

Housing, Homelessness and Fair Work Committee

10.00am, Tuesday, 3rd December 2024

Strategy for purchasing land and homes to meet affordable housing need

Executive/routine
Wards

Routine
All

1. Recommendations

- 1.1 Housing, Homelessness and Fair Work Committee is asked to:
 - 1.1.1 Note the progress made towards delivering the [strategy](#) to increase land and housing supply agreed by Committee in December 2023;
 - 1.1.2 Note that the strategy for the coming year will continue to focus on seeking land opportunities for building directly, the purchase of suitable completed new build homes from the private sector and work with landowners on partnering opportunities on strategic sites; and
 - 1.1.3 Note that officers will explore the risks and benefits of leasing options working directly with development partners, landowners and funders, alongside work being carried out by Scottish Futures Trust (SFT).

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Strategy for purchasing land and homes to meet affordable housing need

2. Executive Summary

- 2.1 This report reviews progress with the Council's [strategy](#) for purchasing land and homes to meet affordable housing need as agreed by Committee in December 2023.
- 2.2 The strategy 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.
- 2.3 The findings of this report are that the strategy is sound and has allowed the Council to identify and secure numerous opportunities to increase supply, although there is considerable pressure on the funding available to move forward with these opportunities, particularly new build development where construction costs are still exceptionally high.
- 2.4 The report also sets out the current position with regard to external leasing opportunities and the potential to utilise an internal structure to alter the funding model for mid-market rent, including reducing the reliance on grant funding.

3. Background

- 3.1 Edinburgh needs more homes of all tenures, with the greatest demand being for affordable homes. The latest Housing Need and Demand Assessment (HNDA3) states that there is demand for between 36,000 and 52,000 new homes in Edinburgh between 2021 to 2040; between 24,000 to 35,000 of these homes need to be affordable, noting there is a particular need for social rent homes. Lack of affordable housing is impacting on the ability of the city to address homelessness and is also a barrier to economic growth.
- 3.2 Market engagement took place across 2021 and 2022 to examine opportunities to access private sector land for affordable housing and secure long-term supply. The outcome of this exercise formed the [Housing Land Strategy](#), which was agreed by Committee in December 2022.

- 3.3 The land strategy focussed on working directly with landowners to purchase both land and completed homes, particularly where there was an opportunity to increase the level of on-site affordable housing provision to above policy levels. It also promoted close working arrangements with Registered Social Landlords (RSLs) to ensure a collaborative approach rather than one of competition with the objective to maximise delivery of affordable housing and make effective use of the funding that is available to all partners.
- 3.4 The strategy last year was divided into distinct themes of:
- 3.4.1 Building Directly;
 - 3.4.2 Working with landowners on strategic sites as a development partner; and
 - 3.4.3 Purchase of completed homes.
- 3.5 In November 2023, the Council declared a Housing Emergency in the city and work to increase the number of homes available has been taken forward through the implementation of the [strategy](#) agreed in December 2023 and the [Housing Emergency Action Plan](#) (HEAP).
- 3.6 This report provides Committee with an update on the strategy and the challenges which the Council continues to face in delivering homes directly.

4. Main Report

Building Directly

- 4.1 The Council has a strong pipeline of homes under construction and in design development. 756 affordable homes are now under construction. In addition, 1,781 affordable homes are progressing through detailed design. There is a further pipeline of over 4,000 homes across the city.
- 4.2 There has been progress on sites purchased by the Housing Revenue Account (HRA) over the last 18 months at Liberton and Castlebrae, with engagement and design work informing procurement routes and next steps for both sites.
- 4.3 Direct Council housebuilding remains the primary route to delivery of affordable homes and brings significant advantages through the ability to deliver purpose-built homes that are designed to the specification the Council wants in terms of space standards, net zero requirements and as part of mixed-use developments with 20-minute neighbourhood principles imbedded.
- 4.4 However, Committee is aware of the continuing challenges which have arisen through the reduction in grant funding and the work that is taking place to mitigate this issue. This work focusses on increasing income, reducing cost and financial modelling. All of which are essential to reduce the reliance on grant subsidy and ensure the delivery of the pipeline.

