

EAST CAMBRIDGESHIRE DISTRICT COUNCIL – COMMUNITY LAND TRUSTS PRE-DEVELOPMENT LOAN (STRETHAM AND WILBURTON CLT)

Committee: Development and Transport Committee

Date: 2nd July 2013

Author: Chief Executive and Community Land Trust (CLT) Advisor

[N36]

1.0 ISSUE

1.1 Consideration of pre-development loan application from Stretham and Wilburton Community Land Trust.

2.0 RECOMMENDATION

2.1 Members are requested to:

- (i) approve the lending criteria and requirements for supporting documentation detailed in Appendix 1;
- (ii) approve the loan application from Stretham and Wilburton Community Land Trust for £30,000.

3.0 BACKGROUND/OPTIONS

3.1 The Development and Transport Committee and Finance and Governance on 10th January 2013 and 31st January 2013 respectively, agreed a two year programme of support to Community Land Trusts (CLT's).

3.2 There are four components to the support programme, specifically:-

- Provision of small set-up grants for local communities, largely to fund specialist legal and tax advice and basic community engagement activities.
- Revolving pre-development fund – designed to enable CLT's already established as legal entities with a sound business case to access funds to pay for technical costs associated with securing sites, obtaining planning permission and arranging development finance.
- Senior level consultancy support from Foundation East to the Council and local communities including development of bespoke 'Community led' toolkit, technical and development advice and grant and loan appraisal.
- CLT advisor seconded to East Cambridgeshire District Council from Foundation East to support emerging CLT's, develop a programme of local awareness events including regional conference, marketing and management of grant and loan fund.

3.3 The agreement with Foundation East has been completed and the secondee, Debbie Wildridge, is now in post.

4.0 ARGUMENTS/CONCLUSIONS

4.1 The lending criteria, requirements for supporting documentation and application process for the loan fund are detailed in Appendix 1 for Member approval.

4.2 In summary, the key features of the lending criteria and application process are:-

- loan size is expected to be between £30,000 and £40,000 and is available for 'investment ready' CLT's or other appropriate community based organisations;
- the purpose of the loan is to contribute to the funding of professional and technical costs related to securing the relevant development agreements and statutory permissions;
- if the project is successful the loan will be repaid, together with a 25% success rate to be reinvested in the loan fund;
- the loan will remain at risk until the property and cash assets are transferred to the CLT;
- the 9 key criteria and the required supporting documentation are detailed in Appendix 1;
- application process is detailed in section 3 of Appendix 1, specifically initial contact point, due diligence check, role of Foundation East, reporting to Committee and conditions following loan approval;
- requirements for reporting procedures.

4.3 The Council has received its first application for the pre-development loan fund from Stretham and Wilburton CLT. Phil Rose, Foundation East, has completed a loan lending appraisal and summarised the business case (see Background Papers) in accordance with the loan criteria and is recommending approval as detailed in Appendix 2.

5.0 FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

5.1 The Council has approved £100,000 for the CLT pre-development loan bank (£65,000 in 2013/14 and £35,000 in 2014/15). The amount of this loan will reduce the available loan fund to £35,000 in 2013/14.

5.2 Equality Impact Assessment (INRA) not required for this report.

6.0 APPENDICES

6.1 Appendix 1 ECDC Pre-Development Loan (lending criteria)

Appendix 2 ECDC Pre-Development Loan Lending Appraisal (Stretham & Wilburton CLT) 21 June 2013

| <u>Background Documents</u> | <u>Location</u> | <u>Contact Officer</u> |
|--|-------------------------------|--|
| Development & Transport Committee 10 January 2013 Agenda Item No 7 | Room 103 The Grange Ely | John Hill Chief Executive (01353) 616271 E-mail: john.hill@eastcambs.gov.uk |
| Finance & Governance Committee 31 January 2013 Agenda Item No 6 | | |
| Stretham and Wilburton CLT (Manor Farm, Stretham, Cambridgeshire) – Business Plan 14 March 2013 (EXEMPT) | | |



ECDC PRE-DEVELOPMENT LOAN

Lending Criteria

The pre-development loan fund is intended to provide CLTs or other appropriate community-based organisations with funding to pay for the professional fees and technical costs that are associated with securing development sites, obtaining planning permission and arranging development finance / partnering agreements with funders or development partners such as local builders / housing associations.

