CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY BOARD	**AGENDA ITEM No: 3.1**
05 AUGUST 2020	**PUBLIC REPORT** ***This report contains Appendices 1, 6,7,8,9 and10 which are exempt from publication under Part 1 of Schedule 12A of the Local Government Act 1972, as amended, in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).***

£100M AFFORDABLE HOUSNG PROGRAMME: PROPOSED VARIATIONS TO SCHEMES THAT FORM INVESTMENT FROM THE £40M REVOLVING FUND, SPECIFICALLY APPROVAL OF CHANGES TO THE TERMS AND CONDITIONS OF PRE-EXISTING LOANS IN RESPONSE TO THE IMPACTS OF COVID 19

1.0 PURPOSE

1.1. As part of the Devolution Deal, the Combined Authority secured £170 million from Government to deliver an affordable housing programme. Of this £100 million available to deliver 2,000 new affordable homes across the rest of Cambridgeshire and Peterborough by 31 March 2022.

1.2. Within the Combined Authority Housing Strategy approved by board in Sept 2018 the £100m was divided into two parts, £60m for traditional grant funding and £40m to be used for the Mayor's innovative Revolving Fund to deliver additional affordable housing through loans, joint ventures and other toolbox initiatives.

1.3. This report seeks approval from the Combined Authority Board to re-structure the profile of the five loans already agreed from the £40m revolving fund.

DECISION REQUIRED	
Lead Member:	**Cllr Chris Boden, Lead Member for Housing**
Lead Officer:	**Roger Thompson, Director of Housing and Development**
Forward Plan Ref: KD2020/044	**Key Decision: Yes**

	Voting arrangements
The Combined Authority Board is recommended to approve variations to schemes that form investment from the £40m revolving fund, specifically approval of changes to the terms and conditions of pre-existing loans in response to the impacts of COVID 19 as shown in a) to d) below;	Simple majority of all Members

a) Approve extensions to the duration of the existing facility agreements with Laragh Homes and The East Cambridgeshire Trading Company as shown in the table below:

Scheme Name	Borrower	Proposed extension to facility agreement in months
Haddenham CLT (Loan)	ECTC	24
Ely MOD Site (Loan)	ECTC	20
Alexander House Ely (Loan)	Laragh Developments	4
Linton Road, Great Abingdon (Loan)	Laragh Developments	6
Histon Road (Loan)	Laragh Developments	7

b) Approve the grant of interest free periods with Laragh Homes and The East Cambridgeshire trading company as shown in the table below:

Scheme Name	Provider / Lead Partner	Interest free period in months	Starting from
Haddenham CLT (Loan)	ECTC	24	01/04/2020
Ely MOD Site (L, Cambridge loan)	ECTC	6	01/08/2020
Alexander House Ely (Loan)	Laragh Developments	2	01/08/2020
Linton Road, Great Abingdon (Loan)	Laragh Developments	3	01/08/2020
Histon Road, Cambridge (Loan)	Laragh Developments	5	01/08/2020

c) Interest free periods referred in b) above will be subject to a 'clawback' provision. Upon a final project reconciliation between the borrower and CPCA, the interest forgone through the interest free period will be recovered on a sliding scale if at the end of the project the actual profit is above the revised profit now being forecast for each project as a result of the Covid-19 impact. d) Increase the permitted number of drawdowns in each facility agreement to reflect the longer term of each loan facility. e) The Director of Housing and Development to be given authority to document the variations to the facility agreements as outlined in a)-d) above and undertake the end of project reconciliation/s assessing the potential recovery of the benefit of the interest free period against final project profit outcome for each project.	

2.0 BACKGROUND AND CONTEXT

2.1. The Mayor and the Combined Authority are committed to accelerating affordable housing delivery to meet local and UK need and support economic growth. This is reflected in the 2030 Ambition for coordinated interventions and investment tailored to local need across housing, transport and infrastructure, planning and land use and skills.

2.2. The Covid-19 pandemic has had significant impact upon the construction and housebuilding sectors. Work on most sites was abruptly halted in mid-March 2020 following nationwide stay at home guidance being issued by government and uncertainty about the implications for construction sites and their supply chains.

2.3. Housing and construction businesses countrywide have been opening up gradually since mid-May 2020 whilst also taking precautionary measures involving new working practices to minimise employees risk of contracting Covid-19. A key issue and concern is about whether housing developers will be able to perform their contractual obligations and the knock on financial, programme and other implications.

2.4. There has been a significant impact on the projects we are funding, both on anticipated delivery programmes and additional costs being incurred due to the existing impacts and ongoing risk of disruption being caused by the Covid-19 pandemic.

2.5. The primary objective of our housing strategy is to support and enable the delivery of additional housing units, both market and affordable. We therefore want to support our developers through this period, to encourage and get the housing developments that are planned completed, to have our capital successfully returned with interest and where contracted receive profit share, in order to be able to re-cycle and re-invest the revolving fund monies into new housing projects in 2021 and beyond.

