

## MORE HOMES DIVISION GUIDANCE NOTE



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Riaghaltas na h-Alba  
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**To:** All Local Authorities  
All Registered Social Landlords

**Subject:** Affordable Housing Supply Programme:  
Process and procedures

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This guidance note details the **process** for planning the delivery of the majority of grant-funded homes through the Affordable Housing Supply Programme. It also outlines the **procedures** to be followed by grant applicants and grant providers when delivering grant-subsidised homes for social rent<sup>1</sup> and mid-market rent<sup>2</sup> through the Programme. It incorporates the following amendments to MHDGN 2017/04 (which is now superseded by this guidance note), and takes immediate effect:

- Paragraph 3.7 – clarification is provided on how to identify a project’s urban/ rural classification.
- Paragraphs 5.1 and 5.2 – updates are provided within these paragraphs on the process for recording the completion of a project.
- Annex D (mid-market rent) – paragraph 6 has been amended to reflect an update to letting agent registration requirements.

Separate guidance is available on the [Low-cost Initiative for First Time Buyers \(LIFT\)](#), [shared ownership](#), and the [Housing Infrastructure Fund](#).

You will find a copy of this guidance on the [Scottish Government website](#).

Throughout this guidance note the term ‘*grant provider*’ is used. This refers to your local Scottish Government More Homes Division area office or – in the case of Edinburgh and Glasgow – the City Councils (known throughout the guidance as ‘*T MDF authorities*’).

**Any questions about this guidance note should be directed to your relevant grant provider.**

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<sup>1</sup> These are homes which are let under a Scottish Secure Tenancy or a Short Scottish Secure Tenancy. While the majority of social rented homes that are delivered through the Programme will be let under a Scottish Secure Tenancy, discussions should be held between the grant applicant and the grant provider where this form of tenancy is not proposed.

<sup>2</sup> These are homes which are let under a Short Assured Tenancy or, from 1 December 2017, under a Private Residential Tenancy.

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## AFFORDABLE HOUSING SUPPLY PROGRAMME – OVERVIEW

### 1. INTRODUCTION

1.1 The Affordable Housing Supply Programme forms part of the [More Homes Scotland](#) approach, which aims to increase and accelerate the supply of homes across all tenures. The Programme supports local authorities in delivering their affordable housing priorities by providing quality homes in mixed communities that fit local need.

1.2 The grant subsidy which is available through the Affordable Housing Supply Programme primarily supports the delivery of social rented housing, homes for mid-market rent and low cost home ownership (including improvement for sale).

#### **Built form**

1.3 It is expected that the majority of homes delivered through the Programme will be new build units that are delivered directly by grant applicants or through '*off the shelf*' purchases from developers. However, where it can be demonstrated that the use of grant to acquire '*second hand*' stock that is for sale on the open market<sup>3</sup> is the most appropriate method of meeting housing need in a particular area subsidy may be available to fund this<sup>4</sup>. Funding may also be made available to remodel/ rehabilitate existing properties where this is considered a strategic priority.

#### **Quality standards**

1.4 With the exception of the acquisition of '*off the shelf*' units from developers, new build homes which are delivered directly by grant applicants should:

- as a minimum, be two person, two apartment units (unless otherwise agreed with the relevant Scottish Government area team and local authority)
- comply with all approved applicable building regulations as required by law
- be sufficiently flexible to meet people's varying needs, and
- meet – as a minimum – the design criteria indicated as a '*basic*' requirement as outlined in [Housing for Varying Needs](#) (column 'B' in '*Summary of Design Criteria*'). The design criteria indicated as '*desirable*' (column 'D' in '*Summary of Design Criteria*') should also be included where possible.

1.5 '*Off the shelf*' purchases of new build stock from developers should (a) as a minimum, be two person, two apartment units (unless otherwise agreed with the relevant Scottish Government area team and local authority) and (b) achieve all current building standards. In addition, they should aim to incorporate the standards articulated in the third and fourth bullet points of paragraph 1.4.

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<sup>3</sup> This could include the purchase of former local authority housing.

<sup>4</sup> The Scottish Government and the relevant local authority will require to agree the number of such purchases that can be approved each year.

1.6 And projects using existing properties (not new build) should maximise energy efficiency and accessibility, as far as is practicable. Evidence of this should be provided when applying for tender approval through the [HARP](#) system.

1.7 Wherever possible, all homes delivered under the Affordable Housing Supply Programme should include ducting to help future-proof people's access to internet and broadband services ([Annex A](#)).

