



COTSWOLD DISTRICT COUNCIL

Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	CABINET MEETING: 5 JULY 2021
Report Number	Agenda Item 12
Subject	PROPOSAL FOR LOAN FINANCE TO COTTSWAY HOUSING ASSOCIATION
Wards affected	Initially Moreton West and Moreton East but there is the potential for impact across the District as future housing schemes are developed.
Accountable member	Cllr. Mike Every – Deputy Leader and Cabinet Member for Finance Email: Mike.Every@cotswold.gov.uk
Accountable officer	Jenny Poole (Deputy Chief Executive) Tel: 01285 623313 Email: jenny.poole@cotswold.gov.uk
Summary/Purpose	To consider a proposal to provide loan financing to Cottsway Housing Association Ltd through its subsidiary company, Cottsway 2. The lower cost of finance would enable the provision of green energy generation via solar PV installation on 15 houses at Davies Road, Moreton-in-Marsh.
Annexes	Exempt Annex A – Business Case Presented to the Capital Programme Investment Board Exempt Annex B – Draft Facility Agreement Exempt Annex C - Outcome of Due Diligence Review
Recommendation/s	<i>That:</i> <i>(a) Cabinet recommends the loan arrangement to Council; and</i> <i>(b) The loan is financed through Prudential Borrowing in line with the Council's Capital and Treasury Management Strategies;</i> <i>(c) That, subject to the approval by Council of recommendation (a), the negotiation of the detailed terms for the transaction be delegated to the Deputy Chief Executive, following consultation with the, Head of Legal Services, Monitoring Officer and the Cabinet Member for Resources;</i> <i>(d) The Audit Committee review performance as part of regular Treasury Management updates.</i>
Corporate priorities	<ul style="list-style-type: none">• Responding to the challenges presented by the climate crisis

	<ul style="list-style-type: none"> • Providing good quality social rented homes
Key Decision	Yes
Exempt	<p>The annexes to the report are exempt under Schedule 12A, paragraph 3 of the Local Government Act 1972:</p> <p>3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).</p>
Consultees/ Consultation	The Council's Capital Programme Invest Board have considered this proposal and views are reported at 3.1.

I. BACKGROUND

- 1.1. Council approved a Capital Investment and Recovery Strategy in September 2020. The Strategy starts from the premise that there is a significant funding gap that needs to be closed. The Medium Term Financial Strategy identifies £4.830 million of savings to be delivered through the Capital Investment Recovery Strategy over the period from 2020/21 to 2023/24. Capital investment is a major tool available to the Council to achieve this as long as it covers the revenue implications of that investment and makes an appropriate return. The target income required from capital investment is £1.356 million by 2023/24.
- 1.2. The Priority Delivery Themes identified in the Strategy include:
- Affordable Social Housing;
 - Green Energy and Carbon Reduction;
 - Delivering Infrastructure for Jobs and Economic Growth;
 - Reinvigorating Commercial Centres to ensure our economic vibrancy;
 - Maximising existing and new income streams from service delivery; and
 - Developing a commercial culture to our decision making whilst retaining a public service ethos.
- 1.3. This report presents the first investment proposal under the Capital Investment and Recovery Strategy.
- 1.4. The Council has established a Capital Programme Investment Board to provide cross-party Member engagement as proposals for investment are developed. The Business Case considered by the Board is attached at **Annex A**. The views of the Board are included within this report for consideration by Cabinet and Council.

2. SUMMARY OF PROPOSALS

- 2.1. Cottsway Housing is a registered provider of social housing and is working in partnership with the Council and Homes England to produce a social rented, reduced carbon scheme of 15 homes at Davies Road, Moreton in the Marsh. This scheme is supported by both Homes England and Cotswold District Council grant funding.
- 2.2. The current planned scheme includes air source electric heating and improved insulation. The original Cottsway proposal included the provision of solar PV to further drive down carbon emissions. However, this was not affordable and has not therefore been included in the scheme.
- 2.3. The total scheme costs are £3,707,618 supported by grants from Homes England of £1,275,000 and £580,500 from this Council.
- 2.4. Currently, the scheme will be developed by Cottsway Housing using its normal private finance arrangements. However, if the Council were to use PWLB funds and on-lend to Cottsway 2 Ltd, also a registered provider in the Cottsway Housing Group, then there is the potential to include the cost of the solar PV within the scheme without additional grant support.

- 2.5. The scheme could absorb up to a maximum interest cost 3.25% paying back interest and capital each year.
- 2.6. The scheme costs with solar PV is £3,753,000 and Cottsway are proposing a revolving credit facility of up to £3,753,000. As grant funding from Homes England and the Council are paid to Cottsway, the Housing Association will be able to part-repay the loan financing to the Council. Of the £3,753,000 loan, the lending for 50 years will be £1,897,500.
- 2.7. The 50 year loan element of £1,897,500 will be secured upon the housing assets with a first charge on the properties.

