

Housing, Homelessness and Fair Work Committee

10.00am, Tuesday, 5 December 2023

Strategy for purchasing land and homes to meet affordable housing need

Executive/routine
Wards

Routine
All

1. Recommendations

- 1.1 Housing Homelessness and Fair Work Committee is asked to note:
 - 1.1.1 The progress made towards delivering the strategy to increase land and housing supply agreed by this Committee in December 2022;
 - 1.1.2 That the strategy for the coming year will continue to focus on seeking land opportunities for building directly, purchase suitable completed new build homes from the private sector and work with landowners on partnering opportunities on strategic sites;
 - 1.1.3 That approval will be sought from Finance and Resources Committee for bulk purchase of homes or sites with progress reported to this Committee via briefings and Business Bulletin updates; and
 - 1.1.4 That officers will also be seeking to accelerate purchase of second-hand homes aligned to our asset management strategy. Delegated authority is in place for the Executive Director of Place to purchase homes up to £250,000 per property.

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Strategy for purchasing land and homes to meet affordable housing need

2. Executive Summary

- 2.1 This report reviews progress with Council's Housing Land Delivery Strategy as agreed by Committee in [December 2022](#). The strategy is now renamed the 'Strategy for purchasing land and homes to meet affordable housing need' to better reflect what it actually entails.
- 2.2 It focuses on increasing affordable housing supply by four routes – building directly, working on strategic sites with development partners, purchasing completed new build homes, and purchasing second hand homes.
- 2.3 The findings of this report are that the strategy is sound and has allowed the Council to identify and secure numerous opportunities to increase supply, although there is considerable pressure on the funding available to move forward with any of these opportunities, particularly new build development where construction costs are exceptionally high.

3. Background

- 3.1 Edinburgh needs more homes of all tenures, with the greatest demand being for affordable homes. The latest Housing Need and Demand Assessment (HNDA3) states that there is demand for between 36,000 and 52,000 new homes in Edinburgh between 2021 to 2040; between 24,000 to 35,000 of these homes need to be affordable. Lack of affordable housing is impacting on the ability of the city to address homelessness and is also a barrier to economic growth.
- 3.2 Market engagement took place across 2021 and 2022 to examine opportunities to access private sector land for affordable housing and secure long-term supply. The outcome of this exercise formed the Housing Land Strategy, which was agreed by Committee in December 2022.
- 3.3 The land strategy focussed on working directly with landowners to purchase both land and completed homes, particularly where there was an opportunity to increase the level of on-site affordable housing provision to above policy levels. It also promoted close working arrangements with Registered Social Landlords (RSLs) to

ensure a collaborative approach, rather than one of competition, with the objective to maximise delivery of affordable housing and make effective use of the funding that is available to all partners.

3.4 The strategy is divided into distinct themes of:

- Buildings Direct;
- Working with landowners on strategic sites as a development partner; and
- Purchase of completed and/or second hand homes.

3.5 This report provides Committee with an update on the strategy.

4. Main Report

Building Direct

- 4.1 The Council has a strong pipeline of homes under construction and in design development. Since 2011, there have been 1,425 new affordable homes completed for the Council and Edinburgh Living. There are currently 508 homes under construction and there is a pipeline of approximately 1,355 homes in detailed design development on land under the control of the Council. The figures in the SHIP report are higher as they also include Registered Social Landlord (RSL) delivery and project pipeline.
- 4.2 Due to the higher values of private housing for sale it has always be challenging to secure land on the open market, particularly when the market is buoyant. Nonetheless, the Council has had success in doing so. The Council has also managed to assemble a significant pipeline of sites through the purchase of publicly owned assets, for example, in March 2023, the Council completed the purchase of Liberton Hospital from the NHS.
- 4.3 Direct Council housebuilding remains the primary route to delivery of affordable homes and brings significant advantages with the ability to delivery purpose-built homes that are designed to the specification the Council requires in terms of space standards, net zero requirements and as part of mixed use developments with 20-minute neighbourhood principles imbedded.
- 4.4 The figures provided indicate that the Council has been successful in building a considerable number of homes through this route and has now a very strong pipeline of further opportunities.
- 4.5 Over the past year, however, more and more projects have become difficult to deliver as the cost estimates and tenders are well above benchmark funding levels and, in many cases, additional funding and/or revisions to the design of projects are required to bring them within funding parameters.
- 4.6 This has created a very challenging environment to meet delivery timescales with the principal issues as follow:-

