

Edinburgh and South East Scotland City Region Deal Joint Committee

10am, Friday 2 December 2022

Regional Housing Programme Update

Item number 5.4

Executive Summary

This report provides an update on the regional housing programme, key areas of regional collaboration and a recently refreshed set of work priorities.

The pressures currently facing city region housing partners are unprecedented but affordable housing delivery remains strong.

The drive towards net zero carbon will create opportunities for the region as we seek to take forward major housing retrofit programmes alongside new build. However, more financial support is needed to support delivery of the Energy Efficiency Standards for Social Housing 2 (EESH 2) whilst continuing to sustain new build affordable housing programmes.

There is significant progress in delivery of the seven strategic sites across the region, however, funding and delivery of essential infrastructure remains a critical challenge.

To ensure the region can continue to successfully deliver on its housing ambitions and react to the existing and future political, economic, and environmental conditions a refreshed set of five housing priorities are presented - Affordable Housing Delivery (current and future); Retrofit (EESH2); Home Demonstrator Project; Strategic Sites; and Future Town Centres and New Delivery Models.

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Regional Housing Programme Update

1. Recommendations

- 1.1 To note the content of the report;
- 1.2 To agree the updated regional housing work priorities; and
- 1.3 To agree for City Region partners to engage with Scottish Government on the scope, opportunity and constraints associated with the City Region Deal £50m Housing Infrastructure Fund commitment.

2. Background

- 2.1 In 2019, the Joint Committee approved [the Regional Housing Programme: Forward Work Programme](#) and recognised the key role it plays in shaping the emerging work on a Regional Growth Framework now Regional Prosperity Framework.

Two strategic aims were identified for the Regional Housing Programme:

- Deliver a step change in innovation and inclusive growth in the housing and construction sectors; and
- Deliver a step change in the supply of new homes across the South East of Scotland.

- 2.2 There has been significant political, economic, and environmental change at a national, local, and regional level since the programme was published and therefore a need to refresh the priorities of the regional housing programme.

3. Main report

Economic and Housing Context

- 3.1 The COVID-19 Pandemic and ongoing cost-of-living crisis, is having a profound impact on the lives of our citizens. This crisis has disproportionately impacted the most economically disadvantaged members of the community, with the cost of basic necessities e.g., food and fuel far exceeding any increases to wages. The conflict in Ukraine has added to tensions and shortages at a global level, which have created major challenges for the local and regional supply chains for basic commodities.
- 3.2 The Pandemic, conflict and inflation have also had a significant impact on construction and the delivery of new development and housing. Supply chain

disruption, including shortages of materials, labour and contractor availability remain key challenges. With construction prices projected to increase by 17% over the next five years, these challenges may become more acute and result in some affordable housing projects being no longer viable to deliver.

