

## ABERDEEN CITY COUNCIL

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COMMITTEE	Housing & Environment
DATE	13 <sup>th</sup> April 2010
CORPORATE DIRECTOR	Pete Leonard
TITLE OF REPORT	National Housing Trust Proposal
REPORT NUMBER	H&E/10/048

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### 1. PURPOSE OF REPORT

To advise Committee on proposals by the Scottish Futures Trust to create a National Housing Trust to enable the development of short term affordable housing and to seek agreement to continue the Council's interest in participating in the Trust.

### 2. RECOMMENDATION(S)

It is recommended that members of the Committee agree to continue with an interest in the National Housing Trust proposals as developed by the Scottish Futures Trust and instruct officers to report to a future meeting of the Housing & Environment Committee as further decisions are required.

### 3. FINANCIAL IMPLICATIONS

If the National Housing trust were to deliver affordable housing in Aberdeen the City Council would be required to borrow 65% of the costs from the Public Works Loan Board. The repayment of the borrowing would be serviced from the rental income from the properties. The remaining 35% of the capital costs would be financed by the private sector.

The Scottish Government has stated that they will underwrite the loans provided by local authorities. This means that if there is a shortfall from the rental income and future sale of the properties Government will cover these losses meaning there are no financial risks for the Council.

The City Chamberlain has been consulted and has broadly supported this initiative but has identified a number of issues which will require detailed clarification of the NHT progresses.

#### 4. SERVICE & COMMUNITY IMPACT

The Community Plan sets out our vision for the future of the city. Our vision is a city which is vibrant dynamic and forward looking an even better place to live and work, where people can expect high quality services that meet their needs.

The delivery of the new affordable housing aims to provide our citizens with an increased supply of affordable rented homes which would support the following challenge in the community plan:

- ◆ Homes Challenge – improving the quality of housing and environment for individuals and the community and eradicating homelessness by 2011.

The provision of affordable housing also aims to fulfill the following Vibrant Dynamic & Forward Looking objectives:

- Work with Registered Social Landlords to develop affordable housing including 2,000 new affordable houses

#### 5. OTHER IMPLICATIONS

Any increased provision of good quality affordable housing will make a significant contribution towards improving availability of housing for homeless households and make a significant contribution to meeting the needs and demands of our citizens and help stem the flow of households from the city to Aberdeenshire and elsewhere.

#### 6. REPORT

The Scottish Futures Trust (SFT) has developed the proposal for the National Housing Trust (NHT).

A summary of the NHT scheme is provided below, this is based on the information supplied by the SFT.

- The aim would be to deliver up to 2000 houses suitable for mid market (intermediate) rent in areas where there is a high demand for such housing across Scotland;
- Target groups would be households on low to moderate incomes who cannot afford market rents, but are not currently in a priority group for accessing social rented housing (e.g. because they do not have children) and are unlikely to be able to afford owner occupation even with the aid of existing public subsidies;
- A new legal entity (the NHT) would be set up to procure and acquire completed houses, governed by a Board whose membership would include participating local authorities;
- The houses would remain available for affordable rent for between five and ten years;

- Funding would likely to be split 65% public and 35% private sector;
- Public funding would be secured through the Public Works Loan Board (PWLB), and utilise the prudential borrowing powers of participating local authorities to fund sites in their area;
- Private funding would come from developers and other site owners, and would likely to be split 5% loan note and 30% equity investment;
- The PWLB interest costs are fully serviced by the mid-market rents;
- On exit, the houses would be sold with PWLB borrowing capital repaid in priority to private sector debt and equity.

The proposed NHT scheme aims to meet housing need in particular areas and to help to reduce waiting lists. Rent levels would be set initially at 80% of the relevant Local Housing Allowance levels. This should make rents affordable to households on low to moderate incomes (generally earning between £15,000 and £25,000 a year, although this would vary depending on area and household size) who would struggle to afford private renting or to buy a home, but who are unlikely to be able to access social housing in the near future. Rents would also be accessible to those qualifying for Housing Benefit. The scheme could offer a choice to those on housing waiting lists or be adaptable to house some homeless households (where appropriate for the individuals concerned) – thereby giving local authorities more flexibility in discharging their homelessness duties as they move to 2012.

