

Housing, Homelessness and Fair Work Committee

10.00am, Thursday, 4 November 2021

Land Strategy Update and Private Sector Engagement

Executive/routine Wards Council Commitments	Executive All
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1. Recommendations

- 1.1 It is recommended that Housing, Homelessness and Fair Work Committee:
 - 1.1.1 Agrees that the Council invite interest from developers, investors and landowners to bring forward opportunities for the Council to accelerate the provision of affordable housing;
 - 1.1.2 Notes that suitable opportunities will be progressed in line with Contract Standing Orders and will be subject to the approval of Council (or the appropriate Committee) in the usual way, prior to any contracts being entered into;
 - 1.1.3 Notes the high-level parameters which will inform the assessment of opportunities; and
 - 1.1.4 Agrees to receive an update on this market engagement process through the Business Bulletin in six months.

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Land Strategy Update and Private Sector Engagement

2. Executive Summary

- 2.1 This report provides an update on the progress of the land strategy for Council-led housing developments and sets out a rationale for seeking to supplement the current pipeline with private sector opportunities to be progressed through a market engagement exercise.
- 2.2 Committee is asked to agree to invite interest from developers, investors and landowners to bring forward sites or homes for acquisition by the Council or Edinburgh Living for affordable rent. Proposals will need to align with Council commitments, strategies and risk appetite. Committee is asked to note the high-level parameters which will inform the assessment of opportunities for both purchase or lease of homes. Land opportunities will be reviewed for capacity and progressed based on an assessment of market value. Approval from Finance and Resources Committee will be sought in the usual way prior to entering into contracts.

3. Background

- 3.1 In 2017 the Council made a commitment to deliver a programme to build at least 10,000 affordable homes over the next five years, with a plan to build 20,000 by 2027. The programme for delivering new supply affordable homes is set out in the Strategic Housing Investment Plan (SHIP). A separate report to this Committee seeks approval of the SHIP for submission to Scottish Government and provides an update on delivery of the 20,000 affordable homes commitment.
- 3.2 In 2018, working with Scottish Futures Trust (SFT) and the Scottish Government through the Edinburgh and South East Scotland City Region Deal (“City Deal”), the Council agreed to establish Edinburgh Living to own and manage homes for mid-market and market rent. As of September 2021, Edinburgh Living had 323 homes in management; all of which were developed through the Council’s affordable housebuilding programme. Edinburgh Living aims to operate at scale with Council and Scottish Government approvals in place to support delivery of 1,500 homes.
- 3.3 On [14 January 2021](#) Committee received a report on the Land Strategy to Support Delivery of Affordable Housing and Brownfield Regeneration and noted the need for

new investment models and partnerships with the private sector to accelerate delivery due to risks around insufficient sites in control of affordable developers. It has also been noted that in order to operate at scale and deliver all 1,500 homes Edinburgh Living would need to engage with the private sector.

4. Main report

- 4.1 The Council is aiming to deliver 10,000 of the 20,000 affordable homes commitment in partnership with Edinburgh Living. Since 2017, the Council has completed nearly 900 homes (480 for social rent and 411 for mid-market rent) and a further 460 homes were under construction at the beginning of September 2021. There are also around 1,500 homes in design, development and procurement.
- 4.2 In addition to those homes that are complete and underway, there is a significant pipeline of future sites that has the capacity to deliver up to 4,000 homes. The majority of these do however have risks to their delivery. These include uncertainties regarding ongoing operational uses, planning status and constraints, need for further land assembly and sites in third party ownership.
- 4.3 A place-based approach is being taken across the development of all Council sites with an aim to deliver a mix of uses addressing city-wide need alongside local priorities. An example of this is the Powderhall site where 100 homes are being delivered for affordable rent alongside housing for sale, a nursery and cultural uses. The commitment to place-based regeneration and desire to deliver mixed, sustainable communities coupled with limited grant funding to support delivery of social rented homes impacts on the number of affordable homes delivered from a single development site.
- 4.4 An update on progress with engaging with public and private sector landowners is provided below. However, given the risks to delivery set out above, a more proactive and comprehensive approach to securing land to deliver homes needs to be considered. This report sets out the proposal to engage with the private sector, focussing on land that is not currently in Council control and recognising that delivering within the context of strong sustainability aspirations, increasing costs and ensuring a place-based approach, means that innovative delivery models also need to be considered. It is also important to recognise that approaches from the private sector will inevitably occur out with a structured engagement process so the Council will seek to build flexibility into our process to address this as well as to repeat this call for interest in the coming years.
- 4.5 The Council works with and seeks to complement affordable housing delivery by its housing association partners. Should this report be approved, early discussions will be held to ensure that this engagement approach does not undermine the strong delivery and existing relationships that are already in place.

