

File Note

Date: 25 July 2018

Document Title: Cambridgeshire and Peterborough Combined Authority Board Meeting 27 June 2018 Public Report (Agenda Item 3.2): Strategic Community Land Trust Programme Development

Author: Cambridgeshire and Peterborough Combined Authority

Comment:

During the stage 1 Local Plan examination hearing sessions (day 5), the role of community-led development in delivering future housing growth was discussed.

Attached to this note is a public report from the Cambridgeshire and Peterborough Combined Authority's board meeting of 27 June 2018. The report sets out a programme for strategic Community Land Trust development across the Combined Authority area and includes a specific proposal to provide East Cambridgeshire Trading Company with a maximum loan amount of £40m to deliver the East Cambs Strategic Community Land Trust programme.



CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY BOARD	AGENDA ITEM No: 3.2
27 JUNE 2018	PUBLIC REPORT

STRATEGIC COMMUNITY LAND TRUST (CLT) PROGRAMME DEVELOPMENT

1.0 PURPOSE

- 1.1 Community Land Trusts were recognised in the devolution deal agreement as an important mechanism for delivery of new and affordable housing. The Mayor made community land trusts a key commitment in his manifesto and as a central feature of the emerging housing strategy, this approach provides innovation and accelerated delivery to meet housing demand.
- 1.2 A strategic approach is now required to determine how best Community Land Trusts can be delivered across the whole Combined Authority area. This report seeks Board support to develop a new model to achieve this, using the learning to date from the operation of the East Cambs Trading Company Ltd (ECTC).
- 1.3 The report also considers a specific proposal within this wider context, which is to provide ECTC with a revolving loan facility capped at a maximum loan amount of £40m to deliver the East Cambs Strategic Community Land Trust Programme. The Board previously approved in March 2018, a £6.5m loan in principle to ECTC for a development in Haddenham, and the paper signaled the proposal that this would form part of a total commercial loan facility of £40m over a ten-year period. The £40m could be facilitated through an umbrella agreement and entirely funded through external borrowing – although this will need to be fully considered and agreed with HM Treasury as part of a revised borrowing cap.
- 1.4 This paper sets out the key principles of an umbrella agreement for ECTC that could then be applied on an area wide scale and asks the Board to consider this area wide approach. If approved, further work will then be undertaken to develop an area wide proposal for a similar arrangement into a paper for further Board approval, ensuring the implications of facilitating additional loan facilities are understood and considered.

<u>DECISION REQUIRED</u>	
Lead Member:	Mayor James Palmer
Lead Officer and Author:	Roger Thompson, Director of Housing & Development
Forward Plan Ref: Not applicable	Key Decision: No
<p>The Combined Authority Board is recommended to</p> <ul style="list-style-type: none"> (a) Note the intention to develop a strategic model to deliver Community Land Trust schemes across the Cambridgeshire and Peterborough area, including an assessment of the total loan facility required (b) Agree the s151 Officer engage with HM Treasury to establish the position with regards to the existing Borrowing Cap for CPCA in respect of the potential borrowing requirement, and establish any treasury rules, guidelines or requirements for borrowing for this purpose. (c) Agree in principle the proposal to develop an umbrella agreement which could provide a loan facility, with up to £40m to potentially be funded through borrowing for ECTC (d) Agree that the Board will approve <ul style="list-style-type: none"> a. (based upon the principles in paragraph 3.6) the procedures for agreeing the future draw down of funding within the loan facility b. the appropriate level of delegations to officers for scheme sign off c. the monitoring of the delivery of housing schemes under the loan facility at appropriate stages to maintain oversight of delivery 	<p><i>Voting arrangements</i></p> <p>Simple majority of all Members.</p>

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

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.

