

To: All Local Authority Chief Housing Officers

21 March 2011

## **INNOVATION & INVESTMENT FUND – NEW COUNCIL HOUSE BUILDING**

### **Introduction**

In 2009 and 2010, the Scottish Government allocated nearly £80 million to 23 councils to build over 3,000 new homes across Scotland. As announced in the draft budget, for 2011-12 there is a new £50 million competitive funding arrangement to allow all suppliers to provide new affordable homes. We intend to divide the £50m among:

- ◆ Council house building;
- ◆ RSL building; and
- ◆ An innovative funding competition open to all providers for all forms of affordable housing tenure.

Subject to receiving sufficient bids which meet the criteria, it is intended that at least £20m is made available for local authorities and at least £20m for RSLs, but the Scottish Government will need to retain some flexibility to move funding between the 3 streams. This letter sets out the general process and criteria for the council house building funding stream.

Please note these proposals only apply to 2011-12, for which the Budget has been published. We expect resources available to Scottish Government to remain very tight over the coming years and will review arrangements for future budgets later this year.

Our objectives in managing the new £50m fund in this competitive way are to maximise:

- ◆ Innovation;
- ◆ Collaborative working; and
- ◆ Value for money to Scottish Government.

Whilst the overall process will be familiar to those local authorities that have previously applied for subsidy, when completing applications it would be worthwhile taking these 3 objectives into account.

## Grant level and assessment criteria

Discussions have taken place between COSLA and the Scottish Government on the principles and processes that will be used in allocating the money and also to set the level of subsidy to be offered per unit. It has been agreed that a **maximum** subsidy of £30,000 per unit will be offered and that work must have started on site by the end of March 2012. In previous rounds, some local authorities indicated an ability to build greater amounts of new housing at lower subsidy levels for a higher total subsidy by using economies of scale. We will consider any such applications on a case-by-case basis, but where greater value for money can be achieved in an application, it is likely to be well regarded during the assessment process.

As before, the overall aim in allocating the money is to maximise the number of new houses built of sufficient quality, in the right places. The five overarching principles remain largely the same from the last round and are as follows:

- The council has the ability to manage and maintain the new stock effectively.
- The development is affordable at the available level of grant and proposed rent levels are affordable to the tenant.
- The new homes are prioritised to contribute to meeting evidenced housing and/or regeneration need and homelessness targets.
- The council can demonstrate that it has well developed plans to ensure delivery of the proposed new housing.
- The proposed developments fit with the Local Housing Strategy 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 and quality of place.

The criteria are set out in detail in annex A to this letter, including guidance for the format of submissions which allows for the comparable assessment of all bids.

The assessment of applications will remain primarily housing needs driven (with prioritisation on the 2012 homelessness target). Submissions are also welcomed from councils that have made progress in addressing their homelessness target and can justify further investment.

## Partnership working

Given the limited funding available, we would encourage all local authorities to actively engage with local RSLs to pool resources and explore the opportunities for collaborative working. Stock transfer councils, which have previously been limited by their lack of Housing Revenue Account to manage any new housing, may apply for

subsidy through a partnership agreement with a local RSL. Under this arrangement a council would be able to apply for funding and then use that to subsidise developments which an RSL would own and manage. The remainder of the investment would come from the council and the RSL's financial resources, including land, income from second homes council tax and borrowing, rather than other government funding. Please note that if a council is borrowing from the Public Works Loan Board to lend to a RSL, then Scottish Ministers will need to provide consent.

Please note that if a joint project is being submitted where a part of the development site is included in another part of the Innovation & Investment Fund (e.g. a joint project with a RSL where both organisations are seeking to develop different parts of the one site) this should be clearly highlighted.

## Process

As before, applications will be considered jointly by COSLA (along with relevant local government officials) and the Scottish Government against the principles and criteria provided in this letter. Details of key steps in the decision making process and indicative timescales are provided below.

### Key Steps

- Announcement of Innovation & Investment Fund
- Letters to councils, RSLs and other bodies
- Councils discuss applications with SG
- Deadline for applications from councils
- Assessment of applications
- Councils informed of decisions

### Indicative timescales

3 Feb 2011  
March 2011  
March-May 2011  
**31 May 2011**  
June-July 2011  
August 2011

If you decide to apply for funding from the Scottish Government, please respond to this letter with evidence of your ability to meet the principles listed above by 17:00 on **31 May 2011**. Please could all applications follow the guidelines and format attached at Annex A, including completed versions of the financial pro forma (please do not attach the pro forma as a PDF, it should be in an excel spreadsheet). Applications should be sent, **by email only**, to both the Scottish Government and COSLA:

Housing Supply Division:  
[housingsupplyteam@scotland.gsi.gov.uk](mailto:housingsupplyteam@scotland.gsi.gov.uk)

Caroline Johnston  
COSLA  
Rosebery House  
9 Haymarket Terrace



Edinburgh  
EH12 5XZ  
[caroline@cosla.gov.uk](mailto:caroline@cosla.gov.uk)  
0131 474 9200

This information will also be available on the Scottish Government website at: <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/innovationfund>. The Scottish Government's regional office contacts will be available to provide procedural advice on the preparation of applications but will not be able to offer advice on proposed projects. A contact sheet for the Scottish Government's regional offices is enclosed at Annex B.