- 3.3 The economic success of the city and parts of the region has made the SE Scotland the fastest growing region in Scotland with much of Scotland's future population and household growth set to take place in the region. The number of households in the South East Scotland area is projected to increase by 18% to 2043, which is above the 10% increase projected for Scotland
- 3.4 The housing need and demand in the city region is the greatest in Scotland. The Scottish Federation of Housing Associations, The Chartered Institute of Housing and Shelter Scotland commissioned [research](#) in June 2020 to look at Scotland's affordable housing need over the next five years. The overwhelming majority, nearly 60% of the total annual affordable homes requirement for Scotland is needed in our city region.
- 3.5 Different scenarios with HNDA 3 tool project need for between 78,000 and 105,000 new homes over the next 20 years. With the range depending on the changing economic context over that time. The majority of which will be for affordable housing.
- 3.6 Private rental growth has been much stronger in South East Scotland compared to Scotland, particularly in the Lothian Broad Rental Market Area where private renting is unaffordable for almost 80% of households.
- 3.7 Despite these challenges the region has continued to successfully deliver new affordable homes, progress strategic sites and various other projects across the region. A summary of these is provided below with further detail provided in the [City Region Deal 2021/22 Annual Report](#):
 - The Housing Need and Demand (HNDA) 3 assessment is complete and received Robust and Credible status on 28 July 2022 from the Centre for Housing Market Analysis (CHMA) at Scottish Government. The Scottish Ministers settled position on NPF4 recognises the Robust and Credible status of HNDA 3 and incorporates the figures from HNDA 3 into the Minimum All Tenure Housing Land Requirement for the City Region Deal authorities
 - The business case for the Dunfermline strategic transport infrastructure interventions to unlock housing delivery was approved
 - Completion and approval of Granton Waterfront Outline Business case
 - Construction on 75 net zero homes began in Granton Waterfront began in June 2022. This is the first pilot development in the Edinburgh Home Demonstrator (EHD) Project.
 - Ongoing completion of consented development in Blindwells Area 1, with detailed approvals for second phase infrastructure and on-going commercial and residential development phases within that area in place
 - Winchburgh has seen the commencement of motorway junction; completion and opening of the non-denominational secondary school.
 - At Shawfair Midlothian Energy Limited, a 50/50 Joint Venture between Midlothian Council and Vattenfall Heat UK, ambitious long-term business plan to invest £100m in low-carbon energy projects, including heating, over the next five years.

- In Spring 2022 a Board was established to oversee delivery of housing, supported living and elderly care facilities at Tweedbank
- Edinburgh Living has drawn down all the one-off grant of £16.1m. 350 of the 728 mid-market rent homes have been delivered already with around 170 more homes expected to complete in 2022/23 with the remaining homes in design/development.

3.8 To ensure the region can continue to successfully deliver on its housing ambitions and react to existing and future changes in the political, economic, and environmental challenges, regional housing and planning officers held a workshop on 8 September 2022 to consider what areas of work should be refreshed and prioritised.

3.9 Figure 1 below summarises the refreshed set of regional priorities for the year ahead.

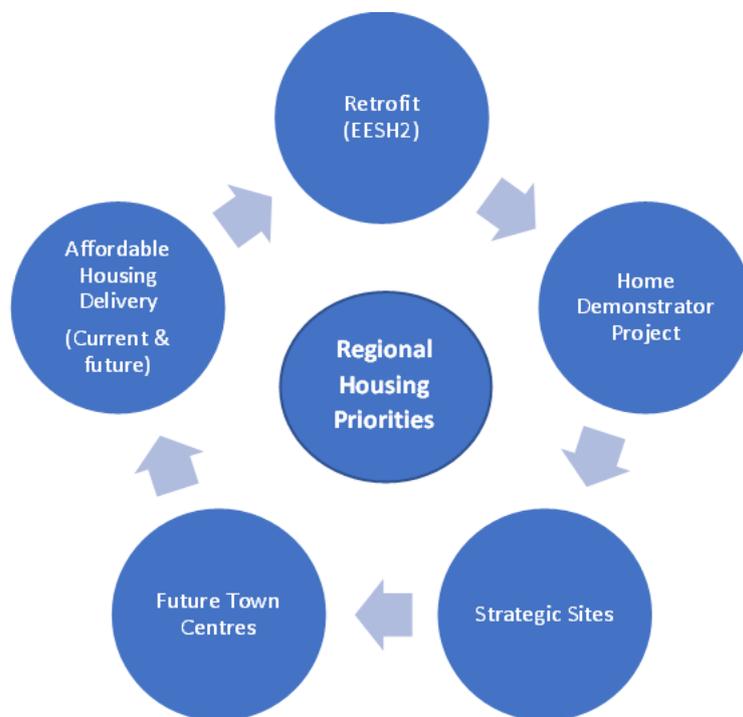


Figure 1 – Regional Housing Priorities

3.10 An overview of the five regional priorities is outline below:

Affordable Housing Delivery (current and future)

3.11 As demonstrated in the context section of the report this city region has the greatest affordable housing need in Scotland. The region also delivers a significant proportion of Scotland’s new homes. Data provided by Scottish Government (Regional outturns for 2020/21¹) demonstrate over 2,000 site starts; over 1,500 completions; Over 1,900 approvals; and a spend of nearly £140m in 2020/21. Regional Partners continue to deliver affordable housing at record levels and absorb underspend nationally. Over the next 5 years the region had projected that it would spend over £1bn pounds in delivering 18,000 affordable homes.