1.8 More generally, it is recognised that housing has important impacts on communities beyond providing accommodation. Issues such as public health, community safety, empowerment and sense of identity are all influenced by the quality of housing design in an area. It is important therefore that projects are designed with reference to the Scottish Government's design and placemaking policies included in Scottish Planning Policy, [Designing Streets](#) and [Creating Places](#). Projects should also be designed with reference to the [Place Standard](#) tool, which has specifically been designed to take consideration of quality of place and the relationship to quality of life. In addition, grant applicants should consider [Delivering Better Places in Scotland: A guide to learning from broader experience](#) when developing project proposals.

## 2. PROGRAMME PLANNING PROCESS

### Procurement

2.1 The [Review of Scottish Public Sector Procurement in Construction](#) was published in October 2013 and provides comment on the opportunities for better coordination of spend and procurement across the public sector. The Scottish Government therefore expects that – in line with their existing strategic responsibilities – local authorities will work closely with partners and embrace this within their Strategic Housing Investment Plans. For example, local authorities should map out plans for procurement of affordable housing over the next five years and consider scope for collaborative approaches. Such collaboration might include:

- sharing design resources
- adopting common specifications and/ or designs and considering the use of off-site construction
- procuring jointly to achieve larger and longer contracts with greater scope to deliver community benefits
- using existing framework contracts, and
- identifying strengths and weaknesses across delivery partners and sharing skills to reduce risks. A partner organisation with strong design resources might, for example, undertake this for the collaborative procurement, whilst a different organisation (say with strong contract management skills) could do likewise.

2.2 Scottish Government area teams will discuss this with local authorities as part of the Strategic Housing Investment Plan process and will wish to see evidence in the Strategic Housing Investment Plan that collaboration has been achieved wherever possible. Local authorities should be able to demonstrate, for example, that they have considered a range of procurement options, evaluated them, and arrived at a preferred option on the basis of that analysis.

### *Procurement capability and capacity*

2.3 The Review also requires that every organisation that uses public funding to procure construction should undergo some form of assessment of its procurement capability and capacity. The Scottish Government is therefore funding and working with Scotland Excel to provide a programme of support for the Registered Social Landlord (RSL) sector (Scotland Excel already provides such support to local government). This programme has been developed in partnership with the Scottish Federation of Housing Associations and the Glasgow and West of Scotland Forum of Housing Associations.

### Strategic Housing Investment Plans

2.4 [Strategic Housing Investment Plans](#) are prepared by local authorities and set out the strategic investment priorities for affordable housing over a five year period to achieve the outcomes set out in their Local Housing Strategies. Each Strategic Housing Investment Plan (a) reinforces the role of the local authority as the strategic housing authority (b) reinforces the importance of the outcomes and targets set out in the Local Housing Strategy and (c) informs grant provider housing investment decisions, which will be confirmed in Strategic Local Programme Agreements.

2.5 Local authorities should view the preparation of Strategic Housing Investment Plans as a corporate activity, with close working relationships being developed between housing, planning, social work and other departments. Collaboration is also expected between local authorities, RSLs, communities, developers, the Scottish Government and other stakeholders in the Strategic Housing Investment Plan development process.

### ***Resource Planning Assumptions***

2.6 Local authorities should use the latest known Resource Planning Assumptions as the basis for their Strategic Housing Investment Plans.

## **Strategic Local Programme Agreements – non TMDF authorities and TMDF authorities**

### ***Non-TMDF authorities***

2.7 Non-TMDF authorities should submit Strategic Housing Investment Plans to the Scottish Government annually – through the HARP system<sup>5</sup>. Once approved, these Plans will be used by the Scottish Government to create Strategic Local Programme Agreements<sup>6</sup> for discussion with local delivery partners and for final agreement with individual local authorities. When preparing Strategic Local Programme Agreements, the Scottish Government will ensure that the overall balance of the programme is in line with its national targets for affordable housing supply.

### ***Strategic Local Programme Agreement content***

2.8 The Strategic Local Programme Agreements prepared by the Scottish Government will cover a three year period and will reflect existing carry-forward commitments, new planned priority projects, and additional capacity in the form of a pipeline of projects taken from the Strategic Housing Investment Plan. Once agreed, they will form the basis of individual RSL and local authority Programme Agreements. These Strategic Local Programme Agreements will therefore be the primary working document informing the delivery of the Affordable Housing Supply Programme at the local level, will be available through HARP, and will include:

- details of each project's proposed developer
- each project's location, unit numbers and tenure
- each project's approval, site start and completion dates
- each project's indicative annual subsidy requirement, and
- the overall annual Resource Planning Assumption profile.

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<sup>5</sup> A paper based Strategic Housing Investment Plan process operated for 2017.

<sup>6</sup> It is expected that local authorities will engage and consult with all delivery partners on Strategic Local Programme Agreement proposals and priorities.

