Scottish Government draft report on Affordable Housing Benchmarks Working Group
Joint response from ALACHO, GWSF and SFHA, 14 May 2021

Summary

Our organisations have welcomed the opportunity to participate in the Affordable Housing Investment Benchmarks Working Group. We have approached the process in a collaborative manner in order to update benchmark assumptions which will allow the social housing sector in Scotland to continue to deliver high-quality homes that meet evidenced need; whilst ensuring evidence-based delivery of these much-needed new homes does not adversely impact rent affordability for tenants.

We have collectively provided a number of evidence-based papers in addition to strong representation at Working Group meetings. We have worked to contribute positively to achieving the intended outcomes agreed within the Terms of Reference.

At this stage, we have to say we are disappointed by both the outcome of discussions and that they have not been fully and evenly reflected in the Scottish Government's draft report. We are aware that there are a number of key strategic points to be agreed between COSLA and the Scottish Government. However, we cannot agree to the proposed Scottish Government recommendations, with our shared concerns centring around four main factors:

- Neither the main baseline of £76,100 nor some of the individual add-ons are adequate and will not lead to a majority of projects being at or below benchmark as the government state is a requirement
- The description of how above-benchmark projects will be treated suggests that such projects are unlikely to represent value for money, which is not the case. In addition we are concerned this proposal does not properly take account of the local democratic context
- While we cannot accept the proposals for continuous improvement, we will actively engage in the process of developing and implementing meaningful continuous improvement programmes. We will put forward an approach which includes the areas of interest as a counter-offer to achieve an holistic evidence base on VfM and related efficiency and effectiveness. Currently, in our view the approach on mandatory adoption of the SHN tool and (for

housing associations) subscription to Scotland Excel will not achieve the desired outcomes on the part of government or the sector and we cannot accept them at this point for that reason
- We want to see the commitment to using a later review stage to examine a range of medium/longer term adjustments which have been highlighted throughout discussions

The purpose of benchmarks

We welcome the clarification that the purpose of setting benchmark levels is to provide a threshold whereby projects at or below benchmark benefit from a streamlined approval process.

Ensuring benchmarks are set at a realistic level is critical for two reasons:

- Firstly, so that the Scottish Government can realise its intention that the majority of projects come in at or below benchmark, reducing the resource needed to appraise projects in detail and helping maintain the programme's momentum
- Secondly, because if, as implied in the report, subsequent Scottish Government guidance has the effect that the benchmarks should shape expectations of what a project should cost, we believe that at some point, unreasonable pressure may be exerted on providers to keep within benchmark

We do recognise that benchmark levels will not try to reflect every possible cost associated with what will be a wide variety of projects and circumstances, as this could potentially lead to artificial inflation of tender prices. However, by setting benchmark levels too low and relying heavily on flexibilities, it makes landlords' decisions around developing more difficult.

Item 22 of the draft report states: *The gradual phasing in of the additional quality measures, the uncertainty over their costs over the next few years, and the impact of the continuous improvement work set out below makes it difficult to predict the exact number of homes that may be delivered at this time* – we are concerned this approach is in conflict with the government commitment in *Housing to 2040* to see 100,000 affordable homes built over the next 10 years, 50,000 of those over the course of this new parliament. To ensure funding is available to meet this target, which allows landlords to plan financially and ensures the vital private finance can be secured, adequate benchmarks are vital.

Proposed benchmark levels

We believe the proposed benchmarks fall short of a conservative effort to be realistic. All three organisations named in this document have provided a substantial amount of information to evidence why, and by how much, costs have increased in the last five years (and which we would want to see more substantively recorded in the final report). In addition, our evidence is consistent with the Scottish Government's own figures, which show costs rose 31% from around £120k per home to nearly £159k by 2019/20 (and grant by 37% from £64k to £88k).

Recognising that around half of the 31% increase in costs to 19/20 was applied as part of the previous benchmarks review, and referring specifically to the data presented in the meeting of 5 May to discuss the impact of the 2015 Building Regulations, we believe that £12,700 is the *minimum* cost inflation figure which needs to be added: this would mean a minimum increase from £70k to £82,700 for the City and Urban baseline benchmark. The calculation for this figure can be found at Appendix A.

