

REPORT TO: HOUSING, DUNDEE CONTRACT SERVICES AND
ENVIRONMENT SERVICES COMMITTEE -
28 SEPTEMBER, 2009

REPORT ON: SCOTTISH GOVERNMENT £25M FUNDING TO KICK
START COUNCIL HOUSING BUILDING 2010/11 -
DUNDEE CITY COUNCIL BID

REPORT BY: DIRECTOR OF HOUSING

REPORT NO.: 470-2009

1. PURPOSE OF REPORT

- 1.1. The purpose of the report is to seek Committee approval to the Council's bid for a share of the £25m funding from the Scottish Government to kick start Council housing for the second tranche of money to be made available for 2010/11-2011/12.

2. RECOMMENDATIONS

- 2.1. It is recommended that Committee agree the attached bid for £500,000 from the Scottish Government fund of £25m to kick start Council housing.

3. FINANCIAL IMPLICATIONS

- 3.1. The Council has approved capital expenditure of £14.28m over 2009/10 to 2011/12 to build the remainder of the 135 new build Council houses.
- 3.2. This bid for additional funding, if successful, will enable the Council to build 20 units which will contribute to the regeneration of the Hilltown area.

4. THE BID

- 4.1. The Scottish Government published its proposals for housing in 2007 in the document "Firm Foundations : the Future of Housing in Scotland". Within Firm Foundations the Scottish Government proposed providing incentives for new Council house building. The intention being to make incentives available by awarding subsidy on a competitive basis to those Council demonstrating the most effective and efficient ways of using their prudential borrowing requirement to meet need for social housing in their areas.
- 4.2. In 2008 the Scottish Government announced that it would make available £25m as subsidy to Councils to kick start Council house building. For 2009/10 Dundee submitted a bid in January, 2009 and was subsequently awarded £800,000 towards the provision of 32 wheelchair units.
- 4.3. An announcement was made by the Government in April, 2009 that it would be inviting applications for a second round of £25m funding to be made available for construction commencing in 2010/11-2011/12.

4.4. As before the aim in allocating the £25m is to maximise the number of new houses build of sufficient quality, in the right places. Six overarching principles for allocating the subsidy are set out, these are:

- The Council has the ability to manage the stock effectively;
- The Council has the prudential borrowing capacity and/or uses other financial resources;
- The required subsidy will be no more than £25,000 per house;
- The area has housing need and the new homes will contribute towards meeting the 2012 homelessness target;
- The Council has well developed plans to ensure delivery of new housing;
- The number of units built is maximised within available resources without having to compromise on design quality.

4.5. Report No. 624-2007 approved by Committee on 10 December, 2007 approved proposals to increase the supply of accessible Council housing through purchase of suitable properties on the open market and the development of new Council housing.

4.6. The attached bid, if successful, will provide additional resources for the delivery of the agreed programme and assist the Council in meeting identified housing need. It will also contribute to the regeneration within the Hilltown area.

5. **POLICY IMPLICATIONS**

5.1. This report has been screened for any policy implications in respect of sustainability, strategic environmental assessment, anti poverty, equality impact and risk assessment. There are no major issues.

6. **CONSULTATIONS**

6.1. The Chief Executive, Depute Chief Executive [Support Services], Depute Chief Executive [Finance], Head of Finance, Assistant Chief Executive and all other Chief Officers have been consulted on this report. No concerns have been expressed.

7. **BACKGROUND PAPERS**

7.1. None.

Elaine Zwirlein
DIRECTOR OF HOUSING

September, 2009

DUNDEE CITY COUNCIL

Incentivising New Council House Building Second Round Application - September 2009

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Section 1 Introduction

Local Housing Strategy

Dundee City Council's current Local Housing Strategy contains the following objectives: to tackle low demand in all sectors; assist those in housing need; to secure warm dry homes to the Dundee standard which meet individual needs at reasonable cost and to enable a well managed and maintained environment.

