Appendix

AVISON YOUNG

Shareholder Review of This Land

December 2021

Cambridgeshire County Council

this Land.™

A DEVELOPMENT BUSINESS

Contents

Section 1

Appendices

Report title: Shareholder Review of This Land

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For and on behalf of Avison Young (UK) Limited

Section 1

IN THIS SECTION

1. Executive Summary

1.1 Avison Young have been appointed on behalf of Cambridgeshire Country Council ('CCC') to undertake a shareholder review into This Land ('the Company'), a commercial housing entity set up to oversee the acquisition and development of land. CCC are the only shareholder of the Company. This report sets out to independently review the robustness of the business plan, specifically focusing upon six key questions:

- Are the assumptions that This Land has made in its business plan reasonable and deliverable?
- Is there a clear understanding about the exposure to risk, particularly in the medium term?
- How could This Land adapt its plans to adjust its risk appetite or strategy, taking account of the revised political priorities of its shareholder?
- How could the firm quicken the pace of housing delivery, are there lessons from other local authority related housing companies?
- Does This Land have the skills, capabilities and expertise that you would expect of a housing development company of this type?
- Is the company operating effectively and with good governance in order to deliver the business plan?

1.2 A fundamental part of this commission is to help shape a strategy that satisfies the Council's objectives through the vessel it has created, being This Land and the overarching appetite to development delivery and risk. Whilst it may seem obvious, identifying the right strategy is critical to assist and enable development and delivery. Through our experience, the objectives set will influence the type of commercial entity being developed and therefore is a key area to consider from the outset. Consideration is required as to how objectives are shaped between qualitative and quantitative objectives as this can dictate the commercial and legal structure that the Council and This Land can establish.

1.3 Transparency of information and conversation has been enshrined in our approach to this commission, through the establishment of an Avison Young Advisory Board. The Advisory Board has acted as the central hub and the focus of all decisions, discussions and reporting to Cambridgeshire County Council ('the Council') and This Land. We have utilised this approach to challenge and inform our approach to this commission, furthermore creating an open and honest dialogue for reporting.

1.4 As part of the report, we reviewed the development assumptions that have been made in the Business Plan. The Company appears to be conducting its affairs in line with the current Business Plan. We noted there were some inconsistencies within the company's individual site appraisals which have resulted in both additional cost contingencies and omissions being applied at both site and company level. Our recommendation to resolve this is to introduce a standard form appraisal template for each site to ensure each cost heading is included. The company must then ensure there is appropriate challenge and review of appraisals by its officers and board.

1.5 We have been asked to consider the understanding of risk within the business. Our review focused on assessing the business plan, financial model and the governance and monitoring arrangements. While there are positives in the approach and processes that This Land have put in place, it is not clear that those processes are operating as effectively as they could be and therefore we surmise that there is not a fully appreciation of risk at all levels of the company. We have set out a number of issues identified and proposed actions to resolve these.

1.6 In addition we have reviewed risk appetite, governance and skills and identified opportunities through best practice examples whereby This Land can elevate their pace of delivery and capabilities by recognizing the value of diversity in personnel, experience and skills.

2. Introduction

Background to This Land

2.1 This Land Limited (the 'Company') together with its subsidiaries (the 'Group') was incorporated on 17th June 2016. The principal activity of the Company is to act as a holding company and a commercial entity whilst the Group oversee the acquisition and development of land and property for subsequent sale. The Company and Group are a wholly owned subsidiary of Cambridgeshire County Council ('CCC').

2.2 This Land aims to develop the land it has acquired (26 properties purchased from the Council), to provide homes that are in much demand in the greater Cambridgeshire region. It has longer term ambitions to acquire further property and promote other land. As well as being the single shareholder of This Land, the County Council is also the company's only lender. The Council has £114m on loan to This Land, in addition to approximately £6m invested as equity. The loans are repayable between 2026 and 2029.

2.3 This Land pays to the Council interest on the above loans which is a significant benefit to CCC. The large part of the loan finance was provided to enable the company to purchase property from the Council, and the Council has the benefit of associated mortgages/legal charges on the property that This Land purchased. As will be evident from this setup the commercial success of the company is important to the Council, both so that it continues to receive interest payments on the loans, and also that it has certainty the loans will be repaid on schedule, in due course.

2.4 The company was incorporated in 2016 and in a large part has followed the business case set at that stage in terms of its structure and financing. The arms-length setup and commercial character of the company place it outside the public procurement regulations. By providing loan finance to This Land and receiving interest, the Council was enabled to gradually benefit from development profits rather than receive a pre-development capital receipt or wait until the end of the development cycle on individual properties several years ahead. This relies upon delivering those profits in the future in order to accelerate benefit before its delivered.

2.5 In December 2017, lending of up to £120m to This Land was agreed following detailed plans for the company. These included selling 26 of the Council's properties in one tranche ("the portfolio sale") and this largely progressed in Spring and Summer of 2018.

2.6 From late 2018 onwards This Land began appointments of non-executive directors. Today there are five independent non-executive directors, two Council appointed directors (the Executive Director of Place and a political Member), and two executive directors (including the Acting Chief Executive).

2.7 Following the departure of the company's finance director in 2019, the company undertook a thoroughgoing review of its business plan, identifying that this was too optimistic and exposing the Council to undue risk. It was unusual for the company to have acquired development sites at an early stage in planning, and delays had been experienced in progressing planning permissions. In April 2020, the Council received and adopted a significantly revised and detailed business plan from This Land. The principal changes at that stage included:

- Focusing the company's development on medium size sites, disposing of smaller sites and acting as master developer (providing infrastructure, place shaping and some of the houses) on larger sites. This means This Land will itself deliver 540 homes.
- Varying the approach to overage whereby the Council was gaining 100% of the uplift in value once planning was achieved;
- Revised lending limit up to £150m [although it is now thought that total borrowing will remain at around £120m]
- Adding land promotion as a further business activity

2.8 Since then and throughout the last year, the company has largely progressed in accordance with that business plan, making good progress achieving the targeted disposals. Construction has albeit experienced difficult challenges, with delays on practical completion of a site resulting from rebuilding three homes. Notwithstanding this, over the last 15 months planning applications have been submitted on 15 sites and construction is scheduled to start on five sites over the next 12 months.

Governance/ Board

2.9 The responsibilities of the board are to maintain a strong and effective system of governance throughout the Group; which is proportionate to the size and nature of the Group and the interest of the Shareholder. Board members have a pivotal role in overseeing the strategy and management of the business, which is conducted in accordance with a rolling 10 year business plan. This plan is prepared by the board and approved by CCC.

2.10 The board consists of nine Directors; an independent non-executive Chairman, four independent Non-Executive Directors, two Non-Executive Directors (appointed as Shareholder representatives) and two executive Directors. It is to be noted that following the departure of David Gelling as Chief Executive on 31st January 2021, an Acting Chief Executive was appointed with effect from 1st February 2021, and subsequent Board Director within the first month. FIGURE 1 sets out board members. Furthermore there is a protocol in place for one further Councillor, who is a member of the Strategy and Resources Committee of the Council, to attend each board meeting as an observer.

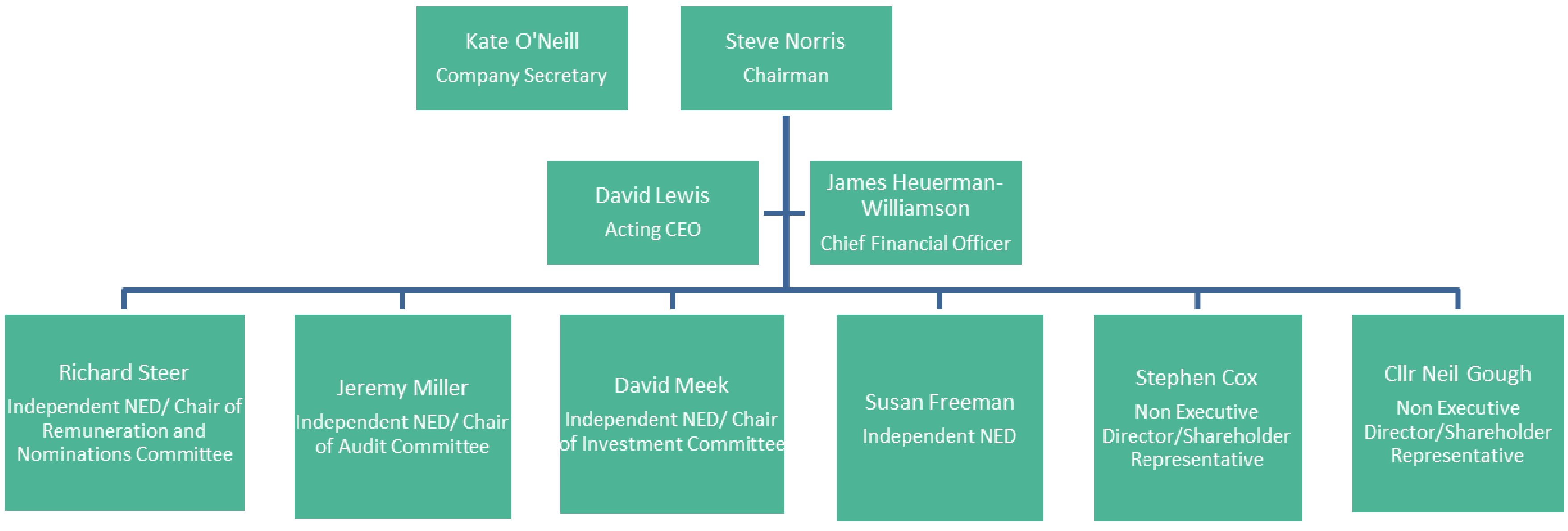


Figure 1 - This Land Board Members

2.11 Board meetings are scheduled every two months, with Shareholder meetings planned for every four. Over the last year, meetings have been less regular, partly impacted by the transition to virtual meetings, leading to slow down of communication between members. With the new acting CEO in place, we have seen recently that meetings and communication are beginning to pick up and resolutions and actions are being addressed. Yet, the back log from communications has naturally slowed down the pace and confidence of delivering against the business plan.

2.12 To ensure governance and terms of references are being met, following a request from CCC in 2021, an independent auditor was appointed in June 2021 to provide internal audit services for a three-year term. It is our understanding that two internal audits have recently concluded but these were not ready for review and we have therefore been unable to comment on independent reports.

2.13 Subsequent committees have also been established to discharge responsibilities from the board. Each of these committees have the remit to recommend action where appropriate to the main Board which will discuss and act upon the recommendations. We have set out below a summary of the committees established, their responsibilities and key members within each board. Committees are not authorized to act independently of the main Board.

Audit Committee

2.14 The responsibilities of the Audit Committee were adopted through the terms of reference in September 2019. This includes:

- Reviewing the integrity and content of the financial statements;
- Reviewing the adequacy and effectiveness of the Group's internal controls and risk management policies;
- Reviewing the adequacy and effectiveness of the Group's compliance, whistleblowing and fraud policies;
- Review and approve or disallow any related party transactions presented to it;
- Review and approve the annual audit and review the audit findings with the external auditor; and
- Assess the objectivity and independence of the external auditor and review their remuneration and performance.

2.15 Members of the committee are appointed by the Board on the recommendation of the Remuneration and Nomination committee. The chair of the committee consists of a majority of Independent Non Executive Directors of the Board, with one of the company directors nominated by CCC present.

Investment Committee

2.16 The purpose of the Investment Committee is to support the board in overseeing the real estate investment activities of the Group. Appointed through recommendation of the Nominations Committee and endorsed by the Chairman of the committee, members have responsibility to oversee and guide:

- Review and challenge of proposed real estate investments, development and divestments presented to it;
- Review and recommend to the board an appropriate risk adjusting rate of return for various categories of real estate investment; and
- Review managements key assumptions used in assessing transactions and preparing forecasts.

Remuneration and Nomination Committee

2.17 A remuneration and nomination committee was established to provide a strategic oversight into the appointment and composition of the board, reflecting on the responsibilities of key members and ensuring best practice is being achieved.

- Determining and recommending to the Board, the framework or broad policy for the remuneration of the Company's chairman, executive Directors and company secretary;
- Review and recommend to the Board the design of, and determine targets for, any performance related pay scheme operated by the Company;
- Regularly reviewing the structure, size and composition of the Board and make recommendations to the Board with regards to any changes; and
- Give full consideration to succession planning for Director and other senior executives of the Company.

3. This Land Business Plan

3.1 Drafted in 2020, the business plan has been produced to set out a commercial footing for the company to thrive, with high levels of profit and stakeholder return at the forefront of successful delivery. To achieve this, the business plan is set out into four sections; strategic objectives, land disposal, master development and land promotion, risk management and balance sheets, income statement and cashflow. In this section we highlight the key details within each section and considerations for the review.

3.2 The following strategic objectives have been proposed within the Business Plan:

- Drawdown loans from Shareholders at a frequency and size that matches the business requirements;
- Focus on repaying the existing debt on time and to make early capital repayments when the company can afford to do so;
- Target return of circa £220m to the CCC through a combination of capital and interest payments;
- Borrow new 4 year loans at a fixed interest rate
- Borrow new six year loans at a fixed interest rate
- Pay a planning overage on three sites of £2,125,000 before 2023
- Remove all overage payments, pre-exemption rights and restrictions in the funding agreements that will delay or prevent the sale of land;
- Re-invest cash generated through operations into 12 new strategic land deals outside Cambridgeshire
- Purchase three large sites from CCC, funded from operations, [redacted] to Q2 2027.

3.3 The overarching objectives of the business plan are largely based upon a quantitative assessment and return. As noted previously, it is the Board's responsibility to ensure the objectives are achieved, and where targets have been met and exceeded, this in incentivised into remuneration packages. Whilst the value of quantitative returns is critical to the shareholder and a measurable KPI for board and committee members, it is also important to recognise the value of qualitative outputs in ensuring there is efficient succession planning. Furthermore, qualitative objectives cultivate opportunities for engagement and enthusiasm which leads to many other benefits like retention and increased productivity.

3.4 As stipulated within this section, the business plan sets three key financial targets:

- Sites must achieve a threshold of [redacted], by which sites that did not achieve this would be disposed upon the open market, with capital receipts off setting the cost of significant development sites;
- Acquisition of new third party land should be sufficient to develop circa 150 new homes, subsidised by a £1m equity from CCC in Q2 2020; and

- Borrow a further £50m, with a facility of up to £85m to account for economic fluctuations.

3.5 It is important to the note that the Shareholder Agreement states that within each Business Plan, the company should consider the reliability of funding sources and assess the potential impact on the company's cashflow requirement. The Shareholder at the point of this review, is the only source of funding and as such the risks set out within the business plan are based upon continued financial support from one shareholder. We reflect on the assumptions and considerations in section 5 of this report.

Land Disposal, Master Development and Land Promotion

3.6 The Business Plan identifies a significant role for the Land team in the promotion, development and disposal of sites;

- Disposal of 15 sites – these sites are those that do not meet the [redacted] target and as such have been identified for disposal 12 months from board approval. The business plan highlights the majority will be completed in Q2 2021, This Land are currently operating ahead of schedule. This is based upon the valuation at the time of reporting the Business Plan. The latest update highlights 7 sites are currently progressing through to disposal. Five of these sites will result in a loss on acquisition cost. The values achieved thus far do typically meet or exceed This Land's estimate.
- Master Developer Role for Soham, Worts Causeway and Burwell – the master developer role allows for an early receipt through the provision of serviced parcels for third party housebuilders to develop out whilst This Land retains control to build out part of the site. For the three sites identified, This Land will provide upfront cost to provide the infrastructure to service the plots across an 18 month programme. The business plan set out a minimum of 1.5 years to the first tranche sale at Worts, factoring in planning delays expected to occur at Soham and Burwell. This Land are continuing to progress these sites through planning, noting that Burwell fell below the [redacted] hurdle rate [redacted] yet long term offered wider growth opportunities.
- Land promotion of 12 strategic sites – the business plan has modelled an additional £34m to be generated through the promotion of 12 strategic sites. 10 of these sites are unidentified and the modelling has been undertaken through categorising small, medium and large sites to offer between 150 to 1000 dwellings and This Land would seek to receive 10% of net sale proceeds. At present, development activity has been focused upon existing land bank sites due to delays resulting from the impact of the COVID-19 pandemic. Therefore, progress has been slower than anticipated.
- Purchase of three sites from shareholder – the business plan has modelled three future purchases from the shareholder to generate an additional £50m without the need for borrowing. The business plan assumes these sites will be secured under an option agreement and purchased at 90% of open market value, with the opportunity to generate circa £54m capital receipt at practical completion. It was anticipated the initial purchase would be

made within two years, however this is yet to come into fruition. It is to be noted that the land value figure is only the opinion of This Land of which there has been no contractual arrangement to purchase these land parcels. Furthermore there is a lack of clarity regarding the how the land will be promoted through CCC local plan process and as such the timescales for the sale and release of land for development is highly questionable.

3.7 Each of the options above are based upon a series of assumptions and scenario analysis. We will review how robust these assumptions are against the market and furthermore reflect on whether the assumptions, and therefore the proposed financial outturns, are reasonable and achievable.

Risk Management

3.8 The Business Plan sets out how risk is identified, monitored, and mitigated. Historically the risk appetite has been set by Executive directors but from January 2020, a proposal was put forward that this is set by the Board to better align the management and expectations of the shareholder. We welcome this position change to better conform with governance processes.