It is expected that the average loan size is likely to be in the order of £30,000 - £40,000. Loans are made on the understanding that if the project is successful (planning permission is obtained and development finance is secured) the loan will be repaid along with a success fee equating to 25% of the value of the loan. If the project is unsuccessful, then the loan will be written off.

To be considered 'investment ready' any pre-development loan application should meet the following 9 key criteria:

1. The applicant organisation must be established as a not-for-profit legal incorporated entity.
2. The organisation must be community-controlled and community-owned, with an open democratic membership structure.
3. The organisation must be clear about the community that it has been established to serve, with a clear vision and robust governance arrangements in place to ensure that it is 'fit for purpose'.
4. Assets that are to be transferred into the organisation, or created by it, must be protected by a legal asset lock to ensure that they are only sold or developed in a manner that benefits the local community.
5. Any housing assets that are to be retained by the organisation in the long-term are expected to be permanently affordable for local people on local wages.
6. The organisation must be able to provide evidence of meaningful public engagement and that the proposed project that requires the funding has general community support.
7. The project to be funded must be appropriate to the location and to the scale of the identified local need.
8. The project to be funded must have a good chance of planning success and must be commercially viable in current market conditions so that the loan can be repaid.
9. It can be demonstrated that the project will be well-managed during design & construction phases and financially sustainable in the longer term so that any community benefits can be retained by the local community in perpetuity.

Supporting documents

All applications will need to be supported by a detailed project business plan and financial / cash flow forecasts for at least 3 years. The business plan should be no more than 30 – 40 pages in total, including appendices. It is expected to be in a format similar to that outlined below:

1. Executive summary
2. Introduction to the project
 - Background
 - Project objectives
 - Programme for delivery (timetable with key project milestones)
3. The (applicant) organisation
 - Vision and mission statement
 - What will the organisation do
 - How is the organisation be governed
 - Organisation plans for the future
 - Project delivery team
4. Needs and market analysis
 - Evidence of need
 - Future beneficiaries (occupants)
 - Proposed property allocations policy / disposal model
5. The site and the scheme
 - Proposal
 - Design
 - Costs
 - Income
 - Future asset management arrangements
6. Resources
 - Capital funding (sources and uses)
 - Revenue funding (sources and uses)
 - Management (people / time)
7. Risk analysis
8. Appendices
 - Site plans / sketch schemes
 - Schedule of proposed accommodation
 - Financial projections / business model
 - Surveys / reports (e.g. Housing Needs Survey etc)

Application process

Interested applicants should make contact in the first instance with Phil Rose, CLT Development Manager for Foundation East who will review the project information and carry out the necessary due diligence for ECDC to ensure the project is 'investment ready'.

Foundation East will then submit a report to ECDC for consideration by the Development & Transport Committee. The report will review the project against the key criteria, will assess the risks associated with the project, and will include recommendations on any appropriate loan offer conditions. A copy of this report will also be made available to the applicant.

The decisions of ECDC DTC in connection with each project will be final.

If a loan is approved by the DTC then a legally binding offer letter will be issued within 14 days of the committee decision. Funds will be released to the applicant's bank account once any loan offer conditions have been met and the applicant has:

- i) signed and returned the offer letter, and;
- ii) provided further supporting documentation to meet our requirements and those of the anti-money laundering, proceeds of crime and terrorism regulations. This will include:
 - Certified copies of the constitution of the applicant organisation and a resolution of its management committee / Board of Trustees approving the terms of the loan and authorising two individual trustees to execute the agreement;
 - Positive identification (certified copies of driving licence, HMRC tax notifications, passport etc) of no more than two individuals who are authorised to act on behalf of the organisation and request drawdown of funds

Reporting

It will be a condition of the loan that applicants report regularly on financial and project performance at least quarterly. Management accounts (profit and loss statement, balance sheet and cash flow forecast) will need to be submitted according to a pre-agreed timetable.