### Funding agreements

Separate funding agreements will be reached with each council based on the specifics of its proposal and available resources. Grant offers will be similar to those issued previously. Prior to issue of individual grant offers we will require information on all projects covering capital costs, rents or sales prices, funding sources and numbers/sizes/types of housing provided will be required as a condition of grant funding in order to assist future evaluation. All or a proportion of projects will also be subject to post-completion scheme review in order to confirm compliance with grant conditions and to promote sharing of lessons learned. In planning your proposed development, you should note that Scottish Government subsidy will not be provided until after developments have been completed.

If you require further information on this letter or wish to take informal soundings on any aspect of your potential application please contact the relevant Scottish Government office for advice.

Francesca Osowska Scottish Government	Jon Harris COSLA
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## Annex A

### Criteria to determine the extent to which principles are satisfied

#### Guidelines for Applications

##### Main narrative

As far as possible, please present the information as outlined below, addressing each of the principles and related criteria in the given order. If you feel it would be beneficial to include additional information which does not fit under any of the principles, this can be inserted in the “additional information” entries at the end of each section.

- Overall summary: a summary of the proposal for which funding is being sought.
- Principle 1: ability to manage and maintain stock.
- Principle 2: affordability of development, narrative to back up the data to be provided in the excel spreadsheet (see below).
- Principle 3: housing need/homelessness target.
- Principle 4: demonstrate well developed plans.
- Principle 5: maximum number of homes.

##### Annexes

Please see the excel spreadsheet attached to this email. This will provide the necessary financial data to back up the narrative for Principle 2: financial resources and subsidy level. **Please do not return this as a pdf**, it should only be sent as an excel spreadsheet. If you have any queries about the spreadsheet, please contact [Bruce Teubes](mailto:bruce.teubes@scotland.gsi.gov.uk) (bruce.teubes@scotland.gsi.gov.uk).

There is no need to provide additional documentation such as the Local Housing Strategy, Strategic Housing Investment Plan or site plans/architect drawings. However where detailed time-lined programmes exist, these may be included as additional evidence of well developed plans. Your local Scottish Government office will request further information where it is needed.

<b>General</b>	
Name of Local Authority	
Address	
Contact details	

<b>Proposal Detail</b>	
Project Name	
Address of proposed units	
Number and location of units proposed	
Required subsidy – both total and per unit	
Site start date	
Completion date	
Confirm whether the land that will be developed is owned by the local authority outright.	
Is Planning Permission in place (specifically say if outline, detailed, applied for or received)? If not is the site zoned for housing in the current development plan?	
Is the site a section 75 site?	
Insert any other relevant details or supporting commentary as required	

PRINCIPLE	CRITERIA	Evidence of meeting criteria <i>(please delete text in box before completing the application)</i>
<b>1. Council has ability to manage and maintain new stock effectively.</b>	a. Housing will be managed by the local authority or, where it is a joint application, by the RSL under Scottish Secure Tenancy (SST) and be consistent with existing stock management and maintenance approach.	<i>Please provide information on how new housing will be managed and maintained including how existing housing management resources (offices, database, staff etc) will support effective management of the new stock.</i>
	b. Quality of housing management services.	<i>For example, results of tenant satisfaction surveys, Audit Scotland survey data, SHR inspection reports for whichever organisation will be the landlord.</i>
	c. Contributes to reducing per unit management costs.	<i>Estimate of the cost of managing the new stock and the impact this will have on overall per unit costs.</i>
Insert any other relevant details or supporting commentary as required		

PRINCIPLE	CRITERIA	Evidence of meeting criteria ( <i>please delete text in box before completing the application</i> )
<p><b>2. Development is affordable at available levels of grant and rents will be affordable to tenants.</b></p>	<p>a. Council has prudential borrowing capacity and/or other available resources to fund new housing.</p>	<p><i>Information on the total funding available.</i></p> <p><i>Details of financial capacity, including key assumptions and sensitivities, e.g. current and projected unit debt and loan charges to rent ratio; projected changes in rent in relation to projected changes in unit costs etc.</i></p> <p><i>Information on other financial resources and arrangements that will be used to support new build, e.g. RSL investment (for joint application), land in council ownership, use of reserves, use of council tax second home receipts.</i></p>
	<p>b. Rent levels strike an appropriate balance between being affordable, given local market conditions and contributing to the cost of the house.</p>	<p><i>Details of rent strategy including assessment of affordability, e.g. rents as a proportion of Lower Quartile Income for the area, comparisons with local rent allowance and other landlord rents, including benchmark for RSL subsidy.</i></p>
	<p>c. Resources are not needed for other purposes, e.g. to meet the SHQS, and committing funds to a new build programme does not compromise the sustainability of the HRA.</p>	<p><i>Business plan or other analysis showing impact of new build on HRA and other housing priorities (such as meeting SHQS).</i></p> <p><i>Evidence of progress against SHQS Standard Delivery Plan.</i></p>
	<p>d. Effective procurement.</p>	<p><i>Evidence of value for money, including details of procurement approach being taken and how it contributes to effective delivery and minimising costs, e.g. evidence of working with partner organisations where there is a clear benefit.</i></p>



