

The Highland Council

Finance, Housing and Resources Committee – 27 November 2013

Agenda Item	14
Report No	FHR/158/13

Funding for New Council Housing Programme

Report by the Interim Director of Housing and Property

Summary

This report updates members on the new levels of Scottish Government subsidy for the delivery of new affordable housing and seeks approval of a new funding package to deliver new council housing with minimum impact on existing council housing tenants rents.

1. Background

- 1.1 The Highland Council has embarked upon an ambitious new Council House Build Programme of 688 new houses, from 2012-2017, funded partly through the Scottish Government grant of £30,000 per unit. As a comparison housing association grant levels are an average of £46,000 per unit.
- 1.2 This has resulted in the new Council House Build programme being heavily dependent upon rent increases on existing council house rents to cross-subsidise the new Council House Build Programme. Tenants have expressed concerns about the impact of council house building on general rent levels.
- 1.3 The Highland Council, along with other Local Authorities, has lobbied for higher grant rates and parity with housing associations. In response, the Scottish Government has agreed to increase the new build council grant rates to £50,000 if the new houses meet Building Regulation Silver Standard and £46,000 if they do not. RSLs have had similar increases so the differential in grant levels remains.

2. Funding New Council Housing

- 2.1 Existing tenants have raised concerns about general council house rent increases being used to fund new council housing. The increase in grant subsidy allows the Council the opportunity to reconsider how new council housing is funded by reassessing the following funding criteria :
 1. Rents on new council houses
 2. Landbank Fund contributions (i.e. Council subsidy).
- 2.2 **Rents on new build:** Currently rents on new build properties are set at similar levels to existing properties with a small uplift which varies by property size, with an extra charge of **£5.84** for a 2 bedroom property. Due to the higher energy efficiencies of new build properties leading to lower heating costs, and the more modern fixtures and fittings involved, there is a case for further increasing the level of new build rents. The Scottish Government's guidelines for rents contained within the grant guidance is £80.17 for a two bedroom / three person unit. Although designed for housing associations, this guidance could be applied to council house building. If the Council were to increase rents on new build properties to an average of £80 per week for a two bed three person unit (compared to an current average of approximately £70 per week for an existing

property, or £75 per week for a new build property of the same size), this increase in rents would give a capitalised rental stream of £60,000 per property assuming that the Council retains its overall management and maintenance costs at current levels through efficiency savings.

- 2.3 **Landbank Fund:** The Highland Council could increase the current Landbank Fund subsidy of £10,000 per unit to £20,000. Based on the delivery of 100 units per year of the programme, this would require an annual Landbank commitment of £2 million. Currently the Council receives income from council tax on holiday and second homes of approximately £2.6million which is added to the Landbank Fund annually, so there is sufficient additional revenue to cover this commitment.
- 2.4 By changing these two financial parameters, coupled with the new grant rates, it is anticipated that new council housing could be developed with no or minimum impact on existing tenants rents, subject to the cost of delivery of new council housing being contained within the existing cost parameters.
- 2.5 The new Scottish Government grant rates apply to all projects not yet approved by the Scottish Government. By means of comparison, the following table shows how an average new council house was funded and could be funded:

Average cost of new build two bed house: **£130,000**

	Old Grant Rates	New Grant Rates
Scottish Government Grant	£30,000	£50,000
Prudential Borrowing	£90,000*	£60,000*
Landbank Fund	£10,000	£20,000
	£130,000	£130,000

*The £90,000 prudential borrowing was funded roughly through £45,000 capitalised rental stream and £45,000 from cross-subsidy on existing council house rent increases. Very roughly, every new council house funded under the old grant rates resulted in a 1p per week each rent increase for all existing tenants.

3. **Delivery of the Programme**

- 3.1 The total number of units approved by the Scottish Government under the old grant rates is 315 and rent increases to cover the cost of the for the existing Council House Build Programme have already been approved at £2.27 per week spread over 3 years.

4. **Implications**

4.1 **Resource Implications**

- 4.1.1 There are implications for the Landbank Fund and HRA arising from the proposal outlined in the report. The landbank contribution to subsidise new council housing would be increased from £10,000 per unit to £20,000 per unit. There are currently sufficient reserves in the Landbank Fund to manage this contribution and annual income of approximately £2.6 million from council tax on second and holiday homes tax to cover future commitments at between 100 - 120 units per annum.
- 4.1.2 It is proposed to contain management and maintenance costs within the overall HRA budget and this would require continued efficiency savings and monitoring.

4.2 **Equality Implications**

4.2.1 There are no equality implications arising from this report.

4.3 **Legal Implications**

4.3.1 There are no legal implications arising from this report.

4.4 **Climate Change/Carbon Clever Implications**

4.4.1 There will be implications in delivering a new build programme, but the housing stock provided will be to a high standard of energy efficiency and will help address fuel poverty.

4.5 **Risk**

4.5.1 There are no additional risks to the Council's house building programme arising from this report.

5 **Conclusion**

5.1 Members are asked to agree the new methodology for funding the new Council House Build Programme. Approval by this Committee of the new methodology would allow a programme of new council housing to be developed of up to 120 new houses per annum to be developed with no impact on existing council house rents at current cost levels.

5.2 Annual Reports will continue to be presented on HRA estimates and projections and on annual rent increases.

6. **Recommendations**

6.1 To enable the delivery of new council housing at minimum impact on existing council house rents, Members are asked to agree:

1. To amend the current rent structure to increase the new build supplement to £10 per week on new build Council rent levels
2. To increase the level of landbank fund subsidy from the current level of £10,000 per unit to £20,000 per unit.

6.2 This recommendation is in principle and subject to a future report to Committee on overall rent increases and investment levels.

Designation: Interim Director of Housing and Property

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