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Convener  
Infrastructure and Capital Investment Committee  
The Scottish Parliament  
Edinburgh  
EH99 1SP



22 May 2012

Dear Maureen,

I wrote to you on 8 May to let you know about the publication of the guidance on the local programmes within our Affordable Housing Supply Programme. And, as you requested at the Infrastructure and Capital Investment (ICI) Committee on 9 May, I now enclose a copy of that guidance.

I also noted in my letter that the associated three year Resources Planning Assumptions (RPAs) for each council were detailed in a PQ answer on the 8 May. In my opening statement to the ICI Committee, I advised that whilst all the notification letters to councils were correct, unfortunately, an administrative error meant that the figures in the PQ answer for three of the RPAs for Argyll and Bute, Renfrewshire and Inverclyde Councils were understated and I agreed that I would write to the committee with the correct figures.

I can confirm that the figure for Argyll and Bute Council is £18.309 million. The published figure was £13.191 million and did not include the top-slicing moneys. I noted at the committee that this was in respect of the reprovisioning programme for the earlier stock transfer. To set the record straight, please note that although the top-sliced money was linked to the earlier stock transfer it was not for reprovisioning. The published figure for Inverclyde Council was £5.052 million, but the actual figure is £10.148 million. Again, top-slicing accounts for the difference. For Renfrewshire Council, the published figure was £14.738 million, which did not include an additional £4 million that it has been given to support its programme to bring housing up to the Scottish housing quality standard.

I apologise that the wrong information was provided and now attached a complete set of the correct RPAs issued to councils to March 2015.

Kind regards



KEITH BROWN



Local Authority	Total
<b>Highlands &amp; Islands &amp; Moray</b>	
Highland	19.915
Orkney	6.161
Shetland	4.166
Western Isles	2.521
Moray	6.317
<b>Sub Total</b>	<b>39.080</b>
<b>North &amp; East</b>	
Aberdeenshire	9.506
Angus	7.204
City of Aberdeen	6.061
City of Dundee	9.816
Clackmannanshire	2.871
Falkirk	9.194
Perth & Kinross	9.595
Stirling	6.845
<b>Sub Total</b>	<b>61.092</b>
<b>South &amp; East</b>	
East Lothian	9.605
Fife	11.627
Midlothian	6.810
The Scottish Borders	3.221
West Lothian	9.109
<b>Sub Total</b>	<b>40.372</b>
<b>North &amp; South Clyde</b>	
Argyll & Bute	18.309
East Dunbartonshire	11.073
East Renfrewshire	4.359
Inverclyde	10.148
Renfrewshire	18.738
West Dunbartonshire	7.078
<b>Sub Total</b>	<b>69.705</b>
<b>South &amp; West</b>	
Dumfries & Galloway	11.255
East Ayrshire	5.842
North Ayrshire	9.361
North Lanarkshire	27.938
South Ayrshire	5.314
South Lanarkshire	14.582
<b>Sub Total</b>	<b>74.292</b>
<b>Total</b>	<b>284.541</b>

Local Authority	Total
AHSP - Glasgow	2.540
AHSP - GHA	28.327
AHSP - Edinburgh	6.560
<b>Total</b>	<b>37.427</b>

Local Authority	Total
TMDF - Glasgow	181.138
TMDF - Edinburgh	78.744
<b>Total</b>	<b>259.882</b>

<b>Grand Total</b>	<b>581.850</b>
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## AFFORDABLE HOUSING SUPPLY PROGRAMME

### STRATEGIC LOCAL PROGRAMMES 2012-2015

#### 1. AIM

- 1.1 Following agreement of new ways to operate the Affordable Housing Supply Programme (AHSP), announced in January 2012, the Scottish Government is inviting each local authority<sup>1</sup>, working in partnership with housing associations, to put forward a **strategic local programme** of social and affordable housing projects. Based on their Resource Planning Assumptions the strategic local programme will detail projects for delivery over the next 3 years which, upon completion, will meet needs identified through the Housing Need and Demand Assessment, Local Housing Strategy and Strategic Housing Investment Plan and will contribute to the Scottish Government's target of delivering 30,000 affordable homes during the lifetime of this Parliament.