3. VIEWS OF THE CAPITAL PROGRAMME INVESTMENT BOARD

- 3.1. The Capital Programme Investment Board considered the proposed loan to Cottsway Housing Association on 16 June 2021. The Board were broadly supportive of the arrangement. However, Cllr Theodoulou requested that, as part of the negotiations with Cottsway, that the security for the loan was improved. This will be taken forward by the Deputy Chief Executive using the delegation proposed in this report.

4. FINANCIAL IMPLICATIONS

- 4.1. The difference between interest income from Cottsway and the rate of interest on temporary borrowing which the Council can access is expected to provide a net return to the Council of around £35,700 per annum while development takes place.
- 4.2. The difference between interest income from Cottsway and the rate of interest on long-term borrowing which the Council can access is expected to provide a net return to the Council of around £10,700 per annum for 50 years.
- 4.3. The risk of Cottsway 2 not being able to fund the loan repayments during development of the site is mitigated by the fact that 49.5% of the funding is being provided through Homes England and grant funding from this Council. As Cottsway receives the grant income it will be able to repay borrowing from the Council.
- 4.4. Registered Providers are required to comply with Regulatory Standards and Guidance and a Code of Practice set by The Regulator of Social Housing. The Regulator requires both Cottsway and Cottsway 2 to submit information including: annual accounts, a financial forecast return and other statistical data. The role of the Regulator is to:
 - protect social housing assets
 - ensure providers are financially viable and properly governed
 - maintain confidence of lenders to invest into the sector
 - encourage and support supply of social housing
 - ensure tenants are protected and have opportunities to be involved in the management of their housing
 - ensure value for money in service delivery

- 4.5. The fact that the Council is lending to Cottsway 2 Ltd, a subsidiary of Cottsway Ltd and that both entities are Registered Providers provides additional assurance to the Council that lending to Cottsway 2 does not unduly expose the Council to significant risk
- 4.6. The risk of Cottsway 2 not being able to fund the loan repayments once the development is complete is mitigated by a legal charge on the housing assets on the site. Should Cottsway 2 fail, the assets would transfer to the Council along with the rental income and operational liabilities.
- 4.7. The Council has commissioned its treasury advisors, Arlingclose Ltd, to provide a due diligence report on Cottsway Ltd and Cottsway 2 Ltd. The outcome of the due diligence work is included at **Annex C**. There were no significant issues raised in the due diligence work. Members can take some assurance from ratings issued by the Moodys (Credit Agency) and Regulator ratings. In February 2021, the Credit Agency Moody's rated Cottsway Housing Association as A3 with a stable outlook. The Regulator has rated the Cottsway Group (including Cottsway 2) as G1 and VI, the best ratings available from the Regulator. If Members wish to discuss the findings in detail the meeting will need to move in to private session.

5. LEGAL IMPLICATIONS

- 5.1. A copy of the draft Facility Agreement between Cottsway 2 Ltd and the Council is attached at **Annex B** for information.
- 5.2. Other than this Loan Agreement, no further legal implications arise directly from this Report.

6. RISK ASSESSMENT

- 6.1. There are risks associated with the development of the site which will be managed by Cottsway, which is an experienced social housing developer.
- 6.2. There is a risk of interest rates increasing before the Council secures its long-term fixed rate borrowing. This will be mitigated by ensuring that arrangements are in place for the Council to access PWLB borrowing, careful cash-flow management and working with Arlingclose to understand the impact of economic conditions on interest rates and the most cost effective borrowing policy for the Council.

7. EQUALITIES IMPACT

- 7.1. There is no direct equalities impact as a result of this report. However, the Council report on 17 March 2021 considered an Equality Impact Assessment relating to the provision of social housing in the District which is also relevant to this report. The Equalities Impact Assessment highlights that the delivery of housing is aimed at meeting the identified needs of local people, based principally on the Local Housing Needs Assessment. Housing provision will be tailored to meet these specific needs and have regard to demographics such as age, income and disability. Investment in solar PV energy generation on the homes will reduce the costs of electricity for residents and supports the Council's ambition of truly affordable housing.

8. CLIMATE CHANGE AND ECOLOGICAL EMERGENCY IMPLICATIONS

- 8.1. The provision of solar PV on the homes is estimated to reduce CO2 emissions from the properties a further 16.5%. The current scheme is estimated to reduce emissions by 39%, with solar PV that increases to 55.5%.

9. ALTERNATIVE OPTIONS

- 9.1. To not provide the loan financing to Cottsway 2 Ltd. This will mean that Solar PV is not financially viable and will not be provided on the development.
- 9.2. To require a higher rate of interest on the loan. However. This would reduce the financial viability of the development and would impact upon the provision of Solar PV on the development.

10. BACKGROUND PAPERS

- 10.1. None.