Our proposed benchmark figures are consistent with GWSF's analysis – set out towards the end of this response – of the data helpfully supplied by the Scottish Government on the 2019/20 programme. This shows that looking at projects (as opposed to units) the 65th percentile 3pe grant was £77,736 and the 65th percentile 3pe cost £84,365.

When the analysis looks at units (as opposed to projects) the figures are £79,821 and £88,557 respectively.

It should also be noted that this analysis showed only 43% of urban units in 19/20 met benchmark.
The issue of parity was raised and discussed at working group meetings and details of each organisations' position has been set out in previous papers.

When it comes to Mid-Market Rent (MMR), the proposed uplift does not reflect the constraints with viability and the impact of varying LHA levels we evidenced. On this basis, the benchmark for MMR should be £58k, this would prevent rents being pushed up further to make projects 'viable', which is not a strategy we support, given it fails to recognise needs and affordability.

We have sought to engage with the Scottish Government on a range of cost drivers and the clear evidence that few of them are reflected in the HTPI. The impact of most of these cost drivers has not been fully considered, and the impact of the 2015 Building Regulations severely underplayed by the proposed addition of just £4,000.

During the discussions, we have sought to highlight that the current system has already, year-on-year since 2015, put disproportionate pressure on the non-grant elements by failing to acknowledge the impact of rising costs. This is evidenced by the 27% increase in the average private finance contribution per unit since 2015. This has hit project rents, existing rents and reserves, and we believe it has disproportionately impacted on local housing associations because of their size and geographic limitations.

The timing of such a squeeze on local housing associations could not be worse. Their wider role and contribution to community cohesion has long been recognised, and indeed championed, by our most senior ministers, and this recognition has only been enhanced by the lead role played by associations and as community anchors throughout the pandemic, this is mirrored by the role of local authority housing and homelessness services. A realistic, sustainable benchmark system is one key means by which the Scottish Government can demonstrate it is serious about allowing communities to shape the pace of change, including local development.

The lack of focus on rent affordability and private finance is surprising given the system is set up to prevent rents being set at unreasonable levels: we could conclude, then, that the gap between benchmark and actual costs cannot and is not intended to be met by rents.

While we understand there is less evidence of costs with some of the new ‘add-on’ elements, we believe the extent of underestimating of costs is such that more projects will be above benchmark – often substantially so – as project proposals reflect the real costs involved. The amounts attached to fire suppression systems and heating systems are especially concerning.

Whilst acknowledging the need for review in the light of experience, we believe the add-on for renewable heating systems should be at least £6,000 instead of £4,000. Fire suppression systems should be funded at cost, subject again to review at the appropriate stage, but otherwise the minimum add-on should be £4,000 for installation and £3,000 as the capitalised cost of the per unit annual maintenance cost of £200-£300: so £7,000 in total.

Additionally, we do not believe the costs of digital enabling and ducting for vehicle charging points will be negligible. A benchmark amount of £1,000 should be set for digital enabling and £1,250 for charging points. We should also recognise that some electrical charging points will be charging stations rather than dedicated points within houses, and this is more expensive at around £12k per charging station.

The SG’s approach to flexibility and how above-benchmark projects are perceived

We are concerned to get beyond the view that the benchmarks are an indication of what it should cost to build new homes, with the consequent implication that above-benchmark projects may not represent value for money.

Whatever benchmarks are finally set, there needs to be sufficiently clear and strong wording around benchmarks not being a proxy for value for money and setting expectations about what are reasonable costs. The reference to above-benchmark projects needing to demonstrate ‘priority’ or that they ‘face particular challenges’ is not helpful; firstly because (as noted by Scottish Government officials at the 11/5/21 meeting) all funded projects should be priority projects and included within Strategic Housing Investment Plans, and secondly, because it is reinforcing the view that above-benchmark costs should be exceptional when there is no realistic chance of that being the case as things stand.

