

Finance and Resources Committee

10.00am, Thursday, 21 September 2023

Edinburgh Living – Acquisition of Homes 2023/2024

Executive/routine
Wards

Executive
Forth

1. Recommendations

- 1.1 It is recommended that the Finance and Resources Committee:
 - 1.1.1 Agrees in principle the transfer of 220 homes constructed at Granton as part of the Council's housebuilding programme, from the Housing Revenue Account (HRA), to Edinburgh Living mid-market rent Limited Liability Partnership (LLP), once completed.
 - 1.1.2 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.
 - 1.1.3 Notes the requirement for the Council:
 - 1.1.3.1 To lend to the mid-market rent LLP to enable the purchase of all 220 homes;
 - 1.1.3.2 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
 - 1.1.4 Refer this report to Council for approval of the recommendations at 1.3.

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Edinburgh Living – Acquisition of Homes 2023/2024

2. Executive Summary

- 2.2 The purpose of this report is to seek Finance and Resource Committee approval for the transfer of 220 new build homes from the Housing Revenue Account (HRA) to the Council's mid-market Rent LLP, Edinburgh Living.
- 2.3 The report also seeks approval for on-lending of funds from the Council to Edinburgh Living to support the purchase of the new homes.
- 2.4 Subject to approval by Finance and Resources Committee, the on-lending decision will be referred to the City of Edinburgh Council.
- 2.5 Any acquisitions post March 2024 will be subject to the agreement of the Scottish Government to extend the consent for Edinburgh Living to borrow from the Council.

3. Background

- 3.1 Each year, 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.
- 3.2 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.
- 3.3 Edinburgh Living was formed as a housing delivery partnership between the City of Edinburgh Council and Scottish Futures Trust (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 LLPs, one for mid-market rent homes, which is currently active with 594 homes in management, and a second for market rent homes that is currently in-active.
- 3.4 The Council owns 99% of the market rent LLP and 99.999% of the mid-market rent LLP with SFT owning the remainder.

- 3.5 Under the governance structure approved by Council in 2018, 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. 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.
- 3.6 The homes are only transferred to Edinburgh living provided they meet the standard viability tests. These are described in more detail at Appendix 1 but in summary ensure their rental income will cover the costs of management, repairs and loan repayments.

4. Main report

- 4.1 This report provides details of the developments that are expected to transfer within the next calendar year. These are 27 homes at the Granton D1 site and 193 at Western Villages.

Granton D1

- 4.2 Granton D1 is a flagship project with a total of 75 homes plus commercial space, built to a net-zero carbon standard using modern methods of construction. The project is the first pilot in the [Edinburgh Home Demonstrator](#) (EHD) which is a project based in the City Region Deal and represents significant collaboration between the public, private, and academic sectors. 27 homes are scheduled to transfer to Edinburgh Living before the end of March 2024. The homes are a mix of 1, 2 and 3 bedroom flats and, as part of the EHD pilot, the homes will be monitored while occupied to understand the in-use thermal performance, internal air quality and energy usage.

Western Villages

- 4.3 [Western Villages](#) is a key component of the Edinburgh Waterfront regeneration. It is the largest single development currently on site with a total of 444 mixed tenure homes. 193 of these homes are expected to transfer to Edinburgh Living starting in Summer 2024. The homes are also built to be net zero carbon and use technologies such as heat pumps and heat recovery systems to achieve this. The homes are a mix of 1, 2 and 3 bedrooms flats.
- 4.4 Rents at both Granton D1 and Western Villages will be set at or 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 previous on-lending to Edinburgh Living

- 4.5 The consent to on-lend to Edinburgh Living was granted by the Scottish Government in 2018 and expires at the end of March 2024. Up to £248m on-

lending was approved with £110m intended for the purchase of mid-market Homes and the remaining £118m for market rent.

