

Sustainable Housing Policy in Scotland: Re-Booting the Affordable Housing Supply Programme

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Executive Summary

What the project is about

This is one of two reports seeking to reinvigorate complementary and critical parts of the Housing to 2040 Scottish housing strategy. This report focuses on the affordable housing supply programme. The second report will examine the reform of devolved housing taxes.

Housing to 2040 was the product of three years of inclusive consultation with the housing sector in Scotland. It produced an ambitious and comprehensive programme of housing reforms over 20 years and more, geared to meeting affordable housing need, to raise standards and rights across the housing system, to pilot housing's contribution to meeting net zero, to end homelessness, and much more. At its heart were fundamental principles: implementing a well-functioning housing system, progressively realising the human right to adequate housing, and reducing housing's role as a store of wealth and as a speculative asset. Housing to 2040 was also closely aligned to fundamental purposes of public policy: UN sustainable development goals, reducing child poverty, and inclusive economic prosperity.

These ambitions and the scope of the strategy as an inter-departmental cross-government approach were widely welcomed, though the pace of intervention and the lack of detail on implementation, co-ordination, monitoring and calibration were concerns from the outset¹. Unfortunately, work to progress this programme has proven susceptible to external shocks (Covid-19 and global inflation) and internal factors (such as significant budgetary reversals in 2023-24 and 2024-25, but also the unanticipated impacts of government policy).

Recognition of the severity of the problem is reflected in 12 local authorities and now the Scottish Government describing the situation as a housing emergency². Most observers would agree that the Housing to 2040 strategy is in significant difficulty, and with it the ambitious goals to elevate the housing system so that it can make a sustainable long-term contribution to prosperity, meeting housing need, and reducing poverty and inequality.

What we looked at

The UK Collaborative Centre for Housing Evidence (CaCHE), funded by the Joseph Rowntree Foundation (JRF), has completed an innovative research project seeking to both understand the challenges facing key parts of the strategy, and to offer a range of solutions and reform ideas to help recapture the earlier momentum and make a sustained contribution to achieving the key goals of the programme. Our aim is to assist the work of Scottish Ministers and the

newly established Housing to 2040 delivery board and the interim review of the strategy.

We did not examine all of the more than one hundred actions in the strategy's route map; instead, the research focused on two contrasting but critical components of the strategy: developing 110,000 social and affordable homes to contribute to meeting affordable housing need across Scotland; and the reform of devolved housing tax levers to improve the function of the housing system and reduce housing-related inequalities. The former is in immediate crisis and the latter has not really started but both are critical to outcomes concerning the economy, fairness and the wider public policy system. The rest of this summary and the main report focus on the first of these two themes.

What we did

For the Affordable Housing Supply Programme (AHSP), we set the programme in context, examined the national performance of the programme outcomes, and delved into the mechanics of how the system distributes funds for new supply. We also undertook deep dives into the system operating in the contrasting council areas of Edinburgh and the two councils of Lanarkshire. Through analysis of these elements and discussion with an expert panel and stakeholder interviews, we were able to arrive at a series of short, medium, and long-term proposals to support the AHSP.

What we found

The full report details what works and what does not within the current AHSP including internal process dimensions as well as the immediate and medium-term pressures on development and its funding. Our analysis presents immediate or short-term proposals, more medium term reform to the AHSP system itself, and longer term, more radical proposals to help meet housing need through social and affordable housing supply.

Immediate and short-term Responses

The Scottish Government should be much more forthcoming about what lies ahead in terms of a difficult budget environment and provide a clearer direction of travel for the housing programme in terms of what is feasible and possible. Recognising the growth of homelessness and other unmet needs, the Scottish Government should look to reprofile planned spend through benchmark increases in grant; also, by the shifting of funding into social housing by reducing

¹ Gibb and James, 2021

² As of September 2024: Argyll & Bute, Edinburgh, Glasgow, Fife, Scottish Borders, West Dunbarton, West Lothian, South Lanarkshire, Dumfries & Galloway, East Renfrew, Angus and Aberdeen councils have declared a housing emergency locally, along with the Scottish Government.

the grant funded element of mid-market rent. Also, in the absence of financial transactions capital in the future³, the Government should examine extending the use of soft loans and guarantees for Mid-Market Rent (MMR) where land values support it. Spreading the money thickly so it makes a difference, albeit for fewer households, is preferable to likely underspending across the programme as a whole because grant per unit is generally insufficient. There should also be a general predisposition to accelerate S75 quotas and to focus them on social units.

AHSP programmes that involve the acquisition of existing homes may make sense for substituting for high-cost new housing in certain circumstances (as well as completing ownership of blocks etc.) but it is important to consider how complementary are such moves with other housing policies. Multi-year accounting rule changes would help the process of delivering the AHSP and would help move the system away from recycling underspends and provide more cross-year certainty.

The Scottish Government should continue or even expand its advocacy for change in a number of key reserved policy areas relevant to a better functioning housing system and therefore indirectly work towards the outcomes associated with the AHSP. Two principal examples are restoring the value of LHA (critical to reducing homelessness – Watts-Cobbe et al, 2024), and making the case for more government borrowing powers specific to social housing as infrastructure which pays for itself out of rental income (discussed more below; see also Lloyd and Grayston, 2023).

Reforming the SHIP specifically:

- 1. The Scottish Government should establish a short life working group to agree overarching SMART outcomes for the Affordable Housing Supply Programme; assess data availability and agree how to achieve improved monitoring for progress towards those outcomes and assess overall performance
- 2. The Scottish Government should verify that councils have adhered to guidance and published annual Scottish Housing Investment Programme (SHIP) documents and accompanying Affordable Housing Supply Programme (AHSP) tables are published online and are easily accessible, so that stakeholders have the information they need to scrutinise and monitor SHIPs.
- 3. As well as retaining the 2031 affordable target for now, the Scottish Government should move to a three-year rolling target, that takes explicit account of SHIP plans and key signals of housing stress.
- 4. The Scottish Government should work towards ensuring the AHSP outturn report is published within 5 months of the end of the financial year.
- 5. The Scottish Government should commission independent research into planning obligations and the extent to which they impact on total unit build costs and reduce the ability to deliver benchmark social housing

- 6. Local authorities should ensure the annual SHIP commentary provides a summary of completed units for previous years and cumulative completions over the lifespan of their Local Housing Strategy.

Medium term – processes and institutions

There is a clear need to undertake necessary analytical work to strengthen how the Affordable Supply allocation mechanism works from central decisions to local action. The cornerstone of the affordable housing supply programme (AHSP) should be each local housing strategy (LHS), supported by a reinvigorated localised HNDA system, generating Strategic Housing Investment Programmes (SHIPs) with resource allocated through a refreshed Strategic Housing Investment Framework (SHIF) and, for Glasgow and Edinburgh, an updated Transfer of Management of Development Funding (TMDF) arrangement. Linked to this is making a strong case for a social and affordable housing supply programme and other specific evidence-informed activities.

This will involve six interlocking strands:

- 1. Particularly for the two metropolitan regions in the central belt, and to support the critical role of the local housing strategy, reconstitute a more localised version of the Housing Needs and demand assessment (HNDA) process (with testing of research quality, etc. from the centre) which links more directly to local SHIP plans so that grant funding corresponds directly to local priority needs and outcomes. There should also be an updated complementary national affordable needs study to take account of changes since 2019⁴.
- 2. Establish a short life working group to conduct a review and needs assessment of the spatial allocation of resources (resource planning assumptions) embedded in the Strategic Housing Investment Framework (SHIF) and the transfer of the management of development funding (TMDF) arrangements for Glasgow and Edinburgh with a view to producing a new evidenced formula that has been extensively debated by stakeholders.
- 3. In addition to the regular work of the Scottish Housing Regulator on social provider finance and treasury management, the system needs an updated overall sense of the financial capacity of social landlords to develop social and affordable housing. This has not been done for 14 years.
- 4. We need a transparent new analysis of, and mechanism for, renewing benchmark grant rates, along with publishing the evidence base used in the review process.
- 5. Develop an evidence case for programme public resources, i.e. an economic and social CBA of public spending on non-market housing investment (including wider prevention), as laid out by SOLACE/ALACHO (2023). A robust Green Book analysis is an important way of making the case for housing investment interventions to strengthen the public spending case for the AHSP against competing claims.

³ Financial transactions capital has been important providing non-grant assistance to specific MMR projects associated with Places for People and the LAR Housing Trust.

⁴ This is likely to happen in 2025.

- 6. Establish a new national land and housing agency to focus on land assembly site readiness. After initial pump-priming, the new organisation would seek to recover costs and recycle income from selling on serviced sites with a view to secure social housing land price levels and/or utilising land value uplift on land it owns and passes on to support housing infrastructure. Such an organisation could also include as part of its mission the support of SME builders, rural land supply and innovative finance and delivery of social and affordable housing.

Long term land market propositions

While mainly focusing on land market and planning issues in the long term, the report also proposes looking again at revolving funds that use rental surpluses to feed a building fund for further social housing investment (as in Denmark), and also raises the possibility of negotiating for ring-fenced additional borrowing powers for the Scottish Government to enable it to borrow for social housing, an infrastructure investment that pays for itself from rents and could support bond or other forms of creditor repayment.

While none of the long-term land proposals are new, and some featured within the land and planning reform proposals of the last decade (as well as the agenda of the Scottish Land Commission and others), we think they need to be developed and delivered over the sufficient time it takes (but no longer) to implement policy reform effectively. This would create a different setting for social and affordable housing supply.

- Reform the land market to be more transparent so that information is made available to all regarding sites that are available, or potentially for sale.
- Revisit land value uplift reforms to support paying for infrastructure. See, for example the work by Aubrey (2018) concerning lessons from New Town development corporation models.
- Revisit the case for land tax on appreciation by dint of planning permission, to incentivize re-use of vacant land and empty properties, etc., which was part of the discussions during the 2015 Land Reform Review.
- Where appropriate, test and implement the existing but unused Compulsory Sales Orders power. Also, consider land readjustment – that would facilitate land assembly by offering landowners⁵ lower payment for sites in return for an equity stake in the development project (Adams, 2013)
- To address the issue of inter-public sector land trading at commercial prices inhibiting social and affordable housing supply, introduce a legal requirement for public bodies to release land for social/housing at current user value to limit inter-public sector land trading at commercial prices, which is a barrier to constructing of social housing.
- Place a requirement on all public bodies (including council departments) to notify the council of surplus/redundant land and give council duty to maintain public register of such land and the power (not duty) to acquire such land specifically for social housing at user cost or something

⁵ And these might include the council, other public bodies and local community interest; one way where the best value constraint on inter-public sector land sales to support social and affordable housing investment, sometimes within wider mixed tenure developments, might be overcome by land readjustment.

similar.

- Review whether and where social housing should become a standalone use category within Local Development Plans.
- Grant councils the power (or even duty) to acquire land at a value that offsets the cost of providing the infrastructure and services required for viable development.
- Potential measures to require developers to sell land if they fail to build out sites by a given date or at an agreed rate.
- Look to boost AHSP funding when it becomes clear construction costs are falling (at least in real terms).

Key Messages

We have identified a strategy to reboot the AHSP based on the cumulative effect of immediate adjustments to the current model, a series of medium-term process improvements and institution-building followed by more radical land-based reforms in the long term. This will make a significant difference in moving towards a well-functioning housing system, reducing unmet need (especially in the homelessness domain) and helping combat child poverty in Scotland.

Scotland's fiscal relationship with the UK and in particular its capital budgeting rules are critical liminal spaces between reserved and devolved competencies. The fiscal framework and associated finance manuals are binding but not immutable – they have evolved considerably in the 25 years since devolution. Through debate and negotiation, they could be further enhanced. For affordable supply, relatively minor but important changes to the ability to politicise public accounting rules and the ability to borrow for housing as infrastructure (and infrastructure that pays for itself through rental income) need to be prioritised (Lloyd and Grayston, 2023). Similar issues relate to greater use of state backed guarantees to facilitate lower interest and hence cheaper loans to affordable providers.

The Scottish Government must clearly re-commit all government departments to supporting Housing to 2040 and grasp the wider economic and preventative benefits of better, more affordable housing. The housing sector as well as government needs to also address the politics of re-energising Housing to 2040. We need to both recognise and communicate the wider benefits of delivering the strategy's outcomes and the costs of not doing so. Related to this is the undermining of Scottish politics and government accountability i.e. not maintaining a long-term commitment and priority signed up to by all parties. Practically, it would be best to recommit, as soon as possible, to a smaller number of priorities that make sense to the wider housing sector and deliver them in ways that are consistent with the broader achievement of improvements of the functioning of the housing system and the pursuit of wider government goals such as reducing child poverty and reversing the trend in rising homelessness.

1. Background and Context

Scottish Housing in 2024

Where does the Scottish housing sector stand as it approaches the middle of the third decade of the 21st century? While Scotland's housing system is often seen as comparing favourably to its neighbouring countries across the UK, fundamental issues remain as were identified in the evidence paper prepared in 2018 to support what became Housing to 2040. In particular, affordability issues dominated, alongside challenges meeting housing need, upgrading the existing social housing stock, developing new build homes and regulating the often poorer quality and more expensive private rented sector stock⁶. For example in the later part of the last decade, 'the ratio of housing cost to income is highest for the Private and Social Rented Sectors (25% overall in 2016/17),' with the overall rate for mortgaged home-owners being just 8%⁷. The Scottish Government warned, however, that these figures do 'not capture challenges around raising deposits and securing loans for home ownership,' with data illustrating that while '82% of Scottish households aspire to own their own home... [only] 60% currently do.'⁸ While, until recently, many home-owners may not typically experience these affordability issues, problems can exist with upkeep, repair and refurbishment of existing homes, as well as suitability throughout the life course.

Moreover, in the context of the climate emergency, while the overall energy efficiency of Scotland's homes may have improved, over half of Scotland's housing stock (54%) still did not meet EPC Band C standards, while 97% did not meet Band B⁹. Half of dwellings were still classified as having 'disrepair to critical elements, no matter how minor, to keep a house wind and watertight, structurally stable and safeguard against rapid deterioration,' rising to 61% for local authority properties and 59% amongst PRS stock¹⁰. Moreover, in 2017, 66,000 homes were classified as over-crowded, predominantly in the social rented sector; while 1.6 million were under-occupied, particularly in the owners-occupied sector.¹¹ Furthermore, there had been an increase in the 'number of evictions and abandonments in the social rented sector... perhaps reflecting growing affordability and welfare reform issues.'¹² Nevertheless, there were positive signs, with 83% of

households claiming they 'are satisfied with the condition of their home.'¹³

Well-housed?

