

# Housing, Homelessness and Fair Work Committee

10.00am, Tuesday, 14 May 2024

## Update: Strategic Housing Investment Plan 2024/25 – 2028/29

Executive/routine  
Wards

Executive  
All

### 1. Recommendations

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- 1.1 Housing Homelessness and Fair Work Committee is asked to:
- 1.1.1 Note the 24% reduction in affordable housing grant funding from the Scottish Government against expected Resource Planning Assumptions in 2024/25; going from £45.2m to £34.2m;
  - 1.1.2 Note that based on the current affordable housing grant funding commitment for already approved projects and uncertainty in the Scottish Government's Affordable Housing Supply Programme 2025/26 budget, Edinburgh is unlikely to be able to approve any new grant funded affordable homes this year, and there is uncertainty about potential commitments next year;
  - 1.1.3 Note the wider impacts this cut in funding has on the Affordable Housing Policy, Affordable Housing Supply Programme, the Council's own house building programme and HRA Business plan; and
  - 1.1.4 Refer this report to Planning Committee and request that it considers the use of affordable housing commuted sums on a citywide basis where individual legal agreements do not restrict this.

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## Update: Strategic Housing Investment Plan 2024/25 – 2028/29

### 2. Executive Summary

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- 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 have made this increasingly difficult.
- 2.2 The amount of grant funding available per home has been increased by the Scottish Government, from £72,000 for a social rented home in 2020 to £91,182 in 2023 (28% increase). Over the same period the cost of building an affordable home increased from £157,000 in 2020 to recent build cost assumptions for new affordable homes being around £300,000 per home (91% increase). Therefore, the grant funded element has reduced from 46% of the cost of each new homes to 30%. At the same time interest rates have reached all-time highs and rents have been capped or increased at below inflation. The national budget for delivering affordable homes has reduced by over 35% in the last two years. Edinburgh's 2024/25 allocation has been cut by 24%. Based on current grant funding commitments from pre-approved projects and uncertainty around 2025/26 grant levels it is unlikely that any new grant funded approvals can be brought forward this year.
- 2.3 There will be a small number of non-grant funded approvals brought forward this year. However, the Scottish Government's Open Market Shared Equity scheme that enables first time buyers to get on the property market is also likely to be impacted by funding cuts from Financial Transactions monies. The full impact of the cut is still to be announced.

### 3. Background

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- 3.1 On 2 November 2023, Council declared a Housing Emergency due to the acute nature of Edinburgh's homelessness crisis, coupled with the severe shortage of social rented homes and the increasing pressure within the private rental market.

3.2 On 5 December 2023, Committee approved the [Strategic Housing Investment Plan](#) (SHIP) 24-29. Local authorities are required to submit an annual SHIP to the Scottish Government. The purpose of the SHIP is to:

3.2.1 Set out investment priorities for affordable housing;

3.2.2 Demonstrate how these will be delivered;

3.2.3 Identify the resources required to deliver these priorities; and

3.2.4 Enable the involvement of key partners.

3.3 The SHIP 2024-29 identified a potential development programme of around 11,000 new affordable homes over a five-year period, with over 9,500 of these requiring grant funding through the Affordable Housing Supply Programme (AHSP). These would require an additional £665 million over five years, almost four times the amount of grant funding set out in current resource planning assumptions. Substantial grant funding shortfalls have been reported to Scottish Government through the annual SHIP since 2017. The grant funding shortfall has increased by 1230% over the same period, starting from £50 million in 2017.

3.4 The Scottish Government published “Affordable Housing: Resource Planning Assumptions to Councils 2021-2022 to 2025-2026” in July 2021.

**Table 1:** Affordable housing: resource planning assumptions

<b>Edinburgh City</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>
<b>RPA</b>	52.418	45.182	45.053	45.211	45.96

3.5 Edinburgh has consistently drawn down additional monies from national underspends to fund its strong development pipeline. Since 2021/22 we have secured an additional £17.66m however, ad-hoc increases do not allow for a managed increase in the affordable housing programme in the city.

3.6 In 2023/24 the additional monies added to the Transfer of Management Development Fund (TMDF) budget (£7.66m) came through the Ukrainian Long Term Resettlement Fund (ULTRF), which was used to support the purchase of 66 new homes from the market for Ukrainian families. In addition to this, a further £1.72m of ULTRF funding was secured that was used to bring 100 council voids up to lettable standards. In total in 2023/24, Edinburgh secured £9.38m of ULTRF funding.

3.7 AHSP funding for the City of Edinburgh Council and Glasgow City Council is delivered through TMDF, with Edinburgh and Glasgow being the only two local authorities to receive funding from the Local Government Settlement. The allocation is determined by a formula agreed between Scottish Government and Convention of Scottish Local Authorities (COSLA).