- 4.6 Accordingly, discussions have been opened with the Scottish Government to extend the consent beyond March 2024 and for the Council to be granted flexibility to use this to support purchase of mid-market or market homes; as required to meet housing need and demand in the city
- 4.7 To date around £66m of funding has been loaned to Edinburgh Living by the Council. This figure does not take account of transfers scheduled for September 2023 at Pennywell Phase 3, previously approved by committee.
- 4.8 It is projected that Granton D1 will fit comfortably within the existing consent in terms of both timing and cost. Western Villages will require the consent to be amended to allow lending beyond March 2024 and over £110m total on lending for the purchase of mid-market homes.

5. Next Steps

- 5.1 Subject to committee approval this report will be referred to the next available meeting of the City of Edinburgh Council to approve the on-lending.
- 5.2 The first completions at D1 are expected prior to the end of 2023 with the remainder to follow before the end of March 2024. Transfers will be aligned accordingly.
- 5.3 The first completions at Western Villages are expected in Summer 2024, due to the significant size of the development the transfers will be broken into manageable tranches.
- 5.4 Edinburgh Living's Letting and Management agent, Umega Lettings, will be proactive in advertising and letting the homes in conjunction with the Council's Private Rented Sector team who refer working homeless households to Edinburgh Living.

6. Financial impact

- 6.1 The purchase costs for Western Villages and Granton D1 will be subject to final viability testing on the day of purchase. Currently a combination of grant funding and on lending is assumed.
- 6.2 The total estimated borrowing requirement is up to £33m.
- 6.3 The Scottish Government awarded Edinburgh Living an additional £6 million in grant funding in 2023/2024 to support the delivery of mid-market homes. This will mainly support the project at Western Villages but will help reduce the amount of borrowing required across the portfolio.
- 6.4 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. Equality and Poverty Impact

- 7.1 The provision of these homes will have a positive impact on those at risk of falling into poverty. Mid-market rent is a recognised affordable housing tenure. It provides an opportunity for those who may not qualify for social housing to secure rented accommodation at levels significantly lower than those in the private market and below the Local Housing Allowance (LHA). In Quarter 1 2023, the average rental cost for a two-bedroom private rented home was £1,303. Edinburgh Living average rent for a two-bedroom home in the same period was £684 with Local Housing Allowance £823.
- 7.2 Edinburgh Living is supporting the delivery of the Council's Rapid Rehousing Transition Plan by providing permanent homes for working homeless households. A total of 164 working homeless households have been housed by Edinburgh Living. The LLP can lever in additional grant funding and borrowing to provide more affordable homes than could be delivered solely through the HRA. On each site the number of Council owned social rented homes being provided exceeds the number of mid-market homes. The overall aim is to create mixed sustainable communities and support area- based regeneration by offering a range of tenure options.
- 7.3 Prior to public advertisement the Private Rented Sector team reviews new or vacant units against their client list for suitability. As noted in the report to Housing, Homelessness and Fair Work Committee on [8 August 2023](#), 164 working homeless households have secured a home via Edinburgh Living.
- 7.4 The homes are built to Housing for Varying Need (HfVN) standard this means that aside from incorporating many accessibility features as standard they can be easily adapted to suit tenants changing needs.
- 7.5 The homes are designed to minimise energy use through enhanced building fabric and low carbon technologies, this helps lower costs for tenants, as well as benefitting the environment.

8. Climate and Nature Emergency Implications

- 8.1 As a public body, the Council has statutory duties relating to climate emissions and biodiversity. The Council

“must, in exercising its functions, act in the way best calculated to contribute to the delivery of emissions reduction targets”

(Climate Change (Emissions Reductions Targets) (Scotland) Act 2019), and

“in exercising any functions, to further the conservation of biodiversity so far as it is consistent with the proper exercise of those functions”

(Nature Conservation (Scotland) Act 2004)

- 8.2 The City of Edinburgh Council declared a Climate Emergency in 2019 and committed to work towards a target of net zero emissions by 2030 for both city and corporate emissions, and embedded this as a core priority of the Council Business Plan 2023-27. The Council also declared a Nature Emergency in 2023.