This guidance sets out the arrangements for developing and delivering the strategic local programmes within the AHSP<sup>2</sup>.

- 1.2 Within the Affordable Housing Supply Programme, Scottish Government subsidy will be available to support council social rented housing and Registered Social Landlord (RSL) homes for social rent, intermediate<sup>3</sup> rent (through an RSL subsidiary), new supply shared equity, shared ownership and improvement for sale. Projects could also involve the renovation of empty homes which are acquired by a local authority or an RSL. The total amount of Scottish Government subsidy available is set out in the 3-year Resource Planning Assumptions notified to councils in May 2012.
- 1.3 All projects for inclusion within the strategic local programme should be consistent with the Local Housing Strategy (LHS) and fit with Strategic Housing Investment Plans (SHIPs). Furthermore it is expected that the majority of projects will fall within the appropriate subsidy level, as detailed within Paragraph 3.5. Projects failing to meet the appropriate subsidy level will be the subject of a detailed value for money appraisal.
- 1.4 The supply of new affordable housing that is energy efficient for householders is a high priority for the Scottish Government. Enhancing our energy efficiency agenda within housing supply will not just boost our economy, but also benefit

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<sup>1</sup> Different arrangements are in place for Transfer of the Management of Development Funding (TMDF) authorities.

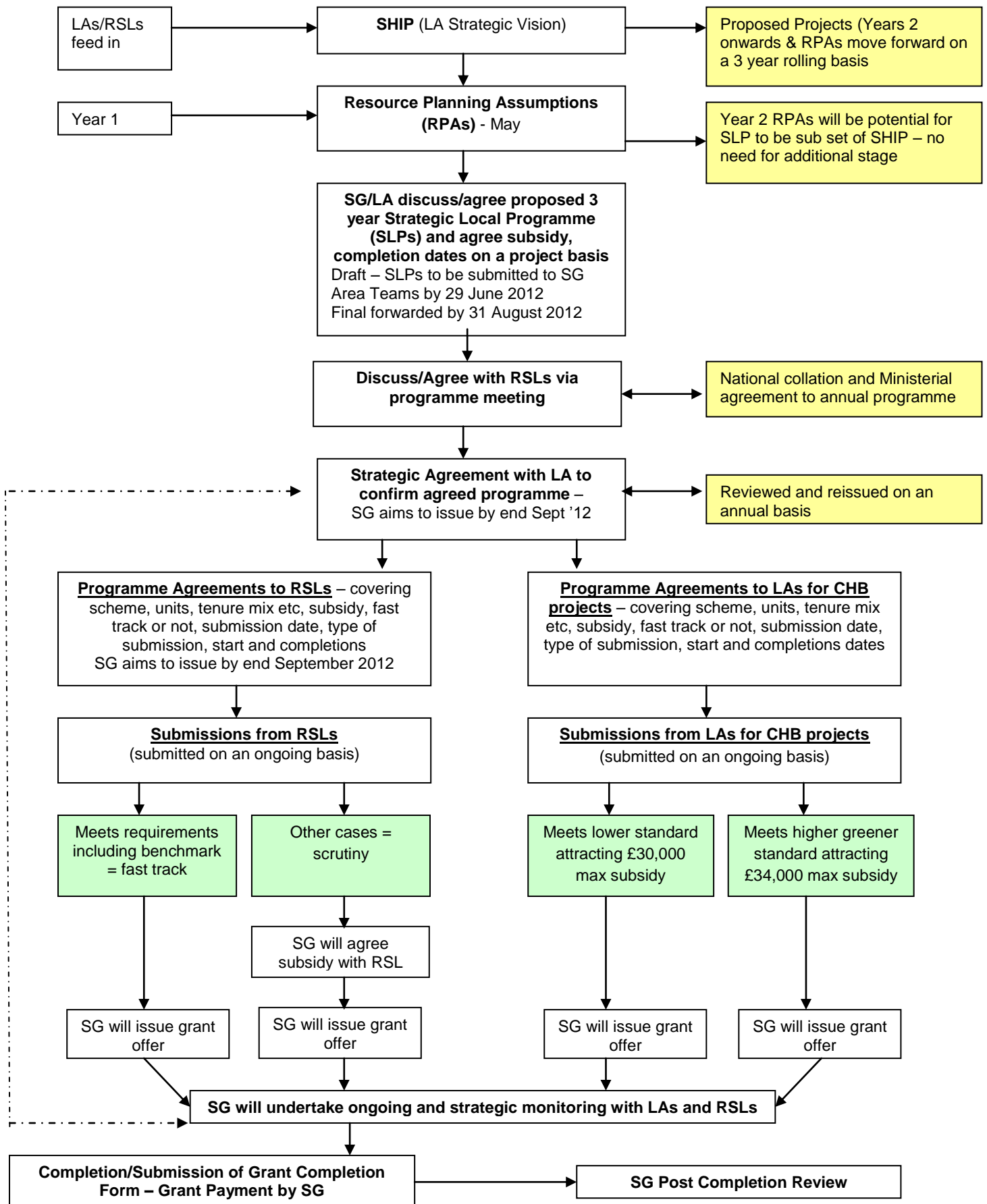
<sup>2</sup> Separately Scottish Government financial support will continue to be provided on a number of centrally managed programmes including Open Market Shared Equity, New Supply Shared Equity with developers, existing and future innovation programmes such as the National Housing Trust initiative, and, the Glasgow Housing Association programme.

