

**Affordable Housing Supply Programme 2012 - 2015****Report by Eibhlin McHugh, Acting Director, Communities and Wellbeing****1 Purpose of Report**

This report explains recent changes to the allocation of Scottish Government funding for affordable housing and proposes how this funding should be allocated to ensure the continued development of affordable housing in Midlothian.

**2 Background**

- 2.1** In recent years there has been significant change in the way the Scottish Government allocates funding for affordable housing development. Prior to 2011, the Scottish Government would allocate an annual budget to Registered Social Landlords (RSL) to be spent on Sites approved by the Scottish Government. In Midlothian, Melville Housing Association, Dunedin Canmore Housing Association and Margaret Blackwood Housing Association are the designated 'preferred developers' for housing association development. In addition, there was a separate budget allocated to Council's which bid for funding to support the development of new council housing. In 2011, the Scottish Government announced the Innovation and Investment Fund, with three separate funding streams for supporting the development of new build RSL housing, council housing and an innovation fund to support innovative methods for funding the development of new affordable homes.
- 2.2** In 2012, the Scottish Government announced that the allocation of funding for housing association and council housing would be called a 'Strategic Local Programme' and change to a single budget and be allocated for a three year period from 2012/13 to 2014/15. The Scottish Government announced the total funding allocated to each area, with Midlothian being allocated £6.8M. However, £4.68M of this money has already been allocated for new developments currently on site in Midlothian. A separate innovation fund for different funding models will continue to operate on an annual basis, with the details yet to be announced by the Scottish Government.
- 2.3** In June 2012 Council Officers met with the Scottish Government and local housing associations to discuss the most appropriate allocation of the remaining £2.130 million funding for the period 2012/3 – 2014/15. It is proposed that the Housing Associations will receive a higher allocation of £1.605 million compared to £0.525 million for Midlothian Council, as set out in Table 1 below.

**Table 1: Proposed Allocation of Funding from the Scottish Government  
2012/13 – 2014/15**

<b>Organisation</b>	<b>Number of Homes</b>	<b>£M</b>
Midlothian Council	71	£0.525
Melville Housing Association/ Dunedin Canmore Housing Association	51	£1.605
<b>Total</b>	<b>122</b>	<b>£2.130</b>

**2.4.** There are several reasons why it is recommended that Midlothian allocate a higher proportion of funding to support local housing associations:

- Midlothian Council mainly uses sites that it already owns, lowering construction costs and can also borrow money with a lower rate of interest charged than housing associations, this helps to ensure the affordability of the programme without having to impose unacceptable rent increases. As a result Council Rents are still below the Scottish National Average unlike Housing Association rents which are notably higher, therefore there is less scope for RSL to increase rent levels to fund development.
- Prior to 2011, the Scottish Government would provide up to £65,000 towards housing association development costs, however owing to reduced levels of funding being available, this has led to lower levels of grant being made available, with a benchmark limit of £43,000 per unit. This means that housing associations are required to borrow more money to finance development. Consequently, if housing associations do not receive any subsidy they will not undertake any housing development, which reduces the supply of new affordable housing and has a negative effect on the local economy due to the reduction in activity in the construction sector.
- Local housing associations are usually only able to source funding from the Scottish Government, whereas Midlothian Council currently accesses additional revenue for developing council housing from the Council Tax Second Homes and Long Term Empty Properties Affordable Housing Fund. In October 2009, Cabinet agreed that revenue collected from this Fund would be used for the Council's Social Housing Programme. In 2011/12, a total of £132,000 of income was raised through this fund to support the Council's Social Housing Programme.
- Enabling local housing associations to build also supports Midlothian Council's Affordable Housing Policy. This is because providing funding enables housing associations to negotiate solutions with housing developers to help them meet their obligations to deliver affordable housing. Future additional income may be generated from accepting commuted sums as part of the Affordable Housing Policy which could be used to support the Council's Social Housing Programme or to support housing association developers.

### **3 Report Implications**

#### **3.1 Resource**

Although Midlothian Council's proposed funding allocation is lower than the Housing Association's this will not affect the development of Phase 2 of the New Social Housing Programme, which current financial modelling suggests is affordable without further subsidy being received. However the proposed additional £0.525 million funding plus any further funding to be received will reduce the level of PWLB borrowing required to fund the New Social Housing Programme which could increase the potential for a further phase of New Social Housing beyond phase 2.

On 25 January 2005 Members agreed to exercise discretion under the Council Tax (Discount for Unoccupied Dwellings)(Scotland) Regulations 2004 to reduce the amount of discount granted on long-term empty dwellings and second homes from 50% to 10%. It is required that the extra revenue generated is used to develop affordable housing. In Midlothian, this income was used to support Melville Housing Association housing developments in 2005/06 and 2007/08. Since 2008/09 this funding has supported the Council's New Social Housing Programme and has generated a total of £0.338 million since 2009/10. The continued use of this funding is projected to raise £0.327 million to support the Council's New Social Housing Programme from 2012/13 – 2014/15.

#### **3.2 Risk**

The recommendations provided within this Report are intended to mitigate potential risks by ensuring that the supply of new affordable housing is maintained in Midlothian in areas with the highest levels of housing need.

#### **3.3 Policy**

##### **Strategy**

The proposed housing developments are consistent with Midlothian's Single Outcome Agreement 2010 -13, Local Outcome 16 "We will provide access to quality, affordable housing by delivering affordable homes for rent and sale."

##### **Consultation**

The Scottish Government has consulted with Council Officers and the Council's preferred housing association developers to agree the proposed allocation of funding for affordable housing.

##### **Equalities**

An Equalities Impact Assessment has not been undertaken in relation to this Report; however this has been undertaken in the Council's

Strategic Housing Investment Plan which considers equalities issues in relation to all new affordable housing developments.

### **Sustainability**

The provision of affordable housing will address the long term well-being of households in Midlothian.

## **4 Recommendations**

It is recommended that Cabinet note the contents of the Report and agree to:

- a) The proposed allocation of funding from the Scottish Government to support the development of affordable housing.
- b) Continue to use the Council Tax Second Homes and Long Term Empty Properties Affordable Housing Fund to support the Council's Social Housing Programme.

**Date 26 July 2012**

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