Progress with Public Sector Land

- 4.6 On [4 March 2021](#), Finance and Resources Committee approved the purchase of Liberton Hospital. Since then due diligence has been completed and the parties are now working to complete the transaction this financial year.
- 4.7 Public sector land is expected to become available for development at the Royal Victoria Hospital, Astley Ainslie and Redford Barracks with capacity for over 1,000 homes identified in the current Local Development and/or City Plan. Affordable Housing will be included on these sites and will contribute to the overall 20,000 homes target to be delivered by the Councils and Registered Social Landlords (RSLs).
- 4.8 Council officers will continue to engage with public sector partners to support the development of Place Briefs and masterplans and to explore opportunities for the Council to acquire sites or to enter into partnerships that would enable affordable housing to be delivered as part of mixed tenure developments.

Private Sector Land

- 4.9 The SHIP contains 124 sites that could be developed over the next five years to deliver around 11,188 affordable homes. Almost half of the sites are in the control of the private sector with the RSL programme almost entirely dependent upon delivery through the Affordable Housing Policy (AHP). Affordable housing developers, including both the Council and RSLs, have no influence over the speed at which private developers bring forward sites for Planning Consent and are also unable to compete on open market opportunities which generally receive much higher bids from volume housebuilders. As an example, the Council has not successfully bid for a site being marketed for sale since 2017, when it acquired the Forthquarter site from National Grid. However, the Council will continue to pursue the purchase of land directly as a route to delivery of homes where possible.
- 4.10 Over the normal course of business, officers have been engaging informally with private developers and landowners to support the development of masterplans and accelerate development of affordable housing. Over the course of this engagement, it has become clear that some landowners are interested in taking a long-term return from land assets rather than outright sale, creating an opportunity for lease-based models to deliver housing.

Lease Based Opportunities

- 4.11 A typical leasing arrangement might involve the Council leasing homes on completion from an investor/landowner on land that they own. It is likely that the financial viability of a lease arrangement will improve with a longer lease term. During this time, the Council would pay the investor/landowner a lease price and sub-let mid-market rent and market rent homes to Edinburgh Living who would collect a monthly rent from tenants. The rent collected would be used to cover the cost of managing and maintaining the homes over the term of the lease as well as the Council's responsibility to pay the lease price to the landlord. The lease price would increase annually on the same terms as the annual rents paid by tenants.

The homes and land would revert to Council ownership at the end of the lease in line with Scots property law.

- 4.12 Scottish Government grant funding cannot typically be used to lease affordable homes and rent levels impact on the viability of financial models which means that it will not be possible to deliver homes for social rent through lease-based models. Working with the SFT, engagement with the Scottish Government has commenced to understand what level of support could be made available to Councils for innovative models, including financial support to de-risk projects and enable homes to be let at lower than 100% of Local Housing Allowance (LHA).
- 4.13 In order to explore these delivery models further, in 2021 officers appointed a consultant via the Council's Commercial and Residential Property Advisory framework to conduct a soft market testing exercise directly with investors. There was a strong response from the major annuity funds that were approached with each submitting a high-level proposal confirming there is appetite for investor led partnerships with the Council.
- 4.14 The Council has also received a number of direct approaches from parties proposing alternative delivery routes which include long lease proposals and offers of assistance to source suitable homes and land. Without an appropriate route to assess these offers in a fair and transparent process, it has not been possible to proceed with individual opportunities to date.

