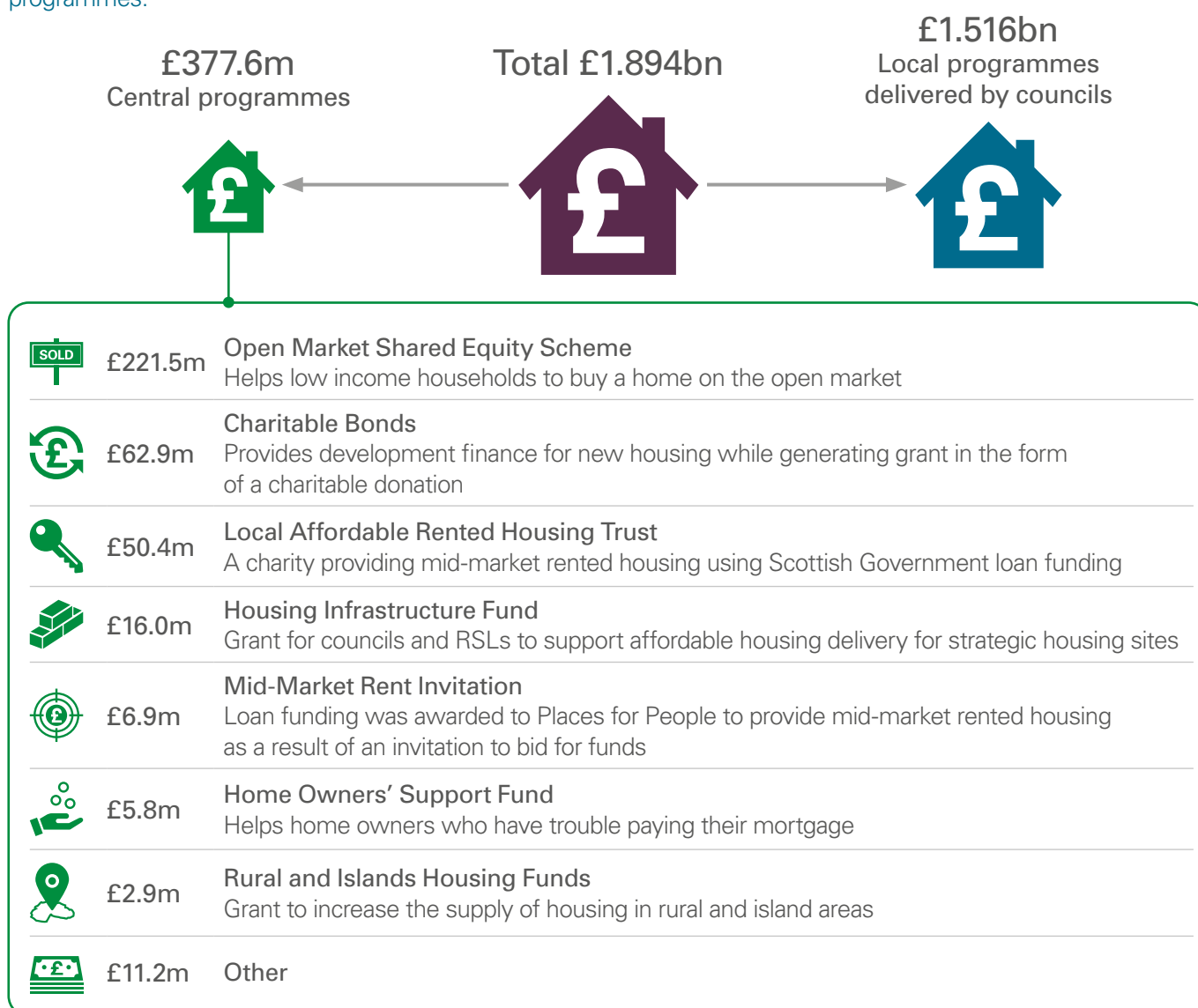
### A range of other funding programmes are managed by the Scottish Government but there is little assessment of the impact of these

38. In addition to the funds from the local programmes, councils can also benefit from spending in their area through the centrally managed programmes (Exhibit 5). These funding programmes include a mix of long-established schemes, and newer schemes, some of which have been designed to make use of loan funding which can only be used by non-public sector bodies.<sup>10</sup>

## Exhibit 5

### Scottish Government expenditure on the Affordable Housing Supply Programme 2016/17 to 2018/19

The Scottish Government has spent £1.9 billion. Of this, £1.5 billion has been spent on grant funding for local programmes.



Note: The Scottish Government provided the audit team with minor revisions to the published expenditure data for 2016/17.

Source: Audit Scotland using Scottish Government Affordable Housing Supply Programme out-turn reports 2016/17 – 2018/19; and GDP deflators at market prices and money GDP September 2019, UK Government, 2019

This funding approach supports the delivery of different types of affordable housing, and can help meet different types of housing needs, but the impact of these schemes is not always clear.

**39.** One of the larger government schemes is the Open Market Shared Equity Scheme, first established in 2006. Under this scheme, the Scottish Government provides a shared equity loan to first-time buyers and other priority groups allowing them to buy a home on the open market. Between 2016/17 and 2018/19, around 5,200 households bought a home through the scheme. A review in 2011 identified some positive impacts.<sup>11</sup> Since then, the Scottish Government has also invested further resources to help people become home-owners, through the Help to Buy (Scotland) Affordable New Build scheme (which is not included in the 50,000 target). The Scottish Government has commissioned research into these schemes. This will help to establish the current relevance of the schemes and their impact.

### **Councils and RSLs are investing significant additional funds in affordable housing, but it is difficult to calculate the total investment**


**40.** In addition to Scottish Government funding, councils, RSLs and others are investing significant resources to meet the target. The Scottish Government publishes the total cost of the homes it funds through the AHSP at the point homes are approved. Between 2016/17 and 2018/19, the total cost of all homes approved through the AHSP was £4.3 billion. Of this, Scottish Government funding was, in real terms, £2 billion (46 per cent of total costs) with additional investment from other providers of around £2.3 billion (54 per cent of total costs). Of this additional investment, £1.4 billion was invested in homes for social rent:

- The total cost of council social rented homes approved was £751 million. Scottish Government funding accounted for 39 per cent of this total.
- The total cost of RSL social rented homes approved was £2.1 billion. Scottish Government funding accounted for 56 per cent of this total.

**41.** If costs rise after a project is approved and the council or RSL pays these costs without any government subsidy, this is not recorded by the Scottish Government. Some councils have also purchased existing stock without using Scottish Government grant funding so that they can use more of their grant for building new homes, which can be more expensive. National data sources do not allow us to quantify the extent of such provision, although our fieldwork suggests that it is on a relatively small scale. These purchases will not be reported to the Scottish Government and will not be included in the statistics that measure progress towards the 50,000 target. A more complete understanding of total investment in affordable housing may help to identify any pressures on costs and could help to make sure that resources are targeted in the most effective way.

### **Councils are generally working well with partners to plan and deliver affordable homes in their areas**

#### **Councils are working well with RSLs in their areas to deliver new housing**

**42.** Councils have effective working relationships with **RSLs**  in their areas, which helps to facilitate the planning and delivery of affordable housing. Examples of this include regular partnership meetings, for instance at a strategic or operational level, to discuss local priorities and progress with delivering affordable housing.




#### **RSLs**


There are around 160 RSLs in Scotland, although not all are developing new housing. The number operating in any council area varies. For example, there are 12 RSLs operating in Aberdeenshire and 25 in the City of Edinburgh.

**43.** In addition, some councils support RSL developments by providing funding, including the use of funds raised from additional council tax charges on empty homes in the area. For example, in 2017/18 Glasgow City Council used additional funds from council tax on second and empty homes worth £2.6 million to facilitate the development of 140 affordable homes. This provided additional funding to the affordable housing supply budget for demolitions and ground works to make projects viable.

### There is mixed involvement from health and social care partners

**44.** Investment in housing can have a positive impact on an individual's health and wellbeing. It can also play a part in achieving an **Integration Authority's**  goals. For example, providing a more suitable home for patients to move into upon leaving hospital, by either adapting an existing property or moving into a new purpose-built property, can reduce the incidence of delayed discharges. We reported, in November 2018, that three-quarters of Integration Joint Boards indicated some involvement of housing services in the planning of integrated health and social care services, but that the extent varied by partnerships.<sup>12</sup> Each Integration Authority must include a housing contribution statement in its strategic commissioning plan, setting out how it intends to work with housing services to deliver its outcomes.

**45.** We found variable involvement of health and social care partners working together with councils in the planning for new affordable houses, but the level of joint working is not always clear. For example:

- Twenty-four councils' SHIPs (2019/20–2023/24) reference some health and social care partnership (HSCP) involvement. Such involvement includes representation of the HSCP on strategic housing groups and reviewing and developing new models, of specialist housing provision.
- These SHIPs also identified some examples of joint working between councils or RSLs and HSCPs to develop **housing for people with particular needs** . For example, using technology to allow people to stay in their own home for longer.
- Some health and social care partnerships are funding posts jointly with the council to better understand housing needs. For example, Argyll and Bute Council and Argyll and Bute HSCP have jointly funded an occupational therapist on a pilot basis.
- Highland Council's SHIP states that any capital investment in new care service housing requires a partnership approach and will only be supported if essential revenue funding is available from health and social care budgets.

