AGENDA ITEM NO 11
REPORT NO    723/11

ANGUS COUNCIL
3 NOVEMBER 2011

SURVIVE AND THRIVE – AWARD OF FUNDING
REPORT BY THE DIRECTOR OF NEIGHBOURHOOD SERVICES

ABSTRACT: This report outlines the outcome of the assessment of submissions to the Council’s Survive and Thrive Initiative fund.

1. RECOMMENDATION(S)

1.1 It is recommended that Members:-

(i) note the contents of this report;

(ii) agree that details of the finalised financial and funding arrangements on the projects intended to be supported (per Table 2 of this report) should be reported to Members at a future Committee as part of a review of the Survive and Thrive Initiative.

2. BACKGROUND

2.1 Members will be aware that the Council’s Survive and Thrive Initiative is intended to support the local business sector by stimulating construction activity and at the same time help to meet the strategic aim of increasing affordable housing supply. The objective is to enable moves from within social housing stock (Council or RSL) which will create a chain of opportunities for people currently on the waiting list. Prudential borrowing of up to a maximum of £3.2m has been identified to deliver the Initiative, generated through savings from the Housing Division’s staff re-structure.

2.2 At the Neighbourhood Services’ Committee on 26th May 2011, Members agreed the principles and criteria (set out in Table 1 below) for assessing submissions and also agreed to delegate authority to the Director of Neighbourhood Services in conjunction with the Director of Corporate Services and the Head of Finance for assessing funding submissions and allocating funding to specific proposals.

Table 1 - Assessment Principles

<table>
<thead>
<tr>
<th>Principle</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Developer is a legally established entity, financially stable and with sufficient turnover relevant to the project or equivalent, including sufficient finance to carry out the development.</td>
<td>Evidence of sound financial accounts, borrowing approval from financial backer, legal status and probity of organisation, ownership of site.</td>
</tr>
<tr>
<td>2. Developer has sufficient resources, capability and experience.</td>
<td>Number and range of sites previously developed.</td>
</tr>
<tr>
<td>3. Developer has a track record in employing a local workforce and apprentices.</td>
<td>Number of employees and apprentices currently employed and colleges attended.</td>
</tr>
<tr>
<td>4. New homes will be provided in areas of need to meet the demand assessment, within the Angus Council area.</td>
<td>Number of homes in housing market areas – a spread to be achieved in line with LHS, SHIP, HNDA and with Council new build programme.</td>
</tr>
<tr>
<td>5. Homes will provide a good range of types to meet varying household profiles.</td>
<td>Number of beds, storeys, form appropriate to site.</td>
</tr>
<tr>
<td>6. Developer demonstrates well developed plans to ensure delivery within timescales.</td>
<td>Site is in developer ownership and is zoned for residential use. Planning permission / building warrant in place? Achievable programme.</td>
</tr>
</tbody>
</table>
7. High quality homes. Demonstrate accessibility, environmental sustainability, NHBC or third party warranty, conform to Building Regulations.

8. Cost of new homes is affordable and subsidy delivers maximum number of units. Best value is demonstrated by construction cost per sq m, land value, proposed sale value or rent level, subsidy level and profit margin.

9. Finance models will offer varied tenure opportunity across all parts of the local housing market. Finance model is within acceptable risk limits - have been successfully followed elsewhere and for leasing. Will provide long-term benefits to re-invest funds into the housing economy.

10. The entire fund should not be provided to only one partner.

2.3 Subsequently, the Initiative was publicised on the Public Contracts Scotland website along with full guidance for applicants and submissions invited by the deadline of 29th July 2011.

3. AWARD OF FUNDING

3.1 A total of 10 submissions were received from 9 developer organisations for helping to fund a total of 129 housing units. These were carefully considered by an Assessment Panel consisting of Officers from Housing, Finance, Law & Administration, Property and Planning & Transport.

3.2 A detailed process of assessment to reach a decision on which projects to allocate funding to has been employed. The submissions were assessed against the principles and criteria (per Table 1 above) using a scoring matrix which included a number of minimum requirements for each applicant to meet. However, none of the submissions provided sufficient information initially for a full and complete assessment to be made. Consequently, the Council wrote to all applicants asking for additional information specific to their proposals, with responses to be provided by 26 August 2011.

3.3 Following this further opportunity for applicants to provide the necessary full information, the panel concluded that of the 10 submissions received, 7 achieved the minimum criteria, coupled with a score sufficient to show a level of compliance with the objectives and principles of the Initiative to justify award of funding.

