

Rother District Council

Report to: Cabinet

Date: 6 September 2021

Title: Funding Residential Development

Report of: Antony Baden – Finance Manager

Cabinet Member: Councillor Dixon

Ward(s): -

Purpose of Report: To approve a loan facility of up to £80m to support delivery of Alliance Homes (Rother) Limited's business plan, and to outline the mechanism for funding.

Decision Type: Key

Officer

Recommendation(s): It be **RESOLVED**: That:

- 1) the provision for a lending facility of up to £80m to Alliance Homes (Rother) to build out residential schemes be approved, in support of their Business Plan 2020-23 (and any subsequent update);
- 2) the approval of each loan be delegated to the Chief Executive and Finance Manager, in consultation with the Portfolio Holder for Finance and Performance Management;
- 3) separate loan agreements, secured on the assets of Alliance Homes (Rother) Ltd, be entered into for each specific residential scheme, the terms and conditions of which to be approved to the satisfaction of the Finance Manager; and
- 4) the £80m lending facility as set out in the approved Capital Programme be funded through internal and external borrowing as appropriate.

Introduction

1. In December 2019, Full Council approved the establishment of a Local Housing Company with the initial aim to complete 1,000 new homes by 2035 (Minute C19/59 refers). In July 2020, Cabinet named the new company Alliance Homes (Rother) Ltd (AH) and agreed their Articles of Association and the Shareholder's Agreement (Minute CB20/21 refers).
2. AH's approved Business Plan seeks to deliver a programme of 335 new homes at an estimated cost of £80m and these costs were reflected in the Capital Programme, approved by Full Council in February 2021. The AH business plan expects the majority of these costs to be met through loan funding at commercial rates provided by the Council as the sole Shareholder.

3. Depending on cashflows, it is not expected that the maximum lending facility of £80m will be needed. Delivery of projects within the programme will be staggered to ensure cost-effective, efficient development which can be appropriately resourced. Resultantly the full £80m will not be required at once, however the capacity to fund the entire programme is necessary to enable AH to enter into contracts with the development partners who will build out the schemes.
4. The lending from the Council to AH is likely to be short term on the basis that the new homes will be disposed of to either a registered social landlord (affordable homes) or direct to market. This model has the benefit of recycling the receipts from the disposals into repaying borrowing or into further phases of schemes/new schemes to minimise the cost of borrowing (interest).
5. It is proposed that the Council enters into a separate loan agreement for each scheme delivered by AH subject to the overall limit of £80m. Each loan will be subject to specific conditions as determined appropriate by the Finance Manager and will need to ensure compliance with any state subsidy requirements (previously state aid). This is expected to require the loan to be at an equivalent market rate which will generate a small short-term surplus for the Council. A draft template Loan Agreement is included at Appendix A. It is proposed that authority to enter into the loan agreements be delegated to the Chief Executive and Finance Manager in consultation with the Cabinet Portfolio Holder for Finance and Performance Management.
6. The lending to AH is likely to be funded through a mix of both internal and external borrowing. Given the complexities of the arrangements, particularly the uncertainties around the timing of cashflows for the AH schemes, advice will be sought from the Council's treasury advisors as to the most appropriate loan structure to adopt.
7. It is recommended that this process be reviewed by Audit and Standards Committee on an annual basis to ensure proper and effective controls are maintained.

Legal Implications

8. The Council has the power to enter into these arrangements under the General Power of Competence in Section 1 of the Localism Act 2011 and by virtue of Section 12 of the Local Government Act 2003.

Environmental

9. Sustainability is central to how the AH operates, the designs of its developments, and the technologies it employs. All projects will adopt a fabric-first approach to reduce energy consumption and therefore fuel poverty, and modern methods of construction will be adopted where appropriate. Approving this mechanism to allow AH to build out residential schemes will directly contribute towards the Council's carbon reduction ambitions.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	Yes	Access to Information	No

Sustainability	Yes	Exempt from publication	No
Risk Management	No		
Report Contact Officer:	Antony Baden		
e-mail address:	Antony.Baden@rother.gov.uk		
Appendices:	A	Draft Loan Agreement	
Relevant Previous Minutes:	C19/59 / CB20/21		
Background Papers:	-		
Reference Documents:	-		