

Finance and Resources Committee

10:00a.m., Thursday, 7 March 2019

Greendykes North, Plots K&L Craigmillar – Proposed Disposal Strategy

Item number	8.2
Executive/routine	Routine
Wards	17 – Portobello/Craigmillar
Council Commitments	2 , 3

1. Recommendations

1.1 That Committee:

- 1.1.1 Approves the disposal strategy for Greendykes North Plots K&L at Craigmillar, to Places for People on the terms outlined in this report and on other terms and conditions to be agreed by the Executive Director of Resources;
- 1.1.2 Notes the financial implications of agreeing with such a disposal; and
- 1.1.3 Instructs the EDI Board on the necessary steps to proceed with the disposal.

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Executive Director of Resources

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Greendykes North, Plots K&L Craigmillar – Proposed Disposal Strategy

2. Executive Summary

- 2.1 Plots K&L in the Greendykes area of Craigmillar remain in the ownership of PARC Craigmillar Limited following the transition strategy for the closure of EDI.
- 2.2 The plots provide the opportunity to assist with the delivery of the Council's target of 20,000 affordable homes.
- 2.3 On 1 November 2018, the Housing and Economy Committee approved the disposal of the sites to Places for People with the stipulation that a report on the financial consequences of the strategy be provided to the Finance and Resources Committee for approval.
- 2.4 This report outlines the financial implication of the approved strategy and seeks approval to continue with the disposal to Places for People.

3. Background

- 3.1 In 2002, PARC Craigmillar Limited (PARC) was formed as a joint venture between the Council and the EDI Group Limited. As part of the joint venture, the Council agreed to transfer 80 acres (32 hectares) of land in Craigmillar to PARC, a subsidiary company of EDI.
- 3.2 Planning permission, in principle, for Greendykes North was granted in 2006 and again in 2015. Greendykes is divided into eight development plots along with two plots allocated for new parks. A map showing the relationship of these plots to each other is set out in Appendix 1.
 - 3.2.1 Greendykes North comprises plots D and J (being developed by Barratt Homes); plot G (being developed by 21st Century Homes); and plots K and L (PARC/City of Edinburgh Council).
 - 3.2.2 Greendykes South comprises plots N, P, and Q which are being sold to Taylor Wimpey. The North Park is to be developed by PARC and the South Park by Barratt Homes and Taylor Wimpey.

- 3.3 On 2 November 2017, the Housing and Economy Committee approved the transition strategy for closing down EDI and moving projects and assets in house. Plots K and L are currently in the ownership of PARC but have been identified as assets to be transferred to the Council under the agreed transition strategy. Based on the existing masterplan the plots provide capacity for approximately 129 units.
- 3.4 On 29 August 2018, the EDI Board considered a paper on the proposed disposal strategy for plots K and L that involved a direct sale to Places for People (PfP) for mid-market rent product. The sites have a combined book value on PARC accounts of £3m. Following discussion, the Board “expressed concerns that (a) there was not a clear rationale for the Council engaging with a single purchaser rather than openly and transparently marketing the site and (b) the tenure mix was potentially not appropriate for a regeneration area.” Council officers were instructed to undertake a soft marketing exercise of the sites to explore other options for the disposal of the sites.
- 3.5 On 1 November 2018, the Housing and Economy Committee considered the development strategy for Plots K and L and approved to proceed with a conditional sale of the sites to Places for People (PfP) who have been successful in securing finance through the Scottish Government’s Mid-Market Rent Invitation Fund. The fund will utilise a Scottish Government loan to attract further equity investment.
- 3.6 The Committee also approved that in the event that discussions to secure additional funding through this route cannot be progressed to a successful conclusion, Council officers would seek to bring forward an alternative proposal to deliver affordable housing without grant subsidy alongside market housing at plots K and L.
- 3.7 Finally, the Committee approved that a further report would be taken to the Finance and Resources Committee seeking approval for the financial mechanics of the development strategy, and so that an instruction (from the Council as shareholder) can be provided to the EDI Board on necessary steps, which is the purpose of this report.

4. Main report

- 4.1 In order to report on the financial implications of the strategy, discussions have taken place with PfP on the preferred strategy who have submitted a high-level proposal to acquire the two plots.
- 4.2 PfP have considered the masterplan and propose a scheme of 124 units with 30 being for open market sale and 94 for mid market rent. The indicative receipt from this disposal would be circa £2.1m. This sale would be subject to normal market conditions such as detailed planning permission and would be subject to deductions for abnormal ground conditions following intrusive site investigation work.
- 4.3 The land value offered is considered appropriate for the development proposed. However, land values are typically a product of planning consent and demand. This, in turn, forms the basis of valuation based on a formula of land value = Gross

Development Value (GDV) less the cost of construction and developers profit, i.e., there is a direct relationship between the land value and what the land is used for.

