

Rural Housing Fund & Islands Housing Fund Guidance

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Introduction

1. The Scottish Government launched the £25 million Rural Housing Fund in February 2016. It will be available for three financial years from 2016/17 to 2018/19.
2. On 13 September 2016, the Scottish Government launched a new Island Housing Fund which will provide up to £5 million in additional funding, ring fenced for housing projects on Scottish Islands.
3. Both funds follow the same application and assessment process. References to the 'Rural Housing Fund' within this guidance relate to both the Islands Housing Fund and the Rural Housing Fund. Both funds are made up of two elements – a Feasibility Fund and a Main Fund. This guidance provides general advice to assist potential applicants to either fund. It attempts to explain why the Scottish Government is asking for a range of information and supporting data and explanations.
4. The guidance cannot anticipate the needs of all potential applicants to the fund. If you need further information about how to interpret or apply this guidance when completing your application, or if you have any general queries about the fund rules, please email rhf@gov.scot We will aim to respond to queries within five working days, although this may take longer in the case of complex queries.
5. We intend to issue clarifications or updates to this guidance or related information on an on-going basis. Feedback and any questions from potential applicants will be used to guide the need for clarification of existing information.

Background

6. Rural Scotland is an integral part of our country's economy, environment and culture. The Scottish Government's aim is to promote development in rural areas and empower communities. We want rural communities to thrive and meet the needs of their residents, businesses and visitors.
7. However, there are some significant differences in the housing market of rural Scotland:
 - Landowners play a more significant role in provision of local housing for rent.
 - There is less speculative building being done in comparison to urban areas.
 - Second home and holiday homes affect local markets and put the cost of housing outwith the reach of many local people .
 - There are generally higher levels of empty properties.
 - There are high levels of part-time working, affecting mortgage decisions and rentals.
 - Delivering mainstream affordable housing solely through RSL or local authorities is not possible.
 - Delivery is hampered by high infrastructure costs, suitable land and generally higher transport costs.

Aim

8. The primary aim of the Rural Housing Fund is to increase the long term availability of affordable residential housing of all tenures in rural Scotland. This means, for example, providing support to:

- increase the supply of new build houses for affordable rent or sale.
- increase the number of rural empty properties brought back into use for affordable rent or sale.
- facilitate conversion of commercial and non-domestic properties for residential use, where appropriate.

9. The vision behind the Rural Housing Fund is based on additionality. It adds a new dimension to the existing publicly funded housing system to serve the interests of rural Scotland. The additionality it seeks to achieve includes:

- helping the publicly funded housing system to achieve additional, but more widespread and equitable, outreach in the delivery of affordable houses of all tenures to rural communities.
- increasing the supply of affordable housing chances in communities where it is demonstrably needed, but less likely to be delivered by mainstream affordable housing providers.
- empowering communities to take control of at least some of this new affordable housing supply.
- testing innovative and practical housing initiatives which deliver replicable solutions to the challenging aspects of affordable rural housing supply.
- maximising and increasing value for money by supporting projects which deliver additional affordable housing through joint ventures and/or seeking out new and additional sources of funding.
- demonstrating the benefits of genuine partnership working between local communities, landowners and experienced housing enablers and providers.

10. Communities will be at the heart of all of the projects funded. This is in line with the Scottish Government's commitment to our communities being supported to do things for themselves – community empowerment – and to people having their voices heard in the planning and delivery of services – community engagement and participation.

11. The feasibility fund will provide support for those at an early stage of project development to assist them in developing robust, fully evidenced applications to the main fund and/or other funding providers. It is intended to fill gaps in the provision of existing feasibility support.

Which organisations can apply?

12. Applications to the fund must come from incorporated bodies (which includes all incorporated companies and Scottish Charitable Incorporated Organisations) and

partnerships but not individuals or loose associations of individuals (e.g. certain types of club).

13. Some examples of eligible organisations are development trusts, housing trusts, community interest companies (CICs), community benefit societies (BenComs), Scottish Charitable Incorporated Organisations (SCIOs), social enterprises, private landowning bodies, letting companies, private developers, local authorities, and Registered Social Landlords (RSLs). This list is not exhaustive but all organisations must be constituted as described in paragraph 11.

14. Public sector bodies cannot apply for the loan element of the fund. This means that local authorities will not be able to apply for a loan, although they can apply for grant.

15. Local authority and RSL applicants must explain why they are applying to the Rural Housing Fund instead of the mainstream Scottish Government Affordable Housing Supply Programme (AHSP). They must also demonstrate that their project would deliver additional housing to that delivered through the AHSP and they will be expected to deliver up to published AHSP benchmarks. If they can deliver the project via the AHSP, their application will be diverted to that programme for support.

