

The City of Edinburgh Council

10.00am, Thursday 17 September 2015

Accelerating House Building - referral report from the Health, Social Care and Housing Committee

Item number	8.5
Report number	
Wards	All

Executive summary

The Health, Social Care and Housing Committee on 8 September 2015 considered an update report by the Acting Director of Services for Communities on the delivery of the National Housing Trust (NHT) programme and proposed further development of the model for the purpose of accelerating house-building in the city.

The report has been referred to The City of Edinburgh Council for approval to establish a Limited Liability Partnership (LLP) to acquire and manage housing for affordable rent and market rent.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Terms of Referral

Accelerating House Building

Terms of referral

- 1.1 In April 2015, the Health, Social Care and Housing Committee noted the housing supply crisis in Edinburgh and the risk that house prices and private sector rents continue to rise, making it more difficult for people on moderate incomes to access suitable housing.
- 1.2 Housing costs continue to rise in Edinburgh due to a shortage of homes to rent and buy with the risk that the gap between supply and demand widens, as Edinburgh's population grows. Edinburgh is projected to need 4,000 additional homes every year, for 10 years.
- 1.3 The Council, working in partnership with Registered Social Landlords (RSLs), has accelerated house building in the affordable sector. Initiatives, such as the Council's 21st Century Homes house building programme and the National Housing Trust (NHT) programme, have contributed towards a trebling of the number of affordable homes built annually.
- 1.4 Under the NHT model, the Council has established nine Limited Liability Partnerships (LLPs) in partnership with the Scottish Futures Trust and with Scottish Government backing. These LLPs are delivering 931 new mid market rent homes on nine sites, making a significant contribution to brownfield regeneration.
- 1.5 Since December 2014, consultation has taken place with RSLs, housing developers, land agents, institutional investors, Scottish Government and the Scottish Futures Trust (SFT) on ways to accelerate house building. This included consultation on the potential for developing the NHT model and establishing a LLP to purchase homes from house builders for the purpose of renting.
- 1.6 The outcome of the consultation is that there is broad agreement that the development of a city wide LLP backed by the Council and SFT, for the purpose of acquiring housing for rent, will incentivise house builders to bring forward sites that are currently land banked.
- 1.7 By agreeing to establish an LLP, the Council will not be making any direct financial commitments. Where there were financial implications for the Council in acquiring new homes, business cases for such acquisitions would need to be approved by the Finance and Resources Committee and Council.
- 1.8 The Health, Social Care and Housing Committee agreed to:
 - 1.8.1 Note that partners had been consulted on a proposal to establish a Limited Liability Partnership (LLP) to accelerate the construction of quality, well managed rented homes.

- 1.8.2 Work with Scottish Futures Trust and Scottish Government to develop the National Housing Trust model further and to establish LLP to acquire and manage housing for rent.
- 1.8.3 Receive a progress report within three committee cycles on progress in developing the Edinburgh Homes initiative.
- 1.8.4 Refer the report to Council for approval to establish a Limited Liability Partnership.

For Decision/Action

- 2.1 The Health, Social Care and Housing Committee has referred the report by the Acting Director of Services for Communities to The City of Edinburgh Council for approval to establish a Limited Liability Partnership.

Background reading / external references

[Accelerating House Building](#)

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Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Health, Social Care and Housing Committee

10am, Tuesday, 8 September 2015

Accelerating Housebuilding

Item number

Report number

Executive/routine

Wards

Executive

All

Executive summary

This report updates Committee on progress on accelerating housebuilding in the city. It provides an update on the delivery of the National Housing Trust (NHT) programme and proposes further development of the model for the purpose of accelerating house-building in the city.

There is a shortage of housing for affordable and market rent in the city, with 4,000 new homes needed each year for 10 years. This report advises Committee of the outcome of consultation with partners to different approaches to accelerating house-building including house-building for rent.

The report seeks Committee approval to work with the Scottish Futures Trust to develop a proposal to establish a Limited Liability Partnership (LLP) to acquire and manage housing for affordable rent and market rent.

Accelerating Housebuilding

Recommendations

It is recommended that the Health, Social Care and Housing Committee:

- 1.1 Notes that partners have been consulted on a proposal to establish a Limited Liability Partnership (LLP) to accelerate the construction of quality, well managed rented homes.
- 1.2 Agrees to work with Scottish Futures Trust and Scottish Government to develop the National Housing Trust model further and to establish LLP to acquire and manage housing for rent.
- 1.3 Agrees to receive a progress report within three committee cycles on progress in developing the Edinburgh Homes initiative.
- 1.4 Refers this report to Council for approval to establish an LLP.

