

## MORE HOMES DIVISION GUIDANCE NOTE



Scottish Government  
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 supersedes MHDGN 2019/01 and takes immediate effect. It details the **process** for planning the delivery of the majority of grant-funded homes through the Affordable Housing Supply Programme. And it outlines the **procedures** to be followed by grant applicants and grant providers when delivering grant-subsidised homes for social rent, mid-market rent and new supply shared equity through the Programme.<sup>1</sup>

This guidance note reflects or incorporates the following changes:

- The requirement for security services on affordable housing projects which are being delivered with the support of grant funding to be provided by contractors or sub-contractors which are registered under the Security Industry Authority's [Approved Contractor scheme](#) – Section 1 (paragraphs 1.9 and 1.10 refer), with HIGN 2011/02 now being superseded with the publication of this guidance note.
- The provisions of the Housing (Amendment) (Scotland) Act 2018 removed the Scottish Housing Regulator's powers of consent under the Housing (Scotland) Act 2010 and came into force on 8 March 2019. This means that Registered Social Landlords (RSLs) do not now need to apply to the Regulator for consent to disposals of land or assets. As such, previous references to obtaining the Regulator's consent to such disposals have been removed from this guidance note.
- Annex C – This sets out the new RSL social rent benchmark assumptions which will now be used for grant assessment purposes.
- Annex D – This now contains (a) reference to a [digital tool](#) to help landlords to create a Model Private Residential Tenancy Agreement and (b) further information about the Letting Agent Code of Practice (paragraphs 5 and 6 therein refer).

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<sup>1</sup> Separate guidance is available on the Open Market Shared Equity scheme, 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.**

## INDEX

	Page no.
1. <a href="#"><u>AFFORDABLE HOUSING SUPPLY PROGRAMME – OVERVIEW</u></a>	4
2. <a href="#"><u>PROGRAMME PLANNING PROCESS</u></a>	7
<ul style="list-style-type: none"><li>• Procurement</li><li>• Strategic Housing Investment Plans</li><li>• Strategic Local Programme Agreements – non TMDF authorities and TMDF authorities</li><li>• Programme Agreements</li><li>• Scottish Housing Regulator – thematic inquiry</li></ul>	
3. <a href="#"><u>FUNDING APPLICATIONS AND APPRAISAL PROCEDURES</u></a>	11
<ul style="list-style-type: none"><li>• Acquisition applications</li><li>• Tender applications<ul style="list-style-type: none"><li>○ Grant subsidy benchmarks – social rent and mid-market rent</li><li>○ Social rent levels – RSL social rent benchmark assumptions and local authority social rents</li><li>○ Mid-market rent</li><li>○ Grant subsidy benchmarks – new supply shared equity</li><li>○ Housing tender returns</li><li>○ Private and other finance</li></ul></li></ul>	
4. <a href="#"><u>GRANT OFFER, COST OVER-RUNS AND ADAPTATIONS</u></a>	17
5. <a href="#"><u>PROJECT COMPLETION</u></a>	18
<ul style="list-style-type: none"><li>• Social rent and mid-market rent</li><li>• New supply shared equity</li></ul>	
6. <a href="#"><u>PAYMENT OF GRANT</u></a>	20
<ul style="list-style-type: none"><li>• Non-TMDF authorities</li><li>• TMDF authorities</li></ul>	
7. <a href="#"><u>GRANT RECYCLING</u></a>	21
<a href="#"><u>ANNEX A</u></a> : Future-proofing access to internet and broadband services	22
<a href="#"><u>ANNEX B</u></a> : Conversion factors for RSL social rent and mid-market rent benchmark grant calculation	23
<a href="#"><u>ANNEX C</u></a> : Annual RSL social rent benchmark assumptions	24
<a href="#"><u>ANNEX D</u></a> : Mid-market rent	25
<a href="#"><u>ANNEX E</u></a> : New supply shared equity	27
<a href="#"><u>ANNEX F</u></a> : RSL cost overruns at project completion stage	45

## 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 the provision of housing for low cost home ownership (most notably the new supply shared equity scheme)<sup>2</sup>:

- *Homes for social rent* 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.
- *Homes for mid-market rent* are let under a Short Assured Tenancy or, from 1 December 2017, under a Private Residential Tenancy.
- *New supply shared equity homes* are homes which are for sale on a shared equity basis and which are (a) built by local authorities or RSLs (b) purchased by local authorities or RSLs at an appropriate discount from private developers or (c) developed by local authorities or RSLs for existing owner occupiers whose homes are scheduled for demolition and who wish to participate in an agreed area redevelopment plan.

### 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.

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<sup>2</sup> As well as homes delivered through the new supply shared equity scheme, the provision of grant-subsidised homes for low cost home ownership also includes housing for shared ownership and improvement for sale.

<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.

## 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 above.

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, as well as Scottish Natural Heritage's report on [maximising the benefits of green infrastructure in social housing](#).<sup>5</sup>

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<sup>5</sup> For the purposes of Scottish Natural Heritage's report, green infrastructure is defined as: *'The use of greenspaces and any vegetated land or water to deliver benefits for people and nature. GI includes parks, open spaces, playing fields, woodlands, wetlands, floodplains, road verges, allotments and other growing spaces, private gardens, green roofs, green walls as well as blue infrastructure such as sustainable drainage systems, ponds, swales, raingardens, wetlands, rivers and canals'*.

## **Security Industry Authority – Approved Contractor scheme**

1.9 Grant recipients must ensure that when security services are being provided under contracts being supported by grant funding, any security services contractor or sub-contractor is registered under the Security Industry Authority's [Approved Contractor scheme](#) for the relevant category of service provision. Where more than one contractor or sub-contractor is employed then each must be separately registered under the scheme and registration must be maintained for the duration of the contract. Similarly, should a contractor or sub-contractor cease to be employed any replacement contractor must also be registered.

1.10 In order to comply with the above, appropriate clauses must be incorporated in any contract documentation specifying the requirements applying to the provision of security services. Prior to awarding any contract therefore, grant recipients will need to check or obtain confirmation from their project consultants that the proposed security services contractor and any sub-contractors are registered under the Security Industry Authority's Approved Contractor scheme.

## 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 consider the scope and potential benefits of collaborative approaches such as:

- 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 continue to discuss procurement approaches with local authorities as part of their ongoing, routine engagement.