### *Administrative responsibility*

2.9 Responsibility for managing and monitoring these Strategic Local Programme Agreements rests with the Scottish Government and will involve regular joint programme meetings (or other locally agreed mechanisms) with all parties. As a minimum, these should happen at six monthly intervals. No projects will be added or removed from the Strategic Local Programme Agreement without prior discussion with the relevant local authority.

### *Slippage*

2.10 Strategic Local Programme Agreements will be reviewed and re-issued at least annually through HARP to enable the programme to roll forward and to maintain a minimum three-year programme planning horizon, based on the most up to date approved Strategic Housing Investment Plan.

2.11 The local authority approved Strategic Housing Investment Plan will normally be the route by which projects will be brought into the Strategic Local Programme Agreement. As part of the Strategic Housing Investment Plan sign-off process, local authority officials should therefore – where possible – obtain delegated authority to ensure that any project which falls out of the Strategic Local Programme Agreement can be replaced by another from within the Strategic Housing Investment Plan<sup>7</sup>. For most local authorities these decisions will be taken jointly between the Scottish Government and local authority officers, in discussion with the appropriate delivery agent.

2.12 If slippage is unable to be taken up by other identified Strategic Housing Investment Plan priorities in a local authority area within a financial year, the Scottish Government reserves the right to reallocate resources to other affordable housing priorities outside of that local authority area. The Scottish Government cannot guarantee that the local authority's allocation will be increased in future years to compensate.

### *Slippage factor*

2.13 Local authorities are expected to overcommit resources in the Programme to ensure delivery should slippage occur. A minimum slippage factor of 25% should be applied on an annual basis to the Programme.

### ***T MDF authorities***

2.14 Based on their Local Government Settlement figures and agreed minimum forward planning assumptions, T MDF authorities will submit their Strategic Housing Investment Plans to the relevant Scottish Government area team (which will include a clear programme of potential Affordable Housing Supply Programme projects for the next five years).

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<sup>7</sup> Any windfall projects which post-date the SHIP submission should be assessed using the same methodology that was applied when prioritising projects for inclusion within the original Strategic Housing Investment Plan.

2.15 TMDF authorities will prepare their three-year Strategic Local Programme Agreement proposals through the HARP system to reflect both existing carry-forward commitments into future years and other Strategic Housing Investment Plan priorities. In preparing Strategic Local Programme Agreement proposals, there should be an opportunity for RSLs and other delivery partners to input to the process.

2.16 TMDF authorities should ensure, in discussion with the relevant Scottish Government area team, that the overall balance of the programme is in line with the Scottish Government's national targets for affordable housing supply – the majority of funding for the Affordable Housing Supply Programme should be directed towards social rented housing.

2.17 Strategic Local Programme Agreements will include the details referred to in paragraph 2.8. They should be discussed and agreed with the Scottish Government and then used as a working document to (a) manage the local programme and (b) prepare Programme Agreements.

#### *Administrative responsibility*

2.18 Responsibility for the on-going managing and monitoring of the Strategic Local Programme Agreement rests with the TMDF authority. TMDF authorities should however keep the Scottish Government regularly informed of progress against delivery of their Strategic Local Programme Agreements, with information being provided at key stages as required for Scottish Government corporate reporting and official statistics.

#### **Programme Agreements**

2.19 The grant provider will aim to issue Programme Agreements to local authorities and RSLs by the end of May of each year through the HARP system. These will notify grant recipients of their annual grant planning targets over a three-year period. Programme Agreements will confirm – at the project level – the expected grant requirement, unit numbers, tenure mix, and approval, site start and completion dates.

2.20 Where a project is identified in a Programme Agreement and the grant funding required is at or below benchmark, a streamlined approval process will be applied provided that no changes occur between Programme Agreement and tender application stage. The grant applicant should proceed to tender stage on the basis of the details and timetable outlined in the Programme Agreement.

2.21 There can be no presumption however that grant approval will be issued for any project recorded in a Programme Agreement which cannot be taken forward within benchmark. As outlined in the following section, projects in this position will be subject to more detailed scrutiny.



### 3. FUNDING APPLICATIONS AND APPRAISAL PROCEDURES

3.1 Funding applications for social rent and mid-market rent projects being delivered through the traditional grant-subsidised programme should be submitted by local authorities and RSLs through the HARP system, in line with the terms specified in individual Programme Agreements. (Prior to tender application stage, and to enable an acquisition to proceed, there is the opportunity to submit an acquisition application to allow an acquisition offer of grant to be issued. For all acquisitions, a grant settlement form should be submitted through the HARP system within 14 days of grant payment.)

3.2 The Scottish Government has responsibility for appraising projects in non-TMDF authority areas. TMDF authorities have responsibility for appraising projects in their areas.

3.3 Where projects have already received grant funding through the Affordable Housing Supply Programme or its predecessor programmes, this will be taken into account in the assessment process and will be included as part of the project's grant requirement.

