

# Housing, Homelessness and Fair Work Committee

**10.00am, Thursday, 9 March 2023**

## **Funding of affordable housing through the Scottish Government's Affordable Housing Supply Programme**

### **1. Recommendations**

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- 1.1 Housing, Homelessness and Fair Work Committee is asked to:
  - 1.1.1 Note the arrangements under which Edinburgh receives grant funding and the risks to remaining in the Transfer of the Management of Development Funding (TMDF) arrangement and the risks of Edinburgh becoming funded from the Strategic Housing Investment Framework (SHIF);
  - 1.1.2 Note that any changes in funding allocations would require the support of COSLA Leaders and Scottish Government consent;
  - 1.1.3 Agree that the content of this report discharges the motion approved at Housing, Homelessness and Fair Work Committee on [29 September 2022](#) to report on the current position with allocation of TMDF and an analysis of Strategic Housing Investment Framework (SHIF) funding allocations; and
  - 1.1.4 Agree that officers establish a working group work with key stakeholders to develop a funding case that sets out the unique challenges in the capital and the reasons why Edinburgh requires increased Resource Planning Assumptions, regardless of whether this comes from TMDF, SHIF or other Scottish Government budgets.

**Paul Lawrence**

Executive Director of Place

Contact: Elaine Scott, Head of Housing Strategy and Development

E-mail: [elaine.scott@edinburgh.gov.uk](mailto:elaine.scott@edinburgh.gov.uk) | Tel: 0131 529 2277

## Funding of affordable housing through the Scottish Government's Affordable Housing Supply Programme

### 2. Executive Summary

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- 2.1 In response to a motion agreed at Housing Homelessness and Fair Work Committee on 29 September 2022 this report sets out the current position with allocation of Transfer of the Management of Development Funding (TMDF) and an analysis of Strategic Housing Investment Framework (SHIF) funding allocations.
- 2.2 Edinburgh and Glasgow receive funding from both the More Homes Fund and TMDF. In 2022/23, Edinburgh had the third highest Resource Planning Assumption (RPA) in Scotland, with funding of £45.182 million (£17.232 million from SHIF and £27.950 million from TMDF).
- 2.3 The SHIF is allocated to all 30 local authorities based on a distribution formula (as set out in paragraph 4.7 of the report) based on weighted indicators. The framework was agreed by the Chief Officers of Scottish Local Authorities (COSLA) and Scottish Government.
- 2.4 The annual TMDF budget is split 70/30, with Glasgow receiving 70% of the budget and Edinburgh receiving 30%. TMDF funding has not been reviewed since it was originally implemented in 2003. The TMDF budget has remained static over the last three years.
- 2.5 Edinburgh has sought to maximise spend from the Affordable Homes Supply Programme (AHSP), spending an additional £36 million over the last six years. However, the [grant funding resources](#) confirmed for Edinburgh over the period 2021/22 to 2025/26 actually decrease from £52 million in 2021 to £45 million each year from 2022 to 2025.
- 2.6 In December 2022, Scottish Government published the proposed 2023/24 budget, which sets out that funding for the 2023/24 AHSP is being reprioritised to deliver against other Government priorities. The AHSP capital budget was reduced by around 10%, from £543.570 million to £489.100 million. The TMDF budget has not been reduced and remains at £92.245 million.
- 2.7 Modelling suggests that if the two AHSP funds allocated to local authorities (More Homes Fund and TMDF) were solely calculated under SHIF, then Edinburgh's share of the national AHSP Capital Budget would be around 8%. That could have

given Edinburgh a budget of around £56 million in 2022/23, an increase of around £11 million compared to the actual budget of £45.182 million (6% of the national budget).

- 2.8 However, the main risk for Edinburgh is that Glasgow do not leave TMDF. The estimated £56 million is predicated on all the TMDF budget being transferred, therefore if Glasgow remain, there is no additional funding that could be allocated to Edinburgh. Also, if Edinburgh joins the SHIF no part of the Council's budget would be ringfenced, as it currently is within TMDF, so Edinburgh's actual AHSP budget may end up being reduced (subject to blanket cuts) or absorbed by other local authorities.
- 2.9 Committee is asked to agree that officers establish a working group work with key stakeholders to develop a funding case that sets out the unique challenges in the capital and the reasons why Edinburgh requires increased Resource Planning Assumptions, regardless of whether this comes from TMDF, SHIF or other Scottish Government budgets.