<sup>3</sup> Intermediate rent is sometimes referred to as "mid-market" rent.

our environment and help reduce household fuel bills. Within any future developments we would therefore encourage projects to meet a higher energy efficiency standard.

- 1.5 This guidance applies to the strategic local programmes for 2012-2015. The intention is to update it in future years when, for example, there should be closer coordination between the development of a council's SHIP and its strategic local programme.

## AFFORDABLE HOUSING SUPPLY PROGRAMME – PROCESS



## **2. PROCESS**

### **2.1 Strategic Local Programmes**

- 2.1.1 Council and RSL funding streams have now been brought together under one budget and from this, councils will receive combined 3 year Resource Planning Assumptions (RPAs). A summary of the process for agreeing strategic local programmes is set out in the flow chart on the previous page.
- 2.1.2 Based on their RPAs and discussions with Scottish Government Housing Supply local area teams, each council will submit to the area team a proposed 3 year strategic local programme (SLP) of social and affordable housing projects, which reflects their LHS and SHIP. A template will shortly be provided for this purpose. Strategic local programmes will provide details of the delivery partners, project locations, number of units, proposed tenure, house type (general/older/wheelchair), greener standards, site start and completion dates and subsidy requirements.
- 2.1.3 An indication of local consultation and engagement that has supported the development of the programme should also be provided. Evidence should be provided that all key players have been involved in developing the SHIP/SLPs, the preparation of which is viewed as a corporate activity involving close working relationships with RSLs.
- 2.1.4 To avoid delays in moving forward with the Affordable Housing Supply Programme councils are required to submit to Scottish Government area teams their proposed SLPs by 29<sup>th</sup> June 2012. It is however recognised that pending full committee approval this may only be available in draft form. Approved SLPs should be formally submitted to Scottish Government area teams by 31<sup>st</sup> August 2012.
- 2.1.5 Projects included within strategic local programmes should be capable of achieving a March 2015 completion date.
- 2.1.6 Councils and the Scottish Government will liaise about the profile of spending from their RPA. If slippage in the local programme means that the funds cannot be spent in that area, the Scottish Government reserves the right to reallocate the resources to other council areas.
- 2.1.7 Responsibility for managing the AHSP and approving grant subsidy remains with the Scottish Government. Therefore, where proposals include RSL projects the Scottish Government area teams will arrange programme meetings with the appropriate RSL. Local authorities will also be invited to attend these. Transfer of the Management of Development Funding (TMDF) authorities will lead on RSL programme meetings, programme management and grant approval within their geographic areas.



