



CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY BOARD	AGENDA ITEM No: 2.7
	PUBLIC REPORT Appendices 1 and 2 are exempt by virtue of category 3 within schedule 12A of the Local Government Act 1972

EAST CAMBRIDGESHIRE STRATEGIC COMMUNITY LAND TRUST (CLT) PROGRAMME – PROVISION OF LOAN FACILITY

1.0 PURPOSE

- 1.1 The purpose of this report is to seek the approval of the Board for the provision of a two year commercial loan facility capped at £6.5m to East Cambs Trading Company Ltd to facilitate the development of a CLT scheme of 54 homes (35 open market sale and 19 CLT owned affordable homes) at West End Gardens, Haddenham.
- 1.2 In addition, to bring forward further proposals currently in development to facilitate a ten year commercial loan of £40m loan to East Cambs Trading Company Ltd to deliver the East Cambs Strategic Community Land Trust Programme. These proposals will come to the next meeting of the Combined Authority Board.

<u>DECISION REQUIRED</u>	
Lead Member:	Mayor James Palmer
Lead Officer and Author:	Martin Whiteley, Chief Executive
Forward Plan Ref: 2018/004	Key Decision: YES
The Combined Authority Board is recommended to (a) Approve the provision of a commercial loan facility capped at £6.5m from the £100m Housing Programme for a period of two years to East Cambs Trading Company Ltd for the CLT scheme at West End Gardens, Haddenham.	<i>Voting arrangements</i> Simple majority of all Members.

<p>Approval is subject to completion of the business case, due diligence and agreement of loan terms to the satisfaction of the Chief Executive, Monitoring Officer and Section 151 Officer.</p> <p>(b) Authorise the Chief Executive to bring forward detailed proposals and the business case to the next Board meeting for the provision of a ten year £40m commercial loan facility capped at £40m to fund the East Cambs Strategic CLT Programme.</p>	
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2.0 BACKGROUND

- 2.1 The Cambridgeshire and Peterborough Combined Authority Devolution deal included a commitment to work with Community Land Trusts¹ to deliver new schemes recognising the benefits of these schemes to the community. The Combined Authority has already approved £120,000 grant funding from the £100m housing programme for 8 CLT owned affordable units at The Shade, Soham.
- 2.2 East Cambs Trading Company Ltd (ECTC) (a development company wholly owned by East Cambridgeshire District Council) was established in April 2016. Using its available financial resources (a £5m loan facility from the Council), ECTC is currently building its first 24 homes at Ely and Soham.

3.0 PROPOSALS

- 3.1 There are two aspects to this report, specifically, the approval of a £6.5m commercial loan facility from the £100m Housing Programme to ECTC for a CLT scheme for 54 homes in Haddenham and then to bring forward proposals for a £40m commercial loan facility to fund the East Cambridgeshire Strategic CLT programme of up to a level of 250 homes per annum for 10 years.
- 3.2 The Haddenham scheme has the benefit of planning permission to ECTC for a CLT scheme of 54 homes. There are 19 (35%) CLT affordable homes and 35 homes for open market sale within the scheme.
- 3.3 The Haddenham CLT scheme is now ready to build but ECTC is unable to commence construction until all the sales income has been received from the sale of homes at Ely and Soham (see para 2.2) given the constraints on the funding from the shareholder.
- 3.4 Through the provision of a commercial loan facility to ECTC, the Combined Authority can speed up the delivery of new homes.

¹ Devolution Deal: New Homes and Communities, Para 22 (d) e. Work with Community Land Trusts to deliver new schemes recognising the benefits these schemes bring to the community.

- Current ECTC finances mean that the Haddenham scheme will be built out over two phases, with housing completions commencing October 2019 and completing in October 2021
- With a loan facility from the Combined Authority, ECTC can deliver the project quicker with housing completions commencing June 2019 and completing in September 2020.

- 3.5 There is no requirement for a grant towards this scheme as the CLT programme uses a ‘land value capture’ mechanism to provide the cross subsidy necessary to build CLT owned affordable homes and other community benefits/assets within the scheme. These will be held in perpetuity by the local CLT and the income streams derived from the completed affordable homes will enable the local CLT to bring forward additional sites in future years.
- 3.6 The cash flows for the Haddenham CLT scheme and development appraisal are detailed in Appendices 1 and 2 (these are based on an interest rate of 1.5% per annum).
- 3.7 The scheme provides an opportunity to recycle funding, enabling the CPCA to reuse capital to fund a continuing pipeline of development within the timeframe for the £100m Housing Programme.