3.9 The Company is currently performing at a moderate to fair level of operational risk linked to the current activity against the proposed business plan objectives. Whilst it is understood each site has a management strategy, we will review how effective the stages of risk identification and monitoring are from a commercial entity company. Furthermore, what processes need to be in place to effectively manage risk.

Balance Sheets

3.10 The balance sheets reflect the current financial position at the year ending March 2021. When compared against an estimated balance sheet of December 2019, there has been an increase in net liabilities. This is a result of delays with construction and planning, part of which was caused by the impact of the construction industry closing down for a short period of time at the start of the COVID-19 pandemic. It is to be noted that the business plan does not have a section on financial liabilities and therefore we are unable to comment on the current position.

3.11 The business plan set out that project revenue over the next year was anticipated to be resulted from the sale of two sites. Russell Street was sold last year for £1,138,000. The costs incurred to date on site exceeded the acquisition prices and suggests This Land made a loss of £44,234 on their investment.

Scope of works

3.12 As development progresses, it is recognised that the Council’s exposure to risk is at its greatest. With the disposal of sites, the company’s assets have reduced and until practical completion of the property, the full benefit realisation is relatively unknown. In 2020, independent valuations were undertaken on properties retained with the company land bank.

3.13 Over the last year, concerns have been raised regarding the progress and communication of key personnel between the Company and the Council. The perception of the challenges the Company has faced have been somewhat attached to previous administration with the departure of the [redacted], coupled with the renewal of the Business Plan, rather than reflect upon the current directors.

Section 2

IN THIS SECTION

- Are the assumptions that This Land have made in its business plan reasonable and robust?
- Is there a clear understanding about the exposure to risk, particularly in the Medium term?
- How could This Land adapt its plans to adjust its risk appetite or strategy, taking account of the revised political priorities of its shareholders?
- How could the firm quicken the pace of housing delivery, are there lessons from other local authority related housing companies?
- Does This Land have the skills, capabilities, and expertise that you expect of a housing development company of this type?
- Is the company operating effectively and with good governance in order to deliver the business plan?

Are the assumptions that This Land have made in its Business Plan reasonable and robust?

4. Are the assumptions that This Land have made in its business plan reasonable and robust?

4.1 This section of the report addresses the question above by reviewing the assumptions made by This Land within its Business Plan and specifically the methodology, inputs and allowances that form the basis of the assumed values within the Plan and Cashflow.

Summary of Approach

4.2 This section is primarily concerned with the assumptions within This Land's Business Plan, and whether it is deemed to be reasonable and deliverable. In order to address this question, a comprehensive review of all sites cited within the Business Plan has been undertaken.

4.3 This focuses on a review of the main market assumptions within This Land's supporting development appraisals provided to AY. Specifically, where possible our review addresses the following market inputs:

- Residential market values
- Commercial rents
- Commercial yields
- Build costs
- Additional development costs
- Contingency
- Professional fees
- Planning costs
- Sales and marketing
- Profit
- Finance
- Development timings

4.4 In order to assess whether the assumptions within the Business Plan are reasonable and robust we have undertaken the following –

1. Review of all information provided initially by CCC including the Business Plan and some historic valuation reports.

2. Requested information from This Land on each of the sites within the portfolio to include:

    - Report on title, title register & title plan
    - Technical reports and any surveys that have been undertaken e.g. environmental, ground conditions, contamination
    - Feasibility studies or supporting development appraisals
    - Planning details
    - Schedule of accommodation
    - Cost estimates
    - Valuation and associated reports which include details of value, cost and timing assumptions
    - Details of all sites/property sold by This Land
    - Details of any sites This Land are currently looking to acquire from CCC or on the open market including any promotion or option agreements.

3. Undertook a national, regional and local market review in order to analyse the value assumptions made by This Land.
4. Undertook a construction cost baseline review for the Cambridgeshire area.
5. Reviewed all of the information provided by This Land on a site by site basis.
6. Requested further information and issued clarifications to understand further the information provided by This Land.
7. Held a virtual meeting with This Land to further understand the information provided and request further clarity on a number of the assumptions.
8. Reviewed further the additional information provided and provided key findings for this report, noting where outstanding information still needed to be provided.
9. Concluded the draft review having considered all additional information provided, providing recommendations accordingly.

Site Analysis

4.5 We have been provided with the 2021 Business Plan Overview which separates sites into the following four categories, Master Developer, Self-Develop, sites to dispose of and sites that have been disposed.

Master Developer Sites

4.6 The portfolio includes three large sites. This Land intends to provide infrastructure to facilitate the sale of serviced plots. This Land also intends to undertake direct delivery of the latter phases of these schemes.

Self-Develop Sites

4.7 This Land intends to develop a number of sites across the portfolio. There are a broad range of sites to be developed comprising sites with indicative capacity for 3 units, with the largest sites delivering up to 53 units.

Sites to Dispose of

4.8 This Land identifies a number of sites that are [redacted] and suitable for disposal. The Business Plan states that most of the sites within this category will be sold [redacted]. The Business Plan reports that cash flow modelling indicates that selling [redacted] than borrowing additional [redacted] As it transpired, some of the sites did achieve higher than expected receipts.

Disposed of Sites

4.9 Although not detailed within the Business Plan, we are also aware of a number of sites that have recently been disposed of and we have undertaken a review of these sites also.

Site Summary

4.10 A summary table detailing all sites has been set out below.

Master Developer Sites (3 sites)	Develop Sites (9 sites)	Sites to Dispose of (5 sites)	Disposed of Sites (7 sites)
Cambridge Worts Causeway	Brampton Meadow View	Guilden Morden Dubbs Knoll Road	Cambridge Russell Street
Soham Eastern Gateway	Cambridge 137/Camfields, Ditton Walk	Hartford PRU	Cottenham Rampton Road
Burwell Newmarket Road	Cambridge Fitzwilliam Road	Landbeach Beach Farm	Guilden Morden Trap Road
	Cambridge Malta Road	March 34a Station Road	Litlington Sheen Farm
	Foxton PRU	March Sites (Hereward Hall, Norwood House, Queen Street)	Shepreth Meldreth Road
	Horningsea Northgate Farm		Wicken Church Road
	Over Mill Road		Willingham Belsar Farm
	Soham Northern Gateway		
	Cambridge Milton Road		

Market Commentary

4.11 To support the analysis of the commercial assumptions provided by This Land, we have compiled a market commentary. We have set out below a review of the national, regional and local market as well as specific local market comparable evidence to understand the suitability of This Land's value assumptions.

National and Regional Market

4.12 House price growth in the UK remained strong in Q3 despite the initial tapering of the Stamp Duty Land Tax (SDLT) holiday at the end of June. Nationwide reported 10.3% year on year growth in the quarter, the same as in Q2. This puts the average UK house price at £248,742, compared to £226,129 at the same time last year.

4.13 Transactional activity has also remained strong, despite a dip in July following the tapering of the SDLT holiday. The most recent figures for August show 98,300 transactions, 20.8% higher than the same time last year and a 32% rebound from July's figures. Over the past 12 months, transaction levels have been the highest we have seen since the Global Financial Crisis and 25% above the 2019 total.

4.14 Although we expect the market to cool somewhat in the final quarter of the year, the latest RICS Residential Market Survey suggests buyer demand ticked up in September having receded over the previous two months. Zoopla have also reported higher than typical demand for the time of year.

4.15 Another factor which will help support price growth is very limited supply. According to the RICS survey, the number of homes per surveyor at its lowest level on record except for the housing market shutdown in Q2 2020.

Economy

4.16 At the macro level, high and still rising levels of vaccination should allow the economy to continue to recover from 3% below its pre-virus size in May to its pre-pandemic level by the end of the year. This will help ensure that there is not a spike in unemployment when the furlough scheme ends. Of particular significance is the record level of excess savings households have accumulated since the pandemic began. Some of this will be spent, which will help economic growth but the savings will also continue to provide a boost to deposits on homes.

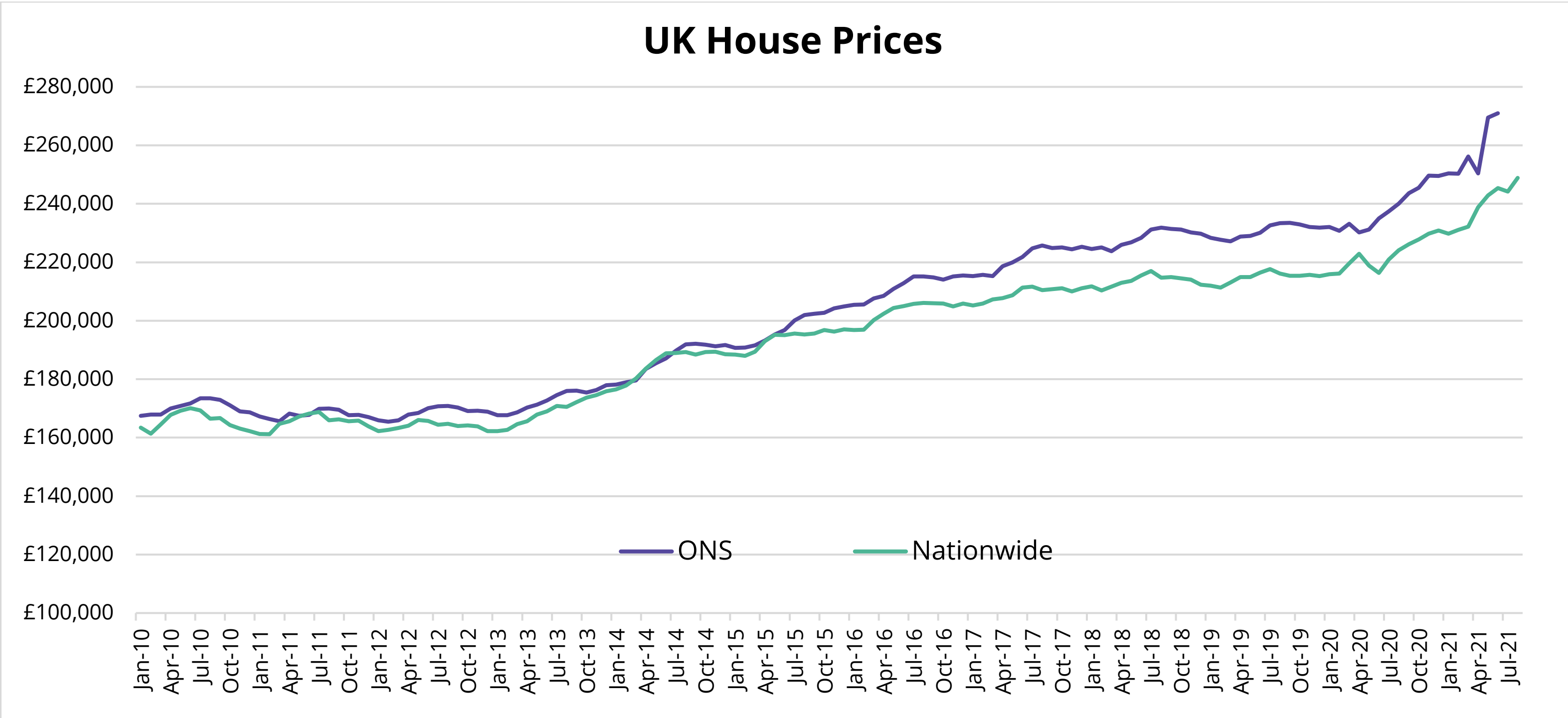
4.17 Inflation is likely to surge well above the Bank of England's target in the near term. But as this spike forecast may be temporary, it is unclear whether the Bank will raise interest rates in response. If rates do not rise then this will help underpin monthly affordability of mortgage payments, which remains very good by historic standards despite high average house prices. A rise in interest rates will likely be reflected by a similar rise in mortgage rates for those on variable products, which will put further pressure on those households affected.

4.18 All the land holdings are in the East of England and Experian forecast that its economy is expected to outperform the wider country in both the short and medium term. They are forecasting growth at 6% in 2021and 7% in 2022. The region's growth is expected to settle at 1.6% p.a. over 2023-25, outperforming UK growth of 1.5% p.a. in this period. This will help underpin strength in the housing market over the forecast time frame.

Housing Market

4.19 The last year has seen a surge in housing market activity and house prices. This has been primarily driven by a reassessment of housing needs following the pandemic living experience and the SDLT holiday incentivising activity. Nationally, the volume of transactions in the first half of the year was the highest since the statistics started being recorded in their current form in 2005. Similarly, house price growth in the first half of the year reached 13.4%, the highest since 2004.

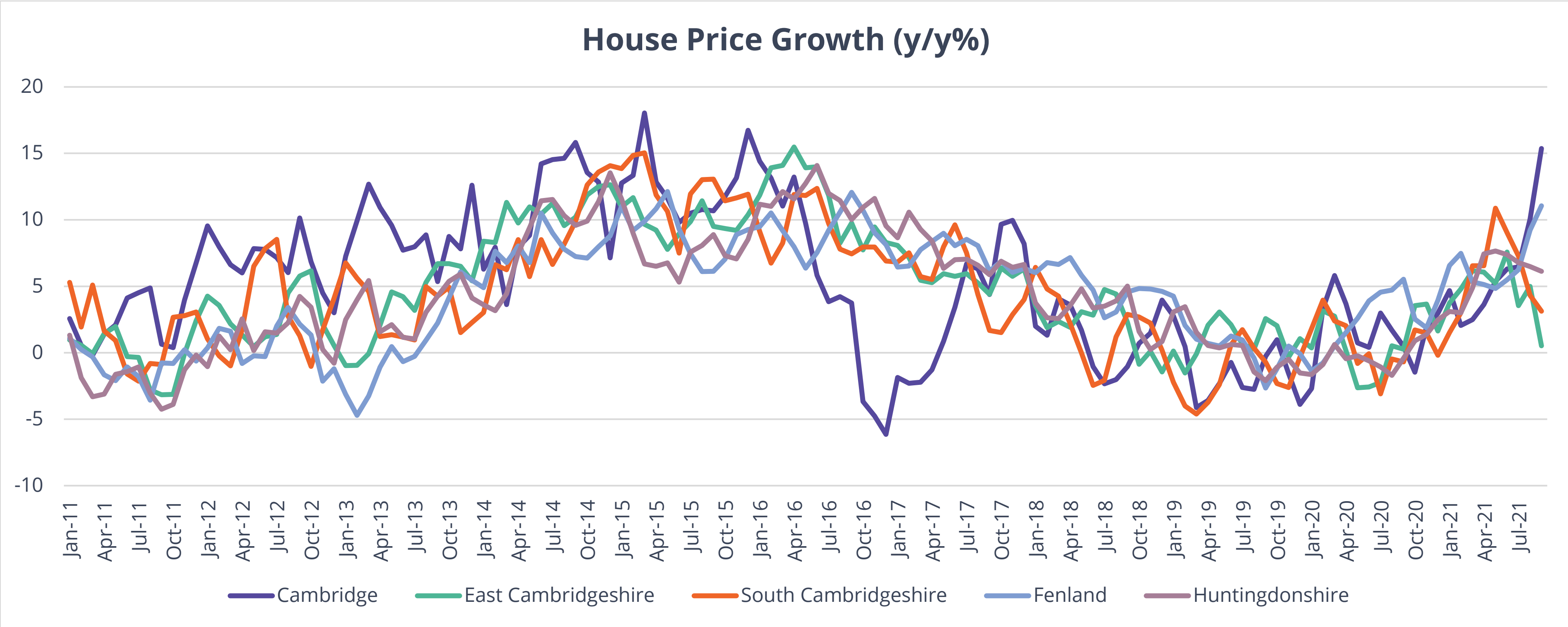
4.20 With the SDLT holiday ending in June, transaction volumes fell as did the rate of house price growth. At the national level house prices fell -0.6% in July before rising 2.1% in August, bringing annual growth to 11.0%.



Source: Land registry

4.21 Recent housing market performance in the areas where the land holdings exist has been strong relative to the two years before the pandemic, although has underperformed the national average over the last year. There has also been significant variance in performance between the local authorities where the land holdings are located (Cambridge, South Cambridgeshire, East Cambridgeshire, Fenland, Huntingdonshire).

4.22 House price growth in the last 12 months to September 2021 (Land Registry) fluctuated across the local authorities, with 0.5% in East Cambridgeshire, 3.1% in South Cambridgeshire, 6.1% in Huntingdon, 11.0% in Fenland and 15.37% in Cambridge.



Source: Land registry

4.23 We have set out the average house price by property type in the table below as at September 2021:

	East Cambridgeshire	Cambridge	South Cambridgeshire	Fenland	Huntingdonshire
Detached	£403,376	£1,030,636	£547,412	£288,304	£432,301
Semi-detached	£269,187	£608,185	£352,810	£195,863	£265,501
Terraced	£235,369	£527,552	£293,304	£149,325	£212,460
Flat	£151,880	£327,936	£204,993	£92,120	£142,417

Source: Land registry

4.24 Our expectation is that with the end of the SDLT holiday and expenditure of demand, housing market activity in both the near term (next year) and medium term (next five years) will cool but not collapse. This applies to the areas where the land holdings exist and the wider market. This view is based on analysis of the most significant underlying drivers of the housing market; the strength of the economy and labour market, affordability, mortgage market conditions and housing supply.

Affordability and the mortgage market

4.25 The recent surge in house prices has led to concern in some quarters that the housing market is entering a bubble. At a national level, house prices relative to incomes are at an all-time high (7.5). However, because interest rates have stayed very low, debt servicing costs are well below the levels that have heralded house price corrections in the past. With the expectation that the Bank of England will keep interest rates at 0.10% before raising them slowly, house prices will continue to see further gains.