16. Local authority and RSL applicants will not be able to apply for higher levels of financial support from the Rural Housing Fund than is available through the mainstream AHSP.

17. Collaboration between organisations in order to share expertise and resources is strongly encouraged – especially where it can be demonstrated that it provides clear long term benefits for the local community or where better value for money can be achieved by sharing or combining resources.

18. If a funding application involves a consortium or another form of Special Purpose Vehicle, then the applicant must confirm a nominated lead applicant. The lead applicant for a collaborative project can be a local authority or RSL - but please note that loan funding cannot be paid directly to a local authority. So for collaborative projects applying for loan, it is best to nominate a lead applicant who is not a local authority.

19. We will not fund organisations that are in poor financial health or those that have had a previous funding from us that has not been managed satisfactorily.

20. Organisations which have already received funding for their project from a local authority via the AHSP will not be eligible to apply for this fund for additional resources.

Types of projects

21. The new fund aims to increase the long term availability of affordable residential housing in the rural areas of Scotland. We are looking for applications that can meet this aim.

22. Proposals must be for residential development and must become a primary residence. We will not fund development of holiday homes.

23. Application must be for new projects. Applications where building work has already started will not be accepted.

24. Projects can include building new houses, refurbishing or renovating empty houses, or can seek to convert commercial or non-domestic premises into residential accommodation.

25. [Case studies](#) of housing projects are included on the Rural Housing Fund webpages to give an illustration of relevant rural projects which may be of interest to applicants. However, applicants should not feel restricted to these examples and new and innovative projects will be welcomed.

Conditions relating to existing properties

26. Existing houses subject to an application must have been empty for at least six months at the point the application is submitted. There must be an expectation that the house would remain empty long term without additional funding support being made available. In addition, houses subject to an application must not currently be in a state of repair suitable for letting at the time the application is submitted i.e. they do not currently meet at least one aspect of the [Repairing Standard](#) or require other works to bring the property to a standard where a tenant would be willing to rent it.

27. For applications relating to commercial or non-domestic properties where the proposal is to convert for residential use, these properties do not have to be empty or in disrepair when the application is submitted. However, the applicant must explain why the property is not currently suitable to provide residential accommodation.

28. For all property, applicants can include costs associated with the purchase of the property as part of their overall proposal. Please note, however, that the Rural Housing Fund will not fund acquisition of property in isolation – the purchase of land or property must be part the overall project. If you have already received a contribution to property purchase costs via another Scottish Government Fund (e.g. the Scottish Land Fund) you cannot receive further funding towards acquisition costs in an application to the Rural Housing Fund.

29. Local authorities and RSLs cannot apply for funds to renovate their existing housing stock, but they can apply for funds to renovate commercial or non-domestic properties to convert for residential use. Other bodies can apply for funds to renovate properties or buildings they already own. But neither they, nor social landlords, will normally be eligible for funding where any Scottish Government or other public sector funding has been provided in the past 20 years to support the construction or renovation of any of the properties which form part of the application. An exception to this would be houses which have been sold under Right to Buy but there may be other cases.

30. Potential applicants are advised to discuss their ideas with Scottish Government if they do not fall within the broad categories set out above to get feedback on potential eligibility.

Project location

31. We have determined area eligibility using the [Scottish Government Urban Rural Classification](#). **Projects will be eligible if they fall within classes 4, 5 and 6 of the 6 fold urban rural classification (see table below).**

	Scottish Government 6 fold Urban Rural Classification
1 Large Urban Areas	Settlements of 125,000 or more people.
2 Other Urban Areas	Settlements of 10,000 to 124,999 people.
3 Accessible Small Towns	Settlements of 3,000 to 9,999 people and within 30 minutes' drive of a settlement of 10,000 or more.
4 Remote Small Towns	Settlements of 3,000 to 9,999 people and with a drive time of over 30 minutes to a settlement of 10,000 or more.
5 Accessible Rural	Areas with a population of less than 3,000 people, and within a 30 minute drive time of a settlement of 10,000 or more.
6 Remote Rural	Areas with a population of less than 3,000 people, and with a drive time of over 30 minutes to a settlement of 10,000 or more.

32. The statistics.gov.scot website can be used to check if a proposed project is located within an eligible area.

33. Enter a full postcode (ensure there is space between the first and second part (i.e. EH6 6QQ) or 9-digit GSS code into the [search](#) bar. Select the correct postcode from the search results. Click on the 'API' tab and select the 2011 Data Zone code from the list (third row on the right hand side of the table). A page with a map will appear. You then need to click on the 'Data' tab. The 6-fold rank can be found at the top of the 'Area Profile' table.

