

THIS LAND FINANCING ARRANGEMENTS, PORTFOLIO SALE & CONSTRUCTION FUNDING

To: Commercial and Investment Committee

Meeting Date: 20 July 2018

From: Deputy Section 151 Officer

Electoral division(s): All

Forward Plan ref: N/a

Key decision: No

Purpose: This report updates the Committee on matters related to the This Land companies, and the County Council's connected financial interests.

The Committee are invited to consider, and give approval where necessary, to the approaches outlined to:

- Re-valuation of a site for transfer following decision by the Planning Authority
- Valuation methodology (best consideration)
- Construction Financing
- Potential future developments

Recommendation: The Committee is asked to:

- a) Approve revision of the disposal value and make available to This Land the corresponding increase in loan financing related to the property detailed in Appendix C (to follow)
- b) Approve provision of a "construction loan" to This Land, for up to £8m and in accordance with Appendix B
- c) Approve provision of a "bridging loan" to This Land, for up to £7.6m and in accordance with Appendix B.

Delegating the agreement of the final terms of these arrangements to the deputy section 151 officer in consultation with the Chairman of the Committee

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1. BACKGROUND AND GENERAL ISSUES

- 1.1 Progress continues with the portfolio sale of property from the Council to This Land as agreed and detailed to the Committee since the Spring. At the time of writing there are four sites remaining within the portfolio pending completion. The conveyancers on both sides are finalising the outstanding site specific issues with these transfers at:
- Shepreth
 - Malta Road
 - Burwell
 - Soham Eastern
- 1.2 Twenty sites have so far completed as part of the portfolio sale. To date, this brings the level of sales to This Land to £28.535m. There is one further site, in addition to the portfolio, which the Committee have previously agreed for transfer at Papworth – this is also nearing completion. Transfer of one site in Whittlesford, with a relatively low assessed value, is currently paused pending further consideration by both parties.
- 1.3 In summary, this brings the total loan financing advanced by the Council to the company, so far, to be as follows:

Loan item	Amount	Refinancing Date
Overheads & Operating	£2.800m	December 2018
Third party acquisition in CB5	£2.040m	August 2021
Portfolio sale	£28.535m	January 2028
Subtotal of loans to date	£33.375m	

Additionally there is an existing delegation from the Committee permitting further loan for the sites nearing completion listed in 1.1 and 1.2.

Loan item	Amount
Remainder of portfolio + Papworth	£8.761m

This means in total, the Committee has agreed activation of £42.14m of loan financing with “in principle” support for up to a further £77.86m for land acquisition, construction and associated costs, as per a resolution in December.

2. AMENDMENT TO DISPOSAL AND LOAN VALUE FOR A SPECIFIC SITE

- 2.1 Within the portfolio, one site detailed in confidential **Appendix C** (to follow) has progressed sufficiently through the planning system to warrant a full revaluation. Planning progression and a corresponding change in value is anticipated for many of the sites transferred to This Land. Where this occurs after the transfer date from the Council to This Land, this will be dealt with through overage agreements. These are already in place for sites where planning is pending that have been transferred to date and enable the Council to benefit from the uplift in value according to an agreed methodology.
- 2.2 In relation to the site to be detailed in appendix C, the transfer to This Land has not yet occurred, the change in value is anticipated to be significant, and will be in the Council’s interests to transfer at the re-valued amount rather than await overage.

- 2.3 In line with the approach towards best consideration that the Committee has previously agreed, an external valuer was appointed to value the site, a summary of the relevant conclusions will be provided once received from the valuer.
- 2.4 Accordingly, subject to the valuer providing their confirmed opinion ahead of 20 July, the Committee is invited to authorise additional loan financing to enable This Land to acquire the site at the revised increased valuation post planning.

3. SAMPLE SECOND VALUATION RESULT AND CONSIDERATION

- 3.1 A second valuation has been received for one of the properties transferred as part of the portfolio sale, following an action to review how valuations were assessed under minute 83 of this Committee. Further commentary is included in **appendix A**.
- 3.2 Attention is drawn to the contents of item number 3, at the Committee's meeting on 30 June 2017 which sets out the approach that was subsequently adhered to for disposal of property assets to This Land.