**46.** The Scottish Public Health Network reported that there was enthusiasm for more joint working between those involved in health and housing but that several barriers made this difficult.<sup>13</sup> These are similar to those identified in our 2018 report *Health and social care integration: update on progress* and included different organisational cultures, lack of resources and a need for clear leadership and direction. Health and housing officials also recognised that they should focus on how good-quality, appropriate housing can contribute to good health across



### Integration Authorities

The Public Bodies (Joint Working) (Scotland) Act 2014, requires councils and NHS boards to work together to form new partnerships, known as Integration Authorities (IAs). There are 31 IAs, established through partnerships between the 14 NHS boards and 32 councils in Scotland.<sup>29</sup>



### Housing for people with particular needs

Some people, including the elderly and people with disabilities, require specialist housing that is designed or adapted to meet their particular needs. For example, a wheelchair user may require rooms over a certain size and appliances at particular heights.



Health and social care integration: Update on progress  
November 2018 

the population. The Scottish Government updated its LHS guidance in September 2019 and states that councils, in their LHS, should demonstrate how priorities and outcomes have been developed collaboratively with Integration Authorities.<sup>14</sup>

**47.** Where good partnership working has taken place, this includes HSCP's involvement in the strategic planning and commissioning process, in addition to funding contributions ([Case study 1](#)). In some areas, however, there is not enough involvement from health and social care partners. Given the important links between health and housing, more consistent involvement from health and social care partners will help ensure that people are receiving the right type of housing for their health and social care needs.

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## Case study 1



### Dundee City Council health and housing

Dundee City Council, Dundee Health and Social Care Partnership (DHSCP), and RSLs operating in the area, work together to commission housing for people with particular needs. There is a clear framework in place that enables a range of key health and social care groups, including eight service-specific strategic planning groups, to feed into the commissioning process and the development of the LHS and SHIP.

The partners consider whether existing social rented stock could be reconfigured for people with particular needs before deciding whether new-build housing is needed. When commissioning individual housing developments, the council, DHSCP and the housing provider work together to agree on the specific requirements for a development, including the numbers of homes and bedrooms per home. They will also agree on any design features that are suitable for the clients' needs, such as level and non-slip flooring, no thresholds or steps, secure gardens, level access showers and smart technology.

For each commissioned development, partners agree on funding. For example, one of the projects commissioned in 2017/18 was for a 12-home development for people with a mental health condition requiring onsite care and support from a staff team. DHSCP met full revenue funding for the development and paid a capital contribution of £219,000.

DHSCP staff report that this approach has improved outcomes for their clients. For example, their clients have more choice and control of their lives and can keep their support networks close by and remain in the city, rather than having to move away to access suitable housing. One individual with a mental health condition requiring onsite care and support from a staff team, who had been in long-term hospital care for almost ten years, was able to move into suitable supported accommodation.


Source: Dundee City Council and DHSCP

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### **Some councils demonstrate good tenant and community involvement in plans for new affordable housing, but this could be more consistent**

**48.** It is important that councils involve tenants and communities in the process of planning new affordable housing. This allows them to influence its delivery and aligns with the principles of community empowerment, which is a national priority for the Scottish Government. Councils have a duty to work with community planning partners, and community bodies, to improve local



outcomes. **Community empowerment**  has many benefits for communities. For example, it can help to identify priorities and direct investment in public services to where it is most needed, including towards improving the character of an area, transport links, local amenities and open spaces.<sup>15</sup> It can also lead to better outcomes for communities and tenants, including improved quality of life and community safety, and greater satisfaction with their local neighbourhoods.

**49.** We found some good examples of tenant and community engagement and involvement in affordable housing development, but there was some variation between councils:

- The case study councils have engaged well with local communities, including communities of interest, such as older people and gypsy travellers, to better understand local priorities and inform their LHSs.
- All social landlords have a responsibility to consult with tenants on a range of housing issues, which is often done through a tenant's participation group. The quality of these arrangements, however, varied between the case study council areas. South Lanarkshire Council has well-established arrangements, including a Tenant Participation Coordination Group, with 16 tenant representatives. A budget scrutiny group is involved in planning and delivering the annual rent setting consultation for all tenants. The group also reviews spending priorities within the Housing Revenue Account and capital programme including the impact of new-build proposals on rent.
- Tenants reported variations in the quality of engagement about affordable housing delivery. For example, some reported being involved in discussions from an early stage, whereas others felt that there was a lack of consultation on plans. This creates a risk that the wider outcomes for tenants and communities (for example, improved quality of life) will not be met.

**50.** Placemaking is also an important consideration for councils in the planning of affordable housing. This is an approach to planning, designing and managing places that involves discussions with communities to establish their needs and aspirations to create an overall vision for an area. It also helps to empower communities.<sup>16</sup> We found clear examples of developments that reflected a commitment to placemaking ([Case study 2, page 24](#)).

**51.** Tenants reported that housing in good locations with access to services (including GP surgeries) and to public transport at night was important to them. The case study councils, and the RSLs we spoke to in those areas, demonstrated an awareness and commitment to building affordable homes in areas with links to services. One RSL reported that it had decided not to take ownership of a home through a Section 75 contribution ([paragraph 91](#)) from a private developer because it was concerned that the development's location, on the outskirts of a town, was not suitably located for its tenants.



### Community empowerment

The Community Empowerment (Scotland) Act 2015 gives communities greater influence on, and input to, the decision-making by public bodies and their partners. It aims to reduce inequalities and improve the wellbeing of communities, particularly those suffering from persistent inequality.

## Case study 2

### Meadowbank, The City of Edinburgh Council



Between 2018 and 2019, the City of Edinburgh Council consulted with communities in Meadowbank on a masterplan for the area. This focused on the redevelopment of surplus land surrounding a new sports centre for mixed uses, including building a mixture of affordable homes and private homes for sale. There have been four stages to community engagement to date, as outlined below:


- Public consultations – the local community was invited to share its knowledge, opinions and aspirations for the site through an online survey and three consultation events using the Place Standard tool. The tool helps to facilitate conversations about the physical elements of a place (such as buildings and transport links) and its social aspects (such as influence and sense of control in decision-making). It can also help identify where investment should be targeted.
- Design workshops – representatives from the local community worked with council officers and designers to consider how the site could be designed. Themes included housing and community; economy and local amenity; and active travel, cycling and streets.
- Visions and ideas – public events were held to present and discuss the initial proposals with the local community in early 2019.
- Next steps – communities were presented with the masterplan proposals developed from the consultation.

The finalised masterplan proposes that approximately 600 homes will be built on the Meadowbank site, with a minimum of 35 per cent being homes for social rent and MMR and a mix of one-, two- and three-bedroom homes. The local community has helped to influence this masterplan. For example, the council has made specific changes to the provision of student accommodation on the site, as the community was strongly opposed to this.

Source: The City of Edinburgh Council

### There is evidence that some housing needs are being met although reporting at national and local levels is limited

**52.** The Scottish Government's out-turn reports contain information on the delivery of housing through the programme including some information at council level. There are some weaknesses in these reports including a lack of detail on the size and type of homes delivered. The Scottish Government holds some data at a council level that it does not report on, including:

- the postcode data for the new homes that it has funded and that have been completed
- data on new affordable homes that have been approved that meet the **greener standard**  ([paragraph 74](#))
- data on new affordable homes completed that meet people's particular housing needs ([paragraph 60](#))
- data on new affordable homes completed that are new-build, off-the-shelf or rehabilitations.



#### Greener standard

Councils and RSLs qualify for a higher benchmark subsidy if building standards for new homes meet Section 7, Silver Level, of the 2011 building regulations for both carbon dioxide emissions and energy for space heating. This is known as the greener standard.



Publishing this data would help to improve the transparency of funding decisions that the Scottish Government makes at a council level and allow for a better demonstration of the impact of its investment.

**53.** The impact of the new affordable homes within each council area will vary according to local circumstances. Reporting by councils is commonly based on outputs, such as the number of homes delivered as a proportion of local targets. Local reporting can lack clarity, for example, on how this links back to overall housing need and pressures within the council area. This means that there is a risk that councils will be unable to sufficiently demonstrate value for money from their investment.

**54.** We reviewed the case study councils' LHSs and SHIPs alongside their progress reports. This provided some assurance that affordable housing was being delivered in councils' priority areas. By reporting this information in a more transparent manner, councils should be able to better demonstrate how they have met their local priorities. This would also help councils to more clearly demonstrate that homes are being built in areas with access to local services ([paragraph 51](#)).

### Investment is leading to a net increase in social housing

**55.** The investment in the target, combined with the end of the **Right to Buy**  scheme, is leading to an overall increase in the number of social homes in Scotland. The Scottish Housing Regulator reports that, at 31 March 2019, councils and RSLs provided 600,856 homes to rent, an increase of 1 per cent (6,261 homes) since 31 March 2016.<sup>17</sup>

**56.** By the end of the five-year programme, if the 35,000 social rent completions element of the target is met, we estimate that the net impact of the target (after estimating for council demolitions) could be around an additional 23,800 social rented homes, although this is at the upper end of estimates.<sup>18</sup> We have not estimated for RSL demolitions because of the unreliability of the data.

### New affordable homes are being delivered in all council areas

**57.** The number and tenure of new homes delivered varies between council areas, reflecting local circumstances, priorities and longer-term patterns of delivery ([Exhibit 6, page 26 and Appendix 3, page 47](#)).

