

Housing Programme Update 2024

Report by Kevin Anderson, Executive Director - Place

Report for Noting

1 Recommendations

- 1.1 It is recommended that Council notes the contents of this report.

2 Purpose of Report

- 2.1 In approval of the Midlothian Housing Allocation Policy review by Council in March 2024, elected members requested that further information is provided in relation to the viability of the Housing Revenue Account (HRA) in the long term.

On 21st Feb 2023 Council approved the Rent Setting Strategy for Midlothian Council 2022/23-2025/26. The rent strategy beyond 2026/27 will be reviewed next year and will consider the continuing investment in the Council's existing housing stock as well as a significant programme of refurbishment, while also determining any level of new build investment beyond the Council's current social housing programme commitment.

Date: 6 August 2024

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3 Background

There are various barriers to the ongoing delivery of affordable housing, such as access to suitable land to develop with the necessary infrastructure and while appreciating that the pressure on budgets across national and local government levels is severe, investment in housing allows councils to meet some housing needs in their areas, and can also evidence wider positive benefits to tenants, local communities, and the economy.

The uncertainty in funding arrangements at national levels is affecting councils' and RSLs' ability to plan future developments and may result in a slowdown in the planning and supply of affordable housing.

Scottish Government housebuilding statistics published at the end of June 2024 reveal a picture of housebuilding decline across Scotland. In 2023-24 private sector completions were down by 13% and site starts were down 16% on the previous year. New build completions are the second lowest since 2017-18, with the lowest being in 2020-21 when Covid restrictions impacted housebuilding. Starts were also at the lowest point since 2014-15.

Statistics for the social housing sector in 2023-24 reveal that building completions were down 27% and starts down by 14% than the previous financial year. Completions were the lowest since 2020-21 and starts the lowest since 2012-13. The number of homes being constructed in Scotland across all tenures is in decline and is combined with reduced industry capacity to deliver new homes in the future.

4 Affordable Housing Funding

On the 15th of May 2024, the Scottish Parliament declared that Scotland is experiencing a housing emergency, recognising the significance of the challenge that exists.

The consequences of exceptional growth in Midlothian, combined with high inflation, labour shortages, supply chain disruption and a cost of living crisis is causing unprecedented pressure on the existing housing stock and potential for future affordable housing delivery.

At the beginning of this calendar year the Scottish Government announced a budget cut of around £200m from the national affordable housing programme budget, which experienced around a 24% cut to the local authority's affordable housing programme budget/Resource Planning Assumptions (RPAs).

At the end of April 2024, the Scottish Government announced an allocation of £80m over two years to enable Councils to acquire properties and bring them into use for affordable housing and help reduce homelessness.

At the time of writing there has been no detail from Scottish Government on how this funding can be utilised by Local Authorities, which has implications as affordable housing approvals will be down for future years and completions across affordable housing and housing of all tenures will also be reduced.

Housing Revenue Account Financial Model

For many years the Council have operated a 15 year rolling financial model which has provided the strategic financial backdrop to capital investment and rent levels. The model is refreshed on an annual basis, or more regularly if there are materially changing circumstances.

Financial projections are based on a combination of known events (eg agreed rent increase) and modelling assumptions. The main assumptions are:

- Inflationary increases using published statistics.
- Rental income streams based on agreed or estimated increase in annual rents. Currently a rental increase of 4.8% to the end of financial year 2025/26 is approved with a planning assumption of 4.5% thereafter to 2031/32 and 1.7% thereafter.
- Borrowing costs from capital expenditure incurred or approved through to the end of phase 5 of the new build programme with continuing investment to meet Scottish Housing Quality Standards (SHQS)
- Rent levels for new build properties will converge with those for existing stock 15 years from handover.
- External funding via Scottish Government schemes.

The model forecasts a gradually eroding HRA reserve from its current projected balance of £35 million in 2024/25 to £2 million in 2039/40.

5 Affordable Housing Delivery

The level of future years Affordable Housing Supply Programme budget is still to be determined by Scottish Government resulting in an element of risk that the Phase 5 New Social Housing Programme in Midlothian will become unaffordable unless future rents are increased to support the investment. This risk has been somewhat negated by the recent announcement that projects can now be approved from future years budgets at a rate of 80% for 2025/26, 60% for 2026/27 and 40% from 2027/28 which helps to remove some degree of uncertainty and risk with regard to future funding for New Social Housing, although there will be some element of forward funding required for some of our housing sites in scope for Phase 5.

Financial modelling suggests the HRA can support forward funding for Phase 5 of New Social Housing project to 2027/28 (see Table 2).