4.26 Having said this, the Local Authorities where the land holdings exist all have house price to income ratios well above the national average. In the case of Cambridge, the house price to earnings ratio is over 12 which is similar to London. East and South Cambridgeshire have ratios just over 9.

4.27 This is relevant to the outlook for house price growth in the local authorities. Limits on the amount of high LTV and LTI lending banks can have on their loan books mean that high house prices relative to incomes act as a restraint on the ability of buyers to put upward pressure on pricing through stretching borrowing and bidding up prices.

4.28 A counterbalance is that this can be offset through larger deposits, which many will be able to raise as a result of savings during the pandemic.

Housing supply

4.29 The latest RICS residential market survey points to continuing mis-match between supply and demand in the East of England. New buyer enquiries continue to outpace new instructions and this will help support price increases in the near term.

4.30 Limited stock and a backlog of orders has left homebuilders struggling to keep up with current demand and contributed to a shortage of building materials. Housebuilders reduced their inventory before the pandemic, reflecting subdued housing market activity and the end of the Help to Buy equity loan scheme approaching. The slowdown in construction was then compounded when it had to be paused altogether in Q2 2020 during the strictest lockdown.

4.31 Since then, demand has been much stronger than anticipated, and completions surged in Q1 to meet the initial stamp duty deadline. The result has been a large draw down of inventory. Housebuilders are now struggling to keep up with demand. Indeed, most report work in progress is currently inadequate to meet demand. This has led to a resurgence in planned starts but there is a significant lag before this new supply will hit the market.

Conclusion and forecasts

4.32 There are already signs that the end of the stamp duty holiday is causing house price inflation to moderate. But as the pandemic has done remarkably little damage to the labour market and mortgage rates should remain broadly stable, we suspect that house prices will record further, albeit more modest, gains in 2022 and 2023. Supporting this is the amount of stock on the market remains very limited, and despite the tapering of the stamp duty holiday, demand remains strong according to RICS and Zoopla.

4.33 The East's economy is well placed to out-perform the national average over the next five years which will help support house price growth. It has seen the lowest increase in unemployment of all the regions during the pandemic. Also, the close proximity to London should make the region one of the main beneficiaries of the structural shift to more remote working, while the IT services sector is expected to make a key contribution to growth in the region as a whole. This should directly serve as demand boost to housing in the region.

4.34 We have detailed the house price forecasts for the UK and east of England below:

	2021	2022	2023	2024	2025	Cumulative
UK	10.0%	3.0%	3.0%	2.5%	2.5%	21%
East	9.0%	3.0%	3.0%	3.0%	2.5%	20.5%

Local Market Commentary & Evidence

4.35 Residential values vary throughout Cambridgeshire, therefore in this section we have analysed the local markets of the 24 sites, split into 7 postcode sub-areas with reference to average value data provided by platforms such as Zoopla and the Land Registry. We have also analysed the new build residential market within each area and the average asking values. We provide over the page a table indicating the postcode sub-areas and the corresponding sites:

Postcode	Site	Postcode	Site
PE15	34 Station Road	CB1	Malta Road
PE15	March Sites	CB1	Worts' Causeway
PE28	Brampton Meadow View	CB2	Russell Street
PE29	Harford PRU	CB2	Fitzwilliam Road
CB7	Soham Eastern Gateway	CB22	Foxton PRU
CB7	Church Road, Wicken	SG8	Dubbs Knoll Road
CB7	Soham Northern Gateway	SG8	Trap Road
CB24	Mill Road	SG8	Sheen Farm Litlington
CB24	Belsar Farm Willingham	SG8	Medreth Road Shrepreth
CB24	Rampton Road		
CB25	Burwell Newmarket Road		
CB25	Landbeach		
CB25	Horningsea Northgate Farm		
CB4	Milton Road		
CB5	Ditton Walk		

PE15

4.36 The 34 Station Road and 'March Sites' fall within postcode district PE15 towards the north of Cambridgeshire.

4.37 According to Zoopla, the average price for property in PE15 stood at £232,666 in September 2021. This is a fall of 3.58% over the last three months and a fall of 2.71% in the last 12 months. In terms of property types, flats in PE15 sold for an average of £101,104 and terraced houses for £159,901. The table below shows the current average values for properties within PE15 according to typology.

Property Type	Avg. Current Value	Avg. £ per sq ft	Land Registry (Avg Sales YTD)
Detached	£278,125	£185	£304,318
Semi-detached	£186,637	£167	£189,191
Terraced	£159,901	£172	£165,543
Flats	£101.104	£173	£95,714

Source: Zoopla, 2021 & Land Registry, 2021

4.38 Within March and the neighbouring villages, there are a limited number of developments on the market, built by local developers. However, this includes a relatively large scheme by Cannon Kirk Homes in west March. These are outlined below:

- Willow Green, March – Development of c. 120 dwellings comprising a mix of 2, 3 & 4 bed houses by Cannon Kirk Homes. Located in March.
- Willow Gardens, Wimblington – Development of 24 dwellings comprising 2 & 3 bed bungalows by Reason Homes. Located in Wimblington, to the south of March.

	Beds	Average Size (sqft)	Average Price	Average Price (£ psf)	Price Date
1. Cannon Kirk - Willow Green	2	755	£229,995	£305	Sold March 2020
	2	755	£165,000	£218	Sold Aug 2020
	3	921	£227,500	£247	OTM September 2021
2. Reason Homes - Willow Gardens	2	650	£270,000	£415	OTM September 2021

PE28, PE29

4.39 The Brampton Meadowview and Hartford PRU sites fall within the PE28/PE29 towards the west of Cambridgeshire.

4.40 The Brampton Meadowview site falls within the PE28 postcode which represents the area just north of Huntingdon and according to Zoopla, the average price for the PE28 postcode area stood at £362,689 in September 2021. This is a fall of 2.31% in the last three months and fall of 2.3% in the last 12 months. In terms of property types, flats in PE28 sold for an average of £164,174 and terraced houses for £239,550.

4.41 Meanwhile the Hartford PRU site falls within the PE29 postcode which represents the area in and around Huntingdon and according to Zoopla, the average price for the PE29 postcode area stood at £270,579 in September 2021. This is a fall of 3.31% in the last three months and fall of 4.24% in the last 12 months. In terms of property types, flats in PE29 sold for an average of £153,542 and terraced houses for £194,328.

4.42 The following three new build schemes are currently on the market within PE28 and PE29. The average asking prices are shown within the table below.

- Alconbury Weald – Largescale strategic land settlement comprising 6,500 homes promoted by Urban & Civic and being sold through Crest Nicolson and Hopkins Homes.
- Roman's Edge – On its final phase and nearing completion, development of 350 dwellings comprising a mix of 2,3 and 4 bed houses by Barratt Homes/David Wilson Homes. Located in Godmanchester, approximately 2.5 miles east of Huntingdon.
- Brampton Gate – Bellway development comprising 150 dwellings in Brampton, a small village to the west of Huntingdon.

	Beds	Average Size (sqft)	Average Price	Average Price (£ psf)	Price Date
1. Hopkins Homes/Crest Nicolson - Alconbury Weald – Huntingdon, PE28	2	900	£240,000	£266	OTM September 2021
	3	1150	£345,000	£300	
	3	1350	£395,000	£292	
	4	1400	£400,000	£285	
	4	1750	£500,000	£285	
2. Barratt Homes – Roman's Edge – Bearscroft Lane, PE29	4	1,300	£409,995	£315	OTM September 2021
	4	1,400	£427,995	£305	
	4	1,600	£494,995	£308	
3. Bellway – Brampton Gate – Law's Crescent,	4	1,552	£470,000	£303	OTM September 2021
	4	1,852	£550,000	£297	

	Beds	Average Size (sqft)	Average Price	Average Price (£ psf)	Price Date
Brampton, Huntingdon, PE28	5	2,198	£650,000	£296	
	5	1,681	£505,000	£300	

CB7

4.43 The Soham Eastern and Northern Gateways and the Church Road (Wicken) sites all fall within the CB7 postcode which represents land to the north eastern edge of Cambridgeshire, including villages such as Chippenham, Fordham, Wicken and Soham.

4.44 According to Zoopla, the average price for property in CB7 stood at £307,845 in September 2021. This is a fall of 1.79% in the last three months and rise of 2.15% in the last 12 months ago. In terms of property types, flats in CB7 sold for an average of £189,181 and terraced houses for £249,497. The table below shows the average property values within CP7 according to typology.

Property Type	Avg. Current Value	Avg. £ per sq ft	Land Registry (Avg Sales YTD)
Detached	£409,093	£240	£425,304
Semi-detached	£269,833	£248	£282,722
Terraced	£249,497	£255	£257,292
Flats	£189,181	£239	£183,113

Source: Zoopla, 2021 & Land Registry, 2021

4.45 The following three new build schemes are currently on the market within CB7. The average asking prices are shown within the table below.

- Millers Gate – Development by Hopkins Homes comprising 80 homes including a number of 2, 3 and-4 bedroom homes. Located in Soham with access from Fordham Road.
- Bassingbourn Fields – Development from Bellway of 100 dwellings comprising a mix of 3, 4 and 5-bedroom homes. Located within village of Fordham within east Cambridgeshire.
- Rayners Green – Development from Hill Residential comprising 96 units including 2, 3, 4 and 5-bedroom homes in the village of Fordham.

	Beds	Average Size (sqft)	Average Price	Average Price (£ psf)	Price Date
	2	800	£240,000	£300	OTM September 2021
	3	1,000	£310,000	£310	

	Beds	Average Size (sqft)	Average Price	Average Price (£ psf)	Price Date
1. Hopkins Homes/Crest Nicolson – Millers Gate – Soham, CB7	3	1,050	£320,000	£305	
	3	1.100	£330,000	£300	
	4	1,300	£400,000	£308	
2. Bellway – Bassingbourne Fields – Fordham, CB7	3	750	£280,000	£373	OTM September 2021
	3	921	£345,000	£375	
	4	1,214	£405,000	£334	
	4	1,513	£467,500	£309	
3. Hill – Rayners Green – Fordham, CB7	2	900	£300,000	£333	OTM September 2021
	3	1,000	£360,000	£360	
	4	1,350	£420,000	£311	
	4	1,600	£500,000	£312	

CB24, CB25

4.46 The Mill Road, Belsar Farm Willingham, Rampton Road, Burwell Newmarket Road, Landbeach, and Horningsea Northgate Farm sites all sit within the CB24 and CB25 postcode districts, to the north of Cambridge.

4.47 The Burwell Newmarket, Landbeach and Horningsea Farm sites all fall within the CB25 postcode area and according to Zoopla, the average price for property in CB25 stood at £398,425 in September 2021. This is a fall of 1.94% in the last three months and rise of 0.3% in the last 12 months. In terms of property types, flats in CB25 sold for an average of £167,000 and terraced houses for £290,000.

4.48 Meanwhile, the Mill Road, Belsar Farm Willingham and Rampton Road sites falls within the CB24 postcode and according to Zoopla, the average price for property in CB24 stood at £423,345 in September 2021. This is a fall of 1.44% in the last three months and rise of 3.1% in the last 12 months. In terms of property types, flats in CB24 sold for an average of £228,895 and terraced houses for £297,200.

4.49 The following three new build schemes are currently on the market within CB24 and CB25. The average asking prices are shown within the table below.

- Northstowe – Large new build town comprising 10,000 units to be built in the future. Includes homes to be developed and sold by Bovis Homes, Linden Homes, Barratt, Urban Splash, Taylor Wimpey and David Wilson Homes. Located in Northstowe to the north of Cambridge.

- Burwell – A high-end development of 8 two, three and four bedrooms homes located close to the village centre of Burwell to the north-east of Cambridge. Developer unknown.
- Milton – 3 dwelling development by Cooke Curtis in the centre of Milton, a village just north of Cambridge.

<table>
<tr><th></th><th>Beds</th><th>Average Size (sqft)</th><th>Average Price</th><th>Average Price (£ psf)</th><th>Price Date</th></tr>
<tr><td rowspan="5">1. Multi-developers – Northstowe – CB24</td><td>3</td><td>1,100</td><td>£380,000</td><td>£345</td><td rowspan="5">OTM September 2021</td></tr>
<tr><td>4</td><td>1,150</td><td>£390,000</td><td>£339</td></tr>
<tr><td>4</td><td>1,400</td><td>£490,000</td><td>£350</td></tr>
<tr><td>5</td><td>1,700</td><td>£556,000</td><td>£328</td></tr>
<tr><td>5</td><td>1,500</td><td>£505,000</td><td>£336</td></tr>
<tr><td rowspan="2">2. Unknown Developer – Burwell – CB25</td><td>2</td><td>1,300</td><td>£510,000</td><td>£392</td><td rowspan="2">OTM September 2021</td></tr>
<tr><td>2</td><td>1,350</td><td>£520,000</td><td>£385</td></tr>
<tr><td>3. Cooke Curtis – Milton – CB24</td><td>4</td><td>1,580</td><td>£625,000</td><td>£396</td><td>OTM September 2021</td></tr>
</table>

CB4, CB5

4.50 The Milton Road and Ditton Walk sites fall within the CB4 and CB5 postcodes respectively, both of which are located on the north eastern edge of Cambridge. Both sites are equidistant from Cambridge North railway station.

4.51 Milton Road falls within CB4 where according to Zoopla the average price for property stood at £451,336 in September 2021. This is a fall of 1.67% in the last three months and rise of 0.58% in the last 12 months. In terms of property types, flats in CB4 sold for an average of £291,817 and terraced houses for £454,740.

4.52 Meanwhile, Ditton Walk is within where the average price for property stood at £467,872 in September 2021. This is a fall of 1.96% in the last three months and rise of 0.70% in the last 12 months. In terms of property types, flats in CBB sold for an average of £386,143 and terraced houses for £538,177.

4.53 There is limited evidence of new build development within this postcode however the following developments are located within the area:

- High Street Chesterton – Development by Whittledene comprising 4 contemporary duplex units in Chesterton. High spec development.
- Marleigh Development – Large development by Hill Residential comprising 1,300 units in Marleigh on the east side of Cambridge.

	Beds	Average Size (sqft)	Average Price	Average Price (£ psf)	Price Date
1. Whittledene – High Street – Chesterton, CB4	1	624	£415,000	£665	OTM September 2021
2. Hill – Marleigh – CB5	3	1,217	£622,500	£512	OTM September 2021
	3	1,217	£637,500	£524	
	3	1,217	£647,500	£532	
	5	1,581	£719,950	£455	
	5	1,757	£724,950	£413	

CB1, CB2

4.54 The Malta Road, Worts Causeway, Russell Street and Fitzwilliam Road developments all fall within the CB1 and CB2 postcodes which cover the south of Cambridge.

4.55 Malta Road and Worts Causeway falls within CB1 where the average price for property stood at £508,806 in September 2021. This is a fall of 1.54% over the last three months and rise of 2.48% in the last 12 months. In terms of property types, flats in CB1 sold for an average of £335,873 and terraced houses for £507,611. This is according to the current Zoopla estimates.

4.56 The Russell Street and Fitzwilliam Road site falls within CB2 where the average price for property stood at £707,806 in September 2021. This is a fall of 1.94% over the last three months and rise of 0.2% in the last 12 months. In terms of property types, flats in CB1 sold for an average of £440,436 and terraced houses for £754,695. This is according to the current Zoopla estimates.

4.57 The following three new build schemes are currently on the market within CB1 and CB2 postcodes. The average asking prices are shown within the table below.

- Timber Works / Ironworks – Development of 295 units by Hill. Includes 1 and 2 bed apartments, and a number of 3 bed houses. Located off Cromwell Road in south east of Cambridge.
- Station Square Development – Developed by Weston Homes, comprising 89 1 & 2 bedroom apartments. Located centrally in the heart of Cambridge next to Cambridge train station.
- Trumpington Meadows Development – 1,200 homes developed by Barratt. Set just south of Cambridge near Grantchester.

	Beds	Average Size (sqft)	Average Price	Average Price (£ psf)	Price Date
1. Hill – Timber Works / Ironworks – Cromwell Road, CB1	1	485	£324,000	£668	OTM September 2021
	1	500	£328,000	£656	
	2	750	£432,950	£577	
	2	1000	£644,950	£645	
	2	780	£439,950	£564	
	2	820	£449,950	£549	
	3	1050	£649,950	£619	
2. Weston Homes – Station Square – CB1	1	472	£385,000	£816	OTM September 2021
	2	841	£520,000	£618	
	2	966	£665,000	£688	
	2	1,067	£725,000	£679	
	2	1,029	£685,000	£666	
3. Barratt – Trumpington Meadows – CB2	2	747	£400,000	£535	OTM September 2021
	2	928	£420,000	£453	
	2	928	£443,000	£477	
	4	1,300	£630,000	£485	
	4	1,430	£710,000	£497	
	5	1,600	£800,000	£500	

CB22, SG8

4.58 The Foxton PRU, Dubbs Knoll Road, Trap Road, Sheen Farm Litlington and Medreth Road Shrepreth sites all fall within the CB22 and SG8 postcode districts in the south west of Cambridgeshire within rural locations.

4.59 The Foxton PRU site falls within the CB22 postcode. According to Zoopla, the average price for property in CB22 stood at £531,319 in September 2021. This is a fall of 1.45% in the last three months and rise of 1.85% in the last 12 months. In terms of property types, flats in CB22 sold for an average of £257,000 and terraced houses for £340,106.