### **3. Background**

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- 3.1 On 29 September 2022, a motion was agreed at Housing Homelessness and Fair Work Committee which requested a report in one cycle on the financial strategy setting out the current position with allocation of Transfer of the Management of Development Funding (TMDF), and an analysis of Strategic Housing Investment Framework (SHIF) funding allocations. Further the report should cover:
- 3.1.1 What the likely allocation would be for Edinburgh if we were included in the SHIF, against current assumptions remaining in the TMDF;
  - 3.1.2 The process for raising the issue of the funding formula for the RPAs at COSLA;
  - 3.1.3 Details of what criteria are considered when the funding formula for the RPAs is considered at COSLA;
  - 3.1.4 Details of any meetings or correspondence the convener has had with the Cabinet Secretary or COSLA representatives in relation to the RPAs;
  - 3.1.5 Details of any meetings or correspondence officers have had with civil servants or COSLA officials in relations to the RPAs; and
  - 3.1.6 A recommendation as to whether Edinburgh is more likely to benefit from financial investment in housing by remaining in the TMDF or if we should consider joining the SHIF, and details of that process.
- 3.2 The AHSP is a Scottish Government budget for delivering affordable housing across all 32 Scottish local authority areas. Grant funding for affordable housing in Edinburgh and Glasgow is part of the AHSP, but their respective funding allocations are managed by each local authority as part of the TMDF. Only Glasgow and Edinburgh receive TMDF funding; in all other local authority areas, affordable housing is funded and managed directly by the Scottish Government through the AHSP Capital Delivery budget "More Homes Fund".

- 3.3 The TMDF arrangements have been in place since 2003 and were awarded to Edinburgh and Glasgow because both local authorities agreed to offer their tenants a chance to vote on stock transfer. The formula for the split of TMDF funding has not been reviewed since 2003.

## 4. Main report

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- 4.1 The need for more affordable homes in the city has never been more acute. Most affordable housing is funded by a combination of grant funding and borrowing. Around 40% of the average cost of an affordable home is paid for through grant funding and the other 60% paid for by private finance (mainly borrowing). The average cost of building an affordable home in 2021 was £185,000 per home. Grant funding for affordable housing comes from the AHSP.
- 4.2 The AHSP is a national budget, with allocations made annually to each Scottish local authority. In 2022/23, the national budget is £831 million. The AHSP is split into three separate budgets; More Homes Fund, TMDF and Financial Transactions. A summary of the budgets is set out in Appendix 1. The More Homes Fund and TMDF combined are referred to as the AHSP Capital Budget, which is used to provide grant funding to all 32 Scottish local authorities. Edinburgh and Glasgow receive funding from both budgets to create their resource planning assumptions (RPAs). A summary of the RPAs for the TMDF authorities between 2017 and 2025 is set out below:

Council	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
<b>Edinburgh</b>	31.288	47.564	53.74	54.99	52.418	45.182	45.053	45.211	45.96
<b>Glasgow</b>	71.974	95.066	109.044	121.396	120.578	103.934	103.638	104.001	105.724

### More Homes Fund

- 4.3 The More Homes Fund in 2022/23 is £605 million. This is centrally managed by Scottish Government and allocated between all 32 local authorities (although the allocations to Edinburgh and Glasgow are managed under TMDF arrangements). The funding can be used by registered social landlords and local authorities for the delivery of affordable homes. It is allocated on the basis of the SHIF formula. Underspend on the More Homes Fund can be used to “Top up” TMDF budget allocations.

## T MDF

- 4.4 T MDF is a ringfenced grant funding budget only available to Edinburgh and Glasgow. It is managed locally. The 2022/23 T MDF budget is £92 million. The funding can be used by registered social landlords and local authorities for the delivery of affordable homes within Edinburgh or Glasgow. The T MDF budget is split 70/30, with Glasgow receiving 70% of the budget and Edinburgh receiving 30%. However, both Edinburgh and Glasgow also receive additional funding from the More Homes Fund. More Homes funding allocated to Glasgow and Edinburgh to top up T MDF funds is allocated based on how much other local authorities have received and a proportionate increase is then applied to Edinburgh and Glasgow's funds.

## Financial Transactions

- 4.5 The Financial Transactions budget is £134 million in 2022/23. This budget funds the Scottish Government's national Open Market Shared Equity scheme, which assists first time buyers to afford a home, and it also provides loan funding for historic projects. It is not used for grant funding for affordable housing.