**58.** Between 2016/17 and 2018/19, 5,355 homes for social rent were completed by councils and 10,968 were completed by RSLs ([Appendix 3, page 47](#)). Some councils, such as Fife, West Lothian and North Lanarkshire, have relatively large-scale programmes of new council house building. Other councils (including the six councils that have transferred all their housing stock: Argyll and Bute, Comhairle nan Eilean Siar, Dumfries and Galloway, Glasgow, Inverclyde and Scottish Borders) rely more on RSLs in their area to deliver new homes for social rent. There are several other factors that may influence a council's decision to build new homes, including its capacity to borrow money, existing rent levels, and tenant priorities.

**59.** The City of Edinburgh Council had the greatest number of mid-market rent (MMR) completions (1,238) between 2016/17 and 2018/19, whereas there were no MMR completions in 12 council areas. In 2018, research reported mixed views on the potential for MMR housing across council areas.<sup>19</sup> Some council officers felt that, while there was demand for such homes in their areas, its development



### Right to Buy

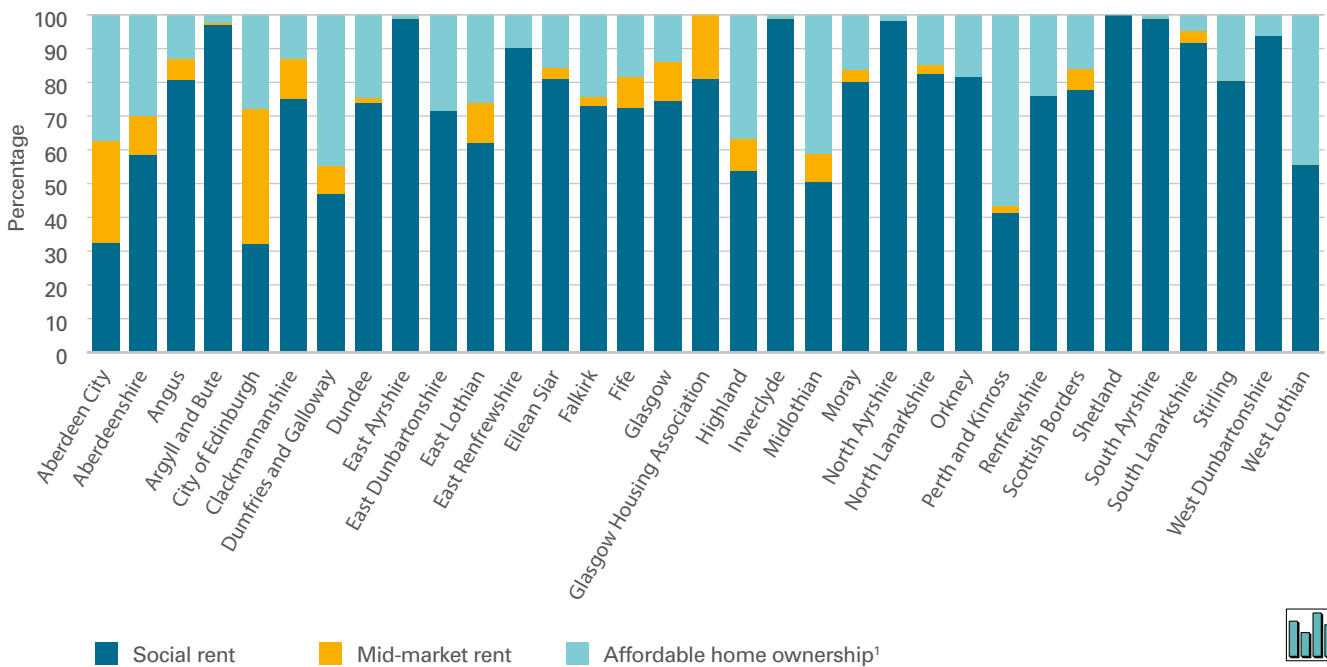
The Right to Buy scheme gave social rented tenants the right to buy their home at a discounted price. The scheme ended on 31 July 2016, although the time taken to progress sales means there were still recorded sales in 2017/18 and 2018/19.

was not financially viable. Others felt that local housing market conditions limited the demand for MMR as there was not enough difference between local private rent levels and social rent levels. Homes for MMR are used more widely in the City of Edinburgh than in other areas to help overcome affordability issues in its particularly pressured housing market.

## Exhibit 6

### The tenure of homes delivered through the Affordable Housing Supply Programme between 2016/17 and 2018/19 varied by council area

Local delivery reflects varying priorities and longer-term patterns of delivery.



Notes:

1. 'Affordable home ownership' includes completions under the Open Market Shared Equity scheme. This is a Scottish Government central programme that individuals can apply for. Councils do not have a role in planning for this scheme.
2. The Scottish Government provided the audit team with updated statistics on AHSP completions during the course of the audit. Therefore, some of the data we have used in our analysis does not match that which is reported in the out-turn reports.

Source: Audit Scotland using Scottish Government Affordable Housing Supply Programme out-turn reports 2016/17 – 2018/19 and additional out-turn data

### Some social landlords are providing new affordable housing that meets the specialist housing needs of older people and those with disabilities

**60.** Between 2016/17 and 2018/19, 1,577 homes were purpose built for older people and 742 for disabled people, including 625 that were specifically designed for wheelchair users. As national reporting is limited to housing that is purpose built, this may not fully account for what is happening at a local level. For example, some homes may be suitable for people with particular needs to live in, but have not been purpose built.

**61.** The Scottish Government requires councils to set evidence-based targets for the delivery of wheelchair accessible homes across all housing tenures by the

end of 2019, and to report annually on progress in their SHIPs. Councils report that it is not always possible to accurately predict future needs.

**62.** It is not clear if there will be any potential funding implications arising from this requirement. Research has found that grant subsidy levels may not be enough to support the delivery of housing for people with particular needs including people who use wheelchairs.<sup>20</sup> Current grant subsidy arrangements, however, are flexible and can support more expensive projects if required. The Scottish Government should monitor the impact of the requirement for wheelchair-accessible targets and consider whether or not any changes to grant subsidies are required.

**63.** Over time, people's housing needs will change. For example, this may be as a result of getting older and needing aids and adaptations to homes to live independently. Councils and their partners need to consider both the current and future needs of local communities when planning affordable housing to allow it to be sustainable. There is some evidence that this is happening. For example, South Lanarkshire Council has built 107 council homes (30 per cent of all social rented homes completed by the council within the first three years of the programme) with a bedroom situated next to a wet room that has removable panels to allow for hoists or other specialist equipment to be installed, should tenants require these.

### **Progress with plans for affordable housing delivery across council areas is mixed**

**64.** Councils monitor progress with affordable housing delivery through their own LHS monitoring and reporting arrangements. As performance measures and reporting arrangements vary across councils, it is difficult to compare councils' performance in delivering their affordable housing plans. In addition, some councils' LHS reporting lacks transparency as progress reports are not always easily accessible on their websites. The Scottish Government updated its LHS guidance in September 2019 and now requires councils to monitor progress annually, report this to the More Homes Division area teams and publish all LHS documentation on their websites.<sup>21</sup> This should help to improve transparency.

**65.** We reviewed progress reports by the case study councils and some other councils that have spent less than the available Scottish Government grant funding ([Appendix 2, page 45](#)). Using the available information, we have concluded that councils' progress towards their own local affordable housing delivery plans is mixed. A range of reasons can affect councils' progress, including some of the barriers that social landlords face when delivering affordable housing ([Exhibit 9, page 35](#)).

### **There are still unmet housing needs**

**66.** Councils report that current plans for affordable housing will not address all housing needs in their areas. This is partly because housing needs are always changing, and new needs will arise. Moreover, local housing supply targets are based on what can realistically be delivered.

**67.** Without an assessment of national housing needs, it is difficult to assess the scale of current unmet needs, although councils have a clearer picture at a local level. The SFHA, CIH Scotland and Shelter Scotland are currently in the process of updating their national housing needs study. This is due to be completed in spring 2020 and may provide some understanding of housing needs across the country.

## Meeting housing needs does not always have to be achieved through new-build

**68.** The programme is focused on new-build homes. At December 2019, 68 per cent of the affordable homes completed under the current programme resulted from new building, 26 per cent were off-the-shelf purchases of existing property and seven per cent were improvements to existing properties.

**69.** Councils and RSLs report that there are opportunities to use existing stock more effectively, for example by increasing the number of adaptations of properties to allow tenants to remain in their own homes. Some councils also have schemes to buy existing homes on the open market. For example, South Lanarkshire Council has an open market purchase scheme that targets the purchase of property to increase the council's supply of priority house types and sizes depleted through right to buy, meet specific and urgent housing needs and for wider housing quality improvement and regeneration outcomes. The council purchased 33 homes through the scheme in 2017/18 and 60 in 2018/19. Councils report that this can be a cost-effective way of meeting housing needs in their areas. Scottish Government grant funding can be made available for these schemes where they are in line with council's strategic priorities. The Scottish Government needs to be clear about the purpose of its investment and the focus on new-build in its programme.

**70.** Some councils have demolished unsuitable homes and built new homes as part of wider area regeneration ([Case study 3](#)). It is important that councils engage with local communities to co-produce plans for regeneration and understand what housing needs require to be met. In addition, councils should be clear about the intended impact of, and outcomes to be improved through, regeneration activity and have clear measures in place to monitor these.

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## Case study 3

### East Whitlawburn, South Lanarkshire



East Whitlawburn is an area in Cambuslang which, until recent years, had 380 two- or three-bedroom flats and 30 amenity bungalows. There was low demand for housing in the area as a result of its stock profile and a high proportion of single people and couples living in the area. In addition, there were high turnover rates, with about one-quarter of properties becoming vacant each year. East Whitlawburn was also a deprived area, with issues of anti-social behaviour and poor tenant satisfaction.