3.4 Members will appreciate that in a process such as this, each bid is unique so it is impossible to compare and evaluate bids on an absolutely like-for-like basis. In addition, the setting of predetermined levels of support from the Council e.g. for particular types of property may have led to bidders simply bidding to those levels. To avoid this and in a similar manner to how the Scottish Government considers funding bids, the process has required bidders to justify the level of support required by the Council to make their specific project financially viable.

3.5 In assessing the bids and determining the level of financial support which the Council should provide, bidder development costs have been subject to scrutiny by the Council’s Property Division staff to confirm these are reasonable and reflect site specific development costs. The Council’s maximum contribution per unit of £40,000 has also been used as a backstop when assessing the bids. The overall profit margin and total percentage of Council contribution to each project has also been assessed for reasonableness in the context of each projects specific circumstances. Each project proposal has also been viewed in terms of the cost to the Council of what is being delivered versus a more conventional approach where the Council could, in theory, make the same provision through its own new build programme, i.e. there was a need to confirm that Survive and Thrive projects represent value for money compared to other options the Council could pursue.

3.6 Work to finalise the assessment process is now complete but further discussion and negotiation with bidders will be required over the next couple of months to reach a position where formal legal agreements can be signed. Notwithstanding these further discussions which need to take place, the Assessment Team have identified projects which the Council could support under the Survive and Thrive Initiative totalling up to £2.3 million, which will help deliver an estimated 77 new affordable housing units in various Burghs across Angus. The successful projects all perform well in responding to the areas of most housing need, as identified in the Housing Needs and Demand Assessment and all projects will bring a wealth of additional benefits across Angus over and above, increasing the provision of affordable
housing and reducing the waiting list. These benefits include kick-starting the local construction industry; increasing economic activity; creating employment and training opportunities; regeneration of old industrial sites; use of brownfield sites for development; maximising the use of burgh assets; making practical use of currently unused and dilapidated listed buildings; improving townscapes and the urban environment; helping to improve tourism potential; removal of contaminated land; helping to reduce flood risk by providing urban drainage systems.

3.7 Subject to finalisation of the legal agreements, the submissions listed below in Table 2 have been determined as being suitable to support under the Survive and Thrive Initiative. Offers of funding will be made to the successful bidders subject to compliance with a number of conditions. The types of conditions envisaged relate to timescales for releasing the grant; allocation of housing; evidence that the bidder has a full funding package in place; open book basis for construction; finalisation of the precise details of the scheme. This is not a definitive list of conditions and these will be developed for each individual scheme to ensure that any risks to the Council are minimised and that the properties have substantial affordable housing benefit, high quality and value for money.

3.8 3 submissions were declined support due to a number of criteria not being met, including principles 1, 4, 6 and 8 in Table 1 above.

Table 2 - Submissions agreed for taking forward under Survive and Thrive

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Project</th>
<th>No of Units</th>
<th>Description</th>
<th>Minimum period as affordable housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>LEJ Ltd</td>
<td>Ernest Street, Arbroath</td>
<td>10</td>
<td>Mid market rent houses</td>
<td>20 years</td>
</tr>
<tr>
<td>NWP Ltd</td>
<td>34 West High Street, Forfar</td>
<td>4</td>
<td>Mid market rent flats</td>
<td>20 years</td>
</tr>
<tr>
<td>Dens Road, Arbroath Ltd</td>
<td>Baltic Mill, Arbroath</td>
<td>39</td>
<td>Mid market rent houses and flats</td>
<td>20 years</td>
</tr>
<tr>
<td>DJ Laing Braeview Park, Brechin</td>
<td>6</td>
<td>Shared equity houses</td>
<td>10 years with return of grant fund</td>
<td></td>
</tr>
<tr>
<td>DJ Laing Queen Street, Carnoustie</td>
<td>7</td>
<td>Shared equity flats</td>
<td>10 years with return of grant fund</td>
<td></td>
</tr>
<tr>
<td>Pert Bruce Southesk Street, Montrose</td>
<td>7</td>
<td>Low cost home ownership flats</td>
<td>15 years with clawback</td>
<td></td>
</tr>
<tr>
<td>Taylor Shepherd Park Avenue, Carnoustie</td>
<td>4</td>
<td>Mid market rent flats</td>
<td>20 years</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>77</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.9 **Value for Money Considerations**