¹(Only 20/21 data available at time of writing)

3.12 However, there are significant challenges to realising this ambitious pipeline. There is currently an estimated 28% increase in assumed build cost per home when compared with 2021. This combined with the cost implications of the statutory requirement to deliver Energy Efficiency Standards for Social Housing 2 (EESH 2) will significantly impact the regions' capacity to deliver new build homes.

Retrofit (EESH2)

3.13 New housing in Scotland is expected to have zero emissions with social landlords expected to be fully compliant by 2026. Significant work will be required to ensure existing properties across all tenures are retrofitted to improve energy efficiency and decarbonised heat to meet new zero emissions targets.

3.14 Regional Partners will need to prioritise delivery of EESH2 in upcoming years; not only because it is a statutory requirement but because it will help address fuel poverty and contribute towards our collective local, regional, and national carbon and climate change ambitions. Delivery of the EESH2 programme could deliver an estimated 76% reduction in energy demand for an average home and I create opportunities for apprenticeships, jobs, and supply chains. But as highlighted above it will impact upon the region's capacity and resources to deliver the numbers of new build, affordable homes projected into future years. The City of Edinburgh Council has over 19,000 Council homes with an estimated average whole house retrofit cost of £56,000 per home. Significantly more financial support is required from Scottish Government to support delivery of both the EESH2 programme and the regions new build affordable housing programmes. The cost of these programmes cannot be met from borrowing on rental income streams (if rents are to remain affordable)

Home Demonstrator Project

3.15 Developing and testing a new business model for the delivery of new affordable net zero homes. Based on collaborative procurement, whole-life costings, pipeline coordination and greater use of MMC, the programme aims to transform the productivity and performance of affordable housing and to enable the move towards homes built to net zero carbon standards.

3.16 The Project aims to demonstrate the effectiveness of homes designed and constructed to net zero carbon using Modern Methods of Construction (MMC). MMC uses technology, new materials, and contemporary on-site building techniques to improve efficiency and quality in buildings.

3.17 This work is in collaboration with:

- Scottish Government
- Scottish Futures Trust
- Off Site Solutions Scotland
- Edinburgh Napier University
- Built Environment _ Smarter Transformation (BE-ST)

3.18 A set of standard house types have been developed that could be used across sites in the region and a demonstration project is underway at Granton. This will deliver

75 net zero homes. A second stage pilot is at pre-construction stage in Greendykes, Edinburgh.

- 3.19 Work is ongoing with Regional Partners and their developing RSLs to develop a pipeline of around 850 homes to be taken forward as a third stage pilot.

Strategic Sites

- 3.20 Work will continue in 2023 to deliver strategic sites (Blindwells, Calderwood, Dunfermline, Edinburgh’s Waterfront, Shawfair, Tweedbank and Winchburgh). Transforming vacant and derelict land to deliver net zero carbon homes; green energy solutions; regeneration; and a just transition to a zero-carbon future.

- 3.21 Tables 1 and 2 below demonstrate the number of homes completed and approved over the last year.

Delivery (completions)	Tenure Mix		
	Social Rent	MMR	Market
Total	156		653

Table 1 – Completions across the Strategic Sites

Delivery (approvals)	Tenure Mix		
	Social Rent	MMR	Market
Total	3,121	281	8,897

Table 2 – Approvals across the Strategic Sites

- 3.22 Looking ahead there are several key milestones in the upcoming year and captured in table 3 below.

