

# Finance and Resources Committee

10.00am, Thursday, 8 September 2022

## Edinburgh Living LLPs: Acquisition of Homes 2022/2023

Executive/routine  
Wards  
Council Commitments

### 1. Recommendations

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- 1.1 It is recommended that the Finance and Resources Committee:
- 1.1.1 Agrees the transfer of 14 homes constructed at Dumbryden as part the Council's housebuilding programme, from the Housing Revenue Account (HRA), to Edinburgh Living mid-market rent LLP, once completed in 2022;
  - 1.1.2 Notes the intention for Edinburgh Living to purchase 80 homes from the National Housing Trust (NHT) Fruitmarket LLP;
  - 1.1.3 Delegates Authority to the Executive Director of Place to complete the purchase of homes on behalf of the Council as Member of the Edinburgh Living Mid-Market Rent LLP.
  - 1.1.4 Notes the requirement for the Council:
    - 1.1.4.1 to make available up to £4.9m from the Council Tax Discount Fund (CTDF) to support the purchase of homes at Fruitmarket at Market Value;
    - 1.1.4.2 to lend to the mid-market rent LLP to enable the purchase of all 94 homes;
    - 1.1.4.3 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; and

1.1.5 Refer this report to Council for approval of the recommendations at 1.1.4.

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Executive Director of Place

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## Edinburgh Living LLPs: Acquisition of Homes 2022/2023

### 2. Executive Summary

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- 2.1 Each year the Finance and Resources Committee is asked to approve the transfer of mid-market rent homes currently being constructed through the Council's housebuilding programme from the Housing Revenue Account (HRA) to Edinburgh Living, the Council's mid-market rent housing delivery partnership established by the Council in 2018.
- 2.2 In line with Council governance, Committee is also asked to note the funding required for Edinburgh Living to purchase the homes on completion at a price based on total development costs, leaving the HRA in a cost neutral position. The report is then referred to Council to approve the funding.
- 2.3 This report seeks approval for the intended transfer of a further 14 homes due to complete at the Council's Dumbryden development in 2022/2023, bringing the total number of mid-market rent homes approved through this route since 2019 to 514 homes.
- 2.4 The report also sets out the intention for Edinburgh Living to purchase 80 homes from the Fruitmarket NHT LLP, a Limited Liability Partnership (LLP) established under the Scottish Government's NHT initiative. The LLP is made up of the Council, Scottish Futures Trust Investments Limited (SFTi) and Ediston Properties Limited ("Ediston"). The purchase at Fruitmarket provides an opportunity for Edinburgh Living to increase its portfolio with the addition of a popular development in a well-connected location. It secures long-term affordable rented homes for the City; provides assurance to sitting tenants that their homes will be available to them to rent for as long as they need; and the original funds loaned by the Council to the NHT LLP to purchase the homes on completion in 2017 will be repaid in full.
- 2.5 Finance and Resources Committee is being asked to provide the necessary approvals within their remit to progress the completion of both purchases and to refer the report to Council for the approval of funding.

### 3. Background

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- 3.1 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). Edinburgh Living consists of two Limited Liability Partnerships (LLPs), one for mid-market rent homes, which is currently active, and a second for any market rent homes delivered on larger mixed-tenure sites in the future. The Council's partner in the public sector led Edinburgh Living LLPs is SFT, with the Council owning 99% of the market rent LLP and 99.999% of the mid-market rent LLP.
- 3.2 Under the governance structure approved by Council in 2018, the Finance and Resources Committee is asked to approve the transfer of those mid-market rent homes being constructed through the Council's mixed-tenure housebuilding programme to Edinburgh Living from the HRA. As stated above, 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. The background to the financial arrangements for the transfer of homes is set out in Appendix 1.
- 3.3 Committee has already approved the transfer of 500 homes on completion to Edinburgh Living with 370 of these homes now completed and under ownership. The remaining 130 homes approved for transfer are scheduled to be purchased by Edinburgh Living by the end of December 2022.
- 3.4 Edinburgh Living also has the ability to purchase homes directly from the private market and an opportunity to purchase homes at the NHT Fruitmarket development is currently subject to due diligence.
- 3.5 In 2010, the Scottish Government and Scottish Futures Trust (SFT) launched the NHT initiative to deliver homes for mid-market rent in areas of high demand, while at the same time stimulating house building activity following the market crash of 2008. The Council agreed to participate in the initiative in August 2010 and has since provided on-lending to support the delivery of over 800 affordable homes across the city. Appendix 2 provides further information on the NHT initiative.
- 3.6 Council officers are working with the NHT developers to plan and manage developer exit from LLPs across the City. The aim is to provide stability for tenants through agreeing options which enable them to continue to rent their existing home, or be supported to move into alternative rented housing, where they are unable to take up the option to purchase their home. The Fruitmarket NHT LLP homes were completed in 2017 and have now reached their first potential exit point at year five.
- 3.7 The Finance and Resources Committee is being asked to agree the transfer of those mid-market rent homes being constructed through the Council's mixed-tenure housebuilding programme to Edinburgh Living from the HRA. Also, to note the intention for Edinburgh Living to purchase 80 mid-market rent homes from

