

# Planning Committee

2.00pm, Wednesday, 14 June 2023

## Affordable Housing Policy Update 2023

Executive/routine Wards Council Commitments	Executive All
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### 1. Recommendations

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- 1.1 It is recommended that Planning Committee:
  - 1.1.1 Notes that the Affordable Housing Policy (AHP) is consistently delivering onsite affordable homes for more than 85% of sites of 20 homes or more;
  - 1.1.2 Notes that almost 1,050 new affordable homes were completed through 2021/22 and 2022/23 and almost 1,000 new affordable homes were approved on sites secured through the AHP;
  - 1.1.3 Notes the use of commuted sums, as set out in paragraph 4.17, to support delivery of 216 new affordable homes on three sites;
  - 1.1.4 Refers this report to Housing, Homelessness and Fair Work Committee for information.

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## Affordable Housing Policy Update 2023

### 2. Executive Summary

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- 2.1 The Affordable Housing Policy (AHP) provides an important source of land to support the delivery of the new supply of affordable housing. This report provides information on how the AHP has supported delivery of affordable housing in 2021/22 and 2022/23.

### 3. Background

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- 3.1 In 2000, Edinburgh was the first local authority to introduce an AHP in Scotland. The AHP is a planning policy which ensures that 25% of homes on all housing sites with 12 homes or more, are required to be affordable. The policy requires private housing developers to transfer a proportion of a housing land or homes to affordable housing providers for affordable housing use.
- 3.2 On [31 August 2022](#), Planning Committee approved the recommendations of the Affordable Housing Policy Tenures Update report. The report set out the strong delivery of the AHP across affordable tenures.
- 3.3 On [30 November 2022](#), Planning Committee approved the recommendations of the City Plan 2030 – Approval of Schedule 4 documents and the Proposed Plan for Examination report; authorising the plan to be submitted to Scottish Government. If adopted by Scottish Government, the required affordable housing contribution would increase from 25% to 35%.
- 3.4 On [1 December 2022](#), Housing, Homelessness and Fair Work Committee approved the Strategic Housing Investment Plan (SHIP) 2023-2028. This set out a potential pipeline of 11,937 affordable homes which could be approved for site start, with 11,375 anticipated affordable housing completions between 2023 and 2028. The report also highlighted that based on current Scottish Government Resource Planning Assumptions, less than a third of the potential pipeline could be delivered through the grant funded Affordable Housing Supply Programme (AHSP). A 200% uplift would be required to deliver the current SHIP.
- 3.5 On [16 March 2023](#), Council approved its five-year business plan. The plan sets out that the Council will increase supply of affordable housing, with an ambition to reach 25,000 new affordable homes. The AHP is an important delivery mechanism to meet this commitment. Prior to its introduction, the high demand for housing land in

the city meant that affordable housing developers were often outbid by private housing developers and failed to acquire suitable land for affordable housing.

## 4. Main report

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### Edinburgh Housing Market Context

- 4.1 Delivery of affordable housing through the AHP is facing significant challenges in the current economic circumstances. Although the policy requires private housing developers to transfer a proportion of a housing land or homes to affordable housing providers for affordable housing use, the construction cost of these homes must be paid for by the affordable housing provider. In most cases, the affordable housing is delivered by a Registered Social Landlord (RSL). RSLs are non-profit making, reliant on grant funding with limited borrowing capacity from rental income streams that are restricted in order to make homes as affordable as possible for people on low and moderate incomes.
- 4.2 The average cost of building an affordable home increased from just under £158,000 in 2020 to almost £190,000 in 2021. In 2022, the average cost of an affordable home in Edinburgh was around £203,500. Since 2020, the average construction cost of an affordable home has increased by almost 30%. During the preceding five years (2016/17 to 2020/21), the average construction cost of an affordable home increased by only 14.5%; less than 3% each year.
- 4.3 The impact of the war in Ukraine and Brexit, as well as the long-term impact of the pandemic has seen costs in the construction sector increase by around 40% in the last year. Global prices for construction materials such as timber, steel and particleboard have increased due to increased demand, rising energy prices, and reduced supply.
- 4.4 Inflation hit a 41-year high of 11.1% in October 2022 and mortgage interest rates exceeded 6% for the first time in 14 years. The Bank of England has increased interest rates several times from 2.25% in September 2022 up to 4.5% in May 2023. The cost of borrowing for affordable housing will also be affected; the Scottish Housing Regulator estimates that 27% of RSL loans are on variable interest rates.
- 4.5 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. As a result, housebuilders may delay new developments, deliver smaller phases, and/or reduce the number of homes which come to market each year. This can also delay affordable homes brought forward through the AHP.
- 4.6 In January 2023, many national housebuilders published updates for shareholders. Most reported pulling back on construction considerably as they adapt to the changed mortgage market. National completions were expected to fall dramatically and could be half what they were last year. House builders have published plans to align build programmes with sales rates, freeze recruitment and slow new site starts.
- 4.7 [Citylets Quarterly Report Q1 2023](#) sets out that average rent in Edinburgh is £1,372 per calendar month, ranging from £926 a month for a one bedroom home to £2,401