As outlined in Table 2, the type of housing to be provided under this Initiative is a mix of mid market properties for rent, shared equity properties and low cost home ownership properties. As such, the Council will not have any long-term ownership of the properties and is instead providing grant funding to enable these homes to be built. This approach to delivery of new housing units is more expensive when compared to direct new provision by the Council itself (given that no Council asset is being created) but this needs to be viewed in the context of the other benefits of this Initiative. The relevant issues, therefore, in terms of overall value for money, considerations include:-

- Land availability – sites not in Council ownership become available for development which may otherwise have seen no development. This includes bringing unused brown-field land assets back into productive use;
- The Council avoids the risks associated with building/property development and the maintenance burdens of asset ownership;
- The Council’s financial input relative to the cost of direct new provision by the Council itself is very low and is, therefore, a practical and affordable approach at the present time given other funding constraints. Indeed delivery of this number of new housing units by the Council itself would be beyond what the Council could realistically afford in the same timeframe;
The Council’s financial input is the catalyst which makes the projects viable for developers; 
There is direct benefit to the local Angus economy.

Taking all these factors into account, each of the projects listed in Table 2 are considered to provide value for money in accordance with the aims and the criteria set for the Survive and Thrive Initiative.

4. PROPERTY IMPLICATIONS

4.1 There are no implications for the Council’s property assets arising from this report. However, under the Housing (Scotland) Act 2001, Ministerial consent is required where Housing Revenue Account funds are used to provide grant assistance of this type. Although this will be required before the release of funds can be finalised, it is not considered as contentious and should not, therefore, be an impediment.

5. RISKS

5.1 An assessment has been made of the various methods for providing this funding assistance. Because of a high risk of projects not fulfilling their stated objectives (due to economic factors outwith the Council’s control) an option to mitigate risks will be implemented for the funding award process in which funding will only be paid on completion of the specified number of housing units. The legal agreements between the Council and the bidders will seek to manage financial and other risks to the Council as far as possible and all such agreements will have input from the relevant professional Officers of the Council, as was the case in the bid assessment process.

6. FINANCIAL IMPLICATIONS

6.1 Subject to finalisation of the legal agreements, the Bid Assessment Team have identified projects considered worthy of support where Council financial input of up to £2.3 million would be required from this round of Survive and Thrive. This will leave an uncommitted balance of £0.9 million from the total £3.2 million borrowing capacity previously identified for this Initiative. It is proposed that this balance could be used in a further round of Survive and Thrive as appropriate, once a review of the initial initiative can be carried out as the new housing units are delivered.

6.2 As has been indicated in earlier reports, there will be a need to apply the prudential borrowing capacity under the Survive and Thrive Initiative flexibly to comply with the Council’s accounting rules. This will mean some rearrangement of how borrowing and CFCR are applied within the Housing Capital Budget but the net result will be entirely neutral overall. Such impacts will be reported to Members through the normal budget monitoring and budget setting processes.

6.3 It is proposed that details of the final financial and funding arrangements, once legal agreements are signed, should be reported to Members at a future Committee as part of the review of this first phase of Survive and Thrive.

7. HUMAN RIGHTS IMPLICATIONS

7.1 There are no Human Rights implications for the Council arising directly from this report.

8. EQUALITIES IMPLICATIONS

8.1 The issues dealt with in this report have been the subject of consideration from an equalities perspective and the report is regarded as exempt.

9. ANGUS COMMUNITY PLAN AND SINGLE OUTCOME AGREEMENT

9.1 This report contributes to the following local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2011-2014:

- We have a sustainable economy with good employment opportunities;
- Our communities are developed in a sustainable manner.

10. CONSULTATION
10.1 The Chief Executive, Director of Corporate Services, Director of Infrastructure Services, Head of Finance and Head of Law & Administration have been consulted in the preparation of this report.

11. CONCLUSION

11.1 The funding mechanism generated by the Survive and Thrive agenda will provide a much needed injection into the local economy in terms of construction activity and at the same time, is a clear demonstration of the Council’s commitment to using innovative ways of increasing the supply of affordable housing. There will also be substantial re-generation benefits in terms of bringing unused brown-field land assets back into productive use.

RON ASHTON
DIRECTOR OF NEIGHBOURHOOD SERVICES

NOTE: The following background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparation of this report:

- R894/10 – “Survive and Thrive – Further Housing Contribution”;
- R365/11 – “Survive and Thrive – Progress on the new build approach to housing in Angus”;
- R646/11 – “Survive and Thrive – Progress Report”.

Hsg/NS/AMcK/JM