

This Land Annual Business Plan and progress monitoring

- To: Strategy & Resources Committee
- Meeting Date: 30 September 2022
- From: Service Director: Finance & Procurement
- Electoral division(s): All
- Key decision: Yes
- Forward Plan ref: 2022/070
- Outcome: Committee will have received an update on latest financial position of This Land, including its business plan, and will exercise its role as shareholder and lender. This Land provides a significant revenue income stream for the Council and this Committee will undertake its role in reviewing and managing that on behalf of the Council.
- Recommendation: Strategy & Resources Committee is invited to:
- a) Authorise that a written resolution be sent from the shareholder to This Land appointing the person named in the confidential appendix to the company's board of directors.
 - b) Receive the latest business plan from This Land.
 - c) Note This Land's objective of developing and delivering homes, the priority of increasing the proportion of affordable homes and commitment to environmental, social and corporate governance.
 - d) Authorise variations to the company's shareholder agreement that enhance corporate governance, following the review described at section 5.5.
 - e) Permit the land transactions proposed by This Land at Soham Northern, Malta Road and Fitzwilliam Road, as set out in section 5.6 and in accordance with the latest business plan, delegating authority to the section 151 officer to release the Council's pre-emptions, overage and legal charge.

Officer contact:

Name: Tom Kelly
Post: Service Director: Finance & Procurement
Email: tom.kelly@cambridgeshire.gov.uk
Tel: 01223 699241

Member contacts:

Names: Councillors L Nethsingha and E Meschini
Post: Chair/Vice-Chair
Email: Lucy.Nethsingha@cambridgeshire.gov.uk
Elisa.Meschini@cambridgeshire.gov.uk
Tel: 01223 706398

1. Background

- 1.1 This Land is the Council's wholly owned property development company. As at September 2022, the financing advanced to This Land by the County Council is as follows:

Long Term Loans	£113.851m
Equity	<u>£ 5.851m</u>
Total	£119.702m

These figures are (as planned) unchanged from the last update to this Committee in March 2022. The Council is currently receiving revenue interest on the loans advanced (a £6m net contribution is expected this financial year). In addition to interest, the Council has also already received capital receipts from This Land in excess of £75m for the transfer of property at market value. The principal loan sums are currently scheduled for repayment to the Council between August 2026 and February 2029. As the sole owner and lender to This Land, the County Council is the ultimate beneficiary of all of the company's proceeds. It is essential This Land continues to make the expected progress with delivery against its business plan in order to provide the expected revenue stream across the medium term financial planning period, as well as the eventual repayment of loans. Divergence from the plan or diminution of the investment value is acknowledged as a managed risk to the Council.

- 1.2 In March, this Committee considered the early progress by This Land in responding to recommendations from Avison Young (AY) following a shareholder review. The Committee was also formally consulted on development of the company's refreshed business plan. This included collaboration between the Council and This Land to identify future development sites within the Council's property portfolio and the acceptance of some greater risk in future plans in order for the company to make a greater contribution to meeting local housing needs, boosting the provision of affordable homes.
- 1.3 Shareholder monitoring and liaison meetings were hosted by This Land on 24 March 2022 and 21 July 2022. These included updates on the company's progress with housebuilding and the implementation of the AY recommendations for the business operations, as well as further consultation on the company's business plan development. The next briefing for Members is planned for 15 September 2022. The activities within the company's business plan include the master developer approach on large sites, delivery of all the homes on medium and smaller sites, acquiring and developing new properties and securing strategic land for promotion through the planning process.
- 1.4 Two recent and related changes to the local government financing regime have relevance for the Council's financial interactions with This Land. In late 2020, the Public Works Loans Board (HM Treasury) (PWLB), a major lender to this Council, issued new stipulations to borrowers. These procedures require Councils, that wish to access PWLB loans, to submit high level descriptions of capital spending and financing plans for the following three years. Councils that have planned investments within their entire forward capital programme with the primary intention of generating a yield are prohibited from borrowing from the PWLB – this would not be desirable for the Council. The changes at PWLB have a prospective effect from November 2020 and are not back dated. Central government is also currently consulting on changes to the capital framework including the regulations for calculation of a local authority's minimum revenue provision (MRP). This is the amount of revenue expenditure Councils must allocate to the costs of capital financing debt each year. The proposals could include a revised approach to MRP on debt related to commercial investments. A potential knock-on impact of this is a significant reduction in the annual net revenue benefit the Council receives from interest receivable from This Land. Cambridgeshire made a voluntary and prudent overpayment of MRP as at 31 March 2022

