

THIS LAND: PERIODIC AND FINANCING UPDATES

To: **Commercial and Investment Committee**

Meeting Date: **13 September 2019**

From: **Deputy Section 151 Officer**

Electoral division(s): **All**

Forward Plan ref: **N/a**

Key decision: **No**

Purpose: **To update the Committee on the work of This Land**

Recommendation: **The Committee is invited to note and comment on the report**

<i>Officer contact:</i>		<i>Member contact:</i>	
Name:	Tom Kelly	Names:	Cllr Joshua Schumann
Post:	Head of Finance	Post:	Committee Chairman
Email:	Tom.kelly@cambridgeshire.gov.uk	Email:	Joshua.Schumann@cambridgeshire.gov.uk
Tel:	01223 703599	Tel:	01223 706398

1.0 FINANCING AND INTEREST RECEIVABLE

- 1.1 As at the date of reporting the financing from the Council to This Land is as follows:

Item	Amount	Repayable
Loans for land acquired from CCC	£78.872m	2028-2029
Loans for acquired from third parties	£2.040m	2021
Bridging loan	£8.500m	2020
Construction and development loans	£7.100m	2029
Loans subtotal	£96.512m	
Equity	£3.951m	
Total	£100.463m	

- 1.2 In addition, the initial overheads loan of £2.8m was re-paid by This Land in 2018. Net interest receivable from loans advanced to date is forecast as **£4.89m** in 2020-21.
- 1.3 This completes the loan financing that has been agreed in detail by the Committee. Section 4 outlines that there will be significant further loan financing requirement going forward to enable the company to meet its overage obligations to the Council, to enable development and construction of sites within its ownership and to service the interest arising on the total loan book advanced.

2.0 SHAREHOLDER AND COMPANY UPDATES

- 2.1 The second This Land shareholder update of 2019 was held on 2 August 2019 at the company's offices. Several members of this Committee attended, along with the CCC Head of Finance, and met with the company Chairman, Managing Director and Development Director.
- 2.2 The shareholder received updates on the company's directorships, financial position and progress with projects through the programme of planning to construction. The annual general meeting of the company is scheduled for 24 September 2019.
- 2.3 The company's external audit is nearing completion for the year ending December 2018. The shareholder will be invited to adopt the annual accounts as part of the September general meeting, and then to re-appoint the auditors for the subsequent year.

3.0 LAND ACQUISITION, TOWN PLANNING AND CONSTRUCTION

- 3.1 Acquisition of land from the Council has completed for the foreseeable future, with all of the identified and available property sold to the company as well as the phase 2 areas staged within the portfolio now all within This Land's ownership. The Council is anticipating it will receive further capital receipts from This Land later in 2019-20 as the result of overage obligations, agreed

by This Land, which share uplifts in property values subject to planning permission being granted.

- 3.2 There was extended discussion at the shareholder meeting regarding submission of planning applications and that the company was suffering from a backlog of work in the Local Planning Authorities. The company has re-programmed schemes in response. Discussions with the shareholder included what further steps the company could take to bring forward considerations by planners. This may include formal escalation under the statutory process, as well as continuing local political and officer-level influence.
- 3.3 There are significant delays arising from this apparent in the Summer 2019 programme compared to plans as at October 2018. This in turn has an impact on the company's financial projections (next section). An extract from the shareholder report outlining the status and progress on each site is shown in the appendix to this report.
- 3.4 The construction and development loans to the company obligate This Land to deploy funds from a "charged account" in accordance with conditions and for specified schemes.

4.0 UPDATED FINANCIAL PLANING AND FORECASTS

- 4.1 As a result of the delays in the planning process, and a wider review of projected build and development costs, coinciding with the changeover in financial leadership at the company and transition to the active construction stage, the Council is anticipating a significant revision of the company's detailed financial projections and profiles.
- 4.2 During early 2019, the company had reset its projections focusing the payback to the Council on interest servicing at set levels and away from future, distant and uncertain dividends arising from profits. Given prospects for dividends were always long-term, the Council had not, in any case, budgeted to receive these and this will remain a prudent assumption. There is however likely to be a significant increase required in business planning projections for loans to This Land and the associated borrowing required by the Council, and interest receivable by the Council. While this does not necessarily impact the overall return from This Land (rather it changes the form of payback from dividend to interest payable) it does increase the Council's exposure to risk, requiring an increase in the principal sums of loan required in order to ensure the company has sufficient cash flow in the medium term.
- 4.3 The latest version of the company's financial modelling and strategy therefore indicates increased costs from planning and construction as well as interest, caused both by the delays experienced to date in reaching the construction stage and an overall increase in the borrowing the company will require. Within this the largest sensitivity and uncertainty the company faces is