Thus far the Scottish Government has referred to a two-tier system whereby technical appraisal is applied to above-benchmark projects and avoided for others. But a tender return includes an assessment of property costs against the Basic Indicative Cost and land costs against the District Valuer/Independent valuation, with this assessment then subject to detailed scrutiny by all funders. We would suggest that only projects which do not demonstrate value for money through this process be subject to further assessment.

As part of this approach we recognise and support the Scottish Government’s intention to make submission of tender returns mandatory.

We would like to see an explicit reference to flexibility being especially important where smaller, local housing associations (a) are likely to have less financial flexibility in terms of reserves etc., and (b) cannot pick and choose their sites but the proposed development will be strategically important in meeting housing need.

Continuous improvement

The Scottish Government’s approach to this issue has been contested in our discussions, primarily because it seems to conflate issues of quality and continuous improvement with cost savings for which there needs to be more, and more robust, evidence. Sometimes these references appear to be to the potential for savings in the development process itself, but with little or no evidence to demonstrate where this has actually happened.

On other occasions, such as during the 11/5/21 meeting, the Scottish Government has appeared to suggest that savings in core services need to be demonstrated. We are unclear what evidence there is – from the Scottish Housing Regulator or any other body – that core services to tenants are not being provided efficiently and could be subject to savings which would then help fund new build.

Again, the data here is fundamental on even basic aspects of what the programme has provided and whether required standards such as Housing for Varying Needs are actually being achieved, not least in the case of Section 75 provision. We remain keen to see this data provided.

Each of our organisations, and our respective members, are committed to continuous improvement within the development process, and we will look to engage with the Scottish Government and others on any potential mechanism which will help support this. Initially we look forward to learning more about the SHN tool on a ‘without prejudice’ basis.

However, we do not believe any mechanism needs to be mandatory when the great majority of providers will choose to use it if its benefits can be demonstrated.

It seems perverse to expect mandatory participation in a specific, private procurement vehicle is when no evidence at all has been provided to demonstrate that participation has reduced the cost and increased the quality of new social housing. We believe there are also questions about whether such compulsion is legally competent, particularly with regards to the proposal for it to be delivered through only one potential provider (Scotland Excel).

It is important to acknowledge that housing associations and councils themselves own the development risk of procurement and technical solutions, so understandably need to take a measured view on innovation.

We welcome the Scottish Government’s willingness in recent days to explore an alternative approach to continuous improvement, which is sector-owned and which also offers assurances to the Scottish Government without the need to mandate any process. We are committed to submitting a paper which scopes out in further detail what this might look like by the end of the month, for discussion with the Scottish Government and CoSLA.

Longer-term reform of the benchmark system

The report should include the need for fundamental reform as part of a later stage of the review process (related to the 2040 vision and proposed review of Housing for Varying Needs), as has been discussed on a number of occasions, including:

- Problems with the ‘multiplier’ factor used within the 3-person equivalent system
- The lack of recognition of the particular costs associated with building flats, particularly in dense, urban locations

- Issues related to provision of housing for people who use wheelchairs and others with particular needs
- General space standard concerns as more and more is expected within the same envelope
- The need for a consistent position to be applied for second-hand homes purchases

The shared ambition to review and update the Housing for Varying Needs Standard could and should be accelerated. This should acknowledge the key role the housing sector can play in this exercise and as such we wish to secure a commitment that local authorities and RSLs participate fully in this review.

In addition to the above, and as discussed at all meetings to date, we would also like to see the emerging issue of geographic benchmarks, with their application being fully reviewed. In particular we would like to see the proposal introduced in the ALACHO paper of 27th April further explored.

In conclusion

We ask that the Scottish Government considers the comments made in this document alongside the detailed, evidence-based papers our organisations have submitted through the process and which provide details of known costs and best estimates.

We remain committed to the creation of a system which allows the realisation of policies, including those in Housing to 2040, and specifically around the delivery of more social and affordable housing in Scotland. This is our key objective. However, developing RSLs and Councils must be supported by a benchmark system which is reflective of the true (rising) costs of developing these homes. We do not expect the Scottish Government to meet the full costs of development, but there has to be an accountability and transparency on the impact of Scottish Government proposals on rents. However, we do ask that the evidence we have submitted is given real consideration in the setting of these benchmarks, and considered in the round of the competing, significant investment demands placed on RSLs and Councils in the form of impacts from COVID and Brexit, and that required in the pursuit of net zero targets.

