CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Agenda Item No: 3.7

Affordable Housing Scheme - Proposed Variation to Loan Relating to Former Alexander House, Ely

To:	Cambridgeshire and Peterborough Combined Authority Board
Meeting Date:	26th January 2022
Public report:	This report contains appendices which are exempt from publication under Part 1 of Schedule 12A of the Local Government Act 1972, as amended, in that it would not be in the public interest for this information to be disclosed (information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption outweighs the public interest in publishing the appendices.
Lead Member:	Councillor Lewis Herbert, Lead Member for Housing
From:	Roger Thompson, Director of Housing
Key decision:	Yes
Forward Plan ref:	KD2022/002
Recommendations:	The Combined Authority Board is recommended to: a) Approve the extension of the maturity of the existing £4.84m Loan Facility with Laragh Homes from 25 months (7th February 2022) to 28 months (7th May 2022). b) Increase the number of potential monthly drawdowns against the facility from 25 to 28. c) To agree that the rate of interest to be applied to the loan from 7th February 2022 will be **6% over base**, until the loan is fully repaid.
Voting arrangements:	A simple majority of all Members present and voting. To be carried, the vote must include the vote of the Mayor, or the Deputy Mayor when acting in place of the Mayor.

1. Purpose

1.1 As part of the Devolution Deal, the Combined Authority secured funding from Government to deliver an affordable housing programme.

1.2 Within the Combined Authority Housing Strategy approved by Board in September 2018 the funding was divided into two parts, for traditional grant funding and to be used for the then Mayor's plan for a revolving fund to support the delivery of additional affordable housing. In March 2021 Government directed that in order to have a funded affordable housing programme for 2021/22 that all money being re-paid from the loans should be directed into the grant programme supporting the delivery of additional affordable housing.

1.3 This report seeks approval from the Combined Authority Board to re-structure the term profile of one of the five original loans, being a facility up to £4.84m with Laragh Homes on the former Alexander House (now Forehill) Ely, by extending its duration by 3 months. The current interest rate being paid to 7th February 2022 is 3.29%.

2. Background

2.1 The Mayor and the Combined Authority are committed to accelerating affordable housing delivery to meet local and UK need and support economic growth.

2.2 The Covid-19 pandemic has had significant impact upon the construction and housebuilding sectors, specifically the impact of the most recent Omicron covid variant has created shortages of labour and materials and uncertainty about the implications for construction sites and their supply chains.

2.3 Housing and construction businesses countrywide have been seeking to manage working practices to minimise employees' risk of contracting Covid-19. A key issue and concern has been about whether housing developers are able to perform their contractual obligations and the knock-on availability of labour, materials, financial, programme and other implications.

2.4. There has been a significant recent impact from Omicron on the project we are funding on the former Alexander House (now known as Forehill, Ely). The developer Laragh Homes has found themselves in a very difficult position with this project, as they are very close to completing the scheme and getting the completions in to be able to repay the loan, however the recent delays in obtaining materials and the lack of labour for the finishing trades like plastering, carpentry, decorating, kitchen and bathroom fitting have made it impossible to meet the repayment date of 7th February 2022.

2.5. Laragh have advised that they do not have the funds available to repay the loan from any other sources so without a small extension to the loan period they advise they will not be able to complete the scheme. It appears very difficult for them to complete the scheme without the facility being extended. They will have to seek to find other financial sources which will incur significant delay and they may even lose the contracted purchasers who are waiting to move in as soon as units are completed. We have received an application for a 3 month extension to the facility agreement. Currently £4.336m of the £4.84m facility has been drawn. The application form is shown in Appendix 1. A 3 month extension should enable Laragh to complete the works and sales required to repay the loan. Laragh have provided in their application further detail regarding the materials and trades that have been affected by the latest covid outbreak.

2.6. The project is being successful in transforming an eyesore building and underutilised property in the centre of Ely, into an attractive development providing 25 new homes for the City including 4 affordable homes that would not otherwise be created. As reported, the sales are going extremely well but Laragh can only get the completion money in at the very end of the project as the apartment blocks have to be almost completely finished to achieve the legal completion on even one sale. In practice, they anticipate most of the sales will complete within a few weeks once the Practical Completion is reached on each block. The latest development monitors report from Dec 2021 is attached in Exempt Appendix 2.