The Church of England (2021; 2024) seeks housing policy to deliver a well-functioning housing system through a range of interlocking indicators (Church of England, 2024, p.25) and has defined a well-housed country as one where there are sufficient 'good quality, low-cost homes.'¹⁴ Housing is viewed as fundamental to the Scottish Government's ambitions, 'including eradicating child poverty and homelessness, ending fuel poverty, tackling the effects of climate change and promoting inclusive growth.'¹⁵ Housing to 2040 thus sets out a vision where all people in Scotland 'have a home that is warm, affordable and accessible and that fits their needs.'¹⁶

However, housing is unequally distributed across the country, across a range of dimensions, including affordability, accessibility, quality, convenience and others. Addressing this unequal distribution and the inequality it creates, perpetuates and exacerbates - is important because access to safe, secure, affordable housing that meets one's needs is fundamental to one's opportunities and life chances across a range of domains, such as education, employment and welfare¹⁷. Affordability issues in the housing system are thus fundamental to wider issues of inequality in society.¹⁸

The Joseph Rowntree Foundation (JRF) has long campaigned to highlight the importance of housing in alleviating poverty and inequality.¹⁹ As they argue:

'The variation in poverty rates across the UK is driven by the interactions between the labour market (levels of employment, sectors worked in and rates of pay), the housing market (mix of tenures and housing costs) and rates of benefit receipt, alongside wider demographic factors (age, family types and sizes). The main drivers of poverty vary across different geographies – a greater reliance on renting and higher costs of housing

6 Solace, 2023

7 Scottish Government (2018) Housing to 2040 Evidence Paper. Edinburgh: Scottish Government. p.2

8 Scottish Government (2018) Housing to 2040 Evidence Paper. Edinburgh: Scottish Government. p.2

9 Scottish Government (2018) Housing to 2040 Evidence Paper. Edinburgh: Scottish Government. p.3

10 Scottish Government (2018) Housing to 2040 Evidence Paper. Edinburgh: Scottish Government. p.2

11 Scottish Government (2018) Housing to 2040 Evidence Paper. Edinburgh: Scottish Government. p.3

12 Scottish Government (2018) Housing to 2040 Evidence Paper. Edinburgh: Scottish Government. p.4

13 Scottish Government (2018) Housing to 2040 Evidence Paper. Edinburgh: Scottish Government. p.4

14 Church of England (2021) Coming Home: Tackling the Housing Crisis Together. Online at: <https://www.churchofengland.org/sites/default/files/2021-11/coe-4794-hcc-full-report-v6.pdf>, p. 6

15 Scottish Government (2019) Housing to 2040: A conversation. Edinburgh: Scottish Government. Online at: <https://www.gov.scot/publications/housing-to-2040/>

16 Scottish Government (2019) Housing to 2040: A conversation. Edinburgh: Scottish Government. Online at: <https://www.gov.scot/publications/housing-to-2040/>

17 See Joseph Rowntree Foundation (2024) UK Poverty 2024. York: Joseph Rowntree Foundation. Online at: <https://www.jrf.org.uk/pdf/15211>.

18 Church of England (2021) Coming Home: Tackling the Housing Crisis Together. Online at: <https://www.churchofengland.org/sites/default/files/2021-11/coe-4794-hcc-full-report-v6.pdf>

19 See, for example, Tate, N. (2023) Talking about homes, homelessness and poverty: A briefing. York: Joseph Rowntree Foundation. Online at: <https://www.jrf.org.uk/housing/talking-about-homes-homelessness-and-poverty-a-briefing>

are a substantial driver in larger cities in particular, while lower rates of employment, with fewer employment opportunities alongside a greater concentration of employment in lower-paid roles and sectors, are more significant drivers of poverty across many post-industrial and coastal areas.²⁰

Housing costs are a key determinant of the poverty people experience, particularly amongst renters.²¹ Data from the UK in 2021/22 demonstrates that 43% of social renters and 35% of private renters were in poverty after housing costs; 'within these groups, a third of social renters (36%) and a half of private renters (51%) were only in poverty after their housing costs are factored in, suggesting they were pushed into poverty by these high costs.'²² Thus, the JRF argues that 'if we're to build a better, more equal society in which everyone can thrive, we must make sure we all have access to a decent and affordable home.'²³ Fundamental to doing this, they argue, is changing 'the dominant understanding of housing as a source of wealth to homes as essential to a decent life.'²⁴

In the Scottish context, research by the JRF found that between 2019/20 and 2021/22, just over a fifth (21%) of people were in poverty; this is an increase compared to 'a relatively stable trend over the previous decade of poverty rates between 18% and 19%.²⁵

In other recent research by JRF, they found: "housing costs are a key determinant of the poverty people experience, particularly amongst renters. Data from Scotland shows that In 2019-22, 46% of social renters and 34% of private renters were in poverty after housing costs. However, around 1 in 4 social renters (26%) and around 3 in 10 private renters (29%) in poverty were only in poverty after their housing costs were factored in. ..." (Padley, et al, 2024).

Earlier JRF UK Poverty Reviews 'identified [that] tenure mix and housing costs... [have been] important factors keeping the poverty rate lower in Scotland,' due to 'a larger share of renters in the more affordable social rented sector than across the rest of the UK.'²⁶

While focussed on the English context, the Church of England's (2021) Coming Home report also highlights relevant issues related to housing and inequality, including the relationship between landlords and tenants in the PRS and how reductions in owner occupation have increased inequalities, particularly for minority groups and inter-generationally²⁷. Addressing the inequalities that are both reflected, exacerbated and reinforced through the housing

system in Scotland is therefore also fundamental to achieving Scotland's National Performance Framework desired outcomes.²⁸

In response to these issues, the Scottish Government's (2021) Housing to 2040 (discussed further later in this chapter) sets out a route map for achieving what is desirable:

- 'More homes at the heart of great places: Our aim is for everyone to have a safe, high-quality home that is affordable and meets their needs in the place they want to be...
- Affordability and choice: Our aim is for everyone to have access to a home that is affordable and choices about where they live, no matter what tenure they live in...
- Affordable warmth and zero emissions homes: Our aim is for housing to contribute to tackling climate change by 2045 by delivering homes that are warm and affordable to heat and reducing the emissions caused by housing and housing construction...
- Improving the quality of all homes: Our aim is for all homes to be good quality, whether they are new build or existing, meaning everyone can expect the same high standards no matter what kind of home or tenure they live in.'²⁹

A Well-functioning Housing System?

Governments and academics often talk about the aim of achieving a well-functioning housing system. In Coming Home, the Church of England identified five key components of a 'well-functioning housing system,' with the view that it should be:

'a good home is a place that enables us to live in harmony with the natural environment, it is a place where we feel safe, it enables us to put down roots and belong to a community, it is a place we enjoy living in and which is a delight to come home to.'³⁰

However, there are a number of challenges and barriers to achieving this in the Scottish context, including housing wealth and inequality; the immobility of some households; the need to both understand and to intervene in housing as a holistic, joined-up system; and the need to better understand larger-scale, longer-term drivers affecting the housing system.

20 Joseph Rowntree Foundation (2024) UK Poverty 2024. York: Joseph Rowntree Foundation. Online at: <https://www.jrf.org.uk/pdf/15211>, p. 55

21 Joseph Rowntree Foundation (2024) UK Poverty 2024. York: Joseph Rowntree Foundation. Online at: <https://www.jrf.org.uk/pdf/15211>, p. 91

22 Joseph Rowntree Foundation (2024) UK Poverty 2024. York: Joseph Rowntree Foundation. Online at: <https://www.jrf.org.uk/pdf/15211>, p. 91

23 Joseph Rowntree Foundation (no date) Housing | Joseph Rowntree Foundation. York: Joseph Rowntree Foundation. Online at: <https://www.jrf.org.uk/housing>

24 Joseph Rowntree Foundation (no date) Housing | Joseph Rowntree Foundation. York: Joseph Rowntree Foundation. Online at: <https://www.jrf.org.uk/housing>

25 Joseph Rowntree Foundation (2024) UK Poverty 2024. York: Joseph Rowntree Foundation. Online at: <https://www.jrf.org.uk/pdf/15211>, p. 55

26 Joseph Rowntree Foundation (2024) UK Poverty 2024. York: Joseph Rowntree Foundation. Online at: <https://www.jrf.org.uk/pdf/15211>, p. 55

27 Church of England (2021) Coming Home: Tackling the Housing Crisis Together. Online at: <https://www.churchofengland.org/sites/default/files/2021-11/coe-4794-hcc-full-report-v6.pdf>

28 Please see <https://nationalperformance.gov.scot/>

29 Please see <https://nationalperformance.gov.scot/>

30 Please see <https://nationalperformance.gov.scot/>

Bowman, et al (2021) in their 'housing theory of everything' argue that housing shortage and unaffordability create visible problems like frustrated tenure choices and rising access costs for housing, but also less obvious chronic long-term problems associated with wealth concentration and inequality, social immobility, poor health and education outcomes, lower economic productivity, a major climate change pressure, sprawl, social dislocation and even populism and social discontent. This deeper account of housing's role as a site and a source of multiple social ills has won favour on both the left and the right among commentators and practitioners (Church of England, 2024).

We can also think of the continuing consequences of not moving away from this set of difficult to change dilemmas. Leicester (2020) draws in the three horizons transformative change framework, where the first horizon, business as usual, implies that the pressures that hold this current underperforming dysfunctional system in place are not overturned – and we can speculate as to how this might look in a Scottish housing system that does not make the transformative change away from business as usual. We return to this worrying scenario at different places through this report.

Unmet Needs, External Challenge, Implementation and Resource Gaps

As noted above, Scotland faces direct challenges in achieving the Government's aims for 2040 and a well-functioning housing system. A key issue relates to affordability and meeting unmet needs and housing shortages, particularly in the context of resource shortages and reductions.

Dunning et al. (2020) produced an influential study which is now largely accepted as the unofficial official measure of need. This was based on 2019 research, commissioned by the Scottish Federation of Housing Associations, Shelter Scotland and the Chartered Institute of Housing (CIH) Scotland, which aimed 'to estimate the need for affordable housing in Scotland between 2021 and 2026.'³¹ Based on 'an estimate of the likely affordable housing need based on frequently used household and house price change assumptions,' this study predicted a central estimate of need for 'an additional 10,600 affordable housing dwellings per annum from 2021-2026. The analysis highlighted the 'divergent affordable housing needs in different geographical contexts,' meaning that 'policy and funding is required for both targeted and local interpretations of the type of housing required.'³² The authors calculated that an estimated approximately £3.4 billion is needed 'to finance the necessary new stock that is required between 2021 and 2026. This is in addition to any necessary funding to maintain the existing stock.'³³

³¹ Dunning study (2020) (p.9)

³² Dunning study (2020) (p.9)

³³ Dunning study (2020) p.10

³⁴ Solace (2023),

³⁵ https://scotland.shelter.org.uk/campaigning/what_is_the_housing_emergency

- These points on need are closely related to issues of homelessness and temporary accommodation. For example, Solace's 2023 report identifies the following key issues that require addressing in order to meet Scotland's affordable housing needs:
- 'An emerging crisis of affordability across the whole housing system but particularly in rural, island and east central Scotland;
- Record and rising numbers in temporary accommodation across most councils, and increasing numbers of open cases and time spent in temporary accommodation;
- The cumulative impact of a wide range of humanitarian and asylum seeker programmes which would benefit from improved planning and coordination;
- Continuing shortfall in the supply of mainstream social housing lets;
- Emerging issue with a shrinking private rented sector (PRS) and withdrawal of proposed investment in build to rent (BTR), creating further demand for social housing;
- Evidence of the limited impact and unintended consequences of emergency legislation;
- An emerging risk of a significant slow-down and underspend in the Affordable Housing Supply Programme (AHSP);
- Emerging issues with the implementation of the removal of local connection;
- The risk of the collapse of the licencing of short term lets following the recent High Court decision on the City of Edinburgh's scheme.'³⁴

Moreover, the Scottish Government and 12 Scottish councils have now announced housing emergencies. Shelter Scotland has highlighted 'the chronic lack of good quality social housing' as being fundamental to the housing emergency, as well as the fact that 'injustice is embedded in our broken and biased housing system,' combined with the failures of the welfare system.³⁵ Each of these bodies are preparing action plans in response to this declaration.

An Inclusive and Comprehensive Housing Strategy for Scotland

In March 2021, the Scottish Government launched the fruits of a substantial sustained, inclusive consultation on housing policy. Housing to 2040 is a comprehensive long-term strategy for housing rooted in the human right to adequate housing, sustained investment, net zero, a long-term affordable housing supply programme, and ending homelessness. It is a vision of a well-functioning housing system as a foundational part of what Scotland should aspire to be if it is to tackle poverty, inequality, inefficiency, climate change and other

meta problems. The strategy will span five Parliamentary terms and sets out both a radical set of vision and principles, and a road map of more than 100 recommendations that are variously immediate, early, medium and longer term, to differing degrees of specificity.

Box 1 Housing to 2040: Implementing the Vision

The overall vision for Housing to 2040 was described as a housing system which provided 'for everyone to have a safe, high-quality home that is affordable and meets their needs in the place they want to be'.

The strategy is organised around a series of principles which include effectively ending homelessness, delivering housing's contribution to net zero by 2045, delivering a higher floor of housing rights for all regardless of tenure, building 110,000 social and affordable homes in line with contemporary measures of a national affordable need in a decade, de-speculating the housing market by seeking to stabilise house prices and rents. In all, the recommendations included more than a hundred proposals, many to be enacted in the current parliament but others signposted for later; still others are only more tentatively outlined. After several years of a highly inclusive approach to consulting and designing a programme which described itself as a whole system approach, there was sector-wide support and buy-in to the principles leading Housing to 2040. This contrasts with the delivery and monitoring of the programme as a whole which has not been as well developed. In the discussion of Housing to 2040 in the context of the 2021 Scottish election, Gibb and James (2021) laid out their concerns about monitoring, programme management and likely implementation gaps.

Much of the programme relies on existing mechanisms to test its effectiveness but this is not joined up with a transparent and regularly reported sense of the trajectory and delivery of the strategy in toto, what precisely is meant by a well-functioning housing system, and does it take explicit account of how the different parts fit together, interact and have wider system repercussions. In a consultative meeting on Housing to 2040 before its inception, colleagues at CaCHE argued for a more explicit monitoring framework with gateways, systems thinking analysis of the housing system, and how interventions impact on it and its key elements. This would mean that when external shocks inevitably occur, there is capacity and mechanisms by which the course can be reset and reprioritised in a consensual and evidence-based way. Instead, Government has introduced a practitioner - led delivery board to monitor performance and has decided to accelerate its mid - Parliamentary term review of progress.

The Government has also initiated a Housing Investment Task Force to new to lever-in additional funds, including private funding, for the AHSP. We now face a situation where external shocks and internal budget re-prioritisation is directly impacting on the strategy's outcomes and deliverability - so these developments are welcome, but we still do not see a clear monitoring framework mapping or an accountable regularly published update on progress.