- 4.6.1 Increase in specifications relating to net zero carbon targets and changes to building standards, i.e., the higher specification costs more to design and build;
 - 4.6.2 Increase in costs over the last year including, section 75 costs, costs of borrowing, construction inflation and insufficient competition within the contracting market, for example, the construction cost of a two bedroom flat has raised by 20% in the past year alone;
 - 4.6.3 Delay due to statutory consents and/or utility diversion and commissioning;
 - 4.6.4 Increasing insurance requirements influencing design;
 - 4.6.5 Availability of adequate levels of grant funding; and
 - 4.6.6 Rent volatility, i.e., there is a direct relationship between future rental levels and the amount that the Council can borrow to facilitate housing development.
- 4.7 While delivering housing directly under current conditions is exceptionally challenging, it remains the key route to increasing supply and, importantly, delivering homes that are purpose built in line with wider Council objectives.
- 4.8 An exercise is currently underway to prioritise key projects and ensure that funding is available, and construction is commenced. Options to mitigate the issues above are also being explored, including:
- 4.8.1 Review of specifications and density of development – the Council could seek to deliver more homes per site and seek to maximise efficiencies to achieve the best possible cost per unit figure although this could mean some deviation from current design standards;
 - 4.8.2 Alternative approaches to Statutory Consents – there are permitted development rights available to the Council that allows house building in certain circumstances without the need for a planning application to be made. This could lead to some benefits in terms of time savings but would need to be considered against wider objectives such as public consultation;
 - 4.8.3 Increasing use of off-site construction to drive efficiency throughout the development process – there are already a number of sites where this is being trialled and expanding this programme may give economies of scale;
 - 4.8.4 Dialogue with Scottish Government on grant levels – discussion is ongoing and there is recognition of the challenges around construction costs;
 - 4.8.5 Rent consultations – rent setting is a fundamental part of the HRA business plan although careful consideration of the impact on tenants is required;
 - 4.8.6 Assessment of the current borrowing and financial assumptions used in relation to borrowing – exploring whether borrowing could be pushed out over a longer time frame or whether certain development costs could be funded in different ways in order to achieve project viability; and

4.8.7 Considering ways of generating funding through selective sales of high value sites and/or bringing higher value uses, such as Purpose Built Student Accommodation or commercial uses, into projects to subsidise the delivery of affordable homes.

Working with landowners on strategic sites as a development partner

- 4.9 The Council is working with landowners on the Strategic Sites identified within City Plan 2030. These represent opportunities for delivery at scale, place making and developing of sustainable communities and regeneration.
- 4.10 Working with RSL partners there is the opportunity to deliver policy level or higher levels of affordable housing in addition to taking an active role in coordination of infrastructure delivery and use of grant monies to secure maximum value.
- 4.11 Assessment of sites is being undertaken across much of West Edinburgh, including West Town and Edinburgh Park where the Council is looking at the procurement route to the delivery of early phases. A strategic business case providing terms of reference for delivery, funding and priorities is being developed. Individual business cases and reporting will be required as each development is taken forward and approval sought as required.
- 4.12 While there is considerable work to do in developing these business cases, and it is not yet clear whether they will be viable delivery options, they do represent an ability to deliver at scale and make a significant contribution to the Council's affordable housing targets. The opportunities being explored would offer additional housing numbers, in the region of 4,000 homes, above and beyond the pipeline figure stated in paragraph 4.1.

