

The City of Edinburgh Council

10.00am, Thursday, 14 December 2023

Affordable Housing Approvals 2022/23

1. Recommendations

- 1.1 The City of Edinburgh Council is asked to:
 - 1.1.1 Note this update on affordable housing approvals in 2022/23, in response to the action agreed by the Council on 28 September 2023; and
 - 1.1.2 Agree that the Council should continue to work with Scottish Government to secure additional funding in year which could help deliver more affordable homes and to seek a consistent and increasing grant funding commitment to expand Edinburgh's Affordable Housing programme to meet the housing needs of the city.

Paul Lawrence

Executive Director of Place

Contact: Lisa Mallon, Housing Manager

E-mail: Lisa.mallon@edinburgh.gov.uk | Tel: 0131 529 6291.

Report

Affordable Housing Approvals 2022/23

2. Executive Summary

- 2.1 This report responds to the request of the Council on 28 September 2023 to provide a comprehensive analysis of the reasons behind the fall to only 734 homes being approved in 2022/23, alongside actions and mitigations which can be put in place to ensure that number is increased in future years.

3. Background

- 3.1 The City of Edinburgh Council declared a Housing Emergency at its meeting on [2 November 2023](#).
- 3.2 At its meeting on 28 September 2023, the Council considered the [Annual Performance Report 2022/23](#), and [agreed](#) to retain the agreed initial targets of 1,186 approved and 1,290 completed affordable homes, with the following:
- 3.2.1 To request an urgent report in 2 cycles with comprehensive analysis of the reasons behind the fall to only 734 homes being approved in 22/23 alongside actions and mitigations which could be put in place to ensure that number was increased in future years.
- 3.3 The remaining actions agreed by the Council are being progressed separately.

Financing Affordable Housing

- 3.4 The cost of affordable homes is paid for by grant funding and borrowing by the affordable housing provider. In most cases, affordable housing is delivered by a Registered Social Landlord (RSL) which is non-profit making, and reliant on grant funding. Their borrowing capacity is based on the amount of rental income received and is therefore restricted to make homes as affordable as possible for people on low and moderate incomes.
- 3.5 Despite repeated annual reporting of an increasing funding shortfall for affordable housing in Edinburgh, the Scottish Government's allocation of funding to Edinburgh remains static at £45 million per year, substantially less than required, and only sufficient to deliver around 500 social rented homes per year.
- 3.6 Any additional grant funding for Edinburgh comes from slippage in other local authority areas. The uncertainty around funding in future years is detrimental to a planned financial programme approach for affordable housing delivery, as it is not known how much additional funding may be made available in any year.

- 3.7 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.

4. Main report

Context

- 4.1 The housing market across the UK changed with costs dramatically increasing during 2021 and 2022, and the instability in the UK economy during 2022 had a significant impact on the housing sector.
- 4.2 Following the end of restrictions after the Covid-19 pandemic. [Registers of Scotland](#) reported that house sales increased 38% in 2021 to their highest level in over five years. Although the housing market had experienced increased housing demand in 2021, construction costs had also been rising.
- 4.3 The global restart of construction projects post-pandemic resulted in industry supply shortages and increased prices of construction materials. Global prices for construction materials (such as timber, steel and particleboard) increased due to increased demand, rising energy prices, and reduced supply. Supplies of steel and timber reduced further after the invasion of Ukraine by Russia in February 2022, impacting exports from both countries. Construction costs increased by around 40% during the year.
- 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 5.25% in August 2023. The cost of borrowing for affordable housing is also 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. 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 (AHP), as the affordable requirement is triggered by the commencement of market homes.
- 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, leading to recruitment freezes and delays in new site starts.

Affordable Housing Approvals Decrease Across Scotland

- 4.7 [Scottish Government Quarterly Statistics](#) set out that, over 2022/23 financial year, affordable housing approvals across Scotland dropped to their lowest level since 2015. The total number of affordable homes approved across Scotland in the 12 months to end March 2023 was 6,396, a decrease of 18% (1,424 homes) on the 7,820 homes approved in the previous year. The 734 affordable home approvals in Edinburgh therefore make up over 11% of the total number of approvals, despite Edinburgh's initial funding allocation representing only 7% of the Scotland wide allocation of almost £622 million. Scottish Government publish [Affordable Housing Supply Programme annual out-turn reports](#) but have not published full data for financial year 2022/23 to date.

