

**Cabinet Report**

Report of: Simon Green

Report to: Cabinet

Date: 9th March 2016

Subject: Sheffield Housing Company Phase 2

Author of Report: John Clephan (07789944534)

Key Decision: Yes

Reason Key Decision: Expenditure/savings over £500,000

Summary:

Sheffield Housing Company (SHC) has built 261 homes to date and is nearing the end of Phase 1 – 293 homes on 3 sites in Parson Cross, Shirecliffe and Norfolk Park.

In December 2015 SHC commenced on the first site in Phase 2 – a 5 site Phase of 478 homes. Homes and Communities Agency has offered a development finance loan to SHC to commence the remaining 4 sites in the Phase. The loan will be secured on the Phase 2 land but it requires additional security from SHCs parent companies of which the Council is one. This report seeks authority to provide the Council's share of that security.

Reasons for Recommendations:

The Council providing security for the loan by way of an Option to HCA to purchase future SHC land for £1 is assessed as low risk and will enable the development of 478 quality new homes.

Recommendations:

To note the progress on housing delivery and neighbourhood regeneration through Sheffield Housing Company (SHC).

To approve the Council granting an Option to Purchase 2 identified sites within the future Sheffield Housing Company Land Package for £1 (see Appendix A). The ability to exercise the Option being granted only if the lender has unrecoverable debt on its development finance loan to SHC for Phase 2.

To delegate negotiation on the terms of the Option to Purchase to Director of Capital and Major Projects in consultation with Director of Finance.

Background Papers: N/A

Category of Report: OPEN, Part 2 CLOSED and not for publication because it contains exempt information under Paragraph (insert relevant paragraph number) of Schedule 12A of the Local Government Act 1972 (as amended).

* Delete as appropriate

Statutory and Council Policy Checklist

Financial Implications
YES Cleared by: Dave Phillips
Legal Implications
YES Cleared by: David Hollis
Equality of Opportunity Implications
NO Cleared by:
Tackling Health Inequalities Implications
NO Cleared by:
Human Rights Implications
NO Cleared by:
Environmental and Sustainability implications
NO Cleared by:
Economic Impact
NO Cleared by:
Community Safety Implications
NO Cleared by:
Human Resources Implications
NO Cleared by:
Property Implications
YES Cleared by: Dave Wood
Area(s) Affected
Manor, Fir Vale, Norfolk Park
Relevant Cabinet Portfolio Lead
Jayne Dunn/Ben Curran
Relevant Scrutiny Committee
Safer and Stronger Communities
Is the item a matter which is reserved for approval by the City Council?
NO
Press Release
NO

REPORT TO CABINET

SHEFFIELD HOUSING COMPANY PHASE 2

1.0 SUMMARY

- 1.1 Sheffield Housing Company was established by the Council in 2011 in partnership with Keepmoat Homes and Great Places Housing Group. It is to build over 2000 new homes, predominantly for private sale, on 60 hectares of Council brownfield land over the next 10 years.
- 1.2 Sheffield Housing Company (SHC) has built 261 homes to date and is nearing the end of Phase 1 – 293 homes on 3 sites in Parson Cross, Shirecliffe and Norfolk Park.
- 1.3 SHC commenced on the first site in Phase 2 – a 5 site Phase of 478 homes – in December 2015. It is seeking development finance from Homes and Communities Agency to commence the remaining 4 sites in the Phase. The loan from HCA requires security from SHCs parent companies of which the Council is one. This report seeks authority to provide the Council's share of that security.

2.0 WHAT DOES THIS MEAN FOR SHEFFIELD PEOPLE

- 2.1 Phase 1 has seen quality new homes built in areas of Sheffield where it is difficult to attract private developers. These new homes provide space, comfort and flexibility that give an opportunity for a good quality of life for not only current residents but many future generations of residents. Phase 2 will provide a further 478 homes expanding the positive impact that SHC housing is having across 5 neighbourhoods in total.
- 2.2 Not only does SHC provide quality homes but through its delivery of Phase 2 it has set a target to create 60 new jobs, support 55 apprenticeships and invest £17m into Sheffield City Region businesses.

3.0 OUTCOME AND SUSTAINABILITY

- 3.1 478 new family homes that provide a choice of spacious, quality housing that is affordable to buy across a number of neighbourhoods in the city.
- 3.2 The quality new homes, with the social and economic support that this brings, will continue to strengthen the specific neighbourhoods and create thriving and desirable places to live.

4.0 MAIN BODY OF THE REPORT

- 4.1 Sheffield Housing Company is an innovative private development company created through a partnership between Sheffield City Council, Keepmoat Homes and Great Places Housing Group.