a month for a four bedroom home. Rents have increased by 67% on average in the last 10 years. Over 80% of properties are let within a month, and almost half of all one bedroom rented homes are let within a week.

- 4.8 The average Edinburgh house price, as set out in [ESPC's House Price Report \(April 2023\)](#), is £280,629; a fall of 2.6% year on year. Prices across the city vary, however, there are numerous areas within Edinburgh where the average price of a two bed flat exceeds £300,000. Buyers pay on average 3% over the Home Report value.
- 4.9 Average household income in Edinburgh is around £50,000 per annum. Both [Scottish Government](#) and [Shelter Scotland](#) research states that paying more than 30% to 40% of household income on housing is considered unaffordable; although affordability does vary depending on personal circumstances.
- 4.10 The affordable housing grant funding benchmark (the grant funding made available for each affordable home) increased in 2021. However, increases in construction costs has meant that it has had a limited impact on affordability, and it only represented around 41% of the cost of an affordable home in 2021/22.
- 4.11 In summary, increased construction costs, increased borrowing costs, marginal increases in grant funding and affordable rents which have been static, are impacting on the viability of affordable housing developments. Alongside this, as noted at 4.6 developer decisions are impacting on the availability of land for affordable housing development.

#### **AHP Delivery in 2021/22 and 2022/23**

- 4.12 At the end of March 2023 there were around 2,000 affordable homes under construction on 28 sites. A detailed breakdown of approvals and completions enabled by the AHP is set out in the table below.

**Table 1: Affordable homes delivered through AHP in 2021/22 and 2022/23**

	2021/22		2022/23	
	All affordable	AHP enabled	All affordable	AHP enabled
Approvals	1,251	565 (45%)	734	412 (56%)
Completions	1,041	505 (49%)	1,215	542 (45%)

- 4.13 There are significant new AHP housing developments coming forward in 2023/24, including affordable homes at the former Royal Hospital for Sick Children and completion of over 300 affordable homes at Granton Harbour Plot S. However, local and national affordable housing delivery has been affected by the difficulties facing the wider economy and housing market turbulence. Affordable housing approvals have reduced from their peak of almost 2,000 in 2019/20. In their Quarterly Statistics to October 2022 (published in March 2023), Scottish Government reported a 22% decrease on affordable numbers from last year, which is the lowest level since 2013.

4.14 There were 30 developments of 20 homes or more that were consented in 2021/22 and 2022/23, and all but four have or will deliver onsite affordable housing. This means that the AHP is still consistently delivering onsite affordable homes for more than 85% of sites of 20 homes or more. However, the number of residential applications approved declined from 21 in 2021/22 to nine in 2022/23, a reflection of the more uncertain market conditions. There were two of 21 applications in 2021/22 which did not provide onsite affordable housing and in 2022/23, two of nine applications did not provide onsite affordable housing. As construction costs and borrowing costs increased, the number of sites with viable onsite affordable housing has decreased. Where onsite affordable housing is not viable, commuted sums are sought as the affordable housing contribution instead.

### Commuted Sums

4.15 Onsite provision of affordable housing is the highest priority for the AHP and officers seek to secure this for all sites of 20 units or more. Where there are exceptional reasons to not deliver on site affordable housing a commuted sum can be agreed. In line with the national Planning Advice Note, affordable housing commuted sums are calculated independently by the District Valuer. The formula for calculation of a commuted sum is gross development value (the sales values of the completed properties) minus the gross development costs and developer profit. Over the last two years the Council has received commuted sums which average £20,640 per affordable home.

4.16 £2.662 million in commuted sums was received in 2021/22 and 2022/23. The Council has used £544,045 to support the delivery of 216 affordable homes. This is set out in Table 2 below. The average amount of commuted sums used to support new affordable homes was £2,518 per home.