### ***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 working with Scotland Excel to provide a programme of support for the RSL sector. 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. 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 can form the basis of individual RSL and local authority Programme Agreements (where these are requested by grant applicants). 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.

### *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.

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<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.



## *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).

2.15 T MDF 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.

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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.

2.16 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 (where these are requested by grant applicants).

#### *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 those local authorities and RSLs which request one 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 Section 3, projects in this position will be subject to more detailed scrutiny.

#### **Scottish Housing Regulator – thematic inquiry**

2.22 More generally, grant applicants should note that the Scottish Housing Regulator's March 2017 publication [Development of Affordable Housing in Scotland - a thematic inquiry](#) shared positive practice for social landlords developing affordable homes. The Regulator's report sets out 10 principles to help social landlords considering developing homes. Applying these principles will help landlords manage and mitigate risk, achieve value for money for tenants and meet Regulatory Standards. The 10 principles cover the importance of a landlord being clear about why it is developing homes in the first place and how this fits within its overall business strategy. The principles also cover risk, capacity, procurement and funding as well as governance.

### **3. FUNDING APPLICATIONS AND APPRAISAL PROCEDURES**

3.1 Funding applications for social rent, mid-market rent and new supply shared equity 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 any individual Programme Agreements.

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.

#### **Acquisition applications**

3.4 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.

3.5 It is important however that a robust appraisal of the development opportunity is carried out before an acquisition takes place to ensure that the proposal is viable and represents value for money. For example, while grant applicants should continue to undertake proper investigations as part of the normal acquisition process, grant applicants are advised that unknown abnormalities can be considered as part of the missives. Where this happens, grant applicants would need to purify the condition of purchase within an agreed timeframe in order for the acquisition to take place. Such a course of action enables grant applicants to satisfy themselves that there are no abnormalities, or to have them costed and the price adjusted accordingly, prior to the purchase concluding.

#### **Tender applications**

##### ***Grant subsidy benchmarks – social rent and mid-market rent***

3.6 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)		

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

#### *Geographic location*

3.8 To check whether an area might be classed as ‘*remote/ rural Argyll*’, reference should be made to the Scottish Government [Urban Rural Classification, 6-fold](#).

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

- Open the following file within the [Scottish Government Urban Rural Classification 2016 webpage](#): *Scottish Government Urban Rural Classification 2016 - Postcode Lookup [CSV, 11386.4 kb: 10 Jan 2019]*
- Find the relevant postcode in column A – column J gives the classification of the project as follows:
  - 1 – Large urban area
  - 2 – Other urban area
  - 3 – Accessible small town
  - 4 – Remote small town
  - 5 – Accessible rural area
  - 6 – Remote rural area

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

#### *‘Greener’ homes*

3.11 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 (that is, full Bronze Level plus Aspects 1 and 2 of Silver Level).

3.12 *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.

3.13 *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*

3.14 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.

3.15 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*

3.16 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.

3.17 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 3.34). 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.

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

3.19 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.

### ***Social rent levels***

3.20 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.

3.21 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*

3.22 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.

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

### *Local authority social rents*

3.24 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***

3.25 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).

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

3.26 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).

3.27 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.

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

#### ***Grant subsidy benchmarks – new supply shared equity***

3.29 No grant subsidy benchmarks have been set for new supply shared equity units – the grant provider's contribution is however expected to be lower than £40,000 per unit.

#### ***Subsidy calculation***

3.30 When undertaking a new supply shared equity project it is vital that property valuations are obtained as soon as possible. If the total value of the properties does not exceed the total project costs then the project is unlikely to be supported by the grant provider.

3.31 Once a positive value to cost has been established then the tranche sales assumed at tender stage need to be determined. If these are assumed too high and those levels are not realised at sale then the grant recipient will have to cover that cost difference until project reconciliation at completion stage. If they are higher, those funds remain with the grant recipient until completion stage.

3.32 The following example provides a breakdown of how the grant provider's subsidy for new supply shared equity properties would be calculated at tender stage. This methodology can be used in advance of inputting the information into HARP to determine whether the project is viable.

Unit type	No. of units	Market value	Total sales value	Assumed tranche sales	Sales income
3 person/ 2 bed house	2	£130,000	£260,000	65%	£169,000
3 person/ 2 bed flats	2	£118,000	£236,000	65%	£153,400
5 person/ 3 bed house	2	£155,000	£310,000	65%	£201,500
<b>Total unit sales</b>					
	6				£523,900
<b>Total sales value</b>			£806,000		
<b>Total project cost</b>					£753,550
<b>Total subsidy required</b>					<b>£229,650</b>
<b>Total subsidy required per unit</b>					£38,275

3.33 Further information on the provision of homes for new supply shared equity is available at [Annex E](#).

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

3.34 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 social rent, mid-market rent and new supply shared equity project through the HARP system as part of the tender application process.**

### ***Private and other finance***

3.35 At tender application stage, RSLs must confirm and detail all of the sources of project funding that are in place.

3.36 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 RSLs must notify any unforeseen and unavoidable cost over-runs to the grant provider **immediately** when 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 F](#), 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, mid-market rent and new supply shared equity to be adapted to suit the particular requirements of the household 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 and new supply shared equity.

<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 (social rent, mid-market rent and/ or new supply shared equity) 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.

### Social rent and mid-market rent

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 unforeseen and unavoidable cost overruns ([Annex F](#)).

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).

5.4 In cases where the ownership of homes transfers to another affordable housing provider post completion, the grant provider will arrange for the obligations of the grant offer to transfer to the recipient organisation when the transfer takes place.

### New supply shared equity

5.5 To record final project details, grant recipients should submit through HARP an initial project completion application – wherever possible this should be done within one month of the date of practical completion. In order to record ongoing property sales, further project completion applications should be submitted through HARP at three monthly intervals until all the properties are recorded on the system as having been sold.

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

- consider any requests from RSLs for additional grant funding to cover any unforeseen and unavoidable cost overruns ([Annex F](#))
- 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 (including where – for justifiable reasons – sales receipts differ from projected levels), and
- identify whether any grant requires to be increased or repaid (for example, in cases where a substantial reduction in capital costs has occurred).

5.7 The examples set out below show how a new supply shared equity project can change from tender to completion stage. These changes will all be captured on HARP and a revised grant offer issued to reflect the final project costs and subsidy.