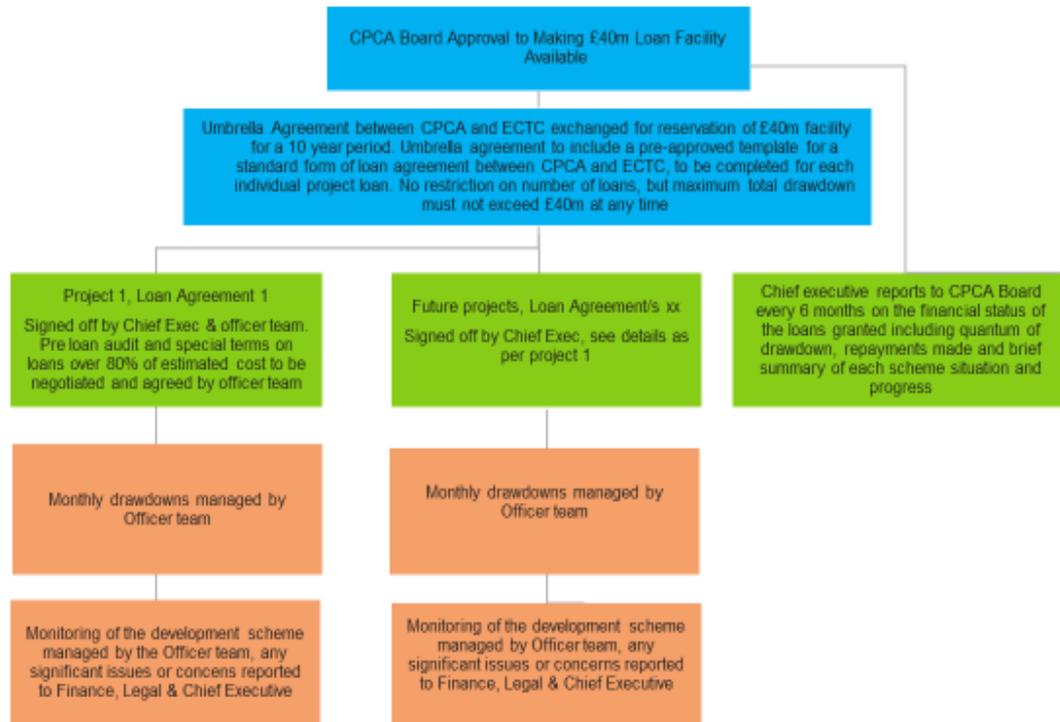
schemes recognising the benefits of these schemes to the community. The Combined Authority has to date approved £6,620,000 of loan funding from the £100m housing programme (being £120,000 grant for 8 CLT owned affordable units at The Shade, Soham and a £6.5m repayable loan for a CLT scheme of 54 homes at West Gardens, Haddenham).

- 2.2 The CPCA now needs to consider how best to accelerate the CLT programme by taking a strategic approach across the whole area.
- 2.3 The example of the loan to East Cambs Trading Company Ltd (ECTC - a development company wholly owned by East Cambridgeshire District Council) which was established in April 2016, demonstrates that using its available financial resources (a £5m loan facility from the Council), ECTC is close to completing its first 24 homes at Ely and Soham.
- 2.4 If the CPCA explores how to access funding through borrowing, subject to HM Treasury agreed borrowing caps, then the acceleration of the CLT programme can be achieved.
- 2.5 The concept of the Umbrella agreement for ECTC has the potential to be 'rolled out' for other CLT's across the Combined Authority region.

3.0 ECTC LOAN PROPOSAL EXAMPLE

- 3.1 The proposal to make available when called for, a commercial loan facility up to no more than £40m to fund the East Cambridgeshire Strategic CLT programme of (projected up to a level of 250 homes per annum for 10 years) under an umbrella agreement. A loan from CPCA to ECTC of £6.5m over two years, which was approved in principle by the Board March 2018 would form part of the £40m.
- 3.2 There is a proposal to provide this facility through an umbrella agreement, which would be subject to the provision of individual loan agreements under it as shown below:

