

<b>CABINET</b>	<b>AGENDA ITEM No. 8</b>
<b>10 JULY 2017</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	David Seaton Cabinet Member Resources	
Contact Officer(s):	Marion Kelly, Service Director Financial Services	Tel. 384564

**FUNDING OF THE INITIAL PROJECT PROPOSED BY MEDESHAM HOMES LLP**

R E C O M M E N D A T I O N S	
<b>FROM :</b> David Seaton, Cabinet Member for Resources	<b>Deadline date :</b> N/A
<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> <li>1. Approve a facility of £9m to provide funding for the initial project of Medesham Homes LLP;</li> <li>2. Authorise the Director of Governance and Corporate Director Resources to exercise delegated authority to finalise and agree all necessary due diligence on the project;</li> <li>3. Authorise the Director of Governance and Corporate Director Resources to exercise delegated authority to finalise and agree all necessary legal agreements with Medesham Homes LLP to secure the funding for the project.</li> </ol>	

**1. ORIGIN OF REPORT**

1.1 This report is submitted to Cabinet following a request from Councillor David Seaton, Cabinet Member for Resources.

**2. PURPOSE AND REASON FOR REPORT**

2.1 The purpose of this report is for Cabinet to consider and approve the funding of the initial project to be brought forward by Medesham Homes LLP, the Housing Joint Venture Company owned by the Council and CKH Developments Ltd.

2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.3, *'To take a leading role in promoting the economic, environmental and social well-being of the area.'*

**3. TIMESCALE**

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If Yes, date for relevant Cabinet Meeting	<b>N/A</b>
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**4. MEDESHAM HOMES LLP – THE INITIAL PROJECT**

**4.1 Medesham Homes LLP**

4.1.1 Cabinet approved the creation of a Housing Delivery Company on the 25 July 2016 – Key decision number JUL16/CAB/43.

4.1.2 Medesham Homes LLP was created as a Limited Liability Partnership (LLP) on the 25 November 2016. The members of the LLP are the Council, CKH Developments Ltd and Medesham Ltd. Joint control is exercised by the Council and CKH Developments Ltd.

- 4.1.3 Executive Decision Notice titled “The sale of land at Bretton Woods School, Hereward Community College and John Mansfield School to support the Secondary School Transformation” published August 2007 authorised the sale of the John Mansfield site. The land has planning permission.

## **4.2 The Initial Project**

- 4.2.1 This initial project is to develop 81 units of accommodation across 2 adjacent sites. The units will be a mix of for rent and shared ownership and was referenced as an initial project in the Cabinet paper establishing the Housing Delivery Company.
- 4.2.2. This development is in line with the 25 July Cabinet Paper JUL16/CAB/43, which sets out in paragraph 4.2.1.4 that its objectives are to deliver new housing of all types and tenures, including affordable rent, starter homes, shared equity, market sale, private rented, student accommodation and housing solutions for vulnerable groups.

## **4.3 Financial arrangements**

- 4.3.1. Funding for Medesham Homes LLP projects has been approved in the Council’s 2017/18 MTFs of up to £32.6m over the next 3 years, comprising £20m Invest to Save and £12.6 Right to Buy receipts. The award of this funding is subject to approval following the completion of appropriate due diligence on each individual project.
- 4.3.2. It is proposed that a facility of £9m is agreed.
- 4.3.3 Due diligence work is required on the scheme. This encompasses the financial assumptions underlying the project and its overall deliverability alongside the market conditions into which this project will be delivered. This has been commissioned from Grant Thornton and NPS Peterborough and following successful completion of this work it is proposed that the Corporate Director Resources, under delegated authority, will approve the release of funding to Medesham Homes LLP in accordance with the progress of the project.
- 4.3.4 The interest rate for the loan will be in accordance with the commercial risk being taken by the Council and cognisant of the requirements of state aid under which the Council must lend to Medesham Homes LLP at a market rate. The Council has taken advice from Grant Thornton as to an appropriate market rate.

## **5. CONSULTATION**

- 5.1 No consultation is required with the public. Appropriate consultation was taken with the grant of planning permission.

## **6. ANTICIPATED OUTCOMES**

The funding of the initial project of Medesham Homes LLP which will provide additional homes within the city of Peterborough and will generate additional investment returns for the Council.

## **7. REASONS FOR RECOMMENDATIONS**

The funding of this project will help the Council to directly act to ensure the Local Plan’s five-year supply requirements continue to be met.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

### **8.1 Do nothing**

- 8.1.1 The Council could choose not to finance this project. This was rejected because it would be inconsistent with the Council’s increasingly proactive approach to delivery and contrary

to the purpose of setting up the jointly owned company. The Council would also lose the investment return on the loan.

## **9. IMPLICATIONS**

### **9.1 Legal Implications**

- 9.1.1 The Council has the ability to lend to Medesham Homes LLP under the Local Government Act 2003 "power to invest" as well as under the general power of competence. In making any such investment the Council is required to give regard to the Government's commentary to the Guidance on Local Government Investment, as well as the statutory guidance issued by the Secretary of State and specific guidance published by the Chartered Institute of Public Finance and Accountancy. Furthermore, any such investment must be consistent with the Council's Annual Investment Policy. Any request for funding from the Invest to Save budget will also be made in accordance with the Council's Constitution and applicable Contract Rules.
- 9.1.2 While the Council's arrangements with Medesham Homes LLP do not currently amount to doing things for a commercial purpose under local government legislation, the Council is mindful of the need to keep this under review and continues to monitor the situation.
- 9.1.3 Unlawful state aid occurs where a benefit is granted from a public resource for free or on favourable terms which distort competition. The scheme structure follows market principles and as such there is no unlawful state aid implication. However, this situation will also continue to be monitored to ensure that no state aid issues arise as commercial terms are finalised.

### **9.2 Financial Implications**

- 9.2.1 Within the Council's accounts, the investment with Medesham Homes LLP will be treated as Capital Expenditure. Within the definition of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (the "Regulations") section 25 states that expenditure of a local authority will be treated as capital expenditure if:

'the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure'

Therefore, as the loan to Medesham Homes LLP will be used for the provision of housing the Council will need to class the loan as Capital Expenditure.

- 9.2.2 The capital expenditure will be funded through the Invest to Save capital budget. As the Council will make a margin on the loan, this will meet the criteria for use of that budget.
- 9.2.3 The loan will be secured over the land and buildings of the scheme and will be subject to loan covenants which will further protect the Council's loan investment. Compliance with these covenants will be monitored going forward by the Council.
- 9.2.4 It is considered that the repayment of the loan (as the loan will have security over the land and housing stock) will negate the need of an amount of MRP (Minimum Revenue Provision is an annual charge against revenue to repay the financing costs of capital asset expenditure) to be charged as reliance can be placed on the capital receipt that will be generated when the loan is repaid, or in the event of default, on the sale of the land or housing stock over which the Council has security.
- 9.2.5 The Council will make margin on the loans. This income will be fed into the MTFS, enabling the Council to make savings and protect services.
- 9.2.6 Key financial risks to the project have been considered. The market risk and project delivery risk are addressed by our professional advisors as part of the due diligence. The

Council's investment is protected by the security over land and buildings of the project and loan covenants have been included in the loan documentation which will help to protect the Council against unforeseen risks that occur during the life of this project.

**10. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

None.