***After sale – sales income below that assumed at tender stage***

Unit type	No. of units	Market value	Total sales value	Assumed tranche sales	Sales income
3 person/ 2 bed house	1	£130,000	£130,000	66%	£85,800
3 person/ 2 bed house	1	£130,000	£130,000	60%	£78,000
3 person/ 2 bed flats	2	£118,000	£236,000	60%	£141,600
5 person/ 3 bed house	1	£155,000	£155,000	71%	£110,050
5 person/ 3 bed house	1	£155,000	£155,000	62%	£96,100
<b>Total unit sales</b>	<b>6</b>				<b>£511,550</b>
<b>Total sales value</b>			<b>£806,000</b>		
<b>Total project cost</b>					<b>£753,550</b>
<b>Total subsidy required</b>					<b>£242,000</b>
<b>Total subsidy required per unit</b>					<b>£40,333</b>
<b>Additional subsidy for the grant recipient</b>					<b>£12,350</b>

***After sale – sales income above that assumed at tender stage***

Unit type	No. of units	Market value	Total sales value	Assumed tranche sales	Sales income
3 person/ 2 bed house	1	£130,000	£130,000	66%	£85,800
3 person/ 2 bed house	1	£130,000	£130,000	63%	£81,900
3 person/ 2 bed flat	1	£118,000	£118,000	61%	£71,980
3 person/ 2 bed flat	1	£118,000	£118,000	75%	£88,500
5 person/ 3 bed house	1	£155,000	£155,000	70%	£108,500
5 person/ 3 bed house	1	£155,000	£155,000	67%	£103,850
<b>Total unit sales</b>	<b>6</b>				<b>£540,530</b>
<b>Total sales value</b>			<b>£806,000</b>		
<b>Total project cost</b>					<b>£753,550</b>
<b>Total subsidy required</b>					<b>£213,020</b>
<b>Total subsidy required per unit</b>					<b>£35,503</b>
<b>Subsidy to be returned to the grant provider</b>					<b>(£16,630)</b>

## 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.)

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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 RSL SOCIAL RENT AND MID-MARKET RENT 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

<b>Project information (the following example relates to an RSL social rent – greener project in an ‘other rural’ area):</b>	
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 £4,306**. This represents a 2.3% (November 2018, CPI) increase to the previous benchmark figure of £4,209.)

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 2019-20 the annual rent is calculated as follows – three-person equivalent = £4,306 x 109.0% (four-person conversion factor) = £4,693.

### Projected social rent benchmark assumptions

The table below shows the relevant social rent benchmark assumptions over the years 2019-20 to 2022-23 inclusive – annual year-on-year increases of 2% have been applied.

BEDSPACES	2019-20	2020-21	2021-22	2022-23
2	£3,845	£3,922	£4,000	£4,080
3	£4,306	£4,392	£4,480	£4,569
4	£4,693	£4,787	£4,883	£4,981
5	£4,973	£5,073	£5,174	£5,278
6	£5,167	£5,270	£5,376	£5,483
7	£5,598	£5,710	£5,824	£5,940

### Illustrative example:

An RSL is proposing to build 10 units for social rent which are scheduled for completion in 2021-2022. The following rents are due to be charged at the point of first let:

4 no. x 2 bedspace units – £4,055 per unit per annum

4 no. x 4 bedspace units – £4,758 per unit per annum

2 no. x 5 bedspace units – £5,562 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 £4,883, the proposed rent levels for the two and five bedspace units exceed the relevant amounts (of £4,000 and £5,174 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. While mid-market rent grant applicants can be RSLs or their subsidiaries, it will be for the subsidiary to provide households entering into a tenancy with a Private Residential Tenancy. In this respect, the Scottish Government has developed a [digital tool](#) to help landlords to create a Model Private Residential Tenancy Agreement.

### 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 came 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) gives tenants and landlords the ability to challenge poor practice.

5. Paragraph 22 of the code makes it clear that a letting agent must not unlawfully discriminate against a landlord, tenant or prospective tenant on the basis of their age, disability, sex, gender reassignment, marriage or civil partnership, pregnancy or maternity, race, religion or belief or sexual orientation.

6. Applying blanket policies such as insisting that an applicant must be able to afford rent without recourse to housing benefit, or refusing to accept a guarantor where there is no credit history, may breach the requirements of paragraph 22. RSLs and their subsidiaries which are subject to the code (see below) should ensure that their advertising, credit checking and allocation policies and practices support people on low and modest incomes to access mid-market rent and do not inadvertently discriminate against groups with protected characteristics.

7. 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).

8. 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.

9. 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.

10. 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**

11. 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.

## NEW SUPPLY SHARED EQUITY

### Introduction

1. Please note that throughout this Annex the term '*grant recipient*' should be taken to include local authorities and RSLs (including RSL wholly-owned subsidiaries where they are the chosen vehicle for providing new supply shared equity properties). In addition, any reference to rights and obligations contained in documentation which is referenced in this Annex is purely for convenience and regard can only be had to the documentation itself upon which appropriate legal advice should be taken.

2. New supply shared equity grant recipients should be aware that they are – in certain cases – acting as principals (in relation to the procuring of developments) and in other cases (for example in all aspects of the Shared Equity arrangements with a purchaser) acting as agents for the Scottish Ministers. In all circumstances however grant recipients **must** follow the procedures set out in this Annex and have due regard to the interests of the Scottish Ministers. They must also ensure that all duties of care owed to them by their advisors and contractors (including valuers) are properly extended to the Scottish Ministers.

### Target groups

#### *First time buyers*

3. New supply shared equity homes are available to first time buyers on low to moderate incomes who cannot buy a home without assistance from the scheme.

4. For the purposes of administering the scheme a first time buyer is defined as '*A person who does not own nor has previously owned a dwelling in Scotland, the rest of the UK or the rest of the world (all forms of ownership in the legal system of the rest of the UK which are equivalent to ownership in Scotland are treated as ownership)*'.<sup>15</sup>

5. Where joint applications are received and one of the applicants is not a first time buyer the application cannot be processed.

#### *Priority access groups*

6. In addition, priority access is given to the following groups of people (who do not need to be first time buyers):

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<sup>15</sup> This applies whether title was taken either individually, jointly or in common *pro indiviso* (that is where ownership of a dwelling is/ was held by two or more parties in individual shares). The definition of what constitutes a first time buyer is in line with the definition used for the purposes of Land and Buildings Transaction Tax and is set out in further detail on the [Revenue Scotland website](#).

