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## **PROPOSED USE OF SECOND HOMES COUNCIL TAX TO GRANT ASSIST DELIVERY OF AFFORDABLE HOUSING AT KIRKHOPE STEADING, ETRICK BRIDGE**

**Report by Director - Infrastructure and Environment**

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### **EXECUTIVE COMMITTEE**

**15 November 2022**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to seek approval of the Executive Committee to use available Second Homes Council Tax funding to grant assist Ettrick and Yarrow Community Development Company to deliver 5 affordable homes at Kirkhope Steading, Ettrick Bridge.**
- 1.2 The Council's Strategic Housing Investment Plan 2022-27 identified Kirkhope Steading as a priority project. This is now under construction, with completion anticipated in late November 2022.
- 1.3 This report advises the Committee that as a result of the national context of increasing material costs, inflationary pressures, increasing interest rates and contract over run, a funding gap of around £126,000 has been identified in order to complete the project. £36,711 of this shortfall relates to final outturn costs associated with the construction of the 5 new homes on the site.

#### **2 RECOMMENDATIONS**

##### **2.1 I recommend that the Committee:-**

- (a) Agrees to grant assist the Ettrick and Yarrow Community Development Company up to £36,711 towards the final costs of delivering the 5 homes at Kirkhope Steading, Ettrick Bridge.**
- (b) Agrees that the Council's grant will be funded from the Second Home Council Tax available balance.**

### **3 BACKGROUND**

- 3.1 The Ettrick and Yarrow Community Development Company have secured a range of loans and grants to enable the delivery of their project to deliver 5 affordable homes for mid-market rent through new building and conversion of Kirkhope Steading, Ettrick Bridge. This project was identified as a prioritised project in the Council's Strategic Housing Investment Plan (SHIP) 2022-27. The Council has previously provided £13,000 grant from Second Homes Council Tax budget to fund the costs associated with lodging the Planning Application in 2019, and subsequently provided an additional £120,000 to support the re-roofing of the steading in March 2022. The project has generally progressed well, with anticipated completion in late November 2022.
- 3.2 The main source of grant funding secured by the Company is the Scottish Government's Rural Housing Fund, which is framed by published eligibility criteria and grant application process.

### **4 PROPOSED GRANT CONTRIBUTION**

- 4.1 The contract price for the homes at March 2022 was £1,227,630 and the final outturn is £1,264,341, representing an over spend on the homes of £36,711. The increased costs are attributed to contractors being on site much longer than anticipated with delays largely out with their control. The project, like many across Scotland, has been significantly impacted by rising costs in materials and inflationary pressures. Development in rural areas is generally more expensive in more "normal" circumstances but together with increases in lending rates it is creating significant challenges of cost pressures for even mainstream affordable housing developers, let alone small scale community organisations.
- 4.2 There have also been long delays in getting the power connected to the site resulting in a loss of rental income in the meantime, currently 4 months behind previous estimates which had anticipated the homes being tenanted by July 2022. The contract overrun and the loss, and expense, of operating the site beyond the completion date plus inflation and labour cost increases have been significant. A large part of the delay has been waiting the power connection. Despite paying the connection fee of £48,000 in April, the power is only now expected to go in which meant the ground works couldn't be progressed. There were other delays out with the control of the contractor and the cumulative effect has pushed the build well over the original 52 weeks in the tender given that they started on site in March 2021. There were also some differences around what was in the contract or added as a variation.
- 4.3 The Company is currently in discussion with its lenders and is keen to avoid exposing itself to anticipated adverse impacts of potential future interest rate increases. The Company currently estimate a total funding shortfall of around £126,000 and has approached Scottish Government and the Council seeking additional grant to help meet the estimated shortfall.
- 4.2 On the basis of the currently available financial information, Scottish Government More Homes Division officials have indicated willingness to

provide around £90,000 additional grant from its Rural Housing Fund. The Council have been asked to approve £36,711 to assist with the increased costs relating to the homes and to help ensure project delivery.

- 4.3 It is considered that the proposed additional grant contribution of up to £36,711 is an appropriate use of the available Second Homes Council Tax balance, and is consistent with the published Scottish Government Regulations which frame the eligible uses of this funding. The provision of affordable homes, alongside the business space, at Kirkhope will have a significant positive impact for the local community. Not providing this additional financial support could put the long term financial sustainability of the project at risk, and potentially undermine the levels of investment and financial support previously provided by Scottish Borders Council, Scottish Government and SOSE.

## 5 IMPLICATIONS

### 5.1 Financial

- (a) Ensuring the effective development and delivery of SHIP projects continues to be dependent on SBC's provision of core services, financial resource allocations from the Scottish Government, partner agencies and private developers and individuals.
- (b) The financial comment regarding the recommendation is set out in Section 4.1 above. In the event that the Committee approves the recommendation, there is currently sufficient available uncommitted Second Homes Council Tax balance to enable the grant to be made to the Company. Table 1 below sets out current commitments.