PRINCIPLE	CRITERIA	Evidence of meeting criteria ( <i>please delete text in box before completing the application</i> )
		<i>Comparison of tender prices with information available through the Scottish Social Housing Tender Price Index (SSHTPI).</i>
Insert any other relevant details or supporting commentary as required		
<b>3. New homes are prioritised to contribute to meeting homelessness targets and area has housing and/or regeneration need.</b>	a. Pressured area in terms of the 2012 homelessness target.	<i>Information on how the new houses will contribute to reducing pressure in terms of achieving the 2012 homelessness target, such as helping to shorten time spent in temporary accommodation and/or reducing the percentage of lets to homeless.</i>
	b. Consistent with views on local housing/regeneration need.	<i>Council area has a recognised affordable housing need and/or addresses a local 'hotspot', primarily through the relevant HNDA (where assessed as robust and credible), but could also be shown by Bramley data, Pressured Area Designation or other community level studies.</i>
Insert any other relevant details or supporting commentary as required		
<b>4. Council demonstrates well developed plans, ensuring delivery.</b>	a. Can be on site by 31 March 2012.	<i>Information, including key milestones, that provides assurance that work will start on site by end March 2012.</i>
	b. Homes are additional to the existing social housing stock in the council area and are not completed already or in council or RSL ownership.	<i>Assurance that property has not already been built or purchased by the Council (or RSL where it is a joint application).  If application involves purchase of off-the-shelf units then provide evidence that the units would not otherwise be completed, e.g. due to</i>

PRINCIPLE	CRITERIA	Evidence of meeting criteria ( <i>please delete text in box before completing the application</i> )
		<i>financial difficulties of developer.</i>
	c. Council has agreed scope and is committed to funding for the project.	<i>Details on decisions made by council relating to the proposed new build.</i>
	d. Can clear title to the land to be developed be demonstrated?	<i>Assurance that legal requirements relating to new build will be satisfied.</i>
Insert any other relevant details or supporting commentary as required		
<b>5. The proposed developments fit with the Local Housing Strategy 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 and quality of place.</b>	a. Consistent with local housing strategy (LHS).	<i>Information on how the project contributes to delivering the current LHS and Development Plan, e.g. in terms of adopted policies on tenure mix and quality of design.</i>
	b. Fits with Strategic Housing Investment Programme (SHIP).	<i>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 supported by the Scottish Government.</i>
	c. Meets quality standard.	<i>Meets 2010 Building Regulations or HfVN as a minimum.</i>
Insert any other relevant details or supporting commentary as required		

## Annex B

### SCOTTISH GOVERNMENT REGIONAL CONTACTS FOR COUNCILS

#### **Aberdeen City, Aberdeenshire, Moray**

Elaine Crawford  
0300 2449453  
[Elaine.crawford@scotland.gsi.gov.uk](mailto:Elaine.crawford@scotland.gsi.gov.uk)

#### **Shetland Islands, Orkney Islands, Highland, Comhairle nan Eilean Siar**

Mairi Ross  
03000201207  
[mairi.ross@scotland.gsi.gov.uk](mailto:mairi.ross@scotland.gsi.gov.uk)

#### **Angus, Clackmannanshire, Dundee, Falkirk, Perth & Kinross, Stirling**

Gordon Paterson  
01382 427520  
[gordon.paterson@scotland.gsi.gov.uk](mailto:gordon.paterson@scotland.gsi.gov.uk)

#### **City of Edinburgh, East Lothian, Fife, Midlothian, Scottish Borders, West Lothian**

Alastair Dee  
0131 479 5031  
[alastair.dee@scotland.gsi.gov.uk](mailto:alastair.dee@scotland.gsi.gov.uk)

#### **Argyll & Bute, Inverclyde, Renfrewshire, West Dunbartonshire**

Anne-Marie Thomson  
0141 567 3162  
[anne-marie.thomson@scotland.gsi.gov.uk](mailto:anne-marie.thomson@scotland.gsi.gov.uk)

#### **East Dunbartonshire, East Renfrewshire**

Lisa Bullen  
0141 305 4140  
[Lisa.bullen@scotland.gsi.gov.uk](mailto:Lisa.bullen@scotland.gsi.gov.uk)

#### **Glasgow City Council**

Kirsty Henderson  
0141 305 4078  
[Kirsty.henderson@scotland.gsi.gov.uk](mailto:Kirsty.henderson@scotland.gsi.gov.uk)

#### **North Ayrshire, East Ayrshire, South Ayrshire**

Scott Cameron  
01292 653325  
[scott.cameron@scotland.gsi.gov.uk](mailto:scott.cameron@scotland.gsi.gov.uk)

#### **North Lanarkshire, South Lanarkshire, Dumfries and Galloway**

Pauline Gilroy  
01698 392109  
[pauline.gilroy@scotland.gsi.gov.uk](mailto:pauline.gilroy@scotland.gsi.gov.uk)