## **2.2 Strategic Agreements**

- 2.2.1 On completion of discussions with the local authority and RSLs, Strategic Agreements will be issued by the Scottish Government to individual local authorities confirming overall programme details. These will include: - the proposed developer, location, number of units, tenure, house type (general/older/wheelchair), greener standards, site start and completion dates and subsidy requirement.
- 2.2.2 Before individual Strategic Agreements can be issued the Scottish Government will consider all local authority SLPs. In doing this we will not seek to query each council's strategic vision, but we will wish to ensure that the overall balance of the programme, the respective subsidy levels for council and RSL projects, the mix of developers in each area, and other matters, are in line with the Government's national strategy for housing supply.
- 2.2.3 Strategic Agreements will be reviewed and re -issued on an annual basis. For TMDF authorities this will be agreed through the TMDF grant offer.

## **2.3 Programme Agreements**

- 2.3.1 Following local authority acceptance of Strategic Agreements, the Scottish Government aims to issue individual programme agreements to both local authorities and RSLs by the end of September 2012. The programme agreements will confirm anticipated project costs, maximum grant allocation, units, tenure mix and type, grant submission date, start and completion dates. At this stage RSLs and LAs will also be advised if projects can expect to be fast tracked. This will be for projects achieving benchmark and requiring no further Scottish Government scrutiny. TMDF authorities will lead on issuing RSL programme agreements for their geographic area.
- 2.3.2 Following receipt of programme agreements individual project submissions should be returned by LAs and RSLs to Scottish Government area office teams reflecting the terms of their agreement. Submissions will be forwarded to Scottish Government on an ongoing basis, as per the agreed submission timetable.
- 2.3.3 Where a project is identified in the programme agreement and the grant funding required is at or below benchmark, funding is guaranteed providing no changes have occurred between programme agreement and submission stage. The grant applicant should proceed to grant submission stage on the basis of the details and timetable outlined in the programme agreement. Where a project is identified in the programme agreement but cannot be taken forward within benchmark there can be no presumption that grant approval will be issued. Rather projects in this position will be subject to detailed scrutiny, which may include a technical evaluation, by the grant provider (the Scottish Government/Glasgow City Council/ The City of Edinburgh Council),

to determine value for money. Additional information may be required to enable completion of this assessment.

2.3.4 In assessing projects above benchmark the Grant Provider will consider Strategic Fit and evidence of costs and capacity. Where necessary this will include a full appraisal of construction costs using the NIC system.

2.3.5 LAs and RSLs will be required to submit a Grant Completion Form at the practical completion of each grant funded project. Receipt of this form will enable the Scottish Government to:-

- record that projects developed with grant funding have been successfully completed
- confirm the actual housing and tenure mix and the anticipated final costs and funding for the project
- record actual rental values and sales income
- identify which projects could be selected for post completion review

### **3. GUIDELINES**

#### **3.1 Project Information**

3.1.1 Information on all projects, covering capital costs, rents, funding sources and numbers/sizes/types of housing provided and whether new build or rehabilitation/remodelling will be required, as a condition of grant funding and in order to assist completion evaluation.

3.1.2 It is anticipated that the majority of the AHSP will comprise of additional homes and not completed units already owned by the council or in RSL ownership. However remodelling/reprovisioning of existing homes may also be included where this is a strategic priority.

3.1.3 Off the Shelf purchases of new build stock will be eligible for grant funding and should be capable of achieving 2010 Building Standards.

3.1.4 Prior to Tender Submission stage, to enable a site acquisition to proceed, the grant provider may choose to request an Acquisition Application and thereafter an acquisition offer of grant may be issued, where appropriate. This will be dependent on funding availability and will follow discussions with the grant provider on an individual project basis. Funding at this stage will be by exception rather than the norm.

3.1.5 RSLs who accept this acquisition offer of grant (and subsequent acquisition funding) will be required to agree to deliver the project within specific timescales and at a maximum grant per unit which will be agreed at the time of acquisition.

### **3.2 Housing Need**

- 3.2.1 Projects must meet affordable housing need in the area concerned and social rented housing must be affordable to lower income households. Intermediate rent and shared equity housing must be affordable to households on low to moderate incomes, with target groups based on the relevant local authority housing need and demand evidence.
- 3.2.2 We wish to continue to support the provision of housing for particular needs, housing in rural areas or housing in regeneration areas consistent with Local Housing Strategy priorities.

