

# Finance and Resources Committee

10am, Thursday, 28 November 2013

## National Housing Trust – Phase 2B

Item number	7.9
Report number	
Wards	Forth Ward

### Links

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Coalition pledges	<a href="#">P8 and P9</a>
Council outcomes	<a href="#">CO7, CO8, CO16, CO17 and CO19</a>
Single Outcome Agreement	<a href="#">SO1, SO2 and SO4</a>

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# Executive summary

## National Housing Trust – Phase 2B

### Summary

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This report seeks approval to award a contract for the delivery of 96 new affordable homes under National Housing Trust (NHT) Phase 2B. On 2 May 2013 the City of Edinburgh Council agreed to the Council's participation in procurement Phase 2B of the NHT.

Two potential applicants contacted the Council, with developments that could deliver a total of around 200 homes. It is the intention that one of these applicants will be recommended for approval. This application is from Forth Ports Limited for a site in Western Harbour.

The other applicant had not yet applied for planning consent, which meant that they were not taken forward beyond the Pre Qualification Questionnaire stage. However, the applicant has been further developing their plans in readiness for any future procurement rounds.

### Recommendations

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It is recommended that Finance and Resources Committee:

1. Approves the award of a contract for delivery of 96 homes under NHT2B to Forth Ports Limited.
2. Note that the Council will be required to enter into a Limited Liability Partnership with Forth Ports Limited and Scottish Futures Trust in order to acquire and then manage the homes.

### Measures of success

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The borrowing requirement of £11,914,875 will deliver 96 new affordable homes in Edinburgh by December 2016 without grant subsidy.

Borrowing made available for affordable homes will also enable developers to bring forward the construction of homes in these developments, supporting jobs in the construction industry and providing economic stimulus for the city.

### Financial impact

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On 2 May 2013 Finance and Budget Committee agreed to borrowing of up to £24.179 million to support NHT2B. The proposals in this report will require £11,914,875 of this borrowing approval. The Council's borrowing for NHT2B will be backed by a Scottish Government guarantee covering both revenue and capital costs. The Council has a first ranking security in the NHT model, which ensures that the Council's borrowing is the

first money to be repaid, making participation in the NHT model very low risk for the Council.

The remaining borrowing approval could be used for further rounds of on lending or NHT projects in order to deliver more affordable housing.

If the recommendations of this report are approved, the revenue cost to the Council of providing the loans will be £3.097 million. This represents the interest on the loans. However this will be repaid through interest payments from the LLP so there will be no long term cost to the Council. On this basis, the LLP will pay £238,297.50 to the Council every six months over a 78 month period although this amount may be subject to change if the final loan amount is lower.

## **Equalities impact**

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These homes will contribute to meeting an affordable housing need that was identified in the Lothians Housing Need & Demand Assessment, as set out in City Housing Strategy 2012-2017, approved by Health, Social Care and Housing Committee on 13 December 2011.

Applicants for NHT must certify that they comply with the current legislation concerning race relations, sex discrimination, equal pay, disability discrimination and equalities.

## **Sustainability impact**

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This project can allow 96 modern, energy efficient homes to be built at very low risk to the Council. The proposals in this report will increase the city's resilience to climate change impacts and reduce carbon emissions through the provision of new, energy efficient homes which have a lesser impact on the environment and which will increase the city's resilience to climate change. The homes which are built will meet diverse needs of people in existing and future communities and can assist in promoting social cohesion and inclusion. The building of new homes will bring custom to local businesses, supporting the local economy and securing jobs in the city.

## **Consultation and engagement**

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Public consultation has taken place through the Planning application process.

## **Background reading / external references**

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Report to City of Edinburgh Council on 2 May 2013 "[National Housing Trust Procurement Phase 2B](#)"

## National Housing Trust – Phase 2B

### 1. Background

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- 1.1 This report seeks approval to award a contract for the delivery of 96 new affordable homes under National Housing Trust (NHT) Phase 2B. On 2 May 2013 the City of Edinburgh Council agreed to participate in NHT2B and approved the use of up to £24.179 million of borrowing for that purpose, subject to sufficient tenders coming forward that meet the Council's and Scottish Futures Trust's (SFT) requirements.
- 1.2 NHT projects provide mid market rent homes for up to 10 years. The homes are funded through Council borrowing which is repaid in full, with interest. As a result there is no subsidy for the homes. Council Planning Guidance states that unsubsidised mid market rent is "private rented accommodation, unsubsidised, available at rents below market rent levels in the city (ie at a point below 100% of Local Housing Allowance), and which may be provided either over the medium or long term".