- people living in social housing
- disabled people
- people aged 60 or over (see below)
- members of the Armed Forces
- veterans who have left the Armed Forces within the past two years, and
- widows, widowers and other partners of service personnel for up to two years after their partner has lost their life while serving.

### *Applicants who are aged 60 and over*

7. Applicants who are aged 60 and over and who wish to apply for support from the scheme without mortgage finance are considered as a priority access group providing they fulfil the following criteria:

- Applicants must demonstrate a housing need to move which must include at least one of the following:<sup>16</sup>
  - Under-occupation – the applicant is living in property which is too large and needs to downsize.
  - The applicant's existing property is no longer suitable to meet their needs – (e.g. they can no longer manage the stairs).
  - Support – the applicant needs to move closer to family or friends that provide care and support.
  - Living in private rented accommodation.
- Joint applications will be eligible (without the requirement for a mortgage) from couples where one of the applicants is aged 60 or over.
- Joint applications with an applicant aged 60 or over and their offspring under the age of 60 will be eligible, without the requirement for a mortgage, if the applicants can demonstrate that the offspring has a disability that affects their housing needs or ability to sustain a sole occupancy.

### ***Existing or previous home owners***

8. New supply shared equity may also be used to provide affordable home ownership for existing or previous home owners who are unable to sustain or move back into home ownership due to a significant change in household circumstances – for example, a marital breakdown.

9. Grant recipients must make sure that duties under the applicable [Equality Act](#) Codes of Practice are met when targeting the new supply shared equity scheme.

10. Non-United Kingdom nationals are eligible for assistance under the new supply shared equity scheme so long as they do not have a home elsewhere and meet any other eligibility criteria set for the scheme.

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<sup>16</sup> This list is not exhaustive and other circumstances can be considered as evidence of housing need.

11. Grant recipients must be satisfied that the target client group(s) cannot reasonably meet their needs within the locality through buying on the open market without subsidy.

### **Eligible property types and sizes**

12. Care should be taken in considering the types of housing required. Whilst the primary focus of new supply shared equity is to meet the needs of first-time buyers, this does not necessarily mean the need is solely for '*starter homes*'. For example, as noted above, new supply shared equity can be used to meet the needs of older people for retirement accommodation.

13. More generally, purchasers will not be allowed to buy a home which is more than one apartment size larger than their current need<sup>17</sup> unless there are exceptional reasons, for example, due to disability or family breakdown. In the case of someone with particular housing needs arising from a disability, professional advice should be sought to determine any need for larger accommodation over and above this limit. In the case of family breakdown, the number of people in the household **may** include children who only spend part of the time in the property due to parental shared access. Evidence would need to be provided however to demonstrate the need for larger accommodation in such cases.

### **Equity stakes**

14. People buying a new supply shared equity property from a grant recipient must generally take an equity stake of between 60 and 80 per cent of the market value of the property, as set by the District Valuer. The grant recipient may however agree to reduce the minimum equity stake to 51 per cent. This is likely to apply where a housing market is particularly pressured, in a regeneration area or where people with particular housing needs have identifiable additional housing costs.

15. The grant recipient may waive the minimum equity stake requirement for existing owner occupiers whose homes are scheduled for demolition or for those aged 60 or over who have a housing need. This means the minimum equity stake can, in these circumstances, be lower than 51%. These buyers would be expected to invest, as a minimum, the value of their existing property in an equity stake of the new property. If there is any likelihood of the equity stake being funded purely from the value of the existing property with no lending from an external source it is important that the relevant grant provider is advised at as early a stage as possible. In all cases, the maximum initial equity stake that any purchaser can take is 80 per cent of the market value of a property.

16. The level of equity stake that the Scottish Ministers will have in a property depends on the level of equity stake taken by a purchaser. For example, if a purchaser has an equity stake amounting to 60 per cent of the market value of a property, the Scottish Ministers would have a 40 per cent equity stake in the market value of that property.

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<sup>17</sup> An apartment is classified as any habitable room, but does not include kitchens, bathrooms, box rooms, utility rooms or hallways. Glass conservatories do not qualify as an apartment.

17. Grant recipients must inform applicants that they are expected to make payment of all sums due under the new supply shared equity scheme when they sell their home. Grant recipients should note that the shared equity arrangements between the Scottish Ministers and individual shared equity owners are intended to run indefinitely. The Scottish Government has made an amendment to the 20 year security rule pursuant to powers contained in the Housing (Scotland) Act 2014. The amendment takes effect on 15 February 2019 and removes the right to redeem securities after 20 years for those participating in designated schemes (including the new supply shared equity scheme).

18. With the exception of existing owner occupiers whose homes are scheduled for demolition, people buying a new supply shared equity property must be means tested in order to establish eligibility (see below).

### **The responsibilities associated with buying a home under the scheme**

19. An applicant will be responsible for their own legal and valuation costs incurred in relation to the purchase, and for all tax and registration costs. An independent valuation is required for every transaction, even if the home buyer is not financing the purchase with a mortgage. This may be the case for applicants aged 60 and over. Unlike shared ownership, an owner has full title to the property and will not make occupancy payments.

20. An owner is expected to occupy the property as their only residence and they will be responsible for keeping the property in a good and habitable state of repair. As well as making mortgage repayments and paying tax to their local authority, an owner must also insure their property. An owner is responsible for all maintenance, repair and insurance costs and not just a percentage and, if the property has common and shared areas, they will be responsible for paying all common maintenance or service charges attributable to their property.

21. In so far as practicable, grant recipients should provide applicants with information on common maintenance and/ or service charges, and in relation to the homebuyer's warranty or guarantee which will apply to the new build property at an early stage as well as reliable and realistic information about when the construction of the property may be finished and other matters referred to in the Consumer Code for Home Builders (see below).

22. Grant recipients are expected to follow the [Factoring Guidance](#) published by the Scottish Federation of Housing Associations in relation to the future management and maintenance of the project and/ or block in which each shared equity property is located.

23. An owner is not allowed to let the property or any part of it to a third party. Previously permission to let was given for limited periods in exceptional circumstances. However, when the Short Assured Tenancy was replaced by the Private Residential Tenancy – in terms of the Private Housing (Tenancies) (Scotland) Act 2016 – landlords were no longer able to provide for the tenancy to run for a limited period of time since a key aspect of the Private Residential Tenancy is that, once created, it continues without limit of time and landlords can only recover vacant possession if (a) the tenant gives notice of their intention to leave or (b) certain grounds exist which justify an eviction order. This means that letting for short periods is not compatible with the new legislation and will not therefore be granted.

