

Housing, Homelessness and Fair Work Committee

10.00am, Tuesday, 27 February 2024

Increasing Affordable Homes Delivery

Executive/routine
Wards

Executive
All

1. Recommendations

- 1.1 Housing Homelessness and Fair Work Committee is asked to:
- 1.1.1 Note the ongoing challenges to the delivery of new affordable homes in the city including the increasing cost of construction, borrowing and delivery of services to existing tenants at a time when rents have been frozen or have been increased less than overall inflation, as well as inadequate amounts of grant funding; and
 - 1.1.2 Agree to discharge the action from the Council on 14 December 2023 to provide an update report at the next Housing Homelessness and Fair Work Committee on the deliverability of the target to increase the supply of affordable housing to reach 25,000 affordable homes.

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Increasing Affordable Homes Delivery

2. Executive Summary

- 2.1 Delivery of affordable housing remains a priority for the Council and its partner Housing Associations. However, the cost of construction, borrowing and delivering services to existing tenants have all increased at a time when rents have been frozen or have been increased less than overall inflation. The amount of grant funding available per home has been increased by the Scottish Government but the national budget for delivering affordable homes has reduced by over 35% in the last two years.
- 2.2 In summary, if Edinburgh's grant funding allocation remains at a static level in future years, this restricts the affordable housing grant funding commitments that the Council can make. If costs continue to rise, then the number of homes that can be delivered will decrease. Edinburgh's forward budget is not projected to increase from the current level of £45 million, which is only sufficient to deliver around 500 affordable homes each year.

3. Background

- 3.1 On 15 December 2022, The City of Edinburgh Council agreed the recommendations of the report [Council Business Plan 2023-27](#). The Business Plan is appended to the report. On page 14 of the Appendix, section 5 sets out:
- “People have decent, energy efficient, climate proofed homes they can afford to live in – we will: A)“ Increase supply of affordable housing with an ambition to reach 25,000 new affordable homes”*
- 3.2 On 14 December 2023, the Council considered the recommendations of the report [Affordable Housing Approvals](#) and approved the following:
- 3.2.1 Notes the Scottish Government relies on Capital funding from the UK Government and therefore agrees the Council Leader will write to the UK Government asking them to increase the capital allowance relevant for housing by at least 56% to reflect the increased inflation-drive cost demand on the affordable home grant needed to build each home.

- 3.2.2 Further agree that the Council Leader should continue to work with Scottish Government to secure any additional funding in year which could help deliver more affordable homes.
- 3.2.3 Agrees the Council Leader will table at the COSLA Leader's meeting no later than 3 months' time, an amendment to the current funding formula to seek a consistent and increasing grant funding commitment to expand Edinburgh's Affordable Housing programme to meet the housing needs of the city to include the following criteria within the formula:
- 3.2.3.1 Number of households in temporary accommodation;
 - 3.2.3.2 Average time each household spends in temporary accommodation before their homelessness is resolved;
 - 3.2.3.3 The number of people on housing waiting lists with priority.
- 3.2.4 Agrees that officers will provide an update report at the next Housing Homelessness and Fair Work Committee on the deliverability of the target on page 14 of the Edinburgh Council Business Plan 2023-2027 to increase the supply of affordable housing to reach 25,000 affordable homes.

3.3 This report seeks to discharge point 3.6 above.

4. Main report

- 4.1 The Council Business Plan 2023-27 sets out three strategic priorities and 10 outcomes for delivery of these priorities. Outcome five is that "people have decent, energy efficient, climate proofed homes they can afford to live in", with the outcome for delivery being "increase supply of affordable housing with an ambition to reach 25,000 new affordable homes".
- 4.2 Since the 20,000 homes commitment made in 2017 and subsequently revised 25,000 target agreed in March 2023, around 9,000 new affordable homes are expected to be approved by 31 March 2024 and 8,000 completed.
- 4.3 Increasing the supply of affordable housing is dependent on a number of factors, set out in previous reports to Housing, Homelessness and Fair Work Committee, most recently in the ["Strategic Housing Investment Plan 2024-29"](#) (which was approved on 5 December 2023). This identified a potential development programme of around 11,000 new affordable homes over the five-year period, subject to availability of grant funding from Scottish Government.
- 4.4 A Strategic Housing Investment Plan (SHIP) is submitted to Scottish Government annually. It sets out the number of affordable housing approvals and completions that could be achieved over the next five years and the funding required to enable these.
- 4.5 However, current grant funding levels for Edinburgh are insufficient, restricting capacity to less than 500 social rented homes a year for both the Council and other Registered Social Landlords. Without a substantial uplift in grant funding from the

Scottish Government, only around 2,600 affordable homes requiring grant subsidy could be taken forward from that potential pipeline.