The council has undertaken extensive engagement with the local community to consider their views for the regeneration, resulting in the preparation of an area masterplan to deliver the regeneration. Their housing needs have also been established through this engagement and have been incorporated into the planning and delivery of affordable housing in the area, following the demolition of old stock. The community were keen that in any new development, all homes would be built to a tenure neutral design standard. In August 2019, planning permission was approved to build 311 mixed tenure homes on this basis. The development will be constructed by CCG Group and will comprise 230 social rented properties made up of amenity flats, mainstream flats, bungalows and two-, three- and four-bedroom houses, reflecting the needs of the community. West Whitlawburn Housing Cooperative, a local RSL, is a partner in the regeneration project and will take ownership of 60 of the homes when these are complete. CCG Homes will also build approximately 81 additional new homes for sale or private ownership as part of the regeneration programme. CCG Group will deliver a number of community benefits as part of the contract.

Source: South Lanarkshire Council

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**71.** In some areas where the levels of need identified are lower, there is a risk that investment in building new homes may result in existing homes that cannot be let as tenants move from less desirable older homes to new ones. For example, the Glasgow and Clyde Valley HNDA estimated that the need for social rented homes in the Inverclyde area between 2012 and 2029 was zero.<sup>22</sup> Inverclyde Council, however, has set housing supply targets that include 90 affordable homes each year over the LHS period (2017–22). The council has taken this approach to encourage residents to stay in the area and to encourage people from elsewhere to move into the area. Along with River Clyde Homes, a local RSL, the council has commissioned research to establish the extent to which new supply might impact on existing stock. The council will use this to inform future plans. Councils need to assure themselves as far as possible that new-build housing will not negatively affect the management of, and demand for, existing stock.

### **The quality of new affordable housing is important to ensure long-term value for money**

**72.** The Scottish Government no longer carries out post-completion checks on one-third of the homes that it funds because of limited staff capacity and changed priorities. Instead, it is developing performance measures for new-build development, based on a value for money tool designed by Scotland's Housing Network.<sup>23</sup> This collects data from new-build projects relating to cost, time, quality aspects and resident satisfaction, and compares them. Progress on a pilot exercise has been slow, partly because of the time and costs for councils and RSLs to undertake the work. The Scottish Government is providing funding to Scotland's Housing Network to assist with resident satisfaction surveys. It is not clear how this tool will be used in the longer term. If the pilot exercise is successful, further use of this would allow the Scottish Government and social landlords to more clearly demonstrate the value for money from new-build homes.

**73.** Some social landlords are working with Architecture and Design Scotland to review their new-build homes, learn lessons and develop new approaches to ensure better design. Architecture and Design Scotland has identified some opportunities for improvements in the design of social housing. For example, this includes better integrating the design of water management, parking, and social and recreational uses into new developments.

**74.** The Scottish Government's 2019–20 Programme for Government outlined its intentions to set new building standards to reduce energy demand and the associated carbon emissions by 2021.<sup>24</sup> In addition, it requires that new homes use renewable or low-carbon heat from 2024. However, it is not clear how the existing subsidy arrangements can help to meet the Scottish Government's climate change commitments. At present, an additional £2,000 grant subsidy per home is available for new homes that meet the greener standard. Between 2016/17 and 2018/19, 66 per cent of new-build approvals for social rent and MMR met the greener standard.

### **There is evidence of positive wider benefits to the economy and to tenants and local communities**

**75.** The Scottish Government expects that the economic output associated with the 50,000 target will be £1.4 billion per year and that it will support about 10,000 additional jobs. However, it is not possible to quantify the economic

impact of the investment due to the limitations in national reporting which does not include reporting on wider impact. Given the scale of the capital investment that is being made by the Scottish Government and its partners, a more complete understanding of the economic impact would help to demonstrate the links to economic outcomes in the NPF.

**76.** Councils and RSLs have provided some evidence of the economic benefits of affordable housing investment. For example, many housing contracts have requirements to provide apprenticeship places ([Exhibit 7](#)).

## Exhibit 7

### Examples of economic benefits from investment in affordable housing

Investment in new affordable housing can help support employment, apprenticeships and work placements.



**58**  
work placements



**13**  
apprenticeships



**21**  
jobs

South Lanarkshire Council's new-build programme has resulted in 58 work placements, 13 new apprentices and created 21 jobs on construction projects since 2015/16.



**317**  
work placements



**256**  
jobs

Link Group Limited creates economy and skills plans as part of its contracts. Through its national programme it has 12 active plans and 22 planned for the future. These should deliver 265 new jobs and 317 work placements.



**15**  
work placements



**20**  
apprenticeships

Clyde Valley Housing Association reported the longer-term commitment of the target has enabled them and their developers to offer a number of community benefits. In 2018/19, this included 20 apprenticeships and 15 work experience placements.

Source: South Lanarkshire Council, Link Group Limited and Clyde Valley Housing Association

**77.** Councils and RSLs also spoke of the benefits of affordable housing to their tenants and wider communities:

- Some councils carry out a survey of residents in new-build homes. Eighty-two per cent of surveyed residents of The City of Edinburgh Council's new-build homes were very or fairly satisfied with their homes and surroundings.
- RSLs spoke about how they were able to improve outcomes for specific families by providing new accommodation that met their specialist needs by considering them in the design of the new buildings.
- South Lanarkshire Council reported that one of its regeneration programmes has increased demand for housing in that area and reduced antisocial behaviour. The regeneration resulted in 100 per cent overall tenant satisfaction at the point the regeneration programme completed.

- Developers can also contribute to wider community benefits beyond jobs and training, such as sponsoring and supporting community groups or facilitating community activities. This can help to maximise the wider social impact to the community.

**78.** Councils and RSLs take different approaches to capturing feedback on new homes from tenants. It is not possible to summarise tenant feedback at a national level, however we found evidence of a mixed picture across Scotland during our fieldwork. Some of the feedback social landlords have received from tenants included the following quotations.

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## What do tenants say?



“My neighbour’s mental health has improved since moving from the high rises to new amenity housing. Mainly because of the social aspects.”

“The house is located on the main road which can be dangerous at times.”

“I have more space in my new home, this helps look after my disabled husband.”

“I think the secured entrance is a positive thing, saves having people I don’t want at my door.”

“My fuel bills reduced by almost three quarters when I moved into my new home.”

Source: Dundee Health and Social Care Partnership and South Lanarkshire Council tenants

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**79.** The Scottish Government is in the early stages of work with the SFHA and ALACHO to develop a tool to monitor the economic and social value of the investment in affordable housing. This is important for identifying the full benefits of investment, to enable the Scottish Government and social landlords to demonstrate value for money. The Scottish Government expects that a prototype system for measuring and analysing economic and social value will be available later in 2020.

### **Increasing capital investment by councils and RSLs to fund new housing and improve their existing stock could increase rents and reduce affordability for current tenants**

**80.** Alongside capital investment in new homes, councils and RSLs must also invest in their existing stock. In 2018/19, councils’ provisional total capital investment on housing was £738 million. Of this, 53 per cent was spent on improvements to existing council houses and 39 per cent was spent on new council houses.<sup>25</sup>

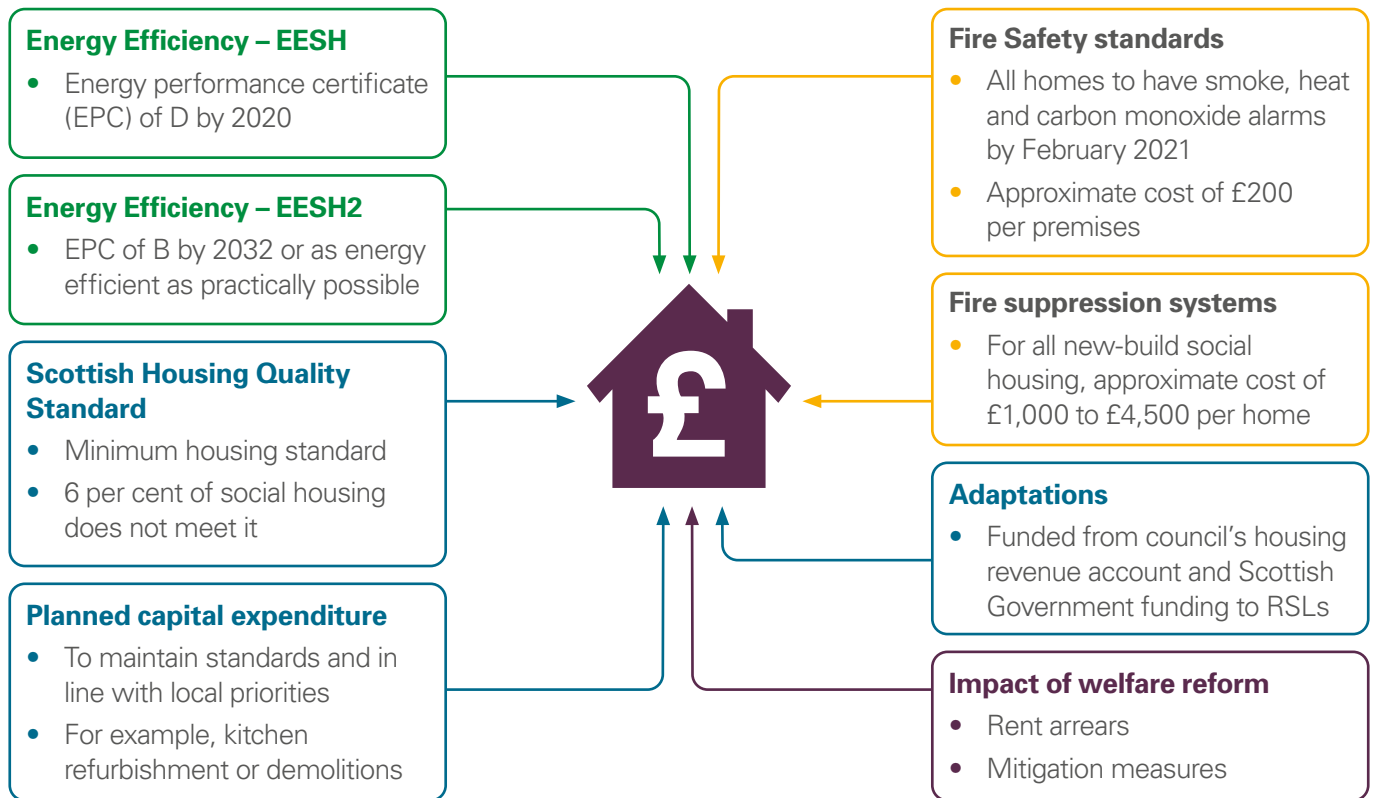
**81.** Some of these capital investment decisions are driven by the Scottish Government, for example the requirements on energy efficiency and fire safety measures ([Exhibit 8, page 32](#)). Other investment decisions will be the result of local priorities. For example, North Lanarkshire Council has a large demolition programme and The City of Edinburgh Council has an ambition to be carbon neutral by 2030.



