

**STRATEGIC HOUSING FINANCE REVIEW – INCREASING ACCESS TO  
SUITABLE, AFFORDABLE HOUSING**

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**1.0 SUMMARY**

- 1.1 The Council approved its Local Housing Strategy for 2011-15 at its meeting in November 2011. The overarching vision is “to realise the potential of our communities by ensuring that people have access to affordable, sufficient and suitable housing in Argyll and Bute.” This report sets out a range of pro-active proposals which the Council will adopt to ensure that it makes a positive contribution to realising that vision.
- 1.2 There are three main issues which the proposals seek to address. Firstly they seek to facilitate access to the housing market for first time buyers. Secondly they recognise the serious challenges faced by our Housing Association partners due to the stringent conditions prevalent in the financial markets. Finally, action is proposed which will tackle the 581 long term empty homes in the area.
- 1.3 In financial terms, these proposals represent almost an £18m investment by the Council, in the regeneration and sustainability of the housing market over the next three years. They seek to ensure that the Strategic Housing Fund (SHF) and the Council’s Reserves are strategically utilised to increase access to suitable, affordable housing and, equally importantly, to ensure that high standards for any new affordable housing in Argyll and Bute, in terms of density and design, are maintained. They take account of the pressures created by the marked changes in the housing market system since the last review of the Strategic Housing Fund in August 2010 and, the reductions in government funding announced in the recent Resource Planning Assumptions.

**2.0 RECOMMENDATIONS**

- 2.1 Members are asked to approve the six options set out in paragraph 3.4 of this report.

### **3.0 DETAIL**

#### **3.1 Strategic Housing Fund Background and Regulations**

3.1.1 The SHF accrues revenue by approximately £1.8m per annum from council tax on second homes. There is an available balance at 31 March 2012 of £4.6m. The proposals contained in this report therefore relate to the £10m which will be available to 31 March 2015.

3.1.2 Scottish Government regulations set out revised guidance in February 2009 on how the funds accrued from this source can be expended. Local authorities have flexibility to disburse these funds.

3.1.3 Specifically the funding can be used for:

- Provision of new-build affordable housing
- New Council House Building and support for prudential borrowing for new council house building
- Support for revenue expenditure related to the delivery of agreed housing activities
- Bringing empty properties back into affordable housing use
- Land acquisition for affordable housing development

#### **3.2 Current criteria for use of the Strategic Housing Fund**

3.2.1 In August 2010 it was agreed that in order to achieve maximum return on investment of the SHF future strategic financial planning would comprise a three tiered approach.

- Capital grants funding for projects, including infrastructure requirements, which have cost plan (or equivalent) approval by the government.
- Short term lending to RSL's to maintain the momentum of the Affordable Housing Investment Programme (AHIP) either through front funding housing association schemes until the private finance element is taken up, or until government grant becomes available within the

programme. Interest, which would be charged, would be re-invested in the fund.

- Promotion of small scale innovative projects, for example empty homes initiatives, which will assist in meeting identified and/or exceptional housing need.

3.2.2 Based on the relevant financial assumptions at the time it was agreed that the SHF would:

- Provide support to the Affordable Housing Investment Programme of £3.4m per annum
- Have the ability to recycle ongoing loan support of £1.7m per annum providing income is maintained at this level.
- Have a balance in fund at 2014/15 of £3.076m
- Continue to provide grants to RSL's for a further period of 21 months if Council Tax on second homes was brought to an end.

### **3.3 Current Financial and Economic Context**

3.3.1 Since those decisions were taken in August 2010, the housing market and prevailing global economic conditions have changed dramatically. Scottish Government have made a clear commitment to deliver at least 30,000 houses across Scotland with at least two thirds for social rent. The Council Strategic Housing Investment Plan for 2012-15 has identified potential sites to deliver 357 new affordable homes during that period.

3.3.2 The Scottish Government announced the Affordable Housing Supply Programme Resource Planning Assumptions to 2014/15 on 8<sup>th</sup> May and an allocation of £4.7m new money for local programmes in Argyll and Bute has been made.

3.3.3 The Government also issued a guidance note in May 2012 which invites local authorities to work in partnership with housing associations to put forward a strategic local programme of affordable housing projects. Based on the Resource Planning Assumptions and the new benchmark levels for government grant it is estimated that circa 110 affordable housing units could be delivered with the current allocation. The benchmark figures for Argyll range from £43k to £53k (3 person equivalent) depending on the remoteness of the location. A benchmark of £30k has been set for properties developed for intermediate rent and higher grants are available if certain energy efficiency standards are incorporated in the design.