34. In most cases the statistics.gov.scot website provides a reliable indicator of eligibility. However, there may be some anomalous results. We will check eligibility of potential projects when Expressions of Interest are submitted and we reserve the right to confirm the eligibility of the project with the relevant local authority.

35. Projects applying to the Islands Housing Fund must be located in an eligible rural area, as described above, but must also be located on a Scottish island.

Application process

36. All potential applicants should complete a [pre-application questionnaire](#) before preparing an application for the fund.

37. Once the pre-application questionnaire has been completed, if you are confident you would be eligible to apply to either the main fund or the feasibility fund, you should complete an [Expression of Interest](#) and send this to rhf@gov.scot. Please indicate in your covering email whether you intend to apply for the Rural Housing Fund or the Islands Housing Fund. We recommend that you complete an Expression of Interest as soon as you think you may be interested in applying for the Rural Housing Fund. We will formally respond to expressions of interest within 15 working days of receipt, highlighting any particular issues or comments and inviting you to proceed to application stage, if appropriate. Please note this does not guarantee that a future application to the fund will be successful.

38. Prospective applicants may be at different stages in terms of the development of their proposal. Whilst some may be ready to submit an application to the main Rural Housing Fund others may need to undertake further feasibility work to determine if the project is feasible or viable before they are in a position to apply. Separate housing feasibility funding is available to allow applications to be made (see paragraph 40).

39. All applications should be submitted electronically to rhf@gov.scot. A [feasibility application form](#) and [main fund application form](#) are provided on the Rural Housing Fund webpages of the Scottish Government website.

40. The information requested on both forms will be used to assess funding applications. All supporting information must be included with your funding application. There is a checklist at the end of the application forms to help you. Only information requested within the checklists on the application forms should be submitted. Failure to provide all required documentation may lead to an application being rejected.

41. If your application is not approved for funding, you can request feedback from the Scottish Government. A summary of successful applicants will be published by the Scottish Government regularly.

Funding available

Feasibility Funding

42. The Rural Housing Fund will offer support towards the cost of feasibility work. This support is intended to fill gaps in existing provision of feasibility funding. This funding will be prioritised to organisations where alternative sources of feasibility funding are not available. Please refer to the Rural Housing fund webpages for further information on organisations providing [alternative sources of feasibility funding](#) and support.

43. Feasibility funding will be available in the form of a grant of up to £10,000 to support feasibility work to enable your housing project to progress an application to the main fund or apply to alternative sources of funding. Whilst up to £10,000 is available, we would expect applications to reflect the requirements of individual projects (for example some projects may require a smaller contribution to feasibility work). Supporting documentation must be provided for costs of feasibility work.

44. Feasibility funding is intended for applicants at an early stage of development of their housing projects. It is for site specific projects (with a postcode identified) which have potential to progress to construction and deliver increased affordable housing. Here are some examples of what a feasibility grant could pay for:

- work with someone (for example a consultant, RSL or community support organisation) to develop the project business plan/financially viable proposition.
- feasibility studies
- undertake community engagement work to understand community views and demand for the proposed housing.
- undertake detailed assessment of housing need and demand in the area (although applicant will wish to talk to the local authority about existing information available on this before commissioning new work).
- Architect's design drawings
- Quantity Surveyor's cost estimates
- Structural Engineer's report
- Chartered Surveyor's valuation advice or development appraisal
- Specialist advice to consider the environmental impact of a proposal
- Exchange visits within the UK to learn how other projects work
- Planning applications
- Building warrant applications

45. The feasibility fund is not to be used to fund the following:

- staff salaries
- loan payments
- paying for staff time to complete applications for funding
- projects where building work is underway
- projects aimed at particular religious groups
- goods or services that are purchased before you accept our offer of grant
- legal advice and representation
- recruitment services

46. Should your application to the feasibility fund be successful, you must complete the feasibility work within 12 months of the date of receiving confirmation of the grant. Feasibility funding will not be provided in advance of need. Claims for payment must be supported with detailed invoices.

47. You will be required to send the Scottish Government a completed copy of the outcome of your feasibility work. You will also need to complete an end of grant report, telling us how the grant was spent and what was achieved.

Main Rural Housing Fund

48. Applicants can apply for grant, loan or a combination of both. There is no requirement to apply for both grant and loan. Funding will be provided as contribution to capital costs - this includes the total cost of acquiring land or property, construction costs, fees and non recoverable VAT.

49. We would expect the level of Scottish Government support requested to reflect the needs of the particular project. For example, houses for social rent would be likely to require higher levels of public subsidy than those for mid-market rent. The Affordable Housing Supply Programme [benchmark subsidies](#) provide a useful reference. Please consider the level of funding requested carefully as this will be considered as part of the Value for Money assessment of the application.