### **3.3 Quality**

- 3.3.1 The units will be built to comply with all current applicable Building Regulations as required by law and will include all Housing for Varying Needs (HfVN) Essential Features as set out in Communities Scotland Guidance Note 2004/12.
- 3.3.2 In the case of empty homes projects, where there are particular exceptional reasons why homes cannot feasibly meet Housing for Varying Needs or current energy efficiency standards, projects may still be eligible for funding if the reasons are set out and levels of energy efficiency of the homes will still be significantly improved by the project. This will be subject to agreement by the grant provider depending on the individual project circumstances.
- 3.3.3 Within the AHSP there exists a strong focus on enhancing our energy efficiency agenda. To incentivise delivery of new homes which meet a greener standard, a system to vary the subsidy benchmarks for new council and housing association homes has been introduced. To qualify for higher subsidy, the building standards for the new homes must meet Section 7, Silver Level, of the 2011 Building Regulations in respect of both Carbon Dioxide Emissions and Energy for Space Heating.
- 3.3.4 Projects using existing buildings should maximise energy efficiency and accessibility, as far as is practicable. Evidence of this should be provided in the submission for example with reference to accessibility. HfVN – Section 20.1 – Refurbishment should be complied with.

### **3.4 Tenure**

- 3.4.1 In line with the Scottish Government's national strategy for housing supply, it is our intention that **social rented housing** will make up the majority of the affordable housing to be provided and for which grant is awarded, but RSLs will have the flexibility to incorporate a proportion of **intermediate**

**rent/shared equity** homes within a mixed tenure project or as standalone projects.

- 3.4.2 As long as the housing provided is affordable to the same income groups as shared equity purchasers **improvement for sale** is also considered an eligible tenure.
- 3.4.3 Proposals for homes for **shared ownership** will be eligible for subsidy, subject to local authority support. The Scottish Government plans to publish guidance setting out the criteria that should be met by registered social landlords seeking funding for shared ownership.
- 3.4.4 The provision of **new supply shared equity housing** will be in accordance with published Administrative Procedures for the Scottish Government's Low Cost Initiative for First time Buyers (LIFT) schemes together with all published Guidance Notes applicable to the LIFT schemes.

The administrative procedures for the New Supply Shared Equity Scheme can be found at:-

<http://www.scotland.gov.uk/Publications/2012/01/06102410/0>

We will direct buyers under our LIFT schemes to retrofitting support from existing Scottish Government funded programmes and other sources such as regulated energy company obligations.

- 3.4.5 In accordance with current Scottish Government guidance Scottish Ministers will retain the equity stake in all shared equity properties. Additionally, all grant due for repayment from right to buy sales, shared ownership sales, shared ownership tranching up, shared equity tranching up and shared equity outright sales will continue to be repaid to Scottish Ministers.
- 3.4.6 We expect the provision of **housing for intermediate rent** which is supported by grant to be for a minimum of 30 years, which is consistent with existing Scottish Government guidance. However new financing models and options for intermediate rent housing - such as variants of the National Housing Trust initiative for RSLs (see Appendix A) are expected to become more widely available this year. While the balance of provision is a strategic matter for the council to consider, councils and RSLs are encouraged to use these alternative financing approaches – rather than grant – to meet such provision.
- 3.4.7 Across the Affordable Housing Supply Programme as a whole, the Scottish Government's commitment is that at least 20,000 of the 30,000 affordable homes to be delivered over the lifetime of this Parliament will be homes for social rent, which will include 5,000 new council homes. To achieve this, the proportion of social rented homes within the strategic local programmes will need to be well above two thirds, including all subsidised council new build and a strong majority of new build through RSLs.

### 3.5 **Subsidy**

3.5.1 **For RSLs** there will not be a maximum subsidy level per unit, but a range of benchmarks (see below), based on an overall benchmark of £40k per unit (based on a 3-person home). These are designed to reflect differentials between different tenures, different energy efficiency standards, and a broad indicator of location.

3.5.2 As stated within paragraph 3.3.3 to qualify for the higher greener subsidy, the building standards for the new homes must meet Section 7, Silver Level, of the 2011 Building Regulations in respect of both Carbon Dioxide Emissions and Energy for Space Heating.