#### Grant subsidy benchmarks

##### *Social rent and mid-market rent*

3.4 Social rent and mid-market rent grant subsidy benchmarks are in place which are designed to reflect differentials between geographic location, tenures and energy efficiency standards. It is expected that the majority of projects will fall within the appropriate benchmark subsidy level, as detailed in the following table:

	<b>West Highland, Island authorities and remote/ rural Argyll</b>	<b>Other rural</b>	<b>City and urban</b>
<b>RSL social rent – greener</b>	£84,000 (3 person equivalent, benchmark per unit)	£74,000 (3 person equivalent, benchmark per unit)	£72,000 (3 person equivalent, benchmark per unit)
<b>RSL social rent – other</b>	£82,000 (3 person equivalent, benchmark per unit)	£72,000 (3 person equivalent, benchmark per unit)	£70,000 (3 person equivalent, benchmark per unit)
<b>RSL mid-market rent – greener</b>	£46,000 (3 person equivalent, benchmark per unit)		
<b>RSL mid-market rent – other</b>	£44,000 (3 person equivalent, benchmark per unit)		
<b>Council social rent – greener</b>	£59,000 (flat rate benchmark for council projects per unit)		
<b>Council social rent – other</b>	£57,000 (flat rate benchmark for council projects per unit)		

3.5 Details of how to calculate benchmark grant rates for projects are given in [Annex B](#).

### *Geographic location*

3.6 To check whether an area might be classed as '*remote/ rural Argyll*', reference should be made to the Scottish Government [six fold rural/ urban classification](#).

3.7 More generally, the following steps should be taken to help to identify the urban/ rural classification of a project:

- Open the [Scottish Index of Multiple Deprivation \(SIMD\) webpage](#)
- Click on the link: '[Postcode to SIMD rank \(8MB\)](#)' and open the excel file.
- Enter the postcode within column A and press return – a '*data zone reference*' will appear in column B.
- Take a note of the '*data zone reference*' and close the excel file.
- Type in the '*data zone reference*' into column A of the '*SIMD16 DZ look-up*' tool tab in the following link: '[Data zone to intermediate zone, local authority, health board, multi-member ward, Scottish parliamentary constituency](#)' and press return.
- The urban/ rural classification of the project will be shown in column Q.

3.8 Discussions should then be held between the grant applicant and the grant provider to agree the relevant benchmark for the project.

### *'Greener' homes*

3.9 To qualify for the higher '*greener*' subsidy, homes must meet Section 7, Silver Level, of the 2011 Building Regulations in respect of Energy for Space Heating.

3.10 *Non-TMDF authorities:* Projects meeting the higher '*greener*' standard should be highlighted to the relevant local authority and to the Scottish Government area team. Funding for the greener subsidy element of £2,000 per unit will be met from local authority Resource Planning Assumptions.

3.11 *TMDF authorities:* The additional subsidy which is available for projects meeting the higher '*greener*' standard will be funded from the Local Government Settlement.

### *Proposed grant requirement*

3.12 When a local authority or RSL is applying for grant funding, it must certify that a number of requirements have been met. As part of this process, the grant applicant – having assessed the scope for reducing costs and for applying private finance – must certify to the satisfaction of the grant provider that the project cannot reasonably be delivered for less subsidy than requested. This requirement applies whether the grant requested is at, below, or above benchmark.

3.13 There may be situations where project costs are low, for example, where the build is straightforward and land conditions and other factors are favourable. Equally, there may be cases where a local authority or RSL has capacity to reduce the need for grant subsidy by applying more of its own resources. In these circumstances, **projects which meet or fall below the appropriate benchmark subsidy level will not require detailed scrutiny.**

### *Projects requiring grant above benchmark*

3.14 While grant providers and grant recipients will wish to maximise the value obtained through the Affordable Housing Supply Programme, this should not prevent higher cost, priority projects from proceeding (including projects in regeneration areas and those involving housing for people with particular needs). **Flexibility to award grant subsidies above benchmark for social rent and mid-market rent therefore applies to both local authority and RSL projects.** Applications requesting grant in excess of the applicable benchmark should be accompanied by supporting documentation explaining why additional grant is required and the nature of the higher costs. The nature of the supporting documentation required should be discussed and agreed with the grant provider.

3.15 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 evidence may include:

- detailed technical and project cost information to allow a full detailed appraisal to be undertaken by the grant provider – this will include an indicative cost calculation, found in the housing tender return (paragraph 3.27). The allowable ad-hocs figure is limited to 25% and the allowable excess figure limited to 15%
- evidence that the site valuation and acquisition price reflect identified remediation costs which are unavoidably high
- evidence of higher costs associated with particular needs housing, including housing with integral support
- evidence of higher costs stemming from particular planning requirements/ restrictions, and
- evidence of how rigorous the grant applicant has been in pursuing alternative options – such as developing a different site, negotiating a lower price for the development, or exploring other funding sources.