There is currently no budget available within the 2024/25 Scottish Government's Affordable Housing Supply Programme to subsidise the open market purchases in 2024/25, however there has been announcement by Scottish Government that there is potentially a fund of £40 million being made

available which can be used to subsidise open market purchases, hopefully resulting in receipt of some level of funding during 2024/25, although the level and criteria for spending this is still to be announced.

The Housing Revenue Account can sustain a small number of purchases (approximately 6 units) during 2024/25 should no funding be received, or can access future year open market purchase budgets in the HRA should a good value opportunity arise.

During recent times the construction industry in Scotland and the UK has experienced unprecedented adverse market conditions, which has led to significant rises in tender prices for a wide range of materials. There is evidence that inflation of between 10% and 15% beyond BCIS predictions is affecting projects and whilst measures such as value engineering are partially mitigating cost increases, there is a risk that the capital budgets provided for delivery of the New Social Housing project will need to be increased with a resultant impact on the funding strategy.

Strategic Local Programme Agreement 2024/25

The Strategic Local Programme Agreement (SLPA) for this Financial Year reflects the 26% reduction in funding that has been applied across all local authorities. This has resulted in a resource planning assumption (total grant assumption) for Midlothian of £7.998m for 2024/25. This contrasts with the 2023/24 SLPA of £10.534m.

The reduction in grant affects both the Council's own housing programme and that of our partners such as Registered Social Landlords.

Table 1
Sites that will draw down on Scottish Government funding this year

Site	Developer	Number	Tenure	ASHP Grant Funding
Bonnyrigg One Dalhousie - (P47487)	MLC	3	SR	0.301
Gorebridge Newbyres Crescent - T34262	MLC	72	SR	1.928
Mayfield Easthouses Road (Former Newbattle High School Site) (MLC) - P42523	MLC	90	SR	5.109
Total				£7.338m

As noted above, there is no grant available for Off Market Purchases due to the level of committed projects already receiving funding.

There remains £0.660m to be allocated to capital projects through the AHSP in this financial year.

The SLPA also confirms that sites to be approved for funding in 2024/25 (with funding to be drawn down in 2025/26) include:

- Bonnyrigg Polton St (Complex Care)
- Danderhall Newton Church Road (Leisure Centre)
- Mayfield Easthouses Road (Melville Housing Association)
- Auchendinny Phase 1 (Wheatley Group)

Phase 5 Funding

Following the cut to funding, a review of Midlothian Council's Phase 5 sites was undertaken. As a result, some sites were deferred or removed from the Council's programme, with a focus on Section 75 sites, where sites delivering private housing by the private sector are required to deliver 25% of units as affordable. The revised Phase 5 is shown below. The uncertainty around future funding remains, therefore this phase is liable to change over time.

In addition to Phase 5 funding, there is also currently £20m budgeted for Housing Led Town Centre Regeneration work. Feasibility work is currently underway to establish the means of delivering the first phase of this in Dalkeith Town Centre.

Table 2

Phase 5 Sites Review – Outcome			
Site	Units	Y/N/D	Rationale
Site 148 - Newton Church Road Leisure Centre	23	Yes	Smaller site, Council owned. Grant approval confirmed in SLPA 24/25
Site 155 - Muir Homes Crichton Road	11	Yes	Grant Allocated and fully drawn down.
Site 142 - Stewart Milne (Shawfair) (in administration)	28	Yes	Acquisition cost allocated but full grant outstanding. Forward funding until grant allocated.
Site 153 - Newtongrange Church Hall	6	Yes	Not on site, however grant allocated in form of site acquisition. Low value grant outstanding, which can be forward funded.
Edmonstone Road, Danderhall (Bellway AA2/AA3)	34	Yes	Will forward fund. Is a priority for securing grant funding with SG in future years.
Regional Delivery Alliance sites	9	Yes	Forward funding due to small size / unit numbers.
Shawfair (Lovell) – HARP Ref P43738	38	Yes	MLC has made taking this site forward conditional on timing in 26/27 to ensure affordability to HRA.
The Brae Auchendinny (Bellway)	55	Defer – review required.	Grant approval 25/26, subsidy available 26/27. In discussion on phasing / timing of delivery with developer.
Newtongrange (swimming pool site and Top Club) HARP Ref P47183	20	Defer – review required	No grant allocation approved, will require forward funding. Affordability to be reviewed once costs ascertained. Certainty around 26/27 funding needed.
Rullion Road HARP Ref P46386	48	Defer – review required	No grant allocation approved, will require forward funding. Affordability to be reviewed once costs ascertained. Certainty around 26/27 funding needed.