3.5.3 By expressing the benchmarks as a 3-person home we aim to remove any possible bias towards smaller units (which may run counter to LHS priorities). The conversion factors remain as in previous Housing Association Grant guidance.

3.5.4 For local authorities a maximum subsidy of £34,000/£30,000 per unit will be offered, depending on whether the greener standard is met. If, however, LAs wish to spread funding across more houses but at lower average subsidy levels this is acceptable.

3.5.5 The range of benchmarks is detailed within the table below:-

	West Highland, Island Authorities and remote/rural Argyll	Other rural	City and urban
RSL social rent - greener	£56k (3p equivalent, benchmark)	£47k (3p equivalent, benchmark)	£46k (3p equivalent, benchmark)
RSL social rent – other	£52k (3p equivalent, benchmark)	£43k (3p equivalent, benchmark)	£42k (3p equivalent, benchmark)
RSL intermediate rent – greener	£34k (3p equivalent, benchmark)		
RSL intermediate rent – other	£30k (3p equivalent, benchmark)		
Council social rent - greener	£34k (maximum)		
Council social rent - other	£30k (maximum)		

3.5.6 Whilst all projects will be assessed against these benchmarks, we will encourage proposals requiring less grant, but will also retain flexibility to consider awarding higher grant subsidies on a project by project basis. Projects exceeding benchmark will require special consideration and, as stated within paragraph 2.3.3, will be subject to a detailed value for money scrutiny.

- 3.5.7 For the purposes of benchmark subsidies to check whether an individual area might be classed as remote/rural reference should be made to the Scottish Government 6 fold rural/urban classification:

<http://www.scotland.gov.uk/Publications/2008/07/29152642/2>

<http://www.scotland.gov.uk/Topics/Statistics/SIMD/SIMDPostcodeLookup>

However, in all “other rural” cases the RSL and relevant council will be consulted to confirm the relevant benchmark.

- 3.5.8 No benchmark has been set for shared equity units however we would expect the Scottish Government’s contribution, except in exceptional cases, to be lower than £40k. For shared ownership units, the Scottish Government will continue to encourage proposals requiring no subsidy or minimal grant but we will retain flexibility to provide grant up to a maximum of £20,000 in certain circumstances, for example houses being developed for people with disabilities.

### **3.6 Rents & Costs**

- 3.6.1 **For Local Authorities** - Rent levels should strike an appropriate balance between being affordable, given local market conditions and contributing to the cost of the house.

#### ***RSL social rent***

- 3.6.2 RSLs are required to confirm that social rents are in line with their own rental policy and may be required to provide confirmation from the local authority that the rents are affordable for households within the local area.
- 3.6.3 The social rented 3P benchmark rent will be £3,666 for financial year 2012 - 2013. For projects completing in future years rental income will be assumed to increase annually by 3.75% (R.P.I. + 1%). Where rents exceed this benchmark by more than 5%, then we will expect a case to be made to justify affordability
- 3.6.4 All housing will be managed under Scottish Secure Tenancies (SST). Where this is not proposed full discussions must be held with the Scottish Government to gain agreement on the future tenancy arrangements for the project. In addition management must be consistent with existing stock management and maintenance approaches.

#### ***RSL intermediate rent***

- 3.6.5 Rent levels for intermediate rent housing should, as assessed at approval stage, be affordable for households from the proposed target tenant groups.

- 3.6.6 Starting intermediate rents must not exceed 100% of the relevant Local Housing Allowance rate. Rents will then increase annually by the Consumer Prices Index (CPI), provided that they do not exceed the 50<sup>th</sup> percentile point of the relevant private sector market rent level.

### ***RSL shared equity***

- 3.6.7 For shared equity, we expect homes to be affordable, given local market conditions, to households on low to moderate incomes. Buyers' stakes are 60-80% with the Scottish Government holding the remaining share under a shared equity agreement which it will enter into with the shared equity owner. The grant provider may however agree to reduce the minimum equity stake to 51 per cent. This is likely to apply where a housing market is particularly pressured, or where people with particular housing needs have identifiable additional housing costs. Within regeneration areas the grant provider may also waive the minimum equity stake requirement for existing owner occupiers whose homes are scheduled for demolition.