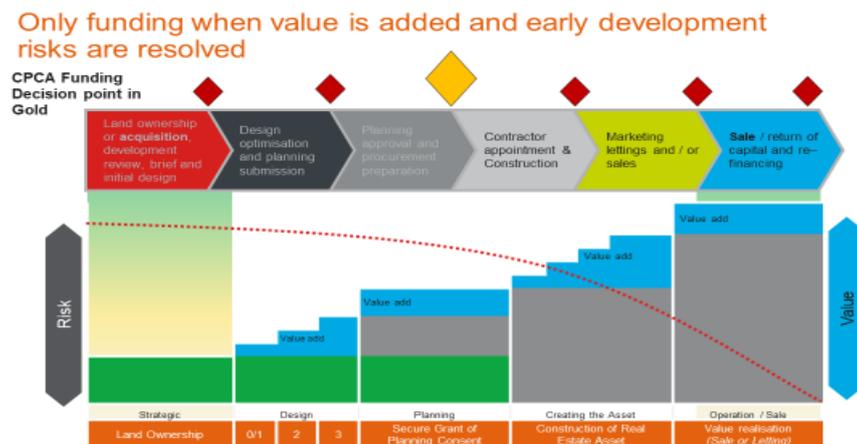
Proposed CPCA to ECTC £40m Umbrella structure



- 3.3 The concept of the umbrella agreement should provide an opportunity to recycle funding, enabling the reuse capital to fund an expanding pipeline of development.
- 3.4 The principle on each scheme in the CLT programme is that it uses a 'land value capture' mechanism to provide the cross subsidy necessary to build CLT owned affordable homes and other community benefits/assets within a 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.
- 3.5 The umbrella agreement will commit the Combined Authority to have funds available and be prepared to release those funds, subject to the business case being approved for the provision of a loan on any individual scheme or project in the East Cambridgeshire Strategic CLT programme. The form of the legal document to be used for each loan agreement will be pre-agreed as the 'approved form' of loan documentation. It is envisaged that the final form of the loan agreement currently under preparation for the Haddenham scheme will help develop the template for an 'approved form' for future loans under the umbrella agreement.
- 3.6 Also work is currently in progress with the Portfolio Holder Fiscal, to develop grant and loan conditions.

3.7 Through the provision of an umbrella agreement with ECTC, the Combined Authority can enable ECTC to be more confident, positive and pro-active in operating in the market, to look at accelerating future schemes knowing that the source and vast majority of steps to secure funding is already in place. The Umbrella agreement will:

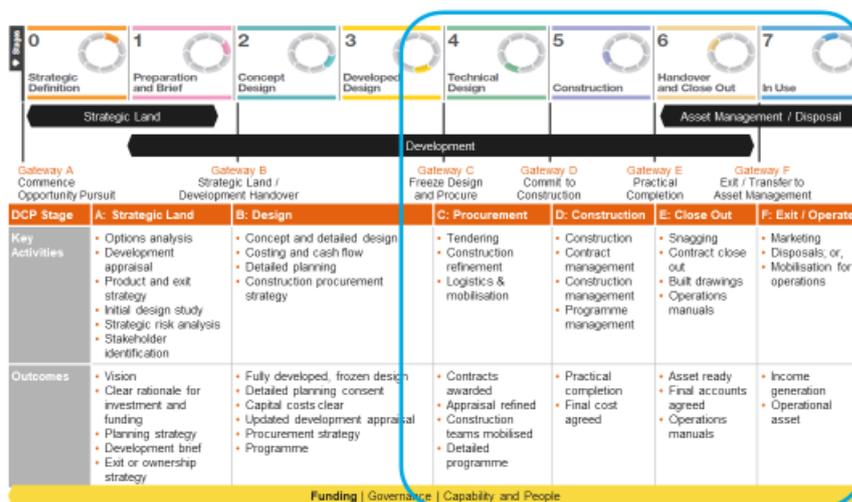
- Confirm the Combined Authority as a willing lender in principle;
- Enable the ECTC to apply for up to 100% of the funding required to deliver any particular development scheme. If the borrower only borrows up to 80% of the cost required, then the commercial principles behind the interest cost and commercial terms as agreed at Haddenham will apply. i.e. a low rate of interest (compliant with EU competition guidelines at the time of the loan);
- If funds in excess of 80% of the total cost to deliver a scheme are being applied for, the Combined Authority will have the right to negotiate to share a proportion of the developers profit to reflect the Combined Authorities provision of the additional funding and the saving that will represent to ECTC. Any such calculation will be on a case by case basis as it will depend on the financial circumstances of each scheme. This will be paid to the Combined Authority, in addition to the return of the loan and interest due.