The objectives include:

- Meeting SHQS by 2015, delivering the fuel poverty strategy, securing investment in physical quality in all sectors and regenerating unpopular areas.
- Tackling low demand in all sectors by ensuring that supply matches demand through new build or rehabilitation to ensure homes of size/type/location that people want and removing unwanted housing.
- Assisting those in housing need by removing the requirement to sleep rough, providing bespoke housing or adapt existing housing to meet the needs of those with disabilities/particular needs, providing housing support services and ensuring equality of access.
- Enabling a well managed and maintained environment by encouraging good management in all sectors, tackling anti social behaviour and ensuring that the design of housing and environmental improvements contribute to community safety.

Dundee has in the past faced problems of de-population and over supply of social rented housing, latest statistics show that the population has stabilised at around 142,150. Therefore the City Council is currently managing a demolition programme of 1,900 units. These properties are mainly multi storey flats for which there is no demand, high management costs and high investment needs. The Council is working in partnership with RSLs to facilitate re-housing of households within clearance and redevelopment areas, but this process is made more difficult by the reduction in new build units currently being provided within the AHIP. Given the likelihood of further public spending pressures it is likely that resources available to finance the AHIP will decline going forward.

The Council is also encountering difficulties in providing alternative re-housing for households with particular needs. Presently the clearance of multi storey flats in the Hilltown area is being delayed by the need to find accommodation for families with severe medical needs who need specially adapted housing.

Dundee City Council maintains joint waiting lists with RSLs for those applicants requiring wheelchair accommodation. The waiting list for wheelchair housing at April 2008 was 65. Over 2008/09 30 lets have been made to applicants by the Council and RSLs, at April 2009 there were 60 applicants on the waiting list. Nine lets have been made over April to June, the waiting list currently has 54 applicants. Included on the waiting list are many applicants who have waited for significant periods of time for suitable accommodation including veterans from the armed forces. It will not be possible to meet needs of the applicants on the list without providing the wheelchair housing and housing all on one level under the Council's new build programme.

The Council has identified 4 major regeneration areas, Whitfield, Mill O Mains, Hilltown and Lochee. The Council is working with RSLs within these areas to remove unpopular and unwanted housing and replace this with lower density family housing. The general needs element of the Council's new build programme is aimed at complementing these strategies.

Smaller properties dominate the Council and RSL sector with 80% of the stock consisting of properties with 2 bedrooms or less. 17% have 3 bedrooms and only 5 % have 4 or more bedrooms.

The bid

Therefore the Council is submitting a bid for £25,000 per unit for 20 units, a total of £500,000 for the development of small sites at Ann Street/Nelson Street within the Hilltown Regeneration area. These are key sites in the regeneration of the Hilltown area, identified as a priority within the LHS. Due to limited AHIP funding the provision of new social rented housing is being delayed. This has consequent effects on the re-housing of tenants from properties scheduled for demolition, who have a strong desire to remain within the area.

These 20 units will consist of 8 X 3 bedroom larger family houses with level access, bedrooms and bathroom on the ground floor and 12 flats. The flats will be constructed to ambulant disabled standards, with a lift in the block. The houses will be built to ambulant disabled standards, including bathrooms and bedrooms on the ground floor. These construction standards are required to meet particular rehousing requirements but have cost implications which can be assisted by the funding application.

The total cost of the units will be £2.450M.

No of units	Subsidy per unit	Planning approval	Site preparation	Construction start	Construction end
12 - Ann Street/Nelson Street	£25,000	June 10	Nov 10	Jan 2011	Dec 2012
8 - West Ann Street	£25,000	June 10	Nov 10	Jan 2011	Dec 2012
Total subsidy	£500,000				

The Council works in partnership with RSLs and will seek to involve RSLs in the design process.

Section 2 Ability to manage and maintain the stock

The council provides housing management services to its tenants from two district offices in the east and west of the city. The council will provide housing management services to the tenants within these new build properties from the existing office bases and with existing management IT systems.

