

THE HIGHLAND COUNCIL

Housing and Social Work Committee– 14 January 2009

Agenda Item	
Report No	

Council House Building

Report by Director of Housing and Property

Summary

This report provides details of the arrangements for accessing a share of the £25m funding announced by the Scottish Government to encourage new council house building nationally, and invites Members to consider whether to submit an application for this funding.

1. Introduction

- 1.1 The Scottish Government announced that it planned to invest £25 million to encourage new council house building in April 2008. Since then discussions have taken place between COSLA and the Scottish Government on the principles and processes that will be used in allocating the money. A letter was issued from COSLA and the Scottish Government on 12 November 2008 setting out details of arrangements for funding.
- 1.2 The overall aim of the Scottish Government in allocating the money is to maximise the number of new houses built of sufficient quality, in the right places. To do this, the following six overarching principles will govern the allocation:
- the council has the ability to manage the new stock effectively,
 - the council has prudential borrowing capacity and/or uses other financial resources,
 - the required subsidy for any proposed development from the Scottish Government will be less than £25,000 per home,
 - the area has housing need and the new homes will contribute to the council meeting its 2012 homelessness target,
 - the council can demonstrate that it has well developed plans to ensure delivery of the proposed new housing, and
 - the number of units that are built is maximised within the resources available but not at the expense of having to compromise on design quality.

2 Criteria for accessing funding

- 2.1 Criteria issued by the Scottish Government detailing how applications for funding will be assessed are provided in **Appendix 1**. An assessment of the Highland Council's position in relation to these criteria is set out in section 3 (below).
- 2.2 The Scottish Government intends allocating the £25 million in more than one tranche, and a decision on whether to submit an application this time will have no bearing on the Council's ability to apply in future.

- 2.3 If an application is made the Scottish Government expects councils to enter details of the proposed development on the Scottish Social Housing Tender Index. The Scottish Government is also encouraging councils who bid to engage with Architecture and Design Scotland regarding the design of the new homes. This will help ensure that the proposed developments benefit from experience of good practice.
- 2.4 Applications will be considered jointly by COSLA (along with their expert housing advisers) and the Scottish Government against the principles and criteria provided in **Appendix 1**. Details of key steps in the decision making process and indicative timescales are provided below.

Key Steps	Indicative timescales
▪ Applications received from councils	12 January 2009 *
▪ Clarifications sought and applications assessed by COSLA/Scot Govt expert group	Jan/Feb 2009
▪ Applications that meet the criteria and principles passed to COSLA's Shared Services Board (SSB) for consideration.	Feb 2009
▪ SSB consider applications and makes recommendations to Ministers on which councils should receive funding.	Mid-Feb 2009
▪ Ministers sign off recommendations from the SSB.	End February 2009
▪ Funding agreement concluded with councils	End-March 2009

* COSLA / Scottish Government have confirmed that this timescale can be extended to 16 January 2009 for Highland due to our Committee timetable.

- 2.5 Separate funding agreements will be reached with each council based on the specifics of its proposal and available resources. Support will be provided in the financial year when the new build project is completed.

3 Highland Position against detailed criteria

3.1 Maximum number of extra homes in the right place

- 3.1.1 The Highland Council has a well developed Local Housing Strategy which provides details of housing need and demand.
- 3.1.2 Committee approved the draft annual Strategic Housing Investment Plan (SHIP) for Highland on 12 November 2008. This demonstrates how investment in affordable housing will be delivered on the ground, over the next 5 years, so that the outcomes and targets set out in our Local Housing Strategy are achieved.
- 3.1.3 The Council's Strategic Housing Investment Programme has been designed to enable us to respond flexibly to opportunities and challenges. Due to the current economic climate, it is anticipated that the programme may require as much flexibility as possible to manage any delays or setbacks. The ability of the Council to fund a new housing development programme could increase our flexibility in programme delivery.
- 3.1.4 The Council would be able to procure new build properties direct from developers. This would mean development would be quick and effective, and that the Council

itself would not require to “gear-up” in terms of staff and infrastructure, and would minimise any direct costs. The Council has already consulted extensively with developers and has hosted a seminar with partners, including developers, to consider how they can jointly respond to the “credit crunch” The current economic climate provides the ideal circumstances in which public subsidy could be used to both support the local economy and address housing supply issues.

3.1.5 It should be noted that development costs are higher in rural areas due to:

- Diseconomies of scale on smaller rural developments;
- High infrastructure and site servicing costs, affected by topography and ground conditions;
- High tender prices, affected by higher transport, labour and material costs in rural areas.

3.1.6 In order to keep within current housing association grant benchmark costs it would be proposed that any new council house building undertaken be within the Inner Moray Firth area. It is anticipated that unit costs of around £125,000 per unit for a 2 bedroom house can be achieved on this basis.