Area C, Newton Farm / Wellington Farm	25	Defer – review required	Timing of housing delivery to be confirmed. No grant allocation approved. Affordability to be reviewed once costs ascertained. Certainty around 26/27 funding needed.
Site 128 Shawfair , Old Craighall Road, MacTaggart & Mickel P41836	48	No	MLC no longer seeking to take this site forward.
Site 149 – Barratt Danderhall (Block R – HARP ref P42532)	33	No	MLC no longer seeking to take this site forward.
Lingerwood Springfield	NA	NA	Timing of delivery of this site not known. MLC not currently seeking to take this site forward.

Ongoing Delivery

While the cut to the affordable housing delivery programme has resulted in Midlothian Council withdrawing its interest in sites coming forward or deferring delivery, sites with an existing commitment continue to deliver new, high quality homes to those in housing need. Between August 2023 to August 2024, the Council has built and handed over 388 new homes from 10 sites detailed in table below.

Site Name	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Totals	
Newmills Road, Dalkeith															42											42
Dalhousie Mains, Bonnyrigg	25	19	9	17																						70
Morris Road, Newtongrange					19	60																				79
Conifer Road, Mayfield																			0	24	0	18	30			72
Hopefield Yard, Bonnyrigg													16													16
High Street, Bonnyrigg																								20		20
Burnbrae, Hopefield														10		10										20
Wester Cowden, Dalkeith (Remaining)																										6
Barratt Homes, Moat View, Roslin											21						9	23								53
Buccleuch Street, Dalkeith																		6			4					10
																										0
Total Handovers August 2023 to August 2024	25	19	9	17	19	60	0	0	0	0	21	0	16	10	42	19	23	6	0	24	4	18	30	20	388	

Energy Efficiency Standard for Social Housing (ESSH2)

In addition, the programme of upgrades to the Council's existing housing stock to enhance energy efficiency has advanced. In 2023/24, 118 Council homes had energy efficiency measures implemented, with a focus on external wall insulation and window and door replacement on homes in Danderhall where there is a high incidence of poor energy efficiency in homes and fuel poverty. This investment is supported by the Scottish Government's Social Housing Net Zero Heat Fund (SHNZHF).

In addition, a further 55 private homes were upgraded, with all associated costs covered by the Scottish Government's Area Based Scheme (ABS) grant and owner contributions. This is used to facilitate the upgrade of private properties that are in or at risk of fuel poverty. This also used where there are mixed tenure blocks and owners meet the funding criteria.

In total, Midlothian Council spent £1.172m on energy efficiency measures through our ESSH2 programme and received £0.488m in grant. It also spent £0.705m on area based scheme measures on homes in private ownership. Total spend was £1.1876m and total grants received was £1.193m.

The programme will continue to grow in 2024/25 with an additional 182 Council homes and 46 homes in private ownership to be upgraded with further grant support valued at £0.705m (ABS) and £0.825m (SHNZHF).

6 Report Implications (Resource, Digital and Risk)

6.1 Resource

There are no resource implications arising directly from this report.

6.2 Digital

Not applicable

6.3 Risk

There is regular review of risk to ensure the retained risk in the new house building programme is of an acceptable and tolerable level to maximise opportunities and have full consideration of risk implications in achieving our aims and objectives

6.4 Ensuring Equalities (if required a separate IIA must be completed)

Equality is central to all housing and housing services delivery. An Integrated Impact Assessment (IIA) has been undertaken on the Local Housing Strategy 2021-26 to ensure that the needs of local communities have been fully considered. The SHIP reflects identified needs and draws on findings from the IIA when considering the implications flowing from the translation of strategic aims into housing policies.

6.5 Additional Report Implications (See Appendix A)

See Appendix A

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Affordable housing, homelessness and health and social care outcomes through the provision of specialist housing.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious
- None of the above

A.4 Delivering Best Value

We manage all aspects of our business so that tenants and other customers receive services that provide value for money in the rent and other charges they pay.

A.5 Involving Communities and Other Stakeholders

A full consultation in the current Rent Setting Strategy 2023/24-2025/26 and the Housing Allocation Policy 2024 was available to Midlothian Council tenants and waiting list applicants. Stakeholders are informed of outcomes at the regular Local Housing Strategy Forum meetings.

A.6 Impact on Performance and Outcomes

Not applicable

A.7 Adopting a Preventative Approach

Not applicable

A.8 Supporting Sustainable Development

Good practice in relation to energy efficiency and sustainability is contained in the SHIP and Local Housing Strategy 2021/22 – 2025/26.