

COUNCIL
20TH FEBRUARY 2019

CARTREFI CROESO CYFYNGEDIG.
FINANCING REQUIREMENT

The purpose of this report is to secure an appropriate consolidated finance facility to allow Cartrefi Croeso Cyfyngedig to commence the development of two schemes and meet the on-going funding of operating costs and future scheme development costs, as well as the provision of headroom to commence future schemes that are identified as being viable.

Executive Board Recommendations:

To agree to a funding facility as follows:

1. Maximum funding facility of £6m
2. Duration of arrangement – 5 years. This is based on the loan being for the scheme developments and repaid within the business plan timescales.
3. Interest at 1.6% above the rate set by the PWLB reflecting the part security that will be available to the Council from the land/works prior to sale
4. Funding facility to be operated as an overdraft arrangement – funds only drawn when required and balance reduced as receipts received.
5. Approval of the release of funding (up to the limit) is to be delegated to The Chief Executive and Director of Corporate Services, in consultation with the Executive Board member for Resources, with the facility to be administered as follows:
 - a) Release of the construction funding only when the tenders have been returned, the scheme is confirmed and assessed as still being viable, and the contractual arrangements are in place.
 - b) Development Agreement to be in place for the sale of the social housing to the Authority
 - c) Operating Costs: loan arrangements for circa £280k per annum until the company is viable without that element of support
 - d) Project Development costs. The original allocated ceiling of £750k will suffice, and for monitoring and control of project development costs, itemised quarterly reports to be presented to the Chief Executive and Director of Corporate Services, in consultation with the Executive Board Member for Resources.
 - e) Future scheme construction. Approval of funding in principle (not exceeding facility ceiling in total) upon completion of site specific development appraisals and the release of construction funding only when the tenders have been returned and the scheme is confirmed and assessed as still being viable and the contractual arrangements are in place.
 - f) The conclusion of the detailed loan agreement to be delegated to the Chief Executive and Director of Corporate Services, in consultation with the Executive Board Member for Resources

6. Company to submit its 3 year business plan to the shareholder by 31st March annually so that the progress and viability of the funding arrangements can be monitored.

Reasons

To agree the funding facility to enable the company to proceed with the development proposals as outlined in the report.

Relevant scrutiny committee to be consulted No

Exec Board Decision Required YES

Council Decision Required YES

EXECUTIVE BOARD MEMBER PORTFOLIO HOLDER:- Cllr David Jenkins, Executive Board Member for Resources

Directorate: Corporate Services

Name of Director:
Chris Moore

Designations:

Director of Corporate Services

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EXECUTIVE SUMMARY

CARTREFI CROESO CYFYNGEDIG – FINANCING REQUIREMENT

Background

The Executive Board agreed on the 4th June 2018 to the financing arrangements for Cartrefi Croeso Cyfngedig to sustain its operating and scheme development costs on the following basis:

Financing Requirements

- To note the Company's high level 2018-2023 Business Plan as developed by the Council's Housing Department/Communities Directorate, which will be refined following the detailed project feasibility studies and site investigations;
- To agree to meet the Company's 2017/18 establishment costs from existing revenue budgets to a maximum of £100,000;
- To agree an Operating Cost Loan to the Company in respect of its 2018/19 operating costs to a maximum of £280,000. This to be transferred in 25% tranches, quarterly, in advance;
- To agree a further Project Development Loan of a maximum of £750k, to be released in agreed tranches, to develop the detailed business of the company for further Council consideration, This loan will be utilised to progress:
 - Further development appraisal of eight sites, including 2 rural projects. This is to include detailed valuation, state aid, legal and taxation advice;
 - Detailed and comprehensive scheme development proposals/site investigations for three sites, including one rural, including:
 - Completing detailed financial modelling and securing associated legal and taxation advice.
 - Developing an effective procurement strategy.
 - Commissioning detailed technical appraisals and associated surveys such as site, soil, transport and ecological.
 - Undertaking liaison with utilities and statutory bodies.
 - Commissioning of detailed design brief and specification statement (which will also be utilised for following projects).
 - Receiving pre planning advice and completing pre planning consultation;
- An initial £250,000 of the detailed Project Development Loan will be made available to the Company to progress the proof of concept. Approval of the release of further tranches of funding (up to the loan limit) is delegated to The Chief Executive and Director of Corporate Services, which will be released upon satisfactory commercial appraisal of the initial three proof of concept sites;
- It is noted that requests for further loans for major development expenditure (for example, land transfer, professional fees, construction costs) will come forward as and

when necessary and will form part of the detailed business plan to be completed once the individual site appraisals have been finalised;

