



North Devon Council

Report Date: Monday, 2 October 2023

Topic: Ilfracombe Housing Infrastructure Fund

Report by: Sarah-Jane Mackenzie-Shapland, Head of Place, Property and Regeneration

1. INTRODUCTION

- 1.1. The Housing Infrastructure Fund (HIF) is a government fund awarded through Homes England which is intended to allow local authorities to front load infrastructure on housing sites where the provision of infrastructure by the developer would mean that the housing scheme was unviable.
- 1.2. The intention is that once the dwellings start being constructed, the developer will repay the funds under an agreed repayment mechanism which are then re-circulated by the local authority to bring forward further housing developments within North Devon.
- 1.3. The amount awarded in respect of Ilfracombe Southern Extension was £6,500,000, which was to be used to provide roads, drainage and community facilities including a serviced school site.
- 1.4. In July 2020, the Local Authority requested to draw down the first tranche of funding from Homes England; £619,242. This was received later that month and subsequently paid to Inox Homes. This was to be used for the purpose of planning and design fees related to the HIF funded infrastructure works. This was spent in accordance with the funding agreement.
- 1.5. In July 2023, this was repaid by Inox Homes to North Devon Council.
- 1.6. This report relates to the remaining funds.

2. RECOMMENDATIONS

- 2.1. That Members note the content of this report.
- 2.2. That in the event that agreement with the new delivery partner cannot be found to utilise the current HIF government funding, that Members authorise the Chief Executive to mutually withdraw from the HIF contract with Homes England recognising that they are no longer required to facilitate the delivery of the 350 homes at Ilfracombe Southern Extension.

3. REASONS FOR RECOMMENDATIONS

3.1 This HIF was initially applied for to seek to aid cashflow in order to accelerate the delivery of housing in Ilfracombe. The original contract was entered into with Inox Homes and they entered into terms that met the conditions of the fund including around adhering to State Aid requirements. Inox have now secured a delivery partner for this site; Devonshire Homes. The lending terms of the contract are no longer economically favourable to Devonshire Homes – they can build the site out without access to this funding and so are currently not looking to drawdown the funding.

3.2 Officers are continuing in conversation with Devonshire Homes to determine if there is a viable option for them to utilise HIF funding within the parameters of State Aid requirements (now called Subsidy Control). On the basis that any of these options are not agreed, Officers would recommend that we mutually withdraw from the funding agreement with Homes England.

4. REPORT

4.1 On the 23rd May 2019 we received the offer letter from Homes England confirming that this scheme had received the internal approvals to proceed with the formal award of grant subject to a number of conditions and the grant determination agreement. The award is to forward fund roads, drainage, a community building, MUGA and a serviced school site to accelerate the delivery of new homes on a greenfield site at the Southern Extension in Ilfracombe, Devon.

4.2 Homes England assessed the infrastructure ask and approved it subject to the following conditions. The first set of conditions had to be agreed before any contract can be entered into with Homes England and the second set have to be complied with before any money can be drawn down for spend:

Number	Condition	Date
1.	NDDC to provide written evidence to Homes England that independent legal advice has been sought and that the transaction complies with State Aid requirements.	June 2019
2.	NDDC to agree in principle with developers/promoters the mechanism for recovery of the HIF funding.	June 2019
3.	NDDC to provide a programme for the design, procurement and delivery of infrastructure.	June 2019
4.	NDDC to confirm extent of infrastructure to be funded by HIF and its likely cost.	June 2019

Number	Condition	Date
1.	Completion of design and specification of HIF funded infrastructure.	July 2019
2.	NDDC to confirm programme for delivery of school.	July 2019
3.	NDDC to put in place mechanism for recovery of HIF funding.	July 2019
4.	All consents including planning in place for HIF funded infrastructure.	October 2019
5.	Procurement of contractor for delivery of HIF Funded infrastructure.	October 2019

4.3 In December 2019 NDC entered into a contract with Homes England having met the first set of conditions and subsequently entered into a contract with Inox. The First tranche payment was drawdown in July 2020. In order for the remaining monies to be drawdown the remaining conditions identified above had to be met.

4.4 Inox Homes have used the First tranche HIF monies of £619,242 to pay for design work and fees and as a result all planning permissions have now been secured. They have subsequently repaid the First tranche monies to North Devon Council and we are holding them in a Capital Receipts Reserve.

4.5 Inox Homes have now entered into a separate agreement with Devonshire Homes to deliver the housing. We have been working with Devonshire Homes, Inox Homes and Homes England to understand how Devonshire Homes could access the funding in place of Inox Homes within the new parameters of Subsidy Control regulations. Currently the terms of the agreement are not favourable to Devonshire Homes but we continue to explore options to see if there is a viable option and way forwards. We will update Members on this progress at the Committee meeting.