50. Interest will be charged on any loan element at a fixed rate of 4% for up to a 25 year period. Applications will need to demonstrate how any loan will be repaid and within which timeframe.

What will happen to the housing after completion?

51. The houses delivered must be made available for rent or sale as affordable housing after completion (as defined below).

For rent

Rent levels must be affordable. Rents can be set no higher than the relevant [Local Housing Allowance level](#) at first let. This equates to what is generally known as an intermediate or mid-market rent. Maximum permitted annual rent increases will be CPI plus 1% and the rent must not exceed the median point of the relevant private sector market rent level at any point during the period the home is to remain as affordable housing. The rent level charged may not be increased more than once in a twelve month period. Housing providers should also note that, subject to the Bill being passed by Parliament, all tenancies for affordable rent will be required to comply with the Private Housing (Tenancies) (Scotland) Bill which is expected to come into effect in late 2017. [Official private rented sector statistics](#) are available on the Scottish Government website. Data is available at Broad Rental Market Area (BRMA) so housing providers will need to check which BRMA they fall into, and what the median for the area is. Any increase above this level would constitute default.

For sale

The selling price must be no higher than the 4 apartment maximum threshold price that has been set for the [Open Market Shared Equity Scheme](#). The OMSE threshold prices vary by area and size of property and have been set to represent the entry level price for a property on the open market i.e. they equate to the selling price of affordable open-market houses. The sizes of properties are defined by number of apartments NOT the number of bedrooms. 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.

52. Houses funded by grant or loan will be treated differently in terms of the length of time they must be kept in the affordable sector. Houses funded by grant must remain affordable in perpetuity. Houses funded only by loan must remain affordable for at least a 10 year period or for the duration of the loan period, whichever is longer.

53. If circumstances change and the houses can no longer be provided as affordable housing, grant recipients must repay the full grant to the Scottish Government. As explained above, loan recipients must keep properties affordable for at least 10 years and for as long as the loan is being repaid. In practice this means that the repayment profile for the first 10 years cannot be altered. Any repayment of the loan within the first 10 years would result in an early redemption fee being charged.

54. Please note, if funding is awarded based on rents being set at equivalent of social rent, the grant offer will require the grant recipient to continue to offer rents at social rent equivalents long term. This is because the benchmark funding for projects providing housing at social rent equivalents are higher than for mid-market rent projects.

Target tenants and buyers

55. Target tenants and buyers must be those who, due to lower than average income, or higher than average rents or house prices in the area, find it difficult to access housing to meet their needs. Applications must provide evidence of how this objective will be met.

Application timescales

56. Applications can be submitted at any time and will be assessed on an on-going basis.

Assessment process

Expressions of Interest

57. Expressions of interest will be assessed to determine whether the Scottish Government is content to invite an application to the Rural Housing Fund. Feedback will be provided on all expressions of interest. We will consider the following factors in considering expressions of interest:

- Whether the eligibility criteria has been met
- The views of the relevant local authority
- Whether there is housing pressure in location identified
- Track record of the applicant in affordable housing delivery.
- Due diligence checks on the organisation applying.
- Evidence of partnership working
- Timescales for the project
- Deliverability of the project

58. Feedback on expressions of interest will be provided within 15 working days (normally three weeks) of receipt.

Feasibility Fund

59. There is likely to be significant demand for the feasibility fund and these are the factors we will consider when assessing your application:

- Whether or not your organisation has access to alternative feasibility support
- Whether the project shows evidence of community engagement or partnership
- The total cost of the feasibility activities
- The timing of your project
- Whether the application demonstrates the need for the housing proposed
- The type of work you wish to undertake with the feasibility funding

60. Assessment of applications to the feasibility fund should normally take no more than six weeks.

Main Fund

61. A detailed appraisal of applications will take place against the five assessment criteria detailed below. If there are funding constraints, other factors from the applications will be taken into account.

Assessment criteria

- **Deliverability** – this will be assessed based on whether the application demonstrates the project can realistically be delivered on time and on budget. We will consider the various key stages of the project. We will check to ensure that the applicant's business model is sound. This will include the build phase as well as whether there are suitable arrangements for on-going management, maintenance and in terms of how the completed houses will be allocated and how buyers will be selected. The risk register and technical information provided will be considered as part of the deliverability assessment. The amount of funding (from the applicants themselves or other sources) or staff resources the applicant is providing to the project will also be taken into account in assessing deliverability.
- **Housing need / demand and strategic fit** – The local authority's view (as set out in your application) and the basis of any discussion Scottish Government may have had with them about your application will be key to this element of the assessment. By applying to the Rural Housing Fund, you are consenting for your application and associated documents to be shared with the relevant local authority. Applications should demonstrate how the project fits with the local authority's Local Housing Strategy priorities – such as the extent to which the application meets housing need, promotes regeneration, tackles homelessness or sustains communities. Applications will also need to demonstrate that there will be demand for the type of housing to be provided

in the proposed location. This may involve working with the local authority to demonstrate evidence of need and demand or using your own analysis of housing need and demand at a local level or a mixture of both approaches.