24. Grant recipients should make sure that applicants are made aware of these obligations (and the associated financial responsibilities) when they apply for a new supply shared equity property. Grant recipients should also recommend that applicants fully discuss these and all other costs and restrictions – whether arising from the shared equity documentation, the primary lender’s documentation or otherwise – with their financial and legal advisers.

### **Processing legal documentation**

25. The new supply shared equity scheme legal documentation contains a [template sale offer](#) to be used by the solicitors acting for the grant recipient when operating the scheme. This template offer includes references to the separate legal documents which will regulate the Scottish Government’s equity stake in a property (the shared equity agreement, the standard security in favour of the Scottish Ministers and the ranking agreement).

26. Scottish Government solicitors have been appointed to provide legal services for the new supply shared equity scheme and they will liaise closely with the grant recipient and their solicitors in order to handle the preparation, completion and registration of the shared equity documentation.

27. In essence, the solicitors appointed by the Scottish Government (currently Harper Macleod LLP, The Ca’d’oro Building, 45 Gordon Street, Glasgow, G1 3PE) will deal with the shared equity agreement, the standard security and the ranking agreement among the Scottish Ministers, the purchaser and the primary lender. Everything else including acquisition, title examination, burdens/ deed of conditions/ development management scheme/ disposition of individual houses, searches etc will be dealt with by the grant recipient’s own solicitor. This will ensure that the lines of responsibility of both the grant recipient and the Scottish Ministers are clear and avoid any duplication of title work or additional costs.

28. As noted above, the scheme [legal documentation](#) contains a standard style of offer to sell which the solicitors which are acting for the grant recipient should complete subject to any amendments and additions which they and the grant recipient deem necessary and/ or desirable in accordance with good market practice and the nature of the development as well as the principles underpinning the Consumer Code for Home Builders (see below).

29. Once agreed, the grant recipient’s solicitors should make a formal offer to sell to the solicitors acting for the purchaser.

30. If accepted the grant recipient’s solicitors will progress the sale of the plot in the normal manner in accordance with their duty of care whilst the Scottish Government solicitors will deal with the shared equity documentation.

31. RSLs must also ensure that they have all appropriate licences and authorisations for consumer credit purposes in relation to their role in the administration of new supply shared equity transactions. (Local authorities do not require any particular licences or authorisations in order to administer new supply shared equity transactions.) As a consequence of responsibility for the regulation of consumer credit being transferred from the OFT to the Financial Conduct Authority (FCA) with effect from 1 April 2014, any applications for authorisation after that date must be made to the FCA. The Scottish Government has issued [guidance](#) on the impact of the changes to the FCA legislation on RSLs administering shared equity schemes. RSLs may also wish to consider guidance that has been provided to them by the Scottish Federation of Housing Associations on this particular issue.

32. Shared equity agreements which are entered into from 21 March 2016 will no longer be classified as regulated consumer credit agreements, provided that they fall within the definition of '*exempt housing authority loans*' as set out in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. This should then mean that undertaking debt administration and debt collection in relation to such exempt loans will not themselves be regulated activities for which an RSL would require FCA authorisation. In order to qualify as '*exempt housing authority loans*', borrowers (i.e. shared equity purchasers) must be given timely information on the main features, risks and costs of the loan at the '*pre-contractual stage*'.

33. Grant recipients must therefore ensure that a letter in terms of the [template](#) set out is issued to all prospective purchasers who have been assessed as eligible for shared equity support, to explain the key features of the equity loan. This letter must be issued by the grant recipient **before** the grant recipient instructs its solicitors to issue to the purchaser's solicitors a formal legal offer for the sale of the property – this is required so that the explanation to the prospective purchaser is given at the '*pre-contract*' stage.

## **Price**

34. Projects should be developed which produce housing at a value appropriate to the income level of the client group(s). The income level of the target group(s) and hence the purchase price that can be afforded with grant support will be an important factor in determining where new supply shared equity takes place.

## **Location**

35. The housing developed should be both within the means of the target group(s) and in the appropriate location, taking into account factors such as travel to work times and proximity to schools and community amenities.



36. New supply shared equity primarily aims to increase the supply of affordable housing ‘*in and around*’ pressured housing markets<sup>18</sup>. Where there is tension between the cost of development within a particular area and providing affordable prices for the intended group, grant applicants will have to make a judgement about developing outside the area – in a location that is still appropriate for the intended group(s).

37. In addition, there is a recognised need for flexibility in developing local responses to local housing market circumstances. As a result, the scheme can also be an option in other areas where there is an identifiable local need.

38. In all cases however, location should also reflect Local Housing Strategy and Strategic Housing Investment Plan priority areas for investment.

## **Publicity**

39. Grant recipients should ensure that any publicity material they produce for projects meets all statutory requirements and is discussed in advance with their advisers and the trading standards department of the relevant local authority. In particular, for Scottish Government shared equity loans to qualify as ‘*exempt housing authority loans*’, the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 requires that all advertising must be fair, clear and not misleading.

## **Establish affordability and conduct means testing**

40. Whilst the market assessment will provide information on the broad income levels of those households who are unable to enter the home ownership market as a result of market pressures being experienced locally, grant recipients **must** undertake a detailed financial assessment of individual household circumstances using the criteria set out below. This information will be obtained from the standard [application form](#) which grant recipients **must** ask prospective purchasers of properties to complete when they are applying to the scheme.

41. The underlying principle of this is that the applicant purchases the maximum amount of equity that they can reasonably afford, taking account of other financial commitments and the associated costs of home ownership. Local authorities may provide guidelines on the maximum income levels of applicants which they and RSLs may, in turn, publish as part of their eligibility criteria. Care should be taken to ensure that these take account of applicants with particular needs.

42. The maximum level of mortgage that the applicant is capable of funding and any other personal contribution they are able to make will be based on the following criteria.

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<sup>18</sup> A ‘*pressured market*’ is an area where demand for housing outstrips supply, pushing prices beyond an affordable level for large numbers of people. These areas are identified in local authority Local Housing Strategies.

