

HOUSING INVESTMENT GUIDANCE NOTE

The Scottish
Government

To: All Registered Social Landlords

Subject: New Supply Shared Equity (and Shared Ownership)

Issued by: Housing Investment Division

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This guidance note tells you that the Scottish Government has shifted its emphasis away from New Supply Shared Equity for the time being, given current housing market and funding circumstances.

The guidance sets out the circumstances under which new projects may be approved for New Supply Shared Equity. It also sets out actions to be taken in the case of existing new supply projects where grant has been approved for shared equity.

These procedures take immediate effect and will be reviewed and revised where appropriate to take account of changes in the housing market and any detailed guidance on mid-market rent (MMR).

This Guidance Note has been copied to Glasgow and Edinburgh City Councils, SFHA, COSLA and Homes for Scotland.

You will find a copy of this guidance note on the Scottish Government website under:

<http://www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/guidancenotes>

If you have any questions about any of the above, please contact your local Scottish Government Regional Office or, in the case of Edinburgh and Glasgow, the City Councils.

Introduction

The Scottish Government recognises the funding difficulties for purchasers and for registered social landlords (RSLs) due to current market conditions, and the impact these are having on many New Supply Shared Equity projects. A small number of RSLs still promote new shared ownership projects. The provisions of this Guidance Note also apply to Shared Ownership projects.

The current uncertainties which affect New Supply Shared Equity do not affect the Open Market Shared Equity Pilot in the same way. The expansion of the Open Market Shared Equity Pilot will continue as previously announced.

Approval of new projects

Where the Local Authority has identified a strategic need for New Supply Shared Equity and where a registered social landlord is willing to provide this, a new project may be approved. It is expected however that there will be a significant shift in approvals away from New Supply Shared Equity in favour of other AHIP priorities.

The strategic priorities of Local Authorities are a critical factor in addressing where any New Supply Shared Equity will continue to be promoted. The Guidance Note has therefore been copied to all Local Authorities via COSLA.

Any future New Supply Shared Equity or Shared Ownership projects which are agreed should follow existing administrative procedures - (HIGN 2008/10 in the case of New Supply Shared Equity).

Existing New Supply Shared Equity or Shared Ownership Units

Where existing New Supply Shared Equity or Shared Ownership units are currently being marketed, or currently being built, RSLs should review in consultation with the grant provider and local authority whether the units can be successfully marketed in the current climate.

1. Where properties cannot be successfully marketed

- 1.1 Where properties cannot be successfully marketed, the grant provider and local authority may:
 - agree to the RSL converting the properties to social rent on a permanent basis or;
 - agree to the RSL letting the properties at mid-market rent (MMR) for a limited period and subject to conditions.
- 1.2 In the event of projects converting to rent, the grant provider will determine any additional grant payment based on standard HAG assumptions. The timing of actual payments of grant will be advised by the grant provider and will depend on when resources are available.

1.3 If it is intended to let properties at MMR then:

- this should be for a limited period agreed with the grant provider and not for more than five years, at which stage future options including continued MMR should be reviewed in consultation with the Local Authority;
- the specific agreement of the Local Authority must be obtained;
- the grant provider will make clear to the RSL that it is the responsibility of the RSL to ensure that:
 - it has the appropriate powers to participate in MMR;
 - it has checked that this activity fits with its charitable objects, where this is relevant;
 - it has in place policies for the fair operation of a MMR scheme; and
 - it obtains any necessary consent from the Scottish Housing Regulator.

In this respect RSLs should note the terms of William Fleming's letter to the SFHA and others of 20 October 2008 which is attached at **Annex A**, in particular paragraph 2 which confirms the need for MMR properties to be let through a subsidiary or an appropriate leasing arrangement;

- the rents should be set at a level between social rent and market rent and should not exceed Local Housing Allowance levels for housing benefit purposes. Allocation policies will prioritise households in housing need. Both rent levels and allocation policies will be agreed with the Local Authority; and
- no grant will be payable in excess of that which would have been payable for shared equity. Actual grant required will be reviewed by the grant provider by no later than the end of the agreed period and any excess income over actual operating costs will be repayable to the grant provider.

2. Where the RSL chooses to continue marketing units for Shared Equity

Existing New Supply Shared Equity (or Shared Ownership) projects which do proceed by agreement to sale should continue to follow existing administrative procedures.