Close engagement with local authorities in areas where there is demand for mid market rent housing will be critical to the success of the NHT scheme. Initially it would be for local authorities to:

- determine whether there would be sufficient demand for mid market renting in different locations in their area;
- if so, determine the type and quality of properties that would be suitable for mid market renting in these locations;
- decide on the target groups for properties;
- agree a methodology for allocating properties;
- as required, borrow funds from the PWLB to facilitate property purchases (local authorities would only be borrowing funds for sites in their area).

A new limited liability company – the NHT – would be set up to direct and facilitate the operation of the scheme, with participating local authorities becoming members or shareholders in the NHT. The NHT Board would include directors appointed by each of the participating local authorities.

The NHT scheme would consist of a number of separate SPVs, one for each of the individual sites identified in the procurement process. These would sit below the NHT in the corporate structure. The SPVs would be companies limited by shares, whose shareholders would be the local authorities, the NHT and the private sector stakeholders. Completed properties would be acquired by the SPVs with the NHT the contracting authority for the scheme.

While it is not possible to determine precisely the size of the opportunity in advance of procurement, it is believed that the scale of the national opportunity

could be reasonably stated at between 1,000 to 2,000 units. The focus would likely be on one, two and three bedroom flatted properties – with an emphasis on two bedroom properties.

Over the past year, the number of large scale unsold, completed properties on the market which would be suitable for mid market renting has reduced significantly. On this basis, the majority of the opportunities across Scotland would be for sites that are mothballed. While not all locations or property types would be suitable, developers have shown interest in the model and – where homes have still to be built – may be willing to adjust their plans to ensure property type and space requirements are consistent with the needs of the local authority.

Capital spending through the NHT scheme would inject a short to medium term stimulus into the economy – boosting jobs and securing economic activity. As a result, the scheme could both directly and indirectly support workers' jobs.

Properties would be managed and maintained by a managing agent(s) – the NHT would place a procurement notice in the Official Journal of the European Union (OJEU) with a view to appointing an agent(s) and would also be responsible for managing their performance on an ongoing basis. There could in theory be one agent for all participating areas (such as a registered social landlord subsidiary or a large letting agent) but there could be several – each covering, for example, a different geographical area.

The SPV would pay the site owner around 65% of an agreed purchase price when it acquired the properties. As noted previously, it is likely that this money would come from the local authority in whose area the properties were situated through PWLB borrowing. The Scottish Government would be willing to offer a guarantee to participating local authorities to underwrite the repayment of any borrowing in the event that rental or sales income was insufficient to repay the PWLB.

The remaining balance of funding (around 35%) would come from the private sector. Based on current economic assumptions, the private sector monies would be split between a loan note (5%) and equity (30%).

The proposed financing structure is predicated on the core principle that private sector investment in the scheme would be structurally subordinated to the public sector monies.

From the modeling completed to date by the SFT, interest on the PWLB lending would be serviced by the cash flow generated by the mid market rental income. The residual cash flow would service the private sector loan note interest.

The Local Government (Scotland) Act 1975 does not confer borrowing powers on local authorities to borrow to lend to third parties. The Act confers powers on Scottish Ministers to consent to a local authority borrowing for expenses not otherwise permissible but only if they consider that such costs should be met from borrowing. Any such consent for the NHT scheme would:

- require to be issued on a site by site basis and on standardised terms;
- need to have a condition attached requiring local authorities to make the on-lending rate the same as the rate at which the funds were borrowed;
- have any other conditions attached which the Scottish Ministers considered appropriate.

The NHT scheme would be intended to last for between five and ten years. It would be the private sector stakeholder who determined when a sale could take place between years five and ten after completion of the homes. Five years would be the minimum period of time that private sector stakeholders would be required to retain their loan note/ equity investment. This would not preclude a private sector investor selling their stake during this period provided the overall funding and contract structure was maintained.

The intention would be to complete an exit by year ten. The exit from the scheme relies on sales of the NHT stock and forward planning will be required to ensure that units are sold prior to the termination date of the NHT scheme.

At their meeting on 29 January 2010 CoSLA leaders agreed their support for the NHT initiative and were content for interested authorities to engage further with the Scottish Government and SFT in working towards its implementation.

The SFT are planning to publish a Prior Information Notices in the OJEU as soon as possible. The PIN will set out the requirements of the NHT. This will not commit the Council to proceed with it's interest. It will however identify market interest for the NHT and identify potential development opportunities in Aberdeen. As part of this process we were asked to provide information on the potential numbers of properties in Aberdeen, their locations, types, sizes , purchase prices and target groups.

## 7. AUTHORISED SIGNATURE

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## 9. BACKGROUND PAPERS

None.

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