

SHAREHOLDER CABINET COMMITTEE	AGENDA ITEM No. 3
27 JANUARY 2020	PUBLIC REPORT

Report of:	Steve Cox - Executive Director Place and Economy	
Cabinet Member(s) responsible:	Cabinet Member for Finance	
Contact Officer(s):	Steve Cox – Executive Director Place and Economy Dave Anderson – Interim Development Director	Tel. 01733 453475

MEDESHAM HOMES

R E C O M M E N D A T I O N S	
FROM: Steve Cox - Executive Director Place and Economy	Deadline date: N/A
<p>The Shareholder's Committee is asked to:</p> <ul style="list-style-type: none"> • Note the progress that has been made by Medesham Homes LLP in delivering affordable rented homes in Peterborough; • Note that in the near future it will no longer be possible to finance the development undertaken by Medesham Homes from historic right to buy receipts; • Invite the board of Medesham Homes to discuss how the company can most effectively progress its strategy and objectives and deliver new affordable homes in the city in future; • Consider and agree which of the options for the future operation of the company it wishes to pursue for discussion and agreement with the Council's JV partner, Cross Keys Homes. 	

1. ORIGIN OF REPORT

- 1.1 This report on the JV partner Medesham Homes is submitted to the Shareholder Cabinet Committee by the Cabinet Member of Finance.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The report is being presented to the Shareholder Cabinet Committee to provide an update on Medesham Homes activities / achievements and provide an overview of the options under consideration for the future of the company's operations and governance arrangements.
- 2.2 This report is for the Shareholder Cabinet Committee to consider under its Terms of Reference No. 3.3.2. 'Functions of the Shareholder Cabinet Committee' (a), *"To monitor performance and financial delivery of the companies, partnerships and charities set out above in line with Cabinet approved business plans by means of monthly performance monitoring and scrutiny."*

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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4. BACKGROUND AND KEY ISSUES

Medesham Homes was set up in 2016 as a 50:50 Joint Venture between the Council and Cross Keys Homes [CKH] with the following objectives:

- Delivering affordable housing;
- Investigating opportunities for starter homes, share equity, market sale, private rented and housing solutions for vulnerable groups;
- Generating economic growth and new employment opportunities;
- Addressing housing needs and requirements, in particular, for older people and overcrowded households;
- Creating through development and regeneration a strong coherent sense of place where people want to live;
- Providing the company members with returns commensurate with their investment to the extent that this is consistent with the company's objectives; and
- Exploring other opportunities to further the company's objectives where these are in accordance with the member's agreement.

The activities outlined in the company's member agreement include:

- Land acquisition and assembly;
- The construction masterplanning and design process;
- The development of both commercial and residential aspects;
- Agreeing terms with existing owners and third-party community land interests;
- Consultation with landowners and other stakeholders;
- Entering into development management and estate management and maintenance contracts;
- Securing finance as necessary including any applicable public sector funding.

Medesham Homes was set up to bring together the skills, resources and expertise of its member organisations and was intended to have only a small core staffing resource enabling it to be nimble and move forward speedily with project opportunities. The company aims to complement the other actions being taken by the Council to promote the supply of affordable housing in Peterborough which include the use of Section 106 planning policy obligations with developers of private housing; the direct purchase of homes through Invest to Save measures and engagement with private landlords to lease homes individually and in bulk at or close to local housing allowance rates so as to alleviate temporary accommodation pressures and reduce the use of B&B accommodation.

Medesham Homes is governed by a Board of 6 Directors including two elected Members and one Council Officer who is currently seconded to the Peterborough Investment Partnership; plus three representatives of Cross Keys Homes.

Cross Keys Homes provides considerable staff input to the appraisal of new housing development opportunities free of charge in addition to contributing to the Company's Strategic and longer term business planning through the Board of Directors. The company engages an experienced qualified surveyor to project manage the delivery of individual sites.

The property management model utilised, which leases units to CKH, provides access to the full range of services provided by a social landlord at a competitive rate. It also allows the tenants to enjoy the same level of tenure security as other CKH residents without the Medesham assets being subject to the right to acquire.