The council will manage the additional properties within existing staffing resources thereby maximising value for money and marginally reducing per unit management costs to benefit the HRA.

Section 3 Financial resources and subsidy level

The 135 unit new build programme is being financed within the Council's HRA prudential borrowing capacity. The Council's City Development Department has calculated rents for the

new build programme based on the Council's current rent policy GAV. NPV and revenue budget calculations have been prepared for the programme at these rent levels which show that the properties are self financing over a 30 year period and therefore there is a neutral effect on the HRA. Rent levels are set out in the table below.

House Type	Weekly Rent New Build (48 weekly basis)
2-bed semi detached	£93.75
3-bed terraced	£100.00
3-bed semi detached	£108.29
3-bed detached	£125.79 £127.98
4-bed semi detached	£137.50
Average Weekly Rent	£108.90

Prudential borrowing

The financial analysis attached at Annex A demonstrates that the Council has the ability to undertake the necessary prudential borrowing to deliver the capital investment necessary to meet SHQS by 2015 and to deliver the 135 unit new build programme.

The total borrowing for the 135 house new build programme is £18,956,860, borrowing for these 20 units will be in the region of £2,450M. The annual loan charges associated with the 135 houses are £1,030,170, £133,141 relating to these 20 units.

Loans to fund the new build programme are repaid over 40 years at an interest rate of 4.5%.

	£ debt	Loan charges as % of income
Total debt at March 2011 - no new build	£127.2M	33.9%
Total debt at March 2011 - 33 new build units	£131.6M	34.7%
Total debt at March 2011 - 135 new build units	£146.0M	37.5%

Annual rent increases

The Council's initial SHQS Standard Delivery Plan assumed an inflation rate of 3% and assumed rent increases at inflation +1%. A basket of indicators is used to determine the inflation rate at September each year. Actual rent increases are set out in the table below. Rent levels in line with these assumptions have been delivered up to 2008-09. Due to the increase inflation rates the formula led to a rent increase of 5.9% for 2009/10.

	Weighting	Index (calc at Sept)	2009 - 10 Weighted index	2008 - 09 Weighted index	2007 - 08 Weighted index
Producer prices index	40%	8.5	3.4	2.6	1.4
General RPI	40%	5.5	2.2	1.1	1.4
Pay award	20%	2.5	0.5	0.5	0.5
Composite inflation index			6.10	4.2	3.3

Inflation +1%			7.10	5.2	4.3
Rent increase applied			5.9%	4.0%	4.0%

SHQS Capital receipts to date / planned

In the first 4 years of the Standard Delivery Plan capital receipts have totalled £9.43M.

YEAR	LAND SALES INCOME
2005/06	£2.87M.
2006/07	£4.46M.
2007/08	£1.87M.
2008/09	£0.73M.
2009/10	£600K. (estimate)

We are currently testing the market for land sales in 2009 and will be marketing 3 sites. Initial indications from the marketing of the first site are favourable. It is estimated that up to £2.3M may be received from capital receipts in 2009/10. Within the SDP it is estimated that by 2015 we will realise capital receipts from land sales totalling £30M.

Management costs

It is important to re-iterate that in terms of Dundee City Councils HRA management costs that the cost of running the sheltered housing service is met in full by service charges and therefore the effect on the HRA is neutral.

SHQS Root and Branch Review

A Root and Branch Review of the SHQS Standard Delivery Plan is currently underway and is progressing well. The Review will report towards the end of 2009.

Section 4 Housing need and homelessness target

Housing Need and Demand

In 2008 the Council commissioned Craigforth to complete an updated Housing Needs, Demand and Affordability Study.

The Report has found that the ongoing demolition programme has helped to reduce the risks of low demand. There are around 11,000 social housing applicants in Dundee. Social rented pressure ratios have increased from 2.1 in 2004/05 to 4.4 in 2007/08. The greatest pressure is for larger properties, around 15% of applicants with needs points require a dwelling with 3 or more bedrooms. Social rented pressure ratios for larger properties are above the pressure benchmark of 6 applicants with needs points per letting. Therefore households in need requiring larger dwellings have less chance of acquiring a suitable home than those assessed as needing smaller dwellings. In order to address unmet housing need where it is most acute social rented provision comprising of dwellings with 3 or more bedrooms is required to reduce waiting times for the scarcest properties.