## National AHSP

- 4.6 The table below provides a breakdown of the national AHSP budgets between 2017/18 and 2023/24 is provided below:

Affordable Housing Supply Budget	2017/18 Budget (£m)	2018/19 Budget (£m)	2019/20 Budget (£m)	2020/21 Budget (£m)	2021/22 Budget (£m)	2022/23 Budget (£m)	2023/24 Budget (£m)
Capital Grant (More Homes Fund)	£375.000	£522.600	£573.800	£615.000	£628.100	£605.150	£489.100
T MDF Funding	£96.089	£92.245	£111.800	£92.245	£92.245	£92.245	£92.245
<b>Sub-total</b>	<b>£471.089</b>	<b>£614.845</b>	<b>£685.600</b>	<b>£707.245</b>	<b>£720.345</b>	<b>£697.395</b>	<b>£581.345</b>
Financial Transactions	£119.500	£141.300	£141.500	£136.000	£100.000	£134.000	£170.600
<b>Total:</b>	<b>£590.589</b>	<b>£756.145</b>	<b>£827.100</b>	<b>£843.245</b>	<b>£843.245</b>	<b>£831.395</b>	<b>£751.945</b>

## Strategic Housing Investment Framework

- 4.7 The SHIF is a formula which is used to establish the allocation of the AHSP to each local authority. The factors considered in the SHIF formula are called "indicators" and each of these is weighted, therefore giving priority to indicators with a higher weighting. The framework was agreed by the Chief Officers of Scottish Local Authorities (COSLA) and Scottish Government. The indicators are shown in the table below:

<b>SHIF Indicators</b>	<b>Weighting applied to Indicator</b>
Regeneration/Deprivation	<b>30%</b>
Housing Need/Market Pressure	<b>25%</b>
Remoteness	<b>25%</b>
Homelessness pressure	<b>15%</b>
Programme Viability	<b>5%</b>

- 4.8 Deprivation is measured from the [Scottish Index of Multiple Deprivation 2020](#), with published data on 6,976 datazones covering the whole of Scotland. Edinburgh is ranked 16<sup>th</sup> of the 32 local authorities, with 71 Edinburgh datazones which are within the 20% most deprived in Scotland, representing 5% of the national share. For comparison, Glasgow ranks first with 339 datazones within the 20% most deprived in Scotland, representing 24% of the national share. 45% of Glasgow is in the 20% most deprived in Scotland, compared to 12% of Edinburgh being most deprived.
- 4.9 There is significant market pressure in Edinburgh, which has pushed up rents and house prices to the highest in Scotland. The population of Edinburgh is relatively concentrated, with a low population dispersal according to the [2011 Census data](#).
- 4.10 The homelessness pressure in Edinburgh is considerable. According to Scottish Governments published data in [“Homelessness in Scotland: update September 2022”](#), Edinburgh has the second highest number of homelessness applications in the last year (3,130 compared to Glasgow’s 6,323) and the highest number of households staying in temporary accommodation (3,400 compared to Glasgow’s 3,132).
- 4.11 Deprivation is weighted twice as much as homelessness in the SHIF formula; homelessness is weighted second lowest at 15%, significantly less than deprivation which is weighted highest at 30%.

### **Resource Planning Assumptions (RPAs)**

- 4.12 All local authorities receive RPAs each year from Scottish Government which indicate the minimum amount of AHSP funding which will be made available in future years. For 2022/23, Edinburgh had the third highest RPA in Scotland, with funding of £45.182 million committed. Only Glasgow (£103.934 million) and Highland (£46.398 million) had higher funding allocations, and Orkney has the lowest allocation (£3 million).
- 4.13 Edinburgh and Glasgow’s budgets are mainly TMDF but topped up with More Homes Funds. The 2022/23 TMDF budget is £92.245m which is allocated as £27.950 million for Edinburgh (30% of TMDF budget), and £64.295 million for Glasgow (70%). An additional £56.6 million of More Homes Funding tops up both local authorities 2022/23 budgets. Any further increases to Edinburgh or Glasgow’s 2022/23 budgets will be funded through More Homes Fund. To date based on Edinburgh strong pipeline programme they have received an additional £5 million in 2022/23 from national underspends.

