

**PROPERTY AT BURWELL AND SOHAM: TRANSFER TO THIS LAND AND FINANCING  
(PHASE 2)**

*To:* **Commercial & Investment Committee**

*Meeting Date:* **22 March 2019**

*From:* **Deputy Section 151 Officer**

*Electoral division(s):* **Soham North and Isleham  
Burwell**

*Forward Plan ref:* **2019/033**      *Key decision:* **Yes**

*Purpose:* **To consider arrangements for the phase 2 sale to This Land of property at Burwell and Soham, and related financing, following similar processes for phase 1 at these sites as agreed as part of the portfolio**

*Recommendation:*

**The Committee is invited to delegate to the Deputy Section 151 Officer, in consultation with the Chairman of the Committee, the authority to:**

- a) Agree disposal of the sites at Burwell and Soham to This Land, as described in the appendix**
- b) Agree to activate loan financing (secured by mortgage) to the value of £26.071m**
- c) Agree to equity investment in This Land to the value of £1.3035m, as a result of these sales**

<b><i>Officer contact:</i></b>	<b><i>Member contact:</i></b>
Name: Tom Kelly Post: Head of Finance Email: <a href="mailto:Tom.Kelly@cambridgeshire.gov.uk">Tom.Kelly@cambridgeshire.gov.uk</a> Tel: 01223 703599	Name: Joshua Schumann Post: Chair of Commercial & Investment Committee Email: <a href="mailto:Joshua.schumann@cambridgeshire.gov.uk">Joshua.schumann@cambridgeshire.gov.uk</a> Tel: 01223 706398

## 1. BACKGROUND

- 1.1 In Spring 2018, the Committee agreed to the sale of property at Burwell and Soham to This Land, the Council's wholly owned company to advance schemes for the development of residential housing. These sites were split into two phases: phase 1 forming part of the portfolio sale agreed in 2018 (the portfolio included 24 sites in total), with phase 2 to follow by March 2019. This phasing recognised that these were large sites where it was sensible for progress to be made on planning, infrastructure and preparatory matters with the remainder of the property (phase 2) to follow-up to 12 months later. In both cases, the entire site is masterplanned with This Land unlikely to advance a viable scheme within the phase 1 curtilage alone.
- 1.2 In December 2017, the Committee gave in principle approval to lending to This Land of up to £120m. Within this envelope, to date, the Committee has thereafter permitted specific loans amounting to:
- £54.8m relating to land acquisition
  - £15.6m relating to development
- 1.3 Across the medium term, the Council's financial payback from This Land is received by way of interest payable on those loans advanced with the potential for dividend or rising equity value occurring further ahead. The Council's Business Plan for 2019-2024 reaffirms detailed capital receipt and outlay expectations and the revenue return by way of interest receivable. The housing development assumptions, already endorsed by the Committee, envisage that This Land will have acquired phase 2 at both sites by the beginning of the 2019-20 financial year, which also aligns with This Land's business planning and financial modelling. Overall this activity and investment delivers additional housing within the County as well as new income streams to support the provision of frontline services by the County Council.

## 2. FINANCING AND VALUATION

- 2.1 We are now approaching the end of the 12 month initial period, after the commencement of the portfolio sale, by which the phase 2 transfers are due to have occurred. Subject to agreement of this report the Council will follow the same approach, agreed in policy, towards a sale at best consideration to This Land, who are enabled by financing through a secured facility agreement (loan) and unsecured equity investment.
- 2.2 As with the portfolio sale, an external and independent registered valuer was instructed to undertake a RICS Red Book valuation of the phase 2 sites at Soham and Burwell. The results of those valuations, and discounting assumptions applied, are shown in the confidential **appendix**. Those values (£26.071m altogether) are requested in turn as loan financing to be made available to This Land.
- 2.3 The valuation received for Burwell is less than the business planning assumption (set before the judgement of the valuer was received), meaning that an adverse variance could arise against the Committee's income target as a result. Other This Land lending assumptions for 2019-20 will be kept under review with the aim of recovering that potential deficit across the wider range of lending opportunities with the company, as these are assessed and come forward.

