

Finance and Resources Committee

10.00am, Thursday, 5 March 2020

Edinburgh Living LLPs: Acquisition of Homes 2020/21

Executive/routine	
Wards	All
Council Commitments	1, 6, 10

1. Recommendations

- 1.1 It is recommended that the Finance and Resources Committee:
- 1.1.1 Agrees the transfer of 173 homes constructed as part the Council's housebuilding programme, from the Housing Revenue Account (HRA), to Edinburgh Living mid-market rent and market rent LLPs in 2020/21.
 - 1.1.2 Notes the requirement for the Council:
 - 1.1.2.1 to lend to the mid-market rent and market rent LLPs to enable them to purchase the 173 homes;
 - 1.1.2.2 to revise the lending by up to £2m for homes already approved for purchase by the LLPs and;
 - 1.1.2.3 to provide corresponding capital advances from the Loans Fund based on a repayment profile using the funding / income method, as set out in Appendix 1.
 - 1.1.3 Refer this report to Council for approval of the recommendations at 1.1.2.

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Edinburgh Living LLPs: Acquisition of Homes 2020/21

2. Executive Summary

- 3.1 In February 2018, the City of Edinburgh Council agreed to establish two Limited Liability Partnerships (LLPs) with Scottish Futures Trust (SFT) to deliver 1,500 homes for market and mid-market rent to be let to households on low to moderate incomes.
- 3.2 Each year, the Finance and Resources Committee is asked to approve the transfer of mid market and market homes currently being constructed through the Council's housebuilding programme to Edinburgh Living. Homes are purchased by Edinburgh Living on completion at a price based on total development costs; including design and construction cost, project management costs, land value and related short-term funding costs, leaving the HRA in a cost neutral position.
- 3.3 Committee has already approved the transfer of 327 homes to Edinburgh Living with 150 homes now in the ownership of Edinburgh Living. The remaining 177 homes approved for transfer will be purchased by Edinburgh Living by April 2021.
- 3.4 This report seeks approval to transfer a further 173 homes to Edinburgh Living with Committee asked to note the lending and capital advances required for Edinburgh Living to complete the purchase.
- 3.5 Committee is also asked to note the requirement for an increase in the level of lending and capital advances in relation to the previous approved transfers, following an annual reconciliation of the lending approvals which were based on estimated figures. This will ensure that all costs associated with the delivery of these homes are covered by the LLP.

3. Background

- 4.1 Edinburgh Living was formed as a housing delivery partnership between the City of Edinburgh Council and SFT in March 2018, following the inclusion of a funding package for the initiative as part of the Edinburgh and South East Scotland City Region Deal (City Region Deal).
- 4.2 The City Region Deal included Scottish Government consent for the City of Edinburgh Council to on-lend up to £248 million to two Limited Liability

Partnerships, one for mid-market rent and one for market rent, for the purpose of delivering a minimum of 1,500 homes. The LLPs are jointly known as Edinburgh Living.

- 4.3 In 2018, the Housing and Economy Committee agreed, in principle, that homes developed by the Council within mixed tenure developments for market rent and mid-market rent could be transferred to the Edinburgh Living on completion, subject to agreement by the Finance and Resources Committee.
- 4.4 The report was referred to the City of Edinburgh Council on 01 February 2018 to agree the governance of Edinburgh Living and confirm the appointment of elected members and an Executive Director to represent the Council on the LLPs' Corporate Body, alongside a Director from SFT.
- 4.5 In [June 2018](#) and [December 2018](#) the Finance and Resources Committee agreed that a total of 327 homes constructed as part of the Council's mixed tenure housebuilding programme would be transferred on completion to the Edinburgh Living mid-market rent LLP.
- 4.6 These reports were referred to Council to agree a facility allowing the Council to lend money to Edinburgh Living to purchase the homes.

4. Main report

- 4.1 It was agreed as part of the Edinburgh Living governance structure that on an annual basis, the Finance and Resources Committee would approve the transfer of mid-market rent and market rent homes being constructed by the Council from the HRA to Edinburgh Living. Background on the financial arrangements for the transfer of homes is set out in Appendix 1.
- 4.2 Following approvals from this Committee in 2018 to transfer 327 homes, Edinburgh Living has to date purchased a total of 150 new homes constructed by the Council city-wide. The remaining 177 homes included in these approvals are on site and are due to complete by April 2021.
- 4.3 The purpose of this report is to seek Committee approval to continue the growth of Edinburgh Living by approving the transfer from the HRA of the next tranche of mid-market rent homes, currently under construction, and the first market rent homes scheduled for completion in 2020/21. The homes will be transferred on completion and let to tenants on low to moderate incomes.
- 4.4 The Council currently has 830 homes under construction as part of the mixed tenure council house building programme. In total, 173 of the homes to be delivered by the programme in 2020/21 have been earmarked for transfer to Edinburgh Living. These are detailed within Appendix 1. The homes will be delivered on two sites across the city at Craigmillar Town Centre and Pennywell Town Centre (Phase 2). The homes are located within mixed tenure developments which include housing for social rent which will be held on the HRA and managed by the Council.

