

Finance and Resources Committee

10.00am, Tuesday, 3 February 2015

National Housing Trust Phase 3 – Procurement

Item number	7.14
Report number	
Executive/routine	Executive
Wards	All

Executive summary

The purpose of this report is to seek approval from Committee to award four contracts, under the National Housing Trust Phase 3 initiative, subject to the approval of additional borrowing by the Council and subject to necessary statutory consents being obtained by the developers. This would lead to the development of up to 413 mid market rented (MMR) homes. Revenue and capital costs of borrowing for NHT are underwritten by a Scottish Government guarantee.

Previous rounds of NHT have taken forward the development of five large brownfield sites in Edinburgh and delivered 422 mid market rent homes with a further 96 homes currently under construction.

A further round of procurement for NHT was approved by Finance and Resources Committee on 7 May 2014. Eight tenders were returned. Approval is sought to enter into four contracts. If agreed by Committee, this report will be referred to the City of Edinburgh Council on 12 February 2015 for approval of the additional borrowing required.

Links

Coalition pledges	P8, P9
Council outcomes	CO7, CO8, CO16, CO17, CO19
Single Outcome Agreement	SO1, SO2, SO4

National Housing Trust – Phase 3 Procurement

Recommendations

It is recommended that Finance and Resources Committee:

- 1.1 Approves the award of contracts for the delivery of up to 413 mid market rent (MMR) homes under the National Housing Trust (NHT) Phase 3, subject to Council approval for additional borrowing and confirmation of the Scottish Government capital and revenue guarantee, for the following projects:
 - a) Chesser Developments Limited for up to 80 homes at Fruitmarket, with an on-lending requirement of up to £9,153,123;
 - b) FP Newhaven Two Limited for up to 138 homes at Western Harbour, with an on-lending requirement of up to £17,284,583;
 - c) The Walled Garden (Edmonstone) Limited for up to 28 homes at The Walled Garden, Old Dalkieth Road, with an on-lending requirement of up to £4,703,832; and
 - d) Places for People Shrubhill Limited for up to 167 homes at Shrubhill, Leith Walk, with an on-lending requirement of up to £23,856,089.
- 1.2 Authorises the Director of Services for Communities (or an alternative officer designated by him in writing) to finalise the terms of the contractual documentation based on the terms set out in this report, as well as any amendments the Director of Services for Communities (or designated officer) deems appropriate, and thereafter arrange for the contract to be entered into on behalf of the Council and the said award of contracts effected.
- 1.3 Refers this report to full Council on 12 February 2014 to seek approval for the additional borrowing of up to £54,997,627.
- 1.4 Notes the Council would be required to enter into four separate Limited Liability Partnerships with the Scottish Futures Trust (SFT) for each of the four developments, in order to acquire and manage the homes.
- 1.5 Notes that borrowing of £48,070,975 for on-lending to Registered Social Landlords (RSLs) previously approved by the Finance and Budget Committee on 6 June 2013 and 29 August 2013, is no longer required.
- 1.6 Notes that a report on the progress of NHT will be presented to Committee in the third quarter of 2015/16.

Background

- 2.1 The Council has previously supported five NHT developments in Edinburgh, building 422 new affordable homes with another 96 currently under construction. NHT projects have been supported by Council investment through on-lending of just under £58 million and Scottish Government capital and revenue guarantees. Five Limited Liability Partnerships (LLPs) involving the Council, SFT and developers have been established to manage these developments. To date there has been no call on the Scottish Government guarantee for any of the NHT developments.
- 2.2 To deliver NHT homes, the Council works with the Scottish Government and SFT to procure private developers to build homes for MMR. Homes are funded through Council on-lending to LLPs with Council loans repaid in full, with interest. The Council, SFT and developer are members of the LLP.
- 2.3 The LLP appoints a managing agent and purchases the completed homes from the developer, using the loan from the Council of up to a maximum of 70% of the market value, with the remaining 30% of purchase price met by the developer. The homes are then let at a MMR for between five and ten years, following which they are sold and the loan is repaid to the Council. NHT arrangements are controlled by a robust contractual framework, which has been developed nationally by SFT over the various phases of NHT. It has also been reviewed by Council officers and a framework law firm on behalf of the Council, prior to this procurement commencing. This provides strong contractual protections for the Council and its investment in each project. The Council receives a first ranking standard security over each development, and a floating charge from the LLP, to help further protect its investment, as the Council's borrowing is the first money to be repaid.
- 2.4 On 7 May 2014, the Finance and Resources Committee agreed to a further round of NHT procurement. Committee also noted that around £50 million in additional Council borrowing may be required to support the purchase of homes procured under NHT Phase 3.
- 2.5 In 2013, the Finance and Budget Committee previously approved in principle borrowing for on-lending to RSLs of £48,070,975. This consists of over £10 million approved by the Finance and Budget Committee on 6 June 2013 and a further £38 million approved by the Finance and Budget Committee on 29 August 2013. This borrowing approval was not utilised because RSL developers faced other financial constraints which precluded them from taking forward projects at that time. Some of the projects for which funding was previously awarded are now being taken forward through this phase of NHT.