Background

- 2.1 In April 2015, Committee noted the housing supply crisis in Edinburgh and the risk that house prices and private sector rents continue to rise, making it more difficult for people on moderate incomes to access suitable housing.
- 2.2 A separate report to this Committee provides information on housing costs in Edinburgh and the impact this has on households on low and moderate incomes. Housing costs continue to rise in Edinburgh due to a shortage of homes to rent and buy with the risk that the gap between supply and demand widens, as Edinburgh's population grows. Edinburgh is projected to need 4,000 additional homes every year, for 10 years.
- 2.3 In 2013/14, the private sector completed around 950 homes, however most homes were for affordable rent or low cost home ownership and benefitted from subsidy in the form of public sector grants, loans or support for buyers. Whilst there is interest from housing developers in building housing for the private rented sector, there is no evidence to suggest that housing for competitive market rents, affordable to those on low to moderate incomes, will be built at the required scale without the public sector taking a lead.
- 2.4 In order to respond to the pressures in the housing market, Committee agreed to consult partners on the scope, purpose and options for different

approaches, with the main objective of building good quality, well managed homes to rent in the city. This report advises Committee of the outcome of the consultation with partners and sets out the next steps for setting up Edinburgh Homes.

Main report

- 3.1 The Council, working in partnership with Registered Social Landlords (RSLs), has accelerated house building in the affordable sector. Initiatives, such as the Council's 21st Century Homes house building programme and the National Housing Trust (NHT) programme, have contributed towards a trebling of the number of affordable homes built annually.
- 3.2 Under the NHT model, the Council has established nine Limited Liability Partnerships (LLPs) in partnership with the Scottish Futures Trust and with Scottish Government backing. These LLPs are delivering 931 new mid market rent homes on nine sites, making a significant contribution to brownfield regeneration.
- 3.3 NHT homes are part funded through on-lending of £112 million from the Council. On-lending is paid for through rental income which is subject to a Government guarantee. The management of lettings, rent collection and repairs is contracted out to an operator manager.
- 3.4 Appendix One provides an update on progress of the NHT initiative in the city.
- 3.5 Since December 2014, consultation has taken place with RSLs, housing developers, land agents, institutional investors, Scottish Government and the Scottish Futures Trust (SFT) on ways to accelerate housebuilding. This included consultation on the potential for developing the NHT model and establishing a LLP to purchase homes from house builders for the purpose of renting.
- 3.6 The NHT provided an opportunity for developers to bring forward sites in their ownership for development. On completion the homes were purchased by a LLP in which the Council has a 70% stake and the developer has a 30% stake. The developer realises their investment in the company between years 5 and 10 when homes can be sold.
- 3.7 Discussions have taken place with partners regarding the opportunity to build upon the experience gained through the NHT.
- 3.8 A variant of the NHT model has been established in a number of local authority areas which has advantages over the current NHT model. Homes can be purchased across a number of sites and over a ten year period, with the developer role limited to building the homes. This means developer funds

are not tied up within completed developments and can be used to start construction on other sites.

- 3.9 The outcome of the consultation is that there is broad agreement that the development of a city wide LLP backed by the Council and SFT, for the purpose of acquiring housing for rent, will incentivise house builders to bring forward sites that are currently land banked.
- 3.10 The Council's role within the would be to identify development opportunities, procure finance and homes, procure a management and maintenance provider and run the LLP. SFT's role within the LLP is to facilitate the initiative and provide commercial advice to the LLP. It would assist with financial viability tests prior to acquisition of homes.
- 3.11 This variant would supplement the existing NHT model which has proven to be successful. Scottish Government consent would be required for the Council to on-lend to the LLP if Public Works Loan Board (PWLB) borrowing were to be utilised. It is assumed that a Scottish Government guarantee would not be available in relation to rental income. However, any surpluses arising from the LLP would be utilised as an additional income stream to the Council, supporting the funding of essential public services.
- 3.12 Initial discussions have taken place with officials from SFT and the Scottish Government. These discussions have been positive. Formal participation of the SFT in a LLP will be subject to the decision of the SFT Board.
- 3.13 By agreeing to establish an LLP, Committee will not be making any direct financial commitments. Where there were financial implications for the Council in acquiring new homes, business cases for such acquisitions would need to be approved by the Finance and Resources Committee and Council.