## Income assessment

43. An applicant should provide the grant recipient with details of all sources of finance when formally applying to the scheme. This information will be used by the grant recipient to determine the anticipated value of mortgage finance (if applicable), and the value of any other personal contributions. Mortgage lending must be in the form of a capital repayment mortgage – interest only mortgages are not permitted. A household income will be considered to be the total of:

- gross earnings, per single person or couple, as appropriate
- any other income, comprising sickness benefits, unemployment benefit, bank interest, superannuation or pension from previous employment, working families tax credit, widow's pension and shareholder's profits, and
- personal contributions comprising savings, gifts or other financial contributions.

44. The definition of personal savings includes: cash, premium bonds, stocks and shares, unit trusts, bank or building society accounts and fixed-term investments, the surrender value of any endowment policies, property, redundancy payments, and pension lump sum payments.

45. For applicants aged 60 or over who are not buying with a mortgage, establishing household income will be less important. However, grant recipients will want to be satisfied that this type of applicant is contributing the proceeds from the sale of their current or previous property. An applicant may retain £5,000 of any personal contributions held. Above this amount, 90 per cent of the balance will be treated as a contribution towards the purchase of a property.

46. A '*rule of thumb*' for the estimated maximum mortgage for an applicant in employment would be as follows:

- individual application – individual salary x 3.0 = estimated maximum, or
- joint application – joint salary x 2.5 = estimated maximum.

47. In the event that it is a joint application but only one applicant works then the individual application rule would apply.

48. Grant recipients should note that the '*rule of thumb*' will not be appropriate in the case of applicants who are self-employed. For these cases, a Decision in Principle and one Key Facts illustration from a reputable mortgage provider would be acceptable for assessment purposes. Normally lenders will require sight of a minimum number of years' accounts before providing a mortgage quote although some allow self-employed people to self-certify their income. The rule of thumb does not apply to those applicants who are aged 60 or over and who are applying to purchase without a mortgage.

49. An applicant should provide details of the anticipated level of mortgage finance available. Applicants are normally required to provide at least one Decision in Principle from a mortgage provider. Mortgage searches can leave '*footprints*' on the applicant's credit history which may affect the applicant's ability to obtain credit. An applicant should therefore be made aware of the need to confirm with their mortgage provider whether a quote will include any form of credit search. If a quote does require a credit search the mortgage provider should explain to an applicant any potential consequences. The mortgage provider should also obtain the applicant's consent before carrying out the search. This will not apply for applicants aged 60 or over who are not using a mortgage to purchase through the scheme.

50. The '*rule of thumb*' should be used to compare the Decision in Principle provided by an applicant. In the event that the level achieved by an applicant is less than the rule of thumb, an applicant must provide the grant recipient with written evidence confirming why this is the case. If the level achieved by an applicant is more than the rule of thumb, an applicant must provide written evidence from their independent financial advisor confirming that they are able to sustain that higher level of borrowing over the long term.

51. The issue of how any debts incurred by applicants are treated will require to be considered by grant recipients. Secondary loans incurred for housing purposes, essential transport costs, or to meet care and support costs may be taken into account. However, grant recipients may also decide to consider loans taken out for other purposes.

52. Where an applicant with particular needs will be using their benefit entitlement to support a mortgage, a multiplier will be an inappropriate measure. The assessment should therefore be conducted using knowledge of the benefit entitlements of disabled people, reference to which is made in below.

53. Having satisfied the grant recipient of the maximum level of funds the applicant can raise, it becomes self-evident whether they satisfy entry into the scheme financially and the maximum level of equity they can afford to purchase.

54. It is also essential that applicants are fully aware of their housing related costs and the financial responsibilities that come with home ownership. At a local level this should be done through:

- grant recipients encouraging applicants to seek independent legal and financial advice on all housing-related costs at the earliest possible stage, and
- ensuring well designed servitudes and burdens/ deeds of condition are produced at an early stage particularly in the case of properties with common and shared parts and considering the introduction of development management schemes (as set out in the Title Conditions (Scotland) Act 2003).

55. Where households have, of necessity, exceptional housing and living costs which can be evidenced, greater flexibility will be required in the operation of the new supply shared equity scheme. This may result in provision having to be considered in locations that would otherwise not be considered (as a result of support networks, employment or other factors) or accommodation requiring to be purpose designed resulting in additional costs. These factors, together with the additional living costs that such households face, may result in lower levels of equity stake requiring to be considered (to a minimum of 51 per cent).

56. In addition, in exceptional cases an applicant with a severe disability may have received a compensation payment as a result of an injury. Where the applicant provides evidence that they need to keep funds aside to meet additional living costs (for example, the cost of employing a carer), such compensation payments should not affect a buyer's eligibility for the scheme and the applicant may not need to meet the standard requirement to put 90% of their savings over £5,000 towards the purchase of a property. These factors should be taken into account particularly when the applicant is aged 60 or over.

57. There are no set formulae for identifying additional costs but they should be capable of being evidenced by professional supporters or other sources. A means test and affordability exercise consistent with that for other applicants should be undertaken.

58. The complexity of mortgages repaid solely through benefits mean that a grant recipient should consider the need to employ specialist assistance from an organisation experienced in the issues facing people with particular needs when buying a home.

59. Illustrative case studies on establishing affordability and conducting means testing are provided in [Annex E, Appendix 1](#).

### **Third party warranties**

60. Third party warranty premiums will be eligible for grant funding. Third party warranties are a mandatory grant requirement for all types of projects.

61. The grant provider will accept NHBC Buildmark, Zurich and Premier Guarantee third party warranty schemes cover, or such other third party warranty scheme as may be acceptable in terms of the Council of Mortgage Lenders' (now UK Finance) Handbook for Scotland.

62. In situations where the grant recipient owns the land which is to be developed for new supply shared equity, NHBC Buildmark and Premier Guarantee each require the land owner and builder to be registered under their respective warranty schemes so that effectively a double registration premium is required. A second registration premium will be eligible for grant funding only where it can be demonstrated that this provides value for money.

## Consumer Code for Home Builders

63. Documentation in connection with sales of new build property under the shared equity arrangement are set out in the [legal documentation](#). Although the established view is that the [Consumer Code for Home Builders](#) (*'the Code'*) does not apply to a sale of this nature, the Scottish Ministers take the view that grant recipients should abide by the spirit of and principles underpinning the Code and that it is reflected in the sale offer.

