



F/T: 0300 244 4000
E: scottish.ministers@gov.scot

To all members of the Affordable Housing Investment Benchmarks Working Group

29 October 2021

Dear Colleague,

I would like to thank you for your participation in the review of affordable housing investment benchmarks. I am aware that this has been a tricky process to work through, and that agreement has not been reached on each and every matter. That said, I welcome the final report on the group's work which clearly sets out the progress made and the position reached through the discussions.

Housing to 2040 – Scotland's first long-term housing strategy – sets out our ambitions for how we want the housing and communities of the future to be, with actions on how to achieve that. The strategy shows how integral housing is to our objectives of tackling poverty and inequality, creating and supporting jobs, meeting energy efficiency and decarbonisation aims as well as fuel poverty and child poverty targets, and creating connected, cohesive communities. Our increased ambition to deliver 110,000 affordable homes by 2032 – with at least 70 per cent for social rent and 10 per cent in our remote, rural and island communities – forms part of that strategy, and the use of affordable housing investment benchmarks will continue to be a key administrative tool for delivering on this ambition.

Before setting out my decision, I would like to reiterate the purpose of the benchmarks' system. When applying for grant assistance to deliver affordable housing, councils and RSLs are required to self-certify that the amount of funding that they are requesting is the minimum required for a project to be financially viable for their organisation. The amount of grant requested is then compared with the applicable affordable housing investment benchmark to determine how the funding application will be assessed. Projects that can be delivered with grant funding at or below the relevant benchmark follow a streamlined application and approval process, with projects which are seeking grant funding in excess of the relevant benchmark following a more detailed value for money assessment. Benchmarks are not therefore grant rates or grant ceilings and should have no bearing on organisations' rent setting processes.

Having considered the report, I can confirm that the benchmarks set out overleaf will be introduced with immediate effect and that these will be reflected in an update to [MHDGN 2020/02](#) which will be published in due course.

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Baseline benchmarks

| | West Highland, Island authorities, and remote/ rural Argyll | Other rural | City and urban |
|-------------------------|---|----------------------------------|----------------------------------|
| RSL social rent | £95,500 (3 person equivalent) | £83,000 (3 person equivalent) | £78,000 (3 person equivalent) |
| Council social rent | £83,000 (3 person equivalent) | £75,500 (3 person equivalent) | £71,500 (3 person equivalent) |
| RSL mid-market rent | £58,500 (3 person equivalent) | £56,500 (3 person equivalent) | £53,500 (3 person equivalent) |
| Council mid-market rent | £53,000 (3 person equivalent) | £51,500 (3 person equivalent) | £49,000 (3 person equivalent) |

Additional quality measures benchmarks

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| Delivering homes to Section 7, Silver Level, of the 2019 Building Regulations in respect of Energy for Space Heating (i.e. full Bronze Level plus Aspect 2 of Silver Level). ¹ | £2,000 (3 person equivalent benchmark) |
| Provision of balconies within flatted developments where the provision of private or communal outdoor space cannot otherwise be accommodated. | £4,000 (3 person equivalent benchmark) |
| Provision of space for home working or study – grant applicants would be expected to demonstrate that additional space is necessary to deliver this measure in order for this benchmark to apply i.e. it is not possible to incorporate within the design of the homes under current space standards. | £3,500 (3 person equivalent benchmark) |
| Ensuring that all new social and mid-market rented housing delivered through the Programme is digitally-enabled – when a tenant gets the keys to their home this would mean that they are able to arrange for an internet connection to ‘go live’ without the internet service provider having to provide additional cabling to the premises. From the outset these connections should utilise the best available technology and, where it is not possible for a gigabit capable technology to be provided immediately, the physical infrastructure should be installed to support retrospective deployment. | £300 (3 person equivalent benchmark) |

¹ This will remain a feature of the current system, but will be reconsidered following the review of energy standards set through building regulations.

