

<b>HOUSING SUPPLY and INNOVATION DIVISION GUIDANCE NOTE</b>		 <b>The Scottish Government</b>
<b>To:</b>	All Local Authorities All Registered Social Landlords	<b>Ref No:</b> HSIDGN 2015/03
<b>Subject:</b>	Affordable Housing Supply Programme  <b>Application of Benchmark Grant and Rent Assumptions 2015 - 2016 and Treatment of Variations to Benchmark and Cost OVERRUNS</b>	<b>Pages:</b> 9 <b>Issued:</b> 1 May 2015
<b>Issued by:</b>	Housing Supply and Innovation Division	

This guidance note supersedes HSGN 2014/03 and provides an update on rent benchmark assumptions for 2015/16 and beyond. The guidance works in tandem with current guidance covering the operation of the main part of the Affordable Housing Supply Programme (AHSP) through the Strategic Housing Investment Plan (SHIP) and associated Strategic Local Programme Agreement process.

This benchmark guidance note will be issued annually.

You will find a copy of this guidance note on the Scottish Government website at  
<http://www.gov.scot/Topics/Built-Environment/Housing/investment/guidancenotes/GuidanceNotes2015>

**If you have any queries on the contents of this guidance note, please contact your local grant provider - Scottish Government Housing Supply and Innovation Division Area Teams, or in the case of Edinburgh and Glasgow, the City Councils.**

**All references within this guidance to the grant provider relate to either the Scottish Government Housing Supply and Innovation Division Area Teams or, in the cases of Edinburgh and Glasgow, the City Councils.**

## **1. Subsidy Benchmarks**

- 1.1 All **social** housing subsidy benchmarks set out in HSGN 2014/03 remain the same.
- 1.2 No change has been made to the benchmarks for mid – market rent (sometimes referred to as intermediate rent) developments or for low cost home ownership.
- 1.3 Variations to reflect differentials between tenure types, energy efficiency standards and geographical locations as detailed previously in HSGN 2014/03 remain the same:-

	West Highland, Island Authorities and remote and/or rural Argyll	Other rural	City and urban
RSL social rent – greener*	£72k (3 person equivalent, benchmark)	£63k (3 person equivalent, benchmark)	£62k (3 person equivalent, benchmark)
RSL social rent – other	£68k (3 person equivalent, benchmark)	£59k (3 person equivalent, benchmark)	£58k (3 person equivalent, benchmark)
RSL mid-market rent – greener*	£34k (3 person equivalent, benchmark)		
RSL mid-market rent – other	£30k (3 person equivalent, benchmark)		
Council social rent – greener*	£50k (flat rate benchmark for council projects)		
Council social rent - other	£46k (flat rate benchmark for council projects)		

\*To qualify for the higher 'greener' subsidy, the building standards for the new homes must meet Section 7, Silver Level, of the 2011 Building Regulations in respect of both Carbon Dioxide Emissions and Energy for Space Heating.

- 1.4 Details of how to calculate benchmark grant rates for projects are detailed in Appendix 1.
- 1.5 For the purposes of benchmark grant rates, to check whether an individual area might be classed as remote and or rural, reference should be made to the Scottish Government 6 fold rural/urban classification:

<http://www.scotland.gov.uk/Publications/2008/07/29152642/2>

<http://www.scotland.gov.uk/Topics/Statistics/SIMD/SIMDPostcodeLookup>

However, in all “other rural” cases the RSL and relevant council will be consulted to confirm the relevant benchmark.