3.8 TMDF is a limited annual budget and any additional funding secured for Edinburgh has come through central housing budget. Over the last five years, Glasgow has received more than double from TMDF than Edinburgh.

- 3.9 In March 2024, the Council Leader wrote to the chairperson of COSLA requesting that the TMDF allocation be reviewed to reflect the acute housing needs of Edinburgh more accurately. COSLA responded and agreed to raise this at the meeting of the Settlement Distribution Group (SDG) in May, with a request for the review to be included as part of the SDG's future workplan.
- 3.10 In December 2023, the Scottish Government draft budget included a reduction in the Affordable Housing Supply Programme (AHSP) funding of £196m (26%) for 2024/25 from the 2023/24 budget figure of £712m.
- 3.11 On 26 April 2024, Scottish Government announced a £80 million national acquisitions fund over 2024/25 and 2025/26. The exact criterion for the fund and potential distribution is still to be announced. Officers will continue to seek clarify from the Scottish Government and wherever possible maximise income for Edinburgh to increase the number of affordable homes and reduce homelessness in the city.

## 4. Main report

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- 4.1 The SHIP 2024-29 (reported to Committee in December 2023) included an estimate, rather than a target, of potential approvals and completions over the next five years and the associated funding required to deliver these. It set out an estimated 1,213 homes (976 of which would be grant funded) could be approved, subject to additional funding, and that 1,339 homes (1,014 of which would be grant funded) could complete in 2024/25. It also highlighted the challenges in delivering a pipeline of affordable homes during a period of economic instability; the continued impact that construction industry capacity, construction materials availability and increased costs, borrowing capacity of affordable developers (linked to rental income) and availability of grant funding. The 976 potential approvals have a grant funding requirement of £72.5m. Edinburgh received less than half of the grant funding requested in 2024/25.
- 4.2 Following the SHIP being approved by Committee, the SG budget was published on the 19 December 2023, including a £196m reduction in the AHSP. The Council was assured that our TMDF funding allocation would be protected.
- 4.3 On 28 March 2024, Edinburgh's AHSP grant allocation was confirmed as £34.2m, £11m (24%) less than previously indicated Resource Planning Assumptions (RPA) of £45.2m. Unlike previous years, due the significant cut in the national programme and increasing construction costs, it is highly unlikely Edinburgh will be able to supplement its starting budget with national underspends.
- 4.4 £34.2m is the lowest AHSP allocation for Edinburgh since 2017/18 however, additional funds were accessed that year and the outturn was actual £40.640m. If no additional funds are made available in 2024/25, this will be the lowest AHSP budget for Edinburgh since 2015/16 (£31.660m).
- 4.5 Edinburgh manages the allocation of grant funding through the Transfer of Development Management Funding (TMDF). Based on RPAs the team work with

affordable housing providers to set out an annual pipeline programme. Projects are submitted for approval when they reach tender stage and following a value for money assessment are approved with a specific grant requirement. Grant is paid out in tranches at various stages of delivery. On average it takes between 18-24 months from approval to completion. This can of course vary depending on the site size and whether grant funding has been used in the initial purchase of land. Therefore, the majority of grant funding paid out each year is on previously approved projects (this is referred to as grant funding “carry forward”).

- 4.6 Edinburgh’s TMDF grant offer from Scottish Government sets out that “Maximum carry forward into 2024-25 should be no more than 80% of the 2024-25 Resource Planning Assumption”. The remaining 20% is supposed to be used to help fund new projects coming forward in any financial year, thus helping to create a continuous pipeline of new homes. Based on the originally published RPA for 2024/25 Edinburgh should have been able to make grant funding commitments (“carry forward”) of up to £36.169m (80% of £45.211). If the 2025/26 budget remains similar to the £34.2m for 2024/25, then the maximum carry forward allowance into 2025/26 would be £27.36m (80% of £34.2m).
- 4.7 Based on the current programme profile our 2024/25 grant commitments now exceed the amount of funding available this year by almost £2m. These are contractual obligations made to Registered Social Landlords and must be honoured. The team are currently reviewing individual project timelines to seek to reprofile spend into 2025/26 to meet existing budget commitments.
- 4.8 The TMDF grant offer also stipulates that the “*maximum carry forward into 2025/26 should be no more than 80% of the 2025-26 Resource Planning Assumption.*” The AHSP budget for next financial year has not been published by Scottish Government. The published 2025/26 RPA is currently £45.96m however Scottish Government have given no indication of whether the budget cuts are a one off or whether the 2025/26 will be honoured. Carry forward grant commitments for 2025/26 are currently set at £36m.
- 4.9 Therefore, because grant commitments exceed the 2024/25 budget and future years budgets are unknown, there is simply no capacity for any new grant funded affordable housing approvals in 2024/25. Even if additional monies do become available later in the year prudent budget management would be to use the funds to reduce the carry forward in future years to potentially enable some approvals to be taken forward in 2025/26.
- 4.10 The SHIP estimated around 200 approvals and around 300 completions in 2024/25 requiring no grant funding, the majority of which would come from the Scottish Government’s Open Market Shared Equity (OMSE) programme.
- 4.11 The Scottish Government’s OMSE scheme enables first time buyers to buy a home without having to fund its entire cost. Applicants pay for the biggest share which is usually between 60% and 90% of the home's cost. This is open to first time buyers and those that meet specific priority criteria. In Edinburgh, over the last 10 years,