2.7. It is worth noting that Laragh have worked well with the CPCA up to this point, having just repaid the Great Abington loan several months before the required contractual repayment date and delivered a high-quality scheme with additional affordable housing.

Significant Implications

2.8. Generally, with the type of industry wide disruption we have seen there would be concerns about borrowers' ability to complete developments on time and meeting their repayment obligations. Typically, under a borrowing agreement, a failure to meet the obligation to repay a loan facility constitutes an event of default, invoking a lender's right to exercise its remedies towards recovery of the entire outstanding debt. In the prevailing circumstances with the development being so close to completion with apartment purchasers waiting to move in, moving for recovery will be more challenging if as the lender we find ourselves having to exercise statutory power of stepping in and sale or other remedies. Such action is highly likely to be more damaging as it results in additional disruption to construction contracts, increases costs, lengthens programmes, and usually results in worse outcomes when compared to supporting the borrower through the current uncertainty, especially if the primary objective is to get the residential units successfully delivered and loan re-paid as soon as possible.

2.9. The most critical measure being requested is to extend the duration of the loan in order to enable the borrower to successfully complete the construction of the development and sell the units.

2.10. The borrower is incurring additional costs to complete the development as a result of the Covid-19 outbreak, however over this period sales values being achieved on the market units have also risen so the development appraisal is still positive.

2.11. Ideally any other changes to the existing facility agreement should be kept to a minimum. However, this request for an extension has come at short notice, where as recently as November 2021 the borrower was indicating that they expected to secure enough completions to repay the loan as planned on 7th February 2022. There is provision is the existing loan facility agreement in the event of a default for interest to be payable at 6% over the bank of England base rate. We propose to apply this rate of interest from the 8th February 2022 until the loan is fully re-paid, assuming the board approve the other recommendations.

2.12. State aid implications have been considered on the last portfolio wide intervention reported to the board in August 2020 and we consider the advice taken from Bevan Brittan and attached in Exempt Appendix 3 still stands.

3. Financial Implications

3.1 The borrower has been seeking to complete the development. In support of the application, they have revised their development programmes, appraisals and cashflows to reflect the new situation. The revised data is shown in the table in Exempt Appendix 4.

3.2 The current position on the overall loan programme is shown on the 3 slides in Appendix 5.

3.3 The delay in the capital receipt is likely to impact on other areas of the Combined Authority. Due to the obligations to make payments to housing grant schemes that are likely to start on site by 31/3/22 there will be likely to be a shortfall of capital funding under accounting rules.

This would mean that the excess expenditure would be either:

a) be treated as borrowing under the capital financing rules (although there would not be any cash borrowing) – there could be MRP implications for this approach.

b) or other CPCA capital resources, e.g., some of gain share balance as at 31/3/22, could be used to fund the expenditure. The loan receipts would then be used to fund what had been planned to be funded by the capital gainshare when they are received.

3.4 Due to timing of payment of grant claims, it is not certain but possible there may not be a shortfall on the affordable housing fund as at 31/3/22 in cash terms as the grant claims are frequently only received well after the schemes have started on site. However, this is not certain or can be relied upon.

4. Legal Implications

4.1 The existing facility agreement will be varied to reflect the extension to the loan agreement.

4.2 The Assurance Framework, as reflected in the devolution deal, requires the Combined Authority to demonstrate that the funds have been used for the objectives of the devolution deal.

5. Other Significant Implications

5.1 None

6. Appendices

6.1 Appendix 1 – Application Form for Variation to Existing Loan Facility Agreement

6.2 Appendix 2 (Exempt) – December 2021 Interim Development Monitoring Report No. 24

6.3 Appendix 3 (Exempt) - Previous Bevan Brittan State Aid Advice

6.4 Appendix 4 (Exempt) – Revised Development Appraisal and Cashflow

6.5 Appendix 5 – Slide Pack on Overall Loan Programme

7. Background Papers

7.1 The following documents are referred with the address where it can be obtained:

DCLG Approved Business Case
Devolution Deal 2016
Assurance Framework
Monitoring and Evaluation Framework

All obtainable from:

72 Market Street
Ely
Cambridgeshire CB7 4LS

7.2 Report to the Combined Authority Board, decision summary and minutes - September 2018