

Report to Director of Resources & Housing

Report of Head of Regeneration

Date: February 2019

Subject: St George's Crypt: Loan Agreement Terms – Hedley Chase

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): Armley	<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 type="checkbox"/> Yes	<input checked="" 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 1	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Summary of main issues

1. In February 2018, the Executive Board approved loan funding for the provision of new supply affordable housing to be delivered by St George's Crypt. An increase to the loan facility was subsequently approved in November 2018. Since the initial Executive Board approval, ongoing negotiations have taken place between the Council and St George's Crypt to finalise and agree the detailed Terms & Conditions of the loan agreement for the Hedley Chase development.
2. The Confidential Appendix attached to this report outlines the headline Terms & Conditions in relation to the agreement which legal representatives of the Council and St George's Crypt have discussed and are in agreement with.

Recommendations

3. The Director of Resources & Housing is requested to approve the Terms & Conditions of the loan agreement for the St George's Crypt scheme at Hedley Chase as outlined in Confidential Appendix 1.

1 Purpose of this report

- 1.1 The purpose of this report is to outline the negotiated Terms & Conditions of the loan agreement between Leeds City Council and St George's Crypt for the Affordable Housing development at Hedley Chase and for the Director Resources & Housing to approve the detail at Confidential Appendix 1.

2 Background information

- 2.1 In Autumn 2017, St George's Crypt approached the Council with a proposal to explore the opportunity to access loan funding to support the development of new affordable, supported living units. This was the first time in which the Council has acted in capacity as a lender to provide loan funding to support new supply affordable housing to be developed in the city.
- 2.2 The primary focus of the provision to be delivered by St George's Crypt 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.
- 2.3 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.
- 2.4 A detailed business plan was submitted by St George's Crypt and was been reviewed as part of a comprehensive due diligence and risk profiling process. The application for loan funding provides 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.
- 2.5 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 has been independently assessed.

3 Main issues

- 3.1 St George's Crypt has submitted proposals to support the provision of new supply affordable, supported accommodation for people who are homeless and those who are in housing need.
- 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 St George's Crypt is able to meet the debt repayments over the life of the loan.

St George's Crypt: New Build Programme

- 3.3 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.
- 3.4 The Hedley Chase site in New Wortley was acquired from the Council in summer 2018. St George's Crypt intend to build 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.
- 3.5 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.
- 3.6 Since Executive Board approval in February 2018, negotiations have been underway to agree the detailed Terms & Conditions of the loan agreement. Confidential Appendix 1 outlines the key details in relation to the loan agreement.
- 3.7 St George's Crypt is a member 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.
- 3.8 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.
- 3.9 The board of St George's Crypt endorsed a resolution to enter into loan agreements with the Council and have actively been involved in the negotiations of the Terms & Conditions outlined in Confidential Appendix 1.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The Executive Board in February 2018 approved the allocation of a loan to St George's Crypt for the provision of new supply affordable housing. As part of the

clearance process, both Executive Members and Ward Members received detailed consultation and were in full support of the proposal.

- 4.1.2 Throughout the negotiation process for the Terms & Conditions, officers from Legal, Corporate Finance and Housing Growth have actively been involved in these discussions to ensure that the proposal fits in line with policy and mitigates any potential risk for the Council.

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 2.

- 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 Affordable 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 2018/19 – 2020/21 Best Council Plan priority of Housing: Housing of the right quality, type, tenure and affordability in the right places.

- 4.3.3 The development of new supply Affordable Housing contributes towards the achievement of the housing targets for the city, as outlined within the Core Strategy. At present, the Affordable Housing target stands at 1,158 units per annum. As part of the Core Strategy Selective Review, it is proposed that the target will increase to 1,230 per annum.

- 4.3.5 Furthermore, the work of St George's Crypt 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 St George's Crypt stretch their resources further by paying reduced interest rates on the loan provided through this route. Additional financial benefits to the organisation includes 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 as part of the funding package for the scheme, 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 decision outlined in the report is categorised as a Significant Operational Decision, as a direct consequence of a previous Key Decision, and is therefore not subject to Call In.

4.5.2 The loan 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. As the organisation operates and provides specialist, supported housing within a very local context, the proposed loan would not be state aid as the subsidy would not be capable of affecting trade between member states, . 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.

4.5.3 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).

4.5.4 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.

4.5.5 The information contained in the Confidential Appendix 1 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).

4.6 Risk Management

4.6.1 It is considered that the recommendations in this report will have no significant risks to the Council. The St George's Crypt submitted a detailed business and financial plan which has 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 St George's Crypt 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 is St George's defaulting on their loan repayment. The Authority would mitigate this risk by securing the loan against existing assets which the organisation hold 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 Third Sector housing providers will assist in increasing the number of new Affordable Homes within the city as well as helping to meet a number of council priorities.

6 Recommendations

- 6.1 The Director of Resources & Housing is requested to approve the Terms & Conditions of the loan agreement for St George's Crypt Hedley Chase scheme as outlined in Confidential Appendix 1.

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.