
SECOND HOMES COUNCIL TAX AFFORDABLE HOUSING INVESTMENT BUDGET PROPOSALS

Report by Director Infrastructure and Environment

Executive Committee

5 December 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to recommend that the Executive Committee approve an allocation of £961k in financial commitment from the Council's Second Homes Council Tax Affordable Housing Investment Budget to support the delivery of the identified affordable housing project at Upper Langlee and an additional £12k to support community led affordable housing opportunities across the Borders.**
- 1.2 As first reported in SHIP 2019-2024, the Council has been working closely with Waverley Housing to progress the regeneration of former public sector housing in and around the Beech Avenue area in Upper Langlee. This is a high-cost regeneration project with estimated costs of over £30M, requiring a total of £961k grant assistance to progress phase 1 delivery.
- 1.3 South of Scotland Community Housing (SOSCH) provides long-term support to community organisations relative to the planning and delivery of community-led housing. £12k is required to support SOSCH with the early stages of project development work on behalf of communities.
- 1.4 The sums recommended for approval supports the delivery of the Strategic Housing Investment Plan (SHIP) 2024-2029 which was approved by Committee in October 2023 and the Local Housing Strategy 2023-28. The report provides contextual commentary on the SHIP and outlines current challenges in delivery and the financial assistance required.

2 RECOMMENDATIONS

- 2.1 I recommend that the Executive Committee agrees:**
 - (a) To approve the use of £961k to ensure the delivery of phase 1 of the affordable housing development at Upper Langlee.**
 - (b) To approve the use of £12k to support South of Scotland Community Housing with community led affordable housing projects.**

- (c) To delegate authority to the Director of Finance and Procurement to liaise with Waverley Housing and agree the timing and payment arrangements for the £961k.**

3 BACKGROUND

- 3.1 The Council's Local Housing Strategy (LHS) is a statutory document that provides the strategic direction to tackle housing need and demand and informs future investment in housing and related services across Scottish Borders Council's area. The new LHS has been prepared in accordance with Scottish Government Guidance which sets out the statutory requirements, essential links and outcomes that should be considered within the strategy. The LHS 2023-2028 [was considered and approved by committee](#) in November 2023. A key Strategic Outcome is the delivery of *more homes in well designed, sustainable communities that increase opportunity for all and support our economy to thrive*. Delivery of this strategic outcome includes addressing, and utilising empty homes, as well as a deliverable new build programme.
- 3.2 Based on the outcome of the Housing Need and Demand Assessment 3 (HNDA3) and aligning with National Planning Framework 4 (NPF4) the proposed housing supply target (HST) for the period of the strategy has been set at 370 new homes per year, of which 141 should be affordable housing.
- 3.3 Local Authorities are also required to produce and submit a rolling five-year Strategic Housing Investment Plan (SHIP) to the Scottish Government, on an annual basis. The SHIP's core purpose is to set out the key strategic housing investment priorities over a five-year period and is consistent with the identified priorities set out in the Council's LHS. The [SHIP 2024-2029](#) is an ambitious, creative and practical plan that rolls forward projects identified in previous SHIPs and introduces new projects. It demonstrates how, when and where the Council and its partners intend to develop new homes. It also illustrates how a variety of funding mechanisms are maximised to ensure the delivery of the projects.
- 3.4 The projects contained within the SHIP programme are prioritised by taking a number of factors into consideration. Delivery of the SHIP is dependent upon RSLs continuing to secure ownership of sites and maintain a land-bank to provide more certainty to programme delivery.
- 3.5 This SHIP 2024-2029 was developed in a challenging economic climate. While the SHIP sets out an extremely ambitious development pipeline over the next five years there is considerable uncertainty regarding the timescales of when sites will be brought forward due to high development costs and economic uncertainties.
- 3.6 The pandemic continues to impact on development and construction of affordable housing across Scotland. In addition to this the war in Ukraine and the cost-of-living crisis has had a major impact in the delivery of current projects and delays in projects being brought forward for approval. Construction industry capacity, construction materials availability and costs, availability of grant funding and borrowing capacity of RSLs are all impacting on the delivery of the programme.
- 3.7 The housing market context in which we seek to deliver affordable housing is set out in the [LHS 2023-2028](#). As highlighted at 3.6 the impact of the

war in Ukraine, as well as the long-term impact of the pandemic has seen costs in the construction sector [increase exponentially](#). While material cost increases have been significant, there are predictions this may slow and stabilise over 2023/24, however, they are unlikely to reduce and labour will replace materials as the main cost driver in the near term, given skills and staff shortages which are likely to push up wages.