4.60 The Dubbs Knoll Road, Trap Road, Sheen Farm Litlington and Medreth Road Shrepreth sites lie within the SG8 postcode district. According to Zoopla, the average price for property in SG8 stood at £456,048 in September 2021. This is a fall of 3.21% in the last three months and a fall of 1.34% in the last 12 months. In terms of property types, flats in SG8 sold for an average of £193,356 and terraced houses for £311,157.

New Build Developments

- The Hawthorns – Development by Hill in Swaston, CB22, comprising 94 new homes as either 1 and 2 bedroom apartments or 2,3 and 4 bedroom homes.
- All Saints Garden – Development by Redrow comprising 144 large 3, 4 and 5 bedroom homes on the edge of Barrington to the South West of Cambridge.
- Meridian Gate – Development by Linden Homes of c. 190 homes including 3, 4, and 5 bedroom houses. Located near Royston, south west of Cambridge.

	Beds	Average Size (sqft)	Average Price	Average Price (£ psf)	Price Date
1. Hill – The Hawthorns Development – Swaston, CB22	1	538	£299,950	£558	OTM September 2021
	3	1,001	£449,950	£450	
	3	1,001	£454,950	£454	
	4	1,356	£499,950	£369	
	4	1,356	£509,950	£376	
2. Redrow – All Saints Garden – Barrington, CB22	3	1,200	£514,950	£429	OTM September 2021
	3	1,500	£627,950	£419	
	4	1,350	£607,950	£450	
	4	1,600	£664,950	£416	
3. Linden Homes – Meridian Gate – Royston, SG8	3	1000	£410,000	£410	OTM September 2021
	4	1,200	£495,000	£413	
	4	1,280	£525,000	£410	
	5	1350	£550,000	£407	
	5	1400	£580,000	£414	

Construction Baseline

4.61 We have established a construction cost baseline to compare This Land's cost assumptions against.

4.62 We have reviewed average tender prices from BCIS within Cambridgeshire which provide the following range assuming a base build cost including preliminaries. In addition to the base build costs we would expect an allowance for externals, contingency and professional fees.

Base Build Cost £/sq ft (GIA)	Lower Quartile	Mean	Upper Quartile
Houses	£105	£123	£134
Flats	£144	£121	£162
Restaurants & Cafes	£206	£265	£265
Light Industrial	£57	£97	£107

4.63 Based upon our experience at similar locations in the East of England the BCIS build costs appear to be on the low side which we anticipate is due to them not fully incorporating broad infrastructure requirements typically seen within this locality. BCIS data is based on average tender prices for the core construction rather than the actual costs incurred and therefore can underestimate build costs. Build costs are inherently variable and may fluctuate over the length of a project which is common for larger scale development initiatives. This is why it is important to have site specific contingency allowances.

4.64 We also recognise that BCIS data is not site specific therefore individual sites will have varying costs dependent on the existing use, topography, scale of development etc.

4.65 We have taken the above into account when reviewing the build costs assumptions for each of the sites. This is currently an important risk factor, with significant pressure on labour and materials costs. It is also worth noting that we have not been provided with detailed cost estimates verifying the inputs adopted by This Land during this process. Please see the site proformas later in the report for a review of the construction costs assumed on a site by site basis.

Site by Site Review

4.66 We have reviewed the information provided for each of the 24 sites with a focus on the development appraisals and cashflows to consider whether This Land's market assumptions are reasonable based on our market research and experience.

4.67 Specifically, where possible our review addresses the following market inputs:

- Residential market values
- Commercial rents
- Commercial yields
- Build costs
- Additional development costs
- Contingency
- Professional fees
- Planning costs
- Sales and marketing
- Profit
- Financing
- Development Timings

4.68 Please see Appendix I for the full proforma reports for the master developer, self-develop and sites to dispose of. These proformas provide a full analysis of the assumptions which are summarized below.

Master Developer Sites

Site 1 - [redacted]

4.69 We were provided with an initial appraisal in September and a further updated appraisal in October, both made up of 80 units, therefore we have reviewed each of these separately.

4.70 We have reviewed the assumptions within the September appraisal for [redacted] and consider the private sales GDV and professional fees to be reasonable, however we have highlighted potential issues with the serviced land parcel, base build costs and profit assumptions. We also note that there is no allowance for contingency, sales & marketing, and finance. In addition we have been unable to comment on the affordable housing GDVand S106 due to limited information. Of particular concern was the omission of [redacted] infrastructure costs within this initial appraisal. This was raised during our call with This Land and was rectified within the updated appraisal.

4.71 In the October appraisal the private GDV, affordable GDV, serviced land parcels, build costs, professional fees and profit have been updated, for all of which our comments above still apply. In addition the following assumptions have now been included within the appraisal; S106 and sales & marketing. The S106 costs appear reasonable and the sales & marketing budget appears low.

[redacted]

Site 2 – [redacted]

4.73 We were provided with an initial appraisal in September and a further updated appraisal in October, both made up of 100 units, therefore we have reviewed each of these separately.

4.74 We have reviewed the assumptions for [redacted] and consider the private sales GDV, serviced land parcels, base build costs, sales agent & legal fees, and professional fees to be reasonable, however we have highlighted potential issues with the infrastructure & abnormal costs and profit assumptions. We also note that there is no allowance for contingency, marketing fees, and finance. In addition we have been unable to comment on the affordable housing GDV and S106 & CIL due to limited information.

4.75 In the October appraisal the profit has been updated which still appears high. In addition a marketing fee has now been included in the appraisal which appears reasonable. [redacted].

Site 3 – [redacted]

4.76 We were provided with an initial appraisal in September and further updated appraisals in October, all made up of 100 units that This Land intend to develop themselves and the sale of two plots of 150 units. In October we received three updated appraisals however it is unclear what these different options represent and which one we should be using, we have raised this with This Land. We were only able to access one of the updated appraisals and have therefore reviewed the September and October appraisals separately.

4.77 We have reviewed the assumptions for [redacted] and consider the private GDV, affordable GDV, base build costs and contingency to be reasonable, however we have flagged potential issues with the professional fees, CIL and profit assumptions. We also note that there is no allowance for contingency, sales & marketing, and finance. In addition we have been unable to comment on the S106 due to limited information.

4.78 In the October appraisal the private GDV, affordable GDV, serviced land parcels, base build costs, professional fees, CIL and profit have been updated, for the majority of which our comments above still apply, with the exception of the CIL & profit which now appear reasonable. In addition, the contingency has now been removed from the appraisal.

4.79 Again, it is concerning that the assumptions within the appraisal have changed following our initial review.

Self-Develop Sites

Site 4 - [redacted]

4.80 We have reviewed the assumptions for [redacted] and consider the build costs, sales fees and letting agent fees to be reasonable, however we have flagged potential issues with the commercial revenue, commercial yields, professional fees and profit assumptions. We also note that there is no allowance for contingency, letting legal fees, purchasers' costs and finance. In addition we have been unable to comment on the S106 due to limited information.

Site 5 – [redacted]

4.81 We have reviewed the assumptions for [redacted] and consider the base build costs, contingency, professional fees, sales and marketing budget and profit to be reasonable, however we have highlighted potential issues with the private sales GDV and S106 assumptions. We also note that there is no allowance for finance. In addition, we have been unable to comment on the affordable housing GDV due to limited information.

Site 6 – [redacted]

4.82 We have reviewed the assumptions for [redacted] and consider the contingency (phase 2), professional fees, sales & marketing and profit to be reasonable, however we have flagged potential issues with the base build costs and S106 assumptions. We also note that there is no allowance for [redacted] and finance. In addition we have been unable to comment on the affordable housing GDV due to limited information.

Site 7 – [redacted]

4.83 We have reviewed the assumptions for [redacted] and consider the contingency, professional fees, sales & marketing and profit to be reasonable, however we have flagged potential issues with the private sales GDV and base build cost assumptions. We also note that there is no allowance for S106 and finance.

Site 8 – [redacted]

4.84 We have reviewed the assumptions for [redacted] and consider the private sales GDV, contingency, sales fees and profit to be reasonable, however we have highlighted potential issues with the base build costs, abnormal costs and professional fee assumptions. We also note that there is no allowance for , S106, marketing fees and finance.

Site 9 – [redacted]

4.85 We have reviewed the assumptions for [redacted] and consider the private sales GDV, base build costs, sales fees and profit to be reasonable, however we have flagged potential issues with the professional fee assumptions. We also note that there is no allowance for [redacted] contingency, [redacted] and finance [redacted]

Site 10 – [redacted]

4.86 We have reviewed the assumptions for [redacted] and consider the private sales GDV, sales & marketing and profit to be reasonable, however we have noted potential issues with the base build costs and S106 assumptions. We also note that there is no allowance for contingency and finance.

Site 11 – [redacted]

4.87 We have reviewed the assumptions for [redacted] and consider the private sales GDV, base build costs, contingency, professional fees, S106, sales & marketing, finance and profit to be reasonable, however we have flagged potential issues with the net to gross area assumptions.

Site 12 - Cambridge Milton Road

4.88 The site is located on Milton Road to the north east of Cambridge city centre.

4.89 The Milton Road site comprises seven apartments and a library. The library is leased to Cambridgeshire Country Council for a 25 year term, now extended to 45 years (as at September 2021).

4.90 This Land purchased the site in July 2017 for £605,000 and built out the site under a design and build contract.

4.91 The Milton Road site was identified for disposal within the 2020 Business Plan for £2.9m in May 2020.

4.92 This Land sought to dispose of the asset during the peak of the pandemic, but the purchase failed to complete given the challenging market conditions. The highest bid did not exceed £3m and included a number of break clauses which de-valued the asset. The removal of the break clauses was agreed with the Council for an upfront payment of £100,000 made in Q1 2021.

4.93 A new marketing campaign commenced in April 2021 under a joint instruction led by Strutt & Parker. Following this, the recommendation from the agents to This Land was to proceed with the offer of £3.251 million from [redacted]

4.94 This Land have not provided an appraisal or cashflow for this site given they have had clear offers from the market.

4.95 We have set out below the details of the 2020 Business Plan and 2021 Business Plan:

	2020 Business Plan	2021 Business Plan
Total spend (including land)	£2,595,229	-
Total carrying value	-	£2,480,171
Total Revenue	£2,958,479	£3,200,000
Profit	£363,250	£719,829
Return on costs	14%	29%

Sites to Dispose of

Site 13 – [redacted]

4.96 We have reviewed the assumptions for [redacted] and consider the sales fees to be reasonable, however we have flagged potential issues with the professional fee assumptions. We also note that there is no allowance for contingency, marketing fees, S106 and finance. In addition we have been unable to comment on the private sales GDV, affordable housing GDV and build costs due to limited information.

Site 14 - [redacted]

4.97 We have reviewed the assumptions for [redacted] and consider the sales fees, finance and profit to be reasonable, however we have flagged potential issues with the affordable housing GDV, base build costs and professional fee assumptions. We also note that there is no allowance for contingency orS106

Site 15 - [redacted]

4.98 We have reviewed the assumptions for [redacted] and consider the private sales GDV, base build costs, S106, sales & marketing and profit to be reasonable, however we have flagged potential issues with the professional fee assumptions. We also note that there is no allowance for contingency and finance.

Site 16 - [redacted]

4.99 We have reviewed the assumptions for [redacted] and consider the private sales GDV, professional fees and sales fees to be reasonable, however we have flagged potential issues with the base build costs and profit assumptions. We also note that there is no allowance for contingency, S106, marketing and finance.

Site 17 [redacted]

4.100 This site includes three appraisals therefore we have reviewed the assumptions for each:

- [redacted] We consider the private sales GDV, base build costs, professional fees, S106, and sales & marketing to be reasonable however we have flagged potential issues with the profit. We also note that there is [redacted]
- [redacted] – We consider the private sales GDV, base build costs, sales & marketing, and S106 to be reasonable, however we have highlighted potential issues with the professional fees and profit assumptions. We also note that there is [redacted]
- [redacted] – We consider the private sales GDV, professional fees, S106 and sales & marketing to be reasonable, however we have flagged potential issues with the base build cost assumptions. We also note that there is [redacted]

Disposed of Sites

Site 18 - Cambridge Russell Street

4.101 The Cambridge Russell Street site was initially acquired for £970,000 following an independent valuation instructed by the Council.

4.102 The site was purchased without planning consent however post acquisition an application was made for seven flats which was subsequently refused in September 2019. Further revisions to the planning application proved unsuccessful. A decision was therefore taken to refurbish the existing units and dispose of the residential units.

4.103 As part of the development of the 2020 Business Plan, all sites underwent a full review to establish profitability and therefore return to the Shareholder. A minimum hurdle [redacted] were readied for disposal and marketed appropriately.

4.104 35 Russell Street was sold for £560,000 and 37 Russell Street was sold for £545,000. Two car parking spaces independent from the properties were sold for £33,000 excluding VAT. The total sale value was therefore £1,138,000.

4.105 The table below sets out the costs incurred to date and sold price for the Cambridge Russell Street site. The costs incurred to date is based on the acquisition price and the impairment values as set out in the excel provided by This Land. This suggests This Land made a loss of £44,234 on their investment.

Cost incurred to date	Sold Price	Difference
£1,182,234	£1,138,000	-£44,234

Site 19 - Cottenham Rampton Road

4.106 The Cottenham Rampton Road site was initially acquired for £13,200,000 following an independent valuation instructed by the Council.

4.107 The site was purchased with outline planning consent for 154 units. An application was submitted for reserved matters approval, however this was refused and an appeal was submitted to keep the consent live. The site was therefore disposed of with the benefit out outline consent.

4.108 As part of the development of the 2020 Business Plan, all sites underwent a full review to establish profitability and therefore return to the Shareholder. A minimum hurdle [redacted] were readied for disposal and marketed appropriately.

4.109 The table below sets out the costs incurred to date and sold price for the Cottenham Rampton Road site. The costs incurred to date is based on the acquisition price and the impairment values as set out in the excel provided by This Land. This suggests This Land made a loss of [redacted] on their investment.

Cost incurred to date	Sold Price	Difference
[redacted]	[redacted]	[redacted]

Site 20 - Guilden Morden Trap Road

4.110 The Guilden Morten Trap Road site was initially acquired for £950,000.

4.111 The site was purchased without a planning application or consent. Planning consent was later secured for seven units.

4.112 As part of the development of the 2020 Business Plan, all sites underwent a full review to establish profitability and therefore return to the Shareholder. A minimum hurdle [redacted] were readied for disposal and marketed appropriately.

4.113 The table below sets out the costs incurred to date and sold price for the Guilden Morden Trap Road site. The costs incurred to date is based on the acquisition price and the impairment values as set out in the excel provided by This Land. This suggests This Land made a loss of £264,804 on their investment.

Cost incurred to date	Sold Price	Difference
£1,024,804	£760,000	-£264,804

Site 21 - Litlington Sheen Farm

4.114 The Litlington Sheen Farm site was initially acquired for £1,750,000.

4.115 The site was purchased with full planning consent for 22 units. Attempts were made to improve the financial position of the site (i.e. to increase the number of units etc) but this proved unsuccessful with the Local Planning authority.

4.116 As part of the development of the 2020 Business Plan, all sites underwent a full review to establish profitability and therefore return to the Shareholder. A minimum hurdle [redacted] were readied for disposal and marketed appropriately.

4.117 The table below sets out the costs incurred to date and sold price for the Litlington Sheen Farm site. The costs incurred to date is based on the acquisition price and the impairment values as set out in the excel provided by This Land. This suggests This Land made a loss of £46,939 on their investment.

Cost incurred to date	Sold Price	Difference
£2,122,939	£2,076,000	-£46,939

Site 22 - Shrepreth Meldreth Road

4.118 The Shepreth Medreth Road site was initially acquired for £2,000,000.

4.119 The site was purchased with full planning consent for 25 units. Attempts were made to improve the financial position of the site (i.e. to increase the number of units etc) but this proved unsuccessful with the Local Planning authority.

4.120 As part of the development of the 2020 Business Plan, all sites underwent a full review to establish profitability and therefore return to the Shareholder. A minimum hurdle [redacted] were readied for disposal and marketed appropriately.

4.121 The table below sets out the costs incurred to date and sold price for the Shepreth Meldreth Road site. The costs incurred to date is based on the acquisition price and the impairment values as set out in the excel provided by This Land. This suggests This Land made a loss of £451,018 on their investment.

Cost incurred to date	Sold Price	Difference
£2,676,018	£2,225,000	-£451,018

Site 23 - Wicken Church Road

4.122 The Wicken Church Road site was initially acquired for £350,000.

4.123 The site was purchased without planning consent however consent was later secured for six units.

4.124 As part of the development of the 2020 Business Plan, all sites underwent a full review to establish profitability and therefore return to the Shareholder. A minimum hurdle [redacted] were readied for disposal and marketed appropriately.

4.125 The table below sets out the costs incurred to date and sold price for the Wicken Church Road site. The costs incurred to date is based on the acquisition price and the impairment values as set out in the excel provided by This Land. This suggests This Land made a loss of £49,714 on their investment.

Cost incurred to date	Sold Price	Difference
£549,714	£500,000	-£49,714

24. Willingham Belsar Farm

4.126 The Willingham Belsar Farm site was initially acquired for £1,500,000.

4.127 The site was purchased with full planning consent for 25 units. Attempts were made to improve the financial position of the site (i.e. increase the number of units etc) but this proved unsuccessful with the Local Planning authority.

4.128 As part of the development of the 2020 Business Plan, all sites underwent a full review to establish profitability and therefore return to the Shareholder. A minimum hurdle rate [redacted] were readied for disposal and marketed appropriately.

