
Report To:	Safe, Sustainable Communities Committee	Date: 3 May 2011
Report By:	Corporate Director Education and Communities	Report No: SCS/61/11/AH/DH
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Subject:	National Housing Funding – Innovation and Investment Fund	

1.0 PURPOSE

- 1.1 The purpose of this report is to advise Committee of changes to funding for the development of social housing by Registered Social Landlords (RSLs) and other providers, such as local authorities, and the possible implications for Inverclyde Council.

2.0 SUMMARY

- 2.1 The Scottish Government (SG) has reviewed the funding arrangements for new social housing development in the light of the recent Comprehensive Spending Review, reduced central allocation of funding to the Scottish Government, the need to achieve lower subsidy rates for new house building and to secure better value for money in straitened financial circumstances.
- 2.2 The SG has introduced a new 'challenge fund' from 1 April 2011 with the purpose of maximising:
- Innovation;
 - Collaborative working; and
 - Value for money for the SG
- 2.3 The Innovation and Investment Fund (IIF) of £50m to be allocated in 2011/12 has been provisionally divided between three main strands comprising:
- Council house building;
 - RSLs house building; and
 - Innovation fund.

Details of the IIF are provided in paragraphs 5.1 – 5.3 below.

3.0 RECOMMENDATIONS

- 3.1 That Committee:

1. note the introduction of the Innovation and Investment Fund from 1 April 2011 and the new competitive bidding regime for the provision of affordable housing; and
2. agree Inverclyde Council's response to these changes including proposed bids for Innovation and Investment Fund monies as set out in paragraphs 5.4 – 5.6 of this report.

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Corporate Director Education & Communities

4.0 BACKGROUND

- 4.1 The SG previously allocated Affordable Housing Investment Programme (AHIP) funding to all 32 local authorities after “top slicing” various sums from the overall budget, amounting to £471m in 2010/11. This ‘top slicing’ (£181m in 2010/11) was used to support stock transfer areas such as Inverclyde and the cities of Edinburgh and Glasgow where the city councils have control of the management of the development funding budgets.
- 4.2 The Inverclyde Council area received £26.1m in AHIP funding in 2010/11 with £6m allocated by SG to the Core Programme (i.e. new house building by RSLs) and £20.1m allocated to River Clyde Homes (RCH) for their Reprovisioning Programme (new house building) and Business Support Grant (BSG). The BSG funding is used to demolish obsolete housing stock, to safely remove asbestos and for major improvement works to bring the remaining stock up to the Scottish Housing Quality Standard (SHQS). For comparison purposes, the AHIP allocation to Inverclyde for 2009/10 was £34.5m including support for RCH amounting to £23.5m and £11m for the Core Programme.
- 4.3 The AHIP budget was distributed to developing RSLs in the form of a Housing Association Grant (HAG) for each project by the area office of the SG Housing Investment Division (HID) in Paisley. The most recent HAG rate was around £68k per unit, down from £74k per unit in late 2010, reflecting the much keener prices available from builders in the current economic climate. There are long-established good working relationships with the HID area office staff and regular tripartite meetings are held with RSLs, HID and council officers. Housing Team staff also attend regular programme meetings to discuss ongoing AHIP funded projects, SHQS attainment, and other major work programmes. All AHIP projects are set out in the five year Strategic Housing Investment Plan (SHIP) prepared by Inverclyde Council and submitted to Scottish Ministers via the HID area office on an annual basis.

5.0 PROPOSALS

- 5.1 The SG introduced the IIF from 1 April 2011 with provisional distribution of the £50m funding as follows:
- Council house building programme - £20m (maximum grant £30k per unit);
 - RSLs house building programme - £20m (benchmark grant level £40k per unit); and
 - Innovation funding programme - £10m (target grant level < £30k per unit).

The proportion of funding available for each of the three main strands is subject to change by SG depending on the number of bids received for each category. The £50m budget is for 2011/12 only as resources available to the SG are “likely to remain very tight” over the coming years and budgets will be subject to further review. The proposed bids for these three funding streams are as detailed in paragraphs 5.4 – 5.6 below.

- 5.2 The timetable for the IIF is as follows:
- March 2011 – letters issued to councils and RSLs inviting applications;
 - 31 May 2011 – deadline for applications; and
 - July / August 2011 – Scottish Ministers to decide on IIF allocations.

SG Guidance has been issued on the assessment process for IIF applications (i.e. competitive bids) and local authorities and SG officials will review all bids received against Local Housing Strategy (LHS) priorities and desired Single Outcome Agreement (SOA) local outcomes. It will be seen from paragraph 5.1 above that the main thrust of the proposed changes is to drive down subsidy levels, to encourage local authorities to undertake new house building and to open up new and innovative sources of funding to achieve greater value for money overall.

- 5.3 There will be no ‘top slicing’ of the IIF budget although the SG has indicated that a Business Support Grant will still be available to stock transfer RSLs such as RCH. No details of grant amounts for 2011/12 are currently available.

5.4 Council House Building Fund:

- Inverclyde Council no longer has a Housing Revenue Account, nor does it have any landlord responsibilities following stock transfer, and it has no capacity to own and manage municipal housing;
- Any partnership arrangement with an RSL to access this funding would involve RSL ownership and management of the stock while Inverclyde Council would retain the debt and associated risks; and
- There have been no approaches from local RSLs for such a Partnership and it is therefore proposed that no bid will be made.