**Table 1: 2<sup>nd</sup> Homes Council Tax financial table**

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Funding brought forward	3,987	3,825	3,628	3,474	3,055	4,173
Anticipated 2nd Homes Council Tax	1,118	1,151	1,186	1,221	1,258	1,296
<b>Total Funding Available</b>	<b>5,105</b>	<b>4,976</b>	<b>4,814</b>	<b>4,695</b>	<b>4,313</b>	<b>5,469</b>
Current Investment Commitments	1,280	1,348	1,340	1,640	140	890
<b>Available Funding</b>	<b>3,825</b>	<b>3,628</b>	<b>3,474</b>	<b>3,055</b>	<b>4,173</b>	<b>4,579</b>

- (c) The Company is concerned regarding the recent and anticipated increases to interest rates and the adverse impact that this may have on the longer term financial viability of the project, so is reluctant to increase its borrowing to fund 100% of the increase in project costs, hence the desire to seek additional grant. The delivery of the additional 5 new affordable homes will generate additional Council Tax income for the Council.

## 5.2 Risk and Mitigations

Delivery of the SHIP is largely dependent upon a number of variables, not least of which relate to resource and other political and organisation decision making processes beyond the control of the Council. However, governance and control measures are in place to ensure delivery of the SHIP including monitoring contractor performance and quarterly programme meetings involving Council Officers, RSL partners and Scottish Government Officials.

## 5.3 Integrated Impact Assessment

- (a) In line with both Council policy and legislative requirement, the SHIP 2022-2027 was subject to an Integrated Impact Assessment during the development phase, which identified no adverse impacts arising from the proposed delivery of the Plan. To date none of the SHIP submissions have identified any concerns regarding adverse impact on equalities groups through delivery of the SHIP.
- (b) These plans are predicated on the endorsement of the principle of equalities as articulated in the SHIP Guidance. SHIPs are subjected to an Integrated Impact Assessment, Strategic Environmental Assessment screening and Rural Proofing Assessment.

## 5.4 Sustainable Development Goals

- (a) The SHIP 2022-2027 was subject to a pre-screening assessment in accordance with Section 7 of the Environmental Assessment (Scotland) Act 2005 using the criteria specified in Schedule 2 of the Act. The pre-screening assessments identified no, or minimal, negative effects in relation to the environment, hence SHIPs have been exempt from Strategic Environmental Assessment (SEA) requirements under Section 7(1) of the Act.
- (b) By seeking to deliver more new affordable houses, the SHIP 2023-28 promotes sustainable communities and helps to overcome many of the housing supply challenges faced locally.
- (c) There are no adverse economic or social effects resulting from the recommendations of this report.
- (d) The objectives of SHIP are consistent with the United Nations Sustainable Development Goals [SDG], 11 Sustainable Cities and 13 Climate Action. Specifically, the SHIP responds to the ambition of SDG 11 by promoting access to adequate, safe, and affordable housing, by ensuring integrated, inclusive and sustainable settlement, and by strengthening regional development planning. With respect to SDG 13, development will be at least consistent with Scottish Building Standards and the national objective of net zero greenhouse gases by 2045.

## 5.5 Climate Change

It is considered that there are no direct effects on the Council's carbon emissions arising from the report recommendations. New homes will have a general effect on the region's carbon footprint, however these are addressed within the Council's Planning and Building Standards processes

which are consistent with meeting the housing requirements and current applicable standards published by Scottish Government. The 5 homes under construction at Kirkhope Steading, have secured all required Council Consents.

#### 5.6 Rural Proofing

- (a) The Council's Rural Proofing Policy applies to all areas of Scottish Borders classified by Scottish Government as being remote rural' or accessible rural'. This applies to all areas of Scottish Borders outwith the towns of Galashiels/Tweedbank, Hawick, Peebles, Kelso, Selkirk, Jedburgh, Eyemouth, and Innerleithen.
- (b) The SHIP Project Working Group carried out a Rural Proofing exercise as part of the development of the plan. It is considered that the completion of the 5 new homes at Kirkhope Steading in Ettrick Bridge will have a positive impact by addressing an identified affordable housing need in a settlement which is classified as being "accessible rural".

#### 5.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

#### 5.8 Changes to Scheme of Administration or Scheme of Delegation

There are no changes to be made.

### 6 CONSULTATION

- 6.1 Scottish Government More Homes Division officials have been consulted and comments included.
- 6.2 The Director (Finance & Corporate Governance), the Monitoring Officer/Chief Legal Officer, the Chief Officer Audit and Risk, the Director (People Performance & Change), the Clerk to the Council and Corporate Communications have yet to be consulted and any comments received will be incorporated in the final report.

#### Approved by

**John Curry Director Infrastructure and Environment**

#### Author(s)

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#### Background Papers: Strategic Housing Investment Plan 2022-2027

#### Previous Minute Reference:

Executive Committee 8<sup>th</sup> October 2019 [Item 10 - Second Homes Council Tax Funding to assist delivery of Affordable Housing at Kirkhope.pdf \(modern.gov.co.uk\)](#)

Executive Committee 1<sup>st</sup> March 2022 [Item No. 9 a - Kirkhope - Executive Committee - 1 March 2022.pdf \(modern.gov.co.uk\)](#)

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