

The Highland Council

Finance, Housing and Resources Committee – 5 June 2013

Agenda Item No	
Report No	

National Housing Trust Model

Report by Depute Chief Executive/Director of Housing and Property

Summary

This report updates Members on progress of The Highland Council's participation in the Scottish Government's National Housing Trust model and seeks approval for the Council to use prudential borrowing for a RSL variant of the model at An Camas Mor, Aviemore and for the Council's participation in the National Housing Trust 2B programme

1. Background

- 1.1 The NHT initiative was set up by the Scottish Government for local authorities to work with developers to deliver new affordable houses for rent, at a mid-market rate, in areas of high demand. The projects are jointly funded by the local authority and developers, with the Scottish Government underwriting local authority loans through a guarantee (see fact sheet – **Appendix 1**).
- 1.2 Resources Committee of 18 August 2010 approved up to 100 new houses to be delivered. Members further agreed on 12 March 2012 to increase the overall numbers to 150 new homes and some of these schemes have been completed in Westerbraigs and Culloden in Inverness and smaller schemes in Kildary and Golspie. Further projects are in development at Kiltarlity, Westerbraigs Inverness and Ardersier.
- 1.3 The Scottish Government subsequently invited housing associations (RSLs) to bid for a RSL variant. Albyn Housing Society was the only RSL to bid for projects in the Highlands: 12 units at Milton of Leys, Inverness and 50 units at An Camas Mor, Aviemore. Albyn have sufficient finance available for the delivery of the Milton of Leys units; however, given the size of the An Camas Mor development, they have requested use of prudential borrowing for 70% of the funding required, as per the original National Housing Trust developer led projects.
- 1.4 The Scottish Government is also gauging interest for a further round of national Housing Trust funding – NHT2B and is seeking The Highland Council's views on its interest.

2. Update on Current Programme

- 2.1 Under NHT1, the Council approved the use of prudential borrowing on two projects and Westerbraigs and Woodside of Culloden, Inverness to deliver 57

new houses. Both these projects are now complete and fully occupied.

- 2.2 Under NHT2 further projects were approved at Westercraigs Phase Two (48 units), Kildary/Golspie (7 units), Kiltarlity (12 units) and Ardersier (12 units). The units at Kildary and Golspie are complete and are currently being let. Westercraigs Phase Two has been submitted for planning approval as part of a larger project. Ardersier has planning permission and is on site. Kiltarlity has been granted planning permission and is due to go on site in June 2013.

3. An Camas Mor Proposal

- 3.1 The creation of a new community at An Camas Mor, Aviemore has been a long standing strategic objective of The Highland Council (since 1989) and the Cairngorms National Park Authority (CNPA).
- 3.2 The site and current plan have been recognised by the Scottish Government as an Exemplar Project under the SSCI initiative. The Highland Council and the Scottish Government have been working closely with the CNPA and the landowner to consider alternative funding models to 'kick-start' the creation of a new community.
- 3.3 The landowner has considered various mid-market models to assist in the development of phase one of the new community. The current proposal is that phase one of An Camas Mor will comprise 200 new houses. 30 of these will be traditional affordable houses, (council and RSL social rented), 120 will be private houses for sale in the open market and 50 houses will be NHT backed mid-market rented houses to be delivered through Albyn Housing Society as part of the NHT RSL programme. The mid-market housing would be targeted to existing Council and RSL tenants and to people on the Highland Housing Registrar.
- 3.4 Albyn Housing Society has approached the Council for prudential borrowing for 70% of the funding required, as per the same process under NHT1 and NHT2 programmes. Under NHT, Albyn can sell the properties with existing tenants having the first option to buy.
- 3.5 The interest charges on loans would be repaid through the rental stream. If, for whatever reason, the rents are not repaid, the Scottish Government will give a guarantee to pay any shortfall to ensure there is no financial risk to the Council.
- 3.6 Albyn have estimated that they require approximately £5,000,000 of prudential borrowing to cover the 70% cost factor.
- 3.7 The Cairngorms National Park Authority support this proposal as the development at An Camas Mor is a strategic objective to deliver new housing and support the economic sustainability of the park area.
- 3.8 There are currently 235 households in the Highland Housing Register, whose first preference is Aviemore. Local businesses have reported that a lack of affordable housing is stifling the economic expansion of their businesses and making them consider relocating to areas outwith the Highlands. There is

currently little or no privately rented accommodation in the Aviemore area, as available houses are rented as holiday houses.