Housing to 2040 is unique in the UK. The strategy and its reach are to be commended in terms of desired outcomes, and it has been widely supported by the housing sector,

across political parties, and from other social and economic interests since its inception in 2021. However, such an ambitious programme faces intrinsic problems and hurdles to overcome if it is to deliver its ambitions:

- How does it maintain momentum and priority within government over such a long horizon? One way is to make strong initial progress and demonstrate by results what is being achieved and can be delivered. Delaying legislation and other reforms, such as the recently announced Housing Bill, as well as introducing unexpected additional measures not part of the original programme (e.g. the temporary rent freeze) have consequences for strategy delivery, in part because they impact across the wider housing system in unintended ways.
- Scottish Parliaments last for five years, devolved finances are budgeted annually, with powers, controls and priorities shared between Edinburgh and London. This is a difficult allocative environment to maintain such bold programmes, while assuming continuing cross-party support. There are also material political challenges between the UK and Scottish Governments – it is not clear, for instance, whether the legislative implementation in Scotland of the human right to adequate housing will be acceptable to the UK Supreme Court³⁶.
- While the vision and principles set out the desired end result in terms of what the housing system should look like, the route map is much more about the present 2021-26 Parliament in terms of actions and reforms with several other recommendations pushed into the future. As the box above indicates, what is missing is a clear sense of how initial reforms build and lead to further reforms, what the gateways of success are and how the programme may be modified in the light of changing circumstances. While there is a Scottish Government Housing to 2040 delivery board representing the housing sector, there is no sense of such a series of missions, gateways, monitoring and steering of the programme as a whole (and, indeed components of the wider strategy e.g. affordable housing supply and net zero retrofit may be competing for the same finite resources).
- The absence of an explicit temporal monitoring and review framework for the programme raises three further analytical challenges: first, whether there is sufficient resource planned to meet programme objectives as a whole; second, that there is insufficient data to monitor the programme at a systemic level e.g. the interdependencies across different spatial and functional parts of the housing sector. Consequently, third, the systems thinking dimensions of the comprehensive approach underpinning the goals of Housing to 2040 are at least partly undermined.
- Finally, Housing to 2040 did not represent a year zero for housing policy. In fact, it builds on the existing infrastructure of housing policy. Thus, delivering decarbonisation of energy in social housing largely requires long term rental contributions, and housing associations, for instance, must choose to an extent how

³⁶ Scotland will not be able to legislate to realise the human right to adequate housing in full, where either the legislation is felt to impinge on the UK Government's right to legislate in Scotland, or seeks to limit the UK Government in some way (via impact of reserved legislation, e.g. the Local Housing Allowance), or in matters 'relating to immigration', or, were it to seek to disapply future UK Government legislation. This was certainly the case with the previous UK Government; whether the new one differs remains to be seen.

they allocate scarce affordable rental surpluses between net zero, asset management and supporting new build. It never felt possible to do all of these things at the same time, but as we indicate below, the testing environment social landlords now face means that it is highly unlikely that all can be achieved. At the same time, the affordable supply programme, a major focus of this research, remains distributed and allocated according to principles that we think are long overdue review and updating.

In addition to these structural concerns, there have of course been difficult headwinds and political choices to confront in the present Parliament. These are materially impacting on the capacity of government to deliver on the Housing to 2040 ambitions. These include the return of high levels of inflation and cost of living pressures, the aftermath of Covid-19 and Brexit, severe public finance challenges (see the box below), weak economic growth and political competition within government for scarce public resources.

At the same time, government must respond to emerging challenges like the Temporary Accommodation crisis, while also trying to ramp up homelessness prevention and rapid rehousing. Internal political priorities are also impacted by political alliances, such as the one recently ended with the Scottish Greens, an alliance that ushered-in temporary rent caps and a longer-term commitment to statutory rent controls (the latter now outlined in the 2024 Housing Bill). These political, economic, financial and housing challenges have combined to adversely affect the affordable housing supply programme which seeks to build 110,000 units over the current 2021-26 and next Parliament, 70% of which are expected to be social housing. The adverse circumstances include the consequences of rising development costs; labour and supplies inflation; grant rates, albeit rising, falling behind the cost of new social housing; and, the difficult choices over how to allocate finite rental surpluses. And now the last two annual budgets have cut the programme by around a third in two years. Not surprisingly, forward indicators like approvals and starts suggest future completions will fall sharply.

Box 2 Budgetary Headwinds: 2023-24 and 2024-25

The budgets for 2023-24 and 2024-25 have both reduced the money available to the Affordable Housing Supply Programme. This has now been significantly reduced over these two annual budgets, and the headwinds are if anything worse going forward. The fundamentals of inflation, shortages and financial challenges for providers, mean that the sum allocated now buys much less housing supply than was assumed in 2021 (Berry, 2024).

The 2023-24 budget cuts took the form of a reduction in the affordable supply programme and also used part of the remaining programme to contribute to an acquisitions PRS buyback programmes and redirected funds to rural housing supply. Compared with the previous year's budget, this represented a 10% real terms reduction in the AHSP (£200m) according to the Chartered Institute of Housing (2022). Shelter Scotland (2023) estimate the reduction in the programme at 16%. These reductions in the face of increasing local challenges also stimulated the influential 2023 SOLACE/ALACHO report on social housing calling for more resources and reform of how it is delivered.

The 2024-25 cuts are deeper but spread between social and affordable supply. Overall, the draft budget (December 2023) reduces the AHSP from £751.9m to £555.8m. This is a 26% reduction in nominal terms and a real terms' cut of £205m (Berry, 2024). The main elements of the cuts are a reduction in capital grants for new social housing supply of £75m (-14% in real terms) and a £121m reduction (-72% in real terms) in financial transactions capital for affordable home ownership (open marked shared equity), charitable bonds and mid-market rent. At the same time, local authority housing capital funding resource assumptions has been cut by more than a quarter.

The housing reductions are greater than what was anticipated in the recent capital spending review and the cuts proportionately are greater than for the capital budget as whole (Berry, 2024). Overall, these cuts, and within them the AHSP reductions, are proportionately larger than the Barnett cuts passed on from the UK Government (and forecast for the next 5-6 years). Fewer homes built, especially for social housing, reduces the proportion of affordable need being met and means that fewer families and children can be helped by good housing out of poverty, temporary accommodation and unsuitable housing. This feels like a critical juncture, a turning point away from the housing supply successes of the last two parliaments and an uncertain, less ambitious future – just as housing, economic, fiscal and social challenges are compounding.

Re-Booting Housing to 2040

A key plank of Housing to 2040 is thus being seriously challenged and there are significant negative consequences for housing outcomes in terms of fewer people benefitting from better and additional housing. But the reduction in the AHSP also undermines the coherence of the strategy as a whole and does so at a very early stage of its life. Non-delivery threatens important outcomes but also the political credibility of the strategy and its hitherto priority status across all of government. We consider it essential that the strategy's very comprehensiveness and centrality to progress in Scotland in the wider sense means that ways must be found, both pragmatic and radical, to re-boot and reinforce the programme and secure the gains already made in such a way that it can promote and sustain Housing to 2040 as it was

initially intended.

This report is therefore both a diagnosis and a series of prioritised proposals, introduced from the immediate to longer term, to support the Affordable Housing Supply Programme. A separate report, to follow, will consider the indirectly connected proposal within Housing to 2040 to reform devolved housing taxation (which can both improve the functioning of the housing system in what could be a materially progressive redistribution, while at the same time offering scope for additional revenue that could contribute to the AHSP).

This matters now because it is both urgent and important. Scotland's Government and 12 local authorities including the two largest cities have, in the last eight months declared a housing emergency. The leadership of Scottish local government, along with key sector leaders within the housing association sector, housing charities and the housing profession, have all identified the need to review, recognise and act on the scale of the present situation.

This is why we think a game-changing step is to develop a coherent and defensible set of proposals and interventions that can deliver a reinforcing, cumulative step change for social housing supply in support of the wider long term housing strategy. We conclude that it is useful to deliver a series of more immediate changes to the programme, followed by more medium and longer-term proposals, some of which are about process and others are more radical in nature.

The rest of the report has four further chapters. The next chapter is concerned with the Affordable Housing Supply Programme and seeks to first understand how it could do more and overcome some of the shortcomings that have built up with the system that delivers the AHSP. We do this by contrasting the national picture with a closer ('deep dive') examination of two different market context locations (chapter three). The focus then shifts (chapter four) to proposals for immediate, medium-term and longer-term proposals and interventions to support the programme. The final chapter (chapter 5) concludes, drawing out the key reform proposals we think have merit, need attention and further consideration. The report ends with a clear statement of the case for reform proposed here.

The research has adopted the following instruments to inform and support our analysis.

- An evidence review regarding housing policy, strategy and Scottish housing policy analysis;
- Interviews with national and local actors in the affordable housing supply programme delivery process;
- Testing ideas, diagnoses and proposals with an expert panel of the housing sector in Scotland, including expertise on fiscal matters and Scottish politics;

- A 'deep dive' into the AHSP process and outcomes in two contrasting local areas: Edinburgh and Lanarkshire including data collection, analysis and key actor interviews.

2. The AHSP Programme

Introduction

The Affordable Housing Supply Programme (AHSP) is a central plank of Housing to 2040, intending to develop 110,000 social and affordable units to meet affordable housing need over ten years or two parliaments from 2021 to 2032. The first two five years' plans delivered 30,000 and 50,000 units, respectively, in the previous two parliaments (though the second was extended by the impact of Covid-19).

The programme involved a mix of up-front capital grant and loan support to social rent, mid-market rent, and low-cost home ownership. Throughout, the programme has been allocated through a set of interlocking delivery mechanisms that allocate resource across space (the Scottish Housing Investment Framework (SHIF) and the Transfer of Management of Development Funding (TMDF) in Glasgow and Edinburgh, the local Social Housing Investment Programmes (SHIPs) generating Resource Planning Assumptions (RPA) that cut the cake of public funding for housing to each local authority. The present Parliament term initially identified a capital budget of £3.5 billion over five years distributed as 70% social housing, 30% affordable housing and at least 10% of the total set aside for rural housing.

In chapter 1 we identified significant cuts in the AHSP budget for the last two years (2023-4 and 2024-5) amounting to more than £400m cumulatively in real terms that would need to be returned to the programme to achieve its targets, other things being equal. We also identified a range of wider external drivers that have made the environment for developing social and affordable housing more difficult – building costs inflation, supplies and skills shortages, generating greater risk and nervousness for contractors and developers. As we identify below, this has shown up, not so far in completions, but in the lead indicators of declining housing approvals and construction starts. Lower market demand also reduces scope for S75 additionality through planning agreements within local Affordable Housing Policies. Government has also in the last two years taken resource out of the AHSP for additional rural supply and to support the acquisition of private rented properties to support temporary accommodation.

As things stand, the affordable supply target will not be met in the time frame proposed, and thus elements of unmet affordable housing need will not be addressed. This is exacerbated by growing evidence that housing need is increasing beyond the levels calculated in 2019-20 (Dunning et al, 2020). Recent research (January 2024) by Diffley Partnership and Rettie & Co for Homes for Scotland) estimates rising numbers of existing housing need in Scotland. Social housing is recognised to be an important mechanism to reduce poverty and provide preventative benefits for education, health and wellbeing. All are undermined by the supply reversal.

It is in such a worrying context that this chapter attempts to diagnose what is at the root of the problems we see

in the AHSP system. The chapter is the first of three that undertakes this analysis by looking at the national system, the components of its allocation mechanisms and drills down into local areas to see how this works out (or not). We also set out immediate and medium to longer term proposals to improve outcomes.

The AHSP Programme

Subsequent to the 2010-11 experimental innovative funding programme (Field, et al 2012), that led to a dip in affordable, and in particular social rented housing completions in the two years to March 2013, the Scottish Government promoted an increase in supply of grant-funded social and other forms of affordable housing despite real term Barnett-transferred cuts in overall capital spending (Gibb 2021). In part this was a progressive response or repudiation of what might have been the beginning of a shift away from subsidised supply but it also signalled the then protection and later development of a housing capital programme.

Building on the initial 2011-16 programme, the Scottish Government aimed, pragmatically, to lever-in grant to support social and affordable housing supply within the constraints of available funding for the successive 2016-21 and 2021-26 iterations of the AHSP. Both have been informed by independent national studies of affordable housing need published by SFHA, CIH and Shelter, originally published in 2015 and updated in 2020 (Powell, et al, 2015; Dunning, et al, 2020). The central estimates of these studies became the broad benchmark supporting 10,000 units per annum, even though those estimates were 20% higher in 2015, with the Government arguing that they could afford 10,000 but not the 12,000 annual targets implied by the 2015 research's central estimates. The gap between the independent need estimate and the Government's supply target was lower after the 2020 study and subsequent announcements on the 2021-26 programme (and beyond).

The programme also provided a degree of certainty for the development sector and providers through a multiyear spending environment for nonmarket supply. Among other things, this was a fillip for the private development sector, protecting economic activity in difficult times. Increased levels of new social housing supply met housing need but also generated other beneficial externalities or social benefits in terms of direct poverty reduction, economic multipliers and improved health outcomes (Gibb, et al, 2020; Boyle and Husbands, 2020; Congreve, 2019).

Councils draw on their local needs and demand analysis, networks of providers, their local development plan, and their local understanding of land and sites for potential development, to bring specific projects and providers for those projects to government to agree project funding and tenure mix through their social housing investment programmes (SHIPs). Underspend by any councils can be

reallocated in-year to other councils who have deliverable projects to spend it on.

How has the Programme evolved and changed over time?

The main ways in which the AHSP has evolved are:

- The scale and timing of the programme. The programme started as an annual one but since 2016 has moved to a longer more stable resource allocation model, one that has evolved into a focus on funding for entire parliamentary terms and, now, notionally for two parliamentary terms (though this must be without pre-commitments to that funding in the second parliament after 2025). The programme has grown from 30,000 (6,000 per annum) to 50,000 (10,000 per annum). While capital spending is relatively predictable, and can be supported from revenue spend, because of the annual devolved settlement for the Scottish budget, the funding is not guaranteed year-on-year. This uncertainty stemming from negative Barnett movement has been crystallised in the last two annual budgets.
- Aggregate funding has grown for the programme because of both the commitment to a larger programme, but also because of increasing subsidy levels (or benchmark guidance for subsidy, which the Scottish Government state is not a fixed or maximum level of subsidy but a benchmark that can be varied on a case-by-case basis).
- The funding mix has also evolved. The presumed share of social housing has increased from 67% to 70%, there is now a 10% allocation of the total programme for rural, remote and island areas, and there has been a relative shift towards affordable rent and away from low-cost home ownership, through the growth of mid-market rent schemes.
- Other aspects of programme change included the use of housing charitable bonds schemes, and the ad hoc use of long-term financial transaction capital loans instead of grant for mid-market rent affordable projects, where such arrangements are viable. There is also increased interest in acquisitions from the private rented sector (including former RTB homes) and wider off the shelf investment. At the same time, bringing forward long-term empty homes for affordable supply is also emerging as part of the supply effort.
- The new national planning framework, NPF4, also has implications for the AHSP. First, it provides for minimum unit numbers for each Housing Needs and Demand Framework for specific councils (or partnerships of councils), and the latest iteration of the HNDA model has been criticised for relying more on presumption of centrally determined assumptions than before. Second, all councils are also to have affordable housing policies within their development plans, implying the stronger use of S75 agreements to support new affordable housing locally, in some cases indirectly through support for infrastructure and community facilities. Infrastructure is also supported through a housing infrastructure fund. We consider the role of HNDA further below.

³⁷ The SHIF framework allocates funds spatially according to a series of indicators (weights in brackets relating to market pressure (25%), regeneration (30%), population dispersion (25%), homelessness (15%), and a fixed element for all (5%))

Alongside the evolving picture, what has not changed is also important.

