

WOODLAND CROFTS: INFORMATION PAPER

HOUSING ASSOCIATED WITH NEW WOODLAND CROFTS POTENTIAL FUNDING OPTIONS

1. Background

This paper briefly considers the funding options that the Scottish Government (SG) can make available to support various types of housing development.

The SG's aim in providing public subsidy for housing, is to ensure that the most appropriate type of housing is built in the correct locations in a manner that will help to meet the housing needs and objectives of particular areas, communities and groups of people.

The Local Authority (LA) is responsible for establishing the need for new and improved housing throughout its area of operation. Its housing priorities and objectives are set out in its published Local Housing Strategy (LHS).

Broadly, an LHS sets out how the Local Authority will address the housing needs of groups of individuals and communities within its area of operation, in a way that will sustain and improve social and economic development. At a more local level, housing need could include for instance, individuals who require to live and/or work locally.

Housing providers who receive public subsidy are expected to direct their house development activity to meeting the housing need specified in the LHS. This helps to uphold the principle that public money is applied to meeting the housing requirements of those most in need across Scotland.

Consequently, all publicly funded housing should be of a type, and in a location that will help to meet the objectives and priorities detailed in a Council's LHS.

Housing provision falls into two broad categories of tenure i.e. Housing for Rent and Housing for Home Ownership. Different types of funding can be made available depending on the type of tenure being proposed.

Also, the type of organisation used or established to take forward any housing development will affect the funding options that may be available to support it.

There are legal issues relating to how the provision of housing can be influenced and controlled by sale agreements, occupancy agreements and tenancy agreements. Community Groups embarking on a housing projects require to seek their own legal advice.

2 Funding

If no public sector funding is required, then a community would be free to set any allocation, occupancy and conditions of use for the house, subject to what is permissible under Scots law.

If public sector funding is required, conditions would apply to the allocation and future use of the house.

Funding can be made available to the following to provide housing:-

Registered Social Landlords/Housing Associations (RSLs)

Individuals

Others including Community Groups, Trusts, Registered Companies etc

2.1 Housing for Rent

HAG **Housing Association Grant** is available to RSLs to acquire or build housing which can be let at an affordable rent. (See example at Annex 1)

RHfR **Rural Homes for Rent.** A pilot scheme has been announced to provide rural landowners with access to public subsidy for the provision of housing which they would make available at affordable/social rents and which would be managed consistent with the standards offered by RSLs. (Further details to be announced)

REPG **Rural Empty Property Grant** is available to allow private landlords develop houses for rent, by bringing empty property in rural locations back into housing use.

2.2 Housing for Home Ownership

LIFT The Scottish Government's **Low-cost Initiative for First-Time Buyers** is a shared equity scheme which helps people to buy a home in partnership with an RSL. An owner generally pays between 60 and 80 per cent of the price of a home – with the remainder held by an RSL and funded through the grant.

Priority for accessing such housing is based on criteria which are agreed with the Local Authority and the Scottish Government, and should be geared towards meeting local community need.

Shared Ownership Grant is available to RSLs to build houses which are subsequently sold for “low cost home ownership”, targeted at applicants whose assets/income has been assessed as insufficient to buy a house outright on the open market. The occupier's housing costs can vary according to the type of mortgage and the size of the ownership share (e.g. 25%, 50% etc). Shared ownership occupiers have the right to buy further 25% tranches of the equity up to and including 100% (after one year's occupancy), which means that they then become the sole owner, although the RSL can retain a “golden share” to control onward sale.

RHOG **Rural Home Ownership Grant** is designed to assist individuals in rural areas who wish to become owner-occupiers but are unable to do so for reasons of cost, availability or location (see example at Annex 1)

GRO **Grant for Owner Occupation** provides eligible developers with the minimum level of funding needed to meet the difference between the cost of building

a house and the sale value of the house upon completion. The maximum level of grant payable is 33% of total costs, and in exceptional circumstances can rise to 40%. These limits apply to the total of GRO grant and any other public funding which is received by the grant applicant.

2.3 Eligibility

To receive Scottish Government (SG) funding, the grant recipient must be a legal entity, and a formally constituted body. (NB: RHOG is made available to individuals).

The grant recipient must demonstrate access to the skills and expertise required to deliver the project, and is also required to evidence control of the site, a right of access to the site, and permission to develop.

