

# Housing and Economy Committee

10.00am, Thursday, 2 November 2017

## City Deal – Proposal for New Housing Partnership with Scottish Futures Trust

Item number	7.3
Report number	
Executive/routine	Executive
Wards	All
Council Commitments	<a href="#">1</a> , <a href="#">6</a> , <a href="#">10</a>

### Executive Summary

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The purpose of this report is to provide members with an update to the Council's proposal to establish a new housing partnership to acquire and manage homes for mid-market and market rent.

This report sets out how the proposal has been developed in partnership with Scottish Government and the Scottish Futures Trust through the City Deal programme. It sets out the next steps for establishing the partnership.

## City Deal – Proposal for New Housing Partnership with Scottish Futures Trust

### 1. Recommendations

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- 1.1 It is recommended that the Housing and Economy Committee:
  - 1.1.1 Notes the progress in establishing a new partnership with Scottish Futures Trust to accelerate the delivery of more affordable and low-cost homes in the city.

### 2. Background

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- 2.1 At its meeting on [17 September 2015](#), the Council considered a report, Accelerating House Building, and agreed to work with the Scottish Futures Trust (SFT) to establish a city-wide Limited Liability Partnership (LLP) to acquire and manage housing for rent. The report had been referred to Council by the Health, Social Care and Housing Committee, following its consideration at the Committee meeting on 8 September 2015.
- 2.2 Following the Council decision, the LLP proposal was developed further with colleagues in Scottish Government and SFT. It was included as one of a range of housing proposals in the City Deal programme.
- 2.3 On 20 July 2017 the Heads of Terms of the Edinburgh and South East City Region Deal was published. The Heads of Terms includes a commitment to provide a financing and funding package comprised of consent to on-lend up to £248m and an additional one off £15m capital grant to enable the City of Edinburgh Council to establish a new regional housing company to deliver a minimum of 1,500 homes at mid-market and market rent.
- 2.4 The Council's Programme for the Capital - Business Plan, approved at Council on [24 August 2017](#), sets out an ambitious housebuilding programme with the aim of building 20,000 social and affordable homes over the next ten years. This is an increase of 4,000 homes on the previously agreed programme of 16,000 affordable homes over ten years which had been agreed in 2016.
- 2.5 The SFT was established by the Scottish Government in 2008 with the aim of increasing the efficiency and effectiveness of investment in public sector infrastructure across Scotland. As a public sector company, SFT works with the public and private sectors to deliver major infrastructure programmes, promotes the

use of innovative financing solutions to procure new infrastructure and works with the public sector to look for efficiencies in the use of their assets.

- 2.6 Working with Edinburgh and other Councils, SFT has developed the National Housing Trust (NHT) programme and is a partner in 29 LLPs across the country. In Edinburgh, SFT and the Council are partners in eight LLPs, established between 2011 and 2015, that together provide 886 mid market rent homes across the city. In addition, SFT assisted in the setting up of the LAR Housing Trust, a Scottish Charitable Incorporated Organisation which has the sole aim of providing mid market rent housing across Scotland.

### **3. Main report**

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- 3.1 Prior to consideration of the report Accelerating House Building in September 2015, the Health, Social Care and Housing Committee had considered a number of reports setting out how housing market pressures, including high and increasing private sector rents, declining home ownership among young people, low levels of affordable housing and low rates of housebuilding were adversely affecting the economic circumstances of people on low to middle incomes and contributing to homelessness in the city.
- 3.2 The report Accelerating House Building was referred to the meeting of the City of Edinburgh Council on 17 September 2015, where the Council agreed to take forward proposals to establish an LLP to acquire and manage homes for rent.
- 3.3 In addition to the decision to establish an LLP, consultation with partners led to a joint commitment in 2016 between the Council and housing associations to deliver a programme of 16,000 new affordable and low cost homes over ten years.
- 3.4 The September 2015 report updated Committee and Council on the delivery of the National Housing Trust (NHT) Programme in Edinburgh. The NHT programme was established to help bring forward sites that had were stalled following the financial crash of 2008.
- 3.5 Under the NHT programme, Councils on lend around 70% of the development cost to the LLP in return for building mid-market rented homes. This on lending is underwritten by a revenue and capital guarantee from the Scottish Government. On-lending decisions are made by the City of Edinburgh Council. The Council has loaned £112m to support this programme. The interest on the loan is paid to the Council from the rental income of each development.
- 3.6 Mid-market rent homes provide an affordable home for those who cannot afford to buy or rent a home in the private market and who do not have sufficient priority to realistically qualify for a social rented home.
- 3.7 The September 2015 report also set out how the experience gained through the NHT Programme informed the proposal to establish a city-wide LLP.

- 3.8 The Council's role within the LLP is to acquire good quality homes to rent at affordable levels for people on low to moderate incomes and to manage the operator who provides day to day management of letting, repairs and rent collection. SFT's role is to provide commercial and market advice and assist with financial viability assessment of proposals, a similar role to the one established in the NHT programme.
- 3.9 Further development of the proposal took place through the negotiations on the Edinburgh and South East Scotland City Region Deal. In summary this led to an in principle agreement as part of City Region Deal:
- 3.9.1 Establishing two LLPs, one for mid market rent and another for market rent;
  - 3.9.2 Ministerial consent for the Council to on lend up to £248m and a Scottish Government grant of £15m, (subsequently revised to £16.1m);
  - 3.9.3 The delivery of an initial programme of at least 1,500 homes;
  - 3.9.4 That the LLPs may operate on a region wide basis.
- 3.10 The Council will enter into contracts with housebuilders to build new homes, subject to committee approval. On completion, homes identified for mid market rent and market rent will be transferred to the LLPs in return for a capital receipt. The homes developed for social rent will be retained on the Housing Revenue Account (HRA) with housing management and maintenance services provided by the Council.
- 3.11 The Council has a small stock of mid market rent homes that are currently held on the HRA. In order to consolidate ownership and provide consistency of service to tenants, approval will be sought to transfer these homes to the mid market rent LLP when vacant.

