

REPORT TO: HOUSING, DUNDEE CONTRACT SERVICES AND ENVIRONMENT SERVICES COMMITTEE - 22ND MARCH 2010

REPORT ON: NATIONAL HOUSING TRUST INITIATIVE

REPORT BY: JOINT REPORT BY DIRECTOR OF HOUSING AND DIRECTOR OF FINANCE

REPORT NO.: 165-2010

1. PURPOSE OF REPORT

- 1.1. To inform the Committee of the National Housing Trust (NHT) which will allow for the delivery of homes for mid market rent whilst stimulating the house building market.
- 1.2. To provide Committee with details on the processes for the potential implementation of the NHT scheme to provide homes for mid market rent within Dundee City Council area.

2. RECOMMENDATIONS

- 2.1. The Committee is requested to note the NHT scheme proposals and to agree the inclusion of Dundee City Council within the Prior Information Notice (PIN) to ascertain potential interest from local developers.

3. FINANCIAL IMPLICATIONS

- 3.1. The Council would be required to undertake additional prudential borrowing within the General Fund to fund 65% of each NHT scheme within the Council. It is expected that this borrowing would not exceed the cost of 50 houses with the Council's share estimated to be £4.225 M.
- 3.2. In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code Councils must ensure their prudential borrowing plans are affordable, prudent and sustainable. The Scottish Government will ensure that any additional borrowing specifically for NHT purposes will not affect prudential borrowing limits.
- 3.3. There is no financial risk to the Council since the Scottish Government will provide guarantees to underwrite the repayment of any borrowing in the event that rental or sales incomes is insufficient to repay the Public Works Loan Board (PWLB) loans.

4. MAIN TEXT

Background

- 4.1. The Scottish Government is committed to increasing the supply of affordable housing from all sources of funding available for this purpose. The credit crunch and the implications for public and private financing constitute a very significant challenge for the Scottish Government, Councils and RSLs. Therefore alternative approaches to funding affordable housing are essential. The proposal for an NHT, closely linking with the public and private sectors, will help boost the number of affordable units and realise wider economic recovery benefits, e.g. by kick starting mothballed sites. The target is to provide 1,000 - 2,000 homes nationally under the NHT scheme. It is estimated that 1,100 jobs could be sustained for every 1,000 new homes.

4.2. The NHT aims to assist in meeting housing need. Rents set at 80% of local housing allowance will make rents affordable to households on low to moderate incomes (£15,000 - £25,000 per year). Thus rent levels would be:

- 2-bedroom - £92.31 per week
- 3-bedroom - £120.00 per week

Rents would also be accessible to those qualifying for Housing Benefit. Tenancies will be on the basis of six month short assured tenancies so will not provide a home for life.

4.3. The NHT scheme would require a special purchase vehicle (SPV) for each participating Council. The SPV would be companies limited by shares, the shareholders being the Council, the NHT and the developer. The developer preference shares would be non controlling shares, which would enable payment of any surplus generated up to the maximum threshold set at 20%. The SPV Board would comprise three NHT Directors, one Council appointed Director and one developer appointed Director.

4.4. Completed properties would be purchased via a take out agreement with developers. Developers can therefore complete developments knowing that properties will be sold to the SPV on completion at an agreed price.

Financing the Purchase of Properties

4.5. The SPV would pay the developer 65% of the agreed purchase price when it purchases the completed properties. This amount would be borrowed from the PWLB by Dundee City Council. The borrowing would be part of the Council's General Fund borrowing.

4.6. The remaining balance of funding (35%) would come from the private sector and be split between a loan note (5%) and equity (30%). Thus risk to public financing is minimised by the developer bearing risk on achieving their return from future sales prices of the properties and the Council receiving a guarantee from the Scottish Government that it would underwrite the repayment of borrowing in the event that rental or sales income is insufficient to pay the PWLB.

4.7. When properties are sold in the future, the sales proceeds would be first used to repay Council PWLB borrowing. Loan note capital is repaid next. Developers holding the equity funding element would receive returns on their investment up to 20% with any additional surpluses being accrued to the Council and the Scottish Government.

Procurement

4.8. The properties would be procured by the NHT under the Scottish Statutory Instrument 2006 No. 1 - Public Contracts (Scotland) Regulations 2006 and comply with European procurement rules. Successful bidders would be selected on value for money criteria, a combination of price and match to identified need in a defined region.

4.9. The NHT procurement strategy is being finalised. Procurement is likely to be based on a regional basis. As part of this process the NHT will shortly publish a Prior Information Notice (PIN) in the Official Journal of the European Union (OJEU). This PIN notice will give information on likely future agreements and allows formal dialogue with the market. The PIN does not commit the NHT to proceed to procurement. It is an important mechanism to firm up and identify market enthusiasm for the initiative. It will also help inform in which areas potential developers and sites are most likely to exist.

- 4.10. The NHT is requesting that local authorities which are interested in the scheme authorise the inclusion of their details within the PIN in order to attract interest from local developers. This does not commit local authorities named in the PIN to proceed.

Demand for Mid Market Rent

- 4.11. The Scottish Government will work with Councils to provide the necessary analysis and evidence for the potential demand for mid market rent in Council areas. Based on an area procurement of 50 units under the scheme at an average cost of £130 K. per unit the necessary prudential borrowing would be 65% of £6.5 M., i.e. £4.225 M.

Management of the Properties

- 4.12. Developers will be required to submit details of suitably qualified property managers (RSLs/private sector management agents) which will manage the properties when submitting their bids.

Property Sales

- 4.13. It is intended that the NHT scheme would last for 5-10 years. Five years would be the minimum period that developers would be required to retain their loan note/ equity investment.
- 4.14. The stock could be disposed of by the sale of the entire NHT portfolio, sale of the entire portfolio of each SPV or by the sale of individual properties.
- 4.15. Properties could potentially be sold to private landlords, existing mid market tenants and Councils/RSLs. Councils would be given the right of pre-emption to properties within their local authority area.

Tenancy Management

- 4.16. The mid market tenants would occupy the properties on short assured tenancies on a six monthly basis. At the end of the NHT period tenants could purchase the properties or become tenants of an acquiring landlord. The situation will be managed to minimise disruption to tenants.

Summary

- 4.17. The NHT scheme provides a potential for good quality homes for mid market rent to be provided. The Council would be required to commit resources by provide PWLB borrowing to finance 65% of the cost of completed homes at agreed costs. The borrowing would be backed by Scottish Government guarantees and does therefore not incur risk. There is the potential for the Council to obtain a return on its investment depending on the housing market 5-10 years into the future. The additional homes would assist developers in difficult economic circumstances and during the continuing recession in the construction sector. The scheme would protect and enhance job opportunities within the construction sector in Dundee. The scheme would assist those on lower incomes to meet their housing needs assisting the Council in meeting housing need and prevention of homelessness within the City.

5. **POLICY IMPLICATIONS**

- 5.1. This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti Poverty, Equality Impact and Risk Assessment. There are no major issues.

6. **CONSULTATIONS**

- 6.1. The Chief Executive, Depute Chief Executive (Support Services), Assistant Chief Executive and all other Chief Officers have been consulted on this report. No concerns have been expressed.

7. **BACKGROUND PAPERS**

- 7.1. None.

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