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- Funding will not be provided until the borrower has both a good legal title in the land so the combined authority can take a first legal charge for investment security purposes and an appropriate planning permission to deliver the development. Also it will be a key principle that the value of drawdown cannot exceed the work in progress value of assets at any time.

CPCA to support development once land & planning interests are secured, by providing funding



EAST CAMBRIDGESHIRE STRATEGIC CLT PROGRAMME

- 3.8 The East Cambridgeshire Strategic CLT Programme is being 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).

ECTC 10 year pipeline (projection - housing completions per year in Blue, likely borrowing in red)										
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
£19m	£28m	£32m	£30m	£29m	£tbc	£tbc	£tbc	£tbc	£tbc	

- The ECTC will be delivering 24 homes as projected in 2018/19. Together with sites already secured at pre-construction and planning stage, the current pipeline totals 554 homes, which consists mainly of the Kennett scheme. The 2018/19 borrowing figure above comprises £6.5m for Haddenham and £11.5m anticipated at Kennett in Jan/Mar 2019.
- On top of the above, additional sites will be sought that if successfully negotiated and secured, could be expected to deliver a target of a further 340 homes, bringing the total development pipeline to circa 900 homes (270 CLT owned affordable and 630 market).
- It is expected that over the term of the 10 year programme, further sites will become available to expand the pipeline so that the target of 1,850 homes can be achieved (appx 500-550 CLT).

- 3.10 The provision of umbrella agreement, under which loan agreements for individual schemes will be made, will enable the schemes beyond 2018/19 to be delivered and provide finance to make significant inroads into the target of 1850 homes outlined above.

4.0 FINANCIAL IMPLICATIONS

- 4.1 If agreed, the work following this Board report to develop the strategic CLT programme, will need to carefully consider the financial implications of any arrangements.
- 4.2 The example of the ECTC proposal for an umbrella agreement for a maximum facility of £40m to be potentially funded through borrowing, raises a number of matters that will need to be carefully considered and dealt with in order to ensure appropriate financial advice can be provided to the Board.
- 4.3 For example, when the current CPCA borrowing cap levels were agreed with HM Treasury, they did not take account of this £40m and so it is necessary for the s151 Officer to engage with HMT as soon as possible to clarify the position in respect of the cap on this proposal. Also it will need to be established what the technical implications of borrowing for this purpose may be and whether there are any restrictions – this will likely inform the best structure which can then be proposed to fulfil the principle of providing financial security to achieve CPCA objectives in this way.
- 4.4 The specific terms of the proposed umbrella agreement and any individual loan terms, would need to be considered fully in due course. As indeed, will matters of state aid and appropriate markets rates for interest charges or investment purposes. This would be undertaken by the S151 officer alongside the Portfolio Holder Fiscal and the Chief Executive.
- 4.5 The development of the funding options for the Strategic CLT programme, will also need to be considered alongside the development of the CPCA Investment Strategy, which will be undertaken over the summer by the s151 Officer in full consultation with the Portfolio Holder Fiscal.
- 4.6 A full consideration of the potential risks arising from the programme and proposals will also need to be undertaken, both financial and non-financial to enable appropriate decision-making. This would also be undertaken by the S151 officer alongside the Portfolio Holder Fiscal and the Chief Executive.

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 Combined Authority now has the power to borrow for these purposes.

5.4 The Combined Authority should reserve the right to terminate the agreement if in future the facility is not being used by ECTC.

6.0 SIGNIFICANT IMPLICATIONS

6.1 None

7.0 APPENDICES

None

<u>Source Documents</u>	<u>Location</u>
Devolution Deal	http://cambridgeshirepeterborough-ca.gov.uk/