- 4.6 Substantial grant funding shortfalls have been reported to Scottish Government through the annual SHIP since 2017. The grant funding shortfall has increased over the same period, from £50 million in 2017 to £667 million in 2024.
- 4.7 The increases to construction costs and borrowing have been well documented in previous reports. In 2019/20, the average affordable home cost £159,000 to build. In 2022/23, the cost exceeded £200,000, a 25% increase. Build costs are being monitored in 2023/24 and costs of around £250,000 per unit are not unusual. The average grant required for an affordable home in 2019/20 was £57,000 per home but in 2022/23 that had increased to £89,000 per home, an increase of 56%. However, increases in construction costs meant that it had a limited impact on affordability, with the benchmark grant representing around 39% of the cost of an affordable home.
- 4.8 Grant funding is only one element of financing an affordable home. The majority of development finance for an affordable home is still through borrowing. The interest on borrowing is repaid by the rents that tenants pay. Affordable rents are set to be significantly lower than market rents. Because of the cost of living crisis, both the Council and Registered Social Landlords have frozen rents or applied rental increases below the rate of inflation over the last three years.
- 4.9 As high inflation has affected the economy, affordable housing providers have seen the cost of both borrowing and delivering services going up, impacting on their capacity to finance or borrow for new homes. The same limited finances are required to bring existing social rented stock up to energy efficiency standards (ESSH2). These competing priorities of providing new build and upgrading existing stock from the same limited finances, the increased costs of development, increased cost providing services to tenants and increased borrowing costs have resulted in some Registered Social Landlords pausing their development programmes.
- 4.10 The Scottish Government published “Resource Planning Assumptions” (RPA) for the period 2021/22 to 2025/26. Edinburgh’s share of the national grant funding programme is largely static from 2022, remaining at £45 million up to 2025. Edinburgh has spent more on affordable homes when slippage from the national funding programme allows, however, ad-hoc increases do not allow for a managed increase in the affordable housing programme in the city.
- 4.11 However, although grant funding per affordable home has been increased, the overall affordable housing grant made available to Edinburgh has not kept pace. The Scottish Government committed a RPA of £42.117m for Edinburgh for 2019/20, yet by 2025/26 the RPA is still £45.960m, an increase of only 9% over six years. The increase to grant funding per affordable home is welcomed and needed, however, without an increase to the overall amount of funding Edinburgh receives, the affordable housing programme cannot be increased.

- 4.12 In December 2023, the Scottish Government draft budget included a reduction in the Affordable Housing Supply Programme funding of £196m (26%) for 2024/25 from the 2023/24 budget figure of £712m. This would be a 37% reduction in the past two years. Edinburgh's RPA is made up of a combination of Transfer of the Management of Development Funding (TMDF) and More Homes Fund. More Homes funding is allocated using the Strategic Housing Investment Framework formula. TMDF remains unaffected in 2024/25 but that only accounts for c.60% of Edinburgh's budget (£27m). The impact of the cut on Edinburgh's final RPA is currently unknown, adding further pressure to the grant funding pot.
- 4.13 The number of available mortgage products halved in October 2022. Mortgage market uncertainty brings additional risk for house builders as homes may go unsold for longer periods. In times of market uncertainty housebuilders may delay new developments, deliver smaller phases, and/or reduce the number of homes which come to market each year. This also delays affordable homes brought forward through the Affordable Housing Policy, as the affordable requirement is triggered by the commencement of market homes.
- 4.14 On 5 December 2023, Housing, Committee considered the recommendations of the report [Strategy for purchasing land and homes to meet affordable housing need](#). The report set out the opportunity to purchase completed homes (also known as 'off the shelf') as market conditions for house builders and the domestic mortgage market become more challenging.
- 4.15 Homes can be purchased for social rent, mid-market rent and temporary accommodation, to meet all areas of housing need, with mid-market homes to be let and managed through Edinburgh Living.

Current delivery

- 4.16 As set out above, these challenging circumstances have a significant impact on approvals that can be taken forward. In December 2023, the SHIP 2024-29 set out a projected outturn of 902 approvals and 1,247 completions in 2024/25.
- 4.17 Approvals for this year are now expected to be 750. Approval figures have been impacted by a number of site delays or deferrals. Amongst these is a site of over 150 units that will not come forward for approval until next year. Many house builders and developers are delaying new contracts due to cost inflation, reduced demand, reduced mortgage availability and affordability. In the last 12 months, two affordable development partners have suspended house building programmes due to viability. Compounding this, uncertainty in the wider market due to rises in interest rates and risks to rental income streams has resulted in developers not bringing forward projects previously estimated for approval in this financial year.
- 4.18 Completions in 2023/24 are expected to be 950, which is lower than the revised estimate outlined in the SHIP 2024-29. The reason for this is a large strategic site (226 homes) has been slightly delayed and will now complete in the first quarter of 2024/25. In addition to this, due to limited Scottish Government grant funding in

2023/24 payment of the purchase of ex-council homes through the Council's Acquisitions and Disposals policy into 2024/25 has been deferred.