- 3.3.4 While it may be possible to build houses with this level of subsidy in the central belt where economies of scale can be achieved it is unlikely that this level of subsidy will be sufficient in Argyll and Bute without seriously compromising quality standards. Over the last decade we have successfully delivered high quality social housing throughout Argyll and Bute. It is important to move forward with the general presumption against lesser quality, high density developments which have historically created estate management difficulties for landlords and local communities. A fair balance between cost and quality has to be struck. There are still pockets of harder to let tenemental flats in different areas of Argyll and Bute that supports the case for low density, high quality designs.
- 3.3.5 The challenges created, for the delivery of sufficient affordable housing, by the reduction in the availability of government grant funding for the Affordable Housing Supply Programme is further compounded by the difficulties all the local housing associations have identified regarding their ability to access private finance. Both these factors have a direct impact on affordable rent levels and it is therefore imperative, that the Council utilises the Strategic Housing Fund and other potential financial options, to mitigate against these factors to ensure that the strategic aim to facilitate access to sufficient and affordable housing can be achieved. An assessment of the financial impact and implications and a summary of the financial proposals contained within the 6 options is set out in section 3.5.

#### 3.4 **Options for local authority financial support to meet housing need**

3.4.1 **Option 1. Local Authority Mortgage Scheme (LAMS)** - . This is a new initiative to help first-time home buyers, which has been developed and piloted by Sector Treasury Services Ltd. It involves the Council providing a lump sum to the mortgage lender to indemnify the risk of any potential mortgage repayment default. This enables the first time buyer to be provided with a 95% loan rather than the current market norm of 75%. This scheme is now operating in 21 councils in England with a further 42 signed up and over 250 considering the proposal. This scheme provides help for potential purchasers who can afford mortgage payments - but not the initial deposit – to secure a permanent home and would help stimulate the overall housing market within the area.

3.4.2 The Council provides a monetary guarantee to the lending institution which attracts interest for the Council and is returned after 5 years. For the purposes of estimating the financial

commitment required by the Council it is assumed that an average 20% share of the cost of the property to be covered by LAMS equates to £30,000 therefore, £1m would support 33 mortgages. Over a three year period £1m each year could allow around 100 new mortgages entry to the owner occupied housing market. The £1m per annum guarantee would be funded from general fund reserves. Subject to mortgage default (assessed as low risk), the budgetary impact to the Council over time would be neutral as the reserves would be repaid with interest after 5 years.

3.4.3 The situation with the LAMS scheme in Scotland is that a legal template is currently being agreed with Lloyds and Santander but has not yet been concluded. However, if Members support this proposal in principle, preparatory work can be undertaken by the Monitoring Officer and Strategic Finance in the intervening period and Argyll and Bute Council can be one of the first in Scotland to offer this option to prospective home owners.

3.4.4 **Option 2. Empty Homes** – The Council has developed an Empty Homes Strategy and has a target of at least 10 properties per annum to be brought back in to use. Argyll and Bute Council Tax records at April 2012 have shown a total of 581 long term empty properties. Bringing empty homes back into use is a labour intensive process and engaging with owners can take time and have limited success without incentives to encourage them to take action. It is therefore proposed that a three pronged approach is adopted in order to reduce the number of empty homes and bring the properties up to acceptable standards available for affordable occupation.

3.4.5 The approach proposed to ensure properties are returned to a habitable standard would involve:

§ Utilisation of SHF to provide Refurbishment grants of up to £20k per property providing the owner is willing to lease the improved property to an RSL for a minimum of ten years.

§ The creation of loan facility to provide low cost lending, of up to £20k, to owners of long term empty properties to bring them to habitable condition. Owners receiving loan funding would be committed to leasing their properties to an RSL for a minimum of five years with lease to the RSL being matched to the loan repayment period.

§ The appointment of a Empty Homes Officer (LGE9 for three years) to take

forward the wide range of work required to effectively tackle the issue and to ensure that specialist information and advice is available to assist owners through the process of bringing their homes back into effective use.