- **Value for money** – to make an assessment of value for money for a project we will consider things like the loan/grant cost per unit, rent/resale levels, the size and location of the houses, the length of time which the houses will be affordable for (in the case of loan applicants) and the intended beneficiaries of the project. Applications will need to show that the level of funding sought is reasonable based on work required.
- **Community engagement and participation** – applications will need to show strong evidence that they have engaged effectively with the local community in developing the proposal and that the community are generally supportive.
- **Sustainability and wider economic benefits** – applications should demonstrate how the project will deliver wider social and/or economic benefits to the local area. For example through creating or supporting jobs, encouraging new business to the area or supporting existing business to remain, sustaining local communities, regenerating an area where empty properties are causing neighbourhood problems, help attract or enable further housing development opportunities.

62. Applicants will need to demonstrate they adequately meet all of the above criteria to have their application considered for funding. Applications which fail to meet one or more of the criteria will be rejected but will be provided with feedback in order that they can consider which areas could be strengthened for a future application.

Possible additional prioritisation

63. In certain circumstances, additional prioritisation of applications may be considered. For example:

- to more rural locations
- to smaller scale projects/developments
- projects demonstrating greater evidence of partnership working

64. We will aim to take no more than 12 weeks to assess applications to the main fund and make a final funding decision. Unsuccessful applications will receive feedback.

Other sources of funding for the project

65. Projects may require funding from a number of sources, as well as funding from the Rural Housing Fund in order to be viable. This funding could come from both public or private sources. However, please note that projects which have received funding from a local authority via the AHSP will not be eligible to apply for the Rural Housing Fund. The contribution of funding from alternative funders will be considered in assessment of the application when considering deliverability.

66. Written confirmation from other lenders of financial support secured or agreed in principle is required when submitting an application to the Rural Housing Fund.

67. Please note that whilst the Rural Housing Fund provides public funding for housing development, the funding is not being provided via statutory routes so other grant funders are able assist.

Local authority engagement

68. Applicants must make officers from the relevant local authority aware that they are preparing an application to the Rural Housing Fund (both feasibility or main fund). The local authority may be able to provide applicants with useful information on need and demand for housing in the local area. It would be worthwhile for applicants to engage with the local authority to understand the existing housing need and demand information available before undertaking further work on this.

69. Applicants may also find it helpful to seek guidance from the local authority on target tenant or owner groups for the resulting houses. Once the relevant local authority has been informed about the potential project, applicants should ask them for written confirmation of their support, which should be sent to Scottish Government along with the application to the main fund.

Statutory consents

70. Statutory consents refer to planning permission and building warrants. Applicants to the main fund should ideally have detailed planning permission and necessary building warrants in place. If detailed planning permission has not yet been received, you should at least have submitted your application for detailed planning to the local authority. Whilst we can provide an in principle offer of funding, where statutory consents are not in place, Scottish Ministers will not make any payments until all consents have been obtained and verified.

Community engagement and support

71. Applicants to the main fund are expected to provide detailed information on their engagement with the local community on the development of their project. This could include setting out evidence from consultation sessions, discussion groups, surveys, local development plans and letters of support.

72. The feasibility fund application form asks about how community engagement will be undertaken. However, we do not expect overly detailed information at this stage in the project. Applicants are encouraged to seek out information from local organisations and the community council for that area.

Procurement

73. Applicants, to either the main fund or the feasibility fund, will be required to demonstrate that, wherever practicable, all consultancy or construction works will be

procured in accordance with good tendering practice. See the [Procurement Journey](#) website for further information.

74. Feasibility applications must confirm that at least three quotes have been sought for all services with a value over £1000. Evidence of these quotes must be provided when submitting the application. If applicants are unable to obtain three quotes (for example, due to limited availability of contractors) then they should explain why, providing evidence (e.g. copies of emails etc) to demonstrate that efforts to obtain multiple quotes have been made.

75. Applicants to the main fund are also required to provide evidence of at least three quotes for the project costs. These should be submitted with the application from. If applicants are unable to obtain three quotes then they should explain why.

Value for money

76. Applicants to the main fund should ensure they demonstrate how the project represents good value based on the scale of work required. The [benchmark subsidies](#) for the AHSP provide a useful reference on support available.

77. A project will be deemed better value for money the lower the grant or loan per unit. Total costs should aim to be within acceptable benchmarks used by mainstream affordable housing providers.