- 1.6 In discussions with RSLs, Scottish Government and councils, agreement should be reached on the subsidy rates that will apply for each project included within a Strategic Local Programme. Projects identified by the developing RSL or council as meeting or falling below the revised benchmarks, and supported by the council at the requested subsidy level, will be appraised as streamlined projects and will not require detailed scrutiny.
- 1.7 When an RSL or council is applying for grant funding, the [application form](#) requires them to self-certify that a number of requirements have been met and processes followed, for example: that site investigations and feasibility studies have been undertaken, and an independent site valuation obtained which takes account of ground conditions and any planning or building restrictions. As part of this self-certification the applicant, having assessed the scope for reducing costs and for applying private finance, must also certify that the project cannot reasonably be delivered for less subsidy than requested to the satisfaction of the Grant Provider. This requirement applies whether the grant requested is **at, above or below** benchmark.

### **Greener Homes Benchmarks**

- 1.8 Within the AHSP there exists a strong focus on enhancing the energy efficiency agenda. To incentivise delivery of new homes which would meet a superior greener standard, higher subsidy benchmarks are available.

#### *Non – TMDF Authorities*

- 1.9 For projects with tender approval before 1 April 2013, the greener higher subsidy element of the benchmark (£4,000 – capped for council house projects and 3 person equivalent for RSLs) will be funded from local Resource Planning Assumptions (RPAs).
- 1.10 From 1 April 2013, any new tender approvals can access the greener higher subsidy element of the benchmark (£4,000 – capped for council house projects and 3 person equivalent for RSLs) from a central resource held by the Scottish Government. Projects in this category should be discussed with councils and funding agreed with the Scottish Government area team.

#### *TMDF authorities*

- 1.11 For all projects, funding of the greener higher subsidy element of the benchmark (£4,000 – capped for council house projects and 3 person equivalent for RSLs) will be funded from their current TMDF settlement.

## **2. Variations to Benchmark Grant Rates**

### *Above Benchmark Subsidy*

- 2.1 Flexibility to award grant subsidies higher than benchmark applies to both RSL and Council housing projects.
- 2.2 Applications for **above** benchmark grant will require to be supported by full justification, and will only be considered when all other avenues for reasonable savings have been explored. For example this could include contract negotiation; the use of alternative materials or build methods; design modification. Other funding sources should also have been explored.
- 2.3 Projects requesting grant in excess of the applicable benchmark should be submitted to the Grant Provider accompanied by supporting documentation, as outlined at 2.5, explaining why additional grant is required and the nature of the higher costs. Local authority “in principle” written support for RSL projects at above benchmark grant should form part of the RSL submission. Council house projects requiring above benchmark subsidy should be discussed with the Scottish Government local area team.
- 2.4 Both councils and the Scottish Government have a strategic interest in maximising the number of homes to be delivered. An RSL project will only be offered above benchmark subsidy with the agreement of both the council and the Scottish Government or, in the case of Glasgow or Edinburgh, with the agreement of the relevant city council, in accordance with the principles in this guidance note. In agreeing any above benchmark approvals the impact on the number of units that can be delivered should be considered locally by councils and Scottish Government.
- 2.5 The **Grant Provider** will take the final decision on whether higher grant requirements are acceptable and at what level, based on the evidence provided by the grant applicant. This may include for example:-
  - evidence that the site valuation and acquisition price reflects identified remediation costs (including infrastructure, piling, decontamination works, removal of foundations and demolition costs) which are unavoidably high;
  - evidence of higher costs associated with particular needs housing;
  - evidence of higher costs stemming from particular planning requirements/restrictions;
  - evidence of how rigorous the grant applicant has been in pursuing alternative options either to minimise additional costs or identify other funding.

Where requested, grant applicants should submit detailed technical and scheme costs information to allow a full detailed appraisal to be undertaken by **the Grant Provider**.

- 2.6 Before agreeing above benchmark grant subsidy, councils and Scottish Government area teams will, in consultation with RSLs, consider whether there are reasonable alternatives, such as developing a different site, inviting

a different landlord to develop the site, or negotiating a lower price for the development. There should be no presumption that above benchmark grant subsidy will be approved at the level applied for.

- 2.7 If higher than benchmark grant is approved it will be met from the appropriate local RPA.