### **Next steps**

- 3.12 A further report will come forward to the Committee meeting in January 2018 setting out the detail of the pipeline programme, arrangements for day to day management of the homes and approval will be sought for the governance arrangements of the LLPs, including appropriate political oversight.
- 3.13 Prior to this, briefings on these proposals will be available to committee members and groups.

## **4. Measures of success**

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- 4.1 Increase the supply of new homes in the city, bringing supply more in line with demand.
- 4.2 Predictable and stable rents for affordable and market rent housing and tenancy security.
- 4.3 Private sector development sites are brought forward, delivering more low-cost market homes and accelerating the delivery of sites for affordable housing.

- 4.4 Establishing a landlord in the private rented market delivering good quality, energy efficient, well managed homes, providing outstanding customer service at an affordable cost to people on low to middle incomes.
- 4.5 Reduce cost of living for people on low to middle incomes.

## **5. Financial impact**

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- 5.1 The Scottish Government has approved on lending from the Council to the LLPs of up to £248m and provided a grant of £16.1m to support the development of mid market rented homes through this initiative.
- 5.2 Initially the Council's housebuilding programme, 21<sup>st</sup> Century Homes, will take forward the development of homes. These homes would be acquired by the LLPs at cost plus short-term funding costs. The financial impact on the HRA will be cost neutral and the capital expenditure associated with funding the construction forms part of the approved HRA Budget Strategy for 2017/18 to 2021/22.
- 5.3 Approval will be sought from the Council to on lend funds to the LLPs. The LLPs will purchase homes using these funds. The costs associated with on-lending will be recharged to the LLPs, who will meet these costs from net rental income generated from letting the properties. A sinking fund will also be generated and earmarked from surplus net rental income to cover future life-cycle maintenance of the homes.
- 5.4 A viability test has been developed in order to ensure that any homes purchased by the LLPs are capable of generating a sustainable income stream that can cover running costs and repayment of principal and interest on the on-lending provided by the Council's General Fund. A surplus will be earmarked to cover future life-cycle maintenance.

## **6. Risk, policy, compliance and governance impact**

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- 6.1 The report considered by Committee and Council in September 2015 set out how decisions relating to the LLPs would be made within the Council's framework of governance. Delivery against strategic and policy outcomes would be scrutinised through the Executive Committee with responsibility for housing and financial decisions including the acquisition of homes and on-lending from the Council would be scrutinised and approved through the Executive Committee with responsibility for finance and resources. Council decisions would be required to approve on lending to the LLPs. The detailed governance framework for the LLPs will be brought forward for approval by Committee at its meeting in January 2017.
- 6.2 The LLPs are responsible for covering the servicing and repayment costs of Council borrowing. This is repaid to the Council via rental income collected by the LLPs. Ultimately the financial risk to the Council in the event of LLP default is mitigated by the Council having first ranking security on the homes after repayment of Scottish Government Grant.

## **7. Equalities impact**

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- 7.1 An equalities impact assessment has been carried out for this project. A range of positive impacts have been identified against the areas of rights and protected characteristics. These include:
- More accessible homes that are suitable for people who have mobility difficulties;
  - More affordable homes to enable people to have a good standard of living;
  - More people able to access housing which enhances rights in relation to privacy and family life; and
  - Community benefits secured through housing contracts can enhance rights to education and learning through development of links with schools.

## **8. Sustainability impact**

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- 8.1 The partnership will support the delivery of new homes on brownfield sites, reducing pressure on Edinburgh's green belt.
- 8.2 New build homes are built to high standards in terms of energy efficiency and sustainability. There will be a strong emphasis on providing homes that are cheap to heat and affordable to manage for tenants.
- 8.3 Community benefits secured through housing contracts can enhance the local environment.

## **9. Consultation and engagement**

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- 9.1 Consultation has taken place on accelerating housebuilding and establishing housing LLPs with a range of partners including; Registered Social Landlords (RSLs), housing developers, land agents, institutional investors, Scottish Government and the SFT.
- 9.2 Rettie carried out market research for the Council in April 2017 indicating interest from private sector developers in developing homes for purchase by the LLPs.
- 9.3 There is strong support from Council tenants for delivery of more affordable homes.

## 10. Background reading/external references

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- 10.1 [Accelerating House Building – referral from the Health, Social Care and Housing Committee, City of Edinburgh Council, Thursday 17 September 2015](#)
- 10.2 [21<sup>st</sup> Century Homes – Housing Development at Fountainbridge and Meadowbank, Health Social Care and Housing Committee, Tuesday 19 April 2016](#)
- 10.3 [City Housing Strategy Update, Health, Social Care and Housing Committee, Tuesday 13 September 2016](#)

### **Paul Lawrence**

Executive Director of Place

Contact: Elaine Scott, Housing Services Manager

E-mail: [elaine.scott@edinburgh.gov.uk](mailto:elaine.scott@edinburgh.gov.uk) | Tel: 0131 529 2277

## 11. Appendices

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