Purchase of completed homes

- 4.13 The purchase of completed homes (also known as 'off the shelf') is a growing area as wider market conditions for house builders and the domestic mortgage market becomes more challenging. An indication of current opportunities under consideration can be found at Appendix 1.
- 4.14 These opportunities provide a good option for quick delivery and an opportunity to increase on-site affordable provision. Homes can be purchased for both social rent and mid-market rent, meeting both areas of housing need, with mid-market homes to be let and managed through Edinburgh Living.
- 4.15 However, there is an opportunity cost to purchasing homes off the shelf now and each opportunity needs to be assessed on a case-by-case basis against the available resources. While homes will be completed to modern building standards with a high level of sustainability, they will not be completed in line with the Council's specification and the cost of any future retrofit will need to be taken into account.
- 4.16 Approval to purchase 20 homes for social rent at Hawthorn Gardens from Taylor Wimpey was granted by Finance and Resources Committee on [21 September](#)

[2023](#). To progress this opportunity officers sought funds from the Ukraine Fund and were able to make use of available Commuted Sums from that Ward.

- 4.17 This funding package mitigates any risk to committed grant resources across this year and next and limits the impact on the housebuilding programme which has assumed the use of reserves and Council Tax Discount Fund (CTDF).

Currently, opportunities for up to 400 new build homes under construction, to be purchased on completion from the private sector, are being reviewed by the Council. If successful, affordable homes can be added to the supply quickly. In addition to the legal, property and financial checks, due diligence includes assessing suitability against existing policies and strategies, funding opportunities and business plan assumptions.

Accelerating the purchase of Second Hand Homes

- 4.18 The Council's A&D policy seeks to increase supply and reduce ongoing management and maintenance costs by consolidating HRA assets.
- 4.19 Tenancy Management Scheme legislation allows the Council to complete repairs and maintenance in minority owned blocks only where there is an emergency. Where the Council own over 50% of homes in a block, it can complete repairs through majority agreement and recover costs from the remaining owners.
- 4.20 Where block improvements are proposed there must be consent from all owners prior to commencement. Tenants in blocks where the Council is a minority owner can therefore often be disadvantaged in terms of quality. This strategy seeks to purchase homes where full block consolidation could be achieved over 25 years and divest from blocks where the Council is the minority owner.
- 4.21 Currently homes are purchased in blocks where the Council owns at least 50% of the homes. Delegated authority limits each purchase to £250k. Homes are either bid for on the open market or through private sale (owners getting in contact with the Council directly or as part of the Mixed Tenure Improvement Service). Homes are funded through borrowing serviced by rents and grant funding, as well as capital receipts from the disposal of homes in minority owned blocks. The majority of acquisitions come through direct sale (57%). There is also a small number (12) of standalone homes (with no common maintenance obligations) which have been purchased through the policy in areas of the city where the Council already has a presence.
- 4.22 To date, target offers to owners in suitable blocks has not been carried out. There is currently approx. 2,700 privately owned homes in 50% or above in Council owned blocks.
- 4.23 There is a risk that target offers could result in landlords seeking to evict tenants in order to take up the Council's offer to purchase which could lead to more homeless presentations and reputational damage to the Council. It is also unclear what number of homes could become available through this targeted approach. As set out in the Financial Impact section below, increasing the number of second-hand

purchases could have an impact on the number of new homes that could be built if reserves have to be used to top up the purchase price. Whole house retrofit of second-hand homes is also more expensive and challenging than retrofit of homes that meet current Building Standards. Significant investment can also be required to bring homes up to a lettable standard.

- 4.24 Since the introduction of the Council's A&D policy in 2015, 288 homes have been purchased (purchased on open market or off-market when approached) and 154 homes have been sold. This has led to 72 blocks becoming fully Council owned, 117 blocks where the Council has divested its interest and 203 blocks where the Council has further consolidated its majority ownership.