Fruitmarket NHT LLP, subject to Council approving funding, and to delegate authority to the Executive Director of Place (on behalf of the Council as Member of the Edinburgh Living LLP) to agree the conclusion of the transactions for Dumbryden and Fruitmarket.

## 4. Main report

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- 4.1 The purpose of this report is to seek Committee approval to continue the growth of Edinburgh Living by providing the required approvals for a further tranche of 94 mid-market rent homes, 14 at Dumbryden and 80 at Fruitmarket.

### **Dumbryden**

- 4.2 The Council currently has 816 homes under construction as part of the mixed tenure council house building programme. Fourteen of the 49 new homes being constructed at the second phase of the Dumbryden development are being delivered for mid-market rent and will be purchased by Edinburgh Living on completion in 2022.
- 4.3 The homes are a mix of one, two and three-bedroom flats and the purchase will be funded through a combination of on-lending and Scottish Government grant.

### **Fruitmarket**

- 4.4 The eighty homes at the Fruitmarket development were completed in 2017 by Hart Builders for the developer Ediston under the NHT initiative. As these homes are approaching the end of their fifth year since completion and under the terms of the NHT contract, the Developer has informed the Council that they would like to sell the homes and exit from the LLP. At the time of writing, with the exception of three homes being marketed for re-let, the homes are currently all tenanted. Tenants have private residential tenancies with their Landlord (Fruitmarket NHT LLP). All homes purchased by Edinburgh Living will continue be let at mid-market rents to existing tenants.
- 4.5 The purchase delivers a positive outcome for tenants, providing them with the security of a long-term rental option at affordable rates under an institutional Landlord, as Edinburgh Living aims to grow its stock and provide long-term affordable housing. Following the purchase, homes that become available would be let by Edinburgh Living to tenants on low to moderate incomes in accordance with Edinburgh Living's lettings policy. It also ensures that tenants who wish to purchase their homes, in-line with the provisions set out within the NHT LLP agreements, will be offered that opportunity within the original ten-year timeframe. There has so far been limited interest from tenants in relation to purchase of the homes.
- 4.6 The sale of these homes to Edinburgh Living this year will allow the winding up of the Fruitmarket NHT LLP and the repayment of the £9,153,123 loan which the Council agreed to lend to the Fruitmarket NHT LLP for the purchase of the homes on completion.

- 4.7 For Edinburgh Living, it offers an opportunity to increase the portfolio more rapidly, reducing the impact of overheads on the business. It is a popular development, with a low void turnover, and is also well-located, being close to amenities and good transport links. There is an established market and high demand for mid-market rent homes across the city and Edinburgh Living mid-market rent homes are expected to be attractive to those seeking a new home.
- 4.8 The alternative option is that the Fruitmarket NHT LLP continues to exist and a standard exit is commenced, with all homes being sold either to sitting tenants or on the open market (initially on void, but over time tenants would have to be issued with notices to quit to ensure the loan is repaid by year 10). As the Council does not hold the majority of the votes on the LLP, there would be limited influence on the structure or timescales of this exit route. This option would reduce the number of affordable homes available in the city and if the developer wished to progress the exit process quickly, it could restrict the opportunity for tenants to fully explore the option of purchasing their home, should they wish to do so, or find other suitable housing if they chose not to or could not afford to purchase or rent a home in the private market.
- 4.9 Estates officers have led on the negotiation of the purchase price. This has been assisted by the instruction of an independent valuation and building survey of the block. The purchase price that has been agreed is in line with the independent valuation figure, dated 15 February 2022, and the results of the building survey which did not reveal any issues that would lead to a recommendation not to proceed with the acquisition.
- 4.10 Despite increasing house prices in Edinburgh, estimated to be 1.5% -2.0% per quarter, the purchase will complete in line with the figure reported in February. This negotiated position represents a saving to the Council of at least £250,000 in comparison to a valuation undertaken at the time of purchase completion.
- 4.11 The opportunity to access grant funding and CTFD to support this purchase has made Edinburgh Living a viable and positive exit option in this instance. In order for Edinburgh Living to acquire the homes at Market Value, the purchase will be supported by Scottish Government (SG) Grant of £4.1m (in line with current mid-market rent benchmark levels) and Council Tax Discount Fund (up to £4.9m).
- 4.12 Once transferred, the homes will be owned by Edinburgh Living and let and managed by the existing management and maintenance supplier, Touchstone. This will offer continuity for tenants following the sale and while the Council (acting on behalf of Edinburgh Living) undertakes the tender process for appointing a lettings, management and maintenance provider for Edinburgh Living homes. The procurement process has commenced and is expected to complete in early 2023.
- 4.13 Rents at both Fruitmarket and Dumbryden are set at below 100% of Local Housing Allowance, in line with Scottish Government grant terms. Rents will be managed in accordance with Edinburgh Living's rental increase policy securing long-term affordability for tenants.

