
SECOND HOMES COUNCIL TAX AFFORDABLE HOUSING INVESTMENT BUDGET PROPOSALS (Part 2)

Report by Director Infrastructure and Environment

Executive Committee

5th December 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of the report is to approve the reallocation of £273k from a £450k commitment from the Council's Second Homes Council Tax Affordable Housing Investment Budget, initially earmarked for a project at Heather Mill, Selkirk to a project at Fairhurst Drive, Hawick.**
- 1.2 In May 2023 the Executive Committee approved the allocation of £450k to support SBHA with the acquisition of Heather Mill, Selkirk and £512k to ensure the delivery of affordable homes at Fairhurst Drive and Leishman Place, Burnfoot, Hawick
- 1.3 Due to significant change in the costs associated with the delivery of the homes at Burnfoot in Hawick there is a currently a substantial funding deficit of £374k. A Vacant and Derelict Land Fund (VDLF) application has been submitted to the Scottish Government which will help to fund the deficit at Burnfoot but the outcome of the application to Scottish Government will not be announced until the end of January 2024.
- 1.3 Delaying the site start until after the outcome of the VDLF decision could result in a potentially greater project deficit due to continued construction price inflation and it would also delay the project delivery times detailed in the SHIP 2024-2029. As a result, this adds further risks related to maximising the Affordable Housing Supply Programme grant funding allocated to the Borders in the current financial year.

2 RECOMMENDATIONS

2.1 I recommend that the Executive Committee agrees:

- (a) To approve the reallocation of £273k of the £450k approved to support Heather Mill, Selkirk to the project at Fairhurst Drive, Burnfoot, Hawick;**

- (b) To note that initially this is an underwriting position. If the VDLF application is successful the reallocation of funds would not be required, but if the VDLF application was not successful the reallocation would be required to ensure the project is able to progress;**
- (d) To delegate authority to the Director of Finance and Procurement to liaise with SBHA and agree the timing and payment arrangements for the £273k reallocation should the outcome of the VDLF application not be favourable.**

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.

4 DELIVERY OF NEW HOMES AT FAIRHURST DRIVE AND LEISHMAN PLACE, BUNRFOOT, HAWICK

- 4.1 Affordable Housing developments, totalling 16 units at Fairhurst Drive (12) and Leishman place (4) were identified in the SHIP 2023-2028 as priority projects, with estimated completions in October 2024. Due to delays in securing technical consents this is now likely to slip to January 2025.
- 4.2 In terms of deliverability, this project is in a strong position as SBHA own the sites and have planning permission and building warrants in place. The

project will deliver the redevelopment of a 0.34ha Vacant and Derelict site which was previously used at a knitwear mill before being demolished. The project will provide 16 energy efficient/ low carbon homes for affordable rent with access to green space and woodland. The development will enhance the Burnfoot area of Hawick, an area identified in the SIMD 2020 and is in the top 10% of most deprived areas in Scotland. The site is an infill site within an established residential area and is allocated as a redevelopment opportunity within the Scottish Borders Local Development Plan (2016).

- 4.3 When originally tendered in March 2023 the returned costs were very high (29% beyond the original cost plan assumptions). This was due to the lack of tenders returning prices because of remote location and buoyancy in the market. A significant VE exercise was undertaken and the final total development cost was anticipated as £4.692m with a contract sum of £4.116m. The combination of the Councils contribution of £512k from Second Homes Council Tax Affordable Housing Investment Budget, an above benchmark grant approval from Scottish Government and SBHA accepting a higher private finance burden resulted in the project being able to progress.
- 4.4 In August 2023, upon confirmation of funding approvals from SBC, Scottish Government and SBHA's Board the tender was formally accepted. Since then the contractor and SBHA have been working towards a start on site but have faced delays due to statutory consents (Roads Construction Consent and Scottish Water Technical Consent) as well as a long process to agree the remediation strategy for the site.
- 4.5 On 23rd November 2023 the contractor reported that they now face a £374k project additional cost which they cannot absorb. They have sought help from SBHA to resolve the issue. They have reported that this is a result of the time lost since originally accepting the tender and a change of position on the disposal of materials from the site.
- 4.6 A significant proportion of the additional costs can be attributed to the groundworks which are required as part of the remediation strategy. Although the specification of the works have not changed significantly there have been changes in the rates associated with haulage and tipping costs for the waste material which are also impacted by the hauliers view on soil classification and approach to risks associated with the works.
- 4.7 SBC and SBHA have submitted an application to VDLF which may cover all or part of the of the £374k construction cost shortfall but the outcome will not be announced until late January 2024. In the interest of progressing the project quickly and reduce the risk of being exposed to further additional costs it is proposed that a fallback or underwrite position is established that will allow the project to progress now and not be delayed until the outcome of the VDLF application is announced.
- 4.8 The Scottish Government's More Homes Division have agreed to push the grant benchmark rate up by an additional 2% which puts the project significantly over benchmark. This will provide an additional £37k. SBHA are able to contribute an additional £41k in private finance into the project by taking a view on contingency allowances across the programme. The

