



<u>Committee and date</u> Cabinet
12 December 2012 at 2.30 pm

<u>Item</u>
<u>Public</u>

**Responsible Officers** Janet Graham, Group Manager, Care and Well Being  
Rachel Musson, Corporate Head of Finance & Commerce  
Email: [janet.graham@shropshire.gov.uk](mailto:janet.graham@shropshire.gov.uk) Tel: 01743 254324  
[rachel.musson@shropshire.gov.uk](mailto:rachel.musson@shropshire.gov.uk) 01743 252007

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## **Sevenside and Shropshire Housing Group Variations to Loan Facility Agreement**

### **1. Summary**

In September 2010 Cabinet agreed to approve the lending of up to £10 million to Shropshire Housing Ltd (which incorporates both South Shropshire Housing Association and the Meres & Mosses Housing Association) and up to £10 million for Sevenside Housing in order to finance the provision of affordable housing and shared office accommodation in Shropshire.

Cabinet is asked to approve changes to the current provisions in the Council's loan facility for Shropshire Housing Limited (incorporating South Shropshire Housing Association and Meres and Mosses Housing Association) following discussion and negotiation between Council officers and the Chief Executive of the Shropshire Housing Group. Cabinet approval is also sought to allow officers to consider and negotiate changes to the loan facility for Sevenside Housing should these be requested.

The relevant Portfolio Holders for Economic Growth and Prosperity support the continuation of the loan facility for the Housing Associations, and variations sought within the approved funding limit previously agreed by Cabinet, on the basis that the provision of affordable homes remains a high priority for the Council and that economic conditions restrict the scope and opportunity for registered social landlords to source funds from commercial lenders.

### **2. Recommendations**

That Cabinet consider this report and recommend that:

- (1) Authority is given to the Corporate Head of Finance and Commerce and Group Manager Care & Well Being in consultation with the Portfolio Holders for Economic Growth and Prosperity to finalise agreement of the present security request at a LTV ratio of 100% and in future negotiate and agree variations to the terms of the loan facility with Shropshire Housing Limited as outlined in paragraph 5.7

- (2) Authority is given to the Corporate Head of Finance and Commerce and Group Manager Care & Well Being in consultation with the Portfolio Holders for Economic Growth and Prosperity to negotiate and agree variations to the terms of the loan facility with Severnside Housing as outlined in paragraph 5.7 should this be requested.
- (3) That Wragge & Co be instructed to vary the terms of loan facilities as requested by issue of a side letter to the initial agreement to be signed by the Corporate Head of Finance and Commerce

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- The continued provision of affordable housing in Shropshire is a key priority of the Council. Agreement to the variations will enhance Shropshire Housing Group's ability to respond to development opportunities.
- It is proposed that the loan to value (LTV) ratio should reflect the different mix, type and risk associated with the properties used for charging.
- Loans will continue to be secured against existing assets held by or owned by the Housing Association.  
Valuations will be undertaken by a registered valuer.

### **4. Financial Implications**

- 4.1 Legal fees are agreed in advance between the Council and Wragge & Co before any work is undertaken in relation to charging properties against the loan, drawing up certificates of title and confirming that each loan request is in accordance with the facility agreement. The costs vary depending on the number of properties being charged against each loan.
- 4.2 The Council and the Borrower will continue to meet their own legal and professional costs under the terms of the current agreement.

### **5. Background**

- 5.1 The Council has the power to lend funds to Housing Associations under the Housing Act 1996. In September 2010 Cabinet and Council agreed to offer to lend funds to Shropshire Housing Ltd (which incorporates South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate as reported in the 2010/11 Treasury Strategy. Cabinet acknowledged that in the current financial climate Housing Associations can find it difficult to obtain funding for affordable housing and the Council is generating only a small amount of interest on revenue balances.

- 5.2 It was agreed to offer to lend up to £10 million to each of these Housing Associations in order to finance the provision of affordable housing and shared office accommodation in Shropshire. The interest rate charged will depend on the period over which the loan is to be taken and that it will be linked to the applicable PWLB rate. For security purposes, any loan will be secured against existing assets held by or owned by the Housing Association. Cabinet agreed that if Shropshire Rural Housing Association were to request a similar facility, for a smaller amount given the size of this local Housing Association, this may also be facilitated.
- 5.3 Officers instructed Wragge & Co to act as solicitors and to draw up independent loan agreements with Shropshire Housing Limited and Severnside Housing which were approved in February 2011 and August 2011 respectively. No agreement has been requested or implemented to date for Shropshire Rural Housing Association.
- 5.4 In February 2012 South Shropshire Housing Association requested a drawdown of funds totally £500,000, under the current terms of the loan agreement. In doing so the Association had to provide details and valuation of "Charged Property" meaning any tenanted residential property of a type and quality acceptable to the Authority (acting reasonably) over which there exists a fixed charge. "Charged Properties" means all such properties. The valuation of the properties charged was calculated on the basis of the Existing Use Value - Social Housing and in accordance with the guidelines set out in the RICS Appraisal and Valuation Manual. The terms of the current loan facility states that the borrower shall ensure that the Value of the Charged Properties shall not be less than 100 per cent of the aggregate principal amount of the loans less any balance standing to the credit of the Deposit Account.
- 5.5 This request was checked and validated by Wragge & Co. The release of funds was approved by the Corporate Head of Finance & Commerce and paid over to South Shropshire Housing Association on 24 February 2012.
- 5.6 In July 2012 South Shropshire Housing Association requested a further drawdown of funds totalling £500,000. Wragge & Co was asked to check that this latest request was in accordance with the current terms of the agreement. Wragges notified Council officers that the type and mix of Charged Properties included non-tenanted residential property and commercial assets owned by Shropshire Housing Group Ltd. The type of charged property and the basis of the valuation used for loan purposes therefore did not comply with the current terms of the loan facility and has led to this amendment request.
- 5.7 Discussions were held with executive officers from Shropshire Housing Group to establish some guiding principles to apply to this and future loan requests containing a mixed bag of properties ie residential AND commercial assets against which the loan is proposed to be secured, these are: That the

loan to value (LTV) ratio should reflect the aggregate of the different mix, type and risk associated with the properties used for charging.

- That the current ratio of 100% based on the value of social housing be retained for that component of the charged properties.
- That in respect of non-tenanted and commercial property a lower negotiable LTV ratio may be deemed more appropriate should charged properties be judged more risky in terms of their type, location and market value at the time of the loan request.
- That the Council will reach informed decisions on a case by case basis based on valuations undertaken by a registered valuer in accordance with the RICS and appraisal and valuation manual (the Red Book).
- That valuation intervals be flexed
- That drawdowns of £250,000 should be agreed

5.8 These changes are intended to safeguard the Council's financial interest and risk balancing the commercial practice of typically applying a LTV ration of around 60-70% for commercial property for charging purposes against the stated aim of supporting growth in affordable housing at this time. 5.9 All terms and conditions that remain unaltered by the variations contained in the side letter or letters to the respective agreements will remain legally binding. It is proposed that any new or replacement loan agreement i.e. not covered by a side letter to the current agreements will require future Cabinet approval.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Current loan agreements with Shropshire Housing Group and Severnside Housing

**Cabinet Member (Portfolio Holder)**

Councillor Mal Price  
Councillor Mike Owen

**Local Member**

All Shropshire Members

**Appendices**