The Scottish Government currently retains its primary target of delivering 50,000 units by the end of the current Parliament, implying that despite the 2023-24 and 2024-25 budget cuts, that year-to-year funding variations would net out over the parliamentary term). This seems increasingly unrealistic, reinforced by the Scottish Government declaration of a housing emergency and the development of a housing investment taskforce to seek ways to inject more private funding into affordable supply.

It has retained the central-local system of funding allocations and project level negotiations over funds and mix.

Through the three programme phases there has been no overall programme evaluation of the AHSP, and since 2010 no further comprehensive analyses of the sector's financial capacity to develop social and affordable housing. The Government has, however, revised (upwards) its benchmark subsidy assumptions with periodic bargaining over benchmarks with representatives of councils and housing associations.

The spatial allocation funding formula across local authorities known as SHIF (Scottish Housing Investment Framework) used to allocate resources to 30 LAs has not ostensibly changed since 2017-18 for SHIF³⁷, while the separate funding arrangements for Glasgow and Edinburgh, linked to the transfer of development funding has remained unchanged for well over a decade.

Table 1 Summary of AHSP Programme since 2011

	2011-16	2016-21*	2022-23 to 2031-32
Affordability supply target	30,000	50,000	110,000
Social/affordable completions	20,000 / 10,000	35,000 / 15,000	70:30 [10% of all rural/remote or island]
Programme funding	£1.9b	£3.5b	£3.5b (current parliament)**

Sources: SG website; Audit Scotland, 2020

*Extended into 2021-22 before completion of target

**note budgetary cuts in 2023-24 and 2024-25 jeopardise the target.

Table 1 summarises the programme's first two completed phases where the numbers were slightly over target, though the second phase needed an extra year, in the main due to Covid disrupting the programme. Table 2 shows the aggregate outcomes for the programme for the 2016-22 period – the second phase was extended into 2021-22 in order to complete the five year programme given the Covid-19

pandemic. This has consequently impacted on the duration of the third phase.

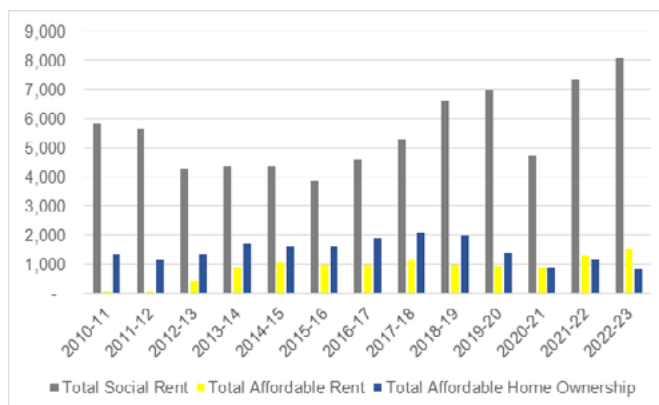
The overall programme (adding columns two and three below in Table 2) totalled 51,112 units. Scotland has developed a programme that has in general produced more social and affordable units per capita than the rest of the UK in the period since 2011-12 (Gibb 2021; Stephens, 2019). Recent data in the Scottish Government’s Housing Statistics for Scotland Quarterly Update (Q2, 2023, p.30) suggests that between 2007-8 and 2021-22, Scotland averaged annually 13.9 homes per 10,000 population, compared to 9.7 in England, 8.0 in Wales and 12.7 in Northern Ireland. In the period 2015-16 to 2021-22, Scotland had the highest number on this basis in every year but one. Contrasting Scotland to England also shows that much more of the affordable housing supply has been social housing in Scotland.

Table 2 Composition of the AHSP, 2016-17 to 2021-22

Type of AHSP activity	Cumulative 2016-17 to 2020-21	2021-22	Totals
Social Rent:			
HA rent new build	16266	3834	20,100
HA rent rehab	1525	47	1,572
Council new build	6581	2621	9,202
Council rehab	465	26	491
HA/Council off the shelf	3147	769	3,916
Home ownership support fund off the shelf	165	9	174
Total social rent	28149	7306	35,455
Affordable:			
Affordable rent (total)	4979	1282	6,261
Affordable home ownership (total)	8227	1169	9,396
Total AHSP	41355	9757	51,112

Source: UK Housing Review 2023, table 2.4.4, p.88

Figure 1 AHSP Programme by category, 2013-2023



Source: reprinted from Scottish Government (2023) Scottish Housing Market Review 2023 Q2 chart 10.2

Forward indicators (Scottish Housing Market Review Q3 2023, p.27) offer a more concerning picture of affordable supply since 2022 (and going forward). It is true that completions are, year on year, at their highest levels since 2000, but looking more closely, the numbers are weaker regarding future delivery in the short run, with reductions in both affordable supply programme starts and a considerable fall of more than a fifth in one year in affordable supply programme approvals. These are both leading indicators of what is to come and paint a more pessimistic picture:

- Completions, annual figures to the end of quarter 2 2023, show a total of 10,757 (a rise of 12.4% or 1,888 units)
- Starts, annual figures to the end of Q2 2023, indicate a fall by 2.5% to 7,124 homes
- Approvals, annual to Q2 2023, were 6,042, a reduction of 22% on the previous year (1,724 homes).

Concerns and Challenges

Audit Scotland (2020) presents a balanced review of the affordable supply programme immediately prior to the pandemic in 2020. On the credit side, it notes the delivery of affordable units nationally across the first two programmes, that these helped meet important unmet housing needs, the AHSP led to a net increase in social housing (aided by the end of council house sales in Scotland), and improved the quality of affordable housing overall. However, at the same time, Audit Scotland also stressed that there was an incoherence in the lack of connection between the national need target and the locally derived needs generated by councils and partnerships of councils. This hinders the measurement of outcomes (what sort of need is met relative to local priorities; and, to what extent are there wider beneficial outcomes such as reduced need, inequality and child poverty outcomes) locally from the AHSP. In turn, this lack of monitoring or concern with local outcomes means that Audit Scotland cannot assess the value for money of a £3.5 billion programme.

Audit Scotland also identify several risks for programme delivery, e.g. continued access to suitable land and necessary

infrastructure, as well as rising costs and funding uncertainty, many of which providers were trying to address. As a result, the Scottish Government made changes in the subsequent 2021-26 programme (e.g. the housing infrastructure fund and the 10% quota commitment to rural, remote and islands housing (p.34-35)).

The July 2023 Solace/ALACHO report on the housing context for the AHSP also makes important points about the programme and the challenges it faces post-Covid and in the midst of the cost-of-living crisis. These include:

An emerging crisis of affordability across the whole housing system but particularly in rural, island and east central Scotland.

- Record and rising numbers in Temporary Accommodation (TA) across most councils and increasing numbers of open cases and time spent in TA (i.e. a growing stock and little net outflow). Allied to this, the cumulative impact of a wide range of humanitarian and asylum seeker programmes.
- Specific supply-side problems with water utilities.
- Continuing shortfall in the supply of mainstream social housing lets from the existing housing stock (i.e. slowing turnover and mobility), mixed progress with homelessness lets, alongside the emerging issue of a shrinking PRS, creating further demand for social renting.
- Evidence of the limited impact and unintended consequences of emergency legislation (e.g. the temporary rent freeze and subsequent cap deterring BTR investment).
- An emerging risk of a significant slow-down and underspend in the AHSP flowing from a growing imbalance between (admittedly higher) benchmark grants and higher (and rising) development costs, making projects less viable.

Inevitably, the AHSP runs a danger of over-focus on numbers delivered relative to the meeting of the most urgent needs in specific places. The high levels of affordable housing need at the aggregate level are not in doubt and the success of delivery of new supply in the first two parliaments of the AHSP has been a great achievement, given that the policy emerged out of worries of large cuts to capital spending. However, building the new units at a national scale, while not creating issues over quality per se, does not necessarily translate to the meeting of priority local needs, especially for social housing, rural affordable supply, or for specific specialist needs. Where affordable need is urgent and relatively high, and where social and affordable rents can impact on inequality and poverty, as is argued is the case within the Lothians and surrounding housing markets, this is one reason why activists scrutinise so closely the extent to which social housing targets are being met and rents are genuinely affordable.

It is also bears repeating that Scottish housing is a dynamic and evolving system. Need estimates from 2019-2020 rapidly date. Since the beginning of the present decade, we have experienced the pandemic, accelerating unaffordability and the consequences of larger volumes of homeless households trapped in temporary accommodation, particularly in

Scotland's two largest cities (and in several other parts of the country, too)³⁸ (Shelter Scotland, 2023; SOLACE, 2023). Low rates of turnover in the social housing sector mean that more people on housing registers are unable to have their needs met. Housing need, therefore, admittedly variably so across space, may now be significantly higher and qualitatively different to the national affordable need estimates of just three or four years ago (as has been recently indicated by separate 2024 needs research by Diffley Partnership and Rettie & Co, 2024).

A principal driver of the programme's delivery is the interaction between subsidy benchmarks and the financial capacity, including risk appetite, of housing providers on the one hand, relative to the rising land and build costs faced by both social landlords and councils organising their SHIP programmes, on the other. Not only have interest rates risen sharply (before beginning to fall back), but land and construction costs are accelerating, alongside more scarce contracting labour, implying a rapidly rising per unit cost, and a widely held sense that even rising subsidy benchmarks are well behind what is required to keep rents genuinely affordable. There is also a concern that in-year underspends will rise because providers with approvals and funding will be less able to fulfil programmes because of contractor problems, as on-site costs rise and shortages accumulate. There is anecdotal evidence of developers and providers pausing or suspending programmes. Also, with pressures growing on budgets, the case for demolition and re-provisioning strategies may become harder to justify, relative to genuinely additional affordable and social supply.

Underlying the aggregate picture is the spatial distribution of subsidy through resource planning assumptions to different parts of Scotland, often summarised as the allocation between areas of regeneration/deprivation need (usually in west central Scotland) and those in acute affordable need in areas of more severe market pressure (e.g. east central Scotland around Edinburgh). It remains the case that regeneration need seems to do better on a local authority absolute level, on a per £ or per person basis, than does affordable need. The tension between addressing the long-term social change case for social housing versus tackling immediate unaffordability remains 'unfinished business'. While those who benefit from the system will seek to protect the outcomes of such a formula, it is a system now under considerable strain.

Finally, the AHSP does not operate in a vacuum. It impacts on and changes the wider housing system. At the same time, other changes underway elsewhere in the housing system change what is possible with the AHSP. Two examples of these interdependencies and feedback loops (which may amplify or reinforce these interactions) illustrate the point:

- 1. The adoption of and utilisation of S75 affordable housing policies critically depends on the demand for new private housing for sale, what economists call pro-cyclical demand. Similarly, residential land prices for land sought by social and affordable providers are driven by private housing demand. This also creates the perverse incentives of best

38 In July 2023 the Scottish Government announced that it is wiring £60 million out of the AHSP to support additional temporary accommodation supply through means such as acquisition from the PRS.

value for public sector landowners to seek to maximise their capital receipts from land sales rather than to consider the benefit that cheaper land can give to making social housing projects more viable.

- 2. Though its nature and extent is still unclear, different evidence fragments suggest consistently that landlords are exiting and numbers supplied are reducing in the private rented sector. Demand is outstripping supply and while some of the landlord exits may be selling to other landlords, the net effect is to push up rents and increase long term unaffordability (via a greater demand/supply imbalance that includes deterred BTR investment post rent cap interventions³⁹), and thus increase new housing need over and above the levels of affordable need we have been focused on so far.

³⁹ Rettie & Co (2023) <https://www.rettie.co.uk/property-research-services/assessment-of-scotlands-rent-freeze-and-impacts#:~:text=Assessment%20of%20Scotland's%20Rent%20Freeze%20and%20Impacts,-Rettie's%20established%20research&text=£3.2bn%20of%20investment,an%20attractive%20place%20to%20invest.>

3. AHSP Deep Dive Local SHIP and AHSP Case Studies

Introduction and Background

A key part of this project has been to bring these general Scottish-wide issues alive by looking closely at how they impact on specific local areas. This chapter is concerned with the experience of the AHSP in Edinburgh and in Lanarkshire. Edinburgh was selected to explore the delivery of the AHSP in a highly pressured housing market. North Lanarkshire was selected as a more modestly priced housing market area where housing investment is closely interwoven with regeneration. South Lanarkshire was selected because it covers a diverse area comprised of pressured markets (East Kilbride), areas where demand is modest and rural areas such as the former Clydesdale area.

Strategic Housing Investment Plans (SHIP) are an integral part of the Local Housing Strategy (LHS). They are widely viewed as the key local tool for the planning and delivery of additional social rented and other affordable housing consistent with LHS priorities, which in turn should clarify how national priorities are being translated into action locally. Although SHIPs are promoted as a mechanism to improve the cost-effectiveness of the delivery of social and affordable housing, like any planning tool, SHIPs cannot be understood in isolation.

Our approach

The three local authority case studies (City of Edinburgh, North Lanarkshire and South Lanarkshire) involved a combination of desk-based analysis and semi-structured interviews. The three different local authorities were chosen to allow us to explore the different opportunities and challenges faced by local authorities and their partners in delivering the Affordable Housing Supply Programme (AHSP) in different local housing market contexts.

The desktop analysis involved a review of each local authority's Strategic Housing Investment Plan (SHIP) for 2023-2028, drawing on other relevant documents, such as the HNDA, the LHS and Local Development Plans (LDPs) where necessary to better understand the local AHSP programme. This document analysis was guided by a proforma to collate information for each local authority in a manner to allow comparisons between the three LAs to be made. Amongst the topics covered were SHIP priorities and the extent to which they were consistent with the HNDA and aligned with LHS and Local Development Plans (LDPs), the role of any Affordable Housing Policy (AHP) and key challenges surrounding the delivery of the local AHSP (e.g. tensions around land, resources, capacity etc). In reviewing the documents, attention was paid to any discussion of the role of housing in tackling poverty.

The document review was complemented by a review of the SHIP tables, which local authorities kindly provided in excel format alongside analysis of Scottish Government data relating to the AHSP outputs and funding.

A programme of 15 interviews were conducted by the research team with local authority representatives (6), RSL (6) and other key stakeholders (3) operating in one of the three case study local authority areas. The interviews explored how national AHSP targets and expectations were understood and translated in each local authority area, what types of reforms might maximise the delivery of social housing supply; and to what extent the current model of delivery is fit for purpose. The interviews were conducted in line with CaCHE's ethical protocols, determined by the University of Glasgow College of Social Sciences ethical review team. The interviews involved a mix of face to face and online interviews, the latter using MS Teams, which were auto transcribed and then edited for clarity. Where interviews were not recorded, detailed notes were taken and written up afterwards.

Summary of the three case study areas

City of Edinburgh Council (CEC)

Edinburgh is a very pressured market, driven by high population growth, employment growth and the expansion of the higher education sector. The most recent HNDA (dated 2022) suggests that a minimum of 36,000 to 52,000 new homes are needed between 2021 to 2040. Of these, there is a need for between 24,000 and 35,000 affordable homes, with most of this need being for social rented homes. The analysis suggests around 1,383 social rented homes are likely to be required per annum between 2021 and 2030. Alternatively, the Edinburgh Poverty Commission estimates suggest 2,000 social rented homes are required each year.

