REPORT OF:	**HOUSING, HEALTH AND ECONOMIC DEVELOPMENT SERVICES MANAGER**
TO:	**EXECUTIVE**
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Report Author:	**Julie Whittaker**
Tel. No:	**(01282) 661038**
E-mail:	**julie.whittaker@pendle.gov.uk**

NEW HOUSING JOINT VENTURE – GROWING PLACES INVESTMENT FUND

PURPOSE OF REPORT

To seek agreement to taking out a Growing Places Investment Fund Loan from Lancashire Enterprise Partnership to support the delivery of housing developed through the new Joint Venture.

RECOMMENDATIONS

(1) To agree to be a party to a Growing Places Investment Fund Loan of £5m.

(2) To give delegated authority to the Chief Executive in consultation with the Leader to agree the final details of the Growing Places Loan.

REASON FOR RECOMMENDATIONS

To support the development of new open market and affordable housing in Pendle.

ISSUE

1. A report elsewhere on this Agenda proposes the setting up of a new Joint Venture between Pendle Council, Barnfield Investment Properties and Harewood Housing (part of Together Housing Group). Subject to that proposal being agreed it is proposed that a loan of £5m be taken out through the Lancashire Enterprise Partnership (LEP) Growing Places Investment Fund.

Financing Developments in the new Joint Venture (JV)

2. Initial loan funding will be provided to the new JV with a split in line with the shareholding i.e. 15% Pendle Council, 35% Barnfield and 50% Harewood Housing. The initial funding from Pendle Council and Barnfield will be the value of land and construction work completed at the 3 PEARL/PEARL2 sites of Clitheroe Road (Foxhills), Oak Mill (Langroyd Place) and Carry Lane. This will be matched by funding from Harewood Housing. There will be a requirement for additional funding to cashflow the projects and provide a reasonable speed of delivery.

3. We are close to finalising an agreement with Homes England for Builders Finance Fund for the Clitheroe Road site. This has been a lengthy process which has taken around 18 months from the initial application. Funding has not yet been secured for the other 2 sites.

4. Development loan funding is available from a range of sources including commercial banks and through Homes England under the Homebuilding Fund (which has replaced Builders Finance Fund). Having looked into the range of options and the costs and timescales involved in securing funding it has been decided that the best option is to secure Growing Places Funding.

Head of Terms of the Loan

5. Heads of Terms have been drawn up for the loan funding. It is a requirement of the LEP that the financial terms of the loan are kept confidential, but the key principles are set out below.

6. The loan will be up to a maximum of £5m, to be made available on a revolving basis until 31st December 2022, with all capital and interest to be repaid within two years of the last drawdown. This means that as new sites come forward for development, under the pipeline of sites that is being drawn up, the loan can be used towards their development. Each site will still need to assessed individually, to ensure that it is financially viable, before drawdown can take place. The new JV would, in any case, want to satisfy itself that each scheme was viable before seeking loan funding.

7. The developer equity should be expended, to an agreed percentage, before any Growing Places loan is drawn down. The new JV would wish to use its own funding first, from partner loans, to reduce interest costs so this clause does not cause any problems.

8. Interest will be charged on the amount drawn down. The interest rate is comparable with commercial lending rates but there are no arrangement fees or non-utilisation fees. The JV will however have to pay LCC's legal and financial costs.

9. Security will be required for the loan on the basis of first legal charges over the development property and relevant developer bank account. If there was a default on the loan (i.e it is not paid within three months of an agreed repayment date) and the LEP sought to recoup it then it is anticipated that there would be sufficient value in land and development to substantially pay off the loan. The worst case scenario would be if all £5m had been drawn down and was owed with interest. If this was the case then the JV would have incurred at least £2.142m of expenditure (based on the 70:30 split) which would offset the outstanding loan. This would leave around £2.858m owing plus interest. Pendle Council's share of that would be 15% so £428,700 plus interest. In reality it is not expected that there would be £7.142m of development underway at any one time as

development will be linked to sales achieved. The new JV Board would be receiving regular reports on progress with the schemes and sales levels to ensure that risk to the JV is minimised

10. It is recommended that Pendle Council become a party to the Loan as its terms compare favourably with other forms of investment and there are less fees to pay than some of the commercial lenders. It can be used flexibly to deliver a pipeline of housing schemes.

IMPLICATIONS

Policy: None directly arising from this report

Financial: If agreed, the loan arrangement outlined in this report will be a transaction between the County Council, as lender and accountable body for the LEP, and the proposed joint venture entity detailed in paragraph 1 above.

Provided the terms of the loan are complied with by the Joint Venture there will be no financial risk to the Council. The risk arises in the event of any default, with the lender able to call on the parties to the joint venture to discharge their respective liability based on their proportionate shares. Paragraph 9 above outlines a 'worst case' scenario in which the maximum residual liability could be £2.86m (plus interest) of which the Council's share would be 15%, equivalent to £429k (excluding interest).

However, this exposure cannot be viewed in isolation as the Council has also previously agreed to act as first guarantor to the Homes and Communities Agency (HCA) in respect of the Builders Finance Fund (BFF) loan for the PEARL development at Clitheroe Road. The loan amount in this case is £1.51m. In the event of this guarantee being called on the Council has an indemnity in place with the Barnfield Group under which originally it reimburses the Council for 70% leaving the Council liable for the remaining 30%, equivalent to £453k. However, assuming the new joint venture entity is agreed by all parties, the Council's exposure for the BFF loan funding will reduce to 15%, a maximum exposure of £227k, excluding interest.

Taking the two exposures together gives rise to a *potential* liability for the Council of £656k (excluding interest). Whilst this is seen as the 'worst case' scenario it is important that Councillors are aware of this possibility. Clearly, the Council via its participation on the joint venture is in a position to influence the pace of development by the joint venture and thereby help mitigate the risk.

That said, in the event the Council was called upon to settle any financial liability linked to the above arrangements, consideration needs to be given to how the Council would address this. Currently the Council has earmarked resources for Pearl and housing development schemes totaling £1.15m comprised of the following:

- Revenue – Pearl Development Reserve £300k
- Capital Programme – Funding for Pearl £639k
- Capital Programme – Funding for Social Housing £211k

After taking account of current commitments against this funding, it is considered that there is adequate resource cover remaining to meet the *potential* liability that could arise as outlined above.

Legal: Formal legal documentation will be produced by the LEP which will translate the attached Heads of Terms into a legally binding agreement

Risk Management: The new JV Board will oversee delivery of schemes to guard against any risk of default

Health and Safety: None directly arising from this report

Sustainability: None directly arising from this report

Community Safety: None directly arising from this report

Equality and Diversity: None directly arising from this report

APPENDICES
None

LIST OF BACKGROUND PAPERS
None