- 4.14 In December 2022, Scottish Government announced that the 2023/24 AHSP was being reprioritised to deliver against Government priorities. The AHSP capital budget, which funds all 32 local authorities, was reduced by around 10%, from £543.570 million to £489.100 million. The TMDF budget has not been reduced and remains at £92.245 million. Freezing the overall TMDF resourcing at 2022/23 levels is consistent with the wider Local Government Finance Settlement for capital funding, of which it forms part.
- 4.15 When cuts have been applied to the AHSP previously, TMDF has fared marginally better. In 2010, the 2011/12 AHSP budget was reduced compared to the 2010/11 budget. The national AHSP reduced by 19% from £488 million to £394 million. As that time the TMDF was also reduced from £119 million to £98 million, a cut of £21 million (17.7%). The TMDF budget has remained static over the last three years.
- 4.16 In 2021, the grant funding per affordable home (the grant funding benchmark) increased. The benchmark grant for a social rented home increased by between 10% and 30%. However, the overall national housing budget is reducing in 2023/24 to lowest level since 2017. So, although the amount of grant available for an affordable home has increased, the overall amount of funding for affordable housing available is decreasing.
- 4.17 Each year a Strategic Housing Investment Plan (SHIP) is submitted to Scottish Government to both set out the affordable housing pipeline over the next five years and the amount of funding required to deliver this pipeline. The SHIP has reported a funding shortfall to deliver Edinburgh's projected AHSP five year pipeline to Scottish Government every year since 2017. In 2017 the funding shortfall was £56 million. The SHIP 2023 - 28, approved at Housing, Homelessness and Fair Work Committee on [2 December 2022](#), showed the funding shortfall had increased to £485 million. During the same period, the Edinburgh AHSP programme increased from £29 million in 2017/18 to a peak of £52 million in 2021/22.
- 4.18 Edinburgh has sought to maximise spend from the AHSP, spending an additional £36 million over the last six years. However, the [grant funding resources](#) confirmed for Edinburgh over the period 2021/22 to 2025/26 actually decrease from £52 million in 2021, to £45 million each year from 2022 to 2025.
- 4.19 Edinburgh received £17.232 million of funding from More Homes Fund as part of the 2022/23 AHSP allocation; that is 38% of Edinburgh 2022/23 budget of £45.182 million which was allocated through the More Homes Fund, the rest being TMDF funding.
- 4.20 Should Edinburgh leave TMDF, there would likely need to be a reassessment of the SHIF formula. It has been indicated that the SHIF formula was not intended to take account of the two largest Scottish cities of Edinburgh and Glasgow, as their budgets were at least part-funded through TMDF. A reassessment of the funding formula would need the agreement of COSLA leaders and would involve consultation with all 32 local authorities and consent from Scottish Government.
- 4.21 It is difficult to estimate what Edinburgh's allocation would be under a new funding formula because changes would be subject to agreement with other local

authorities. Whilst Edinburgh would want a formula that included Rapid Rehousing for homeless households, other local authorities may propose alternative factors which they feel may need to be taken into account or seek variations to the existing weighting of factors. It is unclear if Glasgow would remain within TMDF or would also be part of a new funding allocation formula.

- 4.22 Estimating the Council's allocation of overall AHSP funding under such arrangements would also depend, amongst other factors, on the relative balance between TMDF and More Homes Funding and, in particular, the availability of unutilised funding for redistribution through the latter.
- 4.23 While acknowledging that the precise allocations in any given year will depend upon the overall quantum of funding available, modelling suggests that if the two AHSP funds (More Homes Fund and TMDF) allocated to local authorities had been calculated under SHIF in 2022/23, then Edinburgh's share of the national AHSP Capital Budget would have been around 8%. That would have given Edinburgh a budget of around £56 million in 2022/23, an increase of around £11 million compared to the actual budget of £45.182 million (6% of the national budget).
- 4.24 While this suggests that, based on the 2022/23 position, Edinburgh might have benefited from a SHIF-based allocation, its allocation under current arrangements also depends on the degree of spend elsewhere in Scotland and that there are no cuts to the overall budget. Clarity is required on the methodology adopted by the Scottish Government in such cases to draw more definitive conclusions. It should also be noted that Glasgow's allocation would potentially drop following full incorporation within SHIF-based arrangements.
- 4.25 It is estimated that Glasgow's national share of the 2022/23 AHSP would be 13% if calculated solely under the current SHIF, which would have been a budget of £88m in 2022/23. Glasgow's actual AHSP budget in 2022/23 was £103.9 million, or 14.9% of the national AHSP, which is almost £16 million more than our SHIF modelling estimate. This, in turn, is due to its much higher proportionate share of TMDF funding, relative to Edinburgh, than would be the case when the equivalent funding was included in the SHIF formula. Officers estimate that Highland would continue to receive a higher share of funding under the current SHIF formula than Edinburgh, mainly because the current weightings prioritise remoteness over homelessness.
- 4.26 The main risk for Edinburgh is that Glasgow does not leave TMDF. The estimated SHIF budgets above are predicated on all the TMDF budget being transferred. Therefore, if Glasgow remained in TMDF, the overall amount of the More Homes Fund would be significantly less and therefore Edinburgh's share would be affected. Also, if Edinburgh joins the SHIF no part of our budget would be ringfenced, as it currently is within TMDF, so Edinburgh's actual AHSP budget may end up being reduced (subject to blanket cuts similar to the proposed 10% reduction in AHSP in 2023/24) or partly absorbed by other local authorities.
- 4.27 At present there is no indication that local authorities would agree to a review of funding formulas for affordable housing. However, assuming this was agreed, in principle, by COSLA Leaders following consideration by the Settlement and