partly to mitigate future risk from this change. The MRP proposals are complex and are currently subject to a second round of consultation. Government is understood to have indicated it does not intend to design changes that deter local authorities from encouraging housebuilding. At the establishment of This Land, the Council's then Assets & Investment Committee agreed that the company should have more than a purely commercial or financial focus. Although new lending is not envisaged to This Land in any case in the next 3 years and the Council's initial assessment is that the MRP commerciality changes would not apply to This Land loans, these reforms in the external regulatory environment emphasise the proposition from This Land that the company should have a broader focus than profit. It is important to set the changes proposed in the 2022 business plan in that context.

2. Leadership of This Land

- 2.1 Pursuant to a delegation from this Committee in March, Mr David Meek was appointed as Chair of This Land with effect from 9 May 2022. Mr Meek has extensive chair and board experience across the finance, technology and real estate sectors including engagement with public, private and government stakeholders. Mr David Lewis has been appointed as This Land's substantive Chief Executive having first joined the company as strategic land director in 2019.
- 2.2 During 2022, two members of the board have retired. One of those roles is being held vacant, and a new appointment is proposed from This Land to fill the other position. It is understood the new director will also chair the company's audit and risk committee in the first instance. A specialist recruitment firm was engaged to undertake the search for this non-executive director role. Further details about the nomination from This Land are included in the confidential appendix 3. It is a decision for this Committee, acting as the shareholder, to either confirm or reject the nomination made by This Land.