Delivery falls well short of estimated need. From 2017 to 2022/23, the council reports that around 8,300 site approvals and 6,900 affordable homes had been completed, although it is unclear how many of these are AHSP-funded or what the tenure breakdown is⁴⁰. Measured on a per capita basis, housing completions in Edinburgh remain well below the Scottish average, especially social rented completions. This under-supply has led to escalating housing hardship. The city has experienced significant increases in homelessness, with an increase of 23% in the number of homeless applications from 2021/22 to 2022/23⁴¹. Temporary accommodation placements have also increased, with 3,560 households living in temporary accommodation at the end of March 2023, an increase of 7%

⁴⁰ City of Edinburgh Council (2022) Housing land audit and completions

⁴¹ City of Edinburgh Council (2023) Housing, Homelessness and Fair Work Committee: Homelessness Statutory Returns. Online at: <https://democracy.edinburgh.gov.uk/mgConvert2PDF.aspx?ID=61872>, p.2

since 31 March 2022⁴². Shelter Scotland recently estimated that there has been a 16% increase from 2021/22 to 2022/23 in the number of 'children associated with applications assessed as homeless or threatened with homelessness.'⁴³

The challenge of increasing social and other affordable provision is compounded by funding pressures. Relatively high levels of Housing Revenue Account (HRA) debt associated with historic investment council housing new build and stock improvements, and the recent Edinburgh decision to freeze council rents in 2021-22 have added to these funding pressures, while high and rapidly rising land and development costs are severely limiting both LA and RSL ability to maximise the share of AHSP funded homes that are for social rent – and now even MMR properties are becoming difficult to deliver. In early November, the city council declared a housing 'emergency' in Edinburgh followed by an emergency action plan in March 2024.

North Lanarkshire

In contrast to Edinburgh's distinctive housing challenges and the acute needs to increase affordable housing provision, both Lanarkshire councils have far less acute and chronic housing and funding pressures. Accordingly, both councils are more focussed on regeneration (including town centres) and re-provisioning of existing stock (especially for older people). North Lanarkshire Council (NLC) was selected as a more modestly priced housing market area where housing investment is closely connected with regeneration. The area is divided into three sub-Housing Market Areas (HMAs): Cumbernauld, Airdrie and Coatbridge and Motherwell. It experiences low population growth. NLC is contiguous to Glasgow and well connected to the city by road and rail, and consequently several of NLC's settlement develop private new build targeted at commuters into the city, thereby reducing some market pressure on the city (e.g Cumbernauld, Motherwell, Viewpark).

For the 2022-27 SHIP, NLC has a target to deliver 3,216 affordable homes. This figure includes off-the-shelf acquisitions and units that began in 2022/23, with new build equating to 2,736 units, of which 2,287 are planned to start from 2023/24 onwards. Both the SHIP and Local Housing Strategy (LHS) for NLC link to wider aims around regeneration, climate change and town centres. The SHIP highlights resourcing challenges for the AHSP, particularly around increasing costs of labour and materials, given high inflation.

South Lanarkshire

South Lanarkshire Council (SLC) has seen modest levels of population growth and subsequent moderate levels of demand for housing. The local authority is diverse, encompassing areas of higher demand, such as East Kilbride, areas where demand is modest and rural areas in the former Clydesdale area with different housing challenges. Like NLC, SLC abuts the city of Glasgow and housing developments

in parts of the council are part of the wider Greater Glasgow private housing market e.g. Bothwell, Uddingston, East Kilbride, Rutherglen, Cambuslang and across the Clyde Valley).

South Lanarkshire Council's 2023-2028 SHIP sets an aim for 2,562 social and affordable housing units across 72 sites, including new build and acquisitions. This compares to the HNDA which set a lower target of 1,250-1,500 additional affordable homes (the difference may be explained by local need and also by re-provisioning supply). By area, the largest number of units in the SHIP are forecast for East Kilbride (810) and Hamilton (807).

SLC has higher levels of affordability when compared to Scottish averages, with council rents being 5% lower (LHS, p.4). Nevertheless, interview data highlighted that SLC is the fifth most impacted local authority for homelessness, with a key priority for the SHIP being around housing pressure and need⁴⁴. SLC has a focus on (community-led) regeneration and town centre revitalisation as part of the Scottish Government's Place-Based Investment Programme. South Lanarkshire's Strategic Commissioning Plan (2022-2025) has a focus on 'promoting sustainable housing and contributing to homelessness prevention and reduction' (p.12). South Lanarkshire has also (June 2024) declared a housing emergency.

The next six sub-sections summarise the key issues we found in the case studies.

Planning for Social and Affordable Housing

SHIP priorities and needs assessment

Local authorities view the SHIP as a rolling programme that is part of the wider LHS process, involving ongoing dialogue with RSLs, private developers and (increasingly) other public sector bodies such as local Scottish Enterprise and Health and Social Care (H&SC) Partnerships. In the face of ever tighter staff resources, local authority officers focus on managing this ongoing process. While efforts are made to adjust the annual SHIP written commentary to reflect the local housing system, policy and funding developments, there is some perception that external partners, including SG regional teams, are primarily interested in the Excel tables that set out ongoing and proposed sites for affordable housing.

"You do fear when you spend all your time writing these things and then people only read the big table that lists sites...the fact is that we refine the SHIP to reflect policy developments, changes and learning"

(LA 3)

⁴² Ibid., p.5

⁴³ Shelter Scotland (2023) Edinburgh's Housing Emergency. Online at: RUKtwYniZFu4NXS/09198F521b12f1167d8e5f97e3d41c7d/Shelter_Scotland_Written_Submission_CEC_Full_Council_2_November_2023.pdf, p.

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⁴⁴ South Lanarkshire declared a housing emergency earlier in 2024.

SHIP documents for all three case study areas as well as other SHIP documents we read typically said the SHIP was designed to meet LHS objectives, boost the supply of affordable housing to contribute to the local Housing Supply Target (HST) and help address local housing needs such as homelessness, regeneration, older people, wheelchair users and other equalities groups – albeit sometimes discussion of local need was little more than a cursory reference to satisfy SG guidance.

In terms of the three case study areas, both the NLC and SLC SHIP referred to the need to increase supply in pressured areas while also ensuring housing investment supported regeneration, town centre revitalisation and the HSCP agenda, including the re-provisioning of housing for older people and other priority groups, such as via Housing First in SLC and CEC. SLC also referred to the need to ensure investment helped ensure the long-term sustainability of rural communities. Discussions confirmed that supporting wider strategic priorities while addressing locally identified needs remain key aims.

The Edinburgh SHIP was primarily focused on expanding the provision of affordable housing at the citywide level, consistent with Council and RSL perceptions that levels of housing stress and unmet needs are chronic throughout the city. Much of the SHIP was devoted to articulating funding, land and other constraints to delivery of affordable homes and the aspirations to increase the output of social and other affordable homes. There was only a brief reference to flagship West Granton re-development plans or the Winchburgh/Airport corridor, despite the excel tables indicating that much of the SHIP development proposals rely on these developments.

Discussions suggested that projects selected for inclusion in the SHIP continue to be based on a blend of strategic priorities, the potential feasibility of delivering units on site within a reasonable timeframe and funding availability. Compared to 2016/17, however, RSL observations suggest that most local authorities appear to have raised the bar (at least with RSL projects) about the evidence sought to “demonstrate” that proposed projects have a high probability of being feasible and viable before being included in the SHIP. This partly is because programmes have become less opportunistic, not least to avoid raising expectations of elected members of communities affected that a project would proceed.

It is appropriate that annual SHIPs change and evolve as local authorities and their partners come across different obstacles and opportunities. On the downside, it remains the case that for those not intimately involved in the local SHIP process – including elected members who are supposed to hold officers to account - can struggle to understand what the SHIP programme is trying to achieve and what has so far been delivered. Ultimately, we found that it was necessary to work through the SHIP tables for each LA to work out what was planned in each year of the programme, paying close attention to clear deliverables in years 1 and 2 as plans for year 3 onwards become increasingly uncertain and subject to change and refinement.

For instance, the Edinburgh SHIP appeared to conflate desired outcomes and deliverables. It included many more proposed sites/units (mainly on council land) than could be delivered given current resource and capacity constraints. The aim of increasing the share of the programme comprised of social rent also largely relied on sites not scheduled to begin within the next 3 years.

Assessment of needs (HNDA and supplementary analysis)

While most interviews felt the HNDA was somewhat useful, it appears to be becoming less valued as a tool to underpin housing strategies. In large part this is because the model is seen to be demographically driven and fails to come close to adequately accounting for backlog need, obsolete stock and holiday/short term lets taken out of the mainstream housing stock. There are questions about how house prices and, more especially, the private rental figures, as well as income figures embedded in the model are arrived at. In short, there is a widespread perception that the HNDA model underestimates unmet housing need and offers limited insight to the complexities of local housing system failures that local authorities and their partners face (and this is consistent with the new national evidence from Diffley Partnership and Rettie & Co for Homes for Scotland, January 2024).

Other limitations associated with the HNDA were that:

- It is a long, resource-intensive and infrequent process and often findings are out of date by the time Scottish Government “approval” is secured. In particular, the drawn out HNDA process is ill-suited to dealing with economic shocks, such as Covid and the cost-of-living crisis.
- HNDA model input assumptions have to be agreed with multiple authorities, which undermines and fails to recognise the elected mandate of Councillors to define local housing need.
- Assessment of the housing related needs for older people and others in need of a more bespoke housing solution remains under-developed.
- The lack of any link between outputs from the HNDA and the new NPF4 Minimum All Tenure Housing Land Requirement (which are produced via the HNDA model) impinges on the efficient allocation of AHSP resources to support delivery of additional social and affordable homes.
- Findings are insufficiently fine grained to support the setting of SHIP priorities in local authority areas with diverse local HMAs and settlements. This is somewhat less of an issue for local authorities that sit out the former strategic development plan areas.

Acknowledging this latter limitation, SLC and NLC conduct supplementary analysis to inform their LHS/SHIP process, some of which is in the public domain. In particular, SLC undertakes deeper analysis at settlement and site level. This involves analysis of housing list, housing allocation and turnover data to explore characteristics of those seeking social housing compared to turnover (location/type/size of units) to explore what type and size of housing is required. SLC also have a joint planning approach with HSCP that makes use of

this analysis and health and care assessments to investigate the need for bespoke housing for “known” households with specific needs.

Partnership working

Housing associations were generally positive about the SHIP process and dialogue with local authorities. RSLs generally placed far more emphasis on ongoing dialogue with local authorities than on the LHS and HNSA to clarify development priorities and priorities of tenure mix, provision and other property attributes sought in different locations. This was increasingly understood to be vital if RSL led proposals for sites they owned or could access (sometimes via S75) stood a good chance of being included in the SHIP. However, some participants expressed frustration with the relationship between planning and housing. Some RSLs and other external stakeholders felt that planning and housing departments did not always have joined up policies.

There was also concern that the SHIP process could be a bit of a closed shop, with favoured RSLs continuing to be supported and others struggling to get the same hearing, which a lack of transparency around the process for prioritising affordable housing proposals could reinforce. It has also become more difficult to secure land, especially land in public ownership, in some parts of Scotland, where local authorities now have substantial ‘own stock’ development programmes.

Both local authorities and RSLs we talked to were positive about day to day working with Scottish Government Regional Teams who were seen to have a good understanding of the local context. However, a couple of national RSLs observed that there were significant differences in the level of engagement and the nature of the relationship between the Scottish Government and local authorities across Scotland.

While relationships with the H&SCPs were also continuing to mature, any partnering up with private developers was still felt to be rather hit or miss. While some LA and RSL participants raised issues in relation to Scottish Water, it was unclear how common these were. Relationships with SEPA and other stakeholders were also unclear from the interviews.

Land supply

Securing land

Until recently, the AHSP programmes have tended to rely fairly extensively on land that was relatively straightforward to secure. This includes land held by local authorities (especially on the HRA) and land secured through S75. In Edinburgh, S75 land is usually transferred to RSLs at zero cost, which is especially important as they can no longer compete with developers to purchase sites in virtually any area of the city. Elsewhere some developers continue to resist on-site provision.

As current market conditions deteriorate, S75 options have diminished. Likewise, council-owned land in some areas has also become scarcer, especially for RSLs looking to develop

in areas where the council is now a significant developer of affordable housing. In terms of the ability to secure land from other public bodies, the interviews suggested that public landowners are, for the most part, focused on maximising profit not best value. Both interviewees and the expert panel were of the view that developable land in public sector body portfolios (NHS, MoD, etc.) should be made available at below market value to support the delivery of social rented housing, despite that, as the Granton Waterfront shows, land assembly is a complex and time-consuming process and may do little to speed up the delivery of homes.

“there is pressure on LA (and other public bodies) to sell better land to private sector to maximise receipt. So, at times it’s public money being sort of transferred across organizations really”

(WoS – RSL)

Where local authorities are seeking strategic sites for larger scale new supply programmes, land assembly makes it much more likely to include public sector land disposals.

“The Council is a bigger player in terms of building homes and is delivering a bigger share of the programme than say 5 or 10 years ago... it’s partly a factor of us having land... we’ve been able to purchase land from the council’s general fund and bring it onto the HRA”

(LA 2)

There could also be potential to develop policies to shift public land disposals to SMEs by offering them first refusal.

Although land prices are high, there is a perception that land prices are inflated due to landowners and developers playing “hard ball” which local authorities are poorly equipped to challenge.

“Landowners typically sell land in small packages, which they say is to minimise risk but in reality, looking to maximise profit”

(external stakeholder)

There was a widespread perception that addressing land supply and prices and tackling windfall gains to landowners was the key issue for Edinburgh and Lothians, alongside finding sufficient resources and suitable mechanisms to fund social rented housing and associated infrastructure.

In South Lanarkshire, interviewees reflected on the challenges they had faced working with partners on land supply. However, they also recognised opportunities. While recognising the value and importance of procurement regulations, there was a view that these could sometimes

complicate and slow down the process. One interviewee described situations where private developers had approached the Council with development opportunities, but procurement were unable to support the partnership without going out to tender.

S75 agreements and Affordable Housing Policies (AHP)

As noted earlier, securing land for social affordable homes through S75 is prone to failure in the sense that developers will often choose not to develop out a site when the housing market stagnates as developers opt not to build on sites in such circumstances, which can cause major headaches for managing AHSP programmes. In Edinburgh another concern was that lack of joined up policy meant developers were often in the driving seat in terms of affordable housing, such that social housing was squeezed out of developments.

Another S75 issue identified by RSLs involved the challenges of managing mixed tenure developments in the form of high-density flats (even if in separate blocks) and rising cyclical maintenance costs, partly linked to the maintenance and replacement of lifts. This increased RSL hesitancy to agree to purchase “off the shelf” housing from developers as part of S75 developments:

“The local authority takes a hands off approach to these negotiations. So, it tends to be that RSLs are kind of expected to sort of go and talk to developers themselves and broker a deal”

(RSL)

There was also a sense that reliance on S75 along with inadequate grant rates has meant the benefits of increased housing supply in Edinburgh have to often bypass households most in need, including those on housing list, those in temporary accommodation and other homeless households.