- 4.5 The 133 new homes at the Craigmillar Town Centre development are part of a mixed tenure regeneration which consists of a mix of social rent, market rent and mid-market rent homes. Edinburgh Living will purchase the homes as they complete, from Spring 2020 onwards.
- 4.6 There is an established market and high demand for mid-market rent homes in Craigmillar. The Edinburgh Living market rent homes are also expected to be attractive to the market. The precise number of market rent homes purchased over the next year at Craigmillar will be determined following formal marketing and advertising. The 133 new homes will be split between the mid-market rent LLP and market rent LLP based on demand but will include 69 homes for mid-market rent, at a minimum.
- 4.7 Once transferred, the homes will be owned by Edinburgh Living and let and managed by the appointed lettings, management and maintenance service provider, Lowther Homes.

Update on lending previously approved

- 4.8 Following the first full year of operation officers have carried out financial due diligence which includes tracking the actual lending against the approvals previously given by Council. This reconciliation has highlighted that there is a need for supplementary approval of up to £2m to cover the latest estimate of costs for the 327 homes already approved, of which 177 are still to be purchased.
- 4.9 This is due to the original estimated lending requirements not taking into account the total development costs incurred by the HRA and the legal fees incurred by the LLPs as part of the transfer of homes.
- 4.10 Members are asked to note that all costs are met by the LLPs and there is no financial impact to the HRA or the General Fund as a result of the additional lending associated with the previous approvals.

5. Next Steps

- 5.1 Following this Committee's agreement, submit this report to the City of Edinburgh Council on 12 March 2020 for approval of the lending and capital advances required to fund the purchases.
- 5.2 Prepare a report for the Finance and Resources Committee in relation to transfer of homes due to complete in 2021/22, with the inclusion of a financial reconciliation of the on-lending which has taken place in previous years.

6. Financial impact

- 7.1 The total lending required for the additional 173 homes is £22.547m, based on the current estimated figures. Modelling demonstrates that the viability test will be passed. As outlined in paragraph 4.6, the mix between market rent and mid-market

rent homes at Craigmillar Town Centre may be revised according to demand with the figures in appendix 2 based on current tenure mix assumptions.

- 7.2 As noted at 4.8 above, a reconciliation has shown that the total costs for acquisitions already approved by Council may exceed the sums previously approved. The additional lending is forecast to be between £1.5m and £2m. Modelling based on the latest figures confirms that the viability tests will be passed for the 177 already approved for transfer. As with all Edinburgh Living acquisitions, the purchases will be subject to a final viability test run on the day of purchase.
- 7.3 In previous years, members have been asked to approve lending to the LLPs by reference to a specific amount of borrowing for each development. At the time of preparing the report, all costs are estimates, and these are subject to change. In future, it proposed to ask Council to agree that lending can be made for a specific number of houses as long as it is a) within the consent given by the Scottish Government for on-lending and b) the final viability test is passed on the day of acquisition. The final viability test will ensure that the costs are affordable to the LLPs.
- 7.4 The above approach will allow reporting to include an updated financial reconciliation on an annual basis providing Elected Members with information on actual borrowing amounts and reassurance that overall lending remains within the terms of the Scottish Government consent.
- 7.5 There is no impact to the General Fund as a result of lending to the LLPs. The rental income generated by the homes owned by the LLPs is sufficient to cover loan repayments. As all development cost are covered as part of the acquisition price paid by the LLPs, there is no impact on the HRA as a result of this initiative, it is cost neutral.

7. Stakeholder/Community Impact

- 7.1 Edinburgh Living tenants have expressed satisfaction with the size and quality of the new homes. Further feedback will be sought over the next year as more tenants move into their new homes.
- 7.2 The partnership will continue to support the delivery of new homes on brownfield sites, reducing pressure on Edinburgh's green belt.
- 7.3 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.
- 7.4 Community benefits secured through housing contracts can enhance the local environment.
- 7.5 An integrated impact assessment has been carried out for this project. A range of positive impacts have been identified. These include:

- 7.5.1 More accessible homes that are suitable for people who have mobility difficulties;
- 7.5.2 More affordable homes to enable people to have a good standard of living;
- 7.5.3 More people able to access housing which enhances rights in relation to privacy and family life; and
- 7.5.4 Community benefits secured through housing contracts can enhance rights to education and learning through development of links with schools.