- 4.5 Homes on some sites are likely to cost well above the current business plan assumptions and need to have significant strategic benefit to support a business case to take them forward; such as impact on wider Council services, delivery of larger homes or above target accessible homes.
- 4.6 There is unlikely to be a universal solution to viability issues across the programme and officers continue to apply mitigations on a site by site basis to maintain construction momentum. The work being carried out is being tested and reported on as part of the HRA budget planning process and delivery of the pipeline remains dependent on adequate funding packages being available.

Leasing Models

- 4.7 The Housing Land Strategy report to Committee in December 2022 recommended that lease models should not be taken forward at that time but that the Council would participate in an Scottish Futures Trust (SFT)-led working group to continue engagement on this model.
- 4.8 The challenges and risks associated with external leasing models, including very long lease terms, higher rental expectations, value for money and procurement concerns, were also set out in the 2022 report. These risks are still present, and it is unlikely that leasing models will deliver social rented homes.
- 4.9 Lease models are more likely to focus on the delivery of mid-market rent homes which could maximise the delivery of affordable homes across larger sites. Models would need to reduce or eliminate the need for grant funding so that what grant there is, can be focussed on social rent homes. Essentially this means increasing the overall number of affordable homes, and in particular social rent homes, that can be delivered within the funding available at any given time.
- 4.10 Institutional investment in affordable housing can take various forms. Officers are modelling the potential to use an internal leasing model which would see the HRA or General Fund lease homes to the Edinburgh Living LLPs rather than sell them, as is the current financial model. This could help to support cashflow in early years, overall viability and provide an opportunity for asset reversion to social rent at the end of the lease term. The impact of exchanging a capital receipt for a longer-term income stream is being modelled alongside the HRA Business Plan ahead of the next phase of mid-market rent homes delivery later in 2026.
- 4.11 Officers are also exploring a procurement compliant route to engage with development partners and landowners who could provide both construction and funding solutions which may include leasing models. Following the conclusion of the SFT Long Lease Working Group (led by SFT with participation from local authorities, housing associations and Scottish Government), there will also be further engagement with both SFT and Scottish Government who are reviewing the viability of this model for provision of affordable homes.
- 4.12 Direct build is still the primary method of delivery, but alternative options need to be considered. Any lease models would need to adequately mitigate risks, be

procurement compliant and adhere to the principles set out in Appendix 1 of the 2022 report.

Working with landowners on strategic sites as a development partner

- 4.13 The Council continues to note interest on both private and public land available on the market to assess whether purchase of sites to deliver homes is feasible. However, it remains challenging for the Council to compete for land in this way.
- 4.14 The Council is working with landowners on the Strategic Sites identified within CityPlan2030. These represent an opportunity for delivery at scale, place making, developing sustainable communities and regeneration.
- 4.15 The Council, working with RSL partners, has the opportunity to deliver policy level or higher levels of affordable housing in addition to taking an active role in coordination of infrastructure delivery and use of grant monies to secure maximum value.
- 4.16 This area of work has been slower to come forward due to the dependency on the availability of funding and third-party land. A strategic business case for west Edinburgh will be a key piece of work for 2025.
- 4.17 RSL delivery is still a key component of overall delivery, with RSLs bringing their own commercial expertise, relationships with developers and landowners and access to finance. By working in partnership with RSLs who can access their own private finance, there is the potential to develop and build out sites more quickly and provide a range of affordable housing tenures.
- 4.18 On 23 October 2024, Planning Committee considered the "[City Plan 2030](#): Scottish Ministers' Direction and Adoption of Modified City Plan 2030", recommending that the plan is endorsed and the report referred to the City of Edinburgh Council on 7 November 2024, who agreed to adopt the modified City Plan 2030 as its Local Development Plan. Consequently, the required affordable housing contribution has increased from 25% to 35% of residential units. This increased percentage of affordable housing will present larger development opportunities and the potential for partnership working between the Council and RSLs on larger sites.