Planning permission

Obtaining planning permission and navigating the planning process remains problematic, suggesting the close working with local authority housing staff did not always speed up or make the process of securing planning permission any easier. Indeed, a couple of social landlords said that securing planning permission was becoming harder, which was generally felt to be due to staff shortages.

“We don’t have enough capacity and the council are not recruiting and instead keeping posts vacant; it just undermines capacity for them (planning dept) to do the job they are supposed to do. At same time there are recruitment challenges”

Local authorities and RSLs made surprisingly few references to objections from local residents and communities to the planned developments. Most discussions on this topic were mostly confined to S75 developments where RSLs and others

repeatedly said that problems could have been avoided if private developers had engaged with RSLs and involved them in meaningful community discussions from the outset.

I don’t know why the developers don’t bring the RSL partners in at an earlier stage so that we can be part of planning and community discussions. If its developers we have work with, we tend to approach them and ask to get to the table here and have this conversation.

(LA3)

Funding challenges

The financial capacity of social landlords to deliver the required step change in the supply of social rented housing required to attain the 110,000 target was perhaps the most frequently reported concern across the case study interviews:

“I strongly support Scottish Government’s affordable housing programme aims and the 110,000 target but I am sceptical that funding levels will be sufficient to achieve these ambitions, especially the way land and construction costs have increased”.

(External stakeholder)

However, the problem was said to be especially acute in Edinburgh. For the most part, this concern generally centred around the following:

- Limited increase in AHSP unit grant levels relative to market prices since the Covid-19 pandemic
- The rapid rise in land, construction and other building related costs, including infrastructure and developer contributions
- The rising cost of private finance and diminishing impact of cross-subsidy model
- LA/RSLs’ willingness and/or ability to use reserves or security to invest in new build in the face of competing investment pressures arising from the safety and decarbonisation, etc. agenda
- Limited scope for substantial rent increases, aggravated by uncertainty around the suggested national rent policy.

AHSP funding

A recurrent theme amongst many stakeholders, was the need for higher rates of AHSP funding (while being grateful that benchmark rates had increased), in order to be in line with the much-increased costs they were facing in the context of wider economic challenges:

“Grant unit benchmark rates have gone up, which

is great, and that's very welcome, but they haven't gone up nearly enough to cover mounting costs

(RSL).

"Officials tell Councillors that they are working with RSLs to stretch available grant funding and maximise the number of social homes that can be delivered with available grant funding but their reluctance to fund projects above indicative SG benchmark rates belies this"

(external stakeholder)

However, there was some evidence that in recent months, CEC has become somewhat more flexible and willing to consider the possibility of additional grant for developments, though it was unclear if this would be sufficient to stem or reverse the upward trend in the proportion of AHSP new build comprised of MMR.

Such challenges were cited by some to be severely threatening the viability of new developments. Stakeholders described how assessments evaluate the Net Present Value (NPV)⁴⁵ flow over 30 years, including all the outgoings, the incoming money in rent in the form of rent etc., as well as upfront grant. Several RSLs, especially non-national, explained the difficulties they were facing, having to go to their Boards and ask if they were prepared to subsidise a development and at what cost:

Increasingly, we've been going to our board and saying a project is going to make a loss and we need you to look at whether to subsidise it using money that's lying in the bank. Before we were asking for £5,000 or £6,000 per unit, now we'd be asking for about £80,000 per flat to make a project stack up.

(RSL)

Rising cost of private finance

Related to the points above, there was real concern from RSLs regarding their capacity to continue their new-build developments, which require private finance:

unfortunately, because of a whole host of reasons but in the main higher loan interest rates, it's going to be really, really difficult to keep developing in the current climate

(RSL)

These comments thus highlight the real threats to meeting the Scottish Government's AHSP targets, given the increasing reliance on RSL delivery. This raises major concerns regarding the ability of social and affordable housing to fulfil its potential role in the alleviation of poverty and meeting the needs of those most in need.

Construction costs

Again, reflecting the themes discussing previously, rising costs in terms of construction were reported to be a further big stress factor for all:

The last time we actually properly tested the market in 2021/22, it was £203,000 per unit just for construction costs. Since then, we haven't put anything out to tender because we are hearing on the grapevine from other housing associations that no contractor is willing to give a fixed price contract anymore

(RSL)

Thus, both local authority and RSL representatives argued for the need for more flexibility around the levels of grant and particularly the support available for the mediation costs. Stakeholders also noted that cyclical maintenance costs have increased, adding further pressure to landlord capital budgets.

Infrastructure

Although less of a problem than reported in 2016/17 (Young and Donohoe, 2018), access to essential services, particularly water and sewerage connections remains problematic, often resulting in considerable delays and additional costs:

the biggest problems we've got at the moment is around Scottish Water and making surface water connections. They won't let us connect any more into any combined sewers, so you've got to find some water course that could be miles away or come up with some other method that satisfies Scottish Water, that's been adding ten if not £20,000.00 a unit on some of our developments

(LA2).

Developer contributions, cross-subsidy and capacity

Several stakeholders expressed frustration that the application of developer contributions are adding to the cost of social housing developments:

And a developer would be paying for that out of the profits of their housing for sale and we're not making any profits... it's just adding to our losses

⁴⁵ NPV is a measure of the netting of cumulative revenue and expenditure to an ongoing project over its life time on a common basis compared to the present.

As the value of capital grant available for social housing on a per unit basis has diminished, social landlords, particularly in Edinburgh, have made use of a cross subsidy model to fund social housing. Since 2013, developments in Edinburgh have typically come to rely on the inclusion of a proportion of MMR (or other forms of intermediate rented homes) to help fund the gap in grant funding for social rented properties. RSLs operating in Edinburgh consistently said that the balance between social rent and MMR has changed in the last eight or so years, such that MMR now typically comprises 50% or more of the units in new developments.

Some RSLs in Edinburgh and Lanarkshire also pointed out that the cross-subsidy approach was not without its challenges. RSLs were quick to point out that MMR style accommodation requires different governance and management from social rent. Properties are let under the Scottish Private residential tenancy with different management requirements, and requires a subsidiary body but, if a charity, the overall charitable aims have still to be met through the MMR subsidiary. They also noted the need for a critical mass to make mid-market rent effective and value for money.

The impression from the case studies is that MMR rent cross-subsidy approaches at any significant scale is currently only of policy interest in Glasgow and Edinburgh - which may be linked to limited supply of lower priced owner occupation, excess demand for PRS, rising PRS rents and LHA rates.

We also heard that in the case of Edinburgh, the cross-subsidy model is starting to become untenable in the face of market conditions and pressures on borrowing limits RSLs. In particular, those RSLs with experience of developing in Edinburgh and the Lothians expressed serious concerns about the impact of high house and land prices on the cross-subsidy development model – and the ability to deliver MMR:

just on MMR point, proposals around rent controls and PRS [suggest] that model may not be viable.

Competing investment pressures and priorities

Stakeholders noted that the cost of building safety works, improving property conditions and working towards net zero, all place extra demands on resources. These have been compounded by the impact of high inflation and rising building, labour and energy costs, such that social landlords' investment capacity in new build is being curbed:

but we have done a lot of planned maintenance work, but not anything that you'd be looking for, as far as net zero goes because they're old, they're all stocks of we've got a retrofit issue, a huge retrofit issue

(RSL)

Other Issues Concerning the Delivery of Social and Affordable Housing

Stakeholders identified additional issues and challenges in relation to the delivery of social and affordable housing.

Project appraisal

Stakeholders noted that the challenges around viability and value for money noted above were impacting on project appraisal processes, and slowing down the process:

"More and more projects are above the Scottish Government benchmark. This is slowing down the process of applications going through, because they have to go through a more manual and detailed grant appraisal process, which slows down everything"

(RSL)

"Value for money appraisals can drag on. It's very frustrating as you know that by the time it completed all the costs will have risen"

(RSL)

Scale and tenure mix of projects

As noted earlier, all three LAs have historically worked closely with a small number of 'favoured' RSLs, sometimes locally based RSLs, but this is changing, at least in urban areas. In all three local authority areas, but especially in Edinburgh, a growing share of the programme was being developed by the local authority themselves or by larger, usually national RSLs. Part of the reason for this is that smaller and more local RSLs are struggling to continue developing due to the challenges discussed previously, but it also reflects a change in ambitions and the move to develop larger strategic sites.

"we've been trying to deliver more ambitious and challenging projects (because the easy sites have been developed out), but the economic situation has conspired to make some of those projects non-viable and, rightly or wrongly, we've not been able to sort out additional grant"

(RSL)

On this topic, stakeholders also made the following points:

- There are issues about who has skills and capacity to lead on managing and delivering big complex masterplan/strategic sites and how to ensure continuity of these.

- Not everyone agreed that big strategic sites were the way forward. There was concern that a focus on numbers do not [meet] need and proposed facilities/services never materialise.
- Stakeholders also noted issues around mixed tenure management in very high density developments, particularly where different tenures may be in the same block or adjacent blocks.

Construction matters

Use of off-site and modular construction is expanding. It was often discussed in terms of reducing the carbon footprint of sites and achieving more efficient use of resources by reducing construction waste and minimising disruption to local residents, especially in built up areas where small sites/in-fill sites had limited space to support conventional construction.

That said, this approach had limitations and was not suitable in all locations. A major barrier in rural areas was the high costs associated with the transportation of modular off-site construction. One interviewee also queried the lack of certainty around life-cycle costings for modular/innovative design and the risk this might pose for tenants' rents in the long term.

Participants noted that supply chain problems had escalated with the onset of the pandemic and remain problematic, compounded by workforce challenges due to the lack of tradespersons in general and skills gaps in relation to modern/modular methods on construction and bespoke design for people with different disabilities in particular:

"[supply chains] have been even more difficult ... undoubtedly affected our programme delivery and we've slipped on three sites now simply because of supply chain issues"

(RSL).

"some of our local RSLs have used more of the smaller contractors, but they've really struggled with the cost of materials, so whereas maybe the big boys have been able to absorb some of those costs ... some of the smaller contractors have just gone out of the game"

Buy back and other second - hand properties

Generally, local authority buy back activity remains focused on former RTB properties, linked to their own stock investment programmes or stock rationalisation and consolidation programmes. While RSLs agreed selective purchases could help meet the needs of vulnerable households with bespoke needs, especially in areas where social housing turnover was very low, they were generally more cautious about off-the-

shelf purchases, including buying tenemental flats and other private sector properties.

"Suppose the thing with them is that you are buying off the shelf properties, so you're buying with somebody else's design that doesn't quite align with what your design spec looks like for variable needs"

(RSL)

I've heard some buying off the shelf can cause maintenance problems down the line if you're taking non-standard types

(LA3)

Risk of diminishing social rent in some neighbourhoods

On the other hand, another RSL stakeholder commented that there were some properties they are seeking to dispose of where they own a small proportion of the properties in a tenement, where these properties would be incredibly difficult, if not impossible, to improve to EESSH2 standards:

Now, some properties are just never going to meet EESSH2 standards. We've taken the decision and agreed this with the Council and SHR that we will pursue a disposal program. So, where we've got like one or two flats, where we've got a minority share in a tenement stair, then we would selectively sell these off.

(RSL)

Affordability and Poverty Mitigation

Our review of SHIP documents indicates that for the most part there is little discussion of the role of housing in poverty reduction. While interviews suggested this was more due to a lack of detail rather than a lack of intent, it is also clear that local authorities and RSLs generally did not articulate the ways in which their activities help to alleviate poverty.

For the most part, when asked about the AHSP and poverty alleviation, local authorities, and more especially RSLs, typically talked about the 'affordability' of rents and rent setting arrangements. Rent levels and annual uplifts were generally guided by the SFHA rent affordability tool and rent comparisons with other social landlords operating in an area.

Social landlords adopted different approaches to setting rents for new build, with some adding a premium for new build (usually aligned to SG benchmark rents), at least one adding a

premium for energy efficient homes and others choosing not to do either.

Some landlords took account of location when setting rents, albeit this was generally used to ensure rents were broadly consistent with other social rents in an area rather than to reflect any potential differences in the incomes of tenant households.

Interviewees also expressed concern about the decline in the share of rental income collected and the potential costs of the retrofit/net zero agenda and the risks this posed for services to tenants, including welfare advice.

“if you have the poorest people living in social rented housing... you have to keep an eye on the rents... but the Scottish Housing Regulator thematic study last year... made the point... questionable whether social landlords could meet the standards required for decarbonization of properties and keep rents affordable”

(LA3)

The relatively high level of rents charged by the council and RSLs in Edinburgh was also a source of concern as was the definition of affordability used by planners:

“The Edinburgh Poverty Commission found that Council rents were unaffordable to many. So mid-market and Intermediate rents can’t possibly be called ‘affordable’. Yet, planners are allowing developers to assess ‘affordability’ by comparing proposed rents against average income, which is well above the median⁴⁶”

(RSL)

Although not necessarily discussed in terms of poverty reduction, several LA and RSL interviewees referred to the importance of:

Avoiding locations where housing is poorly served by public transport in general and to key services and centres of employment, more specifically. This has been termed by key stakeholders in the sector as ‘unaffordable living.’

Minimising the non-material dimensions of poverty and improving people’s subjective experience of the place they live in by improving the physical environment and the neglected public realm.

Using investment to skill up and employ people from local communities, with a view to raising

household incomes.

Finally, interviewees highlighted the importance of investing in the quality of the housing stock and also expressed the view that what they are aiming to create is communities where people want to live:

“There’s more social landlords can do ... when landlords invest in the quality stock, they should also invest in tenancy sustainment”

(external stakeholder)

Political Will, Leadership and Transparency

Participants expressed the view that there was sometimes ambiguity about who had the ultimate responsibility for ensuring the delivery of social and affordable housing:

“If it’s somebody else’s problem, then it’s nobody’s priority.

(LA 3)

They expressed a view that the Scottish Government are not strategic or proactive enough in terms of administering the programme for each of the 30 non-TMDF local authorities. Generally, they still rely on social landlords to come forward with proposals and then assess each proposal on its own merits and financial viability. However, SG are not assessing each proposal in terms of contribution to the SHIP as a whole. Some felt that this led to a lack of transparency about the effectiveness of the programme:

“There is no proper reporting or monitoring of AHSP (or HRA new build), so there is no proper scrutiny by elected members and officers are not being held to account”

(external stakeholder)

We should always be ambitious, but ambition also has to be kind of realistic and I think right now would not being realistic. There is not an honest appraisal around the reality of the cost of delivery and the pressures on the sector. I think there needs to be a clear sense of these realities from the Government around setting up its priorities (external stakeholder)

However, there was one RSL that reported good practice, holding a dedicated elected member session prior to submitting SHIP to committee cycle. Overall, there was a general view that there was less confidence in delivering the target for 2031, in contrast to 2016-21. Several participants

⁴⁶ As far as we can tell the figure seem to be mean gross FT earnings, which is some £10K above median earnings. Around 75% of employees (including part time) earn less than this.

expressed the view that national leadership is required to change the current AHSP model.