Historically, the company has been funded by the allocation of a combination of £18.3m right to buy receipts and £4.3m of commuted sums from S106 Planning Obligations. Of this, funding which totals £22.7m, the amount allocated to date is £18.17m

It has also had recent success in attracting grant funding support from the Cambridgeshire and Peterborough Combined Authority for schemes currently in development

Table 1 below shows the schemes funded and completed by Medesham Homes or currently in development and due to be completed within the next 12 months.

Development	No of Houses	Sources of funding		Development Status
		Right to Buy	CA Grant	
Midland Road	29	3,990,000	£0	Completed Dec 2018
Eye Green	35	5,324,950	875,000	Phased completion from February to July 2020
Belle Vue Stanground	30	4,165,000	735,000	Phased completion from January to March 2020
Bretton Court	45	4,697,500	1,687,500	Anticipated start of construction March 2020
London Road	Anticipated 70			Site Assembly

Table 1

5. ANTICIPATED OUTCOMES OR IMPACT

OPTION APPRAISAL

Looking at the future operation of Medesham Homes there appear to be 4 main options open to the joint venture partners once right to buy and S106 receipts are fully exhausted.

1. PCC to offer first refusal to CKH for its share of Medesham Homes as per the members' agreement.
2. Continue to finance affordable housing development using debt borrowed against the equity built up in the homes delivered to date from right to buy receipts and grant funding
3. Take on additional finance by injecting debt in the form of loan notes from the two JV partners building on option 2.
4. Build on options 2 and 3 by also pursuing the development of housing for outright sale together with some limited use of housing for rental at market rates using these to use capital to help cross subsidise the affordable rented units.

Option 4 is the option recommended for discussion and agreement with the Council's JV partner Cross Keys Homes.

6. REASON FOR THE RECOMMENDATION

- 6.1 The Council remains committed to the objective of delivering affordable housing in Peterborough. Medesham Homes has demonstrated an ability to do so on sites that would be unattractive to private housebuilders and offers added value to the Council and Cross Keys Homes as a delivery vehicle.

Once London Road has been completed it is estimated that the company will have a vacant possession asset value of between £25m - £30m. This would produce a capital receipt for each partner of between £12.5m - £15m. Tenanted in use valuation would likely be circa £5/7m. In any event, such a sale would likely trigger a default of the CPCA grant funding agreement requiring repayment of around £4m. There may also be a requirement that any receipt may still be subject to ring-fencing for affordable housing. Whilst the Council could use such a receipt to fund non housing projects, or to reduce its debts, the pressures to deliver more affordable housing in the Peterborough are unlikely to recede given the city's forecast population growth in the coming decade. It is therefore argued that, subject to agreement with CKH on future

governance and future financing from each of the JV partners, Medesham Homes should continue to pursue its mission of delivering affordable homes.

7. ALTERNATIVE OPTIONS CONSIDERED

- 7.1 The primary alternative option would be to wind up the company and sell off its assets or for one of the partners to buy out the other. The pursuit of such an option would deny the Council the opportunity to deliver additional affordable homes harnessing the expertise of CKH and the resources that have been brought together through the Medesham Homes joint venture. By continuing to use Medesham as a joint venture delivery vehicle, borrowing against existing assets, attracting grant funding and injecting additional debt finance the Council will be able to play an important role in securing affordable housing delivery, in particular on sites that the private sector may be unwilling or unable to take forward.

8 IMPLICATIONS

Financial Implications

- 8.1 This report is provided for information and to update members on the progress of Medesham Homes in delivering additional affordable homes in Peterborough. As such, there are no new financial implications. If the recommended approach is accepted then officers will return with a report seeking an injection of debt finance to support future development along with any associated recommendations, following discussion with the Council's JV partner, Cross Keys Homes.

Legal Implications

- 8.2 This report provides a progress update, as such there are no legal implications.

Equalities Implications

- 8.3 This report provides a progress update, as such there are no equalities implications.

Carbon Impact Assessment

- 8.4 This report provides a progress update, as such there are no direct carbon impact implications. Medesham Homes aims to develop new affordable homes with a low carbon impact

9. BACKGROUND DOCUMENTS

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

- 9.1 NONE

10 APPENDICES

- 10.1 NONE