



**Author/Lead Officer of Report:** Janet Sharpe

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**Report of:** Laraine Manley, Executive Director Place  
**Report to:** Cllr Julie Dore, the Leader of the Council  
**Date of Decision:** 31/10/2017  
**Subject:** Additional Financial Support to Sheffield Housing Company (SHC) for Phase 4 and 5

Is this a Key Decision? If Yes, reason Key Decision:-	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
- Expenditure and/or savings over £500,000	<input checked="" type="checkbox"/>	
- Affects 2 or more Wards	<input type="checkbox"/>	
Which Cabinet Member Portfolio does this relate to? Planning and Development, and Finance		
Which Scrutiny and Policy Development Committee does this relate to? Safe and Stronger Communities Scrutiny and Policy Development Committee		
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? (REF: 44)		
Does the report contain confidential or exempt information?	Yes <input type="checkbox"/>	No <input checked="" 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:-		
<i>"The (report/appendix) is not for publication because it contains exempt information under Paragraph (insert relevant paragraph number) of Schedule 12A of the Local Government Act 1972 (as amended)."</i>		

**Purpose of Report:**

To seek approval to provide pre-development loans to the Sheffield Housing Company for Phases 4 and 5 of the new house building programme. It is proposed that the loan relating to Phase 4 will be for up to £1.385 million and will facilitate the building of 322 homes-and the loan relating to Phase 5 will be for up to £1.680 million and will facilitate the building of 529 homes.

**Recommendations:**

It is recommended that the Leader:

1. Approves two Pre Development Loans up to a total of £3.065m (up to £1.385 million for Phase 4 and up to £1.680 million for Phase 5) to the Sheffield Housing Company.
2. To the extent not already covered by existing delegations, delegates authority to the Executive Director of Place in consultation with the Director of Legal and Governance and the Director of Finance and Commercial Services to negotiate the terms of the loan agreements, any consequential amendments or variations to the Development Agreement or inter-creditor documents and any other related documentation.
3. To the extent not already covered by existing delegations, delegates' authority to the Executive Director of Place in consultation with the Director of Legal and Governance and the Director of Finance and Commercial Services to take such other steps deemed appropriate to achieve the outcomes set out in this report.
4. Approves in principle funding from New Homes Bonus award for the client team of up to £0.600m for 2017 – 2020 (£200,000 per year), subject to a revised Phase 4/5 Business Case and annual review of progress.

**Background Papers:**

*(Insert details of any background papers used in the compilation of the report.)*

26/06/2017- Letter to SHC with conditions of Phase 4 loan.

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: <i>Paul Schofield</i>
		Legal: <i>Nadine Sime</i>
		Equalities: Applicable, EIA REF: 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	<b>EMT member who approved submission:</b>	<i>Laraine Manley</i>
3	<b>Cabinet Member consulted:</b>	<i>Cllr Olivia Blake Cllr Ben Curran Cllr Julie Dore (Leader)</i>
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.	
	<b>Lead Officer Name:</b> Janet Sharpe	<b>Job Title:</b> Director of Housing and Neighbourhoods
	<b>Date:</b> 19/10/2017	

## 1. PROPOSAL

- 1.1 The Sheffield Housing Company (SHC) is a unique partnership set up in 2011 between SCC, Keepmoat Homes and Great Places. Its purpose was to develop housing for open market sale as well as affordable homes in areas where there had been very little or no private sector interest.
- 1.2 The nature of the partnership allows investment by the partners in the SHC by way of land and matching development funding being converted to loan notes that are repaid from income from sales and with a view that the shareholders will benefit from profits of the SHC.
- 1.3 To ensure the continuing value for money of the partnership a review of the SHC delivery programme, house types, specifications and standards (Product Manual) was completed by SCC at the end of June 2017. That review recognised that some good work has taken place and SCC is currently looking at the implementation of recommendations from that review.
- 1.4 In order to sustain the programme, ensure that value for money is achieved for the Council and to progress the last two phases in advance of house sales providing cash flow to the company SHC will require funding for pre-development surveys and fees. It needs to incur these pre-development costs prior to acquiring title in the land from SCC.
- 1.5 SHC has illustrated that it will have insufficient cash balances to cover the pre-development costs when required and its business plan is based on these costs being covered by loans. However, SHC will have difficulty in obtaining finance without land assets to provide as security for a loan. If the company cannot secure pre-development loan finance further house building will not commence. Therefore SHC is seeking support from SCC as a shareholder.
- 1.6 Proposed pre-development costs are summarised below:

	Surveys	Fees & Overheads	Total
Phase 4	£983,490	£401,510	£1,385,000
Phase 5	£1,218,490	£461,510	£1,680,000
Total	£2,201,980	£863,020	£3,065,000

- 1.7 Under the terms of the current agreements between the Council, SHC, Keepmoat Limited, Great Places Housing Group Limited and KGP (SHC) Limited, Keepmoat provides funding at land draw down to match the value of the land invested by SCC and has a further obligation to use reasonable endeavours to arrange sufficient capital on behalf of the SHC to enable SHC to develop sites, to the extent SHC does not otherwise have funds available, including through the land match investment. Keepmoat will be providing funding for the development costs for Phases 4 and 5. However, they have advised SHC and the Council that they are unable to provide financing to SHC to cover the pre-development costs..