3. Submission of Business Plan

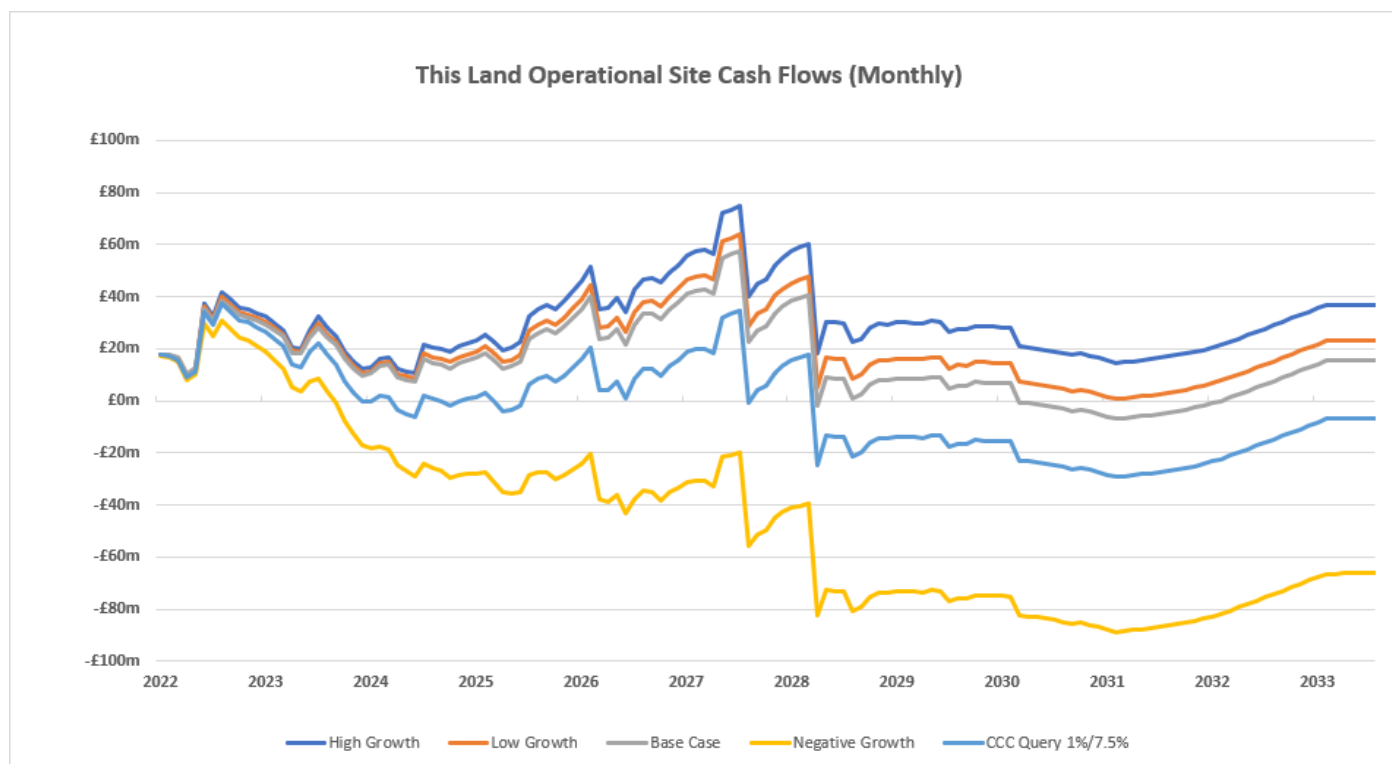
- 3.1 In accordance with the shareholder agreement, This Land submits its Business Plan to the Council. A public facing version of the plan is attached as an appendix to this report. The Council has also received a more detailed and commercial plan alongside supporting information: site-by-site appraisals, risk registers, market data and evidence base and cashflow forecasts as well as a company wide update to the financial model and cashflow which extends through to 2035.
- 3.2 The key headlines from the 2022 plan include:
 - Building approximately 930 new homes over the next 10 years
 - 396 of these homes will be affordable, a minimum increase of 50 on the plan a year ago
 - Developing plans for a further pipeline of affordable homes across the county, including analysis of where County Council owned land can enable this and acquisition of further land from the Council
 - Disposal of underperforming assets
 - Commitment to deliver Environment, Social and Governance policies and to work closely with the housebuilding supply chain to reduce carbon footprint to net zero.
- 3.3 The key financial returns from the company to the Council, set out in the central planning assumption in the business plan are:
 - Repayment of £107m loans by 2029, with an extension on remaining £6m of borrowing which will be repaid by the end of 2031.
 - Payment of £75m in total interest to the Council (of which £50m is from 2022 onwards)
 - Projected residual cash balance in 2035 of £16.3m

3.4 In the central assumption, the sources of expected profit are as follows:

Existing/Retained Sites	£76.6m
Strategic Land	£44.3m
CCC Site	£16.7m
Affordable (exception) site	£ 0.1m
Disposal sites	£ -0.9m
Subtotal profit	<u>£136.8m</u>

3.5 Scenario and sensitivity testing has been submitted alongside the business plan:

Title	Description	Results
Baseline	Cost inflation matched by house sales/revenue inflation	Extended borrowing: £6m Final surplus: £16.2m
Negative growth	-5% pa reduction in sales values +10% per annum increase in costs	Extended borrowing: £85m Final deficit: £60m
Low growth	+2% pa increase in revenue/sales +2% pa increase in build costs	Extended borrowing: £0m Final surplus: £25.6m
High growth	+5% pa increase in revenue/sales +5% pa increase in build costs	Extended borrowing: £0m Final surplus: £39m
Cost inflationary	+1% pa increase in revenue/sales +7.5% pa increase in costs	Extended borrowing: £30m Final deficit: £6m



3.6 The plan considers the company’s approach to risk management, attention is drawn to:

- the business’ cashflow position is currently very strong following land sales exceeding 2020 business plan targets. This Land reports this will enable delivery of homes in the current construction and economic context more quickly than had cashflow been challenging
- purchase of land – the company reports agreeing terms for a number of new land purchases and promotional sites outside the county. Following the consultation on this business plan, the Council is working with This Land on a forward plan for further acquisitions from the Council, inside the county, where this fits with our asset management objectives, reduces risks in This Land’s plans and delivers more affordable homes

- health and safety – active construction sites are inspected by third parties on a regular basis supplementing contractor health and safety measures
- economic and consumer context – a potential downturn is a significant risk to This Land, as illustrated by the sensitivities shown above. The company notes that Cambridgeshire house prices are currently at record highs and the continuing momentum in the housing market despite recent global disruptions.