### 2. Main report

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- 2.1 The NHT structure requires Councils to work with Scottish Government and SFT to procure private developers to build affordable homes for mid market rent. The NHT contract documents set rent levels at 95% of Local Housing Allowance, and are index-linked thereafter. This will keep the rents affordable for the lifespan of the development. In the NHT delivery model, the developer supplies the land and builds the properties to a specified standard and timescale. The Council, developer and SFT all sit on the board of a Limited Liability Partnership (LLP) which oversees the development programme. The LLP purchases the completed homes, using a loan from the Council. The homes are then let as mid market rent tenancies for between 5 and 10 years through a Management and Maintenance company employed by the LLP who must meet challenging Key Performance Indicators. The homes will eventually be sold off by year 10, with the sale proceeds being used to pay back the Council in full.
- 2.2 The Council has already participated in NHT Phase 1. As in previous rounds of NHT, the Council's borrowing for NHT 2B is backed by a Scottish Government guarantee covering both revenue and capital costs, resulting in a very low risk to the Council.
- 2.3 The procurement for NHT Phase 1 is now complete. Four developments are currently under construction having entered into contracts with the Council and SFT. These developments will deliver 422 homes and require accumulated

Council borrowing of £45.821 million which will be repaid in due course. The outcome of the procurement process for NHT Phase 1 was reported to Finance and Resources Committee on 30 August 2011.

- 2.4 Two developers expressed an interest in participating in NHT2B. One of the developers had not yet applied for planning permission for their projects, and risked not being able to complete their projects within the required timescale. As a result, they were not successful in this procurement round. However they have maintained contact with the Council, and have now engaged with Planning, and are progressing their plans so that they may be prepared for any future funding application rounds that may become available. A further interested party is working on a project which may be suitable for any further rounds of NHT.
- 2.5 One applicant, Forth Ports Limited was successful in the Pre Qualification Questionnaire procurement phase, and they were invited to submit a tender in September 2013.
- 2.6 In this submission the land is provided by Forth Ports Limited, who already own the land. The plot is a brownfield site, with outline planning consent for housing, which lies at the entrance to Western Harbour, and this development will complete an important phase of the regeneration of Western Harbour that would not be delivered without the delivery model provided by NHT2B. This development would help to fulfil the objectives of the Capital Coalition Pledges to “make sure the city’s people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites”, and “to continue efforts to develop the city’s gap sites and encourage regeneration”.
- 2.7 The homes would be constructed by a contractor who has delivered similar projects in the past, on a similar scale and construction timescale. Rettie & Co, a commercial property manager, would be the managing agent for the LLP. The NHT documentation requires providers of management and/or maintenance services to be accredited by the Landlord Accreditation Scotland scheme (LAS) or an equivalent scheme. Rettie & Co have LAS accreditation and meet the requirements of this procurement. To date, other NHT developments in Edinburgh are managed by Registered Social Landlords (RSLs). However, commercial property managers have been used in NHT developments elsewhere in Scotland.
- 2.8 There is a fixed price for the Management & Maintenance contract for NHT projects nationwide. This is prescribed in the procurement stage and the fixed price is the same for RSLs and commercial property managers alike. The NHT contract contains a series of Key Performance Indicators for the Management and Maintenance Agency, whose performance will be monitored on a quarterly basis by the LLP.
- 2.9 The qualitative element of the tender was assessed by a panel of three Council officials, with the scoring being overseen by an official from the Council’s procurement team. The SFT carried out the financial checks for the quantitative element of the tender.

- 2.10 A consensus meeting, facilitated by Procurement reviewed the quality scores to ensure no significant variation in scores between individual members of the evaluation team. The bid was considered to be satisfactory in terms of quality.
- 2.11 The SFT undertake the financial evaluation for NHT procurements, and DTZ review value for money on their behalf. The SFT and DTZ have both reported that the submission has passed the financial evaluation and the value for money appraisal.

### **3. Recommendations**

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- 3.1 It is recommended that Finance and Resources Committee agrees to:
1. Approves the award of a contract for delivery of 96 homes under NHT2B to Forth Ports Limited.
  2. Note that the Council will be required to enter into a Limited Liability Partnership with Forth Ports Limited and Scottish Futures Trust in order to acquire and then manage the homes.

**Mark Turley**

Director of Services for Communities

## Links

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<b>Coalition pledges</b>	<p>P8 – Make sure the city’s people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites</p> <p>P9 - Work in partnership with Scottish Government to release more funds for Council homes for rent</p>
<b>Council outcomes</b>	<p>CO7 -Edinburgh draws new investment in development and regeneration</p> <p>CO8 -Edinburgh’s economy creates and sustains job opportunities</p> <p>CO16 - Well-housed – People live in a good quality home that is affordable and meets their needs in a well managed Neighbourhood</p> <p>CO17 - Continue efforts to develop the city’s gap sites and encourage regeneration</p> <p>CO19 - Attractive Places and Well Maintained – Edinburgh remains an attractive city through the development of high quality buildings and places and the delivery of high standards</p>
<b>Single Outcome Agreement</b>	<p>SO1 -Edinburgh’s economy delivers increased investment, jobs and opportunities for all</p> <p>SO2 -Edinburgh’s citizens experience improved health and wellbeing, with reduced inequalities in health</p> <p>SO4 - Edinburgh’s communities are safer and have improved physical and social fabric</p>
<b>Appendices</b>	None