

**The Highland Council**  
**Planning, Development and Infrastructure Committee**

**11 May 2016**

Agenda Item	5
Report No	PDI 22/16

**Scottish Government Housing Investment Programme**

**Report by Director of Development and Infrastructure**

**Summary**

This paper updates Members on the Scottish Government's Housing Investment Programme for 2016/17 and outlines The Highland Council's funding and development strategy to meet this programme and the Scottish Government's target of 50,000 new affordable homes over the next five years.

**1. Background**

- 1.1 As part of the Council programme, The Highland Council is committed to delivering 888 new council houses from 2012-17, which is partly funded by Scottish Government grants.
- 1.2 The Scottish Government has recently announced that it is going to invest £3billion to deliver 50,000 new affordable units over the next five years. The new target is a 67% increase in affordable housing supply with 70% of the new target being for social rent. The Scottish Government also announced that it has exceeded its existing five year target of 30,000 new affordable houses.
- 1.3 The Scottish Government has written to all Scottish Local Authorities, advising them of the level of investment for 2016/17. The resource planning assumption for The Highland Council area is £27,362,000. This is an increase of over £10million from the 2015/16 target.

**2. Current Programme**

- 2.1 The Highland Council five year target is from 2012-17, whilst the Scottish Government figures are based on 2011-16 (tying in with relevant elections). The Council's overall target is 888 new council houses (of which 200 were to be one bed units for homeless accommodation). The overall target will be met, although the one bed target may not be reached, due to limited sites in the highest priority areas.
- 2.2 In the same period over 1,000 other affordable homes will be built by our Registered Social Landlords and other partners.

### 3. Funding the Programme

- 3.1 The Council House Build Programme is funded through a mixture of Scottish Government grant, prudential borrowing funding through the rental stream and a contribution of £20,000 per unit from the Council's Landbank Fund. This funding mechanism was approved by the Finance, Housing and Resources Committee of 27 November 2013.

Scottish Government Grant:	circa £50,000
Prudential Borrowing:	£60,000
Landbank Fund:	£20,000
<b>Total Cost Per Unit:</b>	<b>£130,000</b>

Due to the Landbank Fund commitment, this limited the number of new council houses to approximately 120 per annum (excluding the homelessness units).

### 4. New Grant Rates

- 4.1 The Highland Council, along with other local authorities, has lobbied for new grant rates and parity with housing association's grant rates. The Scottish Government has agreed to increase local authority grant rates to £59,000 per unit; however, housing association grant rates are still substantially higher at an average of £74,000 (£84,000 for west coast projects) so the differential remains roughly the same.
- 4.2 Taking account of the new grant rates, increased rents and higher costs, it is proposed that the methodology for funding new council housing remains the same but the values are altered to increase the number of new council housing we can deliver. The average cost of delivering new council housing is now £135,000 (including land, construction costs and fees). It is therefore proposed to fund the new housing on the following basis:

Scottish Government Grant:	£59,000
Prudential borrowing:	£62,000
Landbank Fund:	£14,000
<b>Total:</b>	<b>£135,000</b>

This would enable the number of new council houses to be increased to approximately 180 per annum or 875 over a five year period.

### 5. Highland Five Year Programme

- 5.1 Based on the 50,000 Scottish Government target, the Highland Council area target is normally 5% of the national target or 2,500 new units over the next five years (500 new affordable houses per year). This in effect, would bring the Highland affordable housing programme back to levels not delivered since the 2008 recession.

5.2 Following discussions with local housing associations, Highlands Small Communities Housing Trust and the Highland Housing Alliance, it is anticipated that (subject to site identification) we can deliver the following units:

Highland Council social rent:	180
RSL social rent	220
RSL/other low cost home ownership/midmarket rent	100
<b>Total annual affordable:</b>	<b>500</b>

RSLs are limited to the number of new affordable houses they can deliver, which is determined by the own business plans and agreement of the Scottish Housing Regulator.