Increased Cost of Affordable Homes

- 4.8 The average cost of building an affordable home increased from just under £158,000 in 2020 to around £200,000 in 2022 (an increase of almost 30%). In the five years leading to 2020, the average construction cost of an affordable home increased by only 14.5%; less than 3% each year.

Affordable Housing Supply Programme Grant Funding

- 4.9 Scottish Government [published](#) increased affordable housing grant funding benchmarks (the benchmarked level of grant funding per affordable home) on 24 November 2022. 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.
- 4.10 The average amount of grant required per home has increased significantly from 2019 onwards. The average grant required in 2019 of £57,000 per home had increased to £75,000 per home in 2021 and then to £89,000 per home in 2022.
- 4.11 Edinburgh's share of the Affordable Housing Supply Programme (AHSP) (the Scottish Government's national grant funding programme for affordable housing), has been set out in published [Resource Planning Assumptions](#) for the years 2021/22 to 2025/26. Edinburgh's funding allocation reduced from £52 million in 2021/22 to £45 million for the subsequent four years. A strong development programme ultimately enabled Edinburgh to utilise underspends from other local authority areas, and an additional £10 million was spent in 2022, with a total of £55.180 million used to deliver affordable homes.

Strategic Housing Investment Plan

- 4.12 Each year a Strategic Housing Investment Plan (SHIP) is submitted to Scottish Government to both set out the potential affordable housing pipeline over the next five years and the amount of funding required to deliver this pipeline.
- 4.13 The SHIP has reported a funding shortfall to deliver Edinburgh's projected AHSP five year pipeline to Scottish Government every year since 2017. In 2017 the funding shortfall was £56 million. The [SHIP 2024-29](#), approved at Housing, Homelessness and Fair Work Committee on 5 December 2023, showed the funding

shortfall had increased to £665 million. This shortfall increased by over £200 million since the previous year's SHIP (2023-28).

- 4.14 Despite the increasing funding shortfall, the increasing cost of affordable homes and the increased grant requirement per home, Edinburgh's grant remains at £45 million each year and any additional spend is dependent on underspends in other local authority areas. This funding uncertainty makes delivering an increasing programme of affordable homes hugely challenging. As noted above, Edinburgh's annual allocation of £45 million is only sufficient to deliver around 500 homes, based on the average grant required in 2022.
- 4.15 Increased construction costs, increased borrowing costs, marginal increases in grant funding and static affordable rents, all impact on the viability of affordable housing developments. Alongside this, developer decisions are impacting on the availability of land and pace of delivery for affordable housing development.

Grant Funded Programme Movement

- 4.16 A total of 634 grant funded affordable homes were included in the original target, and 484 affordable homes were approved. Of those homes which were not approved in 2022/23, 124 are projected to be approved in the current financial year (2023/24) and 26 in the following year (2024/25).
- 4.17 It is increasingly difficult to deliver projects 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. Around half of the homes that saw delays in 2022/23 were on two sites. Delays were experienced on the former Royal Hospital for Sick Children site (31 affordable homes) due to cost issues exacerbated by the additional requirements because of their location within a designated world heritage area, and 55 affordable homes at Edmonstone, which were subject to a further planning application.

Affordable Homes Delivered Without Grant Funding

- 4.18 Originally there were 552 affordable homes projected for approval without grant funding in 2022/23 (including affordable homes delivered through means such as Build To Rent or Open Market Shared Equity). A total of 250 affordable homes were approved without grant funding in 2022/23, 302 less than originally projected.
- 4.19 Two Build To Rent developments did not submit full planning applications as originally intended in 2022/23 due to viability concerns. Although the 250 affordable homes that these developments could deliver did not come forward in 2022, there has been subsequent engagement with both developers and a substantial number of these homes are now likely to be delivered in partnership with an RSL.
- 4.20 The Build To Rent sector has expressed concerns about the Scotland-wide rent restrictions and, with borrowing costs having increased significantly in the last year, they may consider prioritising developments in other parts of the UK or areas in Scotland which do not require particular contributions (for example, Glasgow does not have an AHP requirement).