8. Background reading/external references

- 8.1 [City Deal – New Housing Delivery Partnership Implementation, Housing and Economy Committee, Thursday 18 January 2018](#)
- 8.2 [City Deal – New Housing Delivery Partnership Implementation – Referral from the Housing and Economy Committee, City of Edinburgh Council, 01 February 2018](#)
- 8.3 [City Deal New Housing Delivery Partnership Acquisition of Homes 2018/19, Finance and resource Committee, Thursday 12 June 2018](#)
- 8.4 [Edinburgh Living LLPs: Acquisition of Homes 2019/20, Finance and Resources Committee, Tuesday 04 December 2018](#)
- 8.5 [Edinburgh Living LLPs: Acquisition of Homes 2019/20 – referral from the Finance and Resources Committee](#)
- 8.6 [Edinburgh Living: Management, Maintenance and Letting Services – Award of Contract Under Delegated Authority, Finance and Resources Committee, Thursday 11 October 2018](#)

9. Appendices

- 9.1 Appendix 1 - List of homes to be transferred on completion
- 9.2 Appendix 2 - Financial breakdown
- 9.3 Appendix 3 - Financial background on the transfer of homes to Edinburgh Living LLPs

Financial background on the transfer of homes to Edinburgh Living LLPs

LLPs

The Edinburgh Living LLPs purchase homes with a combination of borrowing received through Council lending and, for the mid-market rent LLP, Scottish Government grant funding. Approval is required from the City of Edinburgh Council to lend funds to the LLPs in order to fund the purchase of these homes. The costs associated with the lending are recharged to the LLPs. The LLPs meet these costs from net rental income generated from letting the properties.

The loans to the LLPs will be a 40-year annuity repayment structure, similar to a mortgage. For the mid-market rent LLP, the rate of interest on the loan is based on the Public Works Loan Board (PWLB) 40-year annuity rate available to the Council on the day each loan is advanced. For the market rent LLP, following advice from the Council's treasury advisers on an appropriate structure to ensure the Council complies with State Aid rules, there will be two separate loans: a senior loan for 90% of the amount and a mezzanine loan for the remaining 10%. As with the mid-market LLP, these will be 40-year annuity loans with rates based on the day the loan is advanced.

A viability test is carried out to ensure that the homes purchased by both the mid-market rent LLP and the market rent LLPs are capable of generating a sustainable income stream that can cover running costs and repayment of principal and interest on the lending provided by the Council's General Fund. A prudent allowance is also required to be earmarked to cover future life-cycle maintenance.

The test is run on the day of purchase for every acquisition made by the LLPs, using the final costs and actual interest rate. Lending will only go ahead if the test is passed. Based on the current estimated costs, rent levels and interest rates and an element of contingency, the viability test requirements for this tranche of acquisitions by both LLPs were met. Appendix 3 sets out the detailed figures.

General Fund

The LLPs generate sufficient net rental income to repay the Loans Fund capital advances relating to borrowing provided for the acquisition of homes and meet life-cycle maintenance requirements. The LLPs monitor the actual operating position and adapt their business plan on an ongoing basis to ensure that this remains the case. It should be noted, however, that should the LLPs fail to make their loan principal or interest repayments, the Council's General Fund will need to fund the shortfall from elsewhere in its own budget.

Financial risk to the General Fund in the event of LLP default is mitigated by the Council having first ranking security on the homes after repayment of the Scottish Government Grant provided for the mid-market rent LLP.

Housing Revenue Account

The financial impact on the HRA is cost neutral as the capital receipt received from the LLPs includes construction costs, land value and short-term funding costs. The capital expenditure associated with funding the construction forms part of the approved Housing Revenue Account Budget Strategy for 2019/20 to 2023/24.

Mid-market and market rent homes to be delivered in 2020/21

Site	Number of homes for mid-market rent	Number of homes for market rent	Total	Approximate date of first phase handovers
Craigmillar Town Centre	69	64	133	April 2020
Pennywell Town Centre Phase 2	40	-	40	February 2021
Total	109	64	Grand total 173	

Financial breakdown

Site	Total acquisition price £m	Scottish Government grant £m	Projected Net Income (per annum – first full year of operation) £m	Debt Servicing costs (per annum) £m
Mid-market rent LLP				
Pennywell Town Centre phase 2	£5.427	£0.880	£0.243	£0.215
Craigmillar	£10.678	£1.518	£0.501	£0.434
Total	£16.105	£2.398	£0.743	£0.649
Market rent LLP				
Craigmillar	£8.714	-	£0.483	£0.438