

Report to: **Council**
Date: **30 April 2020**
Title: **Loan and release of capital housing grant to support Community Housing Projects**
Portfolio Area: **Leader of the Council – Cllr Pearce**
Wards Affected: **Charterlands and South Brent**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **Current**

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Recommendations:

That Council RESOLVES to approve:

1. A secured loan to South Brent Community Land Trust of up to £360,000 as part of the overall capital project budget for Community Housing.
2. To approve the allocation £100,000 from the Affordable Housing Capital Programme Budget towards delivering St Ann's Chapel Community Housing Scheme

1 Executive summary

- 1.1 This Report sets out the following proposals:
- 1.2 To lend South Brent Community Land Trust (SBCLT) between £320,000 - £360,000 representing 20% of the construction cost of 12 affordable custom-build houses. This is required to meet SBCLT's equity contribution as the lender to the scheme cannot exceed an 80% loan to value percentage and SBCLT as a community group has insufficient funding available. The loan will be secured against the land plots being transferred to SBCLT and repaid upon completion of the houses. The loan will be made available for up to 2 years and will be funded as part of the overall capital project budget for Community Housing
- 1.3 To provide £100,000 grant funding, from the Affordable Housing Capital Programme Budget, to support the development of the St Ann's Chapel Community Housing Scheme delivering 8 affordable units, in line with prior delegated authority to approve expenditure of up to £8.5m to fund constructing the first four community housing projects from a combination of internal funds and external borrowing.

2 Background and Proposal

- 1.1 The Community Housing Strategy was put in place to support the development of homes accessible to those with local connections for whom the cost of market housing (to purchase and rent) is beyond their reach.
- 1.2 On 21st March 2019, the Council approved:
 - *Community housing development expenditure of up to £8.5m to build out four community housing schemes delivering 55 residential units as set out in this report*
 - *To approve funding of up to £8.5m to build the schemes from a combination of internal borrowing and external borrowing (from the Public Works Loan Board)*
- 1.3 Design and planning work has been met through a Government grant of £1.88m paid to SHDC in 2017 to facilitate the delivery of community housing schemes across the district. Design, planning and project supervision costs amounting to £250,000 will be reimbursed following completion of a development to enable the further projects to be funded
- 1.4 Planning consent has been granted for the first two of these schemes:

- 1.4.1 St Ann's Chapel Community Housing Scheme (13 houses), which will deliver 8 affordable units (a combination of rented and affordable housing for sale at between 55% - 65% market value), 3 open market units for sale and the transfer of 2 plots to the landowner.
- 1.4.2 South Brent Community Land Trust Community Housing Scheme (17 units), within Dartmoor National Park, comprising 12 affordable shared equity units to be built by SBCLT and 5 open market units.
- 1.5 Both schemes meet identified housing need (through housing needs assessments).
- 1.6 Planning consent for the South Brent scheme requires that the affordable units are built as custom / self-build units and as such it is necessary for ultimate owners of the houses (through SBCLT acting on their behalf) to have had sufficient input in to the design of the scheme and for their construction to be contracted between SBCLT and the build contractor. This will be achieved through the following structure. The same building contractor will enter into two separate contracts, the first with SHDC to build the infrastructure and 5 open market units (required to cross subsidise the affordable units) and the second with SBCLT to fund the shared equity affordable units. The entire programme will be overseen by Arcadis (external consultants) to mitigate risk.
- 1.7 SBCLT have agreed funding arrangements for the 12 affordable units with Ecology Building Society (specialist lenders to community and self-build housing schemes) whereby the construction costs will be met through a short term fixed-term loan. However, SBCLT cannot exceed an 80% loan to value percentage and as SBCLT as a community group has insufficient funds to meet this funding gap (£320,000-£360,000) an alternative funding source is required.
- 1.8 It is proposed that SHDC lend SBCLT between £320,000 - £360,000 representing 20% of the construction cost meeting SBCLT's equity contribution. The loan will be secured against the land plots of the 12 CLT affordable units and repaid upon completion of the houses. The security arrangements would enable SHDC to take on the construction of the affordable units in the event SBCLT gets into difficulty
- 1.9 Once the units are built, Ecology Building Society will provide mortgages to shared ownership purchasers
- 1.10 SHDC has been through an extensive tender process inviting build contractors to bid for both construction projects. The outcome of this process has been that construction costs have

risen in recent months, which has presented a funding challenge to these two schemes. South Brent Community Housing Scheme has benefited from an infrastructure grant from Homes England (£400,000) to enable this project to proceed.

1.11 The St Ann’s Chapel project has been successful in applying for the allocation of S106 moneys to support the development of the project amounting to £162,893. In spite of this support there is still a funding gap of £100,000. In aggregate this funding represents financial support of £32,875 per affordable unit. The commitment of £100,000 from the Affordable Housing Capital Budget would leave an uncommitted balance of around £565,000

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>Providing the loan to SBCLT will be subject to legal advice on the powers to lend monies and associated due diligence. A loan agreement with SBCLT covering the terms of the loan and securitisation is to be completed (a loan agreement has been drafted).</p> <p>An agreement detailing the terms of the grant to the St Ann’s Chapel scheme is to be completed</p> <p>Any loan to a third party requires the approval from Full Council</p>
Financial	Y	<p>To lend South Brent Community Land Trust (SBCLT) between £320,000 - £360,000 representing 20% of the construction cost of 12 affordable custom-build houses. This is required to meet SBCLT’s equity contribution as the lender to the scheme cannot exceed an 80% loan to value percentage and SBCLT as a community group has insufficient funding available. The loan will be secured against the land plots being transferred to SBCLT and repaid upon completion of the houses. The loan will be made available for up to 2 years and will be funded from the overall capital project budget for Community Housing.</p>

		To provide £100,000 grant funding, from the Affordable Housing Capital Programme Budget to support the development of the St Ann's Chapel Community Housing Scheme delivering 8 affordable units, in line with prior delegated authority to approve expenditure of up to £8.5m to fund constructing the first four community housing projects from a combination of internal funds and external borrowing
Risk	Y	<ul style="list-style-type: none"> ▪ SBCLT are unable to meet their obligations to repay the loan. This is mitigated through the lending being secured on SBCLT's interest in the 12 land plots and development effectively providing the Council with "step in rights" ▪ Construction cost escalation mitigated through fixed price build contract and professional project management via Arcadis ▪ Adverse impact on cost of finance mitigated through locking down finance rate upon placing build contracts ▪ Corvid 19 delay – factored into contract and financial appraisal
Comprehensive Impact Assessment Implications		
Equality and Diversity	Y	Projects need to address accessibility issues to ensure access to all wherever reasonable and practicable.
Safeguarding	N	There are no safeguarding implications.
Community Safety, Crime and Disorder	N	There are no community safety, or Crime and Disorder implications as a result of these recommendations.
Health, Safety and Wellbeing	Y	Increasing the provision of affordable housing is closely linked with improved health and wellbeing.
Other implications	N	

Supporting Information

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A