## **Update on lending previously approved for Edinburgh Living**

- 4.14 Officers carry out regular financial due diligence which includes tracking the actual and proposed lending amounts against the approval limits set by Scottish Government. Up to the end of May 2022 actual lending was £45.659m against a limit of £110m for mid-market rent homes. Combined with the current approved transfers and the purchases at Dumbryden and Fruitmarket, on-lending by the end of 2022 is expected to reach £72.081m which is still comfortably within the approval limit.

## **5. Next Steps**

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- 5.1 Following this Committee's agreement, the report will be referred onto the City of Edinburgh Council on 22 September 2022 for approval of the lending and capital advances required to fund the purchases.
- 5.2 A report will be prepared for the Finance and Resources Committee in relation to transfer of homes due to complete in 2023/2024, with the inclusion of a financial reconciliation of the on-lending which has taken place in previous years.

## **6. Financial impact**

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- 6.1 The Fruitmarket development will be purchased for £16.954m and the estimated total acquisition costs at Dumbryden is £2.346m. As with all Edinburgh Living acquisitions from the Council's housebuilding programme, the purchase costs at Dumbryden will be subject to a final viability test run on the day of purchase once total construction costs have been accounted for.
- 6.2 The total lending required for the additional 14 homes at Dumbryden is £2m, based on the current estimated figures. Modelling demonstrates that the viability test will be passed for Dumbryden with the use of Scottish Government grant funding secured through the City Deal arrangements. However, alternative funding will be required to support the purchase of the homes at Fruitmarket.
- 6.3 In addition to on-lending, funding from the CTFD and Scottish Government grant funding from the Affordable Housing Supply Programme (AHSP) will be required. Funding is available in the Council's 2022/2023 AHSP and Scottish Government is supportive of this purchase. The on-lending required to support the Fruitmarket acquisition is estimated to be between £8m and £8.6m depending on interest rates at the time of purchase. £4.1m of funding from the AHSP will be made available (in line with current benchmarks). A contribution of between £4.2m and £4.9m will also be required, based on the aforementioned interest rates.
- 6.4 The CTFD is funding secured from Council tax paid for second homes and, in accordance with Scottish Government guidance, the budget is ring fenced for affordable housing. The CTFD opening balance for 2022/2023 is £11.3m and can accommodate the funds required for this purchase; funds are replenished on an

annual basis. The remaining CTDF balance will be used to support the delivery of affordable homes, including new Council homes.

- 6.5 The Fruitmarket development was delivered as part of the third phase of the NHT programme. The NHT model is structured as a short-term investment (10 years) and does not include a sinking fund for future lifecycle works. In addition, the third phase of the NHT programme included a cap on rental increases at CPI rather than CPI + 1% used in previous phases which limited the ability of this LLP to accumulate any surplus funds. As part of the due diligence undertaken a building survey has identified key areas of work to be carried out over the next ten years. This has been taken into account while assessing the viability of the purchase as well as ensuring the long-term financial health of the wider Edinburgh Living portfolio. All homes purchased by Edinburgh Living will continue be let at mid-market rents to existing tenants. Fruitmarket NHT LLP increased rents on 1 April 2022 therefore no further rent rise can take place until 1 April 2023. Rents at Fruitmarket are below 100% of Local Housing Allowance.
- 6.6 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.
- 6.7 As set out in paragraph 4.7, tenants will have the option to buy their homes between years five and ten. In the event that tenants buy homes the borrowing, grant and funding from the CTDF will be repaid. The Members Agreement sets out the order in which proceeds are to be applied

