



Author/Lead Officer of Report: Janet Sharpe

Tel: 0114 2735493

Report of: Laraine Manley, Executive Director Place

Report to: Cllr. Jack Scott, Cabinet Member for Transport and Sustainability

Date of Decision: Thursday 28th June 2018

Subject: Phase 5 pre-development loan to Sheffield Housing Company (SHC)

Is this a Key Decision? If Yes, reason Key Decision:-	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
- Expenditure and/or savings over £500,000	<input type="checkbox"/>	
- Affects 2 or more Wards	<input type="checkbox"/>	
Which Cabinet Member Portfolio does this relate to? Transport and Sustainability		
Which Scrutiny and Policy Development Committee does this relate to? Safer and Stronger Communities		
Has an Equality Impact Assessment (EIA) been undertaken?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
If YES, what EIA reference number has it been given? 44		
Does the report contain confidential or exempt information?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-		
Background paper and appendices A and B are not for publication because they contain exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).		

Purpose of Report:

To seek Individual Cabinet Member approval to enter into a loan agreement providing pre-development finance to the Sheffield Housing Company for Phase 5 of the new house building programme.

It is proposed that the loan will be for up to £1,680,000 and will facilitate the delivery of approx. 530 homes over the next 7 years.

Recommendations:

It is recommended that the Individual Cabinet Member:

1. Approves the next stage of agreed loan payments to SHC on the following terms:

Payment Schedule

Payment 1 - £756,000 in July 2018 or as soon as the loan agreement is in place.

Payment 2 - £924,000 in January 2019 subject to an approved Business Case and confirmation that development finance is available.

Interest Rate

5.75% above Bank of England base rate, to be repaid within 5 years of the date of land demise of the first site in Phase 5.

Background Papers:

Phase 5 Delivery Options

Lead Officer to complete:-		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: Anna Peysner
		Legal: Nadine Sime
		Equalities: Applicable EIA Ref. No. 44
<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>		
2	EMT member who approved submission:	Laraine Manley
3	Cabinet Member consulted:	Cllr. Jack Scott
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	Lead Officer Name: Janet Sharpe	Job Title: Director of Housing and Neighbourhoods
Date: 11/06/2018		

1. PROPOSAL

- 1.1 The Leader made a decision on the 29th November 2017 to approve the Council providing two pre-development loans to the Sheffield Housing Company for Phases 4 and 5. This gave delegated authority to the Executive Director of Place to negotiate the terms of the loan agreements and any consequential amendments and variations to the other related agreements.
- 1.2 At the SCC Strategic Partnership Board on 7th June 2018, it was agreed that the new Cabinet Member for Transport and Sustainability would be required to approve the Phase 5 loan.
- 1.3 In September 2017, SCC submitted a bid to the HCA (now Homes England) Housing Infrastructure Fund Marginal Viability scheme. 4 sites from the Phase 5 programme were submitted as 'Manor Cluster' with an estimated viability gap of £3.55m. The bid was successful at stage 1 and is now being reviewed in detail by Homes England.
- 1.4 If fully approved, it is proposed that Phase 5 will be split into Phase 5 and Phase 6 for clarity of reporting and financial management. The latest SHC annual Business Plan has been updated to reflect this, therefore any loan agreement drawn up between SCC and SHC will also need to reflect this change. If unsuccessful, the phases would be merged again, and delivery options reviewed. See background paper 'Phase 5 Delivery Options'.

2. HOW DOES THIS DECISION CONTRIBUTE?

- 2.1 **Better Health and Wellbeing**
To promote good health, and prevent and tackle ill-health, the SHC programme will plan and deliver accessible and energy efficient housing.
- 2.2 **Tackling Inequalities**
Focusing on people and areas in the greatest need, the SHC programme will diversify the housing offer in the city's low performing housing market areas to tackle the underlying causes of poverty by building aspirational houses to increase the income levels of local areas and to build homes that are affordable to run.
- 2.3 **Thriving Neighbourhoods and Communities**
SHC will build good quality new homes in neighbourhoods where economic growth and sustainable infrastructure are required. This will help to retain existing residents and attract new households into the city. By providing homes that can be adapted to meet lifetime needs, local communities are strengthened over time as residents choose to stay in the same area. Additional homes help to increase the Council tax base of the City, and attract New Homes Bonus and Community Infrastructure Levy funds which can be reinvested on local priorities.

3. HAS THERE BEEN ANY CONSULTATION?

- 3.1 There is no statutory obligation to consult on the proposals in this report and the Report does not relate to services delivered to the public. There is no reasonable expectation that the public would be consulted on proposals of this kind.

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1 Equality of Opportunity Implications

- 4.1.1 This proposal will not result in any negative equal opportunity implications. Existing and new residents will be provided with a greater choice of homes to live in the city.

- 4.1.2 A separate EIA has been produced. EIA Reference No. 44.

4.2 Financial and Commercial Implications

4.2.1 Loan Payment Schedule

SHC will receive the loan in 2 advanced payments:

Payment 1 - £756,000 in July 2018 or as soon as the loan agreement is in place.

Payment 2 - £924,000 in January 2019 subject to SCC approval of the Business Case and evidence that SHC can secure suitable development finance.

4.2.2 Loan Interest and Repayment Terms

As per the Phase 4 funding agreement and in line with State Aid conditions, Finance recommend an interest rate of 5.75% above Bank of England base rate, to be repaid within 5 years of the date of drawdown of the first site in Phase 5.

- 4.2.3 Proposed Phase 5 and 6 pre-development fees are provided in Appendix A and an indicative financial appraisal for Phase 5 and 6 in Appendix B.

4.3 Legal Implications

- 4.3.1 The loan agreement will need to be negotiated and finalised in consultation with legal and finance, as per the recommendations outlined above. Should the loan agreement terms differ substantially from those proposed and outlined within this report, then a further decision report would be needed before proceeding with such. The conditions of the loan and the repayment provisions will need to protect interests of the Council.

4.4 Other Implications

- 4.4.1 There are no other implications.

5. ALTERNATIVE OPTIONS CONSIDERED

5.1 Decline the request for the Phase 5 loan

SHC have confirmed that pre-development finance is not available from another source, as it has no registered interest in the land until drawdown is complete. Therefore, without the loan, no further work can proceed on the remaining sites in the SHC programme which may prejudice the future viability of SHC and consequently the Council's capital receipt and returns on land investment may not be realised.

5.2 Approach Homes England for investment support

To sustain the programme the SHC could ask Homes England (HE) to increase its equity which may require surrendering part of the equity as a return for HE. This would require new loan agreements and HE may not be interested in taking up this opportunity. It would also require extensive renegotiation of the current legal agreements surrounding the SHC and may have procurement law implications.

5.3 Defer SHC payments of land receipts

The Council provides consent to SHC that they can cash flow the pre-development costs from previous phase receipts. This would require the Council to defer the payment of land receipts from previous phases and leave those repayments at risk.

6. REASONS FOR RECOMMENDATIONS

6.1 Providing a loan for pre-development costs for Phase 5 ensures that the sites are developed out and additional housing is built in line with the original vision for the local housing company. This will provide much needed quality housing in the identified areas.

6.2 SCC has provided previous pre-development loans for earlier phases and has existing land values due by way of Loan Notes from previous phases. Funding the continued building programme is seen as the best way to ensure that those monies owed are paid when due.

6.3 SCC will also benefit from receipt of the commercial return on the loan and as a shareholder will benefit from dividends declared by the SHC as a result of any development profits.