Marketing strategies and/ or selling prices (with advice from the District Valuer) should be reviewed to reflect current market conditions. It is at the discretion of the grant provider and local authority to widen the target client group or exercise flexibility on qualifying household size.

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20 October 2008

HOUSING FOR MID-MARKET RENT: CRITERIA FOR GOVERNMENT SUBSIDY

Dear Colleague

In August the Scottish Government set out a number of housing measures that it was taking in response to the changing economic climate. These measures included plans to accelerate up to £100 million of its investment programme in affordable housing and a willingness to consider giving RSLs subsidies from the programme to buy or develop properties for mid-market rent (MMR). The purpose of this letter is to notify you of the criteria that the Scottish Government will apply in considering requests from RSLs for such subsidies and to offer guidance to any RSLs that might be considering the use of their own resources to acquire properties for MMR without Government subsidy.

By MMR the Government means properties not let under a Scottish Secure Tenancy (SST) and rented at a rate that is higher than the rent charged on SST properties, but below that charged in the local market for non-SST properties. As RSLs may only offer SSTs and short SSTs, they would be expected to let MMR properties through a subsidiary or an appropriate form of leasing arrangement.

The Government requires that subsidy in support of MMR developments should be available only where such developments will:

- Help to meet an identified local need for affordable housing;
- Offer good value for, and safeguard, public expenditure; and
- Be managed effectively.

To ensure that these objectives are met in every case, requests for subsidy must:

Demonstrate how they would help to meet local need for affordable housing

This should include demonstrating:

- How a proposal would contribute to delivery of the local housing strategy, and in particular how it would assist in the provision of affordable housing to rent on terms other than a SST.
- That the proposed tenure and level of MMR would meet an identified demand in the area of the planned development.
- Support for the proposal from the local authority and the local office of the Scottish Government's Housing Investment Division (HID).
- That expenditure by the RSL in support of the proposal would not displace expenditure on a higher priority core social housing development, or affect adversely the RSL's ability to raise private finance for higher priority core social housing.

Demonstrate how they would represent good value for public expenditure

This should include demonstrating:

- That the level of expenditure is the minimum necessary to achieve the proposed level of MMR – and in any event is no greater than would be required if the Government's standard Housing Association Grant (HAG) allowances and assumptions were applied to the proposed level of MMR.
- That properties to be acquired are of a satisfactory technical standard.

Demonstrate how they would safeguard public expenditure

This should include demonstrating:

- That the public expenditure will be paid to a RSL, or a subsidiary of a RSL, and will be used to contribute to the permanent provision of affordable housing by the RSL or its subsidiary.
- That there are arrangements for handling the disposal of assets acquired with public expenditure which ensure that any receipts are returned to the Government or (with the agreement of the local HID office) used to support the provision of other affordable housing.
- That there are arrangements for ensuring any surpluses generated by a MMR development are used to support the provision of other affordable housing.

Demonstrate competence to manage the proposed development

This should include demonstrating:

- A track record in developing and managing affordable housing effectively and efficiently.

- Governance and management structures that permit MMR developments to be undertaken and that are capable of managing any risks to public expenditure or the core business of the (parent) RSL identified as arising from the proposal.

In addition to the Government applying these criteria, an RSL will need to decide whether its proposals require it to obtain consent for disposal from the Scottish Housing Regulator (SHR) under the terms of the Housing (Scotland) Act 2001. Therefore, any agreement by the Government to pay subsidy is subject to the SHR granting any necessary regulatory consent.

Where a RSL decides to acquire or develop stock for MMR without Government subsidy and subsequently seeks HAG to support new social housing developments, the Government will take into account the extent to which the MMR development satisfied its criteria and any impact that the development had on the RSL's subsequent need for HAG.

RSLs seeking further information about Government support for future MMR schemes should contact their local HID office (and in the case of Glasgow and Edinburgh, the local authority officials responsible for managing development funding).

For information about the role of the SHR in granting regulatory consent, see its *Guide to Section 66 of the Housing (Scotland) Act 2001 - Disposals of Land or Property (SHR guidance note 14)*, available at www.scottishhousingregulator.gov.uk.

Yours faithfully

A handwritten signature in black ink, appearing to read 'William Fleming', with a stylized flourish at the end.

William Fleming