Main report

- 3.1 Following approval from the Finance and Resources Committee on 7 May 2014, developers were procured through open procurement, with a single stage consisting of an Invitation to Tender (ITT). The ITT was published in the Official Journal of the European Union (OJEU) on 15 September 2014.

- 3.2 Eight tenders were returned on 14 November 2014. SFT and the Council evaluated the tenders during November and December 2014, with financial evaluations carried out by SFT, as was the case in previous phases of NHT. The first stage of evaluation was quality and financial background checks, to ensure that contractors had the experience to deliver the projects and to ensure that financial standing tests were met. Two projects failed this stage due to financial standing, insufficient evidence of relevant experience and technical ability. Six contractors progressed to the second stage.
- 3.3 The second stage consisted of evaluations on quality and deliverability of the proposed project, financial viability and value for money. Two projects failed this stage as the proposed values of properties were above the acceptable margin. The four projects which passed this stage are recommended for approval.
- 3.4 Details of the projects recommended for approval are set out below:

Site and Ward	Developer	Homes	Borrowing required
Fruitmarket <i>Fountainbridge / Craiglockhart ward</i>	Chesser Developments	Up to 80	Up to £9,153,123
R3 and S1 Western Harbour <i>Leith ward</i>	FP Newhaven Two Ltd	Up to 138	Up to £17,284,583
The Walled Garden <i>Liberton/Gilmerton ward</i>	The Walled Garden (Edmonstone) Ltd	Up to 28	Up to £4,703,832
Shrubhill <i>Leith Walk ward</i>	Places for People Shrubhill Ltd	Up to 167	Up to £23,856,089

- 3.5 The Fruitmarket site has been mothballed for a number of years. This site had previously been approved for on-lending by the Council in 2013, but the RSL was unable to take the development forward at that time. Its development will make a significant contribution to the ongoing regeneration of the area.
- 3.6 The Western Harbour sites will complete the development of a major part of the regeneration of the Waterfront. The existing developments at Lindsay Road and Goosander Place delivered 220 affordable homes and were assisted with almost £14 million in grant funding from the Council to Port of Leith Housing Association. New homes under construction at the corner of Sandpiper Road and Newhaven Place have been enabled by previous NHT borrowing of approximately £12 million. If approved, the development of these two western

harbour sites will bring the Council's total investment in these developments to £43 million in grants and loans. Up to 500 affordable homes will have been developed at these sites.

- 3.7 The Walled Garden site sits within the Edmonstone Estate and will be the first NHT homes in the East of the city. This will also be the first time that NHT family houses have been built in Edinburgh, as prior NHT developments have been mainly flats.
- 3.8 The Shrubhill site is one of the Council's twelve priority sites. Previous attempts to develop this site failed. This site was previously approved for on-lending by the Council in 2013, but the RSL was unable to take the development forward at that time. The current owner of the site, Places for People, has extensive experience in mixed tenure regeneration. It also has experience in developing, letting and managing NHT homes. Places for People will make a cash contribution of £109,000 to the LLP at the point of settlement. This proposal forms part of a wider development on the site, which could include a significant number of social rented homes, close to the city centre.
- 3.9 The total funding requirement from the Council for NHT Phase 3, in the form of a loan, is up to £54,997,627. This will deliver up to 413 affordable homes with the loan being repaid between years five and ten. Interest payments are made bi-annually and any shortfall in interest or capital repayments would be covered by the Scottish Government guarantee.
- 3.10 The Scottish Government guarantee will cover homes completed before a long stop date of 31 December 2019. The risk of homes not completing before the long stop date has been assessed as part of the procurement process. If homes do not complete before the long stop date, the LLP will not be obliged to purchase them and the Council would not lend to the LLP.