- 3.8 The amount of grant funding benchmark made available for each affordable home increased in 2021 and again in 2023, however, the increases in construction costs has meant that this has had a limited impact on viability, as it only represents around 35% of the cost of an affordable home in the current climate (previously closer to 50%). Scottish Borders Council, and its development partners, have been successful in securing an enhanced levels of contribution from Scottish Government however.
- 3.9 In 2023 inflation reached its highest levels for forty years and mortgage rates exceeded 6% for the first time in 14 years. The number of available mortgage products also reduced which brings additional risk for house builders as homes may go unsold for longer periods resulting in some house builders delaying new developments, delivering smaller phases, and/or reducing the number of homes which come to market each year. This can also subsequently delay land brought forward through the Affordable Housing Policy. Additionally, developers and investors generally opt to develop elsewhere in Scotland (e.g. central belt).
- 3.10 RSLs are also under increased financial pressure which also impacts on new development. The cost-of-living crisis and inflationary rises have meant the day-to-day delivery of RSL services are costing more. Wider statutory investment commitments also mean that landlords are having to prioritise investment to bring existing homes up to meet Energy Efficiency Standard for Social Housing 2 (EESH2), for example. In addition to this, keeping rents low and affordable means that borrowing levels can be affected, which impacts on RSLs ability to finance new build programmes and puts increasing pressure on available grant funding.
- 3.11 Council Officers anticipate, based on current delivery programmes, an additional 200 affordable homes could potentially be completed this year. Approvals for 2023/24 are however below target as RSLs consider delaying procuring new contracts due to cost inflation or due to recent tender returns being completely unviable. Recent tender returns for some proposed Affordable Housing developments in the Borders have been £100-£150k per unit more expensive than would have been generally anticipated or have seen a 50%-75% increase in anticipated costs.
- 3.12 The ambitious programme set out in the SHIP is contingent on the sites being within RSL control/being brought forward in a timeous manner, the necessary funding being in place (both grant funding and private finance) and construction sector capacity to deliver at scale. The proposed funding contributions set out in this report will support Waverley Housing to progress delivery of a high priority regeneration project and support the delivery of 25 new homes in Phase1. Anticipated cost of the whole project (109 homes) is approximately £30million and the funding gap for the whole project is forecast to be around £15.5million.

4 REGENERATION OF BEECH AVENUE, UPPER LANGLEE

- 4.1 As first reported in SHIP 2019-2024, the Council has been working closely with Waverley Housing to consider suitable options to progress the regeneration of former public sector housing in and around the Beech Avenue area in Upper Langlee, Galashiels. A feasibility study and masterplan was commissioned jointly by SBC and Waverley Housing in 2018.
- 4.2 There were 229 homes included in the study area. The proposal included the demolition of 159 homes, and replacement with 109 new build homes which will better meet the needs of tenants and residents in the local community and help address future affordable housing demand in the Galashiels area.
- 4.3 In 2021, Waverley Housing solely funded and completed the refurbishment of the 68 flats being retained as one element of the regeneration strategy.
- 4.4 Planning Consent was granted on 29 March 2021 and Waverley Housing completed a re-housing exercise to allow the 1st phase of the demolition programme to proceed. Scottish Government and the Council has been supporting Waverley Housing in working towards delivery of the regeneration vision and assisted in the rehousing effort by making grant available to assist the purchase a number of homes to provide additional rehousing options to enable the demolition phase to proceed.
- 4.5 It is anticipated that there will be 4 phases of new build development which are set out in the current SHIP. These projects are being led by Waverley Housing and will be funded from a mix of anticipated Scottish Government grant funding and Waverley Housing's own reserve funds and borrowing as well as SBC anticipated contributions.
- 4.6 A demolition contractor was appointed in July 2022. The 1st phase of the demolition works were completed in December 2022, thus clearing the way for the anticipated Phase 1 new build programme to commence. It is anticipated that the contractor will be formally appointed in December 2023 with works commencing early 2024.
- 4.7 Following an unviable tender exercise in early 2023 a second attempt was made over summer 2023. Four Tenders were received on 9 August 2023. The returns are shown in table 1 below and demonstrate value for money as less than £300k separates the highest and lowest returns.