*Below Benchmark Subsidy*

- 2.8 There may also be situations where development costs are low, for example where the build is straightforward and land conditions and other factors are favourable. Equally there may be cases where an RSL or council has capacity to reduce the need for AHSP subsidy by applying more of its own resources. In these circumstances the RSL or the council may be able to deliver the project for lower than benchmark subsidy and should declare this through the self-certification process as outlined at paragraph 1.7.

**3. RSL Social Rent Benchmark Assumption**

- 3.1 For 2015/16 the RSL social rent 3 person (3p) benchmark assumption will be £3,990. This represents a 2.0% (November 2014, RPI) increase to the 2014/15 benchmark figure of £3,912.
- 3.2 Rents should be projected to the date of completion. For projects completing in future years, the benchmark rent includes an annual 2.75% uplift (assumed RPI).
- 3.3 The benchmark rent is based on a 3p equivalent dwelling. Rents will be compared to the 3p equivalent rent on an individual property size basis as outlined in Appendix 2.
- 3.4 If the 3p social rent benchmark is exceeded by more than 5%, the RSL must justify to the council and to the Scottish Government why the proposed rent is considered affordable. Approval of rents exceeding benchmark by more than 10% will be given only in exceptional circumstances. Justification for variations in excess of 5% or 10% may, for example, include reference to market conditions in the geographic area or the energy efficiency of the new properties.
- 3.5 Guidance on RSL social rent benchmarks will be updated annually.

#### **4. Mid-market Rent Assumptions**

- 4.1 Rent levels for mid-market rent housing should be affordable for households from the proposed target tenant groups.
- 4.2 Mid-market rents must be in line with the applicant's rental policy and must not exceed the relevant Local Housing Allowance rate at the properties first let. Rents can then increase annually provided that they do not exceed the median point of the relevant private sector market rent level.
- 4.3 RSLs should contact their local Scottish Government area team to obtain details of median rent levels for the Broad Rental Market Area (BRMA) within which MMR provision is being planned. Where it can be evidenced that particular local sub-market area conditions are substantially different from the BRMA median then there is scope for local discretion to be exercised following discussion and agreement with the council and Scottish Government or, in the case of Glasgow or Edinburgh, with the agreement of the relevant city council.

#### **5. RSL Cost Overruns**

- 5.1 Additional grant will not be available to cover cost overruns identified in projects funded through the Innovation and Investment Fund. From 1 April 2012 all RSL projects receiving funding from the AHSP will be considered for additional grant in relation to unavoidable and unforeseeable cost overruns.
- 5.2 Tender stage is the point at which the amount of grant funding for a particular project will be finalised. However, consideration will be given to providing an additional grant contribution towards the funding of unavoidable and unforeseeable costs which may be identified following tender approval.
- 5.3 Cost overruns must be notified to the Grant Provider immediately they become apparent, together with an initial estimate of cost. This will enable immediate discussions to take place on the actions proposed by the RSL to mitigate the effect of the cost overrun, thereby offsetting, or eliminating the potential additional grant requirement.
- 5.4 RSLs must demonstrate to the Grant Provider's satisfaction that the additional costs have not resulted from their deliberate actions and that they could not reasonably have been foreseen.
- 5.5 In addition to immediate notification as outlined at 5.3, a formal, written request for approval of additional grant must be made to the Grant Provider, at the practical completion stage of the project. All information necessary to evidence the reasons for the cost overrun and assess the request should be attached to the submission including confirmation that the council is aware of the impact of the cost overrun on their local programme.

- 5.6 Following discussions and agreement between the Grant Provider and the council, grant funding of any approved cost overruns will be met from the RPA for that local authority area.
- 5.7 The Grant Provider will take the final decision on whether cost overrun requests are acceptable based on the evidence provided by RSLs.
- 5.8 Unavoidable and unforeseeable cost overruns which are below £20,000 or 1% of the works, cost whichever is lower, will not normally be considered eligible for additional grant funding. Likewise the first £20,000, or for smaller projects 1% of works cost, of cost overrun will be met by the RSL.
- 5.9 It is expected that additional capital costs attributable to grant funded properties which are accepted for cost overruns will normally be funded in the same “AHSP grant : total cost” ratio as approved at tender stage.