The allocations for affordable housing programme within Dundee and the neighbouring councils are detailed below. The allocation reduced to £7.766M in 2008/09 and has increased to £10M in 2009/10. Allocations going forward into the next 3 year spending review are not known at this time.

Dundee City Council's LHS and SHIP set out the need for 200 units per year to be provided under the Affordable Housing Investment Programme. At the current levels of allocation it has not been possible to deliver this target. Unless allocations to the City increase substantially in future years it is unlikely that the target will be achieved.

	2007/08	2008/09	2009/10
Dundee City Mainstream programme	£10.000m	£7.766m	£10.000m
Perth and Kinross Mainstream programme	£14.000m	£10.886m	£15.500m
Angus Mainstream programme	£4.798m	£3.890m	£4.798m

Homelessness

Discussions have taken place previously with the Scottish Government on the Housing Need studies used nationally to provide indicators of need for local authorities. These apparently show Dundee to be below the median in terms of homeless and affordable housing need. Information has been provided to the Council on the Waugh model, however the present data for Dundee City Council has not been available and we believe this to be somewhat out of date. We have been informed that national data is currently being prepared.

Homelessness within Dundee City Council has increased significantly over recent years, this is against the national trend. Some comparative statistics detailing trends are set out in the table below.

	2005/06	2006/07	2007/08
Scotland	60,730	59,594	57,028
Dundee	1,938	2,101	2,379
Fife	4,170	4,386	3,641
Angus	1,251	1,116	1,228

Dundee's homeless presentations increased from 957 in 2002/03 to 2,379 in 2007/08, an increase of 149%. Whilst there has been a decline of 7% in homeless applications nationally since 2005/06, the trend in Dundee has seen an increase of 23%. The rate of presentation within Dundee is well above that in other major cities and is now third highest across all Scottish Local Authority areas.

The numbers of 16 year olds declared homeless in Dundee has more than doubled in the past 3 years, from 31 in 2004/05 to 65 in 2007/08. The number of 16 year olds declared homeless in Edinburgh, Glasgow and Aberdeen dropped markedly over the same period.

The current increasing demand, along with the need to meet the 2012 changes to the Homelessness legislation, place further pressure on the supply of social rented housing within Dundee.

Section 5 Demonstration of well developed plans

The Council has tendered partnering contracts with developers for the development of design and build housing built to housing with varying needs standards and the Council's design specifications. The Council is scheduling a site start for January 2011 with completion in December 2012, we note that subsidy will not be provided until financial year 2011/12 or after the units have been built, whichever is the later.

The Council approved its new build housing programme in 2007. Committee approval will be sought for this brief on 28 September, 2009.

Section 6 Maximum number of homes

The project outlined contributes towards the Council delivering its Local Housing Strategy by the provision of new build housing within the Hilltown regeneration area. The provision of these units will assist in meeting particular housing need within the area and will assist in re-housing households from planned demolition sites.

The Project is supported within the SHIP and does not adversely impact on the delivery of other projects being funded through the Affordable Housing Investment Programme.

The procurement approach the Council has adopted, design and build contracts with partner developers, achieves effective delivery and minimises costs by working in partnership to produce high specification homes to the Council's standards maximising sustainability and minimising running costs for tenants to address fuel poverty.