## Exhibit 8

### There are competing priorities on council and RSL budgets

Councils and RSLs must balance several priorities alongside their investment in new homes. This could result in higher rents for tenants.



Source: Audit Scotland

**82.** Councils and RSLs fund most of their capital investment either through tenants' rent or borrowing, which is then repaid with tenants' rent. Councils and RSLs have been increasing their capital investment to meet their different priorities. For example, total council housing debt was £3.8 billion in March 2019 (an increase of 8 per cent in real terms since March 2015) and cost £276 million in loan charges (in 2018/19).<sup>26</sup>

**83.** For councils and RSLs to deliver their new-build programmes and meet other priorities, they will need to either increase tenants' rents or make efficiency savings elsewhere.

- The City of Edinburgh Council's Housing Revenue Account has a projected shortfall in future years. In order to meet its ambitious housing targets without increasing rents above inflation it is redesigning its housing service, including how it carries out repairs.
- The SHR reports that in 2018/19, 80 per cent of social landlords increased their rent above inflation. Social landlords' average rent increase in 2018/19 was 3.7 per cent, up on the previous year's level of 2.4 per cent, and the highest level since current monitoring began in 2013.



**84.** Social rent levels vary across the country. In 2018/19, the average social rent was £79 per week, and rents ranged from around £60 per week to £104 per week.<sup>27</sup> Councils and RSLs have a statutory duty to consult with their tenants and take account of their views when making decisions about proposed rent increases. As part of the Scottish Housing Regulator's new regulatory framework, RSLs will also have to confirm in annual assurance statements that they manage their resources to ensure their financial wellbeing while maintaining rents at levels that tenants can afford to pay. As some of the cost pressures are beyond the control of landlords, it makes it even more important for landlords to vigorously pursue cost efficiency and value for money.

**85.** Increasing social housing rents may impact on how affordable rents are for tenants. This in turn may impact on levels of poverty. Research has identified that higher levels of social housing, and lower social rents, in Scotland contribute to lower poverty rates (measured after housing costs) in Scotland compared to the rest of the UK.<sup>28</sup>

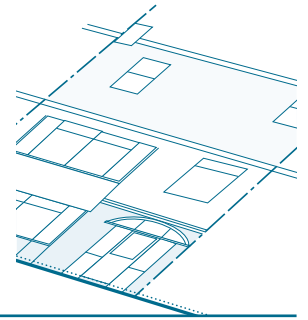
**86.** As part of the Child Poverty (Scotland) Act 2017, councils and NHS boards must jointly report annually (in a local child poverty action report) on the activity they are taking, and will take, to reduce child poverty. As affordable housing has a key role to play in tackling poverty, councils will need to consider how their strategic housing priorities fit with the child poverty agenda. Further clarity from the Scottish Government on its expectations about what it means by affordable housing may help councils to do this. The Scottish Government will also need to assure itself that its funding arrangements for new affordable homes are aligned in the best way to allow social landlords to set rents to remain affordable for tenants.

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# Part 3

## Challenges, barriers and the future

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### Key messages

- 1** Significant barriers to the ongoing delivery of affordable housing remain. These include access to suitable land to develop with the necessary infrastructure, and higher development costs in rural and remote areas. The Scottish Government, councils and their partners are working to address these barriers, but challenges remain.
- 2** The Scottish Government is in the process of developing its Housing to 2040 vision. In developing this vision, there are opportunities to learn lessons from the existing programme, particularly in terms of clearly setting out the intended outcomes from the investment and the contribution that the programme can make to other policy commitments, such as poverty and climate change.
- 3** The Scottish Government has provided only limited information about the funding arrangements immediately post-2021. This uncertainty is affecting councils' and their partners ability to plan future developments.

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### There are barriers to providing new affordable housing

**87.** There are many barriers to the delivery of the current target and affordable housing in the future ([Exhibit 9, page 35](#)). The Scottish Government, councils and their partners are aware of, and acting to address, these barriers. Such joint action will need to continue if challenges are to be understood and addressed. Two of the most significant barriers are the availability of suitable land for development and skills shortages in the construction industry and councils.

#### **In some areas, the availability or cost of land to purchase or develop is affecting affordable housing delivery**

**88.** During our fieldwork, some social landlords reported that the land that could be developed easily has already been used for new affordable homes. Many future development sites will need more work to make them ready for development, such as brownfield sites with contaminated soil. Such sites may also require significant up-front infrastructure investment to make them viable, such as an upgrade to local water and sewerage infrastructure to cope with increased demand. Other sites may have more complicated ownership structures. This will increase the cost and/or timescales needed to deliver





affordable homes on these sites and in some cases may mean that the business case is not viable. For example:

- The City of Edinburgh Council has land allocated to housing on its local development plan for the next 20 years. However, the majority of this is privately owned and means that the timescales for development of housing are controlled by the private sector landowners and developers.
- Aberdeenshire Council cannot develop the Blackdog corridor north of Aberdeen until Scottish Water has the capacity and funding to provide the necessary infrastructure.

## Exhibit 9


### Enabling the ongoing provision of affordable housing

The Scottish Government, councils and their partners will need to continue to work together to overcome the barriers to providing affordable housing.

Examples of some barriers	Examples of some responses
 <p><b>Funding uncertainty</b></p> <ul style="list-style-type: none"> <li>• post-2021</li> </ul>	<ul style="list-style-type: none"> <li>• Planning for reduced investment</li> <li>• Different funding streams</li> </ul>
 <p><b>Access to suitable land</b></p> <ul style="list-style-type: none"> <li>• Land availability</li> <li>• Enabling infrastructure</li> <li>• Planning issues</li> <li>• Poor site conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Housing Infrastructure Fund</li> <li>• Infrastructure Commission for Scotland</li> <li>• Infrastructure first approach</li> <li>• Planning (Scotland) Act 2019               <ul style="list-style-type: none"> <li>– Development ready sites in development plans</li> <li>– Possible infrastructure levy</li> </ul> </li> <li>• Council's development plans</li> <li>• Council developer contribution, 's75' policies</li> <li>• Public sector land trawl</li> </ul>
 <p><b>Sustainability of developments</b></p> <ul style="list-style-type: none"> <li>• Demand/needs in local communities</li> <li>• Reduced carbon emissions</li> </ul>	<ul style="list-style-type: none"> <li>• Rural and Islands Housing Funds</li> <li>• Community involvement</li> <li>• Energy efficiency standards for housing</li> <li>• Proposed new building standards</li> </ul>
 <p><b>Costs and capacity</b></p> <ul style="list-style-type: none"> <li>• Increased costs</li> <li>• Lack of skilled labour</li> <li>• Reduced council capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Framework contracts</li> <li>• Modern methods of construction</li> <li>• Scottish Government short life housing and construction skills working group</li> </ul>

**89.** The Scottish Government launched a five-year Housing Infrastructure Fund in 2016. It is designed for priority sites that are unable to proceed because of the high costs or nature of the infrastructure requirements. It does not deliver homes directly, but unlocks sites for housing development. By July 2019, the Scottish Government had approved £17.8 million in grants to RSLs and councils and £13.9 million in loans to non-public-sector bodies. It has estimated that this will allow 10,000 homes (3,000 of which will be affordable) to be built where they otherwise would not have been. By July 2019, 79 homes had been built and 20 were affordable.

**90.** Argyll and Bute Council reported that the award of £2.1 million of infrastructure funding allowed upgrades to roads that were essential to enable a large development at its Dunbeg site to proceed. Some councils and RSLs, however, have reported that the criteria for accessing the fund have been too strict, although the Scottish Government has to ensure its funding achieves value for money and that bids are state aid compliant. In its latest guidance, the Scottish Government has relaxed the eligibility criteria for the infrastructure fund to allow more developers to make use of it before March 2021. The fund is currently being reviewed by the Scottish Government.

**91.** Councils can require private house builders to make contributions towards affordable housing supply in their areas. These contributions are normally secured through the use of conditions attached to an award of planning permission or a planning obligation, which are sometimes referred to as **Section 75**  agreements. These approaches can be used to ensure that up to 25 per cent of the total number of new houses in a development are affordable.