Table 1: August 2023 Tender Returns

RANK	TENDER FIGURE
1	£6,945,392
2	£6,952,910
3	£7,160,792
4	£7,239,361

- 4.8 Tender 1 represents a cost of around £297k per home. The recently published [SOLACE Report](#) on Housing pressures in Scotland highlights the

pressure on the sustainability of social housing in rural areas and identified the higher cost of building. The report highlights that new build costs are now in excess of £300,000 per unit in rural areas compared with a national average of £200,000 per unit. The costs for the project in Upper Langlee are significant but not far beyond other recently tendered projects, for example £278k per home in Burnfoot, Hawick and £230k per home at High Buckholm, Galashiels.

- 4.9 Waverley Housing have continued to work with Ark Consultancy and commissioned cost plans for the development which demonstrated the project faced a significant funding shortfall. Waverley have explored all avenues in relation to the funding gap, including ongoing discussion with Scottish Government regarding grant funding and internally to ensure the private finance and grant elements can be maximised.
- 4.10 Waverley Housing have reserves of up to £4.5million to support the delivery of all four planned phases of development (£41,284 per unit) and borrowing capacity of up to £10million (£91,743 per unit). The anticipated cost of the whole project is approximately £30million and so the funding gap for the whole project is currently forecast to be around £15.5million.
- 4.11 The further work examining the costs of phase 1, the value engineering that has been undertaken, and the ongoing discussion with Scottish Government, have all been valuable. To support delivery of phase 1 (25 homes) Waverley Housing has submitted a request to the Scottish Government for Affordable Housing Supply Programme grant funding at 9.99% above the grant benchmark. The appraisal of the project will be handled by the Scottish Government's More Homes Division South East Area team. The funding assumptions at table 2 (para 4.15) have been developed on that basis.
- 4.12 The current probable costs financial modelling exercise estimates total project costs for phase 1 to be £7.438m (£297k per unit). Anticipated funding contributions are as follows; Scottish Government housing grant contribution at 9.9% above benchmark of £3.152m (£3,151,624) along with Waverley Housing private borrowing of £2.294m and reserves of £1,032m (total £3.326m) and Scottish Borders Council grant contribution of £961k. Figures require to be finalised subject to tender checking and grant offer from Scottish Government but are set out in table 2 at paragraph 4.15.
- 4.13 There has been a desire to regenerate and transform this part of Upper Langlee for some years, and this is a strategic housing priority for both Waverley Housing and the Council, as set out in the Local Housing Strategy and Strategic Housing Investment Plan.
- 4.14 This report proposes that SBC grant assist Waverley Housing £961k to enable Phase 1 of the new build development at Upper Langlee to progress.

4.15 Table 2: Funding Breakdown for Phase 1

Construction Cost	£6,945,392
Value Engineering	-£136,201
Acquisition Funding already received	£327,103
Remaining on costs	£302,018
Contingency	£0
TOTAL	£7,438,312
Funding	
Waverley Loan Finance	£2,293,578
AHSP Grant 9.99% above Benchmark	£3,151,624
Proposed SBC Grant	£961,000
Waverley Reserves	£1,032,110
TOTAL	£7,438,312

5 SOUTH OF SCOTLAND COMMUNITY HOUSING

- 5.1 South of Scotland Community Housing (SOSCH) provides long-term support to community organisations relative to the planning and delivery of community-led housing and regeneration projects. SOSCH works with communities to provide project lifecycle support – from the point of housing being identified as an issue by a community, through project development and delivery. This work is inclusive of localised Housing Needs and Demand Assessments (HNDAs), project development (including business planning, stakeholder and community engagement, securing funding packages), support to delivery phase, allocation and management options.
- 5.2 In the Autumn of 2022, SOSCH recruited a Community-Led Housing Co-ordinator for Southeast Scotland. A key element of the role is to support community organisations to bring empty homes and buildings back into use as community led housing. The coordinator has been in post for a year, during which time SOSCH has received interest from twenty-five communities across the five localities of the Scottish Borders and has become well integrated within local institutions, such as the Scottish Borders Council’s community-led local place planning work. SOSCH are now actively engaged with a number of communities, including Westruther, Swinton, and Walkerburn, to commence the process of appraising the demand and potential for community-led affordable housing.
- 5.3 The work of South of Scotland Community Housing is vital in rural areas and community-led housing is an important contributor in the delivery of affordable housing that meets the needs of local communities. Community-led housing plays a key role in community regeneration, not only providing affordable housing but also helping to support local services and is held as an asset by the community in perpetuity, contributing significantly to community wealth building. The role of SOSCH has been recognised in both the SBC Local Housing Strategy 2023-2028, and the Scottish Government’s Rural and Islands Housing Action Plan (October 2023).