ECDC PRE-DEVELOPMENT LOAN LENDING APPRAISAL

1.0 DOCUMENTS

In appraising this loan application I have relied on the following materials, all of which have been supplied by SWCLT and are available as background documents:-

- SWCLT Business Plan: Manor Farm
- East Cambridgeshire DC Draft Local Plan Policy 'Growth 6'
- Interim Development Brief: Manor Farm 14.01.13
- Draft SWCLT Housing Allocation Policy
- Head of Terms – Development Agreement (SWCLT / Laragh / Peterhouse)
- Draft Design & Access Statement: Manor Farm
- Accommodation schedule and Market values projections
- Residual Site Valuation
- Development cash flow
- Pre-development cost schedule
- CLT Cash Flow
- Resonance (Development Finance) offer letter and Fund information
- Development Finance payment profile.



2.0 THE PROJECT

2.1 What is the name of the applicant?

Comment:
Stretham & Wilburton Community Land Trust

2.2 What does the applicant organisation plan to do?

Comment:
Develop land at Manor Farm on the edge of Stretham in partnership with Peterhouse College (landowner) and Laragh House Developments (developer). A loan is required to fund SWCLT's share of pre-development costs (legals, architects, surveys, planning application fees etc) associated with a planned development of 50 new homes, 15 of which will be SWCLT owned affordable accommodation. Other community owned assets will also be delivered by the scheme; a new (larger) GP surgery, 3 small start-up business units, land for an extension to the cemetery and around 6 acres of new public open space, bridleways and footpaths.

2.3 Are there any potential conflicts of interest involved with the project?

Comment:
Foundation East has a support contract to provide professional surveying services to SWCLT.

2.4 Has the applicant previously been supported by an ECDC set-up grant or grants / loans from other organisations?

Comment:
SWCLT has not been funded by ECDC. Small grants have been received from Stretham Parish Council (£5,000), Wilburton Parish Council (£3,000) and the CLT Fund (£5,000). SWCLT has also received professional enabling support to the value of £9,500 from Design Council / CABE. All of this initial funding has now been spent on CLT set-up costs, basic administration and early stage project support.



3.0 KEY LOAN CRITERIA

3.1 Is the applicant organisation established as a not-for-profit legal incorporated entity?

Comment:

SWCLT has charitable objects and is in the process of being registered as an exempt charity by HMRC.

3.2 Is the organisation community-controlled and community-owned, with an open democratic membership structure?

Comment:

SWCLT is registered as an Industrial & Provident Society with the FSA. It currently has around 85 members. Any individual over the age of 18 that lives and / or works, or owns land in the Parishes of Stretham and Wilburton can become a member of SWCLT.

3.3 Is the organisation clear about the community that it serves, with a clear vision and robust governance arrangements in place to ensure that it is 'fit for purpose'?

Comment:

SWCLT has a defined area of benefit as the parishes of Stretham and Wilburton in East Cambridgeshire. It has 8 nominated Trustees on the board (max 12) and is currently seeking applications from its community members for the remaining board positions. SWCLT has already adopted standing orders and a range of governance policies (e.g. membership policy, conflict of interest, codes of conduct for members and board, financial regulations etc). Drafts of other policies (e.g. housing allocations, disposal policy, communications guidelines) are being progressed.

3.4 Will assets that are to be transferred into the organisation, or created by it, be protected by a legal asset lock?

Comment:

The IPS rules include a legal asset lock. In the event of SWCLT ever being wound down or declared insolvent, the assets must be transferred to a local charitable organisation with similar objectives.



3.5 Will any housing assets that are to be retained in the long-term be permanently affordable for local people on local wages?

Comment:

The business model being adopted will ensure that the houses remain affordable. Additionally, it is expected that the s.106 agreement for the development at Manor Farm will include provisions to that effect.

3.6 Is the organisation able to provide evidence of meaningful public engagement and general community support?

Comment:

From the beginning both Parish Councils have been regularly updated in the project and articles have been included in Parish Newsletters.