4. CONSTRUCTION AND DEVELOPMENT FINANCING

- 4.1 To date the medium and longer term loan financing advanced to This Land has related to property acquisition. With land ownership now passed over to the company, focus will also be rapidly shifting onto the next stages of the development process. The company has assessed its cashflow needs in relation to construction and development costs and has approached the Council with loan requests as follows:

Item	Repayment Term	Amount
"Construction Loan"	Longer term – up to 10 years	£8.0m
"Bridging Loan"	Medium term – up to 2 years	£7.6m

- 4.2 Loans of this order and purpose have already been agreed in principle by the Committee as set out in section 1.3, with the total amount of activated loan well within the initial planning level (and within the budget agreed by Full Council in February). In actuality, This Land has also deployed some of its "operating and overheads" loan towards the cashflow of early stage development costs incurred to date.
- 4.3 The Council is the sole shareholder in the This Land companies, and it is essential to the group's commercial success that site development progresses in accordance with timescales set out in their business plan and financial modelling, ultimately achieving house sales and cash inflows.
- 4.4 Whilst acknowledging this objective for the shareholder, individual loans must also be considered from the Council's perspective as the lender. Before advancing any loan amount consideration is to be given to risk mitigation and assurance available from the borrower, protecting the Council from the future potential for disrupted repayment and/or default and informing the appropriate level of interest chargeable associated with the risk for each party.
- 4.5 Whereas for the portfolio loan for land acquisition there was a relatively straightforward relationship between the value of the assets at transfer and the

security those assets provide in case of default, the consideration for this stage is more complex with investment required before full future value is realised. On the other hand, the relatively infancy of This Land is perhaps less novel at this point: it is common for entities seeking construction loans to be special purpose vehicles, with limited credit history predating the project they have been formed to implement.

- 4.6 Further considerations are set out in the **Appendix B** including more details of the financial plans submitted by This Land as well as the intended forms of assurance underpinning the loan. Taken together, it is recommended that approval is given for a construction and bridging loan enabling the negotiation of final terms to progress in the coming weeks.

5. FUTURE SITES

- 5.1 East Cambridgeshire Local Plan (Proposed Submission) was submitted to the Secretary of State on Friday 16th February 2018 for examination. The examination is formed of a series of hearings which are currently underway. The comments of the Planning Inspector within an appeal decision may provide a window of opportunity for landowners to promote sites for development until a deliverable five- year supply of housing sites is proven.
- 5.2 Cambridgeshire County Council has various land holdings/sites within East Cambridgeshire District Council area. A number of these holdings were identified for long-term development under the 2006 Farm Management Review Plans, as approved by CCC Members at that time, or have been declared surplus to operational requirements by Service Areas and held for long-term development. Several additional sites have been subsequently identified as having potential for development. Subject to steer from the Committee, the County will commission a planning consultant to evaluate each site in light of current national and local planning policy and prioritise the sites in terms of deliverability. It is envisaged that the County will pursue planning permission for development on the highest priority sites in order to maximise their value.

6. ALIGNMENT WITH CORPORATE PRIORITIES AND SIGNIFICANT IMPLICATIONS

6.1 Developing the local economy for the benefit of all

The financing arrangements enable local economic development

6.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

6.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

6.4 Resource Implications

Resource implications connected to lending funds to This Land are set out in the appendix.

6.5 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications within this category.

6.6 Statutory, Risk and Legal Implications

Legal and risk implications connected to the issues of this report are set out in the appendix.

6.7 Equality and Diversity Implications

There are no significant implications within this category.

6.8 Engagement and Consultation Implications

There are no significant implications within this category.

6.9 Localism and Local Member Involvement

There are no significant implications within this category.

6.10 Public Health Implications

There are no significant implications within this category.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Tom Kelly
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by Finance?	N/A
Has the impact on Statutory, Legal and Risk implications been cleared by LGSS Law?	M McMurtry – further advise will be taken as part of agreement of final terms
Are there any Equality and Diversity implications?	N/A
Have any engagement and communication implications been cleared by Communications?	N/A
Are there any Localism and Local Member involvement issues?	N/A
Have any Public Health implications been cleared by Public Health	N/A

Source Documents	Location
This Land Strategic Finance Model	Corp Finance – Octagon 1