- 5.4 The preparation of a localised Housing Need and Demand Assessment (HNDA) Report is a key initial action at the early-stage of developing proposals for community-led housing. This allows community organisations to develop an informed, evidence-based understanding of their local housing needs – both relative to latent demand within a community, but also in order to support repopulation or local services. The information provided by HNDA – undertaken on behalf of a community by SOSCH – allows local housing solutions to be designed in a manner that aligns to local needs and ensures a “right home, right place” approach can be taken. HNDA will inform considerations around scale, type, tenure and nature of local housing need.
- 5.5 In the development of a support package to community organisations, HNDA is a necessary initial step that – in turn – will unlock application to key project development funds, particularly the Feasibility element of the Scottish Government’s Rural Housing Fund and Stage One application to the Scottish Land Fund. However, HNDA is required to pre-empt this process to ensure project development is informed by evidenced demand.
- 5.6 Whilst SOSCH have successfully engaged with several communities who are keen to progress the assessment of community-led housing project plans, it is necessary to identify funds – on behalf of these communities – to instruct SOSCH to progress HNDA work. SOSCH attribute a fee of £3000 per HNDA report, inclusive of local housing survey and analysis of other data. At this stage, communities have been unsuccessful in identifying funding routes to enable this early-stage work.
- 5.7 This report therefore recommends an allocation of £12,000 which would enable the completion of four local HNDA reports to be undertaken, where required, over the next year. The provision of flexible funding for communities to undertake HNDAs in rural Scottish Borders would, in turn, unlock the capacity to quickly move projects forward towards securing Project Development funding, including Scottish Land Fund and Rural Housing Fund, more quickly enabling a pipeline of new community-led affordable housing proposals in the region.

6 IMPLICATIONS

6.1 Financial

- (a) Ensuring the effective development and delivery of SHIP projects and LHS priorities continues to be dependent on SBC’s provision of core services, financial resource allocations from the Scottish Government, partner agencies, private developers and individuals.
- (b) Scottish Government made an allocation of £15.954m to assist delivery of affordable housing projects in Scottish Borders in 2023/24. There is likely to be an underspend this year and a further underspend forecast if Waverley Housing are unable to progress phase 1 and draw down £1.236m in AHSP grant funding this year.
- (c) The arrangements to collect and use the Council’s “Second Homes Council Tax” budget are framed by Scottish Government Guidance. This budget can only be used to assist delivery of affordable housing.

The Council is required to provide statistical reports to evidence available balances and projects assisted. This reporting is now included within the SHIP document. The Guidance enables any unspent balance to be carried forward to subsequent financial years to dovetail with partners financial planning and project programming. This has enabled the Council to build up an available balance of £3.5M in anticipation of this being required to provide complementary funding to assist and ensure the delivery of affordable housing. The Council plans on the basis of around £1.2m net annual income to top up the budget.

- (d) Should the Committee decide to grant assist Waverley Housing’s development at Upper Langlee, this will secure the allocated Scottish Government grant and RSL private borrowing as set out at 4.15 (table 2). The timing of the potential Council contribution has yet to be agreed however it’s anticipated that draw down will be split equally across financial years 2024/25 and 2025/26.
- (e) It is estimated that once completed, these 25 homes will generate around £25k per annum in annual Council Tax income to the Council. This figure is based on the 2023/2024 Council Tax rates and assumes the homes will be mainly Band C. This figure also assumes estimates related to Council Tax Reduction and Single Person Discounts.
- (f) Furthermore the construction phase should positively contribute to reducing income inequality for people in the Borders through the creation of numerous direct construction jobs, apprenticeships and indirect jobs within the construction supply chain.
- (g) Table 3 below shows the balance of available funding with the inclusion of a £961k grant to Waverley Housing and the additional £12k proposed to support SOSCH.

Table 3: 2nd Homes Council Tax financial table including the proposed allocations.

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Funding brought forward	4,150	3,273	2,649	1,798	2,980
Anticipated 2nd Homes Council Tax	1,331	1,278	1,329	1,382	1,437
Total Funding Available	5,481	4,551	3,978	3,180	4,417
Current Investment Commitments	2,209	1,902	2,181	200	1,400

- (h) If the Committee agrees to assist Waverley Housing and South of Scotland Community Housing it is proposed that the Director of Finance and Procurement will liaise with both organisations regarding agreeing timing and payment arrangements in due course.