We remain committed to engaging with all members of the group in meaningful, evidence-led discussions in order to reach agreement which is reflective of these discussions as early as possible to avoid any impact to development programmes across the country.

Proposed alternative baseline benchmark assumptions:

	West Highland, Island authorities, and remote/ rural Argyll		Other rural		City and urban	
	Current benchmark	Proposed benchmark	Current benchmark	Proposed benchmark	Current benchmark	Proposed benchmark
RSL social rent	£82,000 (3 person equivalent)	£100,210 (3 person equivalent)	£72,000 (3 person equivalent)	£87,850 (3 person equivalent)	£70,000 (3 person equivalent)	£82,700 (3 person equivalent)
Council social rent (ALACHO proposal*)	£57,000 (flat rate)	£100,210 (3 person equivalent)	£57,000 (flat rate)	£87,850 (3 person equivalent)	£57,000 (flat rate)	£82,700 (3 person equivalent)
RSL mid-market rent	£44,000 (3 person equivalent)	£63,530 (3 person equivalent)	£44,000 (3 person equivalent)	£61,470 (3 person equivalent)	£44,000 (3 person equivalent)	£58,380 (3 person equivalent)
Council mid-market rent (ALACHO proposal*)	N/A	£63,530 (3 person equivalent)	N/A	£61,470 (3 person equivalent)	N/A	£58,380 (3 person equivalent)

*SFHA position set out in paper of April 13.

Proposed additional quality measures benchmark assumptions:

• Delivering homes to Section 7, Silver Level, of the 2019 Building Regulations in respect of Energy for Space Heating (that is, full Bronze Level plus Aspect 2 of Silver Level)	£2,000
• Private or communal outdoor space	£2,000
• Space for home working or study	£3,500
• Digital-enabling	£1,000
• Installation of automatic fire suppression systems	Full cost to be grant supported pending second stage review
• Installation of heating systems which produce zero direct emissions at the point of use	£6,000
• Installation of ducting infrastructure for electric vehicle charge point connectors	£1,250

GWSF preliminary analysis of SG data for 19/20 projects

We have excluded the 10% lowest projects (in terms of comparison to benchmark) and the 10% highest. This will exclude a proportion of the Glasgow projects the SG has been keen to exclude, but is a reasonable approach as (a) not all of the higher costs in Glasgow relate to the Glasgow Standard alone, and (b) not all 19/20 projects will have met the Standard in full.

We extracted the data for RSL New build general urban
(i.e. excluding LA, off the shelf, conversion and rural)

We then looked at the 65th percentile for 3pe grant per unit = £75,472

We then looked at the 65th percentile 3pe cost per unit less a "reasonable" allowance for 3p private finance (£67,218) = £81,907

Inflating both figures by the proposed 3% uplift for HTPI since 2019/20:

65th percentile 3pe grant = **£77,736**
65th percentile 3pe cost less 3p private finance = **£84,365**

The above takes no account of project size, i.e. it is the 65th percentile of *projects*, whether a project was 10 units or 100 units. Taking the 65th percentile of all *units* gives higher figures:

65th percentile 3pe grant, with 3% inflation uplift = **£79,821**
65th percentile 3pe cost per unit (minus private finance), plus 3% = **£88,557**

As purely an appraisal threshold, it would not be unreasonable on this data to suggest that a benchmark in the range between 78k and 88k, plus the add-ons we are seeking, would result in around 65% of RSL urban general new build not requiring technical appraisal.

It should also be noted that this analysis showed only 43% of urban units in 19/20 met benchmark.