5.5 RSLs House Building Fund:

- A local RSL has approached Inverclyde Council with a proposal for a small scale project to expand the supply of affordable housing for general needs; this proposal meets LHS and SHIP objectives; and
- It is therefore proposed that Inverclyde Council supports this bid for IIF funding and the RSL application.

5.6 Innovation Fund:

- An Empty Homes Initiative project involving c. 100 empty houses in private ownership is being developed to bring vacant houses back into productive use with a local RSL acting as managing agent;
- Inverclyde Council will bid for Innovation Fund monies to support the introduction of this initiative in 2011/12; and
- A local RSL intends to apply for funding to buy houses “off the shelf” and rent them out as social housing in order to ensure that they will be properly maintained and managed in future; Inverclyde Council will endorse and support this application as it meets LHS and SOA objectives.

6.0 IMPLICATIONS

6.1 **General:** The implications of these funding regime changes for the Inverclyde Council area can be summarised as follows:

- RCH no longer have a guaranteed Reprovisioning Programme and will have to submit competitive bids together with all other RSLs;
- Some local RSLs have indicated that they cannot continue to develop new housing at a benchmark subsidy level of £40k per unit and will cease development;
- Council house building funding can be accessed in areas where there have been stock transfers by councils entering into partnership with RSLs;
- HID area office staff will no longer offer advice and assistance to RSLs on individual projects and may not be involved in the assessment of IIF bids;
- A centralised assessment of bids for IIF funding is being introduced and there are concerns that smaller or more expensive projects (e.g. for particular needs) will be rejected in favour of ‘economies of scale’ and ‘value for money’ projects;
- There will be increased pressure on Inverclyde Council to support affordable housing development by making funding available to RSLs to bridge the gap between the £40k benchmark subsidy level and average build costs of £75k per unit;
- Existing LHS and SOA priorities may not fare well under competitive bidding arrangements and this will affect the delivery of, for example, LHS action plans and SOA local outcomes.

6.2 **Legal:** The possibility of Inverclyde Council entering into a partnership arrangement with an RSL in order to access council house building funding from the IIF has been raised by RCH. Ownership and management of housing provided in this manner would pass to the RSL partner however this would have to be achieved at a maximum grant level of £30k per unit compared to an average build cost of £75k per unit. The Head of Legal & Democratic Services would have to give an opinion on the viability of any such partnering arrangement and any risks to Inverclyde Council.

6.3 **Financial:** All local authorities are being encouraged to support the continued provision of social housing at a time of reduced subsidy levels and overall reductions in the housing budget. This is particularly complex in Inverclyde where there is no revenue funding stream such as a Housing Revenue Account that could be used to service loan debt for a partnering arrangement with an RSL, or to support direct provision through the council house building strand of the IIF. The Chief Financial Officer is of the opinion that there is no evidence of a requirement for Inverclyde Council to act as lenders to RSLs for the purpose of accessing Council House Building funding, as noted in paragraph 5.4 above and that there would be financial risks to the Council if it were ever to go down this route.

7.0 CONSULTATION

7.1 This report has been prepared in consultation with the Chief Financial Officer.

8.0 CONCLUSIONS

8.1 The well publicised reduction in AHIP funding and SG budgets in general has resulted in reforms to funding for social housing development. The SG wishes the development of new social housing to continue but is unable to provide the levels of subsidy previously available and wishes to take advantage of lower contract costs resulting from the current economic climate. Attention is therefore being focussed on potential alternative means of ensuring that the development programme continues with much lower levels of HAG subsidy and local authorities are being encouraged to build houses with a maximum subsidy of £30k using their revenue streams (where available) to service loan debt.

8.2 RSLs are understandably concerned at the prospect of an almost 50% reduction in HAG levels and having to submit competitive bids for all projects in 2011/12, regardless of the size or nature of the scheme. Whilst the economic environment has driven down tender prices and much more competitive rates are generally being achieved for new building works, RSLs face difficulties in accessing private finance and many do not have reserves that could be used to bridge the gap between reduced HAG rates and build costs. There are indications both locally and nationally that many RSLs will cease to develop new housing and this has serious implications for areas such as Inverclyde where there is a recognised shortfall in the level of social housing required to meet need and demand.

8.3 Elected Members attended a briefing on the IIF and its implications for the Inverclyde Council area on 4 April 2011 and the opportunity was taken to discuss the Council's response to the new funding regime. This report incorporates aspects of that discussion and the conclusions reached as to the most appropriate response to the IIF challenge fund.

8.4 Committee is asked to approve the proposals set out in paragraphs 5.4 – 5.6 above as a means of providing support for continued social housing development and to ensure that LHS and associated Corporate Plan and SOA objectives are met. Committee is therefore asked to agree Recommendations 3.1(a) and 3.1(b) above.

9.0 LIST OF BACKGROUND PAPERS

- 9.1 (1) Strategic Housing Investment Plan 2011-2016 – report to Safe, Sustainable Communities Committee, 26 October 2010. [Min Ref 26/10/10 Para 629]
- (2) *Housing: Fresh Thinking, New Ideas* – Scottish Government discussion paper, published May 2010.
- (3) Strategic Housing Function: Update and Work Programme 2008/09 – report to Safe, Sustainable Communities Committee, 6 March 2008. [Min Ref 06/03/08;

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