

Report of Director of Resources & Housing

Report to Executive Board

Date: Wednesday 7th February 2018

Subject: Investment into new supply affordable and supported housing

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): All	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 10.4 (3) Appendix number: Appendix 2	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

1. There is a requirement to ensure that housing growth is delivered to meet the needs of all communities across the city. To support this, the provision of new supply housing is a priority for Leeds and has been outlined within the Best Council Plan.
2. To facilitate the delivery of new supported housing opportunities, St George's Crypt and Latch (Leeds Action to Create Homes) have each set out proposals to acquire and refurbish existing properties and build new units for the benefit of vulnerable people in Leeds. The organisations have come together to ask the Council to provide loan funding of £3.03m towards the development and acquisitions costs for the new properties. The provision of loan funding by the Council is a new and innovative source of investment through which to develop new supply affordable, supported homes.
3. The provision of new, much needed affordable, supported living accommodation characterises the Best Council Plan headline of tackling poverty and reducing inequalities and the Leeds ambition for a Strong Economy and Compassionate City.

Recommendations

4. The Executive Board is requested to:

- i. Support the proposals outlined within the report and Confidential Appendix 2 for the Council to provide total loan funding of £3.03m split as follows- loan funding of £2.354m to St George's Crypt and £0.676m to LATCH;
- ii. Agree for the Council to enter into legal agreements with St George's Crypt and LATCH for the provision of new supply affordable housing;
- iii. Delegate the approval of the detailed terms and conditions to the Director of Resources & Housing in conjunction with the Council's Chief Finance Officer and the Council's Chief Legal Officer

1 Purpose of this report

- 1.1 The purpose of this report is to outline an innovative, collaborative approach between the Council, St George's Crypt and LATCH (Leeds Action to Create Homes) to seek loan funding of £3.03m from the Council for the provision and development of new supply affordable, supported housing.

2 Background information

- 2.1 In Autumn 2017, St George's Crypt and LATCH approached the Council with a proposal to explore the opportunity to access loan funding to support the acquisition and development of 45 new affordable, supported living units. This would be the first time in which the Council will have acted in a capacity as a lender to provide loan funding to support new supply affordable, supported housing to be developed in the city.
- 2.2 Housing related support services are integral to the Council's aims to help support vulnerable individuals and families maintain their accommodation and to help those at risk of and threatened by homelessness to access suitable accommodation.
- 2.3 The Adults and Health Commissioning Team have worked with both St George's Crypt and LATCH as key partners in the delivery of these priorities. Both organisations have long, successful track records in collaborating with the Council to provide housing related support to some of the city's most vulnerable adults, young people and families.
- 2.4 St George's Crypt is the Council's main provider of emergency accommodation in the City and works in partnership with key stakeholders to prevent or alleviate homelessness.
- 2.5 Leeds Action to Create Homes Ltd (LATCH) is a long established third sector organisation which brings empty homes into use and provides tenants with training and volunteering opportunities in construction skills. Since 2003, their Supported Accommodation service has received funding for Housing Related Support delivered to approximately 65 tenants through Environment and Housing and later the Adults and Health Directorate.
- 2.6 The primary focus of the provision of the new housing to be delivered by St George's and LATCH is to support people who are homeless or are in housing need. The delivery of such housing is much needed and will directly support the housing vision outlined within the Leeds Housing Strategy 2016-21. The Council wants to work with partners to provide access to suitable housing and effective housing interventions in order to improve the health and wellbeing of residents. It is a priority for Leeds City Council to ensure that residents are able to live independently in homes where they feel safe and supported.
- 2.7 LATCH are currently in the process of delivering a programme of property acquisitions and refurbishments which is currently funded through the Right to Buy Replacement Programme. The work of LATCH to bring back into use a number of long term empty properties has been an integral part of the Council's

empty homes agenda, which has a target of bringing back into use 400 empty properties per year.