**92.** The use of the planning system to secure the provision of affordable housing varies across the country. This largely depends on the local housing market and the scale of private house building in the area. For example, over half of Aberdeenshire's affordable housing is delivered using Section 75 agreements. There are locations in Argyll and Bute and Aberdeenshire, however, where Section 75 agreements are not used, as there is little or no private housing development taking place. For the City of Edinburgh Council, agreements with developers are vital. The council's SHIP 2019/20–2024/25 identified that around 70 per cent of RSLs' planned developments are on land held by private developers.

**93.** Using Section 75 agreements to deliver affordable housing carries risks. For example:

- the timing of the development is determined by the developer
- negotiations with developers around their contributions can delay projects
- the location of sites is determined by the developer and this might not always align with the council's prioritised areas for new affordable housing.

**94.** Councils can work to mitigate these risks. For example, Aberdeenshire Council's delivery team includes council officers and RSL partners who decide which RSL will work with a developer on a particular site. The council has developed a policy and process that includes pre-planning engagement with private developers. It reports that this results in less negotiation with developers and reduces delays.



### Section 75

Councils can require private developers to provide affordable housing through the planning system, by attaching a condition to planning permission or through a planning obligation. These approaches are considered on a case by case basis, taking account of the policies set out in the development plan.

Where appropriate, a development plan will specify any expected developer contributions towards the delivery of affordable housing.

Where a contribution is required, this should generally be for a specified proportion of the serviced land within a development site to be made available for affordable housing.

The Scottish Planning Policy advises that developer contribution should be set at a level which is deliverable in the current economic climate, as part of a viable housing development. The level of affordable housing required as a contribution within a market site should generally be no more than 25 per cent of the total number of houses.

**95.** In the longer term, the Scottish Government is developing approaches to address land availability and infrastructure problems. For example, its planning review proposed a range of approaches to help increase land supply. This included a greater focus on councils working regionally, allocating more sites that are ready to be developed to development plans and using an ‘Infrastructure First’ approach to planning. The Planning (Scotland) Act 2019 provides a framework for change, including powers to introduce an infrastructure levy, but it will be some time before any changes are implemented. These approaches may mean increased pressure on councils’ planning and building control services, which are already stretched ([paragraphs 100–101](#)). The Infrastructure Commission for Scotland identifies that enabling and supporting infrastructure is essential to support successful housing development. It recommends that, to support the implementation of the new National Planning Framework, the Scottish Government should introduce a coordinated and appropriately resourced Infrastructure First approach to the planning system by 2021.<sup>30</sup>

### **A lack of capacity in the construction industry may result in additional costs or delays**

**96.** Councils and RSLs are reporting capacity issues within the construction sector in some areas. This could potentially be exacerbated by EU withdrawal. The skills shortages in the construction industry can affect the costs of building or the speed of development:

- Aberdeenshire Council highlights that construction workers often go offshore, where the pay is higher.
- In Argyll and Bute there is a limited number of local contractors, who can struggle to find staff to employ.

**97.** Rising construction costs were reported on several occasions during our fieldwork. The evidence that is available to support this, however, varies. The Scottish Government uses its Scottish social housing tender price index to measure how much social landlords pay contractors for the construction of social housing. Social housing construction costs rose by 4.3 per cent between September 2018 and September 2019.<sup>31</sup> The Scottish Government reports that the recent rise is within its planning assumptions. As the index is subject to a time lag and the latest index is only based on a small sample size, it might not reflect the full costs that social landlords are currently incurring.

**98.** The Scottish Government established a housing and construction skills short life working group (SLWG) in April 2018, to address concerns about skill shortages. Its report, in May 2019,<sup>32</sup> made recommendations centred on apprentices, graduate apprentices, modern methods of construction and upskilling, which should have an impact in the short term. It recognised that, in the medium term, other Scottish Government policies (such as early years expansion and climate change mitigation) will result in an increase in demand and exacerbate the skills shortage. The Scottish Government has still to respond to the working group’s recommendations. Addressing the skills shortage will require a coordinated approach from several Scottish Government departments.

**99.** Some councils and RSLs are using modern methods of construction, including off-site construction, to build new housing. Off-site construction could help address the skills shortage and increase the speed of building new homes. There is less evidence of cost savings, but a pipeline of work could make the

investment in off-site factories cost effective. The Scottish Government will use research, which it commissioned alongside the Construction Scotland Innovation Centre and Scottish Enterprise, to inform future policy decisions on the use of off-site construction.

### **A lack of council capacity may affect the delivery of new homes**

**100.** As we reported in our 2019 report *Local government in Scotland: challenges and performance*, there are also capacity issues in councils as a result of prolonged funding reductions and an ageing workforce. This is especially the case in services such as planning and development services. The SLWG's report cited evidence from recent Local Authority Building Services Scotland surveys of councils which found that 81 per cent of councils stated that building standards teams had reduced in full time equivalent numbers. The surveys also found that potentially 25 per cent of the existing workforce could retire within the next five years.<sup>33</sup>

**101.** This decreasing workforce means a loss of both skills and experience in key roles, which could increase delays in councils providing planning permission and issuing building completion certificates. Recognising these risks, the SLWG recommended investing in graduate apprentices for building standards and planning officers.

### **The Scottish Government is supporting further affordable housing development in rural areas**

**102.** Affordable housing is important to the local economies of remote and rural areas, as the development of even a small number of homes can help sustain local schools and businesses ([Case study 4, page 39](#)). However, there are challenges in providing affordable housing in these areas. Councils report that it can be difficult to establish housing needs in rural areas using datasets within the HNDA modelling tool ([Exhibit 3, page 14](#)), due to the small, dispersed nature of the population. Additional sources of information on housing needs can be used to help overcome this. For example, Argyll and Bute Council carries out community surveys to help assess housing needs.

**103.** Social landlords also report higher development costs and difficulties in attracting developers to build in remote and rural areas. RSLs are entitled to a higher grant subsidy to provide affordable housing in rural areas to help offset the higher costs of building. Within the grant funding arrangements there is also flexibility to support more expensive council or RSL developments to proceed.

**104.** In the first three years of the programme, 1,619 homes were completed in accessible rural areas (eight per cent of all delivery) and 922 (five per cent) in remote rural areas through the local programme. In addition to the local programme grant funding, the Scottish Government introduced a five-year £25 million Rural Housing Fund and a £5 million Islands Housing Fund in 2016. These aim to increase the long-term supply of affordable housing of all tenures in rural Scotland and the criteria for the funds were agreed with rural stakeholders. Each fund offers capital support for the delivery of affordable housing and the refurbishment of empty properties, as well as a smaller element that contributes to feasibility studies. The funds are open to community organisations, development trusts, private landowners, private developers and traditional



Local government in  
Scotland: challenges  
and performance  
March 2019 

housing providers. Councils and RSLs can apply for grant funding but must demonstrate that their project will deliver housing additional to that delivered through the local programmes.

**105.** The uptake of the funds in the first three years was relatively low. At December 2019, 56 homes had been completed through the funds, with a further 60 approvals and 35 projects on-site. Some stakeholders commented that community groups may lack the time and skills to apply to the funds. Some stakeholders also report that the rural housing fund is contributing to the fragmentation of funding that supports housing delivery in rural areas. Orkney Islands Council has welcomed the funds and is working with Highlands and Islands Enterprise to support development trusts to make use of the Islands Housing Fund. It reports that the fund can help meet housing need in some areas where mainstream affordable housing development may not be appropriate or delivered at affordable levels by the council or Orkney Housing Association. Councils need to make sure that they can offer support to community groups and others to make use of such funding streams. The Scottish Government should review the effectiveness, and report publicly on the impact, of these smaller funding streams.

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## Case study 4

### Argyll and Bute Council – delivering affordable housing in rural areas



- The Argyll and Bute Community Planning Partnership’s overall objective is that ‘Argyll and Bute’s economic success is built on a growing population’, as it sets out in the Argyll and Bute Outcome Improvement Plan 2013-23. In support of this, the council’s LHS aims ‘to deliver a housing system that makes a strong contribution to thriving and sustainable communities and economic growth’.
- In addition to challenges identifying housing needs ([paragraph 102](#)), a challenge for councils in rural areas is to be able to provide affordable homes for workers to live in to help sustain growing businesses. This is a particular priority for the growing food and drink, marine and tourism sectors.
- The island of Islay has recently experienced an increase in demand for housing because of economic growth on the island. RSLs in the area have invested in new housing on the island, using a combination of their own finance, Scottish Government funding and contributions from the council. Between 2017/18 and 2018/19, 38 affordable homes were completed on the island. Another eight affordable homes are due for completion by March 2020.
- In 2018/19, the council agreed to incorporate more explicit actions into its LHS action plan to ensure housing’s contribution to economic and population growth. The council held a stakeholder event for housing partners and the local business sector with a focus on housing needs of local employers and their staff. It has also commissioned independent strategic overviews of Islay and Mull from Community Housing Scotland and Rural Housing Scotland respectively. The council intends to use the outcome of this work to inform its next LHS.

Source: Argyll and Bute Council

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## The Scottish Government is developing its 2040 housing vision and funding post-2020/21 is uncertain

**106.** The Scottish Government is developing a vision for Scotland's homes and communities to 2040 alongside the options and choices required to achieve it. The Scottish Government began consultation in 2018 and published a high-level vision in the summer of 2019.<sup>34, 35</sup> It expects to publish the vision and route map in summer 2020.