3.1.7 In considering whether to bid for funding to support new council house building it is also important to compare the relative subsidy levels involved. The current criteria for the Scottish Government / COSLA scheme involves subsidy of up to £25,000 per unit, with the remainder funded by new borrowing (unless other sources of funding could be identified). At a unit cost of £125,000 that would involve a maximum subsidy of 20%. By comparison the average housing association grant subsidy available for the equivalent new build housing association property for rent would be around £85,000, or 68%. This means that the Housing Association Grant route involves greater public subsidy per house, with no direct revenue implications for the Council.

3.1.8 It should also be noted that if the Council did not bid for funding or if a bid was unsuccessful, affordable housing development would happen anyway on the sites involved within the Housing Association Grant regime.

3.2 Ability to manage and maintain new stock effectively

3.2.1 The Council has a well established housing management infrastructure, including good local management arrangements. This includes 37 local Service Points as well as 10 Housing and Property Service local offices throughout the Highlands. We can respond to repairs and maintenance issues through our existing Building Maintenance Service and existing sub-contractor arrangements. This involves specific response times and emergency out of hours service.

3.2.2 We have clear policies and procedures in place as well as a clear performance management framework for housing management and maintenance services. We perform well on a number of key indicators and can demonstrate clear improvement plans in areas which have been identified by us as requiring improvement. Our housing service is well regarded by existing tenants and we achieve high levels of satisfaction in periodic tenant surveys.

3.2.3 Any new build housing stock would be managed within existing resources and management costs.

3.3 Prudential borrowing capacity/other resources

- 3.3.1 In considering additional capital investment, the Council must ensure that this is affordable, prudent and sustainable. Consideration of investment in new build housing must be set in the context of these principles and the current financial position related to funding the existing HRA capital programme.
- 3.3.2 The Council has one of the highest levels of outstanding debt per house in Scotland. The higher the level of debt per house the greater proportion of rental income is required to service that debt. For example around 38% of our rental income in 2008/2009 will be used to fund loan charges. Although our outstanding housing debt has been reducing in real terms the average debt per house figure has remained relatively static.
- 3.3.3 A separate report to this meeting contains details of the HRA revenue projections. This indicates that projected capital receipts, capital from current revenue and new borrowing would be sufficient to fund the current estimates of the cost of meeting the Scottish Housing Quality Standard within the existing rent policy of limiting rent increases to Retail Price Index +1% per year.
- 3.3.4 Based on the maximum subsidy available and assuming a modest programme of building 50 new houses per year over 3 years at a cost of £5m per year, HRA loan charges would increase by £849,189 per year at the end of the building programme. This would be compensated by increased income which would then be subject to an annual inflationary increase. Initial projections indicate that the additional borrowing could be contained within current HRA revenue estimates and projections. All other assumptions being equal this would require a rent increase of inflation plus **2%** in 2010/2011.

4 Housing need

- 4.1 The shortage of housing and affordable housing in particular has been identified as a major constraint on social and economic growth in the Highlands. Despite significant achievements in maximising affordable housing development in recent years, Scottish Government research demonstrates that Highland has very high levels of housing need which, unlike the majority of other Scottish local authorities, is forecast to persist into the future. On-going affordable housing investment is therefore crucial to Highland's economy and meeting the needs of our communities.
- 4.2 This acute housing need has been recognised by the Scottish Government in applying "pressured area status" in relation to right to buy across most of the area.

5 Well developed plans

- 5.1 As outlined above the Council could undoubtedly bring forward a project for delivering new council houses quickly and effectively. The most appropriate model to achieve this would be "off the shelf" acquisition through existing sites that are subject to agreements with developers through the affordable housing policy. In order to present a bid within current housing association grant benchmark costs the houses would need to be within the Inner Moray Firth area. If the Council does not bid for funding, or was not successful in a bid, these sites would be developed by local housing associations.