3.16 In addition, an RSL should submit a letter from the relevant local authority expressing '*in principle*' support for its project.<sup>8</sup>

3.17 There should be no presumption that above benchmark grant subsidy will be approved at the level applied for. If higher than benchmark grant is approved it will be met from the appropriate local Resource Planning Assumption.

## **Rent levels**

### ***Social rent***

3.18 The [Scottish Social Housing Charter](#) describes the results that tenants and other customers expect social landlords to achieve, including getting good value from rents and service charges.

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<sup>8</sup> Local authority projects requiring above benchmark subsidy should be discussed with the Scottish Government local area team.

3.19 While it is up to individual social landlords to strike the best balance between rent levels and meeting the housing needs of local communities, rents for social rented homes should not be set without regard to the importance of affordability for tenants. The grant provider does therefore consider the proposed rents for RSL social rented homes at the point of first let.

#### *RSL social rent benchmark assumptions*

3.20 At tender application stage, proposed RSL rents (which should be projected to the date of completion) will be compared against the relevant social rent benchmark. If the relevant benchmark is exceeded by more than 5%, the RSL must justify to the local authority 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 these levels may, for example, include reference to market conditions in the geographic area, or the energy efficiency of the homes.

3.21 Further information is provided in [Annex C](#).

#### *Local authority social rents*

3.22 Local authority social rent levels should strike an appropriate balance between being affordable, reflecting local market conditions, and contributing to the cost of the home both in capital and revenue terms. At tender application stage, proposed rents should be projected to the date of completion.

#### **Mid-market rent**

3.23 Mid-market rents must be in line with the applicant's rental policy and be affordable to households from the proposed target tenant group(s).

3.24 It is expected that the **starting rent level** for each mid-market rent home (including any service charge) will be no more than the relevant Local Housing Allowance rate for the property size in question. The grant provider may however give agreement on an exceptional basis to starting rent levels for each mid-market rent home (including any service charge) being more than the relevant Local Housing Allowance rate if the following cumulative conditions are met:

- the grant applicant (being an RSL or an RSL subsidiary) can demonstrate that in a particular local market area conditions are materially different from the relevant Local Housing Allowance rate
- the grant applicant (being an RSL or an RSL subsidiary) has secured the local authority's support to the proposed starting rent levels, and
- the starting rent levels do not exceed the mid-point of market rent levels for the property sizes in question in the relevant Broad Rental Market Area (as assessed by the Scottish Government).

3.25 Rents can then increase annually provided that they do not at any time exceed (a) the mid-point of market rent levels for the property sizes in question in the relevant Broad Rental Market Area (as assessed by the Scottish Government) or (b) where agreed in writing with the Scottish Government and the local authority or – in the case of Glasgow and Edinburgh – the relevant City Council, the mid-point of market rent levels in a particular local market area is demonstrated and accepted as being materially different from the relevant Broad Rental Market Area.

3.26 Further information on the provision of homes for mid-market rent is available at [Annex D](#).

### **Housing tender returns<sup>9</sup>**

3.27 The Scottish Government has appointed the Building Cost Information Service to process data provided in the housing tender returns to produce indices monitoring trends in the costs of affordable new build housing. Grant applicants must upload a housing tender return for each project through the HARP system as part of the tender application process.

### **Private and other finance**

3.28 RSLs should confirm at Programme Agreement stage that they will be able to access the private finance required to ensure delivery of their proposed development programmes. At tender application stage, all sources of project funding must be in place and detailed.

3.29 Local authorities must confirm at tender application stage that:

- they have prudential borrowing capacity and/ or other available resources to fund the homes
- resources are not needed for other purposes, and
- committing funds does not compromise the sustainability of the Housing Revenue Account (where applicable).

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<sup>9</sup> Separate documents relating to the [Scottish Social Housing Tender Price Index \(SSHTPI\) report, the methodology and housing tender return](#) are available on the Scottish Government website.

## 4. GRANT OFFER, COST OVER-RUNS AND ADAPTATIONS

### Grant offer

4.1 Following approval of a tender application, an offer of grant will be issued by the grant provider through the HARP system. The grant offer will confirm (amongst other things) the total approved grant subsidy. It will also set out a planned profile of annual grant payments.

4.2 Upon receipt of the grant offer, the grant recipient should print two hard copies. If the grant recipient wishes to accept the offer, it should sign and date both copies and send one of the copies through the post to the relevant grant provider. The other copy should be retained by the grant recipient for its records.