this has delivered more than 2,500 newly affordable homes (c250 per annum). In 2023/24 260 homes were supported by £16.79m of Scottish Government Loan funding. The scheme is funded from Scottish Government financial transactions monies. Edinburgh often secures around 50% of annual funding through this scheme. The 2024/25 Financial Transactions budget has been cut by around 60%. It is currently unknown whether SG will continue to offer the scheme and if so, just how many homes will be able to be taken forward.

### **Current and future Impacts**

- 4.12 This cut in funding has a significant and immediate impact on affordable housing delivery in the city. The 2024/25 Capital investment plan report, also presented at committee, includes £70m of investment in building new council homes. Whilst the grant programme will honour existing approvals to benchmark levels both this year and next, the future pipeline programme is currently uncertain. £4.85m spend is currently allocated to design and feasibility work.
- 4.13 The Affordable Housing Policy requires all new planning applications to provide an affordable housing contribution, usually this is provided on-site, by Registered Social Landlords (RSLs), with an aspiration that 70% of the homes will be delivered as social rent. With the level of budget cuts applied in 2024/25, it is unlikely that new applications will be able to be delivered onsite because the funding commitment is not sufficient.
- 4.14 The risk is that developers may engage with RSLs who will not be able to deliver affordable homes because of AHSP budget restrictions. RSLs will simply not be able to enter into contracts with house builders for new affordable homes if there is no new grant funding available to them. On average, grant funding accounts for between 40%-60% of the cost of delivering an affordable home. Where onsite delivery is not possible, the applicant will be required to pay commuted sums which can help finance other affordable housing in the city. In some instances land transfers may be possible. However, for smaller sites, this will not be possible without a reduction in the overall density that can be achieved.

### **Potential interventions**

- 4.15 Grant funding may need to be prioritised for AHP projects where affordable homes are due to be delivered in the next few years, otherwise there is a risk that the affordable homes will not be able to proceed.
- 4.16 The Council may seek to use already secured and paid affordable housing Commuted Sums to enable affordable housing being delivered through the AHP to progress. This may mean using sums outwith the ward they were paid for. The ability to use commuted sums will vary depending on the conditions set out in each Section 75 Legal Agreement; there may be specific clauses which limit the use to the same area, ward or adjacent wards. Legal advice in relation to this is being taken and will be further sought in respect of each individual legal agreement and the conditions which may or may not restrict the use of sums. This report is referred to Planning Committee for an in-principle decision in relation to use of Planning

Contributions; that they may be used citywide where individual legal agreements do not restrict this.

- 4.17 Different affordable housing tenures require different levels of grant funding. The benchmark grant level for social rent is currently £91,182 per unit compared to mid market rent, which is currently £62,542 per unit. Almost 55% more homes could be delivered as Mid Market Rent than for Social Rent. Higher numbers of affordable homes can be achieved from a limited budget if a higher percentage of mid market rented homes was accepted.
- 4.18 On 5 December 2023, Housing, Committee approved the [Strategy](#) for purchasing land and homes to meet affordable housing need. The report included proposals to prioritise key projects where the funding package could be demonstrated, and construction commenced as quickly as possible. The report also set out options to explore a variety of risk mitigations, including reviewing financial models such as increasing borrowing capacity and generating additional funding to deliver the Council's House Building pipeline.
- 4.19 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

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- 5.1 Discussions will take place with partner RSLs and Council's housebuilding team to look at project prioritisation, funding requirements and the potential for restructuring the phasing of funding. This work will help to inform which projects have the most pressing need for funding and will seek to alleviate the burden on the 2024/25 AHSP budget wherever possible. Revised estimates will be included as part of the next Cyclical Assurance Report to Committee.
- 5.2 A letter will be written to the Housing Minister requesting a level of certainty in 2025/26 grant funding levels to enable prudent budget management.
- 5.3 Advice is being sought in relation to use of commuted sums to enable affordable housing to be delivered through the AHP to progress. This report is referred to Planning Committee for an in-principal decision in relation to use of Planning Contributions that they may be used citywide where individual legal agreements do not restrict this.
- 5.4 In relation to the Council's own programme, the housebuilding team will continue to progress sites under construction and those in design stage with sufficient grant funding. In order to protect the pipeline and land values, design and planning work will continue at risk on viable sites that do not currently have approved grant attached to the project, albeit at a slower than expected pace and in line with the restructuring of available funding. This will be monitored closely to mitigate the risk of expenditure failing to become capitalise resulting in increased HRA revenue

pressures. The programme will be prioritised to focus financial and human resources on progressing viable, deliverable sites as quickly as possible.