- 3.9 Whilst the Highland Council has supported the proposed new community at An Camas Mor, there are some outstanding issues which require to be resolved and any commitment from The Highland Council would be subject to satisfactory resolution of the matters:
1. Planning: currently there is a legal challenge to the CNP local plan which is delaying the issuing of planning permission. A decision from the Court of Session is expected shortly.
 2. Demand: analysis of demand is on-going to determine accurate demand figures for the various tenures of housing to ensure the correct mix.
 3. In order to ensure a sustainable community, the Council will require a commitment from the developer to build out the private housing in conjunction with the affordable and mid-market rent housing.

4. NHT2B

- 4.1 The Scottish Government has written to The Highland Council seeking an expression of interest in a further round of procurement of the original NHT model. They have written to councils who have a proven track record of delivery and are seeking The Highland Council's approval to enter into a participation agreement, on the same basis as NHT1 and NHT2. As before, the Council is being asked to invest/provide loan finance to the SPVC using prudential borrowing to fund the loans which would be 70% of the value.
- 4.2 It is proposed to respond to the Scottish Government by agreeing in principle to enter a new round of NHT funding, subject to:
1. A limit of 50 new houses.
 2. Satisfactory bids from developers.
 3. Scottish Government guarantee on interest charges.

5. Resource Implications

- 5.1 The Council is being asked to invest/provide loan finance to the SPVs. Under new investment regulations local authorities are obliged to state the limits for the amounts which, at any time during the financial year, may be invested in each type of investment, such limit being applied when the investment is made. This is to include any investments by means of:
- Loans to Companies including Local Authority owned Companies
 - Shares and Bonds in Companies, including Local Authority owned
 - Loans to Third Parties
 - Local Authority Investment Properties.
- 5.2 The Council would have to use prudential borrowing to fund the loans required to purchase the homes.
- 5.3 The interest charges on the loans would be repaid through the rental stream. If, for whatever reason, the rents are not paid the Scottish Government pays any

shortfall in interest charges on the prudential borrowing to ensure there is no risk to the Council.

- 5.4 After payment of sales costs, the proceeds from the sale of the homes would firstly be used to repay the Council's initial capital loan. Any shortfall in this would be covered by the Scottish Government's guarantee.
- 5.5 The loan required for the An Camas Mor project would be in the region of £5,000,000. The loan required for a further round of NHT2B would also be in the region of £5,000,000.

6. Other Implications

- 6.1 Legal Services have been consulted and the recommendations of this report will be subject to detailed considerations of the legal documentation. There are various legal agreements which the Council will have to enter into in the National Housing Trust model, which may include a Member's Agreement, framework agreement and inter-creditor agreement. However, these are all on a similar basis to the existing model. On the RSL variant all the above documentation may not be required. Any detailed proposal will be subject to the approval of the Head of Legal Services.
- 6.2 There are no other risk implications other than those already reported.
- 6.3 There are no equality or climate change implications.

7. Conclusion

- 7.1 The National Housing Trust model will help the Highland Council meet part of its housing need through providing mid-market rent provision in high demand areas.
- 7.2 Although there is a requirement for use of prudential borrowing, the interest charges accrued will be repaid annually through rental stream backed up by the Scottish Government guarantee; therefore there is no risk to the Council. The initial capital payment is repaid when the properties are sold after 5-10 years. This is also backed by a Scottish Government guarantee.
- 7.3 If approved, this proposal would unlock the strategic development of An Camas Mor, enabling the delivery of 50 mid-market units and consequently 30 social rent new homes. The NHT2B proposal would deliver a further 50 mid-market homes and potentially deliver more social rented houses, dependent upon the bids received.
- 7.4 At this stage only an approval 'in principle' is being sought. Progress on the An Camas Mor proposal would be reported back to Committee once the outstanding issues are resolved. Detailed approval for individual sites under NHT2B would be sought at a later date once costs etc. are firmed up.