SHIP Case Study Reflections regarding the AHSP

If the case studies taught us anything, it is that reading SHIP documents – or the accompanying HNDA and LHS documents – will not get you very far. While the suite of documents collectively incorporate extensive valuable evidence, it is the experiences, perspectives, and motivations of the different people involved in the SHIP, and the opportunities that present themselves, that more often than not drive what gets decided and what gets done.

Five conclusions strike us of wider importance to the future of the AHSP.

First, the case studies confirmed that **any move to substantially deliver more social rented housing in areas with the most chronic shortfalls will require a change in AHSP spending priorities.** This will require those seeking change, though a mix of influence and charm, to persuade national and local government leaders to have difficult conversations and make hard choices about the future shape and geographical spread of the AHSP. It will require considerable skills of persuasion to overcome the built-in inertia, which has seen the AHSP geographical allocation largely unchanged for over two decades. In short, the SPIF and TMDF arrangements need to be reviewed and revised.

Second, a long-voiced source of frustration at local level is the way the Scottish Government move money from one local authority area to another to manage the annual budgetary process. There is a widespread perception that there should be greater flexibility in the budgeting and adjusting resources to ensure out-turn spend profiles are consistent with needs and priorities rather than with where it was possible to spend money in any given year. One option could be to allow local authorities to accumulate carryovers up to prescribed limits, but this raises all sorts of difficult issues as the money is not currently controlled by LAs other than Glasgow and Edinburgh. We note that in 2023-24 in-year funding changes have drawn on underspends to meet new targets centrally (see above) and this will lessen the capacity of councils like Edinburgh to make AHSP spend assumptions based in part on in-year underspend reallocations. **To support better long-term outcomes locally, Government and partners need to review these local annuality arrangements urgently.**

Third, good planning across the public sector is hard to achieve, not least because of the multiplicity of stakeholders with varied interests, limited knowledge about the capacity of different stakeholders to deliver and tensions around partnership working and data sharing. All too often plans and strategies are full of unrealistic timescales and more objectives than could realistically be delivered. Unwillingness to change and refine such plans once approved and implemented can also become a major obstacle to achieving desired outcomes. From our perspective, however, the case study SHIPs have,

to a greater or lesser extent, avoided many of these, all too common pitfalls.

The downside is that the SHIP documents are not always clear about the outcomes they are striving to achieve, what progress has been made towards these outcomes over the last year (let alone over the LHS timeframe) and how the sum of the proposals set out in the SHIP, especially priorities for the coming two-three years, will be resourced and contribute to desired outcomes. **Sharpening up SHIP documents by addressing these weaknesses would improve transparency and accountability (to elected members, partners, etc.) and help address criticisms that SHIP documents are constantly moving goal posts.**

Fourth, however, there is a clear and widespread perception that the Scottish **Government has not yet specified in clear outcome terms what a well-functioning and balanced housing system would look like.** Without this it remains difficult to have meaningful dialogue around the purpose and allocation of the AHSP, the type of housing provision required across Scotland and the planning and funding models needed. Related to this is the questions around why a department called More Homes continues to direct a large proportion of the AHSP to help fund the replacement of existing local authority homes as opposed to expanding supply of social housing in areas where the lack of social housing has contributed to the rapid escalation of housing stress, especially homelessness.

Finally, local authorities appear to have **a growing appetite for larger strategic sites that can be developed in phases over a number of years.** These larger regeneration projects have great potential to increase the supply of social rented and other genuinely affordable homes, remove existing blight, remediate brownfield land, enhance confidence in the area and support wider ambitions to reduce poverty and secure economic growth. On the other hand, **large scale strategic sites incur major risks, substantial upfront costs, particularly in relation to land assembly, community engagement and the development of masterplans.** While local authorities may have found sufficient resources to pursue land assembly etc, our discussions suggest (in one LA area at least) that it is far from clear that partners will have sufficient resources to allow sites to develop in the timescales suggested in the SHIP.

Large regeneration sites typically necessitate complex land acquisition provisions, the delivery of mixed-tenure and mixed-use developments and partnerships with multiple partners, including social and private housing developers, other public bodies and community stakeholders. The risk is that the extensive time and work required to engage with the local community to build up credibility, secure their trust and to understand their needs in order to ensure the proposed tenure mix and provision mix reflects their aspirations and incomes gets lost in this process reducing the potential to deliver positive spill-overs in terms of placemaking and reducing poverty. Such a risk may be even greater if local RSLs with a longstanding track record on development and

community engagement in the area, for whatever reason, do not have an integral role in the major re-development.

So, given the budgetary, environmental and local factors that appear to be restricting and constraining the AHSP, what should be done to improve the situation and support this key plank of Housing to 2040? We pursue this in the next chapter of this report.

4. AHSP Reform Proposals

Identifying Problems:

We start by summarising the challenges and weaknesses identified in the current AHSP programme, which combine to risk both the numbers of additional social and affordable supply but also structurally disconnect to the quality of local needs and possible outcomes.

- The delivery of social and affordable supply has been hit by successive economic blows: rising development, construction and financing costs as inflation within the sector, and more generally, has combined with real shortages and supply chain problems. Welcome increases to grant benchmarks have not kept pace with the rising cost base and providers and private sector alike are withdrawing from parts of the new build sector, or at least seriously considering their position.
- The last two Holyrood budgets (2023-24 and 2024-25) have had serious short- and medium-term ramifications for the AHSP. The cuts in 2023-24 were worth 10-16% depending on the baseline it was measured against. In 2024-25, the draft budget cuts are deeper, 26%, and spread across both social and affordable housing provision. The depth of these cuts, reducing for instance the affordable supply elements by three-quarters – has accelerated a mid-term review of the programme by government and an interest in seeking new private finance to support the programme.
- As already stressed, the supply programme is delivered through a series of longstanding interacting allocation mechanisms, which are in some cases archaic, often controversial. As a whole, the system does not effectively deliver in terms of meeting the most pressing needs in Scotland or supporting the shift towards a well-functioning housing system. Chief areas of concern are clearly and better linking of the Local Housing Strategy to the SHIP and the HNDA model, the annual reallocation of underspends, the SHIF formula and the TMDF allocations that distribute grant or resource planning assumptions to councils. The case studies raised questions about tenure mix, project scale, declining social housing in specific areas and the tensions between additional net supply and reprovisioning existing supply.
- Local case study findings included several challenges relating to land supply, funding and other delivery issues, as well as signalling the difficulty of seeking to sustain affordable rents in the face of mounting multiple pressures on finite surplus rent income. The local analysis also exemplified the gap between the funding programme focus on numbers and meeting local need in its different forms.
- Five wider lessons were drawn from case studies: the need to change spending priorities within the programme; review and reform annual underspend reallocations to help deliver more discretion and flexibility around local delivery; sharpen up SHIP documents and make them more visible and transparent (see Box 3 below); clarify

how precisely social and affordable supply contributes to the key features of a well-functioning housing system; and, that the growing appetite for larger scale multi-phase developments has to manage a series of critical risks and will not always be the most effective solution.

The Way Forward

Policy reform ideas have to be grounded in feasibility, both politically and in term of acceptability to stakeholders, and must also be implementable within reasonable time scales. However, even though we acknowledge these challenges, we also recognise the strength of feeling from the housing sector that progress needs to be made, that ways have to be found to support the programme and improve the delivery of Housing to 2040, and we want to offer ideas that range from immediately actionable interventions, to proposals clearly requiring debate and further development, and on to longer term reforms that need more work. Of course, medium and long term proposals should be commenced quickly, given that they do require longer to be fully implemented.

The evaluative criteria which have been at the forefront throughout our discussions can be expressed through five points:

- Policies aimed at promoting and sustaining a well-functioning housing system as a whole and do so in a complementary way to other parts of the Housing to 2040 agenda e.g. reducing homelessness.
- A more economically efficient housing system which will reduce costs, over time reduce fiscal pressures through providing good VFM, support the Scottish and local economy e.g. through enhanced productivity, and offer long term preventative spending benefits and budget savings.
- Housing investment maximises its contribution to meeting need, reducing poverty and inequality, as well as wider Scotland Performs public policy goals.
- Housing contributes to net zero.
- The housing proposals are politically and technically credible to the Government and wider political class, as well as consistent with budgetary and devolution powers (though we might also propose the grounds why this latter element might be debated).

Below, we consider reform proposals and recommendations over three time periods: the immediate period (next 12 months), the medium term (1-3 years) and the longer term (3-5 years).

Short run/immediate actions

The most fundamental requirement is arguably for the Scottish Government to be much more open and upfront about what lies ahead in terms of a difficult budget environment and a clear direction of travel for the housing programme. Hard choices are inevitable and priorities will need to be set, which will require the Scottish Government to explain which parts of the Housing to 2040 agenda will be de-prioritised or deferred (and why), and to open dialogue about what to do differently and how it will be implemented. Simply announcing across-the board cuts without a rationale does not square with setting a long-term programme like AHSP or the ambitions of Housing to 2040. Instead, the Scottish Government should seize the opportunity to reset the programme's shape and structure to meet the most pressing housing needs and at the same time give both social and private sector partners engaged in the delivery of the AHSP and other housing policies as much certainty as possible.

The funding may be reduced, but what is required is for the sector to be confident that a coherent funding regime will continue into the medium to long term and that associated grant funding rules will not squeeze out social rented housing. Without getting more certainty into the system, we will see another sharp drop in the capacity/skills of the housing development and construction sector, akin to the one post the financial crisis (and which arguably had already commenced). Councils are under pressure to come to some workable agreement with the Scottish government to keep the programme moving forward. For developing housing associations, it is much less clear that there are sufficient incentives to stop them from simply walking away from the AHSP programme given the present risks and difficulties over project viability.

Second, and linked to the above, there should be a degree of reallocation of existing budgets toward social housing and away from grant to mid-market rent. This is not a straightforward decision politically; it is also one that may be damaging to specific areas where MMR can play an important role, but it is a trade-off between severity of housing need now and the longer-term development of models that can bring forward more affordable housing. It may also be the case that the reallocation can help provide higher benchmark grant levels to shore up social rented supply rather than be spread thinly and perhaps ineffectively across a larger number of potential units. There was also support in stakeholder interviews, for similar reasons, to consider de-emphasizing re-provisioning and replacement of older social rented housing stock and more focus on net additional supply of social housing. This is also political and will be unpopular in specific places but again, arguably, reflects the severity of housing need presently and is something we return to below regarding the SHIF and RPA allocations.

Third, as the local AHSP deep dive indicates, there are a number of smaller multi-year accounting rule changes that would help the process of delivering the AHSP. In particular, the Government should consider moving away from the practice of recycling in-year underspends to other councils,

to minimise future in year adjustments to the deployment of AHSP. Shifting the underspend philosophy to multi-year local discretion with councils working with the Scottish Government to improve local outcomes, certainty and allow a modicum of multi-year planning by councils. At the same time, the Scottish Government should continue to provide indicative multi-year budgets for the AHSP.

Fourth, it is evident that many councils face problems with the numbers and length of time people are stuck in Temporary Accommodation (TA). This is a good example of wider system repercussions having undesirable and unanticipated consequences elsewhere. How can the supply of suitable TA be expanded without being to the detriment of the AHSP's core objectives? What can we learn from the Housing Emergency action plans and responses being developed in Glasgow and Edinburgh? Acquisitions from the PRS may provide some assistance, but also risk further fuelling scarcity in the PRS, especially in highly pressured markets such as Edinburgh. Long term leasing may be a more finite way of doing something similar and could be expanded (there may be housing associations interested in doing this too). The AHSP is a critical part of the solution but indirectly in terms of providing more social housing for those in the greatest need. Government may also want to examine lessons from social investment to support follow-on housing post Covid in England as other ways of adding funding into this space.

Fifth, it is hard to see how S75 agreements within affordable housing policies will not play a major role on any conceivable future for the AHSP. While it is a strongly pro-cyclical policy, and is not without problems to be overcome, the NPF 4 plan to make affordable housing policies part of every council once incorporated into local development plans, will bring more certainty – in due course (and all premised on an upswing in private development).

Sixth, the Scottish Government should continue or better expand its advocacy of a number of key policy areas relevant to a better functioning housing system and therefore indirectly towards the outcomes associated with the AHSP. Among these, we would stress: reforming public accounting and fiscal rules to reverse historic anti-investment bias within Government (Lloyd and Grayston, 2023); maintaining LHA at 30th percentile levels at minimum and reviewing the numbers and geographical coverage of BMRA in Scotland once better data becomes available; advocating for longer term fixed rate mortgages and modest relaxation of mortgage regulation; and, advocating for abolition of the Bedroom Tax (or Spare Room Subsidy) in order to free up DHP resources.

Seventh, Whitehead and Crook (2024) make the case in a recent report on England that there should be stamp duty land tax relief for older movers to encourage or incentivise downsizing and reducing under-occupation (since the issue is most severe in the owner-occupied sector). The authors report evidence that these moves encourage a chain of further moves which not only improve the existing stock use but may in total increase stamp duty tax take. This would be an interesting idea to consider immediately for LBTT to encourage better use of the existing housing stock and

improve the efficiency of the wider housing system⁴⁷.

Finally, the sector and the Government should prioritise and start work on the medium and long term reforms that require developmental work identified below.

Box 3 Reforming the SHIP

Drawing on the case study deep dive, there are a number of possible immediate actions that the Scottish Government and local authorities could take to foster accountability and increased transparency as follows:

1. Consistent with SHIP guidance, Scottish Government should verify that annual SHIP documents and accompanying AHSP excel tables are published on-line and readily accessible, so that councillors, external partners and the wider public have the information they need to scrutinise and monitor SHIPs.
2. Scottish Government should work towards ensuring the AHSP outturn report is published within 5 months of the end of financial year, so that local authority level outturn expenditure plus the number of starts and completions broken down by tenure and provision type at LA can be reported to councillors and used to inform the annual updating of the SHIP.
3. In addition to retaining the 2032 affordable target for now, the Scottish Government should move to a three-year rolling target, that takes explicit account of SHIP plans and key signals of housing stress. including numbers and time spent in temporary accommodation - this would force the Government to properly review plans, encourage greater dialogue with councils and improve monitoring.
4. Jointly commission independent research into planning obligations and the extent to which they impact on total unit build costs and reduce the ability to deliver social housing at benchmark rates.
5. Conduct an exercise to look at how AHSP benchmarks rents, especially for 3+ bedroom units equate with DWP benefit cap and the earnings that households would require to exit Universal Credit and the extent to which these benchmarks are pushing families into deep poverty.
6. Local authorities should ensure the annual SHIP commentary provides a brief summary of completed units for previous year and cumulative completions over lifespan of LHS, broken down by tenure and other key attributes to councillors. In addition, the number of completions expected in the year 1 and 2 of the current SHIP should be reported by the same attributes as well as information of how rents for new completions compare with those for existing rents.
7. Look to make greater use of guarantees to fund affordable homes to free up more of the AHSP to support social renting provision (see main text).
8. There is a lack of agreed outcomes upon which to understand AHSP performance. Likewise, there is a lot of data available in relation to the AHSP but it is not collated or reported in a way that promotes monitoring the delivery and performance of the AHSP or provides early warning of emerging difficulties, especially at local level. Resolving both issues will be critical if there are tough discussions around future priorities for the AHSP are to be agreed and the SHIP is to be overhauled.