- 4.19 As set out in 4.14 above, the Council has been able to benefit from 'off the shelf' purchases (c.60 homes) of newly completed homes to supplement the 2023/24 programme. However, each opportunity needs to be assessed on a case-by-case basis against the available resources and is subject to committee approval. While homes will be completed to modern building standards with a high level of sustainability (meeting EESSH2), they will not be completed in line with the Council's current new build specification and therefore future costs to achieve net zero carbon will need to be taken into account.
- 4.20 Delivery of affordable housing remains a priority for the Council. However, the cost of construction, borrowing and delivering services to existing tenants have all increased at a time when rents have been frozen or have been increased less than overall inflation. The amount of grant funding available per home has been increased by Scottish Government but the national budget for delivering affordable homes has reduced by over 35% in the last two years. Edinburgh's forward budget is not projected to increase from the current level of £45 million, which is only sufficient to deliver around 500 affordable homes each year.
- 4.21 In summary, if Edinburgh's grant funding allocation remains at a static level in future years, this restricts the affordable housing grant funding commitments that the Council can make. If costs continue to rise, then the number of homes that can be delivered will decrease.

5. Next Steps

- 5.1 The Council continues to press the Scottish Government to increase the amount of funding made available to the city. Council officers continue to seek best value from grant funding and report regularly on the delivery of the grant funding programme and the Council's Affordable Housing Policy.
- 5.2 Edinburgh has engaged with the private sector to deliver as many affordable homes as possible through innovative means, with little or no grant funding. This will continue as part of the development of a new Local Housing Strategy in 2024/25. However, the pressing need for more social rented homes needs to be met with an increase in affordable housing grant funding.
- 5.3 As set out in the 'Strategy for purchasing land and homes to meet affordable housing need' report at Housing, Homelessness and Fair Work Committee on [5 December 2023](#), officers are exploring a variety of mitigations including exploring ways to increase borrowing capacity and generating additional funding to deliver the Council's House Building pipeline.

6. Financial impact

- 6.1 Edinburgh has future year commitments from the Scottish Government of around £45 million each year until 2025/26. This would support around 500 affordable homes which require grant subsidy each year.
- 6.2 The SHIP 2024-29 estimated that £665 million in grant funding would be required in addition to the £228 million Scottish Government are expected to commit over the five-year period.
- 6.3 The Housing Revenue Account (HRA) Budget Strategy 2024/25 set out the risk that for the Council's own housebuilding pipeline, if resource planning assumptions remain static, there is currently not enough grant to support the Council Housing Building programme.

7. Equality and Poverty Impact

- 7.1 Almost 6,000 affordable homes have been completed in the city over the last five years. These homes are affordable and increase the housing options of people on low to moderate incomes. Affordable homes are built to be more energy efficient and more easily adaptable than private homes and are therefore more affordable to heat and meet the long term needs of tenants.

8. Climate and Nature Emergency Implications

- 8.1 The City of Edinburgh Council declared a Climate Emergency in 2019 and committed to work towards a target of net zero emissions by 2030 for both city and corporate emissions and embedded this as a core priority of the Council Business Plan 2023-27. The Council also declared a Nature Emergency in 2023.
- 8.2 Affordable homes are constructed to high standards in terms of energy efficiency and sustainability. There is a lower energy demand to heat the homes, with low or zero emissions heating systems required. This means they will minimise the amount of carbon emissions to aid with the city's ambition to be net zero carbon.
- 8.3 There are no adverse environmental implications arising from this report.

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

- 9.1 The SHIP is approved by Housing, Homelessness and Fair Work Committee annually. This sets out progress to date as well as a potential pipeline programme that could be delivered if associated funding is available.
- 9.2 The delivery of affordable homes is reported as part of the Annual Performance Reporting on the Council's Business Plan.
- 9.3 The performance of the Affordable Housing Policy is regularly reported to Planning Committee.
- 9.4 The impact of development is assessed as part of the Planning process.

10. Background reading/external references

- 10.1 [Scottish Government Housing Statistics for Scotland Quarterly Update: New Housebuilding and Affordable Housing Supply.](#)
- 10.2 Strategic Housing Investment Plan 2024 to 29, Housing Homelessness and Fair Work, [5 December 2023](#).
- 10.3 Strategy for purchasing land and homes to meet affordable housing need, Housing Homelessness and Fair Work, [5 December 2023](#).
- 10.4 Housing Revenue Account (HRA) Budget Strategy 2024/25, Finance & Resources Committee, [6 February 2024](#).

11. Appendices

- 11.1 None.