## 6. Constraints

6.1 As discussed above, there are financial constraints to the number of new social rented units both The Highland Council and RSLs can deliver, based on the current grant subsidy levels from the Scottish Government. It is interesting to note however, that if the council house subsidy levels were increased to the same levels as RSLs, then the requirement for Landbank cross-subsidy funding would be removed and the Council could build far more council housing that it is currently limited to.

6.2 There are other constraints to the delivery of the affordable housing programme. The Council is committed to delivering new affordable housing in the areas of greatest housing need. Based on the latest Housing Needs and Demand analysis, carried out by The Highland Council and approved by the Scottish Government, the highest demand areas are Inverness, followed by Mid & East Ross and Lochaber, as outlined in the table below:

<b>Area</b>	<b>% of Affordable Housing Requirement</b>
<b>Badenoch &amp; Strathspey</b>	7%
<b>Caithness</b>	2%
<b>East Ross</b>	9%
<b>Inverness</b>	47%
<b>Lochaber</b>	8%
<b>Mid Ross</b>	10%
<b>Nairn</b>	6%
<b>Skye &amp; Lochalsh</b>	5%
<b>Sutherland</b>	3%
<b>West Ross</b>	3%

6.3 There is however, a shortage of economically deliverable land, particularly in the Inverness area. There are substantial areas of zoned land; however, for a variety of reasons, these sites are not delivering new houses. The main issues are unrealistically high land value aspirations from land owners and high infrastructure costs to open up the sites.

- 6.4 There are also community and Councillor concerns over the loss of green spaces, density levels and the impact on school rolls, which brings developers into conflict with local communities.
- 6.5 The limited supply of new private housing in the Inverness area has a direct impact on the delivery of new affordable housing, as there is high reliance on Section 75 affordable projects in the Inverness area and less sites are being delivered as the private housing market continues to be slow, compared to the pre-2008 figures.
- 6.6 There is also a human resource issue to the delivery of an increased programme: both the Council and its housing association partners have fewer resources to identify and deliver new housing projects to meet the increased targets. There are also capacity issues for local contractors/developers and consultants who have all downsized since 2008.

## **7. Response to Constraints**

- 7.1 The Scottish Government has recognised that the new targets are very ambitious and will be difficult to achieve. We have presented the Scottish Government with a proposal for infrastructure funding, which could open new strategic sites throughout the Highlands. This would not only deliver new affordable housing but stimulate the private sector.
- 7.2 The Council has proposed setting up a Highland Hub where Officers from the Council, Scottish Government, key housing associations and other partners would work together to identify and deliver key projects in the Highlands. The Hub would be based at the Council in order to work closely with planners, road engineers and other services to try and unlock constrained sites.
- 7.3 The Council's in-house surveyors will also take on a proactive site identification role and the Scottish Government is keen to provide funding for key strategic site acquisitions to build up a land bank portfolio.

## **8. Implications**

- 8.1 **Resource Implications**

There are implications for the Landbank Fund and HRA arising from the revised funding mechanism outlined in this report. The number of new units will be increased, however; this can be funded through the rental stream and there are sufficient reserves in the Landbank Fund to manage this combination and future annual income of approximately £2.6million council tax from second and holiday homes to cover future commitment of 175 new houses per annum.
- 8.2 **Risk Implications**

There is a risk that the Council will not meet its affordable housing targets if the constraints outlined in this report are not overcome.

8.3 Climate Change/Carbon Clever  
There will be implications in delivering a new build programme; however, the housing stock provided will be to a high standard of energy efficiency and will help address fuel poverty.

8.4 Equality, Legal, Gaelic and Rural Implications  
There are no equality, legal, Gaelic or rural implications arising from this report.

## **9. Conclusion**

9.1 Members are asked to note the new ambitious affordable housing programme set by the Scottish Government and give approval to the revised financial parameters to enable the development of 180 new council houses per annum. A further report will be presented to Members outlining the 2016/17 programme for consideration and approval.

### **Recommendation**

Members are asked to note the new affordable housing investment programme and supply targets as set out by the Scottish Government and agree to the new financial parameters for the delivery of new council houses as set out in section 4.2 of this report.

Designation: Director of Development and Infrastructure

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