8. Recommendation

8.1 Members are asked to note the update of the current NHT programme and to:

1. Approve the Council's participation in NHT2B for up to 50 new homes.
2. Approve prudential borrowing to fund 70% of the costs of delivery of 50 new mid-market rented units at An Camas Mor, Aviemore, subject to:
 - planning permission being granted
 - The Highland Council agreeing a build-out programme for Phase One of the development.
 - A Scottish Government guarantee being in place, similar to NHT1 and NHT2.
 - Borrowing consent from the Scottish Government.

8.2 Both these proposals will be reported back to FHR committee once details have been finalised.

Signature:

Designation: Depute Chief Executive/Director of Housing and Property

Date: 21 May 2013

Allan Maguire
Head of Property Partnerships
01463 702528

National Housing Trust Fact Sheet

What are the key benefits this model offers?

Through applying an innovative high value for money solution, the National Housing Trust initiative aims to deliver around 1000 houses suitable for mid-market (intermediate) rent in areas where there is a high demand for affordable housing, helping to boost affordable supply in the areas of greatest pressure.

Furthermore, in recognition of the difficult economic environment the scheme is also expected to help sustain employment, particularly in the construction industry, by allowing house builders to kick-start construction on stalled housing sites which would in many cases otherwise remain 'mothballed' for some time.

On top of these headline advantages the initiative also offers a wide range of benefits to each of the sectors involved in its delivery:

For developers, the NHT will kick-start construction on stalled sites, aiding cash flow and preventing loss of their skilled workforce. Through having flexibility to sell the homes between years five and 10 developers are also able to control their exit from the initiative, taking advantage of any increase in house prices at the point of sale.

Lenders will be offered the reassurance that there is a guaranteed buyer at the end of the construction phase, giving them the comfort they need to lend for house-building as well as improving the financial position of their developer clients.

Local authorities benefit through having an additional tool to help them boost affordable housing supply, and by controlling the location, type, size and quality of homes they can ensure the needs of their area are met. They are also able to determine who the initiative will house, potentially reducing social housing waiting lists and thus helping focus social housing on those in greatest need.

And finally tenants will benefit from increased access to affordable, good quality homes in convenient locations. For those not currently in a priority group for social housing the initiative offers an alternative to remaining on waiting lists.

Who can access the homes delivered through the NHT initiative?

Target groups will vary by local authority area depending on needs and demands in each area, but are likely in most cases to be households on low to moderate incomes who cannot easily 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. Tenancies offered to successful applicants would be on a Short Assured Tenancy basis.

Who decides if there is demand for MMR in a particular area?

It is for Councils to decide if there is demand for MMR in their area and if they wish to support provision of MMR housing. We recognise that Councils have important priorities other than MMR but the NHT scheme could sit alongside these priorities rather than in competition with them.

By potentially moving many of those who could afford MMR off social housing waiting lists, the initiative could help Councils to focus their social housing efforts on those in greatest need.

How would the selection of tenants operate?

It would be for participating Councils to determine the target groups for properties. Any Council taking part in the NHT would be expected to agree how they would like properties to be allocated and to agree target income groups with the managing agents.

How would properties be managed and maintained?

It is expected that each private sector partner would retain responsibility for both property management and maintenance. Developers would be expected to team up with partners or subcontract with suitable third parties with demonstrable experience of – and clear customer service standards in – this type of management.

The adequacy of standards demonstrated by the property managers, along with their fee levels, would be taken into account in the procurement process. Each Special Purpose Vehicle would also be able to require that the developer replaced the management company(ies) if they regularly failed to meet certain standards of performance or customer service.

What happens at the end of the five to ten year period?

A requirement of the scheme is that tenants are given the first option to purchase their home when the developer opts to trigger the sale. This is then followed by an option to purchase for Councils or their nominee (such as a Registered Social Landlord). If the homes do not exit the scheme via these options the homes could then be sold as a whole package to a private investor who would continue to let them or they could be sold privately (probably on a phased basis) via the open market.

What happens to profits from the house sales?

After deducting sales costs, the proceeds of the house sales would be used first to pay off the loan from the relevant local authority. The private sector loan note would be next to be paid off and then the rest of the sales proceeds would normally be used to pay a return on the private sector partner's equity investment.

However, where the returns exceed an agreed level, any return above that level would go to support additional affordable housing. For legal reasons, these funds could not be paid directly to the local authority, but it is envisaged that the relevant local authority would nominate an RSL or other charitable organisation to receive the funds and agree with the organisation what the funds should be used for.