

Report to: **Executive**
Date: **28th January 2021**
Title: **South Brent Community Housing**
Portfolio Area: **Leader of the Council – Cllr Pearce**
Wards Affected: **South Brent**

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

Date next steps can be taken:

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Recommendations:

That the Executive approves:

- 1) The modification of the term of a previously approved, secured loan to South Brent Community Land Trust of up to £360,000 from 2 years to 7 years.

1 Executive summary

- 1.1 This Report sets out the following proposals:
- 1.2 To lend South Brent Community Land Trust (SBCLT) [up to] £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.
 - To enable the lender to SBCLT (Ecology Building Society), to meet their lending requirements
 - The loan will be secured against the land plots being transferred to SBCLT and be made available for up to 7 years and will be funded as part of the overall capital project budget for Community Housing
- 1.3 This is an amendment to the previously approved decision by the Executive to offer the loan to South Brent CLT, extending the loan term from 2 years to 7 years.
- 1.4 This change is required to meet the building societies conservative approach to Loan to Value ratios and the need to keep them at 80% post construction for 5 further years, for the mortgages it is providing to the CLT.

2 Background

- 2.1 On 30th April 2020 the Council approved:
 - *Providing a secured loan to South Brent Community Land Trust (SBCLT) for up to £360,000, representing 20% of the construction cost of 12 affordable custom-build houses. This was required to meet SBCLT's equity contribution as the lender to the scheme (Ecology Building Society) cannot exceed an 80% loan to value percentage and SBCLT has insufficient funding available to cover the 20% balance*
 - *The loan to be secured against the land plots being transferred to SBCLT and repaid upon completion of the houses.*
 - *The loan to be made available for up to 2 years and funded as part of the overall capital project budget for Community Housing*
 - *The loan to enable construction works to be contracted for the two components of the scheme (a) SHDC funded comprising infrastructure & 5 open market units and (b) SBCLT funded comprising 12 affordable units. The entire*

project to be overseen by Arcadis (project management / engineering consultants)

2.2 Further to the above, on 24th September 2020 the Council approved:

- *Signing of construction contracts (JCT) to complete the St Anns Chapel and South Brent Developments*
- *Community housing development expenditure of up to £5.9m to build out the first two community housing schemes (St Ann's Chapel (13 units) and South Brent (17 units), as set out in this report*

In the report to members, it was noted that proceeding with the South Brent project was dependent upon:

- a) The proposed lenders to SBCLT (Ecology Building Society) completing financial due diligence on prospective occupants of shared ownership property within SBCLT and
- b) SBCLT concluding a Shared Ownership Affordable Housing (SOAHP) grant application with Homes England.

- 2.3 Since September 2020, the Community Housing team have progressed Homes England SOAHP grant funding for SBCLT amounting to £520,000, which is due to be signed off in January 2021. This is in addition to a Homes England Infrastructure Grant award of £400,000.
- 2.4 Lenders (Ecology Building Society) have progressed their financial due diligence on SBCLT. There are three parts to the funding arrangements; a) construction finance b) the rental portion of shared ownership and c) mortgages being providing to shared ownership property purchasers.
- 2.5 Ecology Building Society have advised that SBCLT are insufficiently financed to fund the rental portion of the shared ownership affordable units. However, they have agreed that if SHDC extend the term of a secured loan to South Brent Community Land Trust to 7 years, this will meet their lending criteria.

3 Proposal and Consideration of risk

- 3.1 The loan from the Council to the CLT is a fundamental requirement for the scheme, as without it, the CLT cannot access the majority (80%) of the funding it needs to construct the custom build properties.
- 3.2 It was for this reason that the Council previously approved the 20% loan. Extending the term of the loan by 5 years will allow facilitate the project moving forward, however it is not without risk.
- 3.3 The loan will be secured through a second charge against the properties (the first charge being held by the building society). Should the CLT default on a particular property then a mechanism would be in place to force a sale of the property to recover the money owed, once the building society's debts were cleared.
- 3.4 Whilst there is little risk that the value of the property wouldn't cover both the outstanding debt to the building society and the Council, forcing a sale of the property is not an action the Council would do unless it was absolutely necessary and should be considered as a last resort. A payment plan or alternative arrangements with the CLT may be more appropriate.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	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).
Financial	Y	<p>To lend South Brent Community Land Trust (SBCLT) £360,000 representing 20% of the construction cost of 12 affordable custom-build houses. This is required to meet a) 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 and b) support borrowing required by SBCLT to fund the rental portion of shared ownership finance.</p> <p>The loan will be secured against the land plots being transferred to SBCLT. The loan will be made available for up to 7 years and will be funded from internal borrowing.</p>
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	