4. Follow-up by AY

- 4.1 The consultants AY were appointed to follow-up on their previous work and engaged to:
- review the company's financial model and its suitability to support business decisions and delivery of the business plan, through robust financial modelling
 - review the recommendation next steps set in AY's early review and provide a high level evaluation of progress made in each area

A report on AY's findings is attached as a confidential appendix to this report and a summary provided in this section.

- 4.2 **Financial model:** This Land are using both their longstanding model for financial analysis, risk management, monitoring and performance alongside a new model which is operational but not yet fully complete. As such the two models are being used in parallel and compared for reconciliation. The functionality of the new model was reviewed and includes a simplified structure, improved linkages and transparency to underlying development appraisals, greater transparency on loan and contingency allocation, integrated financial reporting and categorisation of sites: secured, pipeline, planning status. AY have suggested ongoing development is needed as the new model is completed around user guidance/succession planning, narrative and transparency of assumptions.

- 4.3 **Implementation of recommendations evaluation:** progress had been made with:
- Improved board and shareholder visibility such as site specific reporting, project summary dashboards and scenario analysis. Enhanced structure, oversight and consistency of reporting
 - Better shared awareness of key project risks – detailed and refined overall and site specific risk registers, risks outlined at board meetings and monthly testing of variations by executive team
 - Alignment with the Council's strategic objectives is more focused and purposeful
 - Staff recruitment and expansion of skills in finance, land and development teams, there is more in-house resilience and capacity and less reliance on third parties for financial reporting/modelling

- 4.4 **Further recommendations and next steps:**
- Further clarity and risk mapping in relation to unsecured promotion sites and expanded activity around exception sites. The business must be alert to macroeconomic conditions.
 - Clarify cash requirements in 2028, improving GAP analysis and potential increase in borrowing ask
 - Assigning risks to individuals to increase accountability
 - Appropriate expertise required to deliver affordable housing aspirations
 - Forward calendar of shareholder monitoring meetings and communication and monitoring channels of the board.

5. Further updates and monitoring

- 5.1 At Brampton, planning permission has been secured. At Over, the show home is open and sales have been strong, reflecting continuing strong demand in the Cambridgeshire market. As at August 2022, exchange of contracts was imminent for the purchase of 14 homes at Over. At Eddeva Park/Worts Causeway, archaeological works have commenced and a reserved matters application has been submitted. A contractor has been appointed for the scheme at Landbeach. Terms have been agreed for four additional sites, which will reduce the unsecured uncertainty element of the future business plan.
- 5.2 BNP Paribas have been appointed by the Council to undertake the monitoring surveyor function at Over and Ditton Walk. This includes bi-monthly consideration of planning, building control, warranty, programme, project costs, procurement and contracts, quality of construction and health and safety. In the most recent report no red items were noted. Progress was recorded for the plots under construction, the amber items highlighted were to monitor discharge of planning conditions, progression of works in accordance with contract dates and tracking costs report at Over and monitoring progress with a legal dispute at Ditton Walk.
- 5.3 This Land's annual external audit is currently underway and the Accounts are due to be presented to the shareholder and published in the early Autumn. For the year ending 31 March 2022, the company is expected to report an operating loss of £3.0m with a loss after interest and taxation of £7.3m. Removing the financing costs wholly payable to the County Council, the pre-financing profit was £3.1m, £2.4m greater than the previous period. This is a steady improvement in line with the business plan. It is important to recognise that This Land is funded in a way that ensures most operating profits are returned to the single funder and shareholder through interest payments (rather than profit). This Land is not expected to make post-financing operating profits before 2027. These results are currently in keeping with the medium term plan for the business.
- 5.4 On the balance sheet, the company has net liabilities of £21.4m an increase of £7.3m compared to the position at 31 March 2021. It is important to recognise that the company's assets comprise land, work in progress and cash, with the latter two categories growing as land has either been developed or sold. An updated assessment of market and gross development values for sites expected to be held for the longer term is currently being undertaken. The loan security value is decreasing as This Land makes asset disposals reflecting increased development risk during this stage.
- 5.5 The solicitors Freeths are currently appointed to review and consolidate the overarching loan facility agreement. As This Land generates proceeds from land and house sales, they are permitted to reinvest these in accordance with the submitted business plan and subject to meeting monitoring conditions. Enhancements are likely to include implementation of a floating charge on all of This Land's assets, which recognises the greater cashflow and work in progress on the balance sheet. In any event, the Council is the sole owner of This Land and ultimate beneficiary of all of its proceeds, assets and liabilities. Freeths are also considering the company's governance documents.
- 5.6 At four locations, the latest business plan from This Land reflects a change in approach to development following assessment of the latest circumstances and market conditions. At Soham Northern, plot A, This Land's long term planned approach in the business plan has been to market this plot for commercial development. As this disposal is not for residential development it has been detected that the previous permissions granted by the Council may not sufficiently include this point and therefore a recommendation is included in this report to enable the necessary releases. At Fitzwilliam Road and Malta Road This Land have elected to market these sites in their current condition rather than develop the site