64. Grant recipients should discuss the terms of the Code with their solicitors and adapt it to the development as appropriate. Without prejudice to that, grant recipients and their solicitors should note the following:

- If there is a reservation fee payable in advance of formal offer there should be a written Reservation Agreement in terms of and subject to Condition 2 (Information – pre-contract) of the Code.
- If there is no reservation fee or the reservation fee is only payable after conclusion of missives it has been decided that a Reservation Agreement will not be required. Grant recipients should, however, set out clear details of the estimated cost and nature of any management services the home buyer must pay for. The offer accordingly requires the solicitor acting for the home buyer to confirm as part of their acceptance that this has been done.
- A similar issue arises with the terms of the home warranty where the home buyer's solicitor again agrees on their behalf that the terms of cover have been explained to them.
- The covering letter sent to the home buyer's solicitor along with the offer should draw these matters to their attention.
- Grant recipients should, as a matter of course, provide bespoke advice in relation to health and safety precautions and information on:
  - the layout, appearance and plot position of the home
  - the list of home contents
  - the standards to which the home is being built, and
  - a contact person or personnel.

65. Grant recipients must ensure that a letter in terms of the template set out in the [template sale offer](#) is issued to all prospective purchasers who have been assessed as eligible for shared equity support, before the grant recipient instructs its solicitors to issue to the purchaser's solicitors a formal legal offer for the sale of the property – this is required so that the explanation of the key terms of the equity loan is given at the '*pre-contract*' stage.

66. Once the sale is effected grant recipients are required to provide the following:

- an appropriate after sales service all in accordance with the published [After Sale Shared Equity Procedures](#)
- advice on health and safety precautions when living in a development where building work takes place
- an appropriate system and procedures for receiving, handling and resolving buyers service calls and complaints as well as advice on dispute resolution, and
- an explanation of the arrangements to complete any work outstanding at handover.

67. These should be provided in accordance with the Code, together with any other matters which may be required in order to comply with the spirit of and principles underpinning the Code.

68. In providing an after sales service, grant recipients should recognise that the contractual arrangements relating to the design and construction of the houses are between the grant recipient and the building contractor/ developer and design team, and that individual home buyers have no direct contractual recourse against those third parties in the event of snagging or defects arising in their home. This is one reason why the provision of an appropriate third party warranty is a mandatory grant requirement as set out in above, but in keeping with the spirit of the Code grant recipients should also have procedures in place to assist home buyers in bringing relevant matters to the attention of the builder/ developer during the applicable defects period and in ensuring that such matters are appropriately addressed. It will not generally be sufficient for the grant recipient to simply refer the home buyer to the terms of their third party warranty cover.

69. Grant recipients should also ensure that, in their contracts with the builder/ developer, appropriate provisions are included so that the grant recipient can enforce any after sales arrangements against the builder/ developer if required. For example, when negotiating its contract with the builder/ developer, grant recipients should seek to harmonise the duration of the contractual defects liability period with the duration of the period in the Code for reporting defects (two years), and may wish to consider whether to insert specific defects/ snagging reporting arrangements, which permit home buyers to report concerns directly to the builder/ developer, and which require the builder/ developer to remedy such matters within agreed timescales.

70. Where required and practicable grant recipients should be prepared to enforce the terms of the building contract against the builder/ developer for the benefit of affected home buyers, and should have regard to any outstanding complaints made by home buyers before releasing any contract retention upon the expiry of the defects liability period in the building contract.

### **Monitoring who is housed**

71. The Scottish Government monitors who is housed in properties funded by the new supply shared equity scheme. Grant recipients must return a completed [sales log form](#) to the Scottish Government along with a copy of the Grant Payment Form. No grant will be paid by the Scottish Government unless it is in receipt of a completed sales log form.

72. The sales log form is in three parts. The first part (Part A) relates to details of the property that has been bought and is completed by the grant recipient. The second part (Part B) gives details about the household which has bought the property and is completed by one of the named purchasers. And the third part (Part C) records information about the named purchasers of the property and is completed by **each** named purchaser.

73. The grant recipient must forward Parts B and C of the sales log form to the applicant's solicitor for completion. The applicant's solicitor must ensure that these parts of the form are completed and returned to the grant recipient before they submit their grant claim to the Scottish Government. The grant recipient must then complete Part A of the form before submitting both parts of the form to the relevant Scottish Government More Homes Division Area Team.

74. Grant recipients should note that the sales log form relates only to the initial sale of properties.

### **Data protection**

75. RSLs acting as new supply shared equity administering agents act as data processors in relation to shared equity applications, including after sales transactions. Further detailed information is contained in the [Shared Equity Privacy Notice](#). The retention periods for information processed by Administering Agents on behalf of the Scottish Government are as follows:

- **Application information and supporting documentation** (i.e. forms, wage slips, Key Facts form lenders) – This should be held for the remainder of the calendar year within which the information was received plus an additional 12 months.
- **Sales log forms** – This information should now be sent directly to the Scottish Government's Analytical Services ([joe.jobling@gov.scot](mailto:joe.jobling@gov.scot)). This data should be held by the grant recipient for five years following the end of the calendar year in which it was received.
- **Shared Equity Owner and Property Purchase Information where Scottish Ministers hold an equity stake** – This information should be held by the grant recipient indefinitely until the Scottish Ministers' securities are discharged and for the remainder of the calendar year plus a further six years subsequent to discharge for audit purposes.
- **Non-anonymised Customer Satisfaction Survey and Testimonials** – The information should be destroyed within 12 months after the end of the calendar year the information was received, unless the individual has given express permission for it to be used in publicity materials.

76. All shared equity information stored by grant recipients acting as administering agents on behalf of the Scottish Government must be stored in electronic form.

## **After sales**

77. Further detailed guidance on the handling of common after sales enquiries such as those below can be found in the [After Sale Shared Equity Procedures](#):

- owners wishing to increase their equity stake
- owners wishing to re-mortgage
- owners wishing to sell
- adding or removing someone from the shared equity documentation, and
- buy back and re-sale.



## NEW SUPPLY SHARED EQUITY SCHEME CASE STUDIES

### Case study 1

Jill and Ian currently rent a one-bedroom flat in the south side of Edinburgh from a private landlord. They have been married for three years and have decided that they would like to own their home. Both work in the city centre and travel to work by public transport. Ideally they would like to purchase a two bedroom flat in the local area.

Both work full-time – Ian earns a salary of £16,000 and Jill earns £14,000 a year. The couple do not have significant savings (not more than £5,000). They have been to see three mortgage lenders and have ascertained that the maximum mortgage they are likely to be given is £75,000. Typical market prices for two bedroom flats in the area are around £120,000 and they have not been able to find a suitable property that they can afford.