Measures of success

- 4.1 The development of four sites delivering up to 413 affordable homes, with the loan being repaid between years five and ten.
- 4.2 Modern, energy efficient, affordable homes would be made available at affordable mid market rents. A tenant saving scheme is in place for this phase of NHT to enable tenants to save for a deposit to buy the home they are renting. This is managed by the managing agent.
- 4.3 Council borrowing of up to £54,997,627 is estimated to support over 780 jobs and generate an additional £38 million investment in the wider economy.

Financial impact

- 5.1 Council borrowing of up to £54,997,627 is required to enable the delivery and purchase of up to 413 NHT homes for affordable MMR procured under this phase of NHT. Committee will be aware that previous decisions to approve borrowing of £48 million for on-lending to RSLs, are no longer required.

- 5.2 The Council's borrowing for NHT 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 revenue costs for servicing the debt and capital borrowing is the first money to be repaid making participation in the NHT model low risk for the Council.
- 5.3 If the recommendations of this report are approved, the revenue cost to the Council of providing loans (the interest over the period) will be up to £18,171,000. However, this will be recoverable from the four LLPs through the interest payments the LLPs will make.
- 5.4 The costs associated with procuring this contract are estimated to be between £20,001 and £35,000.

Risk, policy, compliance and governance impact

- 6.1 Risks are monitored through the NHT Project Board, which provides governance and oversight for all NHT projects.
- 6.2 The NHT programme is part of the Major Projects governance monitored by the Council's Corporate Programme Office. An assurance review of the NHT programme was recently undertaken and the programme was awarded an overall status of "green, delivery highly likely".
- 6.3 The main risks to the Council from NHT are mitigated through the provision of a Scottish Government capital and revenue guarantee. This report does not have a negative impact on existing Council policy; other rounds of NHT have previously been approved by committee.
- 6.4 The interest rate for NHT projects is fixed by Scottish Government at 4%. There is a risk that the borrowing undertaken by the Council exceeds this. The risk will be mitigated through treasury management. Further to this any additional costs could be met from Council Tax Discount Fund revenues in future years.

Equalities impact

- 7.1 There are no negative equality or human rights impacts arising from this report. 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.
- 7.2 Bidders for NHT have certified that they comply with current legislation in relation to race relations, sex discrimination, equal pay, disability discrimination and equalities.

Sustainability impact

- 8.1 This further round of NHT allows modern, energy efficient homes to be built at very low risk to the Council.

- 8.2 This will have a positive impact on 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.
- 8.3 Homes which are built will meet the 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

- 9.1 SFT carried out formal market sounding in early 2014 with the members of Homes for Scotland, which represent the construction industry. Developers and RSLs were also briefed on this phase of NHT.
- 9.2 Public consultation has already or will take place during the planning process, in relation to each site.
- 9.3 Participation in this round of NHT procurement was approved by Finance and Resources Committee on 07 May 2014.

Background reading/external references

[Report to Finance and Resources Committee on 5 June 2014 - National Housing Trust Phase 2B](#)

[Report to Finance and Resources Committee on 7 May 2014 - National Housing Trust - Further Round of Procurement](#)

[Report to City of Edinburgh Council on 26 September 2013 - Leith Walk Shrubhill Regeneration On Lending to Registered Social Landlords](#)

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Links

Coalition pledges	<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>
Council outcomes	<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>
Single Outcome Agreement	<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>
Appendices	<p>Appendix 1 - Summary of Tendering and Tender Evaluation Processes.</p>

Appendix 1 – Summary of Tendering and Tender Evaluation Processes

Contract Name	National Housing Trust Phase 3 OJEU Ref: 316825-2014 (2014/S 180-316825)
Contract Period	5-10 Years
Estimated Contract Value	Up to £54,997,627
Standing Orders Observed	Yes
EU Procedure Chosen	Open Procedure
Tenders Returned	8 Tenders Returned
Tenders Fully Compliant	4 Tenders Fully Compliant
Recommended Supplier	Subject to statutory consents: Chesser Developments, up to 80 Units FP Newhaven Two Limited, up to 138 Units The Walled Garden (Edmonstone) Limited, up to 28 Units Places for People Shrubhill Limited, up to 167 Units
Primary Criteria	Qualitative (50%) Outline Development Proposal Approach to Management and Maintenance Specification Quantitative (50%) Valuation Viability Investment Return
Evaluation Team	Alex Blyth - CEC Hazel Ferguson - CEC Neil Watts - CEC Christine Gray - Scottish Futures Trust
Procurement Advisors	Laurie Carberry – CEC Category Manager Christine Gray - Scottish Futures Trust Graeme Young - CMS Cameron McKenna