- 2.8 St George's focus for many years has been working with the homeless, the vulnerable and those suffering from addiction. This has been primarily through supporting people who are living in the streets into finding accommodation and to help people gain skills and confidence so that they can take an active role in their futures.
- 2.9 Detailed business plans have been submitted by both organisations and have been reviewed as part of a comprehensive due diligence and risk profiling process. The applications for funding from the Council provide information on organisational performance, financial profiling and year-end accounts to assess the ability to repay the loan funding and the security arrangements for the Council to recover any debts if the organisations failed to make repayments as outlined within the loan agreements.
- 2.10 The request for provision of loans to support the delivery of new supply affordable, supported accommodation is the first such request which the Council has received. It is intended that the work to assess the St George's and LATCH proposals will provide the framework to review submissions from other organisations for similar purposes but funding requests and organisational risk profiles will be assessed on a case by case basis.
- 2.11 The provision of loan funding by the Council creates a number of benefits, such as preferential interest rates compared to other lenders in the market as a result of the strength of the council's borrowing ability, allowing organisations to maximise their resources for future investment in new provision. The loan acts as an enabler for Third Sector housing providers to continue to grow but on the basis of robust business cases which have been independently assessed.

3 Main issues

- 3.1 LATCH and St George's have submitted proposals to support the provision of new supply affordable, supported accommodation for people who are homeless and those who are in housing need. The gross value of these proposals is £5.856m of which £3.03m is sought as loans from the Council. In addition, the Council is also utilising £1.682m of Right to Buy Replacement Programme funding towards the scheme costs. The remaining requirement is being funded by LATCH and St George's. The sections below outline the schemes that are to be delivered, with financial detail contained in Confidential Appendix 2.
- 3.2 The Council has undertaken financial due diligence on the proposals and the financial standing of each organisation. The review has considered the financial performance over the past five years, obtained a credit rating, reviewed business plans and also reviewed the financial proposals that support the developments. Whilst no proposal is without risk the Council has sought to mitigate the risk of default by ensuring that appropriate security is in place. The review has concluded that both organisations are able to meet the debt repayments over the life of the loan. The detail of the financial due diligence and security is contained within the attached confidential appendix.

- 3.3 If there was a default the Council, with the security in place, would assume control of the properties and look to continue the provision of affordable, and supported housing.
- 3.4 The total request for loan funding is £3.03m. St George's Crypt have requested of £2.354m loan funding, and LATCH have requested £676,000 loan funding. The detailed terms and conditions are in the process of being negotiated but from initial assessments, an indicative interest rate of 3.75% has been calculated, which would be over a loan period of 25 years. This would translate to annual payments of £146.5k per year for the Crypt and £42.1k for LATCH.
- 3.5 In entering into the agreed arrangements, the Council is required to comply with both its fiduciary duties and the European Commission's rules as to the provision of State aid. The provision of the loans does not need to comply with state aid legislation because both organisations would not affect trade between member states and funding the provision of social housing is generally accepted to be funding a service of general economic interest (SGEI). A SGEI is a service which is of importance to the public, and which could not be provided without public subsidy.
- 3.6 A quantity surveyor, as part of the Right to Buy Replacement Programme's due diligence checks, has reviewed and verified the build and refurbishment costs submitted as part of the loan request and found them to be sound.
- 3.7 **LATCH: New Build, Acquisition and Refurbishment Scheme**
- 3.7.1 LATCH has a proven track record of successfully renovating long term empty properties mainly in Harehills, Chapeltown and Burley and currently manage a portfolio of units ranging from 1 bedroom apartments to 3 bedroom family homes.
- 3.7.2 The Council has previously supported LATCH in securing grant funding from the HCA's Empty Homes Programme, which has resulted in a number of vacant properties being acquired, renovated and brought back into residential use, which has directly contributed towards achieving a number of targets outlined within the Council's Empty Property Strategy.
- 3.7.3 In January 2016, funding from the Right to Buy Replacement Programme was approved to enable the acquisition and refurbishment of 16 empty properties to create a range of new supply affordable apartments and family homes. To date, LATCH have been performing well and achieving all the milestones set out within their funding agreement for this project.
- 3.7.4 A proposal has been submitted to the Council to access loan funding to build or acquire and refurbish eight empty properties to provide affordable homes for people who are homeless or in housing need.
- 3.7.5 The project will create 4 x two bedroom family homes and 4 x one bed properties for single homeless people, with the tenants being provided with housing related

support to ensure the tenancies are successful and that people move to independent living.