Ian has seen that a local authority has developed properties for sale through shared equity in the south west of the city. The local authority is advertising two bedroom flats at £115,000.

Their application is successful. On their combined salaries they are able to buy a 65.22 per cent stake in a flat.

Value of property	£115,000
Owners' equity stake	£ 75,000 (= 65.22 per cent stake)
Scottish Ministers' equity stake	£ 40,000 (= 34.78 per cent stake)

### Case study 2

Mary and John are married and have two children below the age of 10. They currently live in a two-bedroom house in a small town in Argyll which they rent from an RSL. Both children attend the local primary school.

House prices in the town have been rising sharply in recent years. The couple would like to purchase a home and do not want to move their children away from the school they attend.

John earns a salary of £15,000. Mary works part-time and earns £10,000 a year. They do not have significant savings. A mortgage lender has given them a quote for a mortgage of £62,500. Typical market prices for a three bedroom house in the area range between £110,000 and £150,000.

An RSL has developed new supply shared equity homes in the local area. A three bedroom house is valued at £110,000 and under usual circumstances will cost a purchaser between £66,000 and £88,000.

The application is unsuccessful. The RSL does not feel that the applicants have an adequate income for home ownership at this time. They have not demonstrated sufficient need to justify lowering the equity stake below 60 per cent and feel that the household is appropriately housed in the social rented sector.

### Case study 3

John, 23, lives in a two bedroom privately rented flat in Stirling and has regular paid support, including a worker who sleeps over. He has been given a valid notice to leave by his landlord and needs to move from the property in the coming months.

John has learning difficulties and is supported to live a full life in his community but it is unlikely that he will ever have an earned income. In the flat the bedrooms and bathroom are upstairs – and the kitchen and living room are downstairs. This suits John who has no problems accessing the property or its rooms.

John needs to remain in the town close to his family networks, to the community centre, and to other resources that he currently attends and with which he is familiar. He requires a similar property with two bedrooms. His family, support provider and care manager at the local authority confirm John's need to stay within the area.

John's income comprises (a) universal credit and relevant disability premiums of £146.75 per week and (b) a personal independence payment at high rates for care and mobility of £67.00 and £46.75 respectively. This gives him a total weekly income of £260.50 of which he has to contribute £77.00 a week towards his support costs. He has no significant savings.

Universal credit rules allow John to claim Support for Mortgage Interest payments in addition to his current benefits to repay the interest on a mortgage providing it is taken out in order to acquire alternative accommodation more suited to his needs as a disabled person. The termination of his tenancy is sufficient proof of the need for a more suitable property.

John has limited access to mortgage lenders, and to affordable mortgage finance. However he is able to raise a mortgage of £45,000 based on anticipated help through his universal credit claim.

An RSL has developed new supply shared equity flats in the local area. They accept John's application on the grounds that he is potentially homeless and in housing need; and they obtain supplementary evidence from his care manager confirming his need to live in the same area and from his welfare benefits advisors that the maximum mortgage he can raise and afford is £45,000.

This supports their decision to accept a 51.00 per cent stake on a property valued at £88,235.

Value of property	£88,235
Owner's equity stake	£45,000 (= 51.00 per cent stake)
Scottish Ministers' equity stake	£43,235 (= 49.00 per cent stake)

## Case study 4

Sarah is in her thirties, lives with her young son and has serious mobility problems as a result of a car accident. She has difficulty with stairs although she is not a wheelchair user. She also has difficulty concentrating but believes she will be able to return to low paid work at some point.

She currently owns her home in the Scottish Borders outright without a mortgage. The house is on two storeys and has two bedrooms. The house is small and has not been adapted in any way. Sarah has been told that the house is not suitable for adaptation to meet her needs – for example, a stair lift will not be appropriate as the staircase is too narrow.

She needs a single storey house, preferably with an accessible garden to allow her to supervise her son, and three bedrooms to allow for family and other supporters to provide overnight care when Sarah is unwell. A bungalow would be most suitable if this can be found at an affordable price.

Sarah's current income is Universal Credit and includes personal independence payments. She does not have significant savings. She wants to stay in the town where she is living, where her son is at school and would prefer to buy a property. Properties identical to her current home have sold recently in the local area for £85,000. She has looked at property prices on the open market and does not think that she will be able to buy a suitable home in the town for less than £150,000. Her desire to return to work means it would be inadvisable for her to take out a mortgage based on benefits that are only payable while she is not working.

A local authority is developing a number of new supply shared equity properties, including a few bungalows which would be suitable for Sarah's needs. The bungalows are valued at £160,000, making the normal price somewhere between £96,000 and £128,000 (60 per cent – 80 per cent). Sarah would only be able to purchase a stake of 53.13 per cent by contributing the entire proceeds from the sale of her house ( $(£85,000 \div £160,000) \times 100$ ). She is aware that in particular circumstances the equity stake can be lowered and makes an application to the scheme.

The local authority receives evidence from an occupational therapist that Sarah's current home is not suitable for adaptation. The application is successful.

Value of property	£160,000
Owner's equity stake	£ 85,000 (= 53.13 per cent stake)
Scottish Ministers' equity stake	£ 75,000 (= 46.87 per cent stake)

## Case study 5

Eric and Betty are in their 60s and are living in a three bedroom semi-detached property which they purchased from the Council under Right to Buy in the 1980s. The property is now too large for them and requires significant maintenance which they are finding difficult to manage. They decide to sell their home and look for something more suitable. They receive £70,000 equity from the sale of their home and also have £8,000 in savings.

They see a one bedroom apartment for sale through the new supply shared equity scheme at a purchase price of £110,000. They can keep £5,000 and must contribute 90% of the £3,000 balance. Therefore they can make a contribution of £2,700 to the purchase of their new home from their savings.

They can deduct '*eligible deductible costs*' from the sales proceeds of their previous property. Eligible deductible costs include expenses such as legal costs and removal costs to a maximum of £5,000.

Sales proceeds from existing house sale	£ 70,000
Owner's contribution from savings	£ 2,700
Less eligible deductible costs (max)	£ 5,000
Sum available to invest in new supply shared equity property	£ 67,700
Value of 1 bedroom new supply shared equity property	£110,000
Owner's equity stake	£ 67,700 (= 61.5%)
Scottish Ministers' equity stake	£ 42,300 (= 38.5%)

## RSL 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 unforeseen 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** when 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. **Unforeseen 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.