2.6. The objective of the actions in this paper is to put appropriate measures in place so the borrowers will be encouraged to keep building the housing schemes out as originally planned, delivering the housing and re-paying the loans

SIGNIFICANT IMPLICATIONS

2.7. Generally with the type of industry wide disruption we have seen there would be concerns about borrowers' ability to complete the developments on time and meet their repayment obligations. Typically under borrowing agreements, a failure to meet the obligations to repay a loan facility constitutes an event of default, invoking a lender's right to exercise its remedies towards recovery of the entire outstanding debt. In the prevailing circumstances, especially with the possibility of further intermittent lockdown, moving for recovery will be more challenging if lenders find themselves having to exercise their statutory power of stepping in and sale or other remedies. Such action is highly likely to be more damaging as it results in additional disruption to construction contracts, increases costs, lengthens programmes and usually results in worse outcomes when compared to supporting borrowers through the current uncertainty, especially if the primary objective is to get the residential units successfully delivered and to then move on with supporting more opportunities.

2.8. The most critical measure is to extend the duration of the loans in order to enable the borrowers to successfully complete the construction of each development and sell the units.

2.9. The borrowers are incurring additional costs to complete their developments as a result of the Covid-19 outbreak that is having a negative impact on the projected financial outturn through no fault of their own. There is a danger of this affecting commercial decisions to either commence or continue with the originally intended programme of development if risks have increased and the likelihood of receiving expected returns has decreased. The risk v reward equation. This will be putting the delivery of houses at risk.

2.10. The borrowers have requested additional financial aid in the form of interest free periods that vary from project to project. See the table in Exempt Appendix 1.

2.11. Ideally any other changes to the existing facility agreements should be kept to a minimum, for example no change to the interest rate when it is being applied, the methodology of the interest calculation and the provisions of any profit share. There was a request from ECTC on the MOD Ely scheme to vary the methodology on which interest was being calculated from a compounded to a simple interest methodology. Officers are not recommending this as compounded interest is an industry standard approach.

2.12. State aid implications have been considered, advice taken from Bevan Brittan and attached in Appendix 4.

2.13. Attached in Appendix 3 is a commercial and private creditor test paper that articulates how these proposals sit alongside actions being taken in response to Covid-19 elsewhere.

3.0 FINANCIAL IMPLICATIONS

3.1. Our borrowers have been in the process of implementing and preparing for full project re-start. They have revised their development programmes, appraisals and cashflows to reflect the new situation, to still successfully deliver the developments. The revised projected financial out-turn for each project is shown in the table in Exempt Appendix 1. Also attached in Exempt Appendices 6 to 10 are copies of the borrowers' applications for variation including their revised development appraisals and cashflows.

3.2. The table in Exempt Appendix 1 summarises the current facility terms and what is being requested as a variation by the developer for each project. The borrowers have identified specific requests for each project to extend the duration of the facility agreements and request further aid through interest free periods.

3.3. Appendix 2 shows the previously anticipated cashflow profile of the £40m revolving fund and the new profile in the event that the borrowers' requests on each project are agreed by the Board. As might be expected, anticipated repayments are delayed and the maximum drawdown is expected in April 2021 before then steadily falling.

3.4. Interest free periods are being requested. We will seek to apply a claw back condition. So, for example, if upon assessment at the end of the project the final project outcome returns to the level of profit that was originally projected when the loan was first granted before Covid-19, then the full amount of interest as originally intended would still be paid. If at the end of the project the profit has fallen from that originally intended, then calculation of the claw back of interest will be in direct proportion to the relationship between development profit that was projected when the loan was first granted before Covid-19 and the projected revised profit as a result of the Covid-19 impact. So for example, if the original projected profit was say £500,000, the revised projected profit is now £200,000 and the cost of the interest free period (interest being forgone) is £100,000, if the final end of project out-turn results in a profit of £400,000, 66% of the cost of the interest free period would still be paid, so £66,666 of interest free would be recovered.

3.5. The lost interest by granting interest free periods will not impact on other areas of the Combined Authority. i.e. the revenue budget does not rely on these funds, but as mentioned earlier in the paper, any interest earned on these loans would be recycled and re-invested into new housing projects. i.e. the loss of interest just impacts on future funds available to support the £100m affordable housing programme.

4.0 LEGAL IMPLICATIONS

4.1. The variations can be documented through variation to each of the existing facility agreements on each scheme.

4.2. The Assurance Framework, as reflected in the devolution deal, requires the Combined Authority to demonstrate that the funds have been used for the objectives of the devolution deal.

5.0 APPENDICES

5.1. EXEMPT Appendix 1 - Summary of existing revolving fund loans and developer requests
5.2. Appendix 2 - £40m Revolving Fund Cumulative Cashflow Graph
5.3. Appendix 3 – Commercial and Private Creditor Paper
5.4. Appendix 4 – Loan variations State Aid Advice from Bevan Brittan
5.5. Appendix 5 - £40m Revolving Fund Loan Portfolio Scheme Details Summary Document
5.6. EXEMPT Appendix 6 - MoD Ely Facility Variation Application
5.7. EXEMPT Appendix 7 – Haddenham Facility Variation Application
5.8. EXEMPT Appendix 8 – Histon Road Cambridge Facility Variation Application
5.9. EXEMPT Appendix 9 – Alexander House Ely facility variation application
5.10. EXEMPT Appendix 10 - Great Abingdon facility variation application

Source Documents	**Location**
DCLG Approved Business Case Devolution Deal 2016 Assurance Framework Monitoring and Evaluation Framework	Cambridgeshire and Peterborough Combined Authority, Incubator 2, Alconbury Enterprise Campus, Alconbury Weald, Huntingdon PE28 4WX http://cambridgeshirepeterborough-ca.gov.uk/
Combined Authority Board reports. Decision summary and minutes September 2018	https://cambridgeshirepeterboroughcagov.cmis.uk.com/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/913/Committee/63/Default.aspx