Proposed Market Engagement

- 4.15 Officers have explored a number of potential delivery models which could supplement the current pipeline on Council owned land and accelerate and enhance the pipeline which is reliant on private sector land. These are summarised below. Each of these will require a different approach in terms of procurement and contractual arrangements. The process will commence with a "call for interest" to the market through the issue of a Prior Information Notice (PIN). This will seek interest from private sector parties for land, completed homes and investment models. The approaches will then be progressed through one of the following routes:
- 4.15.1 Purchase of sites or buildings for conversion for direct development by the Council, subject to financial viability;
- 4.15.2 Purchase of completed homes on sites through partnership arrangements on AHP land where no RSL partner is currently engaged;
- 4.15.3 Purchase of homes not associated with AHP land, which could deliver additional affordable homes for mid-market and homes for market rent; and
- 4.15.4 Engagement with institutional investors and other delivery partners to deliver more innovative models, including lease-based structures and partnership agreements, which could deliver homes across a number of tenures on land held in private ownership.

- 4.16 A set of high-level parameters which will inform the basis for assessment of opportunities at the appropriate time and provide more context to the market on Council aspirations is set out in Appendix 1.
- 4.17 The parameters recognise that opportunities to purchase will be at different stages in the development and consents process. The market engagement will support the Council's ambitions to deliver highly energy efficient and sustainable homes. Homes currently under construction will be delivered to current Building Regulations which require all new homes to be built to a high standard of sustainability with most completed homes achieving EPC B/Silver standard. However, it is expected that additional investment would be required to bring homes up to net zero carbon in the future and this would need to be considered.
- 4.18 Consultation on the Government's approach to net-zero carbon and its practical application through the Building Regulations is underway. Private sector approach to sustainability and the impact of changing regulations will be assessed as part of the engagement process, dependant on the stage of delivery.
- 4.19 As set out in 4.11, through direct approaches, existing relationships and soft market testing, officers are aware that the market is interested in working with the Council across the four routes set out above. However, as with any engagement or procurement exercise, there is a risk that no or limited proposals that meet the required standards are submitted. There is also a risk that the Council's timescales and governance processes will not align with private sector expectations. However, creating a structured approach to engaging with the market will allow the Council to assess proposals in an open and transparent way and to ensure best value is obtained.
- 4.20 Committee is asked to agree to invite interest from the market noting that detailed parameters will be issued to the market, should the recommendations in this report be approved.

5. Next Steps

- 5.1 Should the recommendations be approved, a Prior Information Notice (PIN) will be issued in November 2021, setting out that the Council is seeking to engage with the market to deliver homes through routes set out above and detailing the parameters that we can work within for lease based opportunities, purchase of land/buildings and purchase of completed homes.
- 5.2 The high level parameters set out in Appendix 1 will be developed into relevant assessment criteria.
- 5.3 Once received, proposals will be assessed for suitability against the relevant parameters. This assessment will also ensure compliance with the relevant regulatory framework, including the public sector procurement regulations.
- 5.4 It might be that suitable proposals are not within the scope of the public sector procurement regulations and can instead be progressed as more traditional

property transactions. This approach is more likely where developers, investors and landowners can submit proposals which are financially viable, strongly align with the key parameters and are at a suitably advanced stage in the development process.

- 5.5 All resulting procurement exercises, property transactions and business cases will be reported to the Finance and Resources Committee. A further update will be provided to this Committee via the Business Bulletin within six months.

6. Financial impact

- 6.1 The report recommends that the Council invite interest from developers, investors and landowners to bring forward opportunities for the Council to accelerate the provision of affordable housing, via the publication of a PIN. The cost of this process is estimated to be £10-£25k, dependent on procurement route, and can be contained within existing Place revenue budgets.
- 6.2 Should the Council proceed with any of proposals submitted through the PIN, this will be subject to detailed business cases and approval by the appropriate Council committee, in accordance with Contract Standing Orders. It is envisaged that purchases of private sector sites and homes will be in line with existing Housing Revenue Account and Edinburgh Living business plans. Leasing options and other funding models will be assessed to ensure they are affordable and take account of all costs relating to future requirements for net zero carbon, proposed changes to Building Regulations and the Council's policies. An assessment of financial risks will also be undertaken and set out clearly in each business case.