78. Applicants will be expected to provide a contribution to the projects themselves (either financial and/or in terms of significant staff input). Applications will also be assessed in terms of other funding partners and we will consider how this affects overall value for money. We also ask that applicants provide us with proof of funding agreements with other funders (e.g. agreement in principle offers). This requirement is included in the checklist of additional documents required in the main application from.

Quality standards

Building Regulations

79. Any construction of a new building or work undertaken to an existing building must comply with the building regulations applicable at that time, including the need to obtain a building warrant prior to starting work where this is required. Information on Scottish [building standards](#) is available on the Scottish Government website.

Other Standards

80. In addition, all completed houses will be expected to meet the [Scottish Housing Quality Standard \(SHQS\)](#), [Repairing Standard](#), [Energy Efficiency Standard for Social Housing \(ESSH\)](#) and [Housing for Varying Needs \(HfVN\)](#) essential features once finished.

81. In the case of houses for outright sale, there will be requirements of the SHQS, Repairing Standard, ESSH and HfVN which will not be relevant (for

example relating to ongoing repairs, maintenance or provision of appliances). However, relevant requirements must be met.

82. There may be exceptions to these requirements in the case of existing empty properties where the applicant can provide justification that elements of HfVN, SHQS or EESSH standards are not feasible or practical due to the existing design of the houses or for structural reasons. Please provide information when applying to the fund if you anticipate that the completed houses will be unable to meet HfVN, SHQS or EESSH standards. The information provided should include a detailed explanation of the reasons for being unable to meet these standards.

Risk Register

83. Applicants to the main fund must provide a realistic risk register with their application to the main fund which identifies any significant risks to the project and indicates how the applicant proposes to mitigate each risk or tackle it if the risk materialises. An example set of risks are shown below, however, we would expect to see this tailored to individual projects. The risk register will be considered when assessing the deliverability of your project.

Risk	Likelihood	Impact	Owner of Risk	Mitigation
Lack of tenants for rental properties.				
Unable to sell completed properties.				
Lack of capacity of funding applicant to deliver project.				
Delay in project timescale.				
Funding requirements increase.				

Robustness of business model and financial viability

84. The business model underpinning the application must be sound with robust plans for both delivering the houses and repaying any loan element. If this cannot be demonstrated, the application will be rejected. Applicants may wish to apply to the feasibility fund for support to help develop a strong business plan. Points to bear in mind include:

- Plans and timescales for the project – are they realistic and deliverable?
- Cost estimates and assumptions around rental, sale and other income and how these impact on loan repayment;
- Whether key risks have been identified and adequate plans are in place to mitigate them in the project risk register;
- Requirements for planning permissions or building warrants.

Valuations

85. Valuation of completed houses for affordable sale is required. This must be determined upon completion by the District Valuer or an independent Chartered

Surveyor. If the project includes site acquisition a valuation must also be provided to support the grant or loan requirement.

Management and Maintenance

86. In terms of letting, the application form for the main fund asks for information about how completed properties will be managed and maintained, including anticipated costs. This is an important issue which you must consider fully in developing your proposal. The information you provide on how you will manage the completed houses will be used to assess the deliverability of your project.

87. More information about good practice in managing a tenancy can be found on the [Renting Scotland](#) website. Local authorities and RSLs can also offer advice.

88. Grant or loan recipients must be fully aware of their responsibilities and the standards required in this area. This includes issues relating to communications with tenants; complaints procedure, void management; tenancy management; dispute resolution, and management of antisocial behaviour. Grant and loan recipients will be required to maintain the houses to the [Scottish Housing Quality Standard](#) and the [Repairing Standard](#)

89. You may wish to contract out management duties to a third party such as an RSL. However, if funding is sought on the basis that management will be carried out by a third party, any future change to this arrangement must be agreed in advance with the Scottish Government.

Allocations

90. The application form for the main fund asks about your allocations policy. This applies to both houses for sale and those for letting. The information you provide us about your allocations policy will be considered as part of the deliverability assessment of your application.

91. Your allocations policy must be transparent, fair and ensure equality of opportunity. As this fund aims to increase the supply of affordable housing, your target tenant group should be those who are unable, either because of high rents or low salaries, to access housing at a market rent. Although you can give priority to local people you also have to comply with equalities law and ensure that no person or group of persons is treated less favourably than any other person or group of persons because of their race, colour, ethnic or national origin, sex, disability or sexual orientation.

92. Further information on good practice on allocation policies can be found in [Social Housing Allocations: A Practice Guide](#). This outlines the legal rules and flexibilities that housing associations and local authorities have in allocating their houses. It is also a useful tool for other landlords and includes information about [local lettings initiatives](#) - ways housing associations can give some priority to local people in the allocation of housing. The Knoydart Foundation Allocation Policy is included in Annex B as an example.