Section 7 Risks and mitigating actions

Possible risks	Mitigating actions
Site availability/condition	Sites are owned by the Council. Site condition surveys have yet to be commissioned for West Ann Street
Planning permission	Small sites are under 50 units and streamlined planning processes will apply
Availability of funding	The Council has the necessary prudential borrowing capacity and has programmed finances to accommodate the developments

Section 8 Contact details for additional information

For further information on the submission contact:

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Annex A: Scottish Local Authority New Build Financial Proforma
Round 2 - June 2009

Dundee City Council

Where monetary values are required, please enter them in nominal/cash terms

	Cells which must be filled in
	Cells calculated by spreadsheet

Part A reflects the financial position excluding proposed Round 2 new build, i.e. the financial position due to current stock, plus new build from Round 1, plus any other planned new build that will be carried out even if no funding is received in Round 2	A-1	Estimated overall HRA position for 2009/10 excluding proposed Round 2 new build		Total	Per unit
	1	Stock as at 30 September 2009	units	13,730	n/a
	2	HRA debt as at 30 September 2009	£000	131,058	£9,545
	3	HRA loan charges for 2009/10	£000	14,869	£1,083
	4	- of which capital repayment	£000	7,090	£516
	5	- of which interest charges	£000	7,779	£567
	6	Net rental income (gross rents less voids and arrears) for 2009/10	£000	39,011	£2,841
	7	Loan charges as a % of net rental income	%	38.1%	n/a
	8	Supervision & Management expenditure for 2009/10	£000	9,417	£686
	9	Repairs & Maintenance expenditure for 2009/10	£000	15,329	£1,116
	10	Capital Expenditure Funded from Current Revenue (CFCR) for 2009/10	£000	0	£0
	11	Average weekly rent (52 week basis) for 2009/10	£	55.42	n/a
	12	Pooled HRA interest rate for 2009/10	%	5.4%	n/a
	A-2	Peak and trough indicators for overall HRA (excluding Round 2 new build units) during the period 2009/10 to 2014/15		Value	Year
	13	Peak total HRA debt	£000	152,042	2011/12
	14	Peak HRA debt per unit	£	10,983	2011/12
	15	Peak total HRA loan charges	£000	18,467	2013/14
	16	Peak HRA loan charges per unit	£	1,394	2014/15
	17	Peak HRA loan charges as a % of net rental income	%	39.6%	2012/13
	18	Peak Supervision & Management expenditure per unit	£	1,022	2014/15
	19	Peak Repairs & Maintenance expenditure per unit	£	1,126	2014/15
	20	Trough CFCR per unit	£	0	n/a
	21	Peak average weekly rents (52-week basis)	£	68.26	2014/15

Part B reflects the financial position if the bid in Round 2 is successful	B-1	Round 2 new build activity summary		Total	Per unit
	22	Round 2 new build addition to stock	units	20	n/a
	23	Construction costs	£000	2,450	£123
	24	Land costs	£000	0	£0
	25	Other costs (fees, preliminaries, etc.)	£000	0	£0
	26	Total capital costs for Round 2 new build	£000	2,450	£123
	27	Scottish Government grant (the maximum subsidy per unit is £25,000)	£000	500	£25
	28	Additional borrowing required for Round 2 new build stock	£000	1,950	£98
	29	Interest rate on additional borrowing	%	4.5	n/a
	30	Average weekly starting rents for Round 2 new build stock (52-week basis)	£	108.00	n/a
	31	Average rental premium for Round 2 new build stock compared to current rents (line 11)	%	95%	n/a
	B-2	Peak and trough indicators for overall HRA (including Round 2 new build units) during the period 2009/10 to 2014/15		Value	Year
	32	Peak HRA debt	£000	153,992	2011/12
	33	Peak HRA debt per unit	£	11,112	2011/12
	34	Peak HRA loan charges	£000	18,573	2013/14
	35	Peak HRA loan charges per unit	£	1,400	2014/15
	36	Peak HRA loan charges as a % of net rental income	%	39.7%	2012/13
	37	Peak Supervision & Management expenditure per unit	£	1,021	2014/15
	38	Peak Repairs & Maintenance expenditure per unit	£	1,124	2014/15
	39	Trough CFCR per unit	£	0	n/a
	40	Peak average weekly rents (52-week basis)	£	68.32	2014/15