4.6 One of the conditions of the funding is that the Council must receive State Aid advice to ensure that any transfer of funds is compliant with State Aid rules (now named Subsidy Control). External advice was received and concluded that whilst the sports pitches/community building and serviced school site are exempt infrastructure for the purposes of State Aid, an appropriate interest rate must be applied to monies loaned that are associated with the delivery of the junction works, internal roads and drainage first tranche payment to ensure compliance with those State Aid rules. Advice was provided as to how that interest rate must be calculated and this was applied to the first tranche repaid by Inox Homes.

4.7 Whilst Inox Homes found that interest rate to be acceptable due to the timeline of loan period, the level of loan amount and de-minimis threshold that could be applied under State Aid regulations, it has become clear that

Devonshire Homes are not in the same position. They report to us that they are able to borrow at a more competitive rate due to the size of the remaining infrastructure circa £4.3million, the minimal impact any de-minimis threshold has and the timeline period involved.

- 4.8 All parties have worked with Homes England to see if a solution can be found that would enable the use of the HIF funds. Homes England agree with the method used to calculate the interest rate.
- 4.9 The current contract required infrastructure to be delivered by March 2023 but to date, only demolition has occurred on site. Homes England can extend this milestone to March 2024 (subject to approval) but would need Treasury approval to extend further past this date.
- 4.10 All parties met on the 7th September 2023 and discussed how we might progress. It was made clear that progress would need to be seen in the next couple of weeks. North Devon Council continue to work with both our external legal advisors and Devonshire Homes to see if all options have been explored.
- 4.11 Homes England advised that there were two ways forward, should a solution not be found. The Local Authority could mutually withdraw from the HIF scheme and we would make a Statement to that effect or Homes England could terminate the fund.
- 4.12 At present, the Local Authority do not consider that there is a solution to retain the funds; it has to be spent on this project. Devonshire Homes can borrow more competitively elsewhere and so do not wish to drawdown the fund. The original objective of the HIF was to unlock barriers and to accelerate the delivery of housing. To that end, the withdrawal from the scheme will not impact this. The drawdown of the first tranche of funding enabled Inox Homes to secure the consents, which have provided Devonshire Homes with a scheme they can deliver and this will be delivered regardless of HIF. Furthermore, Inox Homes have repaid the first tranche monies to the Council and this £619,000 of funding can be used by the Council to accelerate the delivery of housing elsewhere. We can therefore conclude that the HIF funding has had a positive intervention on the housing infrastructure delivery in this scheme.
- 4.13 The withdrawal from the fund will mean that the remaining funds will get returned to Treasury and cannot be recycled by the Council. This would happen regardless of whether we mutually withdraw from the fund or if Homes England terminate it.
- 4.14 It is officer's views that if we mutually withdraw from the fund we can set out the positive role that HIF has played in implementing development at Ilfracombe Southern Extension, and the reasons for our withdrawal. This wouldn't be the case if Homes England terminate our Agreement. It is for this reason that officers make the recommendation to members to mutually withdraw from the scheme if a final solution with Devonshire Homes cannot be found.

4.15 It is officer's intentions to write to the Treasury to see whether these funds can be ring fenced within Ilfracombe but there is no guarantee that this will be the case; they will be returned to central government by Homes England.

5. RESOURCE IMPLICATIONS

5.1. As outlined within the report and limited further resource ongoing.

6. EQUALITIES ASSESSMENT

6.1. The development will come forward regardless of this decision and so does not require an EIA in this instance.

7. ENVIRONMENTAL ASSESSMENT

7.1 This is not relevant for this report.

8. CORPORATE PRIORITIES

8.1. What impact, positive or negative, does the subject of this report have on:

8.1.1. Regeneration or economic development – We will lose the ability to recycle funds, which could have supported further schemes.

9. CONSTITUTIONAL CONTEXT

9.1. Delegated Part 3

10. STATEMENT OF CONFIDENTIALITY

This report contains no confidential information or exempt information under the provisions of Schedule 12A of 1972 Act.

11. BACKGROUND PAPERS

The following background papers were used in the preparation of this report:

- Housing Infrastructure contract – Homes England and Inox

(The background papers are available for inspection and kept by the author of the report).

12. STATEMENT OF INTERNAL ADVICE

The author (below) confirms that advice has been taken from all appropriate Councillors and Officers:

SarahJane Mackenzie-Shapland – Head of Place, Property and Regeneration