6. Conclusions

- 6.1 The Scottish Government has announced that £25m will be available nationally to support new Council house building within the existing Prudential Borrowing Framework.
- 6.2 In relation to the criteria to be applied to assessing applications for funding the Council can demonstrate an extremely strong case in terms of its housing strategy and housing needs analysis. It can demonstrate sound management and maintenance arrangements that can be delivered within existing management costs. There is also very strong external academic evidence that confirms the continuing acute housing needs in the Highlands. The Council would also be able to bring forward quick and effective delivery of a new build programme through developer agreements through its affordable housing policy.
- 6.3 Were a bid to be submitted this would involve “off the shelf” purchase of new build housing on existing sites that are subject to agreements with developers through the affordable housing policy. If the Council does not bid for funding, or was not successful in a bid, these sites would be developed by local housing associations within the more generous grant regime available to them, and with no implications for the Housing Revenue Account.
- 6.4 The main issue for the Council in relation to the current funding criteria is that it is linked to prudential borrowing capacity. The Council already has high debt and high rents and will require significant new borrowing to fund the investment required to bring its housing stock up to the Scottish Housing Quality Standard. Based on current HRA revenue estimates additional loan charges associated with new borrowing to fund a new build programme of 150 houses over 3 years would require a rent increase of inflation +2% in 2010/2011.
- 6.5 Based on the criteria for funding from the Scottish Government there appear to be 2 options open to the Council in relation to this matter, at this time:
- 6.6 **Option 1** – Submit a bid for funding for a modest new build programme.
- This could be delivered within the HRA but would require a higher rent increase than would otherwise be necessary, probably in 2010/2011.
- 6.7 **Option 2** – Do not submit a bid for funding at this time.
- This would involve continuing to work with Housing Associations and the Scottish Government in an enabling capacity to maximise new housing provision within housing association grant arrangements, with no implications for the HRA.
- 6.8 Were option 2 to be agreed then the Council could continue to lobby on the issue of housing debt and for additional models for funding new Council house building in areas with high levels of housing need but with high housing debt.
- 6.9 Taking all of the above matters into account there does not appear to be a strong business case to support the submission for funding at this time. For that reason option 1 is recommended.

7 Recommendation

Committee is asked to:

- note the Council's position against the criteria involved for assessing funding bids;
- agree that the Council should **not** submit a bid for funding at this time;
- when responding to the Scottish Government reiterate the Council's commitment to increasing housing supply, including through Council house building, and exploring different funding arrangements that could support new council housing in areas with acute housing need and high housing debt;
- continue to lobby on the issue of housing debt.

Signature:

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Criteria to determine the extent to which principles are satisfied

Principle	Criteria	Example Indicators/evidence
		Not looking to be prescriptive, want to make use of existing evidence that led Council to decide to pursue new build including existing strategies, plans etc
Max number of extra homes in the right place	Consistent with local housing strategy (LHS)	Information on how the project contributes to delivering the current LHS
	Contributes to meeting local housing need	Council area has a recognised affordable housing need (e.g. through Bramley or other widely recognised assessment method) Addresses a local housing 'hot spot'
	Fits with Strategic Housing Investment Programme (SHIP)	Information demonstrating that the proposed project is supported as part of the SHIP and that it does not adversely impact the delivery of other local affordable housing projects being funded through the AHIP (Affordable Housing Investment Programme)
	Effective procurement	Detail of procurement approach being taken and how it contribute to effective delivery and minimising costs Comparison of tender prices with information available through the Scottish Social Housing Tender Price Index (SSHTPI)
Ability to manage an maintain new stock effectively	Consistent with existing stock management and maintenance approach	Information on how new houses will be managed and maintained including how existing housing management resources (offices, database, staff etc) will support effective management of the new stock
	Contributes to reducing per unit management cost	Estimate of the cost of managing the new stock and the impact this will have on overall per unit costs

Prudential borrowing capacity/other resources	Available resources to fund new houses	<p>Details of borrowing capacity including key underpinning assumptions and sensitivities</p> <p>Information on other financial resources and arrangements that will be used to support new build</p> <p>Information on the total funding available and the approval stage reached in terms of committing the funds for new build</p> <p>Details of rent strategy including assessment of affordability</p> <p>Analysis showing that proposed rents strike an appropriate balance between being affordable given local market conditions and contributing to the cost of the house</p>
	Required subsidy per unit less than predetermined maximum level	Assurance that required subsidy is less than maximum subsidy offered per unit of £25,000
	Resources are not needed for other purposes e.g. to meet the SHQS, mitigate financial risk to the HRA	Business plan or other analysis showing impact of new build on HRA and other housing priorities (such as meeting SHQS)

Housing need	Pressured area in terms of the 2012 homelessness target	Information on how the new houses will contribute to reducing pressure in terms of achieving the 2012 homelessness target
	Consistent with views on housing need locally	<p>Analysis showing need for type of houses in location propose</p> <p>Details of tenant consultation on priorities</p>

Well developed plans	Consistent with requirements for Housing for Varying Needs	Information showing that proposed homes satisfy requirement
	Consistent with Building Regs current at the time	Information showing that proposed homes satisfy requirement
	Can be on-site within a year of agreeing	Information that provides assurance that work will start on

	funding allocation	site within 1 year of agreement being reach on SG support
	Home not completed already or in Council ownership	Assurance that property has not already been built [or purchased by the Council]
	Council has agreed scope and is committed to funding for the project	Details on decisions made by Council relating to the proposed new build
	Robust delivery arrangements are being developed or are in place	Details of how the houses will be build and agreements or consents that are in place that support delivery
	Consistent with legal requirements	Assurance that legal requirement relating to new build will be satisfied