### Cost over-runs

4.3 In line with previous procedures, RSLs must notify any unforeseen and unavoidable cost over-runs to the grant provider **immediately** they become apparent, together with an initial estimate of cost. This will enable early 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 (see section 5). As noted in [Annex E](#), the grant provider will take the final decision on whether cost overrun requests are acceptable based on the evidence provided<sup>10</sup>.

### Adaptations

4.4 RSLs may apply for additional funding before completion to enable homes for social rent and mid-market rent to be adapted to suit the particular requirements of the tenant to whom it has been allocated<sup>11</sup>. Following approval of the funding request, grant will be available from local Resource Planning Assumptions to cover the total cost of eligible adaptations (which should essentially be of a structural nature<sup>12</sup>).

4.5 Separate guidance is available setting out the [process for adapting existing homes](#). In this respect, the Scottish Government makes funding available separately to help RSLs<sup>13</sup> to meet the cost of adapting tenanted homes (that is those for social rent and mid-market rent) to allow older people and disabled people to live safely and independently at home.

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<sup>10</sup> Additional grant will not be available to cover cost overruns identified in projects funded through the Innovation and Investment Fund.

<sup>11</sup> Assessments will usually be carried out by an Occupational Therapist. In addition, the reference to 'RSLs' in this context also refers to RSL subsidiaries which are delivering homes for mid-market rent.

<sup>12</sup> [SHGN 2001/02](#) provides examples of items that may be admissible for grant funding. These are items that, because they are fixed to or become part of the structure of a dwelling, may be regarded as 'structural'.

<sup>13</sup> For the avoidance of doubt, this reference also applies to RSL subsidiaries providing homes for mid-market rent.

## 5. PROJECT COMPLETION

5.1 The grant recipient should notify the grant provider **as soon as** all of the homes in a project have been certified as complete by the project architect/ supervising officer and approved by the local authority for occupation. A copy of the completion certificate should then be forwarded to the grant provider which will be responsible for recording the actual completion date on the HARP system.

5.2 To record final project details, grant recipients should submit through HARP a project completion application – wherever possible this should be done within one month of the date of practical completion. In the case of RSLs, this should contain (where applicable) full supporting information to allow the grant provider to consider any requests for additional grant funding to cover any unavoidable and unforeseeable cost overruns ([Annex E](#)).

5.3 Receipt of this information will enable the grant provider to:

- record that projects developed with grant funding have been successfully completed
- confirm the actual housing and tenure mix, and the final costs and funding for the project, and
- identify whether any grant requires to be increased or repaid (for example, in cases where a substantial reduction in capital costs has occurred).

## 6. PAYMENT OF GRANT

### Non-TMDF authorities

6.1 The phased grant payment process for grant recipients in non-TMDF authorities will operate in the following way:

- Each tender offer of grant letter generated through the HARP system will request that the grant recipient provides a profile showing the monthly draw down of grant payments for the duration of the project. Grant recipients should ensure that any subsequent variations to the profile provided are notified immediately to the Scottish Government area team.
- Grant claims will normally be paid on the basis of one claim at acquisition stage, and at monthly intervals thereafter.
- Claims and all relevant back up should be submitted through the HARP system.
- Ordinarily, claims will only be paid on the basis of **verifiable** costs. These are costs that have some form of third party verification – whether it be an invoice, '*Statement for Settlement*' in relation to an acquisition, valuation certificate etc.
- It is recognised however that some grant recipients may undertake construction projects themselves, either fully in-house or by project managing contractors. In the former case, valuations provided by in-house Quantity Surveyors will be accepted. In the latter case, valuation certificates or invoices from contractors and suppliers should be provided.
- Where claims cannot be certified (such as an acquisition), they will be accepted for payment on a claim by claim basis provided that an appropriate official at Director level has certified the claim.

### TMDF authorities

6.2 While the majority of the above procedures will apply to TMDF authorities, TMDF authorities may wish to implement an alternative approach to the one outlined in the second bullet point above.



## 7. GRANT RECYCLING

7.1 RSLs may seek the Scottish Government's consent to waive the right to recover grant when an RSL home(s) which has been previously grant funded for social rent becomes available for re-let and the RSL and the relevant local authority agree that:

- there are now strategic reasons for not re-letting at a social rent, and
- it makes strategic sense to (a) sell the home(s) on the open market for outright sale or shared equity or (b) convert the home(s) to mid-market rent.

7.2 To enable the Scottish Government to consider an application to waive the right to recover grant, an RSL should provide the following information:

- the number, size, type, and location of the social rented homes concerned
- the proposal for the homes, that is whether the RSL would wish to sell them or convert them to mid-market rent (including the reasons for selecting the proposed approach)
- the estimated value of the grant repayment to be waived
- the local authority's views of the proposal, and
- the RSL's proposal for reinvesting the grant into additional affordable housing supply.