- 4.4 The conditional level of receipt in the proposed sale to PfP is lower than would be expected should the site be placed on the market. This is because the disposal to PfP would deliver 72% affordable units on the site.
- 4.5 In undertaking the soft market testing exercise, as requested by the EDI Board, Council officers contacted housebuilders who they believed would be best suited to developing in the area.
- 4.6 Following these discussions, Heads of Terms were received from a national private sector housebuilder for the purchase of the site. Based on the masterplan the housebuilder has submitted a proposal for 123 units which would consist of 63 affordable apartments and 60 market sale/golden share apartments. The headline figure for this proposal is £2.4 - £2.5m.
- 4.7 Similar to the proposal from PfP, this bid would be subject to planning permission and deductions for abnormal ground conditions. This option would deliver a reduced number of affordable homes for low cost home ownership rather rent.
- 4.8 The housebuilder has confirmed that they would seek to deliver the development without the need for grant subsidy from the Council. Whilst the capital receipt would be greater from a disposal on this basis, the level of affordable accommodation would be less and it would not address need for rented housing. Whilst the developer has confirmed that this option could be amended to provide an element of affordable rented housing this would require an element of Council subsidy.
- 4.9 The soft market testing also involved discussions with housebuilders regarding the level of demand should the site be placed on the market for sale. Due to the level of affordable units that have been developed to date on the wider masterplan, it is not a planning requirement that plots K&L need to provide further affordable accommodation. However, the planning position does not take into account the Council's wider strategic requirement for 20,000 new affordable homes.
- 4.10 The testing has confirmed that there would be demand for the development of purely private sale accommodation and a gross price of between £3.5 and £4.0m could be expected. Whilst a considerably higher receipt, such a disposal would not assist with the delivery of the Council's affordable homes target.
- 4.11 A summary of the three options available for the disposal of the site is as follows:

Option	Indicative Gross Price	Housing Delivery	Impact on Council Commitments
Places for People	£2.1m	90 mid market rent, 30 for private sale	Delivery of 70% affordable housing for rent with no requirement for grant subsidy

Disposal to private sector housing Developer	£2.4 - £2.5m	63 affordable, 60 private sale/golden share	Delivery of above policy affordable housing for low cost home ownership, possibly some units for rent with Council subsidy
Disposal for Private Sale Units	£3.5- £4m	Circa 125 units for private sale	No affordable housing

4.12 In summary, the potential financial implications of proceeding with the preferred strategy are as set out in paragraph 4.11 above and can be directly attributed to the increased level of affordable housing tenure that the proposed strategy will deliver.

5. Next Steps

5.1 Following approval, the EDI Board will need to be instructed by the Council (as shareholder) to proceed with the strategy and Council officers, acting on behalf of the EDI, will to enter into a suspensive sale contract with Places for People.

6. Financial impact

6.1 The financial strategy for the closure of EDI was based on the market land value and the Council would forgo loan stock at this level in exchange for the plots. The Council is expected to realise £25.8m from the closure of EDI, representing the repayment of all outstanding loan stock and share capital coupled with a remaining dividend of £8.5m.

6.2 The preferred option is a sale to Places for People at a value of £2.1m. If this sale were to be made directly by PARC, it would result in net income of £1,621m once corporation tax and irrecoverable VAT is taken into account. This amount would be paid to the Council as a dividend when EDI group is wound up.

6.3 Alternatively, the land could be transferred to the Council for a market value of £3m for onward sale to Places for People at £2.1m. However, this would increase the level of corporation tax payable and would reduce the level of net income to the Council to £1,450m. This would also cause cash flow issues as the Council would incur a loss of £0.9m on the transaction until such time as PARC issued a dividend of £2.35m. In addition, the Council would incur VAT of £600,000, which would be only be recoverable provided that its partial exemption limits were not breached.

7. Stakeholder/Community Impact

7.1 Ward elected members have been made aware of the recommendations of this report.

8. Background reading/external references

- 8.1 Housing Strategy – Craigmillar, Report to Housing and Economy Committee 1 November 2018.

9. Appendices

- 9.1 Appendix 1 – Location Plan

