

REPORT TO: HOUSING, DUNDEE CONTRACT SERVICES AND ENVIRONMENT SERVICES COMMITTEE - 23RD AUGUST 2010

REPORT ON: NATIONAL HOUSING TRUST INITIATIVE

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

REPORT NO.: 414-2010

1. **PURPOSE OF REPORT**

- 1.1. Further to the approval of Committee Report 165-2010 on the 22nd March 2010 recommending the Council's participation in the new National Housing Trust (NHT) this report sets out the next steps in delivering homes for mid market rent under the NHT within Dundee.

2. **RECOMMENDATIONS**

- 2.1. The Committee is requested to approve the Council's participation in the NHT scheme, and
- 2.2. to agree the inclusion of Dundee City Council in the notice to be issued by the NHT in the Official Journal of the European Union (OJEU) leading to the award of a framework agreement to developers interested in developing properties within Dundee which meet council requirements.

3. **FINANCIAL IMPLICATIONS**

- 3.1. The Council will be required to undertake additional prudential borrowing within the General Fund to fund 65% of each NHT scheme within the Council. In order to fund the Council's share it is expected that this borrowing would be between £4.225M and a maximum of £6.337M to fund 50 up to 75 units.
- 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 remain within prudential borrowing limits.
- 3.3. 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 will require a special purchase vehicle (SPV) for each development. The SPVs will be Limited Liability Partnerships, members being the Council, the NHT and the developer. The SPV ensures that there is clear protection of each of the members interests.
- 4.4. Councils will purchase developments from the developers selected under the framework agreements and completed properties will 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 will 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 will 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 will be selected on value for money criteria, a combination of price and match to identified need in a defined region.
- 4.9. The NHT has published a Prior Information Notice (PIN) in the Official Journal of the European Union (OJEU) providing information on likely future agreements gauging enthusiasm for the initiative from developers.

- 4.10. The NHT is now proceeding to the next stage. This involves issuing a notice in the Official Journal of the European Union (OJEU) leading to the award of a framework agreement to developers interested in developing properties within local authority areas which meet local requirements. The Council can then purchase properties from the framework agreement as required.

Demand for Mid Market Rent

- 4.11. There is a vibrant private rented housing sector in Dundee. To date properties have not been provided by social landlords for mid market rent. Based on the Housing Needs, Demand and Affordability Study undertaken in 2009 and the impact of current market conditions it is anticipated that the market will support between 50 and 75 units. At an average cost of £130 K. per unit and the need for the Council to provide 65% of the cost by prudential borrowing, the requirement would be between £4.225M. to £6.337M.

Management of the Properties

- 4.12. Developers will sub-contract the management of the properties to suitably qualified property managers (RSLs/private sector management agents) which will manage the properties, details will be contained within their bids.

Property Sales

- 4.13. It is intended that the NHT scheme will 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 sales to sitting tenants or by sale of the entire NHT portfolio for example to local RSL(s).

Tenancy Management

- 4.15. 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

- 4.16. The NHT scheme provides a potential for good quality homes for mid market rent to be provided. The Council will be required to commit resources by providing PWLB borrowing to finance 65% of the cost of completed homes at agreed costs. The borrowing will be backed by Scottish Government guarantees. 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), Director of Finance, 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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