4.2 Sheffield Housing Company (SHC) was established in 2011 as a long-term regeneration vehicle to address the threat of housing market failure in specific neighbourhoods and create thriving, desirable places to live in Sheffield. The neighbourhoods in which SHC operates are predominantly areas which have multiple social and economic issues that result in higher levels of deprivation and weaker housing markets. Through the delivery of new homes SHC acts as a catalyst for wider social and economic change. One of the company's aims is therefore to contribute to the economic, social, and environmental regeneration of these areas. It does this through; building desirable homes of quality, engaging local businesses and trades in its supply chain, developing links with local education and training providers, and supporting community development initiatives.

4.3 The Council has committed 60 hectares, 22 sites, of brownfield development land on which SHC will deliver over 2,000 new homes across Sheffield during the next 10 years. The majority of these two, three, four and five bedroom homes will be for outright sale. The homes are built to design standards that ensure flexibility and adaptability as both occupants and peoples lifestyles change in the years to come.

Phase 1

4.4 Quality new homes

SHC is now an established housing developer in Sheffield. It is delivering homes at pace and demonstrating its ability to build quality homes for sale in neighbourhoods that have historically failed to attract private sector interest. Over the past 2 years, 2013/14 and 2014/15, SHC has contributed in excess of 10% of all the new homes built in the city. Importantly, the homes that it develops are in one of the identified areas of housing need – family housing.

4.5 Phase 1 of the SHC development programme comprises 293 homes on sites in Parson Cross, Norfolk Park and Shirecliffe. The company started on site in 2012 and has built and sold 261 homes to date. The Phase 1 sites at Parson Cross and Shirecliffe are complete and the remaining site at Norfolk Park will complete in August 2016.

4.6 Economic and social benefits

In addition to building new homes SHC has performance targets to meet that demonstrate its contribution to economic and social regeneration. Phase 1 has resulted in the creation of 27 Jobs, supported 31 apprenticeships and it has resulted in £6.2m going into the local economy through the letting of contracts with SMEs from within the Sheffield City Region.

Phase 2

4.7 Progress to date

Phase 2 comprises 5 sites in Parson Cross, Norfolk Park, Manor and Fir Vale and will deliver a further 478 homes. 4 of the sites have planning approval with the 5th site due to go to Planning Committee in March 2016.

4.8 In addition to the 478 new homes, the Phase is projected to support the creation of a further 60 jobs, support 55 more apprentices and result in £17m going to SMEs in the Sheffield City Region.

4.9 The Phase has already commenced, with the first site of 122 homes started in Parson Cross. The remaining 4 sites will all commence by autumn 2016 subject to the company securing development finance.

4.10 Development Finance for Phase 2 – see Closed Part 2 for further detail.

A development finance loan is required for Phase 2. SHC has secured a loan offer from Keepmoat Homes for a proportion of the required development finance and is seeking the remaining amount from the Homes and Communities Agency Builders Finance Fund. HCA has given approval in principle to a loan which will enable the remaining 4 sites to be developed. The loan will be secured against the Phase 2 land however due to the value of these sites HCA requires additional security from the Parent Companies – the Council and Keepmoat Great Places.

4.11 This report is seeking Cabinet approval to allow HCA to have an option to purchase for £1, future land in the SHC Land Package to recover 50% of any unpaid debt against the loan. This equates to the use of 2 identified sites to provide security to HCA for the duration of the loan period.

4.12 The options that have been considered in respect to providing security for the HCA loan are detailed in section 5 with the option to purchase sites within the future SHC Land Package being the preferred.

Financial Implications

4.13 The financial implications are that if SHC defaults on its loan agreement with HCA then the lender will have the ability to recover its debt from the partner organisations providing security. This would put the Council liable for 50% of that debt. The debt would be recovered from the acquisition of up to 2 identified Council sites for £1 and their subsequent sale.

4.14 Keepmoat Homes and the Council will not be joint and severally liable for the repayment of any debt under the security arrangements with HCA. Therefore HCA will only be able to recover 50% of any debt from the Council and 50% from Keepmoat Homes.

