



## BUSINESS CASE

<b>Project name</b>	Affordable Housing – Rent to Buy Programme
<b>Themes</b>	Enhanced Growth Capacity; Innovation; Young People.
<b>Lead</b>	Allan Maguire, Head of Development and Regeneration
<b>Date (Version)</b>	Version 2; 17/1/2017

## 1: STRATEGIC CASE

### 1.1: Introduction

The Inverness and Highland Region City Deal Heads of Terms were signed on 22 March 2016 which sets out the broad areas in which the British Government were prepared to invest over the next ten years. One of the projects included was the delivery of a 'rent to buy' housing development programme targeted to young people in the Highlands.

### 1.2: Project Background

The numbers of young people living in the Highlands compared to Scotland averages is low. By 2037 it is estimated that the proportion aged 16-29 in Highland is projected to decrease from 17.3% to 12.5% (compared to 16.2% in Scotland overall) which would equate to over 9,000 missing young people. Addressing this issue is of major importance to the Highlands.

According to the 2015 research project 'Young People and the Highlands and Islands' published by HIE, 34% of young people responded that they plan to leave the Highlands and Islands to live and work elsewhere. Access to housing to buy or rent is regarded as limited and almost half of the respondents are still living in their parental home up to the age of 35 because of the limited housing options.

Many young people who are working cannot access social housing which is allocated on a needs-based points system, with only those on the greatest housing need being allocated new housing. Given that there are over 7,000 people and families on the Highland Housing Register waiting list and only 250 new social rented housing being built each year. Most working young people are not allocated social rented housing.

The Highland Council has participated in the National Housing Trust initiative, supported by the Scottish Government guarantee, which is designed to deliver more new houses, available at a mid-market rent in areas where there is unmet demand for housing. For the first five to ten years the houses are rented at mid-market rent and after this period, the tenant will have the option to purchase the property. Currently the Council and its partners have developed 176 new houses under this initiative. The funding mechanisms are based upon the developer holding a 30% equity share and 70 % finance from the local authorities prudential borrowing. The Scottish government provided a rent guarantee for the project.

The original proposal was to expand this programme over the next ten years, targeting young people who cannot afford to purchase houses in the Highlands and who would otherwise leave the area.

However the NHT programme is no longer available to local authorities and following detailed discussions with Banks and other lenders unfortunately it has become clear that financial institutions are no longer willing to fund the equity share under this model or other residential property investments.

The Highland Council has considered various models for delivery of mid-market rent schemes for young and following discussions with Scottish government officials the model which gives greatest flexibility and delivery certainty is to replace the equity share and guarantee with a Scottish government and local authority grant.

The revised funding model is based on upon a mixture of City deal funding , Highland Council prudential borrowing , Highland Council land bank funding and Scottish government affordable housing investment programme(AHIP).

### **1.3: Project Mission**

To offer young people attractive, affordable housing in the Highlands to enable them to stay in the region, retaining a young, vibrant workforce for the Highlands.

### **1.4: Project Vision**

The vision for the project is to deliver high quality housing for young people in the Highlands, initially for rent at affordable levels but with an opportunity to purchase, should they wish to do so.

### **1.5: Project Objectives**

To create housing opportunities in the Highlands, enabling young people to remain the area, rather than migrating to other areas of Scotland.

### **1.6: Outcomes**

The full economic impact will be assessed in the early stages of the project but will include:

- Retention of young people in the Highlands
- Deliver of 75 new affordable houses per annum over a ten year period
- £100million capital investment over a ten year period
- The creation of 100 construction jobs throughout the ten year period.

## **2: THE ECONOMIC CASE**

The economic case is straightforward; the retention of more young people in the Highlands. For a Scottish Government city deal investment of £5 million, the scheme could deliver 750 new homes over a ten year period and almost £100million of investment from the local authority and potentially the private sector.

The houses would be targeted to young people in the first instance, who would be charged a rent at approximately 80% of current market rent levels, giving them potential to save a deposit to purchase after

five to ten years.

### 3: COMMERCIAL CASE

#### 3.1: Market Appetite

The original model was based on the National Housing Trust Initiative, which has been operating in the Highlands for the last five years. Currently there are 189 houses in management, with further units currently being scoped according to market demand. Highland Housing Alliance has 330 households on their waiting list and there are no voids in the current stock. The table below shows the completed units throughout Highland:

	<b>Town</b>	<b>Units</b>
<b>NHT 1</b>	Inverness, Westercraigs	42
	Inverness, Woodside of Culloden	15
		<b><u>57</u></b>
<b>NHT 2</b>	Inverness, Westercraigs	48
	Kildary/Golspie	7
	Kiltarlity	12
	Ardersier	12
		<b><u>79</u></b>
<b>NHT 2b</b>	Ardersier Nairn Road	9
	Inverness, Academy Street	17
	Inverness, Balvonie	6
	Kiltarlity P2	10
		<b><u>42</u></b>
<b>THC NHT Model:</b>	Dingwall North	11
	<b>Grand Total:</b>	<b>189</b>

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#### 3.2: Procurement Strategy and Constraints

The procurement of the construction and management of the new houses will be through an open tender process, inviting developers, housing associations and others to deliver the programme of new housing in defined geographical areas based on market analysis of demand. The main areas will be primarily Inverness, Fort William, Aviemore, Dingwall, East Ross and other identified housing-stressed areas as identified in The Highland Council's Housing Needs Analysis, as approved by the Scottish Government.

