

ABERDEEN CITY COUNCIL

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| COMMITTEE | Council |
| DATE | 18 th August 2010 |
| CORPORATE DIRECTOR | Pete Leonard |
| TITLE OF REPORT | National Housing Trust Initiative |
| REPORT NUMBER | H&E/10/099 |

1. PURPOSE OF REPORT

To advise Council on proposals by the Scottish Futures Trust (SFT) to deliver the National Housing Trust (NHT) initiative to enable the development of short term affordable housing and to seek agreement to continue the Council's interest in participating in the OJEU procurement exercise. In supporting the initiative the Council can help the delivery of additional affordable housing in the city and support employment in the house development industry.

2. RECOMMENDATION(S)

It is recommended that Council agrees

1. to participate in the National Housing Trust procurement as developed by the Scottish Futures Trust subject to the Directors of Corporate Governance and Housing & Environment being satisfied that the legal and financial elements of the initiative do not expose the Council to undue risk;
2. that borrowing through the Council's Loan Fund for the scheme be agreed in principle, subject to a maximum of 50 units;
3. and instruct officers to report to future Committee meetings as further decisions are required.

3. FINANCIAL IMPLICATIONS

If the NHT were to deliver affordable housing in Aberdeen the City Council would be required to borrow money to meet its 65% share of the costs. This would be done through the Council's Loans Fund. 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 developer, with 30% as

equity and a 5% loan. The Council's borrowing would be a General Fund activity as the properties would not be owned nor operated by the Council.

It is anticipated that an average of £96,000 may have to be borrowed for each property procured. If the 50 unit target were to be achieved this would potentially require £4.8m of borrowing. It is however more likely that around 10 units may come forward which would require funding of around £960,000.

The Scottish Government has previously 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 the Government will cover these losses meaning there are no financial risks for the Council. Recent information from the SFT has indicated that the guarantee is not now watertight. Finance and Legal officers are considering the draft legal documents which have only recently been received. Finance officers are also discussing the initiative with External Audit. Legal officers are reviewing the legal documents to ensure they provide an appropriate legal framework for the Council to sign up to. Any issues identified will be brought to the attention of the Council meeting.

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 may make a contribution towards improving availability of housing for homeless households and make a contribution to meeting the needs and demands of our citizens and help stem the flow of households from the city to Aberdeenshire and elsewhere.

The procurement through the NHT may influence developers considerations on whether to start construction on a particular site. If it does then it could be argued that the initiative will help sustain employment in the construction and associated industries.

6. REPORT

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 Housing & Environment Committee on 13th April 2010 agreed to continue with an interest in the NHT proposals as developed by the SFT.

NATIONAL HOUSING TRUST – NATIONAL PERSPECTIVE FROM SFT

The Scottish Futures Trust has developed the proposal for the National Housing Trust.

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 2,000 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;
- The houses would remain available for affordable rent for between five and ten years;
- Funding would likely be split 65% public and 35% private sector;
- Public funding would be secured through the Public Works Loan Board (PWLB), or any other source an authority can access 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 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 would currently provide a rent in Aberdeen of up to £99.23 and £124.62 per week for 1 and 2 bed properties respectively.

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.

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).

The NHT scheme would potentially consist of a number of Special Purpose Vehicles (SPV), one for each of the developers involved in the City. Each SPV would be set up as a Limited Liability Partnership. The SPVs would be companies limited by shares, whose shareholders would be the local authorities, the SFT and the developer. Completed properties would be acquired by the SPVs.

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. The developers submitting bids are required to take the agent forward as part of their bid. The agent could be a registered social landlord or a letting agent.

The SPV would pay the site owner 65% of an agreed purchase price when it acquired the properties. This money would come from the local authority 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 (35%) would come from the private sector. Based on current economic assumptions, the private sector monies would be split between a loan (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 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 developer 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. The Council's borrowing will be repaid before the repayment of the private sector debt and equity. It is anticipated that the sitting tenants, local authority or RSL could buy the property at an open market value. If there is not interest in purchase from these parties then the properties would be sold on the open market. The public sector will take a share of any proceeds from the sale of the homes above a threshold level (a pre-set Internal Rate of Return figure).

LOCAL PERSPECTIVE

Contact has been made with several local developers and the developers who responded to the PIN published by the SFT who had indicated an interest in delivering in Aberdeen City. The feedback received indicates that there is not likely to be a significant number of properties delivered in the city through this round of the NHT initiative. Officers are however keen to take forward the opportunity the initiative provides.

Officers indicated to the SFT that Aberdeen City Council was interested in participating in the NHT subject to Council approval. This was confirmed on 2nd July to Alex Neil, Minister for Housing and Communities.

In moving our considerations forward we were in discussions with Aberdeenshire Council on the potential interest and needs. We would ultimately be committing funding to properties within our boundary but given the housing market area we operate in this discussions were positive. Aberdeenshire Council have now decided not to pursue their interest primarily due to a lack of developer interest.

Ultimately whatever Aberdeen City Council's interest is it can only be delivered if developers are willing to engage and deliver properties through the NHT.

There are very limited sites in Aberdeen with planning permission which could be developed in the timeframe which have been proposed. The land values associated with some locations in Aberdeen also make the delivery at the purchase values required unlikely. At this stage we want to see what options the development industry can take forward and not rule any potential location out. We have stated that up to 50 units could be accommodated from borrowing and await to see what interest the development industry has locally expressed through the procurement process.

The timeframe for delivery of the initiative is very tight. The Scottish Government have asked that local authorities confirm by the end August that they can commit, subject to Committee approval and to sufficient tenders coming forward that meet our procurement criteria, that the Council will agree to lend the required amount to finance the Council's contribution to purchasing this number of NHT homes.

The intention is then for the Government to commence the procurement with an OJEU notice in September 2010 with contracts in place by February / March 2011.

In taking forward interest local authorities were asked to consider a number of further issues which will feed into the procurement process.

These include

- the minimum building standards which this Council would be willing to fund;

We should require the properties to be built to the building standards required at the time the contract is entered in to.

- which groups we might want to target (eg waiting list, incoming workers, existing tenants etc)

The properties should be available to existing tenants of or applicants to the Council or RSL who have an exiting housing need. This will therefore include homeless households as potential tenants.

- The OJEU documents will need to include information on the Council's position on whether or not NHT homes can count towards a section 75 affordable housing contribution.

Officers from legal, planning and housing services have considered this issue. The view taken at this stage is that properties delivered through the National Housing Trust fall within the affordable housing category as currently used. The specific question is whether delivery for 5 – 10 years is acceptable as our normal approach is to try and secure the delivery of affordable housing over the long term. Given the current low level of construction it is considered that such development could be acceptable in

terms of a section 75 agreement if this helps developments progress to site and thus assist the economic and employment issues in the city.

The SFT are planning to publish a Prior Information Notices in the OJEU in September. The PIN will set out the requirements of the NHT. This will not commit the Council to proceed with it's interest but it will be expected to if suitable opportunities come forward from developers which meet our requirements.

7. AUTHORISED SIGNATURE

Pete Leonard, Director of Housing & Environment
ph. (52)3899
E-mail – pleonard@aberdeencity.gov.uk

8. REPORT AUTHOR DETAILS

Graeme Stuart (Strategist - Policy & Planning Housing)
ph. (52)3043
E-mail – gstuart@aberdeencity.gov.uk

9. BACKGROUND PAPERS

None.