- 3.4.6 Grant funding would be paid from the SHF and would be conditional on the property being made available through a management agreement, for a period of not less than ten years, with a partner RSL. It is proposed that the RSL would offer the property to applicants with recorded housing need for mid market rent typically 80% of the local housing allowance (LHA).
- 3.4.7 In addition owners could be offered a loan facility of up to £20k which would be funded from the Council's reserves. The loan would be repaid on an annuity basis and would represent an income stream for the period of loan. It is anticipated that rental income from the property will firstly be used to meet the loan repayments costs, secondly to make provision for adequate repairs and maintenance to ensure the property remains in good condition, thirdly to meet any administrative costs of the RSL and then subsequently would be rental income for the landlord. The loan would be recorded against the title deeds to ensure monies could be recovered if the lease agreement was breached. Priority would be given to empty properties in the areas of greatest housing need. Alternatively the property could be made available to the Council under its private sector leasing scheme for temporary accommodation.
- 3.4.8 Based on the assumption that each property requires on average £40k split 50:50 between grants and loans this proposal would achieve a minimum of 25 properties per annum being brought back into use if a funding package of a £1.5m from the SHF for grants and £1.5m for loans from reserves is assumed. Information is available on the number of Empty Properties but further work is required to assess and prioritise these properties. A Pathway for dealing with Empty Homes is set out within the Empty Homes Strategy. Housing Services will survey the property and thereafter enter negotiations with the owner to determine and agree improvements and future letting arrangements. Priority will be given to properties in areas which demonstrate high levels of demand and low availability of affordable lets.
- 3.4.9 **Option 3. SHF Grants** – Capital grants provided from the Strategic Housing Fund were previously limited to 25% of the Housing Association Grant benchmark which at that time was around £70k. It is proposed that the contribution is increased to

50% of the new benchmark figures (43K-52K 3 person equivalent) to ensure that quality of housing is maintained to a sufficiently high standard. Based on the assumption that Scottish Government funding can deliver 110 properties over the three year period this would require SHF contribution of £2.35m.

In addition it is proposed that SHF 50% grant funding be available for the provision of infrastructure to housing development sites which are high strategic economic importance for the Council.

#### **3.4.10 Option 4. Rural Housing Development Fund Grants.(RHDF)**

Members previously agreed to approve £0.9m RHDF grants from the Strategic Housing Fund to support small housing developments in some of our most isolated and vulnerable communities. It is proposed that a further £1m is earmarked from the SHF to support this initiative for a further three year period. The level of funding proposed would be dependent on the location and tie in with the Scottish Government definition of remote rural. The maximum grant, equivalent to the government benchmark for remote/rural Argyll plus the SHF grant would equate to £78k. This level of grant funding would support the development of approximately 13 properties. It is proposed that it is used to address imbalances in the availability of properties of a particular size and that settlements with a population of less than 1000 and which have had less than three affordable properties available to let in the last three years are targeted. An example of this is Port Appin, 100% of the original social stock sold and a pressure ratio of, waiting list:relets of 7:0.

**3.4.11 Option 5. SHF Front Funding Facility.** RSL partners have utilised this facility twice over the last two years. It has enabled developments to proceed which would otherwise have been delayed or may not have happened. Scottish Government grant funding is generally not provided until a development has been completed and in order to ensure that developments can proceed it is proposed that the Council continue to offer a SHF loan facility to cover the government grant element of the development costs where the developing association does not have sufficient reserves to proceed. On the basis that Government funding over the three years is £4.7m this lending would not exceed that amount and would be short term for periods of no longer than probably 18 months. It is estimated the average amount outstanding for front funding would not exceed £3.5m. Loans will be offered at prevailing Public Works Loan Board PWLB rate at time of draw down +0.25%.

3.4.12 **Option 6. Long term loan funding to RSL's.** This option would represent a saving for RSL's on the overall cost of borrowing and ultimately contribute to sustaining rents at affordable levels. Due to the lending approach being adopted by the banking institutions all the RSL's are finding it extremely difficult to procure long term development finance. They claim the situation is so poor that new development beyond their existing facility is likely to be almost non-existent in 2 to 3 years' time unless alternative private finance sources are identified.

3.4.13 Approval of this option would represent a long term commitment by the Council to ensure that there continues to be an affordable housing development programme across Argyll and Bute. Although it represents a long term commitment, the lending would be funded from Council reserves; secured on property; provide a repayment income stream to the Council which can be used for prudential borrowing and represent effective long term financial planning. It is calculated that there is an estimated requirement for £5m re-paid on an annuity basis over a 25 year period.