- Loan finance will be available at 3.5% above the rate set by the Public Works Loan Board (PWLB) for the Operating Cost Loan and 2.2% above the PWLB rate for the Project Development Loan. The conclusion of the detailed loan agreement to be delegated to the Chief Executive and Director of Corporate Services.

Current position.

- Operating costs.

Since the company commenced trading on the 3rd July 2018, it has operated within the operating loan facility of £280k (for a 12 month period), and is currently forecasting an under-spend of £13k in the nine month period to 31st March 2019.

- Project development costs.

To date, the company has committed £150.3k on scheme development works, the majority of which relate to development consultancy, engineering assessments and planning advice relating to the two sites - land to the rear of Maesgriffith, High Street Llansteffan and land at Glanmor Terrace, Burry Port.

- Major Development funding

Having undertaken the development appraisals, the company is now at the position that it requesting a funding arrangement to enable the major development expenditure (for example, land transfer, professional fees, construction costs) to proceed with and deliver the following two sites:

- land to the rear of Maesgriffith, High Street Llansteffan
- land at Glanmor Terrace, Burry Port.

Scheme overview:

Maesgriffith, High Street Llansteffan

- 6 two bedroom semi-detached houses (4 social)
- 6 three bedroom semi-detached houses (3 social)
- 4 four bedroom detached houses
- Traditional construction
- Estimated site completion – September 2020
- Planning amendments being negotiated on sale units
- Quantity Surveyor/Employers Agent appointed
- Tender documents being drawn up
- Social Housing increased from 5 homes to 7. (2 additional homes to purchased at MV)
- Establishing land transfer process with Carmarthenshire County Council
- Development appraisal demonstrates a viable scheme based upon estimates provided by consultants which take account of the land being acquired at market value which is being negotiated between the company's agent and the Authority's property valuers.

Glanmor, Burry Port

- 20 two bedroom houses arranged in pairs
- 10 one bedroom apartments over two floors in pairs
- Ty Solar product, timber frame and clad.
- Estimated site completion – April 2021
- Complete site to be sold to the HRA
- Development appraisal demonstrates a viable scheme based upon estimates provided by consultants which take account of the land being acquired at market value which is being negotiated between the company's agent and the Authority's property valuers.
- £4m Innovative Housing Grant awarded to the Company
- Finalised scheme design
- Pre planning consultations commenced
- Planning application to be submitted pre-Christmas
- Legal advice received regarding contractual relationships with contractors and a development agreement with Carmarthenshire County Council

Cash-flow requirement

The cash-flow requirement for the company to develop the above schemes is forecast to peak at £3m prior to scheme completion. This sum is specific to the development of the two schemes so is in addition to the on-going funding of operating costs and future scheme development costs, as well as the need to provide headroom to commence future schemes that are identified as being viable. It is considered sensible therefore to have the one future funding arrangement with the Cartrefi Croeso Cyfyngedig as follows:

- Maximum funding facility of £6m
- Duration of arrangement – 5 years
- Interest at 1.6% above the rate set by the PWLB reflecting the part security that will be available to the Council from the land/works prior to sale
- Funding facility will be operated as an overdraft arrangement – funds only drawn when required and balance reduced as receipts received.
- 3 year business plan for the company to be submitted to the shareholder by 31st March annually so that the progress and viability of the funding arrangements can be monitored.