EAST CAMBRIDGESHIRE STRATEGIC CLT PROGRAMME

- 3.8 The Haddenham scheme is part of the East Cambridgeshire Strategic CLT Programme delivered through the East Cambs Trading Company. The target for the programme is to increase production over the period until 250 homes are being built each year.
- 3.9 The ten year pipeline from 2018/19 to 2027/28 is expected to complete 1850 homes (553 affordable CLT homes and 1297 market homes).

10 year pipeline (housing completions per year)										
2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
24	75	141	185	215	233	240	238	250	249	1850

- The ECTC have already begun construction on 24 homes. Together with sites already secured at pre-construction and planning stage, the current secured pipeline totals 554 homes.
- On top of the above, additional sites have been identified that are currently under negotiation that could deliver a further 342 homes, bringing the total development pipeline to 920 homes (274 CLT owned affordable and 646 market).
- It is expected that over the term of the programme, further sites will become available to further build the pipeline so that the target of 1850 homes can be achieved.

The provision of a loan facility over 10 years will enable the schemes not yet already commenced and those under negotiation to be delivered and provide the necessary finance for the target of 1850 homes outlined above.

- 3.10 The Combined Authority's new borrowing powers for housing enable it to provide the necessary loan finance to ECTC without impacting on the £100m housing and infrastructure fund. The loan to Haddenham recommended in this report would be refunded immediately to the £100m Housing Programme when the medium term loan facility has been agreed.

4.0 FINANCIAL IMPLICATIONS

LOAN FACILITY – HADDENHAM

- 4.1 It is proposed that the Combined Authority provides a £6.5m commercial loan for a two year period commencing drawdown in June 2018 from the £100m Housing Programme. In May 2020, ECTC would repay any outstanding amounts from the loan facility in full if not before. (In the event of the ten year commercial loan of £40m being secured, the initial £6.5m would be included in that facility and the £100m Housing Programme would be repaid immediately).

FUNDING OPTIONS

- 4.2 There are two potential mechanisms for the Combined Authority to provide the £6.5m loan facility:
- (a) **A policy investment** - to provide a capital payment to the trading company; this would be subject to compliance with European State Aid rules, with an appropriate market rate of interest charged on the loan. Initial indications suggest an appropriate rate would be likely to be based on the EU LIBOR base rate plus an additional margin rate dependent on the level of perceived risk.
 - (b) **A treasury investment** - to provide funds to the Local Authority for them to 'on-lend' to the trading company. However, this is not acceptable to East Cambridgeshire District Council due to the adverse impact on the MTFS given the requirements of MRP.

INTEREST RATE

- 4.3 As CPCA is a public body, any loan made by CPCA is expected to be subject to European State Aid rules, with an appropriate rate of interest to be charged on the loan.
- 4.4 The interest rate payable is likely to have two elements, a base rate and a margin.

The base rate is expected to be the prevailing EU LIBOR base rate. The margin is expected to be in line with the parameters used by Homes England for its Home Building Fund, with margins depending on the creditworthiness of

the applicant. As a wholly owned local authority trading company, ECTC is expecting to be able to demonstrate strong creditworthiness.

On this basis, the margin charged is expected to be at the lower end of the range for this reason. The attached appraisal and cash flow has been on an interest rate of 1.5% p.a.

- 4.5 The Chief Executive, Monitoring Officer and Section 151 Officer are currently working with ECDC and ECTC to complete the business case and due diligence and to define the loan terms to support the investment in loan funding for the scheme in advance of the Combined Authority Board meeting at the end of the month. Approval of the loan facility is subject to completion of the business case, due diligence and agreement of loan terms to the satisfaction of the Chief Executive, Monitoring Officer and Section 151 Officer. In the event that there are issues requiring the consideration of the Board these will be brought forward as an exempt item to the Board.

5.0 LEGAL IMPLICATIONS

- 5.1 The Combined Authority has the ability to lend under s.12 Local Government Act 2003 “power to invest” as well as under the general power of competence, provided that it is compliant with European State Aid rules.
- 5.2 In making any such investment the Authority is required to have regard to the Government’s statutory Guidance on Local Government Investment (section 15 Local Government Act 2003), and specific guidance published by the Chartered Institute of Public Finance and Accountancy
- 5.3 The devolution deal of June 2016 placed no particular restrictions on the use of the £100m Housing Programme for such purposes. The £100m must be used for the purpose of delivering infrastructure for housing and growth.
- 5.4 In addition, the devolution deal provides that the gainshare funding of £20m may be used to support provision of a loan facility as the purpose of this funding is to ‘unlock investment in infrastructure and deliver growth’.
- 5.5 The Combined Authority does not currently have the power to borrow for these purposes, although legislation is currently passing through Parliament to enable this.

6.0 APPENDICES

- 6.1 Exempt Appendix 1 – Haddenham CLT Scheme – Cashflow
- 6.2 Exempt Appendix 2 – Haddenham CLT Scheme – Development Appraisal