7.3 Depending on the nature of the proposal, the Scottish Government will approve or reject the application<sup>14</sup>. Where consent is given, an RSL must then apply the confirmed value of the grant repayment that has been waived towards the agreed affordable housing supply project. (The expectation is that the full amount of the grant repayment that has been waived will be allocated to the new project. This means that the grant contribution that would have been offered on this project under the terms of the existing funding regime will be reduced by the amount of the waived repayment.)

7.4 Under current guidance, RSLs must seek the Scottish Housing Regulator's consent (and any other relevant third party's consent) prior to disposing of any properties.

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<sup>14</sup> Because receipts on disposals would otherwise have been repayable to the Scottish Government, decisions on grant recycling in Glasgow and Edinburgh will be the responsibility of the Scottish Government. Both City Councils will however be fully consulted on all factors specified in paragraph 7.2.

**FUTURE-PROOFING ACCESS TO INTERNET AND BROADBAND SERVICES**

1. In line with action 14 of the [Fairer Scotland Action Plan](#), wherever possible, homes delivered under the Affordable Housing Supply Programme should include ducting to help future-proof access to internet and broadband services.
2. Grant applicants should consider fibre broadband as being the equivalent of a utility service and should be able to demonstrate that any housing proposal has considered and/or taken account of current and future digital services requirements or installation needs. In most circumstances, this is likely to be the provision for future broadband cable connection(s) by ensuring that adequate internal ducting exists for fibre or network cable runs from a logical exterior connection point.
3. Grant applicants are advised that if ducting within homes can be shared with other services, the cost is likely to be marginal or neutral as fibre optic cabling can be inserted into existing ducting as required. If additional ducting is needed however, the cost will vary according to the size of the dwelling and the configuration of wireless and fixed data points – an indicative cost of £200 per home would be a good estimate, which should be accommodated from within the existing grant subsidy framework.
4. More generally, when planning housing proposals consideration should also be given to:
  - the provision of (a) an accessible location and power supply for central digital devices such as a wireless hub or router and (b) additional, internal spurs in living and bedroom areas, and
  - the potential impact which construction methods, materials and/ or design may have on the ability of wireless signals to penetrate within the home.

## CONVERSION FACTORS FOR BENCHMARK GRANT CALCULATION

### 3 PERSON EQUIVALENT CONVERSION FACTORS

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

#### **Project information (the following example relates to an RSL social rent – greener project in an ‘other rural’ area):**

Number of units (a)	6
Number of bedspaces (b)	22
Average bedspaces (b)/(a)	3.7
Total proposed grant (c)	£470,880
Average proposed grant per unit (c)/(a)	£78,480
Three-person equivalent conversation factor	106.3
Apply conversion factor to average proposed grant per unit (£78,480 divided by 106.3 multiplied by 100) (d)	£73,829
Compare (d) with the relevant three-person equivalent grant subsidy benchmark of £74,000 per unit	Project under benchmark at £73,829 per unit

## ANNUAL RSL SOCIAL RENT BENCHMARK ASSUMPTIONS

Social rent benchmark assumptions have been calculated using the three-person equivalent as the base (100%) and applying a conversion factor relevant to the property size to that base rent (see conversion factor table below). (NB **The current base three-person benchmark assumption is £4,082**. This represents a 1.2% (November 2016, CPI) increase to the previous benchmark figure of £4,034.)

BEDSPACES	CONVERSION FACTOR
2	89.3
3	100.0
4	109.0
5	115.5
6	120.0
7	130.0

For example, for a four-person property completing in 2017-18 the annual rent is calculated as follows – three-person equivalent = £4,082 x 109.0% (four-person conversion factor) = £4,450.

### Projected social rent benchmark assumptions

The table below shows the relevant social rent benchmark assumptions over the years 2017-18 to 2020-21 inclusive – annual year-on-year increases of 2% have been applied.

BEDSPACES	2017-18	2018-19	2019-20	2020-21
2	£3,646	£3,719	£3,793	£3,869
3	£4,082	£4,164	£4,247	£4,332
4	£4,450	£4,539	£4,630	£4,722
5	£4,715	£4,809	£4,906	£5,004
6	£4,899	£4,997	£5,097	£5,199
7	£5,307	£5,413	£5,522	£5,632

### Illustrative example:

An RSL is proposing to build 10 units for social rent which are scheduled for completion in 2019-20. The following rents are due to be charged at the point of first let:

4 no. x 2 bedspace units – £3,888 per unit per annum

4 no. x 4 bedspace units – £4,500 per unit per annum

2 no. x 5 bedspace units – £5,274 per unit per annum

The grant provider compares these rental amounts with those in the table above. While the proposed rent for the four bedspace units is lower than the relevant projected rent benchmark assumption of £4,630, the proposed rent levels for the two and five bedspace units exceed the relevant amounts (of £3,793 and £4,906 respectively). However, as the difference between the proposed rent for the two person units is less than 5% of the projected amount, no justification of affordability is required. The RSL is however expected to justify to the grant provider why the proposed rents for the five bedspace units are considered affordable given that they exceed the relevant benchmark amount by 7.5%.

