



**CAMBRIDGESHIRE
& PETERBOROUGH**
COMBINED AUTHORITY

CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY BOARD	AGENDA ITEM No: 3.1
27 NOVEMBER 2019	PUBLIC REPORT <i>This report contains two appendices which are exempt from publication under Part 1 of Schedule 12A of the Local Government Act 1972, as amended, in that it would not be in the public interest for this information to be disclosed (information relating to the financial or business affairs of any particular person (including the authority holding that information))</i>

£100M AFFORDABLE HOUSING PROGRAMME SCHEME APPROVALS (NON GRANT) NOVEMBER 2019: LINTON ROAD, GREAT ABINGDON

1.0 PURPOSE

- 1.1. To seek approval from the Board for the provision of a 21 month repayable loan facility capped at £5.78m to Linton Road (Great Abingdon) LLP for the development of a housing scheme at 734 Linton Road, Great Abingdon, South Cambridgeshire CB21 6AA.
- 1.2. The loan will be used to acquire the land and develop the site that will include a minimum of five affordable residential units.
- 1.3. Through this transaction the site will be delivered, without which the developer has advised that this will not happen due to constraints of a lack of funding from traditional High Street lenders and willing equity partners in the current economic climate.
- 1.4. Providing the loan will enable no less than five affordable units to be delivered under current S106 arrangements. No grant is requested or involved.

<u>DECISION REQUIRED</u>	
Lead Member:	Mayor James Palmer
Lead Officer:	Roger Thompson, Director of Housing and Development
Forward Plan Ref: 2019/052	Key Decision: Yes
<p>The Combined Authority Board is recommended to:</p> <p>(a) Approve the provision of a loan facility of £5.78m to Linton Road (Great Abingdon) LLP for a scheme of no less than 13 units based on the heads of terms detailed in the exempt Appendix 1.</p> <p>(b) Authorise the Director of Housing and Development, in consultation with the Interim Legal Counsel and the Lead Member for Investment and Finance, to conclude any necessary legal documentation to secure the loan, to include taking a charge upon the land</p>	<p>Voting arrangements</p> <p>Simple majority of all Members</p>

2.0 BACKGROUND

- 2.1. On 26th September 2018 the Combined Authority Board approved a flexible multi toolkit housing strategy in order to have a selection of tools and a flexible approach in which housing delivery can be achieved and accelerated.
- 2.2. The strategy included the provision of a rolling fund from within the £100m housing programme to be used for toolkit opportunities over and above just issuing traditional grant, such as a repayable loan agreement, as is being proposed in this paper.

A flexible multi-toolkit approach



2.3. The approved Housing Strategy included the following policy commitments:

- (a) Under paragraph 3.17 to promote all housing that is in addition to the existing development pipeline.
- (b) Under section 3.18 there is a commitment to being creative and using a range of financial delivery mechanisms that have not traditionally been a public sector method to support and deliver housing.
- (c) This proposal is further supported by paragraph 3.23 to encourage the best use of all property assets
- (d) Under 3.24 to helping to accelerate schemes using financial mechanisms in the toolbox.
- (e) Under 3.25 to more enabling action including loans
- (f) Under 3.27 to taking the initiative on more direct interventions as exemplified in the toolbox above.

2.4. The site has a planning permission dating back to April 2018, but has not progressed to development due to a lack of funding. The intention is that Laragh House Developments Ltd, having already acquired the property, will initiate the development through their Limited Liability Partnership subsidiary created specifically to deliver this development.

2.5. The site is located on the edge of Great Abingdon on the north side of Linton Road, see below:



Linton Road looking East from the village below:



The layout of the consented residential scheme is shown in Appendix 2.