**Table 2: Commuted Sums Used to Support Affordable Housing in 2021/22 and 2022/23**

Project	Homes	Ward	Amount	Registered Social Landlord
Shrubhill	25		£344,045	Castle Rock Edinvar
Rowanbank	33		£100,000	Dunedin Canmore
West Craigs	158		£100,000	Dunedin Canmore
<b>Total:</b>	<b>216</b>	<b>Total:</b>	<b>£544,045</b>	

4.17 The remaining balance will be used to support the delivery of affordable housing in the same or adjacent ward to the principal development site, where possible. Sums must be used within 10 years.

4.18 The costs of materials, construction costs and borrowing costs have increased significantly in the last 18 months. However, house prices have reduced, and mortgage availability is less than before. This impacts on land values and overall development viability. This does mean that where affordable housing commuted sums are sought, their value may be reduced when compared to previously secured sums. Edinburgh has a strong development pipeline (as set out in the [SHIP 23-28](#)).

Edinburgh has been able to consistently utilise national underspends in AHSP grant funding (an additional £11m above Resource Planning Assumptions (RPA) in 2021/22 and 2022/23). With a potential programme of over 11,000 affordable homes, there will be ample opportunities to allocate existing commuted sums to support the development of affordable homes.

### **Golden Share**

- 4.19 Golden Share (GS) is an affordable tenure where the purchase price is fixed at 80% of market value, and this is restricted in the title deeds in order that homes might remain affordable in perpetuity. The GS homes are made available by housebuilders to people who could not afford to purchase the property at full market value. Guidance states that GS properties can have a value of up to £214,796, which is roughly 80% of average house prices in Edinburgh. No grant funding is required for GS.
- 4.20 The [August 2022](#) report Affordable Housing Policy Tenures Update set out the delivery and impact that Low Cost Home Ownership tenures like GS have on citywide housing need. During 2021/22 and 2022/23 there were no new planning approvals for Golden Share. There were completions of previously granted consents, with 176 applications received over the period. The average cost of a Golden Share home was £201,000; significantly lower than the average market value in the city of around £280,000. Whilst City Plan 2030 is being considered by Scottish Ministers, no changes to Golden Share policy are being considered but the affordability of Golden Share homes continues to be monitored.

## **5. Next Steps**

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- 5.1 Further changes to AHP may be considered as part of the preparation of future guidance to support relevant policies in the City Plan 2030. As set out in national Planning Policy Guidance, any significant changes to the AHP would be subject to consultation.
- 5.2 The annual update of the Strategic Housing Investment Plan will be presented to Housing, Homelessness and Fair Work Committee in October 2023.

## **6. Financial impact**

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- 6.1 The AHP has secured over 1,000 affordable homes during 2021/22 and 2022/23 on private land. Without the AHP, affordable housing providers would not have been able to afford the land required for these homes.
- 6.2 Where onsite affordable housing delivery has not been possible, commuted sums have been sought. £2.662 million was received during 2021/22 and 2022/23, and almost £550,000 has been used to support the delivery of 216 affordable homes.

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

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- 7.1 The AHP has been successful in delivering mixed tenure communities and providing affordable housing in diverse areas across the city.
- 7.2 The Council and RSLs, through delivery of social and mid-market rent, place community engagement at the centre of housing development projects and go far beyond statutory planning requirements.
- 7.3 Affordable homes delivered by the Council and RSLs are built to high standards and as such contribute to the public sector equality duty and advances equality of opportunity. Homes secured through the AHP increase access to affordable housing and well designed, energy efficient, safer and cleaner communities. It contributes to improved health by increasing the supply of good quality homes, reducing fuel poverty and providing homes which are physically accessible.
- 7.4 The majority of new build properties delivered by the Council and its housing association partners are accessible for people of limited mobility, meaning particular needs housing requirements can often be met through allocation of a standard general needs property.

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

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- 8.1 [Affordable Housing Policy Tenures Update](#), Planning Committee, 31 August 2022.
- 8.2 [City Plan 2030 Proposed Plan](#), Planning Committee, 30 November 2022.
- 8.3 [Strategic Housing Investment Plan 2023-28](#), Housing, Homelessness and Fair Work Committee, 1 December 2022.
- 8.4 [Council Business Plan](#), The City of Edinburgh Council, 16 March 2023.

## **9. Appendices**

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- 9.1 None.