directly themselves. Both these small sites have an implementable planning permission but increased build costs mean that it is no longer considered optimum for This Land's business set up to provide these directly. In order to deliver the business plan submitted to Committee, and the expected levels of surplus/deficit from these properties built into planning assumptions, permission is needed from the County Council to allow the releases needed for sales in the near future rather than as the direct delivery of individual homes.

- 5.7 This Land Development Ltd (This Land) wishes to acquire a County Council owned strip of land which abuts the northern edge of the GB2 Development site south of Worts Causeway, Cambridge. The County Council strip of land forms part of This Land's consented scheme. Under the original sale of the GB2 site in 2018, This Land is under a positive covenant to ensure that the estate roads built on the GB2 site provide access to the County Council retained land adjacent. Subsequent legal advice has raised concerns over the enforceability of this positive covenant. This estate road access is essential to the continued current use of and any future alternative use of the County Council's retained land. The sale of the strip of land presents the Council, as landowner, the opportunity to renegotiate the provision of that accessway to ensure that it is adequately delivered. This Land wishes to shortly dispose of part of their GB2 site to a purchaser. The subsequent negotiation of a new legal mechanism or agreement to ensure the delivery of the estate road may impact on the timetable and/or deal structure for the sale to the purchaser. This Land wishes to complete the sale of the strip of land, which is yet to be agreed, within six weeks from the 22nd of August 2022.

6. Alignment with corporate priorities

6.1 Environment and Sustainability

- Paragraph 3.2 identifies This Land's commitment to deliver Environment, Social and Governance policies and to work closely with the housebuilding supply chain to reduce carbon footprint to achieve net zero.
- Paragraph 4.3 identifies strategic alignment with the Council's strategic objectives.

6.2 Health and Care

There are no significant implications for this priority.

6.3 Places and Communities

There are no significant implications for this priority.

6.4 Children and Young People

There are no significant implications for this priority.

6.5 Transport

There are no significant implications for this priority.

7. Significant Implications

7.1 Resource Implications

Financial implications are set out in section 1, 3 and 5 and throughout the report.

7.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications for procurement or contract procedure rules.

7.3 Statutory, Legal and Risk Implications

Assessment of principal risks:

Description	Impact /Likelihood	Response/Mitigation
Construction: cost, defects, materials, milestones	Impact: Medium Likelihood: Medium	<ul style="list-style-type: none"> - Monitoring surveyor reviews of cost, progress and quality - Construction contingency budget - Insurance cover / warranties
Planning & regulation: timing, obligations & cost of meeting planning and building regulations approval	Impact: Medium Likelihood: Medium	<ul style="list-style-type: none"> - Reviews of project plans/budgets for obtaining planning consent, progress and performance - Staff expertise - Land promotion diversifies planning authorities involved
Workforce & Expertise: attracting and retaining talent, capacity and experience	Impact: High Likelihood: Medium	<ul style="list-style-type: none"> - Director recruitment process - Monitoring turnover & performance - Diversity of experience of team members, succession planning
Health & Safety - compliance of construction sites	Impact: High Likelihood: Medium	<ul style="list-style-type: none"> - External independent H&S team - Review by monitoring surveyor - Company policy and procedures
Governance risks: securing best value, acting at arms-length, legal challenge by competitors, state aid	Impact: Medium Likelihood: Medium	<ul style="list-style-type: none"> - Ongoing legal representation, advice and review - Adopt formalised memorandum(s) governing Council:Company interface - State aid reference rates adopted for loans
Performance of strategic land promotion: competitive area, securing agreements, reputation	Impact: High Likelihood: Medium	<ul style="list-style-type: none"> - Council seeks independent validation - Careful site selection - Work closely with communities - Risk and sunk costs within financial model - Build successful track record
Master developer and non-residential development <i>models</i> : complicated and capital intensive	Impact: Low Impact: Medium	<ul style="list-style-type: none"> - Monitoring surveyor reviews progress and performance - Regular review of complex commercial schemes - Full prior appraisal by This Land's Development & Investment Committees
Housing demand and economic risks	Impact: High Likelihood: High	<ul style="list-style-type: none"> - Sales strategies prudent and based on regular review of local market - This Land to develop relationships with mortgage brokers and agents

Future land sales to This Land: land availability	Impact: Medium Likelihood: Medium	<ul style="list-style-type: none"> - Promotion of land within local plans - Seeking alternative land across wider geography
Underlying company value and security/collateral, impairment to inventory	Impact: High	<ul style="list-style-type: none"> - Valuations validating ongoing value of the firm - Internal appraisals to update This Land financial model - Security over work in progress and visibility that amounts invested lead to increased value

In considering this report, the improvements recommended and next steps for the company, the Committee will be mindful of its fiduciary duty to Cambridgeshire taxpayers, with regard to best value, security of funds, risk and commensurate returns.

7.4 Equality and Diversity Implications

No significant implications

7.5 Engagement and Communications Implications

No significant implications

7.6 Localism and Local Member Involvement

No significant implications

7.7 Public Health Implications

No significant implications

7.8 Environment and Climate Change Implications on Priority Areas

7.8.1 Implication 1: Energy efficient, low carbon buildings.

Positive/neutral/negative Status: Neutral

Explanation: This is principally a governance monitoring report rather than detail on the environmental/sustainability standards of homes to be delivered.

7.8.2 Implication 2: Low carbon transport.

Positive/neutral/negative Status: Neutral

Explanation: As above.

7.8.3 Implication 3: Green spaces, peatland, afforestation, habitats and land management.

Positive/neutral/negative Status: Neutral

Explanation: As above

7.8.4 Implication 4: Waste Management and Tackling Plastic Pollution.

Positive/neutral/negative Status: Neutral

Explanation: As above

7.8.5 Implication 5: Water use, availability and management:

Positive/neutral/negative Status: Neutral

Explanation: As above

7.8.6 Implication 6: Air Pollution.

Positive/neutral/negative Status: Neutral

Explanation: As above

7.8.7 Implication 7: Resilience of our services and infrastructure, and supporting vulnerable people to cope with climate change.

Positive/neutral/negative Status: Neutral

Explanation: As above

Have the resource implications been cleared by Finance? Yes

Name of Financial Officer: S Howarth & T Kelly

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the Head of Procurement? Not applicable

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or Pathfinder Legal? Yes

Name of Legal Officer: A Brown

Have the equality and diversity implications been cleared? Not applicable

Have any engagement and communication implications been cleared by Communications? Yes

Name of Officer: C Birchall

Have any localism and Local Member involvement issues been cleared by your Service Contact? Yes

Name of Officer: T Kelly

Have any Public Health implications been cleared by Public Health? Not applicable

If a Key decision, have any Environment and Climate Change implications been cleared by the Climate Change Officer?

Yes

Name of Officer: Sheryl French, Assistant Director Climate Change and Energy Services

8. Source documents

8.1 Source documents

- This Land Business Plan 2022 and supporting development appraisals, risks registers and evidence base
- Avison Young follow up report
- BNP Paribas monitoring surveyor report

CCC Resources Directorate – finance@cambridgeshire.gov.uk