6.2 Risk and Mitigations

- (a) 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, most of which are beyond the control of the Council. As described in Section 3 of this report there are a number of challenges currently impacting on the delivery of the Affordable Housing Supply Programme, and significant pressures on the local supply of homes.
- (b) Delivery of the SHIP is also dependent upon RSLs continuing to secure ownership of sites and maintain a land-bank to provide more certainty to programme delivery. Officers will continue to work with partner RSLs to ensure that there is a strategic approach to land-banking for affordable housing.
- (c) In publishing its final report on the 17th January 2023 Internal Audit found examples of good practice and provided substantial assurance on the governance and controls in place to ensure efficient and effective use of funding and other resources for the provision of affordable housing to ensure achievement of the local housing strategy with partners.
- (d) Furthermore, the audit report also identified scope for improvement to formalise risk management arrangements, for the Strategic Housing Service, to ensure compliance with the Council's Risk Management Framework. One low-rated recommendation was made, in this regard, by Internal Audit and was agreed by the Lead Officer - Housing Strategy and Development. Follow-up meetings and work have since been undertaken to meet this recommendation, supported by the Corporate Risk Officer. A Strategic Housing Risk Register has been developed which is reflective of the objectives of the service and includes the delivery of the Strategic Housing Development Plan.

6.3 Integrated Impact Assessment

- (a) In line with both Council policy and legislative requirement, the SHIP 2024-2029 has been subjected to an Integrated Impact Assessment. The outcome of that assessment did not identify any concerns arising from the delivery of the SHIP potentially adversely impacting on any of the equalities groups.
- (b) The development of SHIP 2024-2029 was predicated on the endorsement of the principle of Equalities as articulated in the SHIP Guidance. The SHIP and LHS were both subjected to an Integrated Impact Assessment, Strategic Environmental Assessment Screening and Rural Proofing Assessment.
- (c) Homes produced by Registered Social Landlords will be allocated according to their individual allocations policy and procedures. As a consequence of being an RSL, they are subject to the weight of statutory scrutiny via external Regulation and Inspection by the Scottish Housing Regulator.

6.4 Sustainable Development Goals

- (a) In accordance with Section 7 of the Environmental Assessment (Scotland) Act 2005 a pre-screening assessment of the SHIP 2024-2029 has been undertaken using the criteria specified in Schedule 2 of the Act. The pre-screening assessment identified no or minimal effects in relation to the environment hence the SHIP is exempt from full SEA requirements under Section 7 (1) of the Act.
- (b) By seeking to provide more new affordable houses, the proposed activity will promote sustainable communities and help to address many of the housing supply challenges identified in the Local Housing Strategy 2023-2028.
- (c) The objectives of the SHIP are consistent with UN Sustainable Development Goals [SDG] 11 Sustainable Cities and Communities and 13 Climate Action. Specifically, the SHIP responds to the ambition of SDG 11 by promoting access for all 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.

6.5 Climate Change

- (a) While no direct impacts on the Council's carbon emissions arise as a result of the report recommendations, New Build housing will have a general effect on the region's carbon footprint. However, these effects are addressed within the Council's Planning and Building Standards processes, and will be consistent with meeting the housing requirements and standards as set out by the Scottish Government.
- (b) It is anticipated that the affordable housing proposed will be built to meet Scottish Government's "Silver Standard".

6.6 Rural Proofing

- (a) Rural proofing applies to all areas of Scottish Borders classified by Scottish Government as 'Remote Rural' or 'Accessible Rural'. This applies to most areas of Scottish Borders outwith the towns of Galashiels/Tweedbank, Hawick, Peebles, Innerleithen, Selkirk, Eyemouth, Jedburgh and Kelso.
- (b) The SHIP project working group carried out a Rural Proofing exercise as part of the preparation of the SHIP. It was considered that the delivery of the SHIP will have no unforeseen negative impact on the rural area, and is more likely to have positive effects by increasing the supply of affordable housing.

6.7 Data Protection Impact Statement

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

6.8 Changes to Scheme of Administration or Scheme of Delegation

There are no changes to be made to the Scheme of Administration or Scheme of Delegation as a result of this report.

7 CONSULTATION

7.1 The Director (Finance & Procurement), the Director (Corporate Governance), the Chief Officer Audit and Risk, the Director (People Performance & Change), the Clerk to the Council and Corporate Communications have been consulted and any comments received incorporated into the final report.

Approved by

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Title:
Director Infrastructure and Environment

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Background Papers: [Local Housing Strategy 2023-2028](#)
[Strategic Housing Investment Plan 2024-2029](#)

Previous Minute Reference:

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Donna Bogdanovic can also give information on other language translations as well as providing additional copies.

Contact us at housingenquiries@scotborders.gov.uk