The Table below sets out the potential types of funding that can be made available through the Scottish Government (Housing & Regeneration Division) depending on the housing provider used, and the type of tenure proposed:-

	HOUSING FOR OWNER OCCUPATION				HOUSING FOR RENT	
Housing Provider	RSL	Individual	Community and/or Registered Company as Developer	Trust	RSL	Community, Trust and/or Registered Company as Landowner
Funding	LIFT Shared Ownership (HAG)	RHOG	GRO	GRO RHOG where acting as agent for individual	HAG	RHfR REPG

Key:

<u>HAG</u>	Housing Association Grant
<u>GRO</u>	Grant for Owner Occupation
<u>RHOG</u>	Rural Home Ownership Grant
<u>REPG</u>	Rural Empty Property Grant for the provision of affordable rented units.
<u>RHfR</u>	Rural Homes for Rent (Pilot)
<u>LIFT</u>	Low-cost Initiative for First-Time Buyers (Shared Equity)

3 Housing Providers

3.1 Registered Social Landlord (RSL)

An RSL is an independent non profit distributing organisation that is controlled by a voluntary Board or Management Committee. RSLs are free to undertake activities and/or to pursue policies as they see fit (either directly or through a subsidiary), so long as they are compatible with their adopted rules, and the regulations under which they have been registered. In order to receive SG funding, RSLs must be registered

with the Scottish Housing Regulator. (Some RSLs are also registered as charities, and are consequently subject to additional regulation). RSLs are required to meet various standards as set out in *Performance Standards for Social Landlords and homelessness functions*. [The Scottish Housing Regulator](#)

3.2 Trusts, Registered Companies and Private Landlords - For SG funding purposes, Trusts are regarded as private development companies and can also access grant which is available to support the development of owner occupation.

3.3 Grants to individuals

Rural Home Ownership Grants can be made to individuals to develop their own home. A need to live locally must be demonstrated and grant levels are subject to the outcome of a means test on the applicant's financial assets and income. This grant is repayable should the house be sold within the first ten years.

Funding can also be provided through the Crofters Commission "Croft House Grant Scheme" (CHGS), and also carries conditions. This is a discretionary grant scheme offering financial assistance of between £22,000 and £11,500 - depending on location - to support the building of new houses on crofts. It should be noted that the site on which the house is to be built *must* be part of the croft.

<http://www.crofterscommission.org.uk/>

4.0 Further Information

This paper does not imply the availability of funding for any particular project. Scottish Government funding is directed to meet ministerial targets and Local Authority priorities as set out in published Local Housing Strategies.

Further Information and more detailed guidance relating to funding the provision of affordable housing, and the functions of Registered Social Landlords is available from the Scottish Government website <http://www.scotland.gov.uk>

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ANNEX 1 - How is Grant Calculated?

Housing Association Grant

RSLs receive Housing Association Grant (HAG) to fund the provision of affordable rented housing. The amount of SG grant funding available to fund any project must be contained within an agreed percentage of the overall project costs. (Recent grant levels of around 75% will be reduced in future years).

Actual grant levels are determined through an appraisal process which includes assessing the cost of development, and the income that could be achieved through rent or following sale. If the house is for rent, the level of private finance that can be supported by the rental income will also be assessed.

Particular challenges can be presented where the cost of purchasing land is high, and/or where there are high costs associated with accessing services (water/sewerage, power) and establishing the infrastructure (roads, paths, power etc). Consequently, the valuation placed on any land being considered for housing can have a crucial bearing on the potential to attract Scottish Government funding.

In some situations, it is considered necessary to protect the long term value of the public subsidy provided to fund housing in rural areas that may subsequently be sold on at a profit to the owner. "Rural Housing Burdens" are clauses introduced to a contract of sale. They are intended for use by certain housing bodies, and allow them the right to repurchase a property in the event of it coming up for sale.

Basic HAG calculation:

Example – House Costing £133,350 (Total Cost)

Rental Income	£3,224 pa (£62 per week)
Less Management and Maintenance etc	<u>£1,408 pa</u>
Surplus Income	£1,816 pa
Surplus Income can fund Borrowing of	£32,928
Gap between Total Cost and Borrowing	= level of HAG subsidy
= £133,350 - £32,928	= £100,422 Grant (75.3%)

Projects for which SG grant is sought are appraised against benchmark figures to determine whether the project would represent value for money to the public purse. Examples of the CS benchmarks for a three person house as at 2007/08 are:

<u>Area</u>	<u>Total Cost Benchmark (under review)</u>
Orkney	£129,353
Shetland	£127,585
Eilean Siar	£119,630
Lochalsh and Skye	£133,356
Badenoch & Strathspey	£119,630
North East Mainland	£113,859
West Mainland	£139,745
Moray/Beaully/Inverness	£118,228

Basic RHOG calculation:

Example – House Costing £112,000, with available funds of £87,000.

Project Costs:

	£
House Erection	70,000
Land	30,000
Site Servicing	8,000
Fees	<u>4,000</u>
Total Costs	112,000

Funded By:

	£
Mortgage	80,000
Savings	<u>7,000</u>
	87,000
Plus Grant*	25,000 (approx 22% of Total Cost)

*Grant of up to 33% can be provided depending on circumstances.