### The new vision needs to be clear about what outcomes it aims to achieve and how it will contribute to other policy commitments

**107.** In developing its vision and route map there are opportunities for the Scottish Government to learn lessons from the existing programme and apply that learning to its future housing investment programmes. For example, by being clearer about the outcomes it intends to achieve from future investment, and how these will contribute to the NPF and key policy objectives, including climate change, child poverty, inclusive growth, and improved health and wellbeing, the Scottish Government will be better able to demonstrate value for money. Establishing clear milestones and monitoring frameworks will also help to improve reporting and reduce the risk of outcomes not being achieved. Our *Planning for outcomes* briefing paper sets out some ways the Scottish Government could plan and monitor against outcomes.



Planning for outcomes  
June 2019 [↓](#)

### The Scottish Government and COSLA will need to ensure that future funding arrangements are fit for purpose

**108.** In its consultation documents, the Scottish Government indicates that the current level of spend on affordable housing will be difficult to sustain.<sup>36</sup> During our fieldwork, councils and RSLs reported concerns about any future cuts to grants.

**109.** Grant funding for local programmes for 30 councils is distributed using the Strategic Housing Investment Framework (SHIF). This was agreed by COSLA and the Scottish Government in 2012 and implemented on a phased basis, with full effect from 2017/18. The framework uses indicators (including market pressure, deprivation, population dispersion and homelessness) to determine how funding should be distributed. These indicators are subject to weightings, with the deprivation indicator having the greatest influence on funding distributions. The funding arrangements for Glasgow City Council and The City of Edinburgh Council are separately distributed through the local government settlement as part of the Transfer of Management of Development Funding arrangements. As such, around 24 per cent of the funding for local programmes, is not based on the same indicators that are used to reflect housing need within the SHIF.

**110.** One of the main drivers of future housing needs is the projected changes in household numbers. The National Records of Scotland projections show that in the period 2016 to 2041, there is predicted to be a 13 per cent growth in households across Scotland.<sup>37</sup> There is, however, substantial variation across Scotland, with four councils showing a predicted decline in the number of households and five councils predicted to have more than a 20 per cent increase in the number of households. There is no specific indicator that reflects the projected household changes within the SHIF, so the current funding allocations also do not fully take account of these.<sup>38</sup>



**111.** The Scottish Government needs to be clearer about the purpose of its investment and make sure that the funding arrangements best support that purpose. For example, if the Scottish Government decides to prioritise increasing affordable housing supply in areas with the greatest affordability pressures, it could consider whether it would be appropriate to give the market pressure share indicator a greater weighting. This would give it a greater influence in the distribution mechanism. Similarly, it could more clearly set out how its investment in affordable housing seeks to respond to the nature of household changes in Scotland and consider how funding arrangements reflect those decisions.

**112.** The Scottish Government has recognised that there are opportunities to increase the value from its grant funding. It has funded Scotland Excel (the Centre of Procurement Expertise for councils) to deliver a programme of procurement support for RSLs (councils already need to have their procurement capability assessed by Scotland Excel). The Scottish Government reports this programme has resulted in benefits including financial savings and sharing best practice around procurement strategies. The Scottish Government has considered how this service can be mainstreamed, and is consulting with the sector on proposals for future RSL participation in a programme of procurement support.

**113.** The Scottish Government's current alternative funding approaches have focused on the supply of MMR homes financed through below market rate loan funding. These funding arrangements are not straightforward. For example, loan agreements need to be carefully drafted and managed over a long time period, to avoid risks to repayments and to ensure that arrangements are state aid compliant. The Scottish Government has also invested in charitable bonds that provide grants for RSLs. The interest on the loans enables the Scottish Government to provide grants for social housing. This is a useful additional source of funding, but it is not clear how much this approach could compensate for any reduction in grant funding.

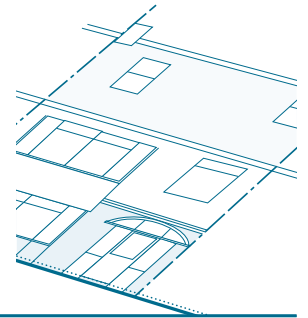
### **Uncertainty is affecting councils' and RSLs' abilities to plan and this may affect future affordable housing supply**



**114.** It is not clear how much Scottish Government funding for affordable housing will be available after March 2021. The Scottish Government had advised councils to plan for future years on their RPAs for 2020/21. So far, the Scottish Government has announced that £300 million will be available in 2021/22, less than half of current RPAs. As funding will be difficult to sustain ([paragraph 108](#)), some councils and RSLs are reluctant to plan at current levels beyond 2021.

**115.** This uncertainty creates the risk that there is a slowdown in planning, resulting in consequent delays in, and limited future development of, affordable housing. This could potentially mean that some housing needs cannot be met. A longer-term approach to housing would avoid some of the issues associated with the boom and bust of short-term targets linked to parliamentary terms. It would allow:

- councils and RSLs to plan for long-term housing needs
- efficiencies to be made through framework contracts or partnership arrangements
- the construction industry to invest in alternative construction methods such as off-site construction and skills.

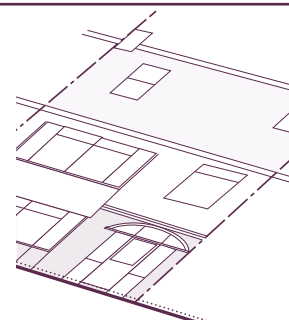
# Endnotes



- 1 *Rent affordability in the affordable housing rented sector: literature review*, Scottish Government, 2019.
- 2 *More Homes Division Guidance Note MHDGN 2019/03, Affordable Housing Supply Programme: Process and procedures*, Scottish Government, 2019.
- 3 *HNDA practitioners guide 2018*, Scottish Government, 2018.
- 4 For example, the guidance includes some affordability assumptions and suggests the following parameters. (1) if households are spending less than 25 per cent of their income on rent, they can afford private rent. (2) if households are spending between 25–35 per cent of their income on rent, they may benefit from some form of subsidised rent. (3) if households are spending more than 35 per cent of their income on rent (that is rents at the 30th percentile of market rents), (including housing benefit/the housing element of Universal Credit), they may benefit from social rent. It also assumed that a house is affordable to purchase if its price does not exceed 3.6 times a household's income.
- 5 *Affordable housing need in Scotland*, Shelter Scotland, CIH Scotland and SFHA, 2015.
- 6 *Phase 1: key findings report: a blueprint for Scotland: part c: cross cutting recommendations*, Infrastructure Commission for Scotland, 2020.
- 7 This is based on the number of approvals since 2015/16, as reported in the Scottish Government quarterly Affordable Housing Supply Programme statistics.
- 8 At the start of each financial year, the Scottish Government confirms annual RPA figures.
- 9 Note that Glasgow City Council and the City of Edinburgh Council are responsible for approving above benchmark subsidies in their areas under the Transfer of Management of Development Funding (TMDF arrangements).
- 10 This funding is known as financial transaction funding. This funding results from UK Treasury investment decisions and is used to support equity/loan schemes beyond the public sector. The funding will be repaid to Her Majesty's Treasury over a period of about 30 years.
- 11 *The evaluation of low cost initiative for first time buyers (LIFT)*, Scottish Government, 2011.
- 12 [Health and social care integration: Update on progress](#) , Audit Scotland, 2018.
- 13 *Foundations for well-being: reconnecting public health and housing. a practical guide to improving health and reducing inequalities*, Scottish Public Health Network, 2017.
- 14 *Local housing strategy: guidance*, Scottish Government, 2019.
- 15 [Principles for community empowerment](#) , Audit Scotland, 2019.
- 16 In addition, in 2018, Scottish Government and COSLA agreed to adopt the place principle. This aims to create a more joined up approach between councils, communities and other partners regarding a place's services and assets, including housing. It is intended to improve outcomes for communities and create more successful and sustainable places that support the wellbeing of communities.
- 17 This figure is based on lettable self-contained units.
- 18 This figure is estimated using data on the number of social rent completions over the first three years of the programme and estimating how many more need to be completed to meet the 35,000 social rent target. We added this figure to the net increase in stock over the first three years of the programme identified in paragraph 55. We then used an average of Scottish Government data on council demolitions over the three years 2016/17 to 2018/19 to estimate demolitions over the remaining two years of the programme. Statistics for demolitions were sourced from *Housing statistics: conversions and demolitions*, Scottish Government, September 2019.
- 19 *Review of strategic housing investment plans for affordable housing*, Shelter Scotland, SFHA and Equality and Human Rights Commission Scotland, 2018.
- 20 Ibid.
- 21 *Local housing strategy: guidance*, Scottish Government, 2019.
- 22 *Glasgow and the Clyde Valley housing need and demand assessment*, Glasgow and the Clyde Valley Housing Market Partnership, 2015.
- 23 Scotland's Housing Network is a membership organisation of council landlords and RSLs working together to improve performance and deliver quality services through benchmarking, self-assessment and sharing good practice.

