Subject: Written Evidence Submission by Rettie & Co. on the Scottish Futures Trust (SFT) / NPD Programme

To: Scottish Parliament Finance Committee
From: Rettie & Co
Date: 7th October 2015

Background: Rettie & Co’s involvement with the Scottish Futures Trust has been primarily in relation to the National Housing Trust – and in particular National Housing Trust schemes in the CEC area where we have acted for a number of clients to secure NHT funding via the SFT. While we are aware of the NHT Council variant, our interaction with the SFT has related to the standard NHT model.

We have also had interaction in relation to their role managing wider excess asset disposal/re-allocation on behalf of other public sector bodies, but have focussed on the NTH interaction for the purpose of this feedback.

- Securing additional investment

We have been or are currently directly involved with a number of NHT schemes in conjunction with the SFT. Of these 145 units have already been delivered and around 500 are in the pipeline. We are also aware that in total terms the SFT is involved in the delivery of 1,650 units across Scotland via the NHT. Clearly, the Scottish Futures Trust (via the NHT programme) has performed an absolutely pivotal role in securing this investment in terms of unlocking the necessary government guarantees and managing the legal structures to support the local authority loans as well as the resultant private investment that has been leveraged.

- Securing better value for money and improved public services

1. Improved Public Services

In our view, the provision of 1,650 brand new mid-market rental properties aimed at those on modest incomes but in employment (e.g. key workers) represents a step change in housing provision in Scotland. It is not only tenants who benefit as this scheme reduces pressure on the Private Rented Sector (PRS) as well as existing social housing provision.

2. Value for Money

Unlike traditional social housing programmes which generally involve significant capital outlay by central government in the form of capital grant funding as well as ongoing grant
funding in terms of revenue subsidy, the National Housing Trust scheme has provided local authorities with a guaranteed debt income stream of 4% per annum as well as ensuring that the state retains an interest in any “super-profits”. Essentially, local authorities are able to earn a return on NHT properties. The NHT also ensures that effective security arrangements are in place in the event that the guarantee is called up on, meaning that the risk to the public finances is appropriately managed.

- Fostering innovation to improve outcomes

The NHT is a highly innovative financial structure which has allowed public money to be used to leverage private investment. The improved outcome is self-evident – the provision of homes at mid-market rent to over 1,000 economically active individuals/households on low incomes who may struggle to qualify for social housing but who would also struggle in the Private Rented Sector at no cost to central or local government.

We would also point out that the Tenant Saving Scheme (part of the NHT contracts) allows for tenants to save up to 2% of the value of the property which is then matched by a reduction in the market value of the property when the tenant has first refusal on the purchase (after a period of five years). This is an important example of innovation where tenants who save for a deposit (which is made possible via MMR) are rewarded. The likelihood of homeownership for MMR tenants is therefore increased.

- Encouraging collaboration to improve efficiency

We understand that fostering collaboration between different stakeholders which include central government, local government and private sector actors is a major challenge.

The NHT scheme involves both private sector stakeholders (as developer) as well as public sector stakeholders (in terms of local authorities as provider of debt finance and the Scottish Government). An important concept which is central to the design of the NHT is its capacity to harness and align investment from both public and private sectors and provide an appropriate return and risk/reward ratio for each party.

In more general terms, we have always found the SFT effective at dealing with a number of entities (both public and private) including ourselves.

- Securing better outcomes including job creation, training and apprenticeships, environmental sustainability, broader community benefits and digital connectivity

In this submission we have primarily focused on the benefits of MMR as a tenure as well as the cost effectiveness of the NHT from the local authority’s point of view. However, there are also a number of other benefits which include the following:

  o Through unlocking construction (via reduced development finance costs as a result of the guaranteed refinancing on completion at a fixed rate of interest), the NHT scheme has contributed to the construction industry in terms of jobs, training and apprenticeships as well as to the wider economy via the economic multiplier effect. This aspect of the NHT was particularly important in preserving jobs and skills as well as providing work for construction firms during the worst period of the economic downturn (2008 – 2011) when the construction industry was in difficulty.

  o In certain NHT schemes in which we have been involved, MMR units have provided a useful contribution in terms of place-making across a wider site/master plan and ensuring vibrant and sustainable communities through an appropriate tenure mix between PRS, private sale, social rent and MMR.
• Any other comments you might have on the SFT's work towards achieving its key aims

We have always found the SFT straightforward to deal with and in particular flexible as well as being proactive in ensuring that all sorts of problems which arise in the course of an NHT project are dealt with efficiently and appropriately.

Although we are overwhelming supportive of the SFT’s work in this area, we would point out that the necessity of an OJEU procurement process as well as the relatively complex and onerous legal contracts mean that the NHT could potentially be more streamlined.

We would also welcome the opportunity to give oral evidence as well as sharing our thoughts on how the NHT could be improved and adapted to continue to provide innovative solutions for housing delivery.