Date	Activity
Dec 2022/ Early 2023	<ul style="list-style-type: none"> Dunfermline - Planning application to be submitted for new bridge at Halbeath (first major element of the new Northern Link Road). Shawfair - Agreement on provision of all through campus in Shawfair Town Centre Blindwells – Draft Strategic Business Case
Summer 2023	<ul style="list-style-type: none"> Granton Waterfront - Full Business Case (s) for Phase 1 ‘Heart of Granton’ and heat network solution will be presented to Council committee for approval
End 2023	<ul style="list-style-type: none"> Shawfair - Draft Town Centre Strategy published

Table 3 – Upcoming Milestones

- 3.23 Delivering infrastructure solutions and securing funding for an infrastructure first approach to support delivery of 35,000 homes with around 35% being affordable remains a key challenge.

- 3.24 The at least £50m Housing Infrastructure Fund committed as part of the City Region Deal sits with Scottish Government. The Fund was initially stated as being made up of predominantly private sector loans. However, last year the Dunfermline Strategic

Housing Site business case was successful in securing grant funding to unlock key strategic transport interventions.

- 3.25 Therefore, it is recommended that City Region Deal partners engage with Scottish Government to determine the scope, opportunity and constraints associated with the fund to accelerate delivery of the strategic sites.

Future Town Centres and New Delivery Models

- 3.26 Regional Partners will work to identify opportunities to re-purpose surplus office accommodation, empty retail units, and spaces above shops into affordable homes to help to arrest the decline in town centres, deliver high quality placemaking principles and increase town centre living.
- 3.27 Collaboration across housing, regeneration and planning is needed to utilise a blend of funding to transform empty units into homes, create new footfall and revitalise our town centres. There is an opportunity to work with Scottish Government and other stakeholders to deliver Housing to 2040 aims of increasing town centre living through demonstrator locations and looking at what future Town Centre Living and 20-minute neighbourhood models.
- 3.28 Partners will also seek to secure assistance with delivering Mixed Tenure sustainable developments and new housing delivery models.
- 3.29 there is an opportunity to explore opportunities to work with institutional investors and private finance to deliver affordable housing and Build to Rent homes in the region to deliver high-quality professionally managed homes, in well-designed, sustainable places, quickly and at scale. Subject to right structures being put in place (e.g. use of lease-based systems) and agreements that ensure homes remain affordable in perpetuity.

Next Steps

- 3.30 Subject to Joint Committee approval Regional Housing Partners will work with the Regional Housing to develop actions under each of the five regional housing priorities and engage with Scottish Government and other stakeholders on how each of these priorities can be progressed.

4. Financial impact

- 4.1 Delivering both EESSH2 and sustaining local authority partners new build affordable housing programmes will require significantly more financial support than current funding levels.
- 4.2 The Strategic Sites can deliver transformational regeneration delivering thousands of homes, jobs, and economic benefits. But the scale of the opportunity carries significant infrastructure challenges. Funding and new delivery tools are required help both public and private sector partners to successfully deliver infrastructure first approach
- 4.3 As a key part of the Deal, The Scottish Government and city region committed to work together on each of the seven strategic housing sites recognising the long-term nature of these proposals with most new homes being delivered over a 15-year

period. To support this, the Scottish Government committed at least £50 million. Regional Partners will continue to develop business cases and collaborate with Government to identify the interventions required to accelerate delivery.

5. Alignment with Sustainable, Inclusive Growth Ambitions

- 5.1 Under EESH 2 new housing will need to have zero emissions with social landlords expected to be fully compliant by 2026. Significant work will be required to ensure existing properties across all tenures are retrofitted to improve energy efficiency and decarbonised heat to meet new zero emissions targets.
- 5.2 The Edinburgh Home Demonstrator will project is delivering Net Zero Carbon Homes in Granton and will seek to scale up delivery across the city region.

6. Background reading/external references

- 6.1 [Regional Housing Work Programme 2019](#)
- 6.2 [City Region Deal Annual Report 2021/22](#)

7. Appendices

- 7.1 None.