- 3.7.6 The properties will be let as supported housing at Affordable Rent levels and the Council will receive Nomination rights for the units.

3.8 St George's Crypt: New Build Programme

- 3.8.1 St George's Crypt have an ambition to develop 150 units of new supply supported and affordable housing over the coming years. Over the last 18 months, St George's have developed proposals for the delivery of two new build schemes, both of which have received planning consent, and are now seeking loan funds from the Council to facilitate delivery.

Regent Terrace

- 3.8.2 St George's Crypt currently manage a hostel at a site they own on Regent Terrace, Hyde Park. Proposals have been developed to demolish the existing building and re-build a 14 unit apartment development. The new development will provide move-on accommodation for St George's clients.
- 3.8.3 Alongside this, St George's Crypt have been successful in being awarded a contract through Leeds Commissioning for provision of support services to tenants with a background of significant alcohol addiction.
- 3.8.4 Funding from the Right to Buy Replacement Programme towards 30% of the development costs of the scheme was approved by the Council's Executive Board in April 2017, with the Council receiving nomination rights on all of the properties.

Hedley Chase

- 3.8.5 A planning application has recently been approved for the construction of a 23 unit apartment development, comprising of 12 two bed and 11 one bed self-contained apartments. The development will also include communal facilities and a workshop where St George's intend to hold a range of training and support sessions for tenants.
- 3.8.6 Funding from the Right to Buy Replacement Programme towards 30% of the development costs of the scheme was approved by the Council's Executive Board in April 2017, with the Council receiving nomination rights on all of the properties.
- 3.9 Planning permission has been granted for both the St George's schemes to provide new supply affordable, supported apartments In October 2017.
- 3.10 It is anticipated that the role of the Council in this project would be to provide loans to these organisations, act as a partner or advisor on the projects, and establish a holistic tie in with the Council's aims around housing and social benefits generated through the provision of the new supply accommodation.
- 3.11 LATCH and St George's Crypt are both members of the Leeds Affordable Housing Framework (LAHF) which providers of social housing are invited to join subject to meeting a specific set of eligibility criteria including:

- The organisations financial robustness;
- Commitment to the City's Housing Investment Priorities;
- Confirmation that the organisations housing management and lettings Strategy are to the Council's satisfaction;
- Confirmation that the organisation will sign up to the Council Nomination Agreement.

3.12 Through their application submission to the Leeds Affordable Housing Framework, it has highlighted their ability to effectively deliver and manage affordable and supported housing to a high standard.

3.13 Boards of both St George's Crypt and LATCH have endorsed resolutions to enter into loan agreements with the Council, subject to negotiations around the specific terms and conditions, details of which are currently being worked through by both finance and legal representatives of the Council and the organisations.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 For schemes that are to be delivered in specific localities, Ward Member consultation has taken place as part of the planning process and Councillors have indicated their support towards the developments.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 The Equality and Diversity, Cohesion and Integration screening document has been completed to ensure due regard to equality issues. This is attached for reference at Appendix 1.

4.2.2 The recommendations in this report have a number of positive equality outcomes. The primary focus is to provide additional affordable, supported housing which will have a beneficial impact for socio-economic equality groups.

4.3 Council policies and Best Council Plan

4.3.1 The delivery of new supply supported housing in Leeds underpins the Council ambition for Leeds of a Strong Economy and a Compassionate City.

4.3.2 The proposals outlined within the report supports the delivery of the 2017/18 Best Council Plan priority of Transport & Infrastructure – Connecting people and place, improving air quality, meeting housing needs.

4.3.3 Alongside this, the delivery of new supply housing contributes towards the Best Council Plan outcome of living in good quality, affordable homes within clean and well cared for places.

4.3.4 Delivery of new supply housing is an integral part of the Housing Growth and High Standards in all Sectors breakthrough project.

4.3.5 The proposed developments increases the number of new homes built which helps the council achieve its Core Strategy targets.

- 4.3.6 Furthermore, the work of St George's and LATCH directly contributes towards the Leeds Housing Strategy housing visions of:
- Affordable Housing Growth;
 - Improving Housing Quality;
 - Promoting independent living;
 - Improving health through housing.