## MID-MARKET RENT

### Target tenant group

1. Mid-market rent is aimed at assisting people on low and modest incomes to access affordable rented accommodation – it is important however that prospective tenants are not discriminated against as a result of the source of that income, for example, through a work or state pension or social security contributions. Income criteria will be based upon figures in the local authority's Local Housing Strategy, Affordable Housing Policy, or as otherwise agreed between individual local authorities and the relevant grant provider. Projects aimed at higher income groups are ineligible for funding.

### Grant applicants and form of tenancy

2. Mid-market rent grant applicants can be RSLs or their subsidiaries. Any parent RSL will however require to apply for consent from the Scottish Housing Regulator to the disposal of the homes by way of a lease to its subsidiary, and the subsidiary will provide households entering into a tenancy with a Private Residential Tenancy.

### Letting agent regulation – code of practice and registration

3. Part 4 of the Housing (Scotland) Act 2014 introduces a robust framework for the regulation of letting agents in Scotland. This includes:

- a mandatory register of those carrying out letting agency work, with an associated fit and proper person test and minimum training requirements that must be met to be admitted
- a statutory [Letting Agent Code of Practice](#)
- a new way for tenants and landlords to resolve complaints for breaches of the Code through the [First-tier Tribunal for Scotland \(Housing and Property Chamber\)](#), and
- powers for the Scottish Ministers to obtain information and of inspection to monitor compliance and support enforcement.

4. The Letting Agent Code of Practice is due to come into force on 31 January 2018. It (a) sets out the standards of practice that those carrying out letting agency work (as defined by section 61 of the Housing (Scotland) Act 2014) must meet in how they deliver their services and (b) will give tenants and landlords the ability to challenge poor practice.

5. Whether an RSL or its subsidiary is required to follow the code of practice for its mid-market rent properties and join the register of letting agents will depend on: the exact circumstances of its business model; the work it does; and what type of landlord it manages properties for (private or social).

6. Where an RSL or its subsidiary only manages properties that it owns directly, it will not be expected to register. However:

- if an RSL manages properties it has leased to its subsidiary company, the RSL will be expected to register, and

- if an RSL or its subsidiary manages properties for a private landlord (not a local council or an RSL) it will be expected to register.

7. Any RSL or its subsidiary which is unsure whether letting agent regulation applies to its particular circumstances should seek its own legal advice on whether it is required to comply with the code of practice and register.

8. The Scottish Government has published a [guide to letting agent registration](#). This provides further information for those undertaking letting agency work to help them understand what will be required for registration.

### **Service charge**

9. In the event that a service charge is to be included within the monthly rent, the tenancy agreement should make clear what services are included and a breakdown of the prices of each. This should be made clear in all correspondence (including advertising). A breakdown of the services included within the rent should also be shown to prospective tenants.

### **Mid-market rent information log**

10. To monitor the characteristics of who is housed in mid-market rent funded projects, the grant provider will continue to use the national monitoring system known as the '*Mid-market rent information log*'. Grant recipients must return a completed log form within 14 days of each tenancy agreement being signed. Grant recipients should note that a form is required for the first and subsequent tenancies.

## COST OVERRUNS AT PROJECT COMPLETION STAGE

1. RSL projects receiving funding through the Affordable Housing Supply Programme will be considered for additional grant in relation to unforeseeable and unavoidable cost overruns which may be identified following tender approval.
2. As detailed earlier, RSLs must notify the grant provider of cost overruns **immediately** they become apparent, together with an initial estimate of cost.
3. 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.
4. All information necessary to evidence the reasons for the cost overrun and assess the request should be submitted through the HARP system at project completion stage, including confirmation that the local authority is aware of the impact of the cost overrun on its local programme.
5. Following discussions and agreement between the grant provider and the relevant local authority, grant funding of any approved cost overruns will be met from the Resource Planning Assumption for that local authority area.
6. The grant provider will take the final decision on whether cost overrun requests are acceptable based on the evidence provided.
7. **Unforeseeable and unavoidable cost overruns which are below £20,000 or 1% of the works cost, whichever is lower, will not be considered eligible for additional grant funding. Likewise the first £20,000 or 1% of the works cost, whichever is lower, of the cost overrun will be met by the RSL.**
8. If accepted, additional capital costs above the minimum threshold amount specified in the final sentence of paragraph 7 above will normally be funded in the same '*AHSP grant : total cost*' ratio as that approved at tender stage.