3.0 PROPOSAL & CONDITIONS

- 3.1. The proposal is to offer a loan agreement to Linton Road (Great Abingdon) LLP to a maximum sum of £5.78m for 21 months to undertake the development. Detailed heads of terms for the loan are attached in exempt Appendix 1. The loan will be providing 90% of the capital being required and the borrower will be providing the 10% of equity from their own resources. The Loan will be drawn down on a side by side basis.
- 3.2. The Borrower will seek a variation to the existing planning consent to provide additional affordable housing in the form of changing 3 2 bedded affordable housing units into 6 1 bedded affordable apartments and still providing two 2 bedded units, totalling 8 affordable units in total.
- 3.3. The backstop if a variation to the planning consent is not obtainable is that the Borrower is to develop the property in line with the existing planning consent, creating 13 homes comprising eight market three and four bedded residential units and five two bedded affordable units consisting of three affordable rental and two shared ownership units
- 3.4. For the avoidance of any doubt, the scheme will not be funded unless it has a minimum of five affordable units within it.
- 3.5. The remaining units will be sold to the Market. Attached in exempt Appendix 3 is the application form and business plan which includes the strategy, location and boundary plan, planning details, high level risk analysis, development appraisal and cash flow which identifies a projected drawdown schedule for the scheme with the variation. It is projected that repayments of the loan capital will commence in February 2021 and by June 2021 re-payments will have repaid the loan with interest in full.
- 3.6. The loan will be secured against a charge on the land on which the property sits.
- 3.7. In addition to the re-payment of the interest, the Combined Authority will share profit from the scheme. If the additional affordable unit scheme comprising six 1 and two 2 bedded units are delivered (subject to planning), CPCA's share of profit will be a fixed sum £250,000. If the scheme with the existing planning consent is delivered, CPCA's share of profit will be a fixed sum £320,000 (both assuming the scheme achieves a profit).
- 3.8. The loan will be Conditional upon Laragh House Developments Limited standing as a guarantor for the loan for a sum equivalent to 10% of the construction cost. It will also be conditional upon a valuation being supplied of the land with the existing planning permission, showing that the value of the site is no less than the purchase price, the provision of an agent's market report showing that the value of the market units is equivalent to that shown in the

Borrowers business plan and a quantity surveyors cost plan or contractors tender return or quotation showing that the projected construction cost is equivalent to that shown in the Borrowers business plan.

- 3.9. This opportunity creates and brings into supply a minimum of 13 homes including five affordable homes in a development that would otherwise not be delivered by the market.
- 3.10. It will be a welcome addition to the local private and affordable housing stock. It will provide opportunity for those that live and work locally or aspire to live in the locality.

4.0 FINANCIAL IMPLICATIONS

- 4.1. It is proposed that the Combined Authority provides a £5.78m loan facility for a twenty-one month period to Linton Road (Great Abingdon) LLP. Anticipated commencement of drawdown is January 2020 from the £40m revolving fund element of the £100m Housing programme. The £40m revolving fund has adequate capacity in the cumulative drawdown profile to offer this facility in addition to existing commitments.
- 4.2. Maximum loan drawdown is projected to be £4.6m (In Dec 2020), however this is reliant upon the first properties being sold immediately and no draw on contingency. It is proposed to offer a loan for £5.78m so that the borrower has sufficient funds to ensure completion of the project without relying upon revenue from projected sales to complete the project. This loan will be secured by the Combined Authority taking a charge against the property.
- 4.3. The interest rate is expected to be 3.29% as shown in the heads of terms with the other commercial terms (see exempt Appendix 1). Overall interest projected to be payable by the borrower is £121,880. The interest rate reflects the balance of the debt and the funding from the borrower, the financial standing of the borrower, the guarantor and the overall risk of the project. In this case the risk is mitigated because a primary charge is secured against the asset, being the land with planning consent.

5.0 LEGAL IMPLICATIONS

- 5.1 At its meeting on the 26th of September 2018, the Board agreed by a majority to:
 - a) agree the approach to delivering the Housing Strategy set out in the 31Ten report in exempt Appendix 1 of the report.
 - b) agree the concept of creating a revolving fund of monies from within the £100m programme for housing investment, to run within and beyond the 5 year programme.

- 5.2 The Combined Authority has the ability to lend under s.12 Local Government Act 2003 “power to invest” as well as under a general power of competence provided that it is compliant with European state aid rules.
- 5.3 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.
- 5.4 A charge will be taken over the property and only released as sales are being completed and loan re-payments made.

6.0 APPENDICES

- 6.1 Appendix 1 – Exempt from publication - Heads of Terms for Loan Agreement between CPCA and Linton Road (Great Abingdon) LLP
- 6.2 Appendix 2 – Site layout for existing consented scheme
- 6.3 Appendix 3 – Exempt from publication - Business Case Executive Summary and Borrowers Business Plan

<u>Background Papers</u>	<u>Location</u>
Cambridge and Peterborough Combined Authority Housing Strategy (Item 2.1)	<u>Combined Authority Board 26 September 2018</u>