[redacted] The table below sets out the costs incurred to date and sold price for the Willingham Belsar Farm site. The costs incurred to date is based on the acquisition price and the impairment values as set out in the excel provided by This Land. This suggests that This Land made a loss [redacted]

Costs incurred to date	Sold Price	Difference
[redacted]	£1,910,000	[redacted]

Key Findings

4.130 We have undertaken a review of the assumptions for each of the sites including the master developer sites, self-develop sites, sites to dispose of and disposed of sites.

4.131 We have summarised our findings from the review below for each of the key assumptions including private sales values, build costs, finance, profit, contingency and cashflow. We have taken this approach where we have been provided with appraisals for the sites. This includes each of the master developer sites, develop sites (exc. Milton Road) and sites to be disposed of.

4.132 For the disposed of sites we have not received appraisals and have therefore provided separate comments on these below.

4.133 Please see the site proformas in the appendices for further details.

Private Sales Values

4.134 We have reviewed the private sale value assumptions for each of the sites based on our comparable research in section 3 of this report.

4.135 The majority of the sites have adopted reasonable sales value assumptions with the exception of [redacted]. The sales value assumed at these sites appear high against our comparable research. However, the values assumed for the [redacted] may be reflective of a high specification given the build costs also appear high.

4.136 Of note, [redacted] includes light industrial revenue however the plans we have received do not include this. We would require further information to provide analysis of this element.

Build Costs

4.137 We have reviewed the build cost assumptions for each of the sites based on our construction baseline in section 4 of this report. The construction baseline is based on BCIS average tender prices for Cambridgeshire.

4.138 The build costs assumptions for the master developer sites, develop sites and sites to be disposed of vary from site to site, with residential build costs ranging from £100 to £252 per sq ft.

4.139 When reviewing the build cost assumptions we have considered the typology (i.e. flats, terraced, semi-detached, detached) and the height of development where information is available in order to consider whether the build costs assumptions seem reasonable. Our findings are outlined in the table below:

	Site	Build cost (£ per sq ft)
Low	[redacted]	£100 - £110
Reasonable	[redacted] Hartford PRU [redacted]	£120 - £252
High	[redacted]	£172 - £245

4.140 Of note, the build cost assumptions for Worts Causeway (Master Developer site) do not correlate with the independent advice provided by [redacted] Chartered Surveyors. We would question as to why this cost advice has not been followed.

4.141 We also note that in addition to the base build costs a couple of the sites include significant infrastructure and abnormal costs.

Finance

4.142 We have reviewed the finance assumptions for each of the sites based on our experience at similar schemes. Typically, we would expect a finance charge of 6-7%.

4.143 The majority of the site-specific appraisals provided have assumed no finance charge. This appeared to be an omission and we have queried the lack of finance with This Land who have suggested the finance rate is a blended [redacted] and is included within the overarching 10-year cashflow. This method of accounting for finance charges is picked up later within this report, but we would typically expect to see finance charges within a site-specific appraisal when assessing land value and profit.

4.144 An anomaly to the above is that two of the sites do include a finance rate within the site-specific appraisal, namely [redacted] which both seem at reasonable levels based on our experience, but potentially contrary to the aforementioned method used for accounting for finance charges and raise concerns over double counting.

Profit

4.145 We have reviewed the profit assumptions for each of the sites based upon our experience. We would typically expect a profit rate of 15-22% on GDV for private residential dependent on the level of risk and 6% on GDV for affordable residential. We also note that This Land have a target hurdle [redacted]

4.146 The adopted profit rate for the majority of the sites appears to be reasonable.

4.147 [redacted], include a considerably high profit rate of 34% and 38% on GDV respectively. These margins reflect the considerable amount of income from the [redacted].

4.148 It is very unusual and, in our opinion inaccurate to include revenue from land sales within a residual appraisal of this nature. The appraisal is designed to assess the residual land value taking into account the value associated with the sale of completed residential units, less the costs and fees associated with the construction of those units and the profit level required to deliver them. By including the land sale revenue with the appraisal, a distorted figure is produced which does not properly assess the overall value of the land given the strategies proposed to sell serviced land and self-develop plots. This therefore provides an inaccurate figure for the expected receipts and profit for the sites, which feeds into the Business Plan.

4.149 [redacted] on GDV for a wholly private scheme which appears low based upon our experience. In addition the appraisal for [redacted] suggests the site is currently loss making.

Contingency

4.150 We have reviewed the contingency assumptions for each of the sites based upon our experience. We would typically expect a contingency rate of 5-10% dependent on the level of risk and likely variances in build costs.

4.151 The majority of the site-specific appraisals have not included an allowance for contingency. We have raised this with This Land who have suggested that there is an allowance of 10% for contingency within the 10-year cashflow which is based on construction spend in the month and is a forward looking only spend. We would typically expect a contingency amount to be provided within a site-specific appraisal to reflect the potential cost risk and variances of the particular site. This is particularly important given the diverse nature of the portfolio which includes small sites of 2-3 units up to large master developer sites of hundreds of units. An overarching contingency also does not account for the varying delivery strategies associated with the different sites.

4.152 One of the Master Developer sites ([redacted])and a number of the Develop Sites ([redacted]) do include a site-specific contingency of 5-10% which seems reasonable based on our experience. Where a contingency has been included, the higher rate of [redacted] appears to have been used for sites with a higher base build cost.

4.153 When queried, This Land have suggested that an allowance for contingency is included within the all in build costs on some sites in addition to the contingency at 10% in the 10 year cashflow (Business Plan) based on the construction costs. It is unclear (despite clarification) as to why some site appraisals seem to have additional contingency allowances within them and would require further clarity whether this reflects an additional amount on top of the contingency provided within the costs or whether this has been double counted.

Sales & Marketing fees

4.154 We have reviewed the sales and marketing fees for each of the sites based upon our experience. We would typically expect sales legal fees at c. 0.5%, sales letting fees at c.1% and marketing cost at c.1-2.5% of the GDV.

4.155 Where sales and marketing fees have been included these appear reasonable in all cases. However, only 5 of the sites include a full sales and marketing budget, inclusive of sales legal fees, sales letting fees and marketing costs.

4.156 The majority of the sites include some form of sales and marketing budget (either sales legal, sales letting or marketing costs) with the exception of [redacted] both [redacted]. This Land have suggested that the [redacted] includes sales and marketing costs within the build costs, which is not an assumption we have come across before.

4.157 No reference has been made to the omissions at the remaining sites where they are missing an allowance for sales legal fees, sales letting fees or marketing costs.

4.158 Given the level of GDV on some of the larger sites in particular, the omission or low level of sales and marketing costs could have a reasonably significant effect on residual land value and or profit.

Cashflow

4.159 We have received cashflows for 12 of the sites which cover all of the master development sites, all but one of the develop sites and one of the sites to be disposed of. We are yet to receive cashflows for Guilden Morden, Dubbs Knoll Road, Hartford PRU, March 34a Station Road, March Sites and Cambridge Milton Road and have therefore been unable to review these sites.

4.160 Where possible we have reviewed the cashflows for the sites, breaking this down in the pre-construction, construction and sales period to understand if the assumptions appear reasonable.

4.161 A majority of the sites appear to have a long pre-construction period, as the cashflows include all spending from the date the site was purchased through to construction and sale of the units.

4.162 The construction and sales timings vary from site to site and we have commented on this individually within each of the site proformas. For the larger sites we would expect volume housebuilders to sell c.1-1.5 units per week whereas for the smaller sites we would expect a slower rate of sale. The same approach applies to construction timings, as large scale developers are able to deliver units more quickly and benefit from greater economies of scale.

Disposed of Sites

4.163 We have reviewed seven sites that have been disposed of. These sites were selected by This Land for disposal based on [redacted]

4.164 The information provided by This Land in relation to the disposed of sites is limited to the following:

- Acquisition price
- Details of how the site was progressed throughout This Land’s ownership
- Sold price
- Carrying value in WIP

- Impairment value
- Costs incurred to date

4.165 Without the date of acquisition and sale, site details and site area it is difficult to comment of whether the values seem reasonable. We have requested this information from This Land. We would however note that all of the sites that have been disposed of have been loss making.

General

4.166 Of note, there are still gaps in the information we have received from This Land and the information requested does not appear to be readily available and therefore we have not always been able to undertake a full analysis of each site. We have also received updated information when requested which is significantly different to information provided only a few weeks before.

4.167 In particular, we are lacking information on the scheme for [redacted] and have therefore been unable to make a judgement on the value and cost assumptions for this site. It would be useful to have the scheme details including the number of units, unit sizes and unit mix from This Land so that we can undertake a more detailed review of the site.

4.168 We would expect the This Land team to be regularly producing up to date information and appraisals to support the assumptions within the Business Plan. From our experience of requesting and analysing the information, this did not seem to be the case and is an area for further review.

Is there a clear understanding about the exposure to risk, particularly in the Medium term?

5. Is there a clear understanding about the exposure to risk, particularly in the Medium term?

5.1 When assessing whether This Land have a clear understanding of the risk exposure to the business, we have considered the following information sources:

- Business Plan (2020 plus 2021 Overview)
- Financial Model (Dated 16th June 2021)
- Governance and monitoring/reporting arrangements

5.2 We have been provided with the This Land business plan overview for 2021, which in itself is not a full business plan but a document which provides an update to how the business has progressed since the 2020 business plan was approved and a restatement of areas of focus for the business. Below we set out some of the limitations of the 2020 business plan, however, it is important to note that the This Land is operating under a business plan which is 18 months old and has not had a proper refresh since. From a risk understanding perspective, we do not consider this to be best practice and would expect that the business plan is revisited and refreshed as a minimum on a bi-annual basis.

5.3 The 2020 business plan has been developed following the appointment of non-executive directors to the board of This Land. The business plan does not set out overarching objectives, however it does set out that it:

- Aim to put the company on a more stable financial footing
- Generating long term profits for the Council.
- Reduce the Council's financial exposure

5.4 The business plan seeks to achieve by disposing of sites that do not meet a [redacted] hurdle rate, development of sites that meet that hurdle and taking a master developer approach on the larger sites in the portfolio. Alongside this, the company is seeking to further diversify by increasing land promotion activities on behalf of third-party landowners.

5.5 It should be noted that aims set out above are not always complementary and the reduction of the Council's financial exposure will at times conflict with the aim to generate greater returns. We therefore would expect the business plan to set out a hierarchy of objectives that it wishes to achieve. Through conversations with the Council and This Land, we understand that from the Council's perspective, repayment of loans in line with the facility agreements is a priority with interest receipts supporting the Council's medium term financial plan.

Approach to risk management

5.6 The business plan has a risk management section, which seeks to identify principal risks facing the company. The risk management section sets out that the protocols for risk management, which include ‘regular’ reviews of the risks facing the business, however it does not prescribe a frequency as to how often this should happen. The business plan sets out that the Board will take overall responsibility for the stewardship of risk management and internal controls, however it does not prescribe personnel who are expected to produce and update the risk registers and provide the information to the Board for consideration.

5.7 The business plan also sets out the intention for the Board to set risk appetite and define the company’s risk profile and acceptable tolerance. However, there is no description of how the risk appetite will be formulated and the risk tolerance will be measured. The business plan goes on to state that the Board has assessed that the business strategy being adopted by the company is within an acceptable tolerance. Given the lack of documented detail around the company’s risk appetite and level of risk tolerance, we would consider it that there is a risk that the company does not have the ability to objectively assess its risk exposure.

5.8 The principal risks identified within the risk register cover a wide range of risks. The table below sets out the categories of risk captured in the business plan.

Themes Captured in Risk Register	
Weakened Economy, Reducing housing demand and Mortgage availability	**Policy and regulation changes**
Reduced Land availability	**Health and Safety**
Availability of working capital and finance and retained earnings	**Cyber security**
Loan Covenant Breaches and Impairments	**Staff retention and recruitment**
Governance delays	**Supply chain issues (materials and skilled labour)**

5.9 We consider that a wide range of risks have been identified as part of the business plan process in 2020 which cover key macros risks which the business is exposed to. We have not had sight of any site risk registers which we would expect to include detail technical risks associated with the delivery of those site plans along with planning, programme and viability risks. We are therefore unable to comment on whether these are robust and all encompassing. We would expect both risk registers are monitored, updated, and reported against regularly.

5.10 The 2020 business plan includes various financial scenarios and sensitivities. The financial scenarios have been run to demonstrate the financial viability of different delivery routes from the original plan of developing each of the sites out to completion through to the preferred business plan option, with a range of other scenarios in between. The preferred business plan option has then been subjected to sensitivity analysis, looking at cost and income movements as well programme delays.

5.11 While it is positive that a range of realistic sensitivities have been run, where an adverse impact to the cashflow is shown, there is no commentary as to what measures the business would seek to adopt to bring the financial position back into a positive and viable position. Showing the impact of adverse movements in the projects is important but even more crucial is the plans that could be implemented to safeguard the position, thereby demonstrating that the risks are understood, and the overall risk position of the business is manageable.

5.12 While general sensitivities have been conducted as part of the preparation of the business plan, we note that there has not been an attempt to quantify individual risks that may materialise. While we understand this cannot be done in all instances, where there are known changes coming in the future we would expect an estimate to be made. For example, changes in building regulations and sustainability have been mentioned within the risk register however this has not been factored in either the base appraisals or the within the risk assessment. Future Homes Standard regulations are due to come in 2025, which will have a cost implication that can be estimated, it would be prudent for This Land to quantify the potential impact of these changes which would be over and above the general inflation sensitivities that have been carried out.

5.13 To manage financial and cashflow risks, the business plan has set out that the company will ensure that there is a minimum cash balance of £5m always maintained. While providing for a global £10.6m construction contingency amount. There is no reasoning behind why the £5m is an appropriate balance, which should be linked to the future liabilities of the business overlaying the sensitivity analysis undertaken. For the purposes of this review, we have assumed that £5m is an appropriate figure and welcome that the business has set this requirement as a risk management tool. However, upon reviewing the financial model that underpins the business plan we have noted 12 periods where the cashflow position for the business falls below this level with the lowest balance at just over £2m. It is a concern that risk management measures are not being translated into the business plan that the company is working to.

5.14 With respect to the construction contingency, again it is a positive that the business plan includes a contingency amount, however there is no link to the sites themselves. Just applying 10% contingency on costs without reference to site specific constraints means there is no correlation to the developments themselves and therefore increases the risk that the contingency could be eroded should unforeseen events occur on sites. We would expect contingency to be factored within the site cashflows. More broadly, we would expect that there would be monthly budgeting reports that are produced, which monitor the progress of costs and actuals on a site-by-site basis and the outcomes of which are fed into the main business plan model.

5.15 When reviewing the financial model, we have discussed the operations of the model with This Land. The model has 36 different tabs, many of which we understand are no longer used and others which are exports tabs from the This Land accounting system. We do not consider it best practice to have a model which has unused functionality or calculation/source information which can be accidently overwritten. The overall model build is also not considered to adhere to financial modelling best practice and as such that leaves room for error.

5.16 The model operation is not overly transparent in its working or flexible in its use and from a risk management perspective we consider this to be an issue. We would expect the financial model to have functionality which enables This Land to readily amend assumptions on sites (e.g. costs, values, programme), which would then be able to inform the financing requirements of the business as well as carry out sensitivity analysis and scenario testing. Currently, the information comes from a separate source system, is exported into the excel and the model is only used as a form of reporting. In practice the financial model is simply a reporting tool rather than a functioning model.

5.17 This opaqueness of underlying assumptions increases the likelihood of errors be made therefore an inaccurate position being reported and an underappreciation of the risks. In section four of this report, we have highlighted assumptions which were omitted from site appraisals and an inconsistent approach to different sites, where would expect there to be consistency. With the current construct of the financial model, it is not possible to easily identify such errors. It is also somewhat difficult to run scenarios on financing and how This Land could better manage the outstanding loans and interest payments it needs to make to the Council.

5.18 A particular issue identified in section 4 related to the absence of finance costs within individual appraisals. We understand that the This Land reasoning is that the financing is captured through the corporate facilities provided by the Council. This is an acceptable approach for sites that This Land is developing directly and for the servicing of master developer sites. This approach however, does not make sense for sites that This Land are disposing of given that the approach to valuing the sites is on a residual value basis. A purchaser would factor the cost of finance when considering the price that they would pay for the land is valuing on this basis and therefore This Land are overstating the value that could be achieved. We assume that the for master developer sites, where plots are being disposed of, the plot values capture an allowance for finance, however if this is not the case, then the same issue would be prevalent. More broadly, as part of review into the assumptions, it has been noted that information was not readily available in some instances and appraisals had to be produced on request. This would indicate that either information was not available or not up to date and therefore this would be a concern from a risk management perspective.

5.19 Another key concern is that the financial model is a point in time and we have not been provided with a 'live' operational model which accounts for the actual income expenditure. While actual income and expenditure is recorded within This Land's accounting system, this should be translated into the financial model so accurate forecasts can be made around future performance. We would expect that the model is updated as part of the monthly management accounting process and updates provided to the Board setting up the current position and comparing performance against previous forecasts.

5.20 As part of the review of risk management we have been provided with monthly board reports (July and September). As stated earlier, the business plan prescribes that risk management is the overall responsibility of the board and that risks are to be reviewed on a regular basis. We note that the last two meetings do not have a separate agenda item for risk management. The meeting notes that have been provided do not include any discussions on risk and therefore we surmise that risk was not discussed. This is a concern and calls into question the board's understanding of the risks facing the business and how often the risks are updated and reported. The board papers indicated that a financial update was provided to the board, however, the notes from the meeting indicate that this was at a relatively high level without reporting against the detail of each site.