Purchase of completed homes

- 4.19 In line with the agreed strategy, a [report](#) to Finance and Resources Committee in September 2023 recommended that the Council acquire 20 completed homes from Taylor Wimpey.
- 4.20 Subsequent reports to the Finance and Resources Committee sought approvals to deliver a further 373 homes through this route. To date 159 have been purchased with another 101 to be delivered this year and 133 in the next financial year.
- 4.21 These opportunities provide a good option for quick delivery and an opportunity to increase on-site affordable provision. However, while homes will be completed to recent building standards and a high level of sustainability, they will not be completed in line with the Council's ambitious net zero specification and the cost of

any future retrofit will need to be taken in to account. Cost information will inform the annual review of the HRA business plan and future budget reporting.

Accelerating the purchase of Second Hand Homes

- 4.22 The Council's Acquisitions and Disposal policy seeks to increase supply and reduce ongoing management and maintenance costs by consolidating HRA assets.
- 4.23 Tenancy Management Scheme legislation allows the Council to complete repairs and maintenance in minority owned blocks only where there is an emergency. Where the Council own over 50% of homes in a block it can complete repairs through majority agreement and recover costs from the remaining owners.
- 4.24 Any block improvements must have consent from all owners prior to commencement. Tenants in blocks where the Council is a minority owner can therefore often be disadvantaged in terms of quality. This strategy seeks to purchase homes where full block consolidation could be achieved over 25 years and divest from blocks where the Council is the minority owner.
- 4.25 Currently homes are purchased in blocks where the Council owns at least 50% of the homes. Homes are either bid for on the open market or through private sale (owners getting in contact with the Council directly or as part of the Mixed Tenure Improvement Service). There is also an option for tenanted acquisitions (for both owners and Private Sector Tenants) in situations where a mixed tenure improvement project is being taken forward.
- 4.26 As part of the Housing Emergency Action Plan delegated authority limits were increased to £400k per purchase. Homes are funded through a combination of borrowing serviced by rents and grant funding, as well as capital receipts from the disposal of homes in minority owned blocks. The majority of acquisitions come through direct sale (59%). There is also a small number (18) of standalone homes (with no common maintenance obligations) which have been purchased through the policy in areas of the city where the Council already has a presence.
- 4.27 To date target marketing to owners in suitable blocks has not been carried out. As set out in the Financial Impact section below increasing the number of second-hand purchases can have an impact on the number of new homes that could be built if reserves have to be used to top up the purchase price. Whole house retrofit of second hand homes is also more expensive and challenging than retrofit of homes that meet current Building Standards. Significant investment can also be required to bring homes up to a lettable standard.
- 4.28 Since the introduction of the Council's Acquisitions and Disposal policy in 2015, 405 homes have been purchased (purchased on open market or off-market when approached) and 206 homes have been sold. This has led to 82 blocks becoming fully Council owned, 151 blocks where the Council has divested its interest and 306 blocks where the Council has further consolidated its majority ownership.

Conclusion

- 4.29 There has been significant progress with the new build programme this year with 283 new homes starting on site in the last six months. The purchase of completed homes from developers has doubled the number of handovers available to the Council this year and there is a steady stream of delivery through this route over the next two years. The strategy for this year remains consistent with the previous two years. The main variation is a more considered step towards the exploration of procurement compliant external leasing models alongside SFT and Scottish Government, and the potential to develop an internal model, for the delivery of mid-market rent homes.

5. Next Steps

- 5.1 Council officers will continue to seek new opportunities to secure land and the delivery of affordable homes in line with the agreed strategy while also having regard to the challenges regarding budget constraints.
- 5.2 Any new proposals to acquire land or take forward new projects will be considered on their own merits and taken to the Finance and Resources Committee for approval as is current practice.
- 5.3 Dialogue will continue with housebuilders and developers to source opportunities for the acquisition of completed homes.
- 5.4 The Council's new housebuilding framework will be presented to the Finance and Resources Committee in the next financial year.