7. Stakeholder/Community Impact

- 7.1 Informal engagement with the private sector through the normal course of business, direct approaches and soft market testing have helped to inform the detail in this report.
- 7.2 Should the recommendations in this report be approved, there is potential for positive impacts on communities through increased access to efficient new-build affordable housing, regeneration and support to the local economy.

8. Background reading/external references

- 8.1 [Strategic Housing Investment Plan \(SHIP\) 2021-2026 \(January 2021\)](#)
- 8.2 [Land Strategy to Support Delivery of Affordable Housing and Brownfield Regeneration \(January 2021\)](#)

9. Appendices

9.1 Appendix 1 – High-level Parameters.

Appendix 1

PROPOSED PARAMETERS FOR INVITING INTEREST FROM PRIVATE SECTOR TO DELIVER AFFORDABLE HOUSING FOR PURCHASE OR LEASE BY THE COUNCIL

The Invitation to Market is open to landowners, investors and developers and recognises that opportunities will be at different stages in the design, development and construction process.

PARAMETER CATEGORIES	DETAIL
KEY REQUIREMENTS AND OUTCOMES	<p><u>Generally</u></p> <ul style="list-style-type: none"> • Provides access to land or homes that are not in Council ownership • Presents a viable business model and meets a five-case business case for approval by the Finance and Resources Committee • Preference is for a mix of 1, 2 and 3 bed flats and houses (with limited 3 bed flats) • Proposals of between 50 and 250 homes per development is preferable but proposals will be assessed on their own merit and higher numbers will be acceptable on developments where there is a clear business case for this approach • Provides opportunity for rapid delivery in areas of the City where there is high demand for affordable tenures <p><u>Where leasing structures are proposed</u></p> <ul style="list-style-type: none"> • Lease terms should be appropriate with respect to risk level, rent affordability and financial viability • Full details of partners within the funding structure and discussions with funders will be required directly in addition to transparency of funding structure • Sufficient financial headroom, over and above expected operating costs and built in risk for void and rent loss, will be required to allow for (i) adverse economic conditions, (ii) making buildings more sustainable in line with future technology and regulations and (iii) lifecycle replacement of key capital components (e.g. roofs, windows, kitchens, bathrooms) • Homes that are leased to the Council must transfer into Council ownership at the end of any lease term (asset reversion)
QUALITY AND SUSTAINABILITY	<ul style="list-style-type: none"> • Focussing on the Council's ambitions in delivering highly efficient new homes, developments should be designed to high standard of sustainability (minimum silver standard, EPC - B) with a preference for new zero carbon homes • Where homes are already completed or nearing completion a high standard of sustainability will be expected with additional headroom to allow funding for net zero carbon • Suitable on-site quality assurance and input into acceptance of practical completion and making good defects in line with the defect rectification period • NHBC/warranties should be made available • Delivery of social value benefits from the construction are to be evidenced, including adoption of fair work practices, use of local SMEs within the supply chain and delivery of local community benefits • Method for benchmarking heating costs to tenants to be demonstrated for proposals featuring communal systems, to ensure long term affordability to tenants • Proposals will be assessed against a quality standard to ensure that designs align with the Council's expectations
AFFORDABILITY	<ul style="list-style-type: none"> • Mid Market rents to be set at or below 85% - 100% of Local Housing Allowance dependent on location, typology and availability of grant • Rent increases will be capped at CPI • Market rents to be assessed based on scale, typology, location and relative affordability
MAINTENANCE RESPONSIBILITIES	<ul style="list-style-type: none"> • All maintenance responsibilities and any shared maintenance apportionments to be set out clearly in the Heads of Terms and costed as part of business case • Maintenance responsibility for shared heating and hot water plant to be capped • Where homes are being leased, the cost of maintenance to be benchmarked in relation to similar properties