### 3.5 **Financial Impact & Analysis**

3.5.1 The funding required for refurbishment grants for empty homes of £1.5m, SHF grants of £2.35m, rural housing development fund grants of £1m and RSL front funding of £3.5m would all be a commitment against the SHF. This would amount to a commitment of £8.35m against expected funds of £10m (current uncommitted balance of £4.6m plus 3 years future income from council tax for the period to 2014-15 at a rate of £1.8m per annum totalling £5.4m) The following two tables show current SHF commitments and the impact of the six proposals over time. Further Financial analysis is shown at Appendix1.



STRATEGIC HOUSING FUND - CURRENT ESTIMATED COMMITMENTS APRIL 2012					
RSL	Scheme	Grants	Loans	Total	SHF Running Balance
		£000s	£000s	£000s	£000s
<b>SHF Balance including Estimated Council Tax Income</b>					<b>11,951</b>
WHA	Mull PCC	356		356	11,595
WHA	Kilmelford	83		83	11,512
ACHA	Park Square	590	230	820	10,692
Dunbritton	Upland Rd	165		165	10,527
Dunbritton	Hermitage	510		510	10,017
ACHA	Dalmally	97		97	9,920
WHA	Dunbeg	500		500	9,420
FYNE	Courthouse		1,900	1,900	7,520
ACHA	Port Ellen	480		480	7,040
Iona Housing Partnership	Iona	180		180	6,860
FYNE	Ardfern	294		294	6,566
Dunbritton	Hermitage		1,972	1,972	4,594
<b>Total</b>		<b>3,255</b>	<b>4,102</b>	<b>7,357</b>	<b>4,594</b>

ANNUAL FINANCIAL IMPACT ON SHF								
Year	Option 2 Empty Homes Grants	Option 3 SHF Grants	Option 4 RHDF Grants	Option 5 RSL Front Funding	Option 5 RSL Front Funding Repaid	Existing Loans Repaid	Annual Council Tax Income	SHF Running Balance
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Uncommitted Balance</b>								<b>4,594</b>
0								4,594
1	-500	-783	-334	-1,600	0	1367	1,800	4,544
2	-500	-783	-333	-1,600	0	1367	1,800	4,495
3	-500	-784	-333	-1,500	1,200	1368	1,800	5,746
<b>Total</b>	<b>-1,500</b>	<b>-2,350</b>	<b>-1,000</b>	<b>-4,700</b>	<b>1,200</b>	<b>4,102</b>	<b>5,400</b>	

The balance of front funding loans of £3.5m will be repaid over years 4 and 5.

3.5.2 The funding for LAMS, empty homes loans and RSL long term loans would be funded from reserves. This would require some of the reserves identified for use in funding the capital investment in Dunoon and Campbeltown schools to be redirected to fund these housing investments. As the investments are basically loans the repayments of principal and interest represent an income stream that can be used to meet the cost of loan charges if the investment at Dunoon and Campbeltown Schools is funded by borrowing. If the housing loans are repaid earlier the advance repayments can be used to reduce borrowing and future loan charges on the Dunoon and Campbeltown schools. The impact over the 25 years is neutral with income from housing loans offsetting the additional borrowing costs. The benefit is the Council is able to use its

resources to fund both school investment and housing investment by this approach. The risks relating to delay or default in repayment by RSL are assessed as very low, default by LAMS mortgagees assessed as very low and delay or default in relation to empty homes mitigated by loan repayments being deducted from rental income by RSLs and standard security over property to protect loan. This could be further protected by building a margin over PWLB rates into loans.

- 3.5.3 The loans to RSLs and under empty homes may require to be classified as “soft loans” (loans at less than the market/commercial rate) and will require specific accounting treatment in the Councils financial statements. There is no financial penalty associated with this but it is an additional financial disclosure requirement. All of the proposed lending including the LAMS guarantee would be classified as investment activity. These are not currently permitted investment in terms of the Councils approved investment strategy so a revision of the investment strategy would be required if the Council wished to proceed with this. This is an internal approval by the Council and not an exception to any legislation/regulation.

Options Summary				
	Option	Reserves £000s	SHF £000s	No of potential cases where housing need met over 3 years
1	LAMS	3.000		100
2	Empty Homes	1.500	1.500	75
3	SHF Grants		2.350	110
4	RHDF		1.000	13
5	Front Funding		3.500	As above
6	Long term loans	5.000		
<b>Totals</b>		<b>9.5m</b>	<b>8.35m</b>	<b>288</b>

## 4.0 CONCLUSION

- 4.1 There are significant challenges facing the housing sector at the moment. It has an important contribution to make to the health, wellbeing and sustainability of our communities. Housing Development will create employment and contribute to the economic prosperity of Argyll and Bute. Combined, these proposals have the capacity to regenerate and stimulate the whole housing market. More importantly, without the intervention of the local authority, it is possible that the housing development programme would not proceed.