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| Installation of ducting infrastructure for electric vehicle charge point connectors. | £500 (3 person equivalent benchmark) |
| Installation of automatic fire suppression systems. | £3,000 (3 person equivalent benchmark) |
| Installation of heating systems which produce zero direct emissions at the point of use. | £4,000 (3 person equivalent benchmark) |

I would also like to confirm the following:

- In line with the baseline benchmarks' table, Councils will now be able to apply for grant support to deliver homes for mid-market rent.
- I have decided to retain the current, flexible process for determining a project's geographic classification – which uses the [Scottish Government Urban Rural Classification, six-fold](#) as the starting point, but which allows site specific geographic challenges to be recognised. To support this process, the applicable geographic benchmark should be discussed and agreed ahead of grant applications being submitted.
- The new set of benchmarks will be adjusted to account for inflation on an annual basis, with the Scottish Social Housing Tender Price Index being used for this purpose. In order to ensure as robust data as possible, formal offers of grant will not now be issued until Housing Tender Returns are received (these should already be submitted at tender stage as part of the grant application process).
- In line with views expressed during the review, I wish to maintain the principle of flexibility to award grant in excess of the relevant benchmark. Any grant applicant that requires grant in excess of the relevant benchmark should – with the support of the relevant local authority – continue to apply for this.
- I have asked my officials to convene discussions with the sector should any of the following situations arise:
 - there be any variations to the Scottish Government specified quality standards for homes delivered through the Programme which would have a material impact on development costs
 - evidence suggests that a disproportionate number of projects with an average unit size of less than three bedspaces are subject to detailed scrutiny
 - evidence demonstrates that there is an increase in the number of applications requiring above benchmark grant funding, which is having a material impact on the speed of Programme delivery (excluding projects delivered in Glasgow for the reasons set out below) and/ or
 - evidence suggests that the benchmarks are resulting in a disproportionately high number of projects meeting the benchmark level.

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- To aid any future discussions, my officials will put arrangements in place to:
 - monitor the number of tender approvals which are approved at, above and below benchmark on an annual basis (with the exception of projects in Glasgow given that the City Council (a) has a separate standard that it requires RSLs to deliver to and (b) undertakes detailed appraisals of all projects) – and publish this information in our annual Affordable Housing Supply Programme out-turn report
 - analyse, for those projects that are approved above benchmark, the average person size of projects, as well as their geography and tenure (again with the exception of projects in Glasgow) – and publish this information in the annual Affordable Housing Supply Programme out-turn report, and
 - monitor the cost of installing automatic fire suppression systems and heating systems which produce zero direct emissions at the point of use in affordable housing projects delivered through the Programme.

- Due to the varied strategies being adopted by local authorities with respect to second-hand purchases, alongside the varied market conditions, I have decided that the benchmark system will not apply to these cases. Decisions should therefore be agreed locally with relevant grant providers on whether individual applications for grant funding to facilitate second-hand purchases follow a streamlined application and appraisal process, or are subject to a more detailed value for money assessment.

Finally, I have instructed my officials to take forward a continuous improvement effort with the sector – to be shaped and progressed in a genuine spirit of collaboration. There is however urgency around this and pressure to take further and more specific, tangible action in building an evidence-based continuous improvement system for affordable housing development. I have therefore decided that the use of Scotland’s Housing Network’s ‘*Value for Money in New Affordable Homes Tool*’, and housing association participation in a programme of procurement support, should become a condition of grant funding as part of this evolving approach. These are transformational elements that are available and capable of implementation now and I have therefore asked my officials to enter a period of discussion with the sector regarding their detailed implementation as a matter of priority.

I hope this letter is helpful and look forward to continuing to work with you to ensure that the housing needs of communities across Scotland are met.

A copy of this letter is being sent to Councillor Kelly Parry, COSLA’s Community Wellbeing Spokesperson, and to Council and RSL delivery partners via More Homes Division’s area office network.

Yours sincerely,



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