

## Proposal to lend Council funds to Registered Social Landlords for affordable housing

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### Finance & Resources Committee

7 June 2011

#### 1 Purpose of report

- 1.1 To seek Committee approval to borrow £21m through prudential borrowing to provide loans to Registered Social Landlords (RSLs) to support the delivery of 200 new affordable homes, subject to a successful application to Scottish Government for a funding guarantee.

#### 2 Summary

- 2.1 At present, there is a small and successful market in mid market rent homes in Edinburgh with evidence of demand for 4,000 homes to meet the needs of households who are unable to access owner occupation at this time and are unlikely to be awarded priority for social rented housing.
- 2.2 In March 2011 Scottish Government announced that £10m is available to support innovative housing projects. Bids had to be submitted by 31 May. On 24 May Health, Social Care & Housing Committee agreed that the Council would submit a bid for a Scottish Government funding guarantee to enable the Council to provide loans to RSLs to develop affordable homes. An announcement on the outcome of the bidding process is anticipated in August.
- 2.3 It is proposed to borrow, subject to a successful application for a guarantee, £21m in funding to lend to RSLs to develop 200 homes for mid market rent.
- 2.4 It is anticipated that this funding will enable affordable housing sites to be brought forward that may not be viable if RSLs have to borrow at commercial rates. The Council will not enter into contracts with RSLs until the Scottish Government guarantee is in place.

#### 3 Main report

- 3.1 Edinburgh is the most pressured housing market in Scotland with around 130 households bidding for every home advertised for let by the Council and RSLs. Around 16,500 homes are needed over 10 years with at least 4,000 homes required for mid market rent (MMR) or low cost home ownership.

- 3.2 The rent level for MMR tenancies is set between social rent and private rent. These tenancies are particularly attractive to low income working households. These households generally find private renting and home ownership too expensive and are unlikely to be awarded priority for social rented housing.
- 3.3 The Council has been working with RSLs, private developers and Scottish Government to increase the supply of new homes for mid market rent and stimulate the housing market. A separate report to this committee advises that procurement of homes through the National Housing Trust (NHT) initiative is progressing well. Four developers have entered into Framework Agreements with the Council to deliver affordable homes.
- 3.4 The Council agreed to participate in NHT on condition that Scottish Government provides a guarantee that covers interest payments as well as repayment of the capital sum borrowed.
- 3.5 An opportunity has arisen to secure additional support from Scottish Government in the form of a loan guarantee. In March 2011 Scottish Government invited bids for innovative housing projects to be funded from a £10m Innovation Fund. The purpose of the fund is to support initiatives which can deliver affordable housing for less direct subsidy than other mainstream programmes, particularly through the introduction of new investment models. It provides an opportunity to bid for a Scottish Government guarantee to deliver an additional 200 mid market homes.
- 3.6 On 24 May, Health, Social Care and Housing Committee agreed to submit a bid to the Innovation Fund for a guarantee that would enable the Council to lend capital to RSLs. A decision on the outcome of the bid is anticipated in August.
- 3.7 It is proposed that the Council borrows £21m through prudential borrowing in order to lend capital funding to RSLs. Whilst RSLs have capacity to borrow from private lenders the cost of borrowing has increased over recent months. The increased cost of borrowing is making it difficult for RSLs to deliver some sites that have been identified for affordable housing. Reducing the cost of borrowing to RSLs by providing Council loans will increase the financial viability of projects. Approval of Scottish Government ministers is needed for the Council to on lend to other organisations.
- 3.8 The proposed investment model is similar to NHT. The Council will invite bids from RSLs for a share of £21m in capital funding and enter into contracts with successful bidders to fund projects. £21m is likely to be sufficient to fund 70% of the cost of building new homes. RSLs will require to borrow the remaining 30% from private lenders.
- 3.9 Homes will be let to working households who have registered a housing need on Edindex (Common Housing Register). Homes will be available for up to 10 years. At the end of the project, it is anticipated that homes will be resold to repay the Council loan.
- 3.10 In the event that RSLs are unable to repay the loan or make interest payments the Council will call on the Scottish Government guarantee.

- 3.11 This model has some advantages over the NHT model. Under NHT, the Council lends funds to a Limited Liability Partnerships (LLP) and is a member of the LLP. Under this model, there is no requirement to set up new companies.
- 3.12 RSLs are committed to providing affordable housing in perpetuity. Whilst it is anticipated that some homes will be resold to pay the Council loan, it is likely that RSLs will be able to negotiate contracts with private developers and/or secure grant funding in future years, to maintain some homes in affordable tenures in perpetuity.
- 3.13 A condition of Scottish Government funding for the guarantee is likely to be that homes must start on site by 31 March 2012. Council loan funding would be paid to RSLs on completion of homes.

#### **4 Financial Implications**

- 4.1 It is anticipated that £21m in Council borrowing will be required to provide loans to RSLs to build 200 affordable homes. RSLs will repay interest on the loan from rental income and the capital sum will be repaid when homes are sold.
- 4.2 The Council will not enter into contracts to lend funds to RSLs until a Scottish Government funding guarantee is in place. A condition will be that the terms and conditions of the guarantee are acceptable to the Director of Finance. Council approval to the setting of the revised prudential indicators will be required. Approval of Scottish Ministers is also required to on lend to RSLs.
- 4.3 A bid has been submitted to the Scottish Government's Innovation Fund to secure the Scottish Government guarantee.

#### **5 Environmental Impact**

- 5.1 The environmental impact of building homes will be assessed through the Development Planning process.

#### **6 Conclusions**

- 6.1 An opportunity has arisen to build on the success of the NHT initiative in Edinburgh and other partnership working with RSLs. A bid has been submitted to the Scottish Government's Innovation Fund for a funding guarantee that would enable the Council to lend to RSLs. This would enable RSLs to bring forward sites for development that are unlikely to be viable for affordable housing if RSLs have to borrow at commercial rates.
- 6.2 RSLs will be invited to submit bids to develop sites for mid market rent. It is proposed that the Council enters into contracts with successful bidders to provide capital funding; on condition that a Scottish Government guarantee is made available to the Council on terms and conditions that are acceptable to the Director of Finance.

## 7 Recommendations

7.1 It is recommended that:

- a) The Council agrees to borrow £21m through prudential borrowing to provide loans to RSLs for 200 affordable home, on condition that a Scottish Government Guarantee is available in terms that are acceptable to the Director of Finance
- b) The report is referred to the City of Edinburgh Council Committee in order that approval to revise the prudential borrowing authorised and operating limits by £21m is received.

**Mark Turley**  
Director of Services for Communities

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Appendices	None
Contact/tel/Email	Elaine Scott, Investment Manager (529 2277)
Wards affected	All
Single Outcome Agreement	Supports National Outcome 10 – “We live in well designed sustainable places where we are able to access the amenities and services we need”  Supports National Outcome 2 – “We realise our economic potential with more and better employment opportunities for our people”.
Background Papers	Report to Health, Social Care and Housing Committee 24 May 2011 on “Scottish Government Innovation & Investment fund”.  Report to Finance & Resources Committee 7 June 211 on “National Housing Trust – Appointment of Developers to Framework Agreements Update”  Report to Policy & Strategy Committee 3 August 2010 on “Delivery of affordable homes through the National Housing Trust”  Report to Finance & Resources Committee 11 January 2011 on “National Housing Trust – Appointment of Developers to Framework Agreements”.

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