- 5.5 A collection of workstreams under the Housing Emergency Action Plan are being developed to mitigate the risks set out in this report and support the sustainable delivery of a Council housebuilding programme in to the future. Work will continue to look at innovative funding approaches to reduce reliance on grant funding in the medium to long term for social and mid-market rent homes.
- 5.6 Existing financial models are supported on some sites through income from delivering homes for private sale. To mitigate the funding risks a larger percentage of these sites may need to be considered for private sale where there are real opportunities for strong capital receipts. Other opportunities for income from land exists on smaller sites where the economies of scale do not support affordable housing but there is a land value that could support delivery elsewhere. Opportunities will be assessed on a case by case basis in the context of both the immediate funding need and longer term land and housing strategy.
- 5.7 A review of the newbuild specification is ongoing to explore opportunities to reduce costs while retaining the ambition to deliver net zero ready homes and futureproofing risks around regulation change.
- 5.8 The refresh of the Council's housebuilding contractor framework will seek, where possible, to mitigate the risks around cost increases and ensure that it is fit for purpose in relation to a range of delivery routes.
- 5.9 On 1 December 2022, the [Land Strategy](#) agreed at this Committee set out that lease-based proposals posed a number of risks to the Council and that other opportunities for direct delivery were more favourable. It noted that the risks and opportunities of these models would be assessed further. To continue that work and allow the Council to react to a changing market, officers will explore a procurement route to support engagement with developers who can deliver homes on Council sites with funding partners as part of the construction package. Creating a procurement route will also serve to mitigate some of the risks identified within that report. Other delivery models will also be considered including joint venture models although it should be noted that all engagement with the market has indicated that the Council's covenant is central to partnership models and as a result arms length arrangements are unlikely to offer significant financial benefits.
- 5.10 Business cases for strategic regeneration and City Plan sites will be developed with a view to building a case for additional funding from Scottish Government for these areas outside of the AHSP, should the grant position continue to deteriorate over the coming years.

## **6. Financial impact**

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- 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. However, the reduced allocation of



£34.2 million would mean only already approved projects are able to be financed. If the AHSP budget remains at around £34 million, then new approvals in future years will not be able to exceed around 375 new affordable homes per 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 were expected to commit over the five-year period. As the amount of funding has reduced, the grant funding shortfall has increased to £676 million. Committee should note that this shortfall will further increase should future years allocation be less than the originally published budget for Edinburgh, set out by Scottish Government in 2021 at £45 million per year.
- 6.3 The budget cuts directly impact our affordable housing partners who are reliant on grant funding to deliver affordable homes. Without funding certainty, it is unlikely that RSLs will be able to make any new affordable housing commitments as this would affect their financial standing and stability, which is directly monitored by the Scottish Housing Regulator.
- 6.4 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**

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- 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**

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- 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**

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- 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 reduction in grant funding availability puts the Council's housebuilding delivery timescales at risk. Lack of grant will result in slower delivery of the pipeline as funding has to be restructured and completions become more sequential rather than concurrent. Mitigations to support sustainable delivery of homes over the medium to longer terms are being explored.
- 9.4 There are 257 affordable homes supported by grant funding in line with current grant level expectations. These sites can proceed at pace. There are 844 homes that have a lower level of grant approved due to the timing of approvals - uplift to current grant levels had been expected to meet the increase in construction costs since approval. Assuming grant levels are not increased in future years, the funding gap will need to be met through increased borrowing and/or alternative funding measures. The remainder of the housebuilding programme (including homes at Granton) do not have grant funding approval at this stage.
- 9.5 New Affordable Approvals and completions will be reported to HH&FW committee as part of the Cyclical Assurance Report. The impact of the cuts on the delivery of the AHP in Edinburgh will be monitored and reported to Planning Committee.
- 9.6 The performance of the Affordable Housing Policy is regularly reported to Planning Committee. The impact of development is assessed as part of the Planning process.

## **10. Background reading/external references**

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- 10.1 Strategic Housing Investment Plan 2024 to 29, Housing Homelessness and Fair Work, [5 December 2023](#).
- 10.2 Strategy for purchasing land and homes to meet affordable housing need, Housing Homelessness and Fair Work, [5 December 2023](#).
- 10.3 Housing Revenue Account (HRA) Budget Strategy 2024/25, Finance & Resources Committee, [6 February 2024](#).

## **11. Appendices**

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- 11.1 None.