### ***General conditions***

- 3.6.8 Where proposed projects have already received pre tender grant funding (e.g. acquisition, cost plans etc) this will be taken into account in the assessment process and will be deducted as part of the project's grant requirement.
- 3.6.9 Grant recipients should be aware that following grant approval either at acquisition or tender stage any future identified funding shortfalls will not be considered for additional grant. The responsibility therefore rests with the funding applicant to ensure all costs are fully accounted for. While there will be no uplift if the project is more expensive than planned, there will not be a direct clawback if the project is delivered for a reduced cost. Any funding not required as a result of project savings can, with the agreement of Scottish Government, be retained by the RSL to meet its own housing objectives.
- 3.6.10 HAG which would otherwise be eligible for recycling locally, that is, any HAG due for repayment at completion of projects up to 31 March 2011, as a consequence of HAG Completion reconciliations, including reconciliations from shared equity projects, can following discussion and agreement with the grant provider, be recycled to the RSL as a contribution to project costs. However for the avoidance of doubt HAG due for repayment from right to buy sales, shared ownership and shared equity tranching up, and shared ownership and shared equity outright sales must continue to be repaid to Scottish Ministers.
- 3.6.11 Scottish Government subsidy will in the main be provided once a project is complete but the Scottish Government may offer payment before completion, where there is capacity to do so. This will be discussed and agreed prior to funds being released. Therefore, LAs/RSLs must be able to self fund projects

through to completion, if required (or to the original agreed completion date, if later). The Scottish Government will however ensure prompt payment of grant on completion, which will be a specific condition of the grant offer.

### **3.7 Private & Other Finance**

- 3.7.1 **RSLs only** – Confirmation should be submitted that sufficient borrowing capacity exists to ensure delivery of the proposed development programme, detailing all sources of additional funding.
- 3.7.2 **LAs only** - Councils should confirm that they have prudential borrowing capacity and/or other available resources to fund the new housing; that resources are not needed for other purposes (e.g. to meet the SHQS); and that committing funds to a new build programme does not compromise the sustainability of the Housing Revenue Account.

### **3.8 Deliverability**

- 3.8.1 Land availability and deliverability will be an important element so we will require information regarding planning permission (e.g. outline, detailed, applied for or received), whether the site is zoned for housing in the current development plan and/or has any planning obligations such as Affordable Housing Policy requirements, Section 75 etc. This information should be included within the project submission.
- 3.8.2 Information should be provided on whether the land to be developed is owned outright by the council or an RSL. If not full details of the stage reached in negotiations should be submitted.
- 3.8.3 Agreed timescales for delivery will be set out within individual grant offers however work should start on site on all approved projects timeously and we expect completion to be **no later than March 2015**.

## **4 OTHER POINTS TO NOTE**

- 4.1 All or a proportion of projects will be subject to post-completion scheme review in order to confirm compliance with grant conditions and to promote sharing of lessons learned. It is our intention to review current guidance.
- 4.2 These arrangements will also apply to Glasgow City and The City of Edinburgh Councils and both will undertake these funding processes, from within their TMDF allocations, consistent with the current approach to the devolved management of funding administration.
- 4.3 The Scottish Government may, as appropriate, clarify or update this information on the Scottish Government website.



## **APPENDIX A**

### **NATIONAL HOUSING TRUST INITIATIVE – RSL VARIANTS**

1. The initial version of the National Housing Trust initiative (NHT) in partnership with Councils across Scotland has delivered 600 homes, and further contract signings are expected following completion of the latest procurement round which is well advanced.
2. Following the successful delivery of the model, the Scottish Government intends to expand the NHT initiative by offering support which is specifically tailored for RSLs. Under this variant of the initiative, RSLs would decide the best structure within their group for financing, owning and managing the homes to be provided. The Scottish Government is willing to provide NHT style guarantees to cover the debt element of the financing package. The equity investment element of the financing package would be provided from within the RSLs' groups, and the potential return on this could allow RSLs to retain units in perpetuity.
3. The proposed introduction of an NHT variant specifically for RSLs offers an opportunity for those in a position to do so to move forward quickly with firm project proposals in the course of this year. This summer we expect to invite proposals and set out the process to be followed.