

Housing, Homelessness and Fair Work Committee

10.00am, Tuesday, 27 August 2024

Affordable Housing Programme Update 2024/25

Executive/routine
Wards

Executive
All

1. Recommendations

- 1.1 Housing Homelessness and Fair Work Committee is asked to:
 - 1.1.1 Note the 2024/25 programme includes an estimated 587 new affordable housing approvals, 836 completions and 800 site starts;
 - 1.1.2 Note that 427 new affordable housing approvals requiring grant funding will be taken forward in 2024/25 despite the 24% reduction in affordable housing grant funding from the Scottish Government, with Resource Planning Assumptions reducing from £45.2m to £34.2m; and
 - 1.1.3 Refer this report to Planning Committee for information.

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Affordable Housing Programme Update 2024/25

2. Executive Summary

- 2.1 Delivery of affordable housing remains a priority for the Council and its partner Housing Associations. Grant funding is critical to ensure the construction of affordable housing remains viable and rent levels remain affordable. However, the national grant funding budget for delivering affordable homes has reduced by over 35% in the last two years. Edinburgh's allocation of Affordable Housing Supply Programme (AHSP) grant funding was cut by 24% at the beginning of 2024/25.
- 2.2 Since the update to committee in May 2024, more certainty of forward commitment levels has been received by Scottish Government. In addition to this, discussions with partners in relation to phasing of projects and their ability to bring forward private finance, as well as the strategic use of commuted sums have all assisted in setting out an affordable housing programme of 427 new grant funded approvals in 2024/25. It is anticipated that approximately 70% of the programme will be for social rent.
- 2.3 It is estimated that around 150 non-grant funded approvals will be brought forward this year. This takes into account the significant cut in Financial Transactions monies used to fund the Scottish Government's Open Market Shared Equity scheme (that enables first time buyers to get on the property market). The full impact of the cut is still to be understood, but a prudent assumption has been made for 2024/25.

3. Background

- 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](#), Housing Homelessness and Fair Work 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.
- 3.4 Affordable Housing Commuted Sums are paid in lieu of onsite affordable housing only in specific circumstances which are set out in Edinburgh's published [Affordable Housing guidance](#). Use of commuted sums is regularly reported to Planning Committee. The last report was approved on [15 November 2023](#).
- 3.5 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.
- 3.6 On [14 May 2024](#), Housing Homelessness and Fair Work Committee approved the recommendations of the report "Update: Strategic Housing Investment Plan 2024/25 – 2028/29", which set out that Edinburgh's AHSP grant allocation had been confirmed as £34.2m, which is £11m (24%) less than previously indicated Resource Planning Assumptions (RPA) of £45.2m. The report noted that Edinburgh would be unlikely to be able to approve any new grant funded affordable homes this year, and there was uncertainty about potential commitments next year.
- 3.7 On [19 June 2024](#), the report was referred to Planning Committee, who approved the more flexible use of commuted sums funding across the city where there are no restrictions in the legal agreements for doing so.

4. Main report

- 4.1 Edinburgh manages the allocation of grant funding through the Transfer of Development Management Funding (TDMF). On average, grant funding accounts for between 40-60% of the cost of delivering an affordable home. On 20 May 2024, Scottish Government wrote to officers to confirm carry forward limits (the amount of committed grant for previously approved AHSP projects) for the next three years. Carry forward of 80% of the current year's budget (£34.2m) is permitted in 2025/26, 60% in 2026/27 and 40% in 2027/28. This equates to a forward commitment allowance of £61.5m over those three years.
- 4.2 Based on these revised assumptions, Council officers have worked with the affordable housing providers to minimise the impact of the significant funding cut. Some projects have been split into smaller phases, where the same number of affordable homes will ultimately be delivered but over a longer period. Some Registered Social Landlord partners have also committed to bringing forward their

own private finance to front fund construction to help cover in-year grant funding shortages.

- 4.3 The [SHIP Update report](#) set out that the Council may seek to use already secured commuted sums to enable on site affordable housing to be delivered through the Affordable Housing Policy (AHP). The use of commuted sums can help to cover grant funding shortfalls. It is anticipated that most sums will be able to be used in a “same or adjacent ward” basis. Use of sums is still subject to legal checks of Section 75 Legal Agreements to ensure any restrictions within the individual agreements are adhered to. A full programme has been mapped, however it remains commercially sensitive, as RSLs are yet to conclude deals with housing developers to secure the affordable homes. Commuted Sums use is reported retrospectively to Planning Committee on an annual basis.
- 4.4 Based on the interventions set out above, it is anticipated that 427 new affordable housing approvals in 2024/25 will be taken forward, supported by AHSP grant funding and/or commuted sums. It is anticipated that approximately 70% of the programme will be for social rent.
- 4.5 Scottish Government’s carry forward commitment of 80% of this year’s budget into next year means a funding requirement of £27.360m to support the 427 new approvals estimated in 2024/25. If Edinburgh’s AHSP budget remains static at £34.2 million that will leave only £6.840 million for new affordable housing projects in 2025/26. Based on Scottish Government’s current benchmarked grant funding level for each affordable home, that could support around 75 social rented homes or around 110 mid-market rent homes or 90 homes (based on a 70/30 split of social rent and mid market rent).
- 4.6 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, with an element coming through Build to Rent (BTR) developments, low cost home ownership (Golden Share), and non-grant funded mid-market rent.
- 4.7 OMSE is funded from Scottish Government financial transactions monies. Edinburgh often secures around 50% of annual funding through this scheme (c.250 homes per annum). The 2024/25 Financial Transactions budget has been cut by around 60%. Taking this into account, the overall non-grant funded approvals target has been revised down to c.50 approvals and completions in 2024/25.
- 4.8 To date in 2024/25 (as of 31 July 2024), 65 affordable homes have been approved, 156 homes have started on site and 400 have been completed.
- 4.9 Significant and sudden budget fluctuations are extremely challenging in terms of housing delivery. Most construction projects take 18-24 months from approval to completion. A steady pipeline of completions relies on certainty in funding in future years. A lot of RSL partners have dedicated development teams. The impact of such fluctuations and increasingly challenging market conditions has meant that

some partners have suspended development activity and have pulled out of specific developments.