In November 2012 a process of community engagement began in earnest, facilitated by CABE endorsed professionals from Community Spirit Partnership and funded by the Design Council. In total 5 events were held in the village in November and December. These included engagement events and exhibitions that were open to all residents and targeted events that were intended to seek the views of hard to reach groups (e.g. the young and the elderly). Around 150 local adults (residents and businesses) and 70 children took part in the engagement process. The feedback from these events demonstrated good awareness of the project (91%) and wide community support (61% supported the plans and a further 25% gave qualified support).

As detailed proposals have been drawn up, meetings have been held between SWCLT, local District and County Councillors, the design team and residents that will be most affected by the proposals (those who live on the Meadowcroft estate or in Plantation Gate). The scheme has been deliberately amended to address the concerns of this group of residents.

A final public exhibition of the plans was held on 1st June 2013 and around 60 people attended. The plans were warmly received. The design team are now preparing a planning application for submission in July / Aug 2013.



3.7 Is the project appropriate to the location and to the scale of the identified local need.

Comment:

SWCLT were always aware that there was an underlying need for new affordable homes for local people in the village, however until recently there was no substantive evidence to support this view. In January 2013, expressions of interest forms were delivered to every house in the parish of Stretham. This gave local people in housing need an opportunity to submit information about their circumstances so that SWCLT could assess the level of demand. In total there are 30 households in Stretham Parish that are in housing need (including those already on the housing register). In addition there are 21 more in Wilburton Parish that were identified by a Housing Need Survey in 2009. It has been agreed with Oliver Cook, Rural Housing Officer at ECDC that it is a legitimate approach for SWCLT to attempt to address the housing needs of both parishes.

The plans for Manor Farm provide 15 affordable CLT owned homes. However, the community engagement process also revealed a possible need to provide alternative accommodation for other types of community owned property to support existing local services, in particular the GP surgery (requiring a larger facility) and 3 small starter business units. These new facilities can all be accommodated at Manor Farm.

*The 35 private homes included in the scheme will provide the essential land subsidy that is required to deliver not only the affordable homes, but also the new surgery and the new business units, **all without reliance on government grant.***

The scale of the development has been driven by the requirement to generate sufficient funds to ensure that the community benefits in the scheme are deliverable. However, SWCLT believes that the land at Manor Farm is capable of accommodating this new development and is the most appropriate location in the village for a development of this size. This has been confirmed by ECDC planners. The proposal will create strong linkages with the existing village and will open up new pedestrian and cycle access into local countryside through the new development from the existing village. It will bring benefits to existing and future residents alike and enhance the sustainability of the village as a whole by creating new permanently affordable homes that are close to local jobs and improved local services.



3.8 Does the project have a good chance of planning success and is it considered commercially viable in current market conditions?

Comment:

Planning – The proposals are expected to meet the criteria of Draft Local Plan Policy GROWTH 6 against which it will be assessed. Throughout the design process, officers from ECDC have been involved and have provided advice to help shape the proposal. SWCLT has also taken steps to meet with potential objectors to the scheme (residents in Meadowcroft, Plantation Gate and representatives from CPRE) and amend the plans to alleviate concerns. Therefore, there appears to be a very good chance of the planning application being approved.

Funding – To ensure that the development is commercially viable, the proposals have been developed based on an overriding assumption that no grant funding will be available to fund the project. Instead, the development will be delivered by SWCLT in 3 phases in partnership with a joint venture vehicle to be established between Laragh House Developments Ltd and Peterhouse College Cambridge. The development partners bring significant property development expertise and access to commercial funding. The community-owned elements will be funded through a combination of land subsidy (financial contributions from the landowners) and commercial development loans. Discussions have already been held with two potential funders that could provide SWCLT with the additional loan finance that is required and an 'agreement in principle' has already been secured with one lender.

3.9 Can it be demonstrated that the project will be well-managed during design & construction phases and financially sustainable in the longer term?

Comment:

The design consultants that have been appointed have good experience of this type of project and are working to agreed timetables and budgets. As referred to above, the development partners are experienced, well resourced and have access to commercial funding.

The projected rents from the community-owned properties have been set at a level that will be affordable to the tenants and sufficient to service the annual costs of the development loan after deduction of allowances for management, maintenance, voids and major repairs.