6. Financial impact

- 6.1 There is no direct financial impact arising from this report. The recommendations are in relation to a strategic approach that will sit within the wider budget strategy that will be considered separately by this Committee.
- 6.2 Council purchases and development will be funded through an appropriate combination of the following funding sources:
- 6.2.1 Affordable Housing Supply Programme grant funding, which covers around a third of the costs;
 - 6.2.2 An element of HRA revenue funding, which includes reserves drawdown and ringfenced in-year surpluses;
 - 6.2.3 An element of Council Tax Discount Funding from long term empty homes;
 - 6.2.4 Private developer contributions (as part of mixed tenure regeneration development);

- 6.2.5 Income from the sale of small sites where 100% affordable delivery is not achievable;
 - 6.2.6 UK Tarriff funding to support the settlement of Ukrainian refugees;
 - 6.2.7 The Visitor Levy for Edinburgh (subject to consultation);
 - 6.2.8 A separate funding business case for delivery of homes at Granton;
 - 6.2.9 Prudential borrowing which is repaid by rental income; and
 - 6.2.10 Support from the General Fund or other Scottish Government funds for purchase of land that cannot be developed for affordable housing.
- 6.3 Any new proposals will be reported to the Finance and Resources Committee where the direct financial impacts can be fully assessed. As can be seen above, there are different delivery options available under the current strategy and these each come with benefits and challenges depending on the particular project in question and the economic conditions at any given time. The value for money of any opportunity will be considered, including the opportunity cost, as a decision to buy 'off the shelf homes' will impact on the overall ability to deliver 'new build homes' and vice versa.
- 6.4 It is important to note if homes are purchased for temporary accommodation grant funding cannot be claimed, as this is only for long term settled accommodation.
- 6.5 It is also important to note that Resource Planning Assumptions (RPAs) for the Affordable Housing Supply Programme (AHSP) remain significantly and consistently below requirements. Edinburgh's AHSP allocation has reduced by 24% from £45.053m in 2023/24, to £34.207m in 2024/25. The reduction in grant funding places significant strain on the ability to deliver new affordable homes at scale. The SHIP 2025-30 estimates that an additional £393m in grant funding is required to deliver the pipeline of new approvals identified. A further £308m will also be required in the years proceeding the SHIP period to deliver these new homes. At present, RPAs are not known beyond 2024/25, presenting difficulties in ensuring a forward programme of new affordable homes. Funding commitments cannot currently be made beyond those already agreed for 2024/25.

7. Equality and Poverty Impact

- 7.1 The delivery of the affordable housing program will have a positive impact on equality and poverty through the provisions of good quality, energy efficient affordable housing.
- 7.2 It is considered that this decision does not meet the requirements to undertake a full Integrated Impact Assessment.

8. Climate and Nature Emergency Implications

- 8.1 There are environmental implications to all construction. The environmental impact, including the ability to meet Net Zero Carbon aspirations, would be considered within any report seeking approval to purchase or enter into contracts.

9. Risk, policy, compliance, governance and community impact

- 9.1 The strategy is reviewed and reported annually to the Housing, Homelessness and Fair Work Committee. Updates are provided through officer engagement and reporting across the year.
- 9.2 Public consultation will take place on individual opportunities as part of the planning process, with elected member and wider engagement taking place as a key element of the development process.
- 9.3 The Council is seeking to develop sustainable communities and places which deliver a positive impact beyond the built environment.

10. Background reading/external references

- 10.1 Housing Land Strategy Report – Report to Housing Homelessness and Fair Work Committee [1 December 2022](#).
- 10.2 Hawthorn Gardens, South Queensferry – Proposed Acquisition of Completed Homes – Report to Finance and Resources Committee [21 September 2023](#).
- 10.3 Strategy for purchasing land and homes to meet affordable housing need – Report to Housing, Homelessness and Fair Work Committee [5 December 2023](#).

11. Appendices

None.