contractor has taken a commercial view on the project in the interests of keeping the project moving forward and they are able bring a commercial saving of £23k. This additional £101k leaves a deficit of £273k. It is therefore requested that the sum of £273k is reallocated from previously committed funding for Heather Mill to Burnfoot as an underwriting position. This funding would only be used if the VDLF application is not successful.

4.9 The acquisition of the site at Heather Mill has not been progressed due to the seller being unwilling to dispose of the site based on the market valuation. If the VDLF application is unsuccessful and the £273k is required then the balance of the Council's commitment to Heather Mill, Selkirk would be £177k.

4.10 Fairhurst Drive is a brownfield infill opportunity and is adjacent to an existing residential development. The local community are keen to see the site developed and welcome the varied supply of housing. The site is currently unsightly and attracts antisocial behaviour so the community want to see the site redeveloped as soon as possible. The site has also been designed to provide easy access to existing pedestrian, road and public transport links and a developer contribution will be made by SBHA towards local play facilities.

4.11 The development will also help tackle disadvantage/promote inclusive growth/ support just transition/build sustainable communities by:

- Creating energy efficient homes to help address and alleviate fuel poverty;
- Developing net zero homes to assist with the wider journey to net zero and climate change;
- Providing additional affordable housing which will strengthen the feasibility of existing community facilities and local services;
- Providing homes for older people and/or those with disabilities thereby allowing people to remain in their existing community in a home that meets their needs;
- Allowing opportunities to promote 'right-sizing' and freeing up larger homes that can be better utilised and
- The project will also provide affordable housing within one of the most deprived areas of the Scottish Borders

5 IMPLICATIONS

5.1 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 a substantial underspend this year and a further underspend forecast if SBHA are unable to progress phase 1 and draw down £1.450m 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 agree to reallocate the £273k this will secure the allocated Scottish Government grant and RSL private borrowing. The timing of the potential Council contribution has yet to be agreed and is dependent on the outcome of the VDLF application.
- (e) It is estimated that once completed, these 16 homes will generate around £18k 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 and indirect jobs within the construction supply chain.
- (g) Table 3 below shows the balance of available funding with the inclusion of the commitments potentially agreed at item 10 on today’s agenda.

Table 3: 2nd Homes Council Tax financial table including the proposed re-allocation.

	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

- (g) If the Committee agrees to assist SBHA through the re-allocation of funding it is proposed that the Director of Finance and Procurement will liaise with SBHA 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 on a currently derelict site, 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) The design of the homes will help reduce the running costs of each home and also help address fuel poverty. The development will meet the silver standards of the building regulations for CO2 emissions and energy for space heating, going beyond the minimum standards and targeting higher levels of sustainability. The development has been designed in accordance with the energy hierarchy of reducing energy demand, meeting the demand as efficiently as possible and then considering the use of renewable energy to offset the outstanding demand. Each home will have a heating system which produces net zero direct emissions at the point of use. All homes will feature photovoltaics (PV) technology to generate power for the tenant's consumption. Each home will also have access to electric vehicle (EV) charging points either in curtilage as part of their home or in a communal area.

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 have been incorporated into the final report.

Approved by

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Author(s)

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

Previous Minute Reference: Executive Committee 16th May 2023

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