4.0 ABOUT THE LOAN

4.1 How much does the applicant want to borrow?

Comment:

£30,000 (Thirty thousand pounds)

4.2 What will the money be used for (include a breakdown of anticipated expenditure)?

Comment:

SWCLT is projecting total expenditure of £91,000 on pre-development costs during financial year 2013/2014 (see table below). Some of this expenditure (e.g. architects, CLT support) has already been committed.

| Item | Who | Total cost | SWCLT share (£) |
|---------------------------------------|------------|-------------------|------------------------|
| Planning drawings | HWM | £40,000 | £16,000 |
| Supporting info | Various | £18,000 | £7,200 |
| Surveys | Various | £9,500 | £3,800 |
| Legals – s.106 / land transfers | AKCJ | £5,000 | £2,000 |
| Valuations | TBC | £5,000 | £2,000 |
| Planning application fees | ECDC | £21,500 | £8,600 |
| Legals – Dev agreement | AKCJ | £10,000 | £10,000 |
| CLT support contract deferred payment | FE | £30,000 | £30,000 |
| Contingency @ 10% | | £10,000 | £4,000 |
| Non recoverable VAT | HMRC | £8,200 | £8,200 |
| | | £157,200 | £91,800 |



4.3 When is the money needed and how and when will the loan be repaid?

Comment:

The £91,000 pre-development expenditure identified above is required to take the project to the point where SWCLT owns substantial physical assets (land with planning permission), financial assets (cash) and a start-on-site can be made.

SWCLT recently made an application to Charities Aid Foundation / Venturesome for a pre-development loan of £61,000. This loan was approved and funds are now available to be drawn down in two tranches from June 2013.

This leaves a shortfall of £30,000 to be met by an ECDC Predevelopment loan.

SWCLT expect to be able to repay this pre-development loan by December 2014.

4.4 Is any loan security available?

Comment:

At present SWCLT owns no tangible assets that can be provided as loan security. This situation will prevail until Spring 2014 at the earliest, when cash and property assets (development land) will be transferred to SWCLT following grant of planning permission, site valuation and land transfer. In principle security for the ECDC loan could be provided at that time, however, at this point, SWCLT will be in funds and should begin paying back the loans anyway.



5.0 SUMMARY

5.1 What are the key risks?

Comment:

- 1. Refusal of the planning application will increase pre-development costs and cause delays – SWCLT has done all that can be reasonably expected to reduce the risk.*
- 2. Judicial review of the planning decision – SWCLT and ECDC will continue to work together to ensure that procedural processes associated with the planning application are followed*
- 3. Deterioration in the housing market during the project would reduce the value of the site and, in turn, the financial contribution from the landowner – There is little that SWCLT can do to reduce this risk but the legal agreement between the parties lasts for 5 years and hopefully any downturn would be short lived.*
- 4. Significant contraction in credit markets leading to reduced availability of development funding. – Same comments as 3.*

5.2 Are any loan offer conditions recommended?

Comment:

- 1. The Board of Trustees of SWCLT should provide a resolution approving the terms of the loan agreement and authorising two individual trustees/directors to execute the agreement on their behalf.*
- 2. The above named individuals should sign and return the offer letter.*
- 3. SWCLT should provide further supporting documentation to meet the requirements of the anti-money laundering, proceeds of crime and terrorism regulations. This will include positive identification (certified copies of driving licence, HMRC tax notifications, passport etc) of no more than two individuals who are authorised to act on behalf of the organisation and request drawdown of funds*
- 4. SWCLT should report regularly to ECDC on financial and project performance at least quarterly. Management accounts (profit and loss statement, balance sheet and cash flow forecast) and a project update will need to be submitted according to a pre-agreed timetable.*



6.0 RECOMMENDATION

On the basis of evidence provided I recommend that ECDC provide a £30,000 loan facility to SWCLT.

Signature....

Name **Phil Rose MA (Hons), PgDip Surv, MRICS**
CLT DEVELOPMENT MANAGER, FOUNDATION EAST

Date **21.06.2013**