With this in mind, the Scottish Government should establish a short life working group to develop a set of SMART outcomes for the AHSP and assess data availability and the extent to which it could be used to support monitoring of progress towards these outcomes and improve understanding of AHSP performance. Ideally, this working group should comprise of representatives from the SG, RSL sector, LA sector and external stakeholders with good understanding of AHSP and working with data.

⁴⁷ Our companion report on housing tax reform makes more radical proposals regarding LBTT.

Medium term

Reforming the subnational mechanisms that allocate supply programme resources locally are important, not just for the current programme but also for the long term of how affordable need is to be met in future. This connects also to longer term thinking about further interventions and leverage points such as with the respect to land supply, planning and finance (and taxation) more broadly, that can help support a better functioning housing system over the whole of the strategy's 20 year plus time frame. Reforming the AHSP process is vital to strengthen the programme and connect it better to the strategy's systemic goals.

In the medium term, over the next three years, the Scottish Government should commission a number of inquiries and reviews that will lead to a stronger and more coherent system for allocating resources linked to local need priorities.

First, following the proposal set out in the 2023 Solace report, there should be a serious analytical study building an economic case for, and appraisal of, the wider non-housing benefits of social housing investment in a cost benefit analysis to help make the economic case for more public resources for housing within government and across public debate over Scotland's spending priorities.

Second, in parallel to the CBA study, Scotland needs an updated national affordable needs study refreshing the current framework that was based on 1919 data. This would take account of the likely rise in need since 2019, stemming from economic change, inflation, reduced affordability and greater social and economic problems within Scottish society.

Third, there has not been a comprehensive analysis of the current and ongoing financial capacity of social landlords to develop social and affordable housing since the beginning of the last decade (Bramley, et al, 2010) – excepting the more limited financial treasury analysis undertaken by the Regulator. Sector financial capacity is a critical parameter to understand the resilience and scope for the sector to support the AHSP. It is long overdue.

Fourth, instead of closed negotiations between government and trade bodies, we need an open and transparent new analysis of, and mechanism for, renewing benchmark grant rates and the evidence base these discussions build from. This needs to reflect the dynamic environment that grants operate within and the judgments between individual subsidy per dwelling and programme size overall. In our expert panel discussions, it was suggested that grant levels should be more closely related to the outcomes they deliver – are they contributing to meeting specific needs identified, do they assist with longer term costs and benefits, do they support extra amenities e.g. by supporting the remaking of our failing town centres, etc?

Fifth, reconstitute a localised HNDA process which links more directly to local SHIP plans so that grant funding corresponds directly to local priority needs and eventual outcomes. This would complement the proposal above to provide more out of year resource to allow SHIPs to work more flexibility

and as in our case studies, to draw on local relevant needs information that goes beyond the current relatively narrow HNDA analysis.

Finally, it is surely time to undertake a root and branch review and needs assessment of the spatial allocation of resources embedded in the SHIF and the TMDF for Glasgow and Edinburgh. These are both outdated mechanisms, and in different ways, are only partially related to objective measures of current need. Both should be reformed in a transparent and consensual environment based on detached objective facts. This will be difficult for potential losers in such a redistribution and hence politically difficult to do – not doing so cumulatively undermines the programme's legitimacy.

TMDF funding is linked to allocative decisions made around stock transfer – every year that passes makes this more difficult to justify other than providing certainty to the recipients. For the other thirty councils, their resource depends on the SHIF formula - the SHIF allocates funds spatially according to a series of indicators (weights in brackets) relating to market pressure (25%), regeneration (30%), population dispersion (25%), homelessness (15%), and a fixed element for all (5%). This enshrines the idea that regeneration need is weighted more than affordability need, and that in turn leads to a funding case for reprovisioning replacement supply rather than new net supply to help address shortage and high housing costs.

Our proposal would be to set up a short life working group to design a new SHIF formula both in terms of the indicators used and especially their weights. The resulting allocation changes should then be transitioned and damped to reduce the sudden impact of lower allocations resulting from the new model (this would be analogous to the damping mechanism adopted in England when social rents were being converged under New Labour). Our working assumption is that affordability need should have a relatively larger share of the total weighting.

There are three further areas within which policy development work should be undertaken and progressed during the next three years. The first of these concerns developing different models of affordable rent growing out of mid-market rent innovations from bodies such as the LAR Trust and Places for People, but also through drawing on examples from further afield. Successful examples have combined institutional funds investment with long term soft loans (e.g. through Financial Transactions Capital), rather than grant-funding. We note that the business model of the SNIB does not appear to support cheap (non-market or not wholly commercial) loans and that Scottish borrowers would need to approach Infrastructure UK as a practical alternative. Are there, second, different models that could be developed and could the Scottish Government operate to provide some form of state backed guarantees that could underwrite and facilitate the cheaper loans that can generate below market rents along with debt finance from willing banks and institutional funds (similar to a long-standing successful model of the same in Finland)? The judicious use of guarantees may make this sort of model more feasible in areas with lower land values.

Third, and most potentially transformative, it is time for

Scotland and the UK to re-negotiate the rules of the fiscal framework to open the door for prudent levels of Scottish government borrowing, specifically for social and affordable housing, infrastructure investment that literally pays for itself through rent income. This is a long-standing contention (both that the Scottish Government should have powers in this area and that the UK public accounting treatment of borrowing for social housing investment are too restrictive).

Finally, our interviews and expert panel demonstrated an appetite for a form of new public interest arms—length national housing and land agency to support development programmes, bring partners together from the public, third and private sectors, assemble land, co-ordinate subsidy, and work closely with statutory bodies locally. Such a body could draw on the lessons learned from previous institutions like Scottish Homes, Communities Scotland, Homes England and English Partnerships, as well as the New Town Development Corporations. The sorts of intervention tools, particularly around land, that such an agency might work with, are explored below.

Longer term (3-5 years)

Assuming progress has been made in the short and medium terms, we now turn to more thorough-going and radical proposals that will take time to develop, enact and support. This section is the least developed but draws on a range of ideas that already are well-established in the literature.

Two long term proposals for adding funds to invest in social housing are (1) systemic use of revolving funds, as in Netherlands and Denmark (Gibb, et al, 2013; O Regan and Gollings, 2024), or by negotiating additional borrowing powers for the Scottish government on its capital funding side specifically for social housing viewed as a form of infrastructure investment. These are both long term mechanisms but are worth considering for the stability they offer.

Regarding revolving funds, the fundamental idea is to repay surpluses on rental income once debts are paid off to a fund that recycles those surpluses for further social housing investment. As O Regan and Gollings (2024, p.27) put it:

‘the Netherlands, past investments in social housing development have meant that now housing associations can use the surplus from rental income to contribute towards new social housing developments. Notably, Dutch housing associations no longer receive capital funding from central government, relying solely on their revolving funds and long term, low interest loans. In Denmark the revolving fund is more centralised. Social housing is initially paid for through a grant from the National Building Fund, and mortgages from banks. Once the mortgages used to fund social housing developments have been paid off, rents in social housing do not decrease, but instead remain the same with a substantial share then going toward the National Building Fund’.

The second idea is one for negotiation with the UK Government. Scotland has limited capital borrowing powers. What is being proposed here is that a modest extension to this sum is extended on a hypothecated basis making it only available for investment in social housing, as essential infrastructure. Unlike other forms of infrastructure, social housing repays its debts through rental income. Adding £100-200 million in annual borrowing capacity would make a non-trivial difference to social housing investment and as a low-risk investment would be more protected from wider market dynamics and volatility. As proposed by Lloyd and Grayston (2023), reforms to the fiscal rules, public accounting conventions and subsidy controls deployed by Treasury could also create a longer term pro-housing investment environment.

Urgent action is required to address cost and availability of land, especially in our most pressured housing markets. Many of these issues are implicit or even explicit in the ideas proposed within Housing to 2040. They speak to concerns and ideas raised by the Scottish Land Commission (SLC 2018; Satsangi, et al., 2020).

There are several land-related reforms that should be actively debated:

- A more transparent land market, in particular, so that information is made available to all regarding sites that are available, or conceivably posted as potentially for sale.
- Revisiting land value uplift reforms to support paying for infrastructure and returning to the older New Town land compensation principles (Aubrey, 2018).
- Tax reform on land and empty properties, vacant land, etc (i.e. consider some form of land value tax). Revisit the case for a land tax on appreciation through planning permission, which was part of the 2015 Land Reform Review.
- Introduce and test the use of Compulsory Sales Orders.
- Land readjustment – to facilitate land assembly, land owners are paid a reduced sum for the land but have an equity stake in the project (Adams, 2013).
- Public sector land sales and valuation. Introduction of a requirement for public bodies to release land for social/housing at current user value or something similar. Place requirement on all public bodies (including council depts) to notify th council of surplus/redundant land and give councils a duty to maintain a public register of such land and the power (not duty) to acquire such land specifically for social housing at user cost or something similar.
- Co-ordinated public interest land assembly and site servicing through the proposed national agency discussed above.
- Review whether social housing should become a standalone use category within Local Development Plans.

These ideas all contribute to supporting lower cost land prices for affordable and social housing and help to stabilise the wider housing system. They have opposition but they all work in different places and help improve housing system outcomes.

Our expert panel discussed the pros and cons of a new wave of new town/settlement extensions and/or larger strategic sites built around multiple phases (noting risks). In the longer term a pipeline of master-planned partnership-based larger developments drawing on S75 and partnership across tenure (with below market land prices for development) would be valuable to delivering new supply in balanced communities.

Other possibilities relating to land markets and funding might include:

- Grant councils the power (or even duty) to acquire land at a value that offsets the cost of providing the infrastructure and services required to make development viable.
- Consider potential measures to require developers to sell land if they fail to build out sites by a given date or at an agreed rate.
- Look to boost AHSP funding when it becomes clear construction costs are falling (at least in real terms)
- Promote good practice in the use AHSP funds to get people into the training slots and the apprenticeships that would enable them to get access to these jobs.

5. Conclusions

In this brief final chapter we do three things: first, we summarise the present, urgent need for reform. Second, we stress the phasing of the recommendations contained in this report. Third, the conclusion reflects on the consequences of not transforming the way we do business in the housing system and why we need to support the goals of Housing to 2040 but work to reduce and remove implementation gaps wherever we can, even now facing such challenge.

We noted earlier that the start of the AHSP was in a period of responding to austerity budget cuts in the early years of the 2010-15 UK Government budget-setting, with consequent major negative impacts on Scottish spending planning. Ultimately, this led to the AHSP. Now, in a period of a further round of cuts in the 2020s, housing is a spending loser just when rising housing need and failures in the housing system are becoming unmanageable and deemed an emergency. Moreover, arguably, the delivery of the first two waves of AHSP helped bring about Housing to 2040. To get back on track, we need to re-boot the AHSP and make the case once more within Scottish Government that housing through its wider impacts on the economy, society, poverty and inequality, needs to be a top line priority for Government as a whole.

The continuing necessity for reform, its urgency and importance, stems from five dimensions. First, Housing to 2040 came about in part because the sector recognised the need for system-level long term comprehensive reform. That has not changed. Second, Scotland continues to have considerable unmet housing need, shortcomings that can only have been exacerbated by the shocks that have hit us all since the beginning of the decade. These need to be addressed in their different forms such as rising homelessness and temporary accommodation. Social and affordable housing is an important part of the answer. Third, the deficit in social housing reflects market failure and we know that social or below market rents require subsidy somewhere in the system to make it work. Similarly, tax reform can incentive and boost the efficiency of the housing system. Fourth, these housing reforms are fundamentally about fairness, redistribution and helping address poverty and inequalities, of which the latter are part and parcel of the 'business as usual' housing system (Bowman, et al, 2021). A well-functioning housing system, finally, will contribute positively to these wider public policy goals.

We will not here go back into the weeds of the many proposals outlined for implementation, discussion, debate and development around the AHSP. There are immediate term suggestions to keep the machine moving and to improve specific elements in the face of budget cuts and economic adversity in the sector. There are medium term proposals around structure and process and also institution building. And there are more radical long-term policies, particularly for the land market. We hope these will generate progressive debate with purpose, but we do fundamentally need action as a result.

We are mindful that readers may see this report as being strongly urban- and perhaps central belt-focused. We see the proposals set on AHSP as being positively beneficial for rural settings too. We note that Argyll and Bute council was in fact the first council to declare a housing emergency. We are also very aware of the sense from Highlands and Islands Enterprise and partners that housing unaffordability and shortage is a major constraint on marine and economic coastal development. In this context it is often the case that specific settlements could sustain affordable rather than specifically social housing need to be met and we need to continue to support rural housing through the AHSP, but also through a range of related measures in the land market, to help pay for infrastructure and to support SME contractors.

We would emphasize that our medium-term focus on renewing the way the AHSP works – in particular, the primacy of Local Housing Strategies, the refreshing of the spatial allocation framework and the localising and focusing of the HNDA process – are essential to coherently connecting allocative decisions by Scottish government to meeting strategic need locally based on relevant and priority needs locally. This builds on the points made by Audit Scotland in 2020. It was also backed up by our interviews in the deep dives: SHIPs sometimes only made cursory reference to here is a widely held perception that the HNDA model underestimates unmet housing specific forms of local unmet need, while HNDAs offers only limited insight to the complexities of local housing system failures that local authorities and their partners face (and this is consistent with recent evidence from Diffley Partnership and Rettie & Co, 2024).

A further general point to make here is a reflection concerning the relative importance and priorities of social versus affordable (MMR) rented solutions. We argue that in the short run, grant for MMR ought to be reallocated to social housing where need is most urgent, and where homelessness solutions are being held back by insufficient new supply of social housing. This is not suggesting that MMR should not be part of the solution but rather to recognise the need for political choices where resources are scarce, and also that such programmes would benefit from developments with low-cost debt finance (possibly facilitated by guarantees) that could build on the success of similar models with LAR housing trust and Places for People. We note also emerging anecdotal evidence that MMR itself may not be affordable to working families in high pressure markets like Edinburgh. The other key driver of MMR is the Local Housing Allowance (and its reserved status) and the underlying distribution of rents locally.

In the end, it is critical that the current crisis is seen as an opportunity to create the conditions for long term policies that support a pipeline of social and affordable housing much more closely connected to the outcomes of meeting local specific needs. We acknowledge the positive contributions made in recent times regarding homelessness, tenants rights and resources flowing into housing. But it is important to recognise that critical parts of the housing system remain

'business as usual' – the housing market, the focus of personal wealth in property (and not where it can be more productively deployed). A suite of leveraged interventions directed towards a well-functioning housing system remain essential to transform the housing system in Scotland but also to prevent us moving backwards (Church of England, 2024). At the heart of these interventions is a resilient and cost-effective local to national affordable housing supply programme.

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