Further evidence on installation of net zero heating systems from NBM

Cost increase to change a building regulation standard development to Net Zero Carbon:

- Housing (£10k / unit)
    - Large increase in PV
    - ASHP
    - Triple glazing
    - U Values of walls and roof

- Flats (50+ units) – Communal heating (£12.5k to £15k / unit)
    - Large increase in PV
    - ASHP
    - Triple glazing
    - U Values of walls and roof

- Flats (50+ units) – Communal heating (£15k / unit)
    - Large increase in PV
    - GSHP
    - Triple glazing
    - U Values of walls and roof

- Flats (less than 50 units) - Communal heating (£17.5k / unit)
    - Large increase in PV
    - GSHP
    - Triple glazing
    - U Values of walls and roof

- Flats (less than 50 units) - Communal heating (£20k / unit)
    - Large increase in PV
    - ASHP
    - Triple glazing
    - U Values of walls and roof

An individual ASHP system on flatted developments would be more cost effective, but the issue is where to position the plant and have it approved by planners and as such, this hasn't been considered.

Above figures are caveated in that they are current prices but with the thought that this standard will become more desired, the price to install the heating system is likely to increase quite considerably as order books increase in the small circle of companies who specialise in this.

APPENDIX A

Element			Building Regulation	Year		Works Cost	
1.0	Fire Suppression						
1.1	Increased thickness of Plasterboard to external/ mutual walls and ceilings including metal electrical boxes		STRUCTURAL TIMBER ASSOCIATION (STA) guidance	2020	250		
1.2	metal consumer / spilt box / RCBO		IEE 18 or most current	2017	100		
1.3	one full sheet to all houses outside wall		STA	2020	1,600		
1.4	Linking/ additional smoke detectors		Standards 2.11	2017	450		
1.5	Increased fire stopping to external walls		Standard 2.2.10 & Standard 2.4.7	2019	450		
					£ 2,850	2,850	
2.0	Thermal Insulation						
2.1	U Values increase to						
	2.1.1	Floors	section 6 • Standard 6.1 / 6.2.1	2015	1,900		
	2.1.2	Walls	section 6 • Standard 6.1 / 6.2.1	2015	3,100		
	2.1.3	Roof	section 6 • Standard 6.1 / 6.2.1	2015	700		
	2.1.4	Windows/ Doors	section 6 • Standard 6.1 / 6.2.1	2015	650		
2.2	Air Tightness provision		section 6 • Standard 6.1	2015	1,600		
					£ 7,950	7,950 }	
3.0	Renewable Energy					}	
							+£2,315 allowed in 2015 Benchmark
3.1	Photovoltaic Panels to roof		section 6 • Standard 6.1	2015	2,500	}	
3.2	Gas Saver provision to boiler		section 6 • Standard 6.1	2015	250	}	
					£ 2,750	2,750 }	
4.0	Ventilation Provision						
4.1	DMEV in lieu of intermittent ventilation		Standard 6.1 / Standard 3.14	2015	200		
4.2	Provision of Carbon Dioxide Detectors		Standard 3.14	2017	250		
					£ 450	450	
5.0	Sound Transfer Requirements						
5.1	Additional insulation/ plasterboard requirements to internal partitions		Standard 5.2	2015	1,300		
5.2	Additional insulation between intermediate floors		Standard 5.2	2015	1,150		
					£ 2,450	2,450	£784 allowed in 2015 Benchmark (£984 less 200 for CO detectors)
6.0	Environment						
6.1	Seperate duct for internet		Standard 4.14	2017	£ 100	100	
7.0	Secure by Design						
7.1	Cycle Storage		Secure by design certification	2019	£ 450	450	
					SUB-TOTAL	**£ 17,000**	
8.1	Provisional Additional Allowance for flats 10%					1,700	
					TOTAL COST	**£ 18,700**	
			Less Allowed in 2015 Benchmark (70,000)			3,099	
			Costs arising from Regs since 2015 and not previously allowed for			13,901	
				Convert to 3pe		12,753	Does not include the costs to achieve the "greener standard" - Allowed as a £2,000 uplift above the £70,000 2015 benchmark
			Above Inflation % Uplift Required to 2015 Benchmark (£70,000)			17.197%	
			Indicative Uprated Benchmark			£ 82,753	
		Benchmark uprated for costs from regulations up to 2019 and the requirment for silver standard aspect 2 section 7				£ 82,753	