Environmental Impacts

- 8.3 The proposals in this report are in line with the Council’s Climate Emergency Declaration because the new homes are constructed to high standards in terms of energy efficiency and sustainability.
- 8.4 There is a lower energy demand to heat the homes which is further supported by a zero direct emissions heating systems. This means they will minimise the amount of carbon emissions to aid with the city’s ambition to be net zero carbon.
- 8.5 With particular regard to the homes at Granton D1, their energy efficiency performance will be monitored and feed into wider industry improvements.
- 8.6 The homes have been designed using the Council’s own guidance to architects on recycling and waste collection. This will assist residents to manage their household waste effectively.
- 8.7 In terms of the Council’s Nature Emergency Declaration, the developments embrace the Council’ water management strategy.

9. Risk, policy, compliance, governance and community impact

- 9.1 There has been significant public consultation and engagement on the Waterfront regeneration. Granton D1 and Western Villages are the first projects in the long-term objective to create a sustainable new coastal town. This has taken the form of in person and online events and supported by the Council’s consultation hub.
- 9.2 The construction contracts for these homes bring with them a broad range of community benefits such as jobs, education, training, support for local initiatives and improvements to local infrastructure.
- 9.3 The transfer of these homes contribute to the three strategic priorities set out in the [Council’s Business Plan](#). In particular, it will contribute to objectives.
- 9.3.1 4d - 4. People can access public services locally and digitally in ways that meet their needs and expectations and contribute to a greener net zero city – we will: d. Deliver Council led infrastructure investments, policies and strategies that enable Edinburgh’s transition to a net zero city; and
- 9.3.2 5a - People have decent, energy efficient, climate proofed homes they can afford to live in – we will: a. Increase supply of affordable housing with an ambition to reach 25,000 new affordable homes.

- 9.4 The main risk to Edinburgh Living is the ongoing economic situation. This is manifested in three main areas: increased acquisition costs (including borrowing rates), increased operational costs and the potential for reduced income from tenants experiencing financial hardship. These risks are addressed through the viability process and cost monitoring – the homes will not be acquired if they are not sustainable in the longer term.
- 9.5 With regard to rental income a sensitive but robust approach is taken to arrears with tenants signposted to potential sources of support.
- 9.5.1** These risks are monitored and managed by the Senior Management Team for Edinburgh Living.

10. Background reading/external references

- 10.1 [City Deal – New Housing Delivery Partnership Implementation](#), Housing and Economy Committee, Thursday 18 January 2018.
- 10.2 [City Deal – New Housing Delivery Partnership Implementation](#) – Referral from the Housing and Economy Committee, City of Edinburgh Council, 1 February 2018.
- 10.3 [City Deal New Housing Delivery Partnership Acquisition of Homes 2018/2019](#), Finance and Resource Committee, Thursday 12 June 2018.
- 10.4 [Award of Construction Contract for Construction of New Homes at Western Villages, Granton Waterfront](#) - Finance and Resources Committee, 3 March 2022.
- 10.5 [Edinburgh Living LLPs: Acquisition of Homes 2022/2023](#) - Finance and Resources Committee, Thursday 8 September 2022.
- 10.6 [Edinburgh Living LLPs: Acquisition of Homes 2022/2023](#) – referral from the Finance and Resources Committee, Thursday 22 September 2022.
- 10.7 [Edinburgh Living Annual Update 2022 - referral from the Housing Homelessness and Fair Work Committee](#) - Governance, Risk and Best Value Committee, Tuesday 2 May 2023.
- 10.8 [Award of Lettings and Management Contract for Edinburgh Living](#) - Finance and Resources Committee, 25 April 2023.

11. Appendices

- 11.1 Appendix 1 - Financial background on the transfer of homes to Edinburgh Living Mid-Market Rent LLP.

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.

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.