- 4.2 The interventions proposed set out a range of options which will help to tackle housing need across the housing market system. Stimulation of entry level market housing and affordable housing has a knock on effect on the entire housing market. Adoption of this innovative range of proposals will significantly increase the range of housing options available to communities in Argyll and Bute.

## **5.0 IMPLICATIONS**

- 5.1 Policy : The proposals are consistent with the aims and objectives set out in the Local Housing Strategy.
- 5.2 Financial : SHF proposals can be funded from expected levels of SHF funding. Proposals funded from reserves will require change in funding for Dunoon and Campbeltown schools but this can be achieved in a cost neutral manner that allow schools and housing investment to proceed with a net budgetary impact.
- 5.3 Legal: Legal agreements will be required to underpin grants and loans offered by the Council. Revision to investment strategy required if approved.
- 5.4 HR: There will be a requirement for one additional post to deliver the Empty Homes Initiative
- 5.5 Equalities: None
- 5.6 Risk: Risk assessments on each option will be undertaken. Loans will be secured on property and a financial appraisal carried out on proposed developments.
- 5.7 Customer Service: Increase access to a range of housing options.

## **6.0 APPENDICES**

- 6.1 Appendix 1. Financial Impact Analysis.

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23rd July 2012

### **For further information contact:**

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## Appendix 1

Financial Analysis - Housing Investment										APPENDIX 1		
<b>Assumptions</b>												
Year 0					£000s							
LAMS mortgage guarantee					3,000	Annual interest years 1-5 and repaid in year 5						
Loans under empty homes scheme					1,500	Annuity repayment over years 1-10						
Loans to RSLs					5,000	Annuity repayment over years 1-25						
Borrowing Dunoon & Campbeltown Schools					9,500	Annuity repayment year 1-25 but adjusted at end of year 5 and year 10.						
				Amount	Rate	Interest						
				£000s		£000s						
LAMS mortgage guarantee					3,000	4.000%	120					
				Amount	Ann Int Rate	Years	Periods Per Annum	Rate Per Period	Total Periods	Period Payt	Annual Sum	
				£000s						£000s	£000s	
Loans under empty homes scheme					1,500	2.500%	10	12	0.208%	120	14	170
Loans to RSLs					5,000	3.650%	25	2	1.825%	50	153	307
Borrowing Dunoon & Campbeltown Schools				-	9,500	3.650%	25	2	1.825%	50	- 291	- 583
Borrowing Dunoon & Campbeltown Schools				-	5,149	3.250%	20	2	1.625%	40	- 176	- 352
Borrowing Dunoon & Campbeltown Schools				-	3,637	2.750%	15	2	1.375%	30	- 149	- 298

Annual Financial Impact										
Year	LAMS	Empty Homes	RSL Loans	Total Inv/Income	Borrowing/ Loan Repayments Due	One Off Repay	Net Position			
	£000s	£000s	£000s	£000s	£000s	£000s	£000s			
0	- 3,000	- 1,500	- 5,000	- 9,500	9,500					
1	120	170	307	596	- 583		14			
2	120	170	307	596	- 583		14			
3	120	170	307	596	- 583		14			
4	120	170	307	596	- 583		14			
5	3,120	170	307	3,596	- 583	- 3,070	- 56	One off repaymt of surplus & LAMS deposit.		
6		170	307	476	- 352		124			
7		170	307	476	- 352		124			
8		170	307	476	- 352		124			
9		170	307	476	- 352		124			
10		170	307	476	- 352	- 620	- 496	One off repaymt of surplus.		
11			307	307	- 298		9	Year 11 -25 Income exceeds borrowing costs		
12			307	307	- 298		9	by £9k pa		
13			307	307	- 298		9			
14			307	307	- 298		9			
15			307	307	- 298		9			
16			307	307	- 298		9			
17			307	307	- 298		9			
18			307	307	- 298		9			
19			307	307	- 298		9			
20			307	307	- 298		9			
21			307	307	- 298		9			
22			307	307	- 298		9			
23			307	307	- 298		9			
24			307	307	- 298		9			
25			307	307	- 298		9			
	600	197	2,666	3,463	363	- 3,690	136	Income > borrowing cost by £000s		136