Mitigation Measures

- 4.21 There were a number of issues which affected the affordable housing programme in 2022. Increased construction costs and increased borrowing costs were national issues, and the scale of these means a local authority cannot mitigate against them.
- 4.22 Cost increases have out-paced the increases in grant funding from Scottish Government, creating viability issues for affordable housing providers. The Council's own house building team and other housing providers have experienced difficulties in progressing projects because of cost increases. The Council's annual SHIP report, submitted to Scottish Government, sets out the funding required to deliver the affordable housing programme. As stated above, the latest SHIP approved at Housing, Homelessness and Fair Work Committee on the 5 December identifies a funding gap of £665m.
- 4.23 In addition to this, around half of the annual affordable housing programme is delivered either on land secured by the AHP or with units delivered by RSLs in partnership with house builders and securing a discount on homes equivalent to the land value the AHP provides. When house builders scale back construction programmes because of mortgage constraints, this has a knock-on effect on the number of new build affordable homes that can be delivered.
- 4.24 The [strategy](#) for purchasing land and homes to meet affordable housing need was considered by Housing Homelessness and Fair Work Committee on 5 December 2023. The report focuses on increasing the Council's supply of 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.
- 4.25 In 2023/24 the Council applied to access the Scottish Government's Ukrainian Long Term Resettlement Fund (ULTRF) to secure the purchase of 44 new build homes in South Queensferry in two phases. Homes would be funded from a combination of Housing Revenue Account (HRA) borrowing, commuted sums and grant. Phase one (20 homes) was initially going to be supported through ULTRF, but subsequently grant funding was received through an increase in the 2023/24 AHSP. The additional grant funding stipulated that homes would initially be let to people displaced from Ukraine.
- 4.26 The second application (24 homes) was rejected; however, the Council has been able to secure the homes through a combination of HRA borrowing, UK Government Tariff and commuted sums. These homes will be let to homeless households in temporary accommodation and Ukrainian families (where appropriate) for the duration of their visa. Once visas have expired, the properties will return to the social housing estate and will be used to help address the general provision requirement. Council officers are in dialogue with housebuilders (regarding any potential opportunities) and Scottish Government (for additional funding).
- 4.27 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. Officers consider

that the strategy is working well on the basis that it 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 primary challenge with delivery relates to cost and the availability of funding.

5. Next Steps

- 5.1 Opportunities have arisen in the last 12 months to secure new build homes directly from house builders and Council officers are pursuing these opportunities with individual developers. However, further affordable housing grant funding will likely be required to secure the majority of these homes. The Council is engaging directly with Scottish Government on this issue.

6. Financial impact

- 6.1 Edinburgh's current annual grant funding allocation of £45 million is only sufficient to deliver around 500 affordable homes. Funding shortfalls have been consistently reported in the annual SHIP report to Scottish Government since 2017, and the funding shortfall currently stands at around £665 million, as reported in the Strategic Housing Investment Plan 2024-29, considered by Housing, Homelessness and Fair Work Committee on 5 December 2023.
- 6.2 At the same committee, an update was provided on the strategy for purchasing land and homes to meet affordable housing need. The report 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. Whilst highlighting the considerable pressure on the funding available to move forward with any of these opportunities, particularly new build development where construction costs are exceptionally high.
- 6.3 On 3 October 2023, Housing Homelessness and Fair Work Committee approved [consultation](#) on the 2024/25 HRA Budget Strategy. The report set out the rent increases required to mitigate the impact of increases in costs. Three rent options have been proposed as part of a longer-term rent strategy to enable the capacity to fund the delivery of between 2,400 to 5,000 new council social rent homes. The outcome of the consultation will inform the Council's annual budget setting process.

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 for 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 and is submitted to the Scottish Government. 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 AHP 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](#)

11. Appendices

None.