- 24 *Protecting Scotland's future: the government's programme for Scotland 2019–20*, Scottish Government, 2019.
- 25 Housing Revenue Account (HRA) statistics: Scottish local authority housing income and expenditure 2018–2019 (actuals) and 2019–2020 (estimates), Scottish Government, October 2019.
- 26 Ibid.
- 27 *Charter indicators and data by outcomes and standards*, Scottish Housing Regulator 2019. Note that the maximum average weekly rent excludes landlords that provide housing to supported clients to provide a more representative value for general or mixed provision housing.
- 28 *Poverty in Scotland*, Joseph Rowntree Foundation, 2019.
- 29 As part of the Act, new bodies were created – Integration Joint Boards (IJBs). The IJB is a separate legal entity, responsible for the strategic planning and commissioning of the wide range of health and social care services across a partnership area. Of the 31 IAs in Scotland, 30 are IJBs and one area, Highland, operates a Lead Agency model. In Highland, the NHS board and council each lead integrated services. Clackmannanshire and Stirling councils have created a single IA with NHS Forth Valley.
- 30 *Phase 1: key findings report: a blueprint for Scotland*, Infrastructure Commission for Scotland, 2020.
- 31 *Scottish social housing tender price index: quarterly briefing, September 2019*, Scottish Government, 2019.
- 32 *New housing and future construction skills*, Scottish Government short life working group, May 2019.
- 33 Ibid.
- 34 *Housing beyond 2021 discussion paper*, Scottish Government, November 2018.
- 35 *Housing to 2040: a vision for our future homes and communities*, Scottish Government, 2019.
- 36 Ibid.
- 37 *Household projections for Scotland (2016-based)*, National Records of Scotland, 2018.
- 38 The indicators have an underlying weighting by household base data, which has resulted in a small change in distribution.

# Appendix 1

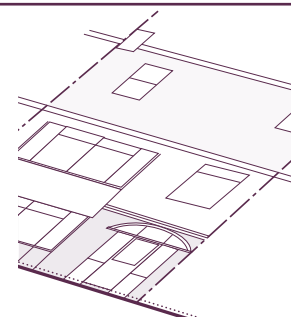


Audit Scotland would like to thank members of the advisory group for their input and advice throughout the audit.

Member	Organisation
Lesley Baird	Tenant Participation Advisory Service (TPAS)
Tony Cain	Association of Local Authority Chief Housing Officers (ALACHO)
Kathy Cameron	Convention of Scottish Local Authorities (COSLA)
Michael Cameron	Scottish Housing Regulator (SHR)
Callum Chomczuk	Chartered Institute of Housing (Scotland)
Caroline Dicks	The Scottish Government
Stacey Dingwall and Conor Hill	Scottish Federation of Housing Associations (SFHA)
Professor Kenneth Gibb	University of Glasgow
Fiona King	Shelter Scotland
Keith Winter	Society of Local Authority Chief Executives (SOLACE) Scotland Fife Council

Members sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

# Appendix 2



## Resource planning assumption and expenditure by council area, 2016/17 – 2018/19

Council	Total RPA 2016/17 to 2018/19, £m	Total RPA Expenditure 2016/17 to 2018/19, £m	Difference between RPA and expenditure, £m	% difference
Aberdeen (City of)	41.0	60.3	19.3	47%
Aberdeenshire	64.6	49.3	-15.3	-24%
Angus	19.5	22.0	2.6	13%
Argyll and Bute	39.5	35.5	-4.0	-10%
Clackmannanshire	13.2	15.9	2.8	21%
Dumfries and Galloway	46.6	34.1	-12.5	-27%
Dundee (City of)	38.7	40.9	2.2	6%
East Ayrshire	27.3	23.3	-4.0	-15%
East Dunbartonshire	17.7	19.8	2.0	12%
East Lothian	25.8	30.4	4.6	18%
East Renfrewshire	13.8	5.5	-8.2	-60%
Edinburgh (City of)	109.8	138.3	28.5	26%
Eilean Siar (Western Isles)	18.9	10.6	-8.3	-44%
Falkirk	25.7	19.4	-6.3	-24%
Fife	73.3	81.7	8.5	12%
Glasgow (City of)	238.1	252.4	14.4	6%
Glasgow Housing Association (GHA)	68.8	71.4	2.6	4%
Highland	97.8	101.7	3.9	4%
Inverclyde	24.9	28.2	3.2	13%
Midlothian	19.8	27.7	7.8	40%
Moray	22.2	20.5	-1.7	-8%

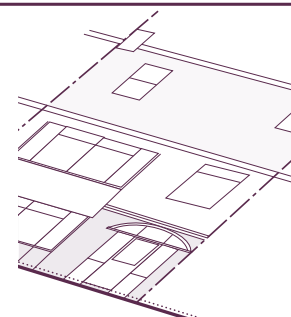
Council	Total RPA 2016/17 to 2018/19, £m	Total RPA Expenditure 2016/17 to 2018/19, £m	Difference between RPA and expenditure, £m	% difference
North Ayrshire	34.0	44.1	10.1	30%
North Lanarkshire	81.4	77.3	-4.0	-5%
Orkney Islands	10.2	6.1	-4.1	-40%
Perth and Kinross	39.3	43.5	4.2	11%
Renfrewshire	38.5	37.6	-0.9	-2%
Shetland	11.2	9.6	-1.6	-14%
South Ayrshire	27.0	21.3	-5.8	-21%
South Lanarkshire	61.2	71.5	10.3	17%
Stirling	20.6	15.5	-5.1	-25%
The Scottish Borders	33.3	32.7	-0.6	-2%
West Dunbartonshire	30.8	33.1	2.4	8%
West Lothian	33.8	35.0	1.3	4%
<b>Local Programmes</b>	<b>1468.2</b>	<b>1516.3</b>	<b>48.2</b>	<b>3%</b>

Note: The RPA for City of Glasgow Council for 17/18 and 18/19 includes resources for Govanhill. If the resources for Govanhill £5.72m (real terms prices with 18/19 as the base year) were included in the 16/17 RPA for consistency this would mean there would be a 4 per cent difference between the RPA and expenditure.

Source: Audit Scotland using Scottish Government Affordable Housing Supply Programme out-turn reports 2016/17 – 2018/19



# Appendix 3



## Number of completions through the affordable housing supply programme by council area, 2016/17 – 2018/19

Council area	Total social rent	Total MMR	Total affordable home ownership	Total homes completed 2016/17 – 2018/19
Aberdeen City	359	333	412	1,104
Aberdeenshire	461	91	237	789
Angus	244	18	40	302
Argyll and Bute	318	2	8	328
City of Edinburgh	995	1,238	872	3,105
Clackmannanshire	189	30	33	252
Dumfries and Galloway	146	25	140	311
Dundee	302	6	101	409
East Ayrshire	168	0	2	170
East Dunbartonshire	142	0	57	199
East Lothian	493	94	208	795
East Renfrewshire	117	0	13	130
Eilean Siar	51	2	10	63
Falkirk	438	17	146	601
Fife	1,533	194	393	2,120
Glasgow	2,747	427	522	3,696
Glasgow Housing Association (GHA)	733	173	0	906
Highland	836	150	574	1,560
Inverclyde	160	0	2	162
Midlothian	368	59	302	729



Council area	Total social rent	Total MMR	Total affordable home ownership	Total homes completed 2016/17 – 2018/19
Moray	275	12	56	343
North Ayrshire	460	0	9	469
North Lanarkshire	816	28	147	991
Orkney	119	0	27	146
Perth and Kinross	478	24	659	1,161
Renfrewshire	287	0	91	378
Scottish Borders	387	31	80	498
Shetland	82	0	0	82
South Ayrshire	335	0	4	339
South Lanarkshire	986	36	54	1,076
Stirling	231	0	56	287
West Dunbartonshire	264	0	18	282
West Lothian	939	0	751	1,690
<b>TOTAL</b>	<b>16,459</b>	<b>2,990</b>	<b>6,024</b>	<b>25,473</b>

### Composition of social rent completions by council area 2016/17 – 2018/19

Council	Social rent: council	Social rent: RSL	Social rent: home owner support fund	Total social rent
Aberdeen City	99	257	3	359
Aberdeenshire	167	294	0	461
Angus	70	172	2	244
Argyll and Bute	0	318	0	318
City of Edinburgh	246	747	2	995
Clackmannanshire	57	132	0	189
Dumfries and Galloway	0	142	4	146
Dundee	33	269	0	302
East Ayrshire	45	122	1	168
East Dunbartonshire	34	105	3	142

Council	Social rent: council	Social rent: RSL	Social rent: home owner support fund	Total social rent
East Lothian	250	240	3	493
East Renfrewshire	23	90	4	117
Eilean Siar	0	51	0	51
Falkirk	305	122	11	438
Fife	1,005	528	0	1,533
Glasgow	0	2,736	11	2,747
Glasgow Housing Association (GHA)	0	733	0	733
Highland	399	433	4	836
Inverclyde	0	160	0	160
Midlothian	187	176	5	368
Moray	144	131	0	275
North Ayrshire	212	247	1	460
North Lanarkshire	475	324	17	816
Orkney	27	92	0	119
Perth and Kinross	184	292	2	478
Renfrewshire	0	273	14	287
Scottish Borders	3	383	1	387
Shetland	2	80	0	82
South Ayrshire	99	232	4	335
South Lanarkshire	356	616	14	986
Stirling	103	118	10	231
West Dunbartonshire	47	211	6	264
West Lothian	783	142	14	939
<b>TOTAL</b>	<b>5,355</b>	<b>10,968</b>	<b>136</b>	<b>16,459</b>

## Notes:

1. Completions data reported by individual councils may vary because of different recording practices
2. The Scottish Government provided the audit team with updated statistics on AHSP completions during the course of the audit. Therefore, some of the data we have used in our analysis does not match that which is reported in the out-turn reports.

Source: Audit Scotland using Scottish Government Affordable Housing Supply Programme out-turn reports




# Affordable housing

## The Scottish Government's affordable housing supply target

This report is available in PDF and RTF formats, along with a podcast summary at:

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