93. You may be working with an RSL or local authority for allocations and management or to use their waiting list to allocate properties. However, other solutions are also acceptable and these should be explained in your application to the fund.

94. The Scottish Government must be informed about any changes to your allocations policy once the project is underway or after the houses are completed.

State aid

95. The Scottish Government must ensure that any funding provided to non-public sector bodies is permissible state aid in compliance with the requirements of EU law. Projects supported through this Fund are expected to be considered as permissible state aid because they are a Service of General Economic Interest (SGEI) as they are providing 'social housing'. The European Commission's definition of social housing¹ is broader than the definition of social housing in the UK and can encompass other types of affordable housing, such as houses for intermediate (mid market) rent.

Funding offers and conditions

96. The Scottish Government will issue its approval of funding in the form of a legally binding grant and/or loan offer. Examples of grant and loan offer letters are included in Annex A of this guidance. Applicants should note that the Scottish Government cannot provide grant or loan payments until a written acceptance of the offer of grant or loan has been received and until security documentation has been completed.

97. As a condition of the grant or loan offer, the Scottish Government will request recipients to confirm the estimated site start and completion dates for the project. It is important that recipients notify the Scottish Government of any subsequent delays in beginning the site work. This will enable the Scottish Government to manage the Rural Housing Fund budget effectively.

Grant and loan payments

98. Following approval and acceptance of the grant, payment requests should be submitted to the Scottish Government. A standard claim form will be issued with the offer letter. The Scottish Government will discuss the timing of payments with successful applicants, as well as agreeing a loan repayment profile (if applicable) so these can be set out in the offer letter. Please note, no payments can be made in advance of need and will only be paid on receipt of full supporting documentation.

99. As a guide, the following stages provide indicative timings for payments but are more relevant for new build developments:

¹ Social housing is defined by the Commission as housing 'for disadvantaged citizens or socially less advantaged groups, who due to solvency constraints are unable to obtain housing at market conditions'

Golden Brick - this means that the development has commenced, works are on site and the foundations plus one brick course above ground level has been completed.

Wind and Watertight stage - This would usually mean that the kit shell has been erected on the foundation, the windows and doors have been fitted and the roofing and wall membranes have been applied, although the house may still let in water at this stage.

Completion stage – final payment on certification from the project architect confirming the building is complete.

Standard security

100. Prior to any payment of grant or loan, recipients must provide a standard security over the properties or land in favour of Scottish Ministers together with a certificate of title from the grant or loan recipient's solicitors. This is required to safeguard the funding in the event that the recipient goes into liquidation or defaults on the terms and conditions contained in the grant or loan offer.

101. Scottish Ministers' preferred form of security is a first ranking standard security over the houses delivered. Where recipients are borrowing funds from private lenders to finance part of the development costs not covered by the Scottish Government funding, we will discuss the security arrangements with you. It may be necessary for Scottish Ministers to take security over certain properties within the development while the private lender (s) take security over others. An alternative would be for the Scottish Ministers to take a second ranking standard security to the private lender providing additional loan finance for the project. In any case, no funding can be paid until the security is in place.

Clawback

102. In the event that terms and conditions in the offer of grant or loan can no longer be met (for example, where the recipient can no longer make the houses affordable for the agreed affordable period; where the properties fail to be managed and/or maintained to a suitable standard; the agreed allocations policy is no longer being followed etc.), this would result in full repayment of the grant or loan (known as clawback) to the Scottish Government.

Cost overruns

103. Funding of cost overruns will only be considered in exceptional circumstances where costs are deemed unavoidable and unforeseeable. We will fund cost overruns only as a last resort and expect all other sources of potential funding to be exhausted.

104. Consideration may be given to providing an additional contribution towards the funding of unavoidable and unforeseeable costs which may be identified following offer of grant or loan. However, there can be no guarantee that we will fund cost overruns and if we do, it will only be a contribution, e.g. in the same proportion as the original grant to private finance split.

105. Any cost overruns must be notified to the Scottish Government as soon as they become apparent, together with an initial estimate of cost. This will enable immediate discussions to take place on the actions proposed by the organisation to mitigate the effect of the cost overrun, thereby offsetting, or eliminating the potential additional funding requirement.

106. Organisations must demonstrate to the Scottish Government's satisfaction that the additional costs have not resulted from their deliberate actions and that they could not reasonably have been foreseen.

107. In addition to an immediate notification as outlined above, a formal, written request for approval of additional grant or loan must be made to the Scottish Government, at the practical completion stage of the project. All information necessary to evidence the reasons for the cost overrun and assess the request should be attached to the submission

108. The Scottish Government will take the final decision on whether cost overrun requests are acceptable based on the evidence provided.