- 2.4 In time, we envisage there will be further uplift in the value of these sites. The Council will also share directly in that growth through “overage” arrangements (as with the portfolio), further details are given in the appendix.
- 2.5 The loan for £26.071m is to be secured by way of mortgage and first legal charge on the phase 2 sites. This is the best type of security and provides the Council with collateral; in the event of the company failing the Council’s loan is repayable through realising the value of the asset. At this time, the company has sufficient funds to meet its development costs at these sites from the loans and equity already agreed, meaning that loans with a lower level of collateral are not requested in this report (although they are scheduled for later in 2019/20). We also continue our approach to date of providing a 5% equity investment alongside lending, mindful that a financing arrangement for This Land based purely on debt could be considered artificial or “thinly capitalised”.
- 2.6 These loans to This Land will be for a period of at least 9 years, according with the This Land financial model, with the exact length of loan and interest rate arrangements subject to negotiation with This Land under the delegation proposed. In practice these are constrained by the timescales envisaged in the This Land business plan and ensuring a state aid compliant interest rate. Detailed loan terms are already established as a result of the portfolio sale, meaning that a standard form agreement will be agreeable imminently with This Land, with only the finer details (such as the influence of current borrowing costs and EU referenced margins which can vary week-to-week) being the variables.

### **3. MONITORING, GOVERNANCE AND OVERALL RETURN**

- 3.1 The This Land companies are ultimately wholly owned by the County Council and operate on an arms length basis to deliver a commercial return from housing development. As the initial tranches of land transfer to This Land will be effectively completed after these sales, the company concludes construction on its first site (Milton Road), and a wider range of non-executive directors take up appointment on the board, the focus of the company will intensify on the development of the sites it has acquired (its inventory). With this goes a step up in corporate governance and standardisation of routine monitoring: a shareholder monitoring meeting is scheduled for 15 March 2019.
- 3.2 From the lender perspective, external legal advice has been taken on the construction loan arrangements to provide the mechanisms for oversight and regular review of progress and deployment of lent funds to ensure there is ongoing assurance against business plan and of enhancing values of assets transferred as these are developed. We also expect to engage some further external support of the kind provided by a monitoring surveyor to areas of technical review including construction costs and standards and discharge of conditions, at monitoring intervals going forward.
- 3.3 The This Land financial model and business plan as it relates to the property and plans at Soham and Burwell have been reviewed taking account of latest information, risks and contingencies. These continue to show an overall positive cash return, making interest payments affordable for the company and advancing the loan a sound investment for the Council.

#### **4. ALIGNMENT WITH CORPORATE PRIORITIES**

##### **4.1 A good quality of life for everyone**

Promoting housing development benefits the economy, providing homes for people to live in Cambridgeshire and jobs associated with construction, planning and accommodation delivery.

##### **4.2 Thriving places for people to live**

Further details around masterplanning are given in the appendix.

##### **4.3 The best start for Cambridgeshire's children**

There are no significant implications for this priority.

#### **5. SIGNIFICANT IMPLICATIONS**

##### **5.1 Resource Implications**

The report above sets out details of significant implications in section 2 and 3 and in the confidential appendix.

##### **5.2 Procurement/Contractual/Council Contract Procedure Rules Implications**

No significant implications.

##### **5.3 Statutory, Legal and Risk Implications**

The Council has followed its policy in relation to disposal at best consideration, in this case using the established process of using an external independent valuation

##### **5.4 Equality and Diversity Implications**

No significant implications.

##### **5.5 Engagement and Communications Implications**

No significant implications.

##### **5.6 Localism and Local Member Involvement**

No significant implications further to the grant of planning permission. In line with our usual approach notification is given of This Land transactions to the Local Member.

##### **5.7 Public Health Implications**

No significant implications.

<b>Implications</b>	<b>Officer Clearance</b>
<b>Have the resource implications been cleared by Finance?</b>	Yes Name of Officer: T Kelly
<b>Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?</b>	Continues existing approach: Section 2 refers to best consideration for sale.
<b>Has the impact on statutory, legal and risk implications been cleared by LGSS Law?</b>	Yes Name of Officer: M McMurtry
<b>Have the equality and diversity implications been cleared by your Service Contact?</b>	Yes Name of Officer: T Kelly
<b>Have any engagement and communication implications been cleared by Communications?</b>	N/A
<b>Have any localism and Local Member involvement issues been cleared by your Service Contact?</b>	Following phase 1 and as per notification protocol.
<b>Have any Public Health implications been cleared by Public Health</b>	Not applicable

## 7. SOURCE DOCUMENTS

<b>Source Documents</b>	<b>Location</b>
External Valuation (Red Book) – Savills	Strategic Assets Team, Octagon, Shire Hall