## **7. Stakeholder/Community Impact**

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- 7.1 Edinburgh Living will continue to support the delivery of new homes on brownfield sites, reducing pressure on Edinburgh's green belt.
- 7.2 Homes at both the Dumbryden and Fruitmarket development are constructed to high standards in terms of energy efficiency and sustainability, supporting a reduced requirement for energy use within the homes.
- 7.3 The completion of homes at Dumbryden will positively impact the local community through the delivery of another phase of the regeneration taking place across the wider South-West area. Edinburgh Living will also ensure that the local environment at Fruitmarket will continue to be maintained to a high standard, supporting the mixed-use regeneration and development of a sustainable community at that site.
- 7.4 An integrated impact assessment (IIA) has been carried out in relation to the Council's housebuilding programme. A range of positive impacts have been identified.



These include:

- 7.4.1 More accessible homes that are suitable for people who have mobility difficulties;
  - 7.4.2 More affordable homes to enable people to have a good standard of living;
  - 7.4.3 More people able to access housing which enhances rights in relation to privacy and family life; and
  - 7.4.4 Community benefits secured through housing contracts can enhance rights to education and learning through development of links with schools.
- 7.5 The purchase of homes at Fruitmarket will secure homes for long-term affordable rent while offering those that wish to, a step on to the housing ladder within a well-managed community, as set out in the integrated impact assessment for Fruitmarket.

## **8. Background reading/external references**

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- 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, 1 February 2018.
- 8.3 [City Deal New Housing Delivery Partnership Acquisition of Homes 2018/2019](#), Finance and resource Committee, Thursday 12 June 2018.
- 8.4 [Edinburgh Living LLPs: Acquisition of Homes 2019/2020](#) - Finance and Resources Committee, Tuesday 4 December 2018.
- 8.5 [Edinburgh Living LLPs: Acquisition of Homes 2019/2020](#) – referral from the Finance and Resources Committee, Tuesday 4 December 2018.
- 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**

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- 9.1 Appendix 1: Financial background on the transfer of homes to Edinburgh Living LLPs.
- 9.2 Appendix 2: Background to National Housing Trust (NHT) Initiative.

## **Appendix 1: Financial background on the transfer of homes to Edinburgh Living Mid-Market Rent LLP**

The Edinburgh Living Mid-Market Rent LLP purchases 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 LLP in order to fund the purchase of these homes. The costs associated with the lending are recharged to the LLP. The LLP meets these costs from net rental income generated from letting the properties.

The loans to the LLP will generally be a 40-year annuity repayment structure, similar to a mortgage. 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.

A viability test is carried out to ensure that the homes purchased 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.

In order to support the purchase of homes from the private market and secure a positive exit from the Fruitmarket LLP, an additional sum from the CTDF over and above grant and borrowing is required as part of the funding package.

### **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. 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 from the transfer of land at Dumbryden 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. The purchase of the homes at Fruitmarket has no impact on the HRA.

## **Appendix 2: Background to National Housing Trust (NHT) Initiative**

In 2010, the Scottish Government (SG) and the Scottish Futures Trust (SFT) launched the NHT initiative to deliver homes for mid-market rent in areas of high demand, while at the same time stimulating house building activity following the market crash of 2008. The Council agreed to participate in the initiative in August 2010 and has provided on-lending to support the delivery of over 800 high quality homes, with affordable and stable rents, at eight NHT developments across the city.

Under the NHT model, the Council procures a developer to build the homes and enters into a Limited Liability Partnership (LLP) with the developer and Scottish Futures Trust Investments Limited (SFTi). In the NHT delivery model, the developer supplies the land and builds the properties to a specified standard and timescale. The Council, developer and SFTi all sit on the LLP board which oversees the development programme. The LLP purchases the completed homes using a loan from the Council, which is guaranteed by the SG and must be repaid in full, with interest, by year ten.

The homes are let as mid-market rent for a minimum of five years, with the developer given the option to exit the vehicle between years five and ten. The contracts contain an exit process with provision for sitting tenants and local authority nominees to purchase homes prior to homes being sold on the open market.

Rents are set at mid-market rent level and limited to an annual increase of either CPI or CPI + 1%. This varies for different NHT LLPs and is set out in the LLP Members Agreement specific to each LLP.

Tenants have Private Residential Tenancies (PRTs) if they became an NHT tenant after 1 December 2017, when PRTs were introduced. Prior to this date tenants were given Short Assured Tenancies.