building costs, given the relative immaturity of the construction supply chain to This Land, the nature of inflation and price volatility in the sector and current economic uncertainty. The Council has requested a full financial review and refresh of projections and the Committee will be approached for further loan advances on that basis, and as part of capital planning for future years that will in turn increase the Council's borrowing requirement, later in 2019.

- 4.4 Although financial projections show the company in a cash positive position overall, and able to repay and service loans over the development timescales, there is an acceptance that not all individual sites within the portfolio will be profitable and that levels of risk are increasing as the "cushion" of dividends receivable towards the end of the development period decrease. Clearly in this context, the financial refresh, that the company has appointed external advisors to assist with, will be crucial.

5.0 COMPLETION OF MILTON ROAD / MONITORING SURVEYOR REVIEW

- 5.1 An external advisory firm, with property and banking expertise, has been appointed by the County Council to undertake a retrospective review of the development at Milton Road, undertaking the role of Monitoring Surveyor. They have been instructed to consider and report on:
1. Planning – Review of planning consent and discharge of associated conditions (particularly those of a pre-commencement/pre-occupation nature)
 2. Building Control – Ensure arrangements were satisfactory Building Regulations approval and commentary on the status.
 3. Warranty – Comment on construction warranty position for residential units
 4. Library –seeking to confirm compliance with approved drawings and in accordance with the lease and comment on any variance from the agreed documents.
 5. Programme – Review progress against the original construction programme and report on progress to date
 6. Project Costs – Summary of Scheme costs (construction and other) against anticipated receipts/income/value
 7. Procurement and Contracts – Commentary on procurement strategy and placing of work orders/award of contracts for works including professional appointments
 8. Quality of Construction – Review of methods of construction and quality of workmanship
 9. Health & Safety – Comment on arrangement in respect of Construction Design and Management regulations and wider site safety
- 5.2 The loan agreements in place for construction and development to date empower the County Council, as Lender, to require further information and monitoring of progress against agreed plans. It is likely that further external

monitoring surveyor will need to be procured to resource this scrutiny as the company moves firmly into the construction stage across a number of sites.

6. ALIGNMENT WITH CORPORATE PRIORITIES

6.1 A good quality of life for everyone

There are no significant implications for this priority.

6.2 Thriving places for people to live

This Land is committed to building sustainable new homes in Cambridgeshire and neighbourhoods where people want to live.

6.3 The best start for Cambridgeshire's children

There are no significant implications for this priority.

7. SIGNIFICANT IMPLICATIONS

7.1 Resource Implications

The report above sets out details of significant implications in section 4.

7.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no new / significant procurement or contractual implications.

7.3 Statutory, Legal and Risk Implications

There are no new significant statutory implications. Section 4 sets out an anticipated increase in borrowing and onward lending levels to This Land, increasing the risk exposure.

7.4 Equality and Diversity Implications

There are no significant implications under this heading

7.5 Engagement and Communications Implications

There are no significant implications under this heading

7.6 Localism and Local Member Involvement

Local engagement was discussed with This Land at the August shareholder meeting: the directors reported on local engagement activity and efforts to enhance this.

7.7 Public Health Implications

There are no significant implications under this heading

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes E Tod
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?	Yes No new contractual obligations
Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law?	Yes M Green
Have the equality and diversity implications been cleared by your Service Contact?	Yes
Have any engagement and communication implications been cleared by Communications?	Yes
Have any localism and Local Member involvement issues been cleared by your Service Contact?	n/a
Have any Public Health implications been cleared by Public Health	n/a

10. SOURCE DOCUMENTS

Source Documents	Location
Shareholder Monitoring Reports 2 August 2019	This Land Ltd Compass House Histon
Lending conditions, financial model, monitoring surveyor instructions	Resources Directorate Shire Hall