5.21 A key takeaway from the business plan produced is that the existing sites in the This Land portfolio, are unable to generate sufficient value to repay the principal on the Council's loan alongside servicing the interest payments. Therefore, This Land have set out the requirement to identify 12 strategic land sites along with acquiring 3 additional sites from the Council, which according to the forecasts will generate sufficient cashflow to the business to support the finance obligations of the company and generate an overall surplus of £8.6m by 2032.

5.22 Therefore, there is significant reliance on both the strategic land and additional Council sites to deliver the business plan. From the business plan and the financial model reviewed, we understand that most of the strategic land sites have yet to be identified. The financial model forecasts are predicated on This Land promoting all 12 sites by the end of 2021. However, we understand that this is not the case and This Land are likely to be promoting a maximum of 3-4 sites. This is a significant risk, and it is not clear whether the board are aware of the dependencies on the timing of strategic land sites coming online and the financial implications of not having this secured in the timeframe prescribed in the business plan. From discussions with the Council we understand that the Council were not aware of this expected timeframe either. Similarly, the business plan assumes that the 2 of the 3 additional sites will have been acquired from the Council by the end of 2021, with the third acquired by the end of 2022. However, from discussions with the Council we understand that there is limited prospect with respect to This Land's purchase of these specific sites and therefore another significant element of the business plan does not appear to have been delivered upon. Combined the strategic land sites and additional Council sites equate to £57m of receipts to the company, without which the business plan would not be deliverable. It should be noted that the £57m is the gross benefit to the company as financing costs are netted off this number, however due to the lack of functionality within the reporting tool, it is not possible to remove the loan draw downs that are associated with the costs of sites and therefore the net impact on the company is not readily possible to determine.

5.23 The lack of transparency on this risk, is partly driven in our opinion by the fact that there is no differentiation in the business plan and financial model between sites which have been secured and which are yet to be identified. As set out above the business plan is wholly reliant on the successful delivery of strategic land sites and currently unidentified sites are included in the forecast which makes it appear that the business plan has a fully funding position, when the reality is that, if you remove the forecasts of receipts of non-identified sites, the business plan has a significant financial gap within it. Delays in securing the sites would result in a further borrowing requirement than currently forecast in the business plan, for example, shifting the profile of income and expenditure on unsecured sites by 1 year would potentially require additional £10m of borrowing from the Council (should you attempt to keep a £5m cash balance).

5.24 We would expect there to be a separation of sites in This Land ownership/under option, from those which are unsecured and that the board should be provided with regular updates on the progress with identifying securing new promotional sites. It is a concern that since the need for strategic land sites was identified in the 2020 business plan (to be secured by the end of 2021), there is very modest progress in securing the sites and importantly this does not appear to have been discussed at the board meetings. We consider the strategic land sites as the biggest risk to the deliverability of the business plan and therefore would expect there to be a detailed strategy to identify these sites and specific risk mitigation plan should these not be successfully secured.

5.25 Overall we do not consider that there is a full understanding within This Land of the level of risk exposure the business is under. In summary:

- The last proper update of the business plan was in 2020. While there was an progress update appended in 2021, the actual business plan itself is now 18 months old and out of date. The business plan should be regularly updated at least bi-annually.
- While the business plan captures a wide range of risks, it does not quantify the risks where it is able to do so. We have not been given sight of site-specific risk registers and therefore cannot comment on the robustness of these.
- Risk reporting does not appear adequate at board level, with no specific risk management discussion on the agenda. We would expect risk and performance monitoring to be standard agenda items for the board meetings. There could be clearer lines of responsibility as to who is responsible operational for the risk management process.
- Furthermore there does not appear to be a 'live' financial model which reports up to date information against forecast assumptions. We would expect that each site should have a financial monitoring report, which considers actuals vs forecast and consolidated into a overall monitoring report.
- Sensitivity analysis is carried out, without a mitigation plan identified for adverse impacts on the business plan
- The business plan sets out a key financial parameter around cash retention, yet the financial model which underpins the business plan does not deliver on the minimum cash requirement.
- The business plan is highly reliant on strategic land sites and additional site acquisitions from the Council, however most of the required sites strategic promotion sites have not been identified and the business plan and the Council sites have yet to progress in line with the business plan.
- The financial model is more of an output reporting tool than a functional forecast and operational model which can be updated with ease. There is a lack of transparency and functionality which we would not expect for a business of these size.
- Errors have been identified as part of review of assumptions, which indicates that risk management processes are not fully robust.

How could This Land adapt its plans to adjust its risk appetite or strategy, taking account of the revised political priorities of its shareholders?

6. How could This Land adapt its plans to adjust its risk appetite or strategy, taking account of the revised political priorities of its shareholders?

6.1 In May 2016 the Council's Asset and Investment Committee, received and approved an initial report which set out the rationale in the form of an outline business case (OBC) to establish a housing development vehicle (HDV) for property development.

6.2 This report sets out some key recommendations to the committee for consideration. Whilst the report does not determine the exact detail and form of the new company, it does start to establish some key characteristics of the HDV.

6.3 The below recommendation was included in the Asset and Investment Committee report approved on 27th May 2016:

Approve the principle of and business case for a wholly owned company or companies to be established and operated by Cambridgeshire County Council for the purpose of identifying, developing and managing residential and commercial property developments within the UK with a view to generating capital and revenue income for Cambridgeshire County Council.(Source: Cambridge County Council, Asset and Investment Ctte 27th May 2016)

6.4 In May 2016, the Council's intension was to use the HDV, as a means of generating a revenue and capital income stream for the Council. Importantly the report also emphasised that the company should be established to "identifying, developing and managing residential and commercial property developments within the UK ".

6.5 The report also provides a broader financial backdrop to reinforce the approach being adopted, and references the unprecedented financial challenges facing the council which have been driven by a combination of reduced funding from central government and increased demand for Council services. At this time the Council also recognised that the housing market in Cambridge was "extremely buoyant" and linked with the Councils extensive land holdings across the County they were well placed to capitalise on the opportunity.

6.6 The report in May 2016 set out a clear intent to transform the County Council from a seller of sites to being a developer of sites, through utilisation of the powers granted to the Council through the Localism Act 2011.

6.7 Importantly the report set out the principles of how the HDV could be funded, and provides indicative examples of the likely financial return the council and it could benefit from interest rate arbitrage, based a comparison between the interest rate charged by the Treasury in relation to Prudential Borrowing and the interest rate that it would on lend to This Land. The report also makes reference to the substantial time lag between commencing development on site and the generation of a financial return, and a broad acceptance that the HDV will make substantial losses for many years until a return is generated, the impact of which will be contained within a business plan for the company.

6.8 Back in May 2016 whilst not formally agreed the construct of the housing delivery company was very much being tailored towards the provision of a commercial return to the benefit of the Council which would ultimately assist with bridging some of the financial challenges the council was facing.

6.9 In the interest of balance the report also sets out some of the non-financial benefits that could be generated by the HDV, as set out below: -

6.10 Non-financial benefits include:

- Boosting housing supply to support economic growth.
- Quicker provision of affordable homes.
- Increasing competition in the market for developers and providing an example of good development practice.
- The ability to create key worker housing.
- The ability to design housing supply that could reduce the long term demand for CCC services.
- Addressing gaps in Cambridgeshire's existing provision for specialist housing.
- (Source: Cambridgeshire County Council, Asset and Investment Ctte 27th May 2016)

6.11 Whilst the Council continues to identify the above benefits as key deliverables of the company, its reasonable perhaps the say that they have received less emphasis over recent years, this could be attributed to a combination of increased restriction in the use of PWLB for commercial purposes, but also the Councils need to maintain a sustainable source of income from This Land.

6.12 Following approval of the above report, This Land (the company) was formed on 17th June 2016. It was established as a separate legal entity to the Council and with a commercial character, what this means in principle is that the company whilst having a range of objectives to satisfy, a commercial approach and return are paramount to its successful operations.

6.13 In December 2017, the Councils Commercial and Investment Committee, received an update report which considered the following recommendations.

- To authorise a loan facility to Cambridgeshire Housing and Investment Company for up to £120,000,000 for land acquisition, construction and associated costs.
- Delegate the negotiation of the final terms of the sale and loan agreement
- (Source: 15th December 2017, Commercial & Investment Ctte report)

6.14 The council confirmed that the preference in exchange for the £120m loan facility that This Land would service this debt from income generated through its operational activity and return payments to the council in the form of revenue income stream rather than one off capital receipts.

6.15 During the initial period of the business plan where the company was not generating land receipts from sales the loan provided by the council was effectively being reused to service the interest payments. This approach is entirely legitimate however the perception is that the Council is servicing the annual loan payments by the capital it has advanced to This Land, therefore the capital loan made comes back to the Council in the form of revenue income, which it is able to make an interest rate margin on. Ultimately This Land has to perform and generate significant surpluses so the debt sitting with the Council can be fully repaid.

6.16 At its meeting on 24th April 2020, the Commercial and Investment Committee approved a range of recommendations which were mostly targeted around the funding and financing of the company given the context of it busines plan for 2020 which was tabled, but also and importantly the report noted This Land's intension to begin its investment into strategic land acquisition. This approach was a departure from its original business plan, however in the 2020 business plan land promotion accounted for a significant proportion of the financial forecasts.

6.17 Complementary to the report recommendations it was confirmed that This Land also has the staff with relevant expertise from previous roles to undertake this new area of work, however the report noted that land promotion is a higher risk activity and that not all promotions will be successful. Success of the land promotion activity is contingent on a number of key areas however the ability of This Land to obtain planning approval as intended is fundamental to it being a successful venture.

6.18 In part, it is important to reflect on the historical decision making because it does have a fundamental bearing on why the company seeks to operate in the way it does and the style of business plan that comes forward.

6.19 This Land continues to operate within the policy parameters that were set originally in May 2016, which have been subsequently approved over the last four years. The political parameters manifest in the objectives set for the company by the Council.

6.20 It is however important to reflect on the potential changes to This Land's priorities following a change in political administration during recent months.

6.21 Although no formal approval is in place to change the objectives and priorities of This Land by the council (the shareholder) this report seeks to analyse how This Land might need to adjust its risk appetite and broader strategy to take account of changes in council objectives following recent developments.

6.22 For the purposes of this report we have focused on a few keys areas which feature in the political manifestos in circulation. These include:-

- Provide **affordable homes** for sale and rent by refocusing the county owned 'This Land' as a genuine local housing provider.

- Invest when opportunities arise to diversify on County Council assets…without compromising our commitment to sustainability and **net zero carbon goals**.

6.23 In providing a robust analysis of the above strategic objectives and how This Land could provide, in part a solution to address these key areas we firstly need to set out the basis of assessment. In this case it is the risk which the organisation faces in pursuing those strategies.

6.24 If the council were to compel This Land to consider an increase in the delivery of affordable homes compared to the largely policy compliant delivery at present it is likely that this will negatively impact on the currently forecast business plan values. Broadly affordable homes will not deliver the same level of commercial return as private sale homes, therefore if the council wanted to target This Land with the delivery of greater number of affordable homes it may need to revisit the long term business plan of the company and specifically the period by which the council loans will be repaid. Of course a proportion of the affordable homes could be delivered through a third party, either via This Land or directly by the council.

6.25 This Land has set out within its business plan for 2021 its commitment in delivering sustainability and protecting the environment, however this approach is largely centred around the delivery of energy efficient homes and by using a local supply chain. Whilst this is admirable, it perhaps fall short of a holistic Net Carbon strategy.

6.26 In the short term moving to an ambitious net carbon strategy will require investment which again is likely to impact on commercial returns, however over the long term this should payback. As an observation This Land does not have a clear Net Carbon strategy in place.

Conclusions

6.27 Whilst over recent months some discussions have taken place between This Land and the Council to consider a range of options over the medium to long term period of the business plan, formally the company continues to plan and operate as an entity which is required to make a positive commercial return for its shareholder.

6.28 This in part supports the approach that This Land is adopting in pursuing commercial propositions as a priority. Unless the council formally changes the company's prime objectives it is likely to continue to operate in this manner. That said, the council can ask This Land to consider how it might support some of the broader political objectives as long as the company can continue to operate with commercial character. If the Council wishes This Land to depart completely from its commercial model this could impact on the legitimacy of the original legal advice provided to the Council to substantiate how the company was formed.

6.29 It is important to note that in capitalising This Land initially the council elected to borrow using the Public Works Loan Board (PWLB). At the point of inception of the loans the council utilised its powers under the Localism Act 2011 to provide commercial loans for an investment purpose. Over the last 12-18 months the Treasury has tightened the rules which significant restrict councils undertaking this type of new borrowing. Therefore, it is unlikely, unless compelling regeneration grounds can be identified that these types of loans would be permissible currently, and with this in mind future business plans put forward by This Land must need to be self sustainable and not reliant on new loans from the Council.

6.30 If the Council decided to compel This Land to deliver a greater proportion of affordable homes than what is currently assumed within the business plan, it would be our view that rather than simply increasing the quantum of affordable homes delivered an approach is adopted which seeks to optimise the balance between these competing objectives so the council can understand the trade off between a longer payback period compared to an increase in affordable home delivery.

How could the firm quicken the pace of house delivery, are there lessons from other local authority related housing companies?

7. How could the firm quicken the pace of housing delivery, are there lessons from other local authority related housing companies?

7.1 Before being able to set out the actions that This Land could put in place to help accelerate the pace of delivery it is important to fully understand what are the barriers to delivery. Increasing the pace of delivery should be a potential outcome of unlocking some of the barriers faced by This Land.

7.2 This section of the reports sets out below what are the key delivery barriers facing housing delivery more generally, we have then provided an analysis of This Lands current status against each barrier.

7.3 Perceived barriers facing the housing development market: -

- **Up front infrastructure requirement creating negative cashflow** – Due in part to the amount of upfront infrastructure required to unlock the development opportunities of new settlements, this creates a upfront financial burden which adds significant risk to profitability in the early years of a project. Infrastructure can include the provision of new transport links, new schools, utility (power and water) provision, flood alleviation, green infrastructure and new healthcare provision. This is scalable depending upon the size of the development.
- **Market Failure** – Although market failure can take many forms, in the purest financial sense this is where the values attributed to the new homes are less that the cost associated with constructing them.
- **Marginal Financial Returns** – in situations where values do exceed cost but only generate a marginal return the commercial market perception of risk means that they will require a greater level of surplus to allow for increased profit and finance costs in a situation whereby equity is likely to be the only source of funding for the private sector.
- **Site Assembly costs** - often one of the biggest challenges facing the delivery of new settlements is how the land is assembled/controlled into an ownership structure that is capable of delivery and attracting investment.
- **Scale** - Scale of development and or timeframe of return make what would otherwise be a reasonable project unattractive to commercial developer / investors where they do not have
- **Land value capture mechanisms** – Financial contribution by statutory authorities or conversely their demand for payment such as CIL/Section 106, to meet statutory obligations creates a barrier for development.
- **Placemaking** – quality of place is established initially through a clear vision but ultimately delivered through high quality design and place considerations. Placemaking will ultimately create long term value however is likely to take many years to establish, which is off-putting to many developers when they cannot see how and when the cost of placemaking will be returned.

7.4 Whilst the above factors are faced by many housing delivery company’s, we have analysed below the relevance to This Land.

Delivery Barrier	Relevance to This Land
Up front infrastructure requirement creating negative cashflow	For all of the projects that This Land is pursuing the cost of enabling infrastructure is a challenge and will create a negative cashflow, however This Land already has access to capital (Council loan) which can be used to fund the upfront costs. The extent of enabling works required on a site by site basis will impact upon the returns realised, however we would expect these to be understood and accounted for within the business plan cashflow
Market Failure	For the site drawn down from the Council initially an assessment was made which concluded that whilst not all sites returned the minimum profit levels, overall the package of site delivered a positive return that falls within the tolerances set by the shareholder. For sites acquired by This Land for promotion, and early and robust assessment s needed to ascertain profitability before land is acquired, this approach should minimise risk exposure
Marginal Financial Returns	Overall the sites drawn down from the Council generate a reasonable profit margin, and the funding provided by the Council is available to This Land
Site Assembly Costs	This has not been a challenge for This Land as it historically inherited council assets, however there are potential exposure increases when pursuing land promotion opportunities, however this is planned and accounted for in advance.
Scale of the development	It is clear that levels of profits are impacted in bringing forward smaller sites, that don't provide an opportunity for economies of scale, however on balance this must be considered across the overall portfolio.
Land Value capture mechanisms	This Land is subject to CIL, Section 106 costs in the same way any housing deliver would be, ultimately this is a planning requirement
Placemaking	Placemaking, whilst should generate long term value, it is likely to have an upfront cost impact, however the extent of placemaking on each site is a subjective and should be manageable within the overall cost envelope for the project.

7.5 One of the areas which not covered above is the issue of capacity. Based on the current business plan it is reasonable to assume that This Land does not have much surplus capacity to apply to additional areas. This will ultimately act as barriers in accelerating delivery.

7.6 One way that this could be address at pace is for This Land to form a strategic partnership with another housing delivery body, this could be a privately owned company or a registered provider.

7.7 This type of strategic partnership does give rise to a different risk profile; however it is worth considering if delivery acceleration is a desired outcome in the short term.