- 1.8 It is therefore proposed that a loan of **up to** £3.065m, (up to £1.385m for Phase 4 and up to £1.680m for Phase 5), is provided to SHC to facilitate development of approximately 851 homes: 322 homes in the Norfolk Park, North and North East areas of Sheffield and 529 homes in the Manor, Norfolk Park and Parsons Cross areas. These are the last phases in the SHC Programme.
- 1.9 It is proposed that the loans be issued in staged payments (following validation of agreed apportionment of costs and expenditure spend profile) when the following project milestones are met:

Phase 4

Phase 4 Business Case submitted by SHC and approved by SCC	End of November 2017
SHC secure Planning Consent Phase 4	End of February 2018
Funding Agreement for Phase 4	Beginning of March 2018

Phase 5

Phase 5 Business Case submitted by SHC and approved by SCC	End of January 2018
SHC secure Planning Consent	End of November 2018
Funding Agreement for Phase 5	From end of January 2019

- 1.10 In order to meet its obligations as landowner under the Development Agreement with SHC and the Partnering Agreement. SCC requires resources that currently comprise the SCC internal client team. As the programme moves into Phases 4 and 5 a level of resources will still be required and this report also seeks in principle approval for New Homes Bonus funding to continue to fund the internal client team subject to a revised Phase 4 and 5 Business Case and annual review of the project.
- 1.11 The Cabinet Members for Planning and Development, and for Finance, have been consulted on the principle of the proposal and the benefits to the SHC programme have been outlined. Cabinet members have also been informed of the outcome of the Council's 2017 review of the SHC, its delivery and programme.
- 1.12 Final costs of the pre-development loan may reduce as the implementation of the review recommendations are applied to Phases 4 and 5.

**2. HOW DOES THIS DECISION CONTRIBUTE?**

- 2.1 This proposal will contribute to the following ambitions of the Council's Corporate Plan:

**2.1.1 Better Health and Wellbeing**

To promote good health, prevent and tackle ill-health the SHC programme,

will plan and deliver accessible and energy efficient housing.

### 2.1.2 **Tackling Inequalities**

Focusing on people and areas in the greatest need the SHC programme will diversify the housing offer in the cities 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.

### 2.1.3 **Thriving Neighbourhoods and Communities**

To create a successful Sheffield, the SHC will plan, promote and build homes where economic growth and sustainable infrastructure are planned, to retain existing residents and to attract new households into the city will increase the number of family homes built to increase the Council tax base of the City, to attract New Homes Bonus and Community Infrastructure Levy.

## **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

A separate EIA has been produced.

- 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.

### 4.2 Financial and Commercial Implications

- 4.2.1 The pre-development loan will pay for expenditure incurred against the following projects in phase 4: Norfolk Park, Clay Wood, Deerlands , Falstaff G – L and Lytton, and against projects in phase 5 at Corker Bottoms, Daresbury, Manor, Norfolk, Parsons Cross.

- 4.2.2 Expenditure proposed is detailed in the Table below.

## Phases 4 and 5 Pre Development Loan

Phase 4 Eligible Expenditure	£
Topographical Surveys Site Investigations Utilities and Drainage Mapping Environmental Surveys Development Reports for Planning Applications Engineering, Structural, Architectural, landscape, House Type and Mechanical Engineering Drawing Planning and Legal Fees	983,490
Legal Fees	100,000
Sheffield Housing Company Overheads	251,510
Sheffield Housing Company QS Cost Consultant Fees	50,000
<b>Total</b>	<b>1,385,000</b>

Phase 5 Eligible Expenditure	£
Topographical Surveys Site Investigations Utilities and Drainage Mapping Environmental Surveys Development Reports for Planning Applications Engineering, Structural, Architectural, landscape, House Type and Mechanical Engineering Drawing Planning and Legal Fees	1,218,490
Legal Fees	135,000
Sheffield Housing Company Overheads	251,510
Sheffield Housing Company QS Cost Consultant Fees	75,000
<b>Total</b>	<b>1,680,000</b>

### 4.2.3 Loan payment profile:

1. Up to £0.626m on the signing of the Funding Agreement in order to produce the Phase 4 Business Case (end of October 2017); and,
2. Up to £0.759m will be available on the Council approval of the Phase 4 Business Case and evidence that SHC has entered a conditional funding agreement for the development finance to deliver the Phase



(November 2018).

3. For Phase 5 up to £0.756m in January 2018 to produce the Business Case; and up to £0.924m on the terms in point 2 above (from January 2019).