Measures of success

- 4.1 Increase in the supply of new homes in the city, bringing supply more in line with demand.
- 4.2 Potentially, a new income stream for the Council through financing profit and operating profit of the market rent LLP.
- 4.3 Predictable and stable rents for affordable and market rent housing and tenancy security.
- 4.4 High quality, well managed, energy efficient homes and outstanding customer service for tenants.
- 4.5 Positive impact on the local economy, through creating opportunities for local businesses as well as jobs in construction

Financial impact

- 5.1 There are no direct financial impacts arising from this report. Where the acquisition of new homes had financial implications for the Council approval would be required from Finance and Resources and Council in line with the established process for NHT.
- 5.2 There is the potential to establish a new income stream for the Council. The income stream provided by the Edinburgh Homes initiative would come at a time of increasing pressure on the Council's finances.
- 5.3 Development of new homes provides additional Council Tax income. The development of 1,000 homes for NHT, for example, generates approximately £1.2 million additional revenue per year.

Risk, policy, compliance and governance impact

- 6.1 The LLP would be established in line with the arrangements for the nine other LLPs established under the NHT initiative. These LLPs, along with the 21st Century Homes Development Programme, report to members through the Affordable Housing Working Group and the Health, Social Care and Housing Committee.
- 6.2 Where there were financial implications for the Council, in the acquisition of homes, business cases would need to be approved by Finance and Resources Committee and Council.
- 6.3 Like the NHT LLP Boards, the Council would be represented on each of the LLP Boards by two senior Council officials and a representative from the Scottish Futures Trust (SFT) and subject to agreement from the SFT Board. The company providing management and maintenance services to the LLPs would have a non-executive position on the Board. In the event that the operator/manager also provided investment, to the LLP, they would be represented in an executive capacity.
- 6.4 The Director of Services for Communities/Executive Director of Place will fulfil the role of Senior Responsible Officer for the programme. Key officers supporting the proposal would include the Head of Finance and the Head of Housing and Regeneration. The Edinburgh Homes initiative would be a major programme, monitored by the Corporate Programme Office.

Equalities impact

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

Sustainability impact

- 8.1 The Edinburgh Homes initiative will deliver 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.

Consultation and engagement

- 9.1 Consultation has taken place on accelerating house building and establishing an arms length housing LLP with a range of partners including; RSLs, housing developers, land agents, institutional investors, Scottish Government and the Scottish Futures Trust.
- 9.2 Council tenants were consulted about priorities for investment as part of the "Your Rent, Your Priorities" consultation that took place between October 2013 and March 2014. Building new affordable homes was identified as a priority.

Background reading/external references

[Edinburgh Homes -Accelerating House Building, Report to Health, Social Care and Housing Committee, 16 April 2015](#)

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Links

Coalition pledges	P8 – Make sure the city’s people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites.
Council outcomes	CO16 – Well-housed – People live in a good quality home that is affordable and meets their needs in a well managed Neighbourhood.
Single Outcome Agreement Appendices	SO4 – Edinburgh’s communities are safer and have improved physical and social fabric

APPENDIX ONE – National Housing Trust Update

Developer	Managing Agent	Development	Completion	Homes	On Lending
Places for People	Places for People	Cityscape	Completed	126	£13,323,240
Places for People	Places for People	Lighthouse Court	Completed	62	£6,492,045
Miller Homes	Places for People	Telford North	Completed	89	£10,298,550
Teague	Hillcrest / Northern Housing Ltd	Sailmaker Apartments - Leith Links	Completed	145	£15,550,920
FP Newhaven	Retties	Sandpiper Road	23/08/2016	96	£11,789,750
sser Developments Ltd	Places for People	Fruitmarket	By 31/12/2019	80	£9,153,123
FP Newhaven Two Ltd	Retties	Western Harbour	By 31/12/2019	138	£17,284,583
Edmonstone Ltd	Places for People	The Walled Garden	By 31/12/2019	28	£4,703,832
Places for People	Places for People	Shrubhill	By 31/12/2019	167	£23,856,089
Total				931	£112,452,132