Case Study: [redacted]

In September 2019, [redacted] a subsidiary company of housing association [redacted], formed a strategic partnership with [redacted] to develop a former engineering site in [redacted] a £44m development on a derelict 16 acre site.

The scheme is of strategic importance locally as being the first to be supported by a multi million pound grant from the [redacted] Combined Authority [redacted] 'brownfield first' policy. [redacted] the JV partnership, seeks to combine the skills and resources of both the private and public sector to deliver much needed homes to the local area, increasing the pace of delivery, access to grant funding and risk sharing.

Once completed the development will provide 132 open market sale homes for [redacted] with [redacted] taking on 120 properties including 32 for private rent, 38 for affordable rent and shared ownership and a 50 unit wellbeing scheme. Since the partnership was formed [redacted] continue to bid for sites and have recently been successful in securing future development sites across [redacted]

Does This Land have the skills, capabilities, and expertise that you expect of a housing development company of this type?

8. Does This Land have the skills, capabilities, and expertise that you expect of a housing development company of this type?

8.1 Board members play a pivotal role in ensuring that companies are well run, effective and deliver on their mission. The board of directors is a fundamental component of corporate governance, serving as the voice of shareholders in overseeing executive leadership. Housing is a complex and ever changing world and those with decision making powers are expected to reflect this and positively respond through the adoption of a corroborated and proactive approach.

8.2 The longevity and succession of housing development companies is delivered through providing an end to end service with development, finance, customer service and compliance at the forefront of the desired criteria for a successful team. The role of the Board in particular, has the ultimate responsible for directing the activity of the company, ensuring it is well run and delivering the outcomes for which it has been set up. In the case of This Land, the principles of the company have been established in corroboration with the Council, and therefore the roles of the Council must work in harmony and be structurally established, and not dependent upon the skills of the individual. This is an important consideration as board members are appointed on a three year term, as set out within the terms of reference, and therefore there is less reliance on individual skills but more so how boards are structured.

8.3 In section two, we set out the current operational structure of This Land. From the current structure, we have noted that key senior members have a notable background in the private sector, be it a financial, housebuilder, advisory firm or property company. Such backgrounds possess the necessary skills required to understand the operational running of a housing company. This Land was set up to act as a commercial entity and therefore the skills and experience from these private sector industries are vital in the successful running of the company.

8.4 In the section below we set out how board members have been appointed and nominated to committees.

Remuneration Strategy

8.5 The purpose of the remuneration strategy is to ensure that This Land is seen as an employer of choice in the industry, creating an employee base that responds positively to the property life cycle and market changes. To achieve this, the strategy stipulates that the market offer is not to compete but furthermore compliment the strategic objectives set up for a mature property development business, rather than a large PLC housebuilder.

8.6 This is reflected in the structure which places emphasis on attracting the right calibre of staff and overall package of incentives. This is articulated in two reward brackets being 'fixed remuneration', that attracts and retains executives with skills and experience needed to respond to complex challenges and 'short term' incentives that drives cultural transformation and operational improvement. To ensure recognition and reward is monitored, a short term incentive plan (STIP) has been established that reviews and monitors individual contributions, against corporate strategic goals and ambitions. The STIP operates as a mechanism for continuous engagement with staff, with a view to support continued retention.

8.7 Table 1 below sets out the policy framework within which remuneration and retention of staff is achieved. The framework is set out against nine principles to the remuneration offer. An annual review of executive pay and remuneration reviews are conducted and informed by external market influences and individual performance. Every three years, this review will include an evaluation to compare the Company's approach against direct sector competition. The nine principles are:

1. Competitive when compared to similar sized organisations in our sector
2. Drive the delivery of organisational objectives
3. Motivate and drive outstanding performance
4. Visible and based on outputs achieved and performance, rather than reward for tasks, duties and responsibilities
5. Create a structure so that incentives engender collective responsibility and a team mentality
6. Ensure that people should not be paid extra for achieving what they are paid to achieve – Output and quality levels are not voluntary
7. Ensure that positive action is undertaken within its recruitment processes in its aim to have a diverse and balanced workforce
8. Guarantee a level of pay that is based on the level of responsibility in the organisation and the size of the job
9. No-one is guaranteed an annual pay increase

Table 1 – Renumeration and Staff Retention Policy Framework

Area	Strategy Principles	Process	Target/ Peformance
Base Salary	1,2,4,5,6	• Executive roles are benchmarked against sector comparisons when roles become vacant • Roles are market tested and approved by Board via Remuneration and Nominations Committee • The paper sets out the proposed salary, market trends, company outturn and business plan for coming year • There is a capped limit in turnover budget	Review of individual performance levels and company performance
STIP	1,2,3,4,5,6	• Based on company and individual targets aligned with the Annual Business Plan • Period of clawback recovery is restricted to a period of three years • Incentives will only be payable to senior executives and only where included in market tested • STIP payments are aligned with delivering and exceeding company's targets.	Targets will be a mix of company and individual performance, ratio of 60:40.

		• Bonuses will be set out within the annual business plan and agreed by Board	
Non Executive Fees	1	• Needs to remain competitive to attract suitably skilled and experienced individuals • Market comparison to be undertaken every three years • Phased replacement INED programme commencing in 2023 • Budget provision is included within the Business Plan	Company performance and Board effectiveness review

8.8 It is the responsibility therefore of This Land to ensure they have access to a diverse range of skills, experience and knowledge needed to run the organization effectively. Yet, the success of such needs to be supported by the Council, as the main shareholder, in understanding their role to the Board, and furthermore how responsibilities are discharged internally. Collectively this will enable This Land to best respond to the challenges and opportunities it faces.

Case Study: [redacted]

The [redacted] formed in 2015 through the merge of [redacted] and [redacted]. The two entities had previously celebrated a decade of success however recognised the need to respond to rapidly changing social and economic needs, not only in [redacted], but throughout the UK. This meant expanded the financial capability and experience in community regeneration to unlock future development opportunities further afield.

Operating as a charity, the Group ethos is to support community-led housing development and it is the Board's responsibility to provide strategic oversight in delivering the objectives set out in the recently adopted Corporate Plan (2020-25), which includes include creating safer homes, vibrant communities and business excellence. The corporate objective is for The Pioneer Group to significantly invest in growing their asset portfolio (250 homes by 2025) and create resilient communities. The core purpose of the Group Board therefore is to ensure that the Group is financially viable, properly governed and properly managed to succeed.

The board consists of an independent chair, chief executive of [redacted], four group directors, four non executive directors and one [redacted] resident. To assist in carrying out its responsibilities, the Group Board has created a series of committees; [redacted] Community Housing; Development Committee; Finance, Audit and Risk Committee; Remuneration Committee [redacted] Green Housing Trust. The purpose of sub committees is to create appropriate delegation and discussion on core areas of the busines, noting that the Group Board takes final responsibility for these areas of activity. Representatives from each of these committees sit with the Group Board and support the overall decision making.

Diversity is at the core of the board and with recent appointments, the Board now offers a spectrum of skills and experience across ages, background, and experience. This has expanded the skills based that the Board hold, and in particular relate directly to the functionality of discussing and resolving matters to support the resilience of the Group. These are demonstrated in the list below:

- Asset Management
- Commercial Management
- Customer Service
- HR/Organisational Development
- Social Housing
- Treasury Management
- Audit Risk Management
- Community Service
- Development
- Knowledge of the current legal and regulatory framework in which the group operates
- Strategic Financial Management

The [redacted] has adopted the National Housing Federations (NHF) Excellence in Governance Code for Members; a guidance which is often applied to social housing providers to support the recruitment, selection and succession planning for board members. The NHF Governance Code provides a key standing to ensure the appropriate governance processes and policies are in place to support the future proofing of the housing provider. As an audited procedure, the NHF guidelines ensure a level of care and weighting to the quality of governance internally.

The Group has continued to go from strength to strength and some of the key highlights over the last year, demonstrate that there is a strong level of respect and determination to ensure Board Members are valued, well informed and developed throughout their terms. This is achieved through a clear training plan for new members and away days to strategize corporate objectives. Furthermore, the added voice of resident board member ensures discussions are transparent and welcoming to the wider community. This in turn positively impacts the customer satisfaction and aftercare – promoting the organisation as a landlord of choice.

8.9 In case study one, we set out an example of a housing association based in the [redacted]. As a charity based organization, social return of investment is at the heart of the association and this is reflected in the diversity of the board, whereby the skills and expertise of members have been selected to represent the community in which they serve. To adhere to the standards of the Code of Governance, by the which the organization is audited on, the remuneration strategy is reported and updated annually to ensure it reflects the currently corporate strategy, and furthermore pace of delivering objectives. As a result, the board consists of both professionals and residents to provide the customer voice. This has been hugely successful and during a recent audit, the organization has received an outstanding response to their customer satisfaction as well as positive feedback from the auditor.

8.10 This case study is of particular interest whereby a board has been developed around the objectives and purpose that the organization serves. As an observation, this is currently not apparent within the structure of This Land as whilst the breadth of skills and experience is of a high calibre, the visibility of the internal voice is somewhat unknown. The advantage therefore to include a staff member, to represent the voice of colleagues and customer, provides a useful pool of real term knowledge to board members to make informed decisions on issues that are of particular interest to This Land employees and customers.

8.11 The case studies provided demonstrated examples of best practice across similar organizations, outlining the structure and capabilities of the board. Throughout each of these case studies there are five notable areas of experience that possess the knowledge that board members require:

- Providing effective strategic leadership;
- Governance, finance, business and management;
- Human resources and diversity;
- Housing management; and
- Other specific knowledge appropriate to the needs of and services provide by the organisation i.e. business development, customer services, planning and construction.

8.12 We recognize that This Land already encompass a strong skills and knowledge based across its existing Board and internal appointments. As demonstrated in case study two, the current structure compliments a private housebuilder offering with valuable experience of the development life cycle. Yet, as highlighted with Homes for Lambert, key to success is transparency of objectives and information. Board members need to be clear on what their role is, how it fits into the corporate ambitions and furthermore how to best align their skills to create added value. Without the appropriate guidance and nurturing of objectives into the remuneration and governance process, there is a risk this exposes the Board and Shareholders to gaps of expertise.

Case Study: Homes [redacted]

As one of the measures to address the housing challenges in the [redacted], the council set up [redacted] a new wholly council-owned house building and management group of companies, to:

- build and manage more and better homes;
- help reduce the substantial pressures on the council's housing waiting list; and
- improve the lives of those residents currently living in poor quality and overcrowded homes.

[redacted] seeks to deliver housing in a more efficient way than could otherwise be done within [redacted] Council (such as the building and long-term ownership of private rented homes) with greater access to funding sources not otherwise available to the council for housing purposes. In developing the strategy for [redacted], other options were considered by [redacted] such as divesting delivery to other parties such as private sector developers or housing associations, entering into a joint venture with private sector partners or housing associations, creation of a not-for-profit industrial and provident society (or equivalent charitable entity). However, [redacted] represented the best option whereby [redacted] are able to maintain democratic control of the new group of companies and the council is able to ensure that the new companies are focused on maximising the delivery of more and better affordable homes.

HfL was set up to help the council address market failure and furthermore optimise the proportion of genuinely affordable homes into the borough. This has provided the Council with a greater level of control over the design of new homes and estate regeneration projects that seeks to influence the type of homes development, length of tenancies and subsiding new homes through income generating tenures (i.e. PRS).

The following principles were established for [redacted] to pursue in order to fulfil this vision:

1. Building more and better homes to help tackle the housing crisis
2. Providing high quality services for residents
3. Investing resources efficiently and to maximise housing and regeneration outcomes
4. Maximising partnerships with public and private sector organisations
5. Being a strategic delivery partner for the [redacted]
6. Building and maintaining financial strength and deliver more homes
7. Engaging with local communities and invest for the long term
8. Providing social housing.

In the lead up to incorporation of the new companies, the council has initiated an estate regeneration programme and a small sites programme of housing developments that it is intended [redacted] will build out and then own thereafter. These projects represent the initial pipeline of developments that form the basis of this business plan for the [redacted] group of companies.

Within the period of this Business Plan (to March 2019), [redacted] expects to commence building 300 new homes and over the five years forecast in this Business Plan expects to have over 500 newly built homes under management.

[redacted] expects to commit to the delivery of the Phase 1 Estates and several housing developments within this business plan period; the capital investment that will be required to deliver all those projects that will be commenced during the business plan period, to build new homes and improve the quality of homes for existing residents, is around £300m.

Sound financial management is critical to the success of [redacted] because it is a new company. [redacted] is beginning with no existing income or assets and will be undertaking major development activity within the first eighteen months of being established. As such, it is important that the growth and risks are carefully managed, and that the company has sufficient financial and human resources to do so.

8.13 Boards need to ensure they achieve two things; diverse background and experience – so there is no one lens or one size fits all approach, and investment in personal development including recognizing what is best practice and critically reviewing any skills or resource gaps. Through our review we have identified these two areas of improvement:

- Skills monitoring; and
- Board Diversity.

Skills Monitoring

8.14 Reflecting upon the five key areas of expertise above, it is good governance for a company to create a skills matrix in relation to its board of directors. A skills matrix identifies the skills, knowledge, experience and capabilities of a board to enable it to meet both the current and future challenges of the entity, and furthermore, considered reflection and productive discussion on the effectiveness of the organizational structure. The matrix is not a measure of compliance obligations, but a means of identifying the competences and skills desired by the board to fulfill its role and strategic direction. Furthermore, this provides confidence to the shareholder of a metric in place to assess the competencies of board members at remuneration and appraisal stage.

8.15 Figure 2 sets out an exemplar skills matrix informed through our research of best practice case studies. While disclosure of the skills matrix is indeed to provide shareholder(s) assurance with the confidence that the board has turned its collective mind to the skills needed to supervise the business, there can be tension between the transparency needed to provide insight to board thinking and the need to ensure that any gaps in board skills is not seen as detrimental to the company.

Figure 2 - Skills Matrix

Board Diversity

8.16 Over recent years positive moves have been made in the industry in creating more diverse board structures. As an observation, we recognize there is a current lack of diversity amongst the board that represent a range of backgrounds, experience, and knowledge. The advantage of such means creating a board that represents the communities in which they serve, and as such holistic developments that will stand the test of time. Diverse boards are seen to be extremely effective in the property and construction industry, resulting in efficient governance and constructive board meetings.

8.17 The size and composition of companies are essential aspects to determine where or not the board is effectively meeting its responsibilities. A key board function is to help shape and guide the company's long term strategic positioning within it's industry, and core to its effectiveness of understanding complexities requires diverse talent and perspectives. With this regard, there should be a good representation of ages, experience, and background to foster constructive debate and decision making.

8.18 Often reflecting on diversity in a board of directors, we focus upon gender and ethnicity; two areas of which This Land has representation of. However, it is reasonable to conclude that this area can be approved through ensure there is equal representation. The corporate composition should reflect diversity in thinking, background, skills, experiences and expertise of which is shown to strengthen board performance and promote the creation of long term shareholder value.

Conclusion

8.19 Overall, This Land incorporates a strong base of shared skills, knowledge and experience that supports the functionality of the Company. However, we have highlighted above that there are weaknesses amongst the composition of the board and the recognized value this can bring. Through the case studies presented, we have highlighted that by creating a diverse soundboard and a mechanism of assessing and monitoring skills, This Land will continue to demonstrate a strong governance procedure and help with establishing a positive succession strategy for the business.

8.20 Identification of inadequate skills or competences in one area does not itself indicate a dysfunctional board, but rather so indicate a proactive board that is actively considering the futureproofing of an organization and what added value skills sets bring.

Is the company operating effectively and with good governance in order to deliver the business plan?

9. Is the company operating effectively and with good governance in order to deliver the business plan?

9.1 Our analysis of This Land in the context of good governance is not just limited to how decision are made and supported by the company but how the Council also supports the overall governance arrangements in its capacity as the shareholder.

9.2 This section of the report will consider the following key areas:-

- Definition of Good Governance as set out by the Financial Reporting Council (FRC)
- This Land Board reporting

9.3 We will consider the above areas in the context of best practice and how each element supports the delivery of the agreed business plan. We understand that This Land is undertaking a Board Effectiveness review led by Mazars, which should also consider the following areas. We understand this review is a requirement of the shareholder agreement.

Good Governance

9.4 The question of good or bad governance is an expansive question. Before we start to review the detail of This Lands governance arrangements and start to answer the question of whether or not they help or hinder the delivery of the approved business plan, it is important to set out the parameters by which we will compare the company with.

9.5 The Financial Reporting Council (FRC) published The UK Corporate Governance Code in July 2018. The aim of the FRC is promote transparency and integrity in business. The code itself focuses on five key areas, as follows:-

- Board Leadership and Company Purpose
- Division of Responsibilities
- Composition, Succession and Evaluation
- Audit, Risk and Internal Control
- Remuneration

9.6 This section of the report provides analysis of the corporate governance arrangements in place and compares the adopted approach to the FRC published guidelines.