Conclusion

- 4.25 While there are a number of areas of positive progress, the challenge of delivering affordable homes at the level required for this city is significant. The strategy is considered to be working well on the basis that includes a range of delivery routes and allows the Council to take advantage of different opportunities that may arise at different points in the economic cycle. The strategy is sound and has been successful in securing numerous opportunities. The primary challenge with delivery relates to cost and the availability of funding and the Council will continue to seek to mitigate these risks through measures identified in paragraph 4.8.

5. Next Steps

- 5.1 New opportunities to secure land and the delivery of affordable homes in line with the Housing Land Strategy while also having regard to the challenges regarding budget constraints will continue to be sought.
- 5.2 Any new proposals to acquire land or take forward new projects will be considered on their own merits and taken to the Finance and Resources Committee for approval as is current practice.
- 5.3 Dialogue will continue with housebuilders and developers to source opportunities for the acquisition of completed homes.

6. Financial impact

- 6.1 There is no direct financial impact arising from this report. The recommendations are in relation to a strategic approach that will sit within the wider budget strategy that will be considered separately by this Committee.
- 6.2 Note that housing purchases and development will be funded through an appropriate combination of the following funding sources:
- 6.2.1 Affordable Housing Supply Programme grant funding, which covers around a third of the costs;

- 6.2.2 An element of HRA revenue funding, which includes reserves drawdown and ringfenced in-year surpluses;
 - 6.2.3 An element of Council Tax Discount Funding from long term empty homes;
 - 6.2.4 Private developer contributions (as part of mixed tenure regeneration development);
 - 6.2.5 Prudential borrowing which is repaid by rental income; and
 - 6.2.6 Support from the General Fund or other Scottish Government funds for purchase of land that cannot be developed for affordable housing.
- 6.3 As stated above, any new proposals will be reported to the Finance and Resources Committee where the direct financial impacts can be fully assessed. As can be seen above, there are different delivery options available under the current strategy and these each come with benefits and challenges depending on the particular project in question and the economic conditions at any given time. The value for money of any opportunity will be considered, including the opportunity cost, as a decision to buy 'off the shelf homes' will impact on the overall ability to deliver 'new build homes' and vice versa.
- 6.4 It is important to note if homes are purchased for temporary accommodation grant funding cannot be claimed, as this is only for long term settled accommodation.
- 6.5 It is also important to note that Resource Planning Assumptions for the Affordable Housing Supply Programme (AHSP) are significantly below requirements. Based on the SHIP 2023-28 it is estimated that an additional £218 million in grant funding is required. An additional £12 million has been requested in year from Scottish Government, however this has yet to materialise.

7. Equality and Poverty Impact

- 7.1 The delivery of the affordable housing program will have a positive impact on equality and poverty through the provisions of good quality, energy efficient affordable housing.
- 7.2 It is considered that this decision does not meet the requirements to undertake a full Integrated Impact Assessment.

8. Climate and Nature Emergency Implications

- 8.1 There are environmental implications to all construction. The environmental impact, including the ability to meet Net Zero Carbon aspirations, would be considered within any report seeking approval to purchase or enter into contracts.

9. Risk, policy, compliance, governance and community impact

- 9.1 The strategy to deliver homes through this route was originally agreed by the Housing, Homelessness and Fair Work Committee in December 2022 with progress reported through Business Bulletins.
- 9.2 Public consultation will take place on individual opportunities as part of the planning process, with elected member and wider engagement taking place as a key element of the development process.
- 9.3 The Council is seeking to develop sustainable communities and places which deliver a positive impact beyond the built environment.

10. Background reading/external references

- 10.1 Housing Land Strategy Report – Report to Housing Homelessness and Fair Work Committee 1 December 2022.

11. Appendices

- 11.1 Appendix 1 – Private sector purchase opportunities