Distribution Group, Scottish Government agreement could be sought to take forward the review. Consultation and review of the funding formula across Scotland is likely to take a minimum of one to two years and could take considerably longer.

- 4.28 The Council works in partnership with registered social landlords to develop affordable housing. The Edinburgh Affordable Housing Partnership brings together the Council with registered social landlords to support joint working across a number of strategic priorities aligned to the delivery of the Council Business Plan. These priorities include delivery of more affordable homes, preventing homelessness and energy efficiency of affordable homes.
- 4.29 On 31 January 2023, representatives of the EAHP met with senior officers, the Convenor and Council leader to discuss the development of a Strategic Commitment and Vision. Edinburgh is the capital city and as such has unique challenges not faced across Scotland. It also has unique opportunities to improve the quality of life of its residents through increasing the amount of quality, affordable housing in the city. The delivery of affordable and good quality homes can help to tackle inequalities, improve health and wellbeing, contribute to successful placemaking and strengthen community resilience. But this can only be done with a significant increase in funding.
- 4.30 The pursuit of additional grant funding to help meet these ambitious goals is critical, however as set out earlier in the report it is unclear exactly which course of action would result in additional resources. Officers will continue to engage in conversations with ALACHO in relation to revising the SHIF formula, however as already recognised this could take some time to implement and the final outcome is unknown.
- 4.31 It is therefore recommended that a focus be made on making a special case for the capital. It is proposed that a working group be established with key stakeholders to put together a robust funding case to Government to increase Edinburgh's grant funding, regardless of which budget it comes from. This work will be progressed over the coming months and progress reported to Committee within two Committee cycles.

## **5. Next Steps**

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- 5.1 Continue to seek to maximise the amount of grant funding in year through a strong pipeline programme.
- 5.2 Establish a working group of key stakeholders to develop a case to Government that sets out the unique challenges in the capital and the reasons why Edinburgh requires increased Resource Planning Assumptions, regardless of whether this comes from TMDF or SHIF budgets.

## **6. Financial impact**

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- 6.1 A move from TMDF would mean that Edinburgh no longer has a ringfenced budget as part of its AHSP programme funding. Because the formula is subject to

other local authority input and agreement, there is no guarantee that Edinburgh would receive an increased budget under SHIF.

- 6.2 A further risk is that if funding levels reduce, committed affordable housing projects face grant funding shortfalls in future years. This could mean that registered social landlords and the Council have an unplanned reliance on borrowing, which could mean projects have higher overall borrowing costs. This could be significant as 60% of the cost of delivering an affordable home is financed through borrowing which is paid for by tenants' rents.

## **7. Stakeholder/Community Impact**

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- 7.1 The Convener of Housing, Homelessness and Fair Work Committee has written to the COSLA President to request a meeting to discuss the process by which the SHIF formula for funding affordable housing could be reviewed.
- 7.2 In January 2023, Council Officers met with COSLA representatives and Scottish Government to establish the background to the allocation split of TMDF and to discuss the process for reviewing SHIF.
- 7.3 On the 3 February 2023, officers took part in a ALACHO workshop with Scottish Government. Scottish Government set out how the SHIF formula was calculated. There was some discussion around whether the weightings were still appropriate and accurately reflected housing pressures.

## **8. Background Reading/external references**

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- 8.1 Strategic Housing Investment Plan (SHIP) 2023-28 - Housing, Homeless and Fair Work Committee, [1 December 2022](#).
- 8.2 Housing Revenue Account (HRA) Budget Strategy (2023-24) - City of Edinburgh Council, [23 February 2023](#).

## **9. Appendices**

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- 9.1 Appendix 1 - AHSP Funding breakdown.

## Appendix 1: 2022/23 AHSP Funding breakdown

The Affordable Housing Supply Programme budget is Scottish Government's national affordable housing budget. Each of the 32 Scottish local authority areas has an allocated budget amount. The amount of the budget and the sub-budgets varies each year.