## **6. Project Review**

- 6.1 Funding applicants must provide all required information in support of their funding submission together with the relevant self-certification from their organisation and professional consultants. The Grant Provider will undertake a programme of reviews, including an appraisal of Grant Completion forms and a programme of post completion scheme reviews. Any breach of self-certification or conditions of grant may result in grant clawback.

**APPENDIX 1 - CONVERSION FACTORS FOR BENCHMARK GRANT CALCULATIONS****3 PERSON EQUIVALENT CONVERSION FACTORS**

AVGE. BEDS	CONV. FACTOR								
1.0	72.0	2.0	89.3	3.0	<b>100.0</b>	4.0	109.0	5.0	115.5
1.1	73.7	2.1	90.4	3.1	100.9	4.1	109.7	5.1	116.0
1.2	75.5	2.2	91.4	3.2	101.8	4.2	110.3	5.2	116.4
1.3	77.2	2.3	92.5	3.3	102.7	4.3	111.0	5.3	116.9
1.4	78.9	2.4	93.6	3.4	103.6	4.4	111.6	5.4	117.3
1.5	80.7	2.5	94.7	3.5	104.5	4.5	112.3	5.5	117.8
1.6	82.4	2.6	95.7	3.6	105.4	4.6	112.9	5.6	118.2
1.7	84.1	2.7	96.8	3.7	106.3	4.7	113.6	5.7	118.7
1.8	85.8	2.8	97.9	3.8	107.2	4.8	114.2	5.8	119.1
1.9	87.6	2.9	98.9	3.9	108.1	4.9	114.9	5.9	119.6
								6.0	120.0
								6.1	121.0
								6.2	122.0
								6.3	123.0
								6.4	124.0
								6.5	125.0
								6.6	126.0
								6.7	127.0
								6.8	128.0
								6.9	129.0
								7.0	130.0

**Calculation**

1. Calculate the average grant per unit for the development.
2. Calculate the average number of bedpaces per unit for the development.
3. Refer to the table above to identify the conversion factor related to the average bedspace for the development.
4. Apply the conversion factor to the current relevant 3p equivalent benchmark grant figure to see if grant requirements are at, above or below the benchmark grant.

E.g. Average bedspace per unit of 3.7 = conversion factor of 106.3

3p equivalent benchmark grant for an urban development is £58,000 x 106.3% = £61,654 which is the equivalent benchmark for the project.

## **HS&IDGN 2015/03**

### **APPENDIX 2 - CONVERSION FACTORS FOR BENCHMARK RENT ASSUMPTIONS**

<b>BEDSPACES</b>	<b>CONVERSION FACTOR</b>
2	89.3
3	100.0
4	109.0
5	115.5
6	120.0
7	130.0

Rental assumptions are calculated using the 3p equivalent as the base (100%) and applying the conversion factor relevant to the property size to that base rent.

E.g. For a 4 person property completing in 2016/17 the rent is calculated as follows:

3p equivalent = £3,990 x 109% (4p conversion factor) = £4,349.10 + 2.75% (RPI) = £4,468.70

The table below shows the rents with the conversion factor and annual increases applied for ease of reference.

### **PROJECTED RENT ASSUMPTIONS**

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
<b>2</b>	3563.07	3661.05	3761.73	3865.18
<b>3</b>	3990.00	4099.73	4212.47	4328.31
<b>4</b>	4349.10	4468.70	4591.59	4717.86
<b>5</b>	4608.45	4735.18	4865.40	4999.20
<b>6</b>	4788.00	4919.67	5054.96	5193.97
<b>7</b>	5187.00	5329.64	5476.21	5626.81