#### 3.3: Management of Risk

A single risk register for the programme will be held for this project and these will be categorised. High level risks are shown in section 5.4.

### 4: THE FINANCIAL CASE

The draft business case deals with the Scottish Government spend profile, Highland Council and private sector leverage. The spend profile is shown in appendix two.

The original request for City Deal funding was for a cash guarantee for any potential rent loss. The capital for the project was anticipated to be a mixture of local authority prudential borrowing and private loan investment and private and local authority equity shares, similar to the successful NHT model currently operating in the Highlands.

However as outlined in section 1.2 , the NHT model is no longer available and the financial institutions are reluctant to invest in equity shares in property in the current post Brexit financial market so we have had to reconsider the financial model for delivery of the proposed 750 new homes . Following discussion with Scottish government officers and taking into account the Highland Councils strategic Housing investment plan (SHIP) , The Highland Council now proposes Scottish government and local authority Grant replacing the assumed private equity investment and the following funding package over a 10 year period

- Highland Council prudential borrowing £ 80 million
- Highland Council land bank Facility £ 5 million
- Scottish Govt ( AHIP ) funding £ 20 million
- City Deal Funding £ 5 million

Total Funding over 10 years £ 110 million

## 5: THE MANAGEMENT CASE

### 5.1: Governance

The project manager will provide regular progress reports to the multi-agency delivery group. The Highland Council has already established a Highland Housing Hub whose purpose is to deliver the affordable housing programme in the Highlands for the next five years.

The group, which meets weekly, comprises of officers from the Scottish Government, Highland Council, Housing Associations and other affordable housing developers. This body would act as the project team for the delivery of this project, reporting to a separate project board who would report to The Highland Council's Planning, Development and Infrastructure Committee and Community Planning Partnership.

### 5.2: Key Dates and Milestones

Appendix one contains the outline project plan.

### 5.3: Project Methodology

The Council's property projects procedures will be followed throughout the life of the project.

### 5.4: Risks, Analysis, Prevention and Monitoring

A risk register will be held for the entirety of the project/programme and categorised for reporting and other purposes as below.

Risk Description	Impact	Probability	Management
Lack of economically deliverable sites	High	Medium	Infrastructure fund to be set up to open sites. Joint Highland Hub initiated between THC/Scot Gov/RSLs to develop more sites. Potential initial sites have been identified in Inverness, Aviemore , Dingwall and Fort William
Lack of private investment	High	Medium	THC to see expressions of interests from private sector

			to gauge demand. Key major banks have expressed initial interest. If rates are not competitive we will use prudential borrowing
Lack of THC prudential borrowing	High	Low	Once expressions of interest received, report to THC outlining prudential borrowing required. Subject to rental income covering interest charges and no changes in use of prudential borrowing for local authorities.
Low demand/high voids	High	Low	Current NHT occupancy 100%. Voids to be monitored constantly to ensure no development in low demand areas.

**5.5: Sustainability**

The project is self-financing: the rent received will repay the interest accruing on loans.

## **Appendix One**

### **Key Project Dates and Milestones**

June 2016	PID submitted
August 2016	PID approved
Feb 2017	Revised Business case submitted
April 2017	Business case approved
May 2017	2017/18 sites agreed
August 2017	2017/18 sites start on site – 80
June 2018	First new houses complete

There will be a similar programme for the following eight years.

## Appendix Two

### Spend Profiles

The Highland Council will develop the new houses from 2017/18 onwards.

#### Affordable Housing Rent to Buy Spend Profile

Year	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Totals
Highland Council prudential borrowing	7280000	7534800	7798518	8071466	8980515	9384638	9806946.9	10248260	10709431	<b>79814575</b>
City deal funding	500000	500000	500000	500000	600000	600000	600000	600000	600000	<b>5000000</b>
Scottish govt AHIP	2000000	2000000	2000000	2000000	2400000	2400000	2400000	2400000	24000000	<b>20000000</b>
Highland Council Landbank	500000	500000	500000	500000	600000	600000	600000	600000	600000	<b>5000000</b>
<b>new homes started on site</b>	<b>80</b>	<b>80</b>	<b>80</b>	<b>80</b>	<b>86</b>	<b>86</b>	<b>86</b>	<b>86</b>	<b>86</b>	<b>750</b>

**Note:** cost of new home

2015/16 prices            £130,000

Construction price inflation	2.50%	2.50%	2.50%	2.50%	3.50%	3.50%	3.50%	3.50%	3.50%
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# Appendix Three

## Governance Organigram