- 4.15 *Risk of SHC default and the option on land being exercised by HCA*
The HCA loan facility is profiled to be utilised over a 22 month period between financial years 2016/17 and 2017/18 before income from plot sales allows SHC to repay the loan in full.
- 4.16 The SHC Phase 2 financial appraisal is projecting a Phase surplus. This means that the estimated sales values for the 478 properties will cover and exceed the estimated gross development costs, including overheads and fees, leaving a surplus as potential profit on the Phase. The projected surplus is currently approximately 20% of the HCA loan value. The construction contract, rather than SHC, will carry the majority of the risk on substructures and the sales values are either based on actual sales being achieved in the neighbourhoods or valuations provided by a surveyor firm who advise the main mortgage lenders in Sheffield.
- 4.17 If the sales values on the early plot sales do not achieve the anticipated values in the Phase appraisal, then the projected company surplus will reduce. If the sales values that can be achieved vary significantly from those anticipated then there are a number of safeguards in place to prevent the Phase becoming insolvent. Firstly, one of the conditions from HCA is that the continuing ability of SHC to drawdown the loan is predicated on the projected sales values being achieved. Secondly, the Council, as 50% shareholder in the SHC, jointly approves the SHC annual Business Plan. The Business Plan contains the projected number of properties to be built and sold for each year and the forecast income and expenditure. If the projected income or expenditure varies significantly during the year to a point where the anticipated Phase surplus is greatly reduced then SHC Board will be required to present a revised Business Plan for shareholder approval. Thirdly, the SHC Board itself, with Council representatives making up 50% of the Directors, will be managing the build and sales programme on a monthly basis. These safeguards mean that if the projected SHC surplus begins to erode, the SHC Board will produce a remedial plan of action for approval by HCA, the Council and Keepmoat Great Places.
- 4.18 For these reasons the likelihood of SHC not being able to repay its loan from HCA and therefore the parent company securities being called upon, is assessed as low.

Legal and Property Implications

- 4.19 If HCA exercised its option to acquire one or more of the identified sites for £1 following default by SHC, this would constitute a disposal of the site(s) at less than best consideration. Because of the potential undervalue is in excess of £500,000, this is a Key Decision that requires

Cabinet approval.

- 4.20 The sites for which the option will be applied are HRA sites, held by the Council pursuant to Part II of the Housing Act 1985. The disposal of HRA sites is governed by S32 of the Housing Act 1985 and requires the consent of the Secretary of State, either specifically or by complying with the terms of a general consent issued by the Secretary of State. The most recent general consents issued under S32 are the General Housing Consents 2013. These provide authority for the Council to dispose of vacant land at any price determined by it. Therefore, there is no requirement to make a specific application to the Secretary of State for authority to enter into the proposed arrangement.
- 4.21 As the Council is contractually bound to deliver these sites to the SHC under the development agreement (subject to pre-conditions being met) the grant of the option to HCA will require a variation to the development agreement to ensure the Council is not required to provide substitute sites to SHC if the option is triggered.

5.0 ALTERNATIVE OPTIONS CONSIDERED

- 5.1 **Option 1** - Council does not provide any form of security for the SHC loan. **Impact:** This would result in the interest rate on the loan increasing to over 10%. The increased finance costs will render Phase 2 unviable as the Phase surplus would be reduced to an unacceptably low level in which to manage any development risk. This is therefore not the preferred option.
- 5.2 **Option 2** – Council and Keepmoat provide the development finance loan to SHC removing the need for HCA finance. **Impact:** funding will need to be identified from the corporate programme to finance this and the loan drawdown and repayment will need to be administered, drawing on officer resources. This is not the preferred option.
- 5.3 **Option 3** - Council provides a Parent Company Guarantee by way of a commitment to pay half of any outstanding debt to HCA, if SHC defaults on its loan. **Impact:** this would enable SHC to enter into a funding agreement with HCA and deliver Phase 2. However, it will require the Council to place a contingent liability on its accounts and potentially create a precedent for offering security to developers in this way therefore this is not the preferred option.
- 5.4 **Option 4** - Council provides security in the form of an Option for HCA to purchase identified Council sites for £1 to recover any debt. This land within the SHC future land package. **Impact:** this would enable SHC to enter into a funding agreement and deliver Phase 2. An Option to purchase land within the Land Package will allow the Council and SHC to manage the SHC site development programme to ensure that the sites in question are timetabled for delivery after the Option is removed. It would not require the Council to account for any contingent liability in its accounts. This is the preferred option.

6.0 REASONS FOR RECOMMENDATIONS

- 6.1 The Council providing security for the loan by way of an Option to HCA to purchase future SHC land for £1 is assessed as low risk and will enable the development of 478 quality new homes.

7.0 REASONS FOR EXEMPTION (if a Closed report)

- 7.1 Part 2 of this report is presented as an exempt item because it contains exempt information under Schedule 12A of the Local Government Act 1972 (as amended). The reason for its exemption is that it contains commercially sensitive information relating to private companies.

8.0 RECOMMENDATIONS

- 8.1 To note the progress on housing delivery and neighbourhood regeneration through Sheffield Housing Company (SHC).
- 8.2 To approve the Council granting an Option to purchase for £1 on up to 2 identified sites within the future Sheffield Housing Company Land Package. The ability to exercise the Option being granted only if the lender has unrecoverable debt on its development finance loan to SHC for Phase 2.
- 8.3 To delegate negotiation on the terms of the Option to Purchase to Director of Capital and Major Projects in consultation with Director of Finance.

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Date 29.02.16

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