Progress reports

109. Throughout the duration of the project, progress reports will be required by the Scottish Government. The Scottish Government will specify the frequency and format of reports.

Confirmation of reported progress – site visits

110. Responsibility for satisfactory completion of projects and the quality of the housing rests with the grant or loan recipient. However, to ensure that projects are proceeding in the manner approved, the Scottish Government (or chartered surveyors employed by the Scottish Government) may also wish to inspect progress on site.

Post completion assessment

111. When projects have reached completion, the Scottish Government will conduct an assessment to determine the physical and financial outputs from the projects. The scheme assessment will involve:

- Confirmation that the project is complete and that the completed housing is consistent with what was agreed for grant and/or loan purposes; and
- Confirmation that the conditions in the offer of grant have been met, in so far as they can be at this point.

112. To enable the Scottish Government to conduct a post completion assessment, all grant or loan recipients will be required, as a condition of the offer made, to submit a 'Project Completion Return Form' within 28 days of the last property being let or sold.

113. For a sample of projects, the Scottish Government may also conduct a more detailed evaluation to determine the project's success in meeting the objectives defined.

Monitoring and evaluation

114. Grant or loan recipients of the main fund will be asked to complete (as a minimum) an annual return to the Scottish Government confirming

- progress on the delivery of the project; and
- that the terms and conditions of the grant or loan are being complied with. For example the rents are in line with the assumptions at grant or loan approval stage (i.e. they are being rented affordably), the houses are still being provided to the intended client group, or the properties are being managed and maintained appropriately and to the required standards.

115. To monitor who is housed in properties funded through the Rural Housing Fund, applicants may also be required to ask all prospective tenants or buyers to complete a monitoring form.

116. We will also seek to evaluate the Fund in terms of its administration and outputs/outcomes at appropriate junctures in the life of the Fund. This is likely to involve collecting sample data from Grant or loan recipients on their projects and the client group/communities impacted by them.

Further advice and support

117. If you have any questions or points you need to clarify to allow you to submit an expression of interest or an application to the Rural Housing Fund please e-mail rhf@gov.scot .

118. For local enquires please contact the relevant Scottish Government Housing Supply and Innovation Division [area office](#).

Annex A

Example offer letters

Grant – main fund



Rural Housing Fund -
grant offer - template

Loan – main fund



Rural Housing Fund -
loan offer - template

Grant – feasibility fund



Rural Housing
Fund - grant offer...

Knoydart Foundation

Allocations Policy

Aim of policy

The allocations policy of Knoydart Foundation has 2 main aims

- 1 – to improve the living conditions for the existing residents living on Knoydart
- 2 – to contribute to the viability of the local economy through the provision of accommodation to support the local work force who are contributing to the regeneration and sustainability of the peninsula.

The Knoydart Foundation aims to offer an open and fair system of allocating accommodation within its control or influence, be that for permanent or temporary accommodation to achieve the above aims.

How the policy will work

The Knoydart Foundation will ensure:-

- that all applications are treated in the same manner regardless of applicant
- that all applications will be treated as confidential
- that an up to date waiting list is kept by the Foundation office and all interested parties should ensure that their name is on it
- that all applications will be dealt with in a fair and transparent way by the housing subgroup which will comprise both local and external representatives
- Should any person on the subgroup also be an applicant then they shall stand down for the duration of the meeting that is dealing with their application
- That all properties for rent will be openly advertised within the Knoydart area
- Should an applicant feel that they have not been dealt with fairly, then the Knoydart Foundation board will review the decisions of the subgroup

The Applicant should be aware that:-

- If wrong or false information is given, this may result in the offer of accommodation being withdrawn
- that a separate application form will be required for each property
- that if a successful application is refused without good reason then it may affect future applications

The policy and its operation will be reviewed on a regular basis to ensure it is achieving its aims. We welcome suggestions on how we can improve the process.

Annex B continued....

Knoydart Foundation

Accommodation application form – general information

Date of application.....

Name.....Length of time on waiting list.....

Other household members and ages if over 18.....

.....

If applying for temporary accommodation, please give dates when you wish to enter the property and when you would leave. This will be included in the tenancy agreement.

.....

Current location of where you are living.....

.....

Are you in a key worker post.....

Property you are interested in applying for.....

Have you turned down any previous Knoydart Foundation property?.....

If yes, for what reason.....

.....

What was your last address.....

.....

Please give the address of your previous landlord so we can contact them for a reference

We will need a reference from your bank. Please give an address and bank details so we can approach them. We will also need a letter from you giving us permission to do so.

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