Pillars of Governance	FRC Principles	Analysis of This Land
Board Leadership & Company Purpose	A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society	Whilst we cannot speak of the previous Board composition, we can however confirm that in our experience that the current company Board is that it operates in an entrepreneurial manner and one that explores opportunities in increase revenues back to its shareholders. This approach is balanced against the shareholders continued confirmation for the company to deliver a commercial return to the Council as a priority over the immediate financial period. The board continues to review the 10 year business plan of the company this taking a long term view with regard to financial sustainability, that said the Board is not always appraised of the sensitivities and financial risk exposure associated with delivery.
	The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Without embedding ourselves in the company operations for a reasonable period of time it is not possible to conclude whether or not the strategy and cultures are aligned. That said from we have been exposed to thus far, we have no evidence to support a conclusion to the contrary. We would conclude that at a senior officer and Board level their appears to be openness and transparency.
	The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	Whilst comments have been made elsewhere in this report about the depth of financial analysis required to ensure the Board and shareholder is properly appraised of the financial position. More broadly the board appears to resource the team to allow it to perform the role it has been given, the only question that remains is whether some of the resources currently allocated to certain areas could be reprioritised to meet new demands and address some short comings in the detailed site analysis which could benefit from an allocation of more junior resources being allocated against it. It is critical that This Land seeks to address these short comings otherwise the credibility of the information reported to the Council will remain in question regarding its robustness.
	In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	Historically engagement with the shareholder has been piecemeal which has led to a lack of clarity of purpose of the company and unfortunately created the space for a negative narrative to be promoted. With the recent Shareholders meeting which took place in September and a willingness to hold these sessions more regularly going forwards it is hoped that both parties can effectively engage and the shareholder can ensure that its aims and objectives for This Land are clearly understood an articulated.
	The board should ensure that workforce policies and practices are consistent	We have not been able to fully appraise the company internal policy's to draw a conclusion.

	with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	

Division of Responsibilities	The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	From our observations of the Shareholders meeting and review of recent Board reports it is clear the Chair of the Board takes their role seriously and it is undertaken in highly professional manner. From what we have seen the Board operates in a transparent and open manner, and welcome comment from officers of the council and elected members, but also creates an environment for collaboration. It is important to note that this is our experience of the Shareholders meeting attended and review of subsequent Board papers and correspondence.
	The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division management to account. I. of responsibilities between the leadership of the board and the executive leadership of the company's business	The Board and associated committees comprises of seven Non-Executive Directors, which is hugely positive and provide the Board with high quality professional oversight. The NED's have been appointed from a wide pool of professionals which helps provide depth of experience that can be deployed for the benefit of the company.
	Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account	Although we have only limited exposure to the operations of the Board, the professional backgrounds of the highly experienced NED's are exceptional from a company of this size and have the ability to provide a very diverse range of support and challenge to the senior management team of This Land. In reviewing the corporate governance structure of the company it appears that a fair and reasonable distribution of responsibilities across the various committees is in place.

	The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently	Although concluding this point would require an extended period of review, which is outside the scope of our commission, we have not observed anything which would lead us to believe that appropriate policies are not in place as directed by the Board

Composition, Succession & Evaluation	Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths	We have not been able to make an assessment of the board recruitment policy and therefore cannot comment.
	The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	The structure put in place by the Board and senior management team is new, and whilst we are able to confirm that the NED's have been distributed fairly and professionally across the sub committees their effectiveness in those roles has yet to be fully assessed.
	Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively	It is too early to make an assessment of the effective composition of the Board, however its is important to note that the current NED's and Senior Management are very credible individuals from a wide range of professional backgrounds which should add real value to the successful operation of the Board.

Audit, Risk &Internal Control	The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements	The board has made positive improvements over the last 12 months to formally establish a range of policies and processes to help better the business. Some additional work is required to improve the robustness of the financial reporting observed by the Board and Shareholder, it is hoped this can be undertaken over the next 6 months
	The board should present a fair, balanced and understandable assessment of the company's position and prospects	On the whole the Board does present fair and balanced assessment of the company's position and prospects, however we would observe that improved risk and sensitivity analysis would help the Board better understand its financial risk exposure.
	The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives	In reviewing the latest Board reports, we have not seen the inclusion of a risk register which is something we would anticipate being included in all board reports.

Remuneration	Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	AY have not reviewed the renumeration policies of This Land
	A formal and transparent procedure for developing policy on executive remuneration and determining director and senior managementremuneration should be established. No director should be involved in deciding their own remuneration outcome.	AY have not reviewed the renumeration policies of This Land

	Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	AY have not reviewed the renumeration policies of This Land

9.7 In summary it is reasonable, whilst this may not have always been the case, that the Board governance arrangement are fairly robust, that is not to say that some detailed improvements cannot be made to ensure that the Board and Shareholder has better visibility of financial risk, however on balance the Board is structured in a way that positively accords with the Financial Reporting Council guidelines.

This Land Board reporting

9.8 This Land has provided the most recent Board reports for review, being the 21st July 2021 and 30th September 2021. The Board reports provide a critical insight into the decision making process of the company and help provide a robust source of information to base decision on. In addition it is important for the effective operations of a company such as This Land that the Board report contains certain information, such as details of health and safety issues and actions trackers.

9.9 Following review of the Board papers provide by This Land, we have set out below some of the positive and negative attributes of these reports.

Positive attributes

- Inclusion of a detailed health and safety update as a standing item on the agenda.
- Planned paper considering the concept of establishing a housing association subsidiary. We understand this is planned to be discussed at the December 2021 Board meeting, this is helpful given the discussion with the Shareholder regarding the potential introduction of complementary objectives.
- Reference made to the establishment of a “sustainability Task Force” to consider sustainability in terms of both operation and future homes e build.
- Detailed financial reporting covering both site by site performance but also the operations of the business and matters such as cashflow. And broader treasury management.

Negative Attributes

- Although detailed financial information is provided to the Board, unfortunately the narrative doesn’t provide a sufficiently robust analysis of the key variations. For example the consolidated profit and loss statement states that sales actuals in July 21 were £1.088m compared to the in month budget of £1.715m, thus generating an in month variation of £627k, however no narrative is provided which allows the Board to fully understand what the variation relates to. The Board paper refers to the disposal of plot 4 at Ditton Walk and implies that the sales value was less than anticipated in the forecast but does not say why. This is concerning considering the cumulative variation in sales to date of £2.038m, whilst the variation is inevitably related to programme delays as the cost of sales is also much lower that the cumulative budget.

- Whilst it is acknowledged that the business plan forecast are reviewed regularly with the Board, I would suggest that greater analysis of the forward looking impact of current variations is important and should be reported more frequently.
- The inclusion of a regularly reviewed and updated risk register would add value to the Board governance and recognition of the risks the company is exposed to and required to manage and mitigate where possible.

Conclusions

9.10 It is clear that the Board including the Non Executive Directors has been established to support improved governance and transparency of decision making, and on the whole the company is structured in a way that provides good oversight and challenge.

9.11 We have identified some areas of improvement that should be put in place to improve visibility and robustness of the financial reporting.

Section 3

IN THIS SECTION

- Conclusions
- Recommendations and Next Steps

10. Conclusions

Business Plan & Development Assumptions

10.1 Following our extensive review of the information provided by This Land, we set out below our conclusions to address the question of whether we believe the assumptions within the Business Plan are reasonable and robust.

10.2 On a general basis, we have noted that it has been difficult to extract information from This Land which we would normally expect to be readily available from a company who are managing and delivering directly, a portfolio of development opportunities. In particular information with regards value and cost assumptions and up to date development appraisals have taken some time to be produced. As requested, we have set out below in **Appendix II** a table documenting the process and timescales associated with requesting and receiving the information from This Land as well as information which we believe is still outstanding despite requesting more than once. This has meant our review has taken longer than anticipated and has had to accommodate gaps in information. This does raise a level of concern with regards to the robustness of the information and the assumptions provided.

10.3 This was further reiterated during a virtual clarification session, when a number of anomalies within the assumptions were raised [redacted]. It did not seem that there was a sufficient level of familiarity and understanding of the sites during this meeting.

10.4 As has been set out within the 'Key Findings' section a number of the assumptions included within the site specific appraisals were robust and reasonable. In general, sales figures and cost assumptions were in line with our expectations, market research and bench marking.

10.5 Affordable housing values were difficult to review, as in the main and despite requesting, we weren't provided with the tenure split of the affordable units to enable us to review whether the assumed values were appropriate. Typically, there are significant variances between tenures within affordable housing assumptions with social rented units being valued very differently to intermediate type accommodation.

10.6 As has been mentioned previously, finance costs are accounted for centrally on the 10 year cashflow, rather than on a site specific basis as we would normally expect to see. This is picked up further in the section on the financial model. As with some other assumptions there was also a few examples of inconsistency, where finance was allowed for within site specific appraisals, raising the question of double counting.

10.7 Contingency was also generally accounted for in the overarching cashflow rather than on a site specific basis, although again there were example of allowances also being made in the site specific appraisals. This is another potential risk item as typically we would see varying levels of contingency for sites of differing scale and complexity, which is true of This Land's portfolio. We believe a site specific contingency allowance would be more appropriate.

10.8 As highlighted above, we believe the inclusion of the receipts from serviced land parcels within the GDV of the site specific appraisals provides for inaccurate residual land value and profit assumptions which feed into the Business Plan. We believe these should be presented separately rather than being run through the residual appraisals.

10.9 Sales and marketing costs were also an area of concern and one which has the potential to impact on assumed land value and profit margin. This was another assumption that was dealt with in an inconsistent way on the various appraisals, from not being allowed for, to being included within build costs and also being accounted for at low levels.

10.10 A number of the sites within the original portfolio transferred over from CCC have subsequently been sold on for a loss. [redacted] a number also suffered planning setbacks which have meant that previous assumptions are now not appropriate. Sites have also been sold where the target profit [redacted] can no longer be achieved. [redacted] [redacted] [redacted]

10.11 In a similar way, a number of sites have also been targeted for disposal this year for the same reasons as mentioned above. Again, some of the sites will incur a loss when taking into consideration the original acquisition price and costs incurred since then. Whilst this is generating cash into the business it is a loss overall.

10.12 It was also established through the review of the current portfolio and subsequent clarifications that no further sites had recently been acquired or were about to be acquired by This Land and that the prospect of further sites being transferred over from CCC was unlikely in the short term.

10.13 The conclusions arrived at within this section are picked up further in other sections of this report. In particular in the review of the financial model and also the exposure to risk of This Land.

10.14 Overall, the lack of readily available and up to date information along with some inconsistent methodology, non standard appraisal techniques, potential double counting and omissions within the assumptions raises concerns over the robustness of the overall assumptions that have helped to formulate the Business Plan.

Is there a clear understanding about the exposure to risk, particularly in the medium term?

10.15 Overall we do not consider that there is a full understanding within This Land of the level of risk exposure the business is under. In summary:

- While the business plan captures a wide range of risks, it does not quantify the risks where it is able to do so. We have not been given sight of site-specific risk registers and therefore cannot comment on the robustness of these.
- Sensitivity analysis is carried out, without a mitigation plan identified for adverse impacts on the business plan

- The business plan sets out a key financial parameter around cash retention, yet the financial model which underpins the business plan does not deliver on the minimum cash requirement.
- Risk reporting does not appear adequate at board level, with no specific risk management discussion on the agenda
- The business plan is wholly reliant on strategic land sites, however most of the required sites have not been identified in the business plan
- The financial model is more of an output reporting tool than a functional forecast and operational model which can be updated with ease. There is a lack of transparency and functionality which we would not expect for a business of these size.
- Errors have been identified as part of review of assumptions, which indicates that risk management processes are not fully robust.

10.16 The 2020 and 2021 business plan does not provide sufficient detail of downside and upside financial performance for the Council to fully understand the impact of changes in delivery, therefore the Council does not fully understand its exposure to risk in the medium term alongside This Land.

How could This Land adapt its plans to adjust its risk appetite or strategy, taking account of the revised political priorities of its shareholder?

10.17 Whilst the political priorities which support the objectives set for This Land have not formally changed since its inception in 2016, we understand that in the medium term the Council is open to considering additional objectives to be set. Having regard to recent developments and political priorities, This Land may consider delivery of more affordable homes or key worker homes and for the company to make a greater contribution towards the delivery of net zero Carbon homes in Cambridge.

10.18 Diverting, in part from the primary commercial objective that This Land is currently operating within, may have a negative impact on the financial return realised by the Council and potentially exposure to greater delivery risk, however this must be balanced against the delivery of additional objectives that may be desirable for the shareholder to achieve.

How could the firm quicken the pace of housing delivery, are there lessons from other local authority related housing companies?

10.19 This Land could increase the pace of delivery through partnering with another developer/house builder. Another entity could provide delivery capacity to This Land to support the objectives set out in the business plan.

Does This Land have the skills, capabilities and expertise that you would expect of a housing development company of this type?

10.20 Overall, This Land incorporates a strong base of shared skills, knowledge and experience that supports the functionality of the Company. However, we have highlighted above that there are weaknesses amongst the composition of the board and the recognized value this can bring. Through the case studies presented, we have highlighted that by creating a diverse soundboard and a mechanism of assessing and monitoring skills, This Land will continue to demonstrate a strong governance procedure.

10.21 Identification of inadequate skills or competences in one area does not itself indicate a dysfunctional board, but rather so indicate a proactive board that is actively considering the futureproofing of an organization and what added value skills sets bring.

Is the company operating effectively and with good governance in order to deliver the business plan?

10.22 From a reporting perspective the Council has lack of oversight in regard to downside financial performance, currently the financial reports fail to provide sufficient upside and downside performance sensitivities, which will ultimately impact on the Boards decision making and Council endorsement of the business plan.

10.23 It is clear that the Board including the newly appointed Non Executive Directors has been established to support improved governance and transparency of decision making, and on the whole the company is structured in a way that provides good oversight and challenge.

10.24 We have identified some areas of improvement that should be put in place to improve visibility and robustness of the financial reporting which should enhance the overall governance of the company.

10.25 This Land's Board comprises of a number of Non-Executive Directors, which is viewed positively and through their oversight provides a platform for independent challenge and thinking. In addition the broad quality of the NED's is outstanding in terms of commercial orientation and it's a real credit to the team that they have been able to secure such high quality individuals to support the Company.

10.26 The number of Non-Executive Directors which currently stands at seven in total could be reduced over time and in our experience, somewhere between 3-5 is ample to provide strategic direction and oversight. The current annual remuneration [redacted]

11. Recommendations and Next Steps

11.1 The financial model used by This Land [redacted] and does not provide a truly integrated approach to monitoring and reporting the performance of its business plan, we would recommend a new integrated financial model is developed to better suit the needs of the business. We would recommend that the model is developed over the next six months and integrated ahead of the business plan cycle. A new financial model will help improve the transparency of decision making.

11.2 We would recommend that This Land considers its internal resources and seeks to bolster its team to help support delivery of improved reporting and development information which complements the business plan.

11.3 It is critical that This Land 's business plan aligns to the Council strategic objectives , and we would recommend that a session is held with the senior leadership of the council to discuss the potential for expanding the role of This Land in support of new objectives, however we would recommend this is undertaken in a way whereby the financial risks and issues are well understood and illustrated to enable effective decisions to be made.

11.4 Whilst the Council meets regularly with This Land officers to discuss progress against the delivery of the business plan, this arrangement could be further improved and we would recommend the Council establishes a mirror client meeting each quarter (ahead of the proposed quarterly shareholder meeting)

11.5 The shareholder meeting held on 30th September 2021, provided a positive opportunity for the Council's officers and members to hear first hand the plans for the company over the coming months. This meeting also created the platform for questions and queries to be raised by This Land directly with the political leadership of the Council. It is our understanding that this session was the first of this type of meeting to be held, we would encourage the Council and This Land to continue to hold these meeting on a quarterly basis.

11.6 We would anticipate many of the above issues flagged can be resolved relatively quickly with the Councils and This Land's Board support, and we would recommend a review in 6 and 12 months be undertaken to evaluate progress made against agreed outcomes. The assist the Shareholder we have set out over the page a improvement plan table which provides a list of actions required over the near future and how through address each one of these action it will lead to improvements in the way the company operates and the Council will have greater visibility and understanding of key issues.

arms	Success Criteria	Timescale	Impact / Outcome
Develop a new financial model to support business decision making and improved governance	Board has full visability of secure / unsecure income and expenditure and Board papers reflect enhanced financial sensitivity analysis	1-3 month development period / 4-6 month implementation & full data transfer	A fully integrated and consistent financial management and monitoring tool.
Shareholder and Board Reports to be expanded to reflect secure and unsecure income and expenditure	Improved Board and Shareholder visibility of the financial gaps	0-1 month	The Council will have a better understanding of This Land's ability to meet its loan payments over coming years
Establish a risk orientated approach to the allocation of contingency rather than a blanket 10%	Better shared awareness and visibility of key project risks. Information should be shared with the Board through the Board papers	0-3 months	Improved risk analysis and quantification of key risks on a site by site basis leading to a more robust financial position
Greater emphasis on risks and potential mitigation measures	Improved visability of key risks both impacting on the financial and operational aspects of the business	0-1 month	Inclusion of a "live" risk register within the Boards pack and shareholder briefings
Diarise quarterly shareholder meetings, and agree information pack in advance	Well attended shareholder meetings	0-1 month	Fully briefed shareholder with clarity of business direction as well as an indepth understanding of key risks and mitigations
Formal Shareholder review of This Land's strategic objectives in the context of new political objectives	Providing clarity to This Land of the Shareholders longer term vision for the company	0-3 months	Improved balance between financial and non financial outcome that better align to the Council strategic objectives
Establish a "Mirror Board" meeting, to take place prior to the This Land Quarterly Board meetings.	Provide greater oversight, challenge and support of the business	0-3 months	Preparation of briefing for Council representatives on the Board in advance of Board meeting
This Land needs to review the sufficiency of internal resources allocated to the production of development appraisal information.	Better awareness of costs and income	0-3 months	Improved robustness of information contained in the financial model which supports Board reporting

[Appendices intentionally omitted from Committee bundle]

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