4.2.4 The loan is provided at a market interest rate (to be agreed) to ensure compliance with EU State Aid law. The proposed loan re-payment profile will be set out in the funding agreement. The loan will be repayable when SHC are in funds to do so but must be paid in full not later than 5 years after the loan was initially drawn down.

4.2.5 For each phase there is a requirement to secure development finance of £2m for Phase 4 and £3m for Phase 5. The order of charges for the loans, are to be agreed but it is unlikely that the SCC Loan will be a first charge in order to provide headroom for the development funders to secure their development finance loans. This will put the Council at risk if SHC were to default.

4.2.6 One of the conditions precedent of providing the pre development funding will be the receipt of a letter of commitment from Keepmoat/Great Places to provide work-in-progress funding for Phase 4 and 5 should third party funding within programme delivery timings not be secured.

4.2.7 With respect to the Client Team costs, the Council originally entered into the partnership on the basis that 'temporary' resources would be provided to provide capacity for delivery, whilst SHC generated income to fund its own team. At SCC's current level of investment the SCC Client Team, (Housing Growth Delivery Team), will cost up to £0.6m for the period 2017-2020 and it is proposed that these actual projects costs will be included in the SHC Business Plan. This has yet to be agreed with SHC. Once the SHC review recommendations are fully implemented it is possible that these costs may reduce.

4.2.8 It is proposed that the loan and the client team costs are funded from New Homes Bonus.

#### 4.3 Legal Implications

4.3.1 The loan agreements and terms of the agreements are yet to be finalised. However, as with any loan agreement there will be various terms and conditions including some conditions precedent detail below, which have already been agreed to by SHC. The conditions of the loan and the repayment provisions will need to protect interests of the Council.

4.3.2 At present if the proposal that the Council will not be allowed the first charge over the loan stands, then this will be a greater financial risk to the Council such that it may not be able to recover the loan if SHC became insolvent. The loan will be given on a market rate of interest in order to comply with State Aid Rules and EU Regulations.

4.3.3 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.

- 4.3.4 The Council has entered into agreements with SHC and other Partners of SHC, such as the Development Agreement and the Partnership Agreement. In respect of the loan terms, to be determined, the Council will also require evidence that all of the conditions under the Development Agreement that ought to have been satisfied or waived have been met for both Phase 4 and 5 of the development.
- 4.3.5 The Development Agreement may need to be varied to reflect the grant of the loans, as will other related documents such as the Inter-creditor Deed.
- 4.3.6 The Director of Housing and Neighbourhoods issued a letter on the 26<sup>th</sup> June 2017 to SHC outlining some proposed conditions precedent and terms of the loan for Phase 4. Some of which are to be met prior to completion of any loan agreement being entered into, some of the conditions are highlighted below:
1. Keepmoat Great Places to demonstrate that it has complied with clause 6.5 of the Partnering Agreement: 'The Partner shall use reasonable endeavours to arrange on behalf of the SHC sufficient working capital to enable the SHC to carry out New Projects/Phases, to the extent it does not otherwise have funds available;
  2. The review of the SHC house types, specifications and standards (Product Manual) was to be completed by the end of June 2017. This has been completed and the agreed changes are now incorporated into the briefs and relevant partnership contract documents, as required by the Development Agreement that the Council has with SHC. SHC is to ensure that pre-development work does not progress beyond a point where these changes cannot be accommodated, and that no abortive costs are incurred;
  3. There is a condition to ensure that SHC will obtain a commitment of funding from the other Partners for further working capital of approximately £2 million by approximately March 2018.
  4. The Council is to have full intellectual property (IP) of pre-development works while the land remains in the Council's ownership. On land drawdown, the IP passes to SHC, the loan becomes a debt payable to the Council and the loan is secured against the land;
  5. The loan will be provided at a market interest rate (to be agreed) to ensure EU State Aid compliance; and,
  6. SHC is to pay all reasonable costs incurred by the Council associated with the loan agreement and its implementation including but not limited to legal fees, finance costs or other administrative charges.

SHC to pay for costs out of SHC overheads.

#### 4.4 Other Implications

4.4.1 There are no other implications

### **5. ALTERNATIVE OPTIONS CONSIDERED**

The following options were considered in the course of developing the recommendations;

- 5.1 Decline the request for the Phases 4 and 5 Loan. The continuity of the programme will be lost 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 To sustain the programme the SHC could ask the Homes and Community Agency (HCA) to increase its equity which may require surrendering part of the equity as a return for HCA. This would require new loan agreements and the HCA 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 The Council provides consent to SHC that they can cash flow the pre-development costs from the Phase 1 receipt. This would require the Council to defer the payment of land receipts from Phase 1 and leave those repayments at risk.

### **6. REASONS FOR RECOMMENDATIONS**

- 6.1 Providing a loan for pre-development costs for Phases 4 and 5 ensures that the Phase 4 and 5 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 development profits.