- 4.10 The continuation of the AHSP is therefore critical in ensuring we continue to be able to deliver affordable homes in the medium to long term. Also, reducing the reliance on grant funding in future years where possible remains a key focus to try and bring an element of certainty in the pipeline.
- 4.11 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.
- 4.12 Following the report to Housing, Homelessness and Fair Work Committee on [14 May 2024](#), a collection of workstreams focussing on newbuild housing viability has been established to mitigate the risks set out in that report and support the sustainable delivery of a Council housebuilding programme into the future. This work is supported by a cross-service working group with key reporting timetables identified. The remit of this group is to identify and review options to reduce cost, increase income and remodel the way in which affordable housing is funded, reducing the reliance on grant. As well as changes to the funding structures, alternative income streams are being identified and modelled, including the Visitor Levy for Edinburgh and opportunities to increase income from land.
- 4.13 The newbuild housing viability working group is assessing a long list of options which will be shortlisted and progressed between July and September 2024. This will be based on viability, impact and timescales for delivery. A detailed assessment on options will be provided to the next Housing, Homelessness and Fair Work Committee in October as part of the 2025/26 HRA Budget Strategy update.

5. Next Steps

- 5.1 A programme of 587 affordable homes approvals and 836 completions in 2024/25 will be progressed. Progress will be reported to HH&FW committee as part of the Cyclical Assurance Report.
- 5.2 The newbuild housing viability working group is assessing a long list of options which will be shortlisted and progressed between July and September 2024.
- 5.3 The Council's new housebuilding framework will be procured during this timeframe which will support the aims of the housing viability workstreams, particularly around the growth of the Edinburgh Homes Demonstrator, facilitating more straightforward routes to work with public sector partners and delivery of homes for sale on larger sites to cross-subsidise affordable housing delivery.
- 5.4 The delivery model for both mid-market and market rent homes through Edinburgh Living falls within the scope of the work, with potential for these vehicles to unlock

site delivery and deliver income to the Council while continuing to support a reduction in homelessness.

- 5.5 A more detailed update on options to reduce the Council's reliance on grant funding to deliver affordable homes including reducing costs, increasing income and possible changes to funding structures will be brought to Housing, Homelessness and Fair Work in October 2024. Any approval for change will be sought as part of the budget setting process through the Autumn and Winter. Elected Member engagement will continue to form part of this process.

6. Financial impact

- 6.1 If the AHSP budget remains at around £34.2 million, then new affordable homes approvals in future years will not be able to exceed around c.100 homes due to existing and ongoing grant commitments for affordable homes currently being delivered.
- 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 set out on RPAs (set out by Scottish Government in 2021).
- 6.3 The budget cuts directly impact 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 new affordable housing commitments in future years 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

- 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.
- 7.2 The [Edinburgh Poverty Commission](#) aims to end poverty within a decade. Making Edinburgh a city where:
- 7.2.1 Fewer than 1 in 10 children and adults live in poverty at any given time;
 - 7.2.2 No-one is trapped in long term persistent poverty;

- 7.2.3 No one has to go without the basic essentials they need to eat, keep clean and safe, and stay warm and dry; and
- 7.2.4 No one feels stigmatised, abandoned, or treated with less respect by the city when seeking or needing support.
- 7.3 One of the key actions to end poverty in Edinburgh includes ‘a decent home we can afford to live in’. The [Child Poverty \(Scotland\) Act 2017](#) sets out targets to reduce the proportion of children in poverty by 2030. Three drivers which can lead to measurable improvement in income for low income households were identified as:
 - 7.3.1 Increasing income from employment;
 - 7.3.2 Reducing costs of living; and
 - 7.3.3 Increasing income from social security and benefits in kind.
- 7.4 Increasing the number of affordable homes in the city will therefore have a positive impact on child poverty. However, cost of living is just one driver. Priority families most at a higher risk of poverty include lone parents, disabled, minority ethnic, young mothers, children under one years old and families with three or more children.
- 7.5 In 2023/24, 74% of Council homes and 52% of RSL homes were let to homeless households. In 2023/24, 13% of homeless presentations were by single parent families and a further 5% by couples with children. Just under half of presentations were from non white Scottish, British and Irish populations; 11% were Black; 6% Asian, 14% from white other (Polish and other) and 16% other (Ukrainian, Arab, Mixed, Gypsy Traveller and other).
- 7.6 Focusing on the drivers of poverty and the priority families identified most at risk, remain at the core of the Tackling Child Poverty approach. However, each households circumstances, experiences and barriers are unique. Building more affordable homes is only one element in a multifaceted response to tackling child poverty.

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 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 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.
- 9.5 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

- 10.1 Update: Strategic Housing Investment Plan 2024/25 – 2028/29, Housing Homelessness and Fair Work, [14 May 2024](#).
- 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

None.