4.4 Resources and value for money

- 4.4.1 The resource implications of the agreed arrangements are set out in body of the report and the exempt appendix to this report.
- 4.4.2 The utilisation of loan funding will ultimately enable both St George's and LATCH stretch their resources further by paying reduced interest rates on the loans allocated through this route. Additional financial benefits to the organisations include financial stability, if interest rates are set and not varied, and lower set up costs than in the private sector financing options.
- 4.4.3 Right to Buy Replacement funding will be used by both organisations as part of the funding package for the schemes to be delivered, further augmenting available financial resources.
- 4.4.4 Furthermore New Homes Bonus payments will be generated through the construction of the new housing which the investment of any loan funding would be supporting. Alongside this, additional Council Tax payments will be received by the Council.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The loans will be given at fixed interest rate that is below the market rate. The amount of interest foregone is a public subsidy, and could potentially be state aid. Arguably, the proposed loans would not be state aid as they would not be capable of affecting trade between member states, as both organisations operate and provide specialist, supported housing within a very local context. In the event that the subsidy deemed to fall with the state aid regime, funding for the provision of social housing is considered to be a Service of General Economic Interest (SGEI) provided that the recipient of the subsidy is placed under an obligation to provide the social housing and the subsidy is necessary to enable them to provide this function. These obligations will be set out in the loan and nomination agreements.
- 4.5.2 Section 24 of the Local Government Act 1988 empowers the Council to give a loan for the purposes of the acquisition, construction, conversion, or rehabilitation of property that is or is intended to be privately let as housing accommodation (subject to the requirement to obtain consent under Section 25 of that Act.)
- 4.5.3 Consent C of the General Consents under Section 25 of the Local Government Act 1988 (Local Authority Assistance for privately let housing) 2010 permits local authorities to provide any person with financial assistance for the purposes set out in Section 24.

4.5.4 The information contained in the Confidential Appendix 2 to this report relates to the financial or business affairs of a particular organisation and of the Council. This information is not publicly available from the statutory registers of information kept in respect of certain companies and charities. It is therefore considered that this element of the report should be treated as exempt under Access to Information Procedure Rule 10.4 (3).

4.5.5 This report is classed as a Key Decision and is subject to Call In.

4.6 Risk Management

4.6.1 It is considered that the recommendations in this report will have no significant risks to the Council. The organisations who have asked the Council for loan funding have submitted detailed business and financial plans which have undergone a comprehensive due diligence assessment for financial robustness and detailed risk profiling by Corporate Finance and found to be sound.

4.6.2 The organisations will be obliged to enter into a legal agreement with the Council before the loan funding is released. This will specifically stipulate the repayment terms and conditions of the loan funding as well as any agreed security arrangements and milestones which are required to be achieved as part of the allocation of the funding. Ultimately, if the organisations did not meet the defined and agreed milestones, the loan agreement gives the Council the opportunity to enforce the clawback of the funding provided against the security of the lending.

4.6.3 The main risk to the Authority would be one of the providers defaulting on their loan repayment. The Authority would mitigate this risk by securing the loan against existing assets which the organisation holds and request the Council has first charge on these assets as a pre-condition of the loan.

4.6.4 It is also to be noted, that Right to Buy Replacement funding will also be utilised alongside the loan funds. As Right to Buy grants have specific spend deadlines, this will ensure pace of delivery of the schemes.

5 Conclusions

5.1 The innovative approach which the Council is taking to act as a lender to housing providers scheme will assist in increasing the number of new Affordable Homes within the city as well as helping to meet a number of council priorities set out in 4.3 of this report.

5.2 Alongside this, the availability of loan funding supports affordable housing providers with maximising their resources.

6 Recommendations

6.1 The Executive Board is requested to:

- i. Support the proposals outlined within the report and Confidential Appendix 2 for the Council to provide total loan funding of £3.03m split as follows- loan funding of £2.354m to St George's Crypt and £0.676m to LATCH;
- ii. Agree for the Council to enter into legal agreements with St George's Crypt and LATCH for the provision of new supply affordable housing;

- iii. Delegate the approval of the detailed terms and conditions to the Director of Resources & Housing in conjunction with the Council's Chief Finance Officer and the Council's Chief Legal Officer.

7 Background documents¹
None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.