Approval of the release of funding (up to the limit) is to be delegated to The Chief Executive and Director of Corporate Services, in consultation with the Executive Board Member for Resources, with the facility to be administered as follows:

- Maesgriffith, Llansteffan and Glanmor Burry Port scheme construction: release of construction funding once the tenders have been returned, the scheme is confirmed and assessed as still being viable, and the contractual arrangements are in place.
- Development Agreement to be in place for the sale of the social housing to the Authority
- Operating Costs: loan arrangements for circa £280k per annum until the company is viable without that element of support

- Project Development costs. The original allocated ceiling of £750k will suffice, and for monitoring and control of project development costs, itemised quarterly reports will be presented to the Chief Executive and Director of Corporate Services, in consultation with the Executive Board Member for Resources.
- Future scheme construction. Approval of funding in principle (not exceeding facility ceiling in total) upon completion of site specific development appraisals and release of construction funding once the tenders have been returned and the scheme is confirmed and assessed as still being viable and the contractual arrangements are in place.
- The conclusion of the detailed loan agreement to be delegated to the Chief Executive and Director of Corporate Services, in consultation with the Executive Board Member for Resources.

Cartrefi Croeso Cyfyngedig Income and Expenditure forecast

	2018-2019	2019-2020	2020-2021	2021-2022
	£'0000	£'000	£'000	£'000
Profit/(Loss) before Tax	(200)	28	478	(294)

Note – the forecasts above only reflect the administration costs and the activity on the two schemes listed within the report being developed. To maintain the momentum and financial viability of the company further scheme appraisals will be developed over coming months.

DETAILED REPORT ATTACHED ?

NO

IMPLICATIONS

I confirm that other than those implications which have been agreed with the appropriate Directors / Heads of Service and are referred to in detail below, there are no other implications associated with this report :

Signed: Chris Moore Director of Corporate Services

Policy, Crime & Disorder and Equalities	Legal	Finance	ICT	Risk Management Issues	Staffing Implications	Physical Assets
YES	YES	YES	YES	YES	YES	YES

1. Policy, Crime & Disorder and Equalities

The housing company assists in deliver the Council's strategic objectives regarding economic growth and delivering additional affordable housing. It also contributes to ensuring the Council's commitment to enabling sustainable communities and prosperous & healthy future generations are met.

2. Legal

The legal background to establishing the Company and the Council's powers to do so are set out in the report to the Executive Board of the 27th November 2017.

3. Finance

Loan facility to be provided once agreement has been completed. Maximum facility is £6m and interest will be charged at 1.60% above PWLB rate. Period of loan 5 years. This will be funded by borrowing and will therefore not constrain the Council's wider Capital Programme.

The Authority must account for the loan as capital expenditure, and any repayments as capital receipts – this impacts both the approved capital programme and treasury management strategy, as detailed below:

- £3m peak borrowing (forecast) is added to the council's capital programme in 2019-20, with £3m capital receipt (i.e. loan repayment) forecast in 2020-21
- £3m is added to the Capital Financing Requirement (CFR) in 2019-20, with an offsetting reduction in 2020-21 in line with the receipt.

Members should note that the forecast £4m grant funding does not affect these accounting entries, albeit it will inevitably make a significant contribution to the financial viability of the projects.

The above changes reflect only the Llansteffan and Burry Port projects. As additional projects are progressed to a development stage, it will be necessary to factor these into the Capital Programme and Treasury Strategy accordingly.

4. ICT

The Company utilises the Council's IT section, with a charge being made to the Company for the supply of these services.

5. Risk Management Issues

The Council manages the risks faced by the Company through the appointment of suitably qualified and experienced directors. The Company manages its own risk register and is explicit in terms of how these risks are managed and mitigated.

6. Physical Assets

The company will be in a position to purchase assets from the Council (subject to the loan funding being agreed by the Council). The process for this will follow general disposal procedures and guidance.

7. Staffing Implications

The Company utilises council staff with a charge being made to the Company for the supply of these services.

CONSULTATIONS

I confirm that the appropriate consultations have taken in place and the outcomes are as detailed below
Signed: Chris Moore Director of Corporate Services

1. Scrutiny Committee

N/A

2. Local Member(s)

N/A

3. Community / Town Council

None

4. Relevant Partners

None

5. Staff Side Representatives and other Organisations

None

Section 100D Local Government Act, 1972 – Access to Information

List of Background Papers used in the preparation of this report:

THESE ARE DETAILED BELOW

Title of Document	File Ref No.	Locations that the papers are available for public inspection
Reports to the Executive Board	27 th November 2017 4 th June 2018	www.carmarthenshire.gov.uk