

LOAN FACILITY TO EAST CAMBS COMMUNITY LAND TRUST

Committee: Council

Date: 29 April 2021

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[W6]

1.0 PURPOSE

1.1 Consideration of a loan to East Cambs Community Land Trust (ECCLT) from the District Council.

2.0 RECOMMENDATIONS

2.1 Members are requested to:

- (i) approve the loan of £390,000 based on the draft heads of terms detailed in Appendix 1;
- (ii) authorise the Section 151 Officer to execute the loan agreement in accordance with paragraph 2.0(i) and Appendix 1.

3.0 BACKGROUND

3.1 East Cambs Trading Company (ECTC) purchased the former MOD site from the Council in October 2019. This included the provision of 15 shared ownership affordable homes and all shared ownership properties will be completed at the end of April 2021.

3.2 In December 2020, ECTC agreed to sell the freehold of the 15 homes to East Cambs CLT for £2.75m representing a reduction of £685,000 on the full open market unrestricted value. To fund the acquisition, the CLT needs to secure loan finance to fund the freehold acquisition. Ecology Building Society are providing the majority of the loan finance required but there is a funding gap to enable the CLT to complete the transaction.

3.3 The CLT has requested the Council consider providing the additional loan funding required to enable it to complete the transaction (Appendix 2).

4.0 PROPOSAL / CONCLUSION

4.1 The principles on the proposed deal are outlined below and are enshrined and detailed in Appendix 1, specifically:

- The CLT will purchase the 15 properties from ECTC on a freehold basis. Once the purchase has completed, the CLT are able to sell (leasehold) shares in each property to shared ownership purchasers that meet the CLTs eligibility criteria.

- The shares that are sold in each property will vary between 30% and 60% of the property's full market value. The purchaser pays a mortgage on the share they own, and pays rent on the remaining share. Rents equate to 2.75% of the unsold share (per annum) for each property.
- Shared ownership purchasers may buy additional shares in their property up to 100%, outright ownership, at a price equal to the relevant proportion of the current full open market value of the property at the date of sale, a process known as "stair-casing".
- Ecology are able to provide the CLT with a bridging loan facility of up to £2,000,000 to facilitate the purchase of the freehold from ECTC. The phased sale of the properties will mean that the CLT will be able to buy all 15 properties using this facility while ensuring the cap is not exceeded through the receipt of leasehold sales revenues.
- After the 15 initial shared ownership sales have been completed, the CLT is expected to have total long-term debt of just under £1,305,000.
- The CLT cash flow model confirms that the net rents, after deduction of administrative costs, comfortably cover the interest payments that are expected on long-term debt of £1,305,000 this for an initial period of 7 years.
- Ecology Building Society will provide a long-term debt facility to the CLT of £920,000 with the remaining funding gap of £385,000 being funded from the District Council (subject to agreement).

4.2 The heads of terms of the Council loan are attached as Appendix 1 and are summarised below:-

- Total loan facility of up to £390,000.
- Loan term of up to 7 years.
- Interest rate of 3.75% per annum, paid quarterly.
- Capital repayments to be made to Ecology and the Council on an equitable basis from future stair-casing receipts.
- Security provided for both lenders via a fixed legal charge on the freehold title. Security for both lenders to rank equally on a *pari passu* basis.

4.3 The Council's Section 151 Officer has reviewed the proposed loan arrangements and his observations are included in paragraph 5.1.

5.0 FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

5.1 The loan, if approved, will provide both support to East Cambs CLT in the establishment of additional affordable housing within the District, but at the same time, provide a further income stream for the Council. The Section 151 Officer has reviewed the detailed financial model prepared, that has also been reviewed and

endorsed by Ecology, and with the security in place, as detailed above, feels offering the loan provides very limited risk to the Council.

As reported in the 2021/22 Treasury Management Strategy, the Council currently has cash balances and is expected to remain external debt free in the medium term. It is therefore planned that this loan will be funded initially from internal borrowing and so be at no direct cost to the Council.

The interest rate being charged, which matches the rate being charged by Ecology, is significantly higher than we are currently receiving from our treasury investments, where interest rates are well below 1%, so the loan will provide the Council with additional resources to assist in balancing its long term Medium Term Financial Strategy.

The financial summary of the proposed loan is provided at EXEMPT Appendix 3.

5.2 EIA not required.

5.3 CIA not required.

6.0 APPENDICES

- 6.1 Appendix 1 - Draft Heads of Terms of the Loan Agreement
Appendix 2 - Formal request from ECCLT for the loan
Appendix 3 - EXEMPT– Financial Summary of the Proposed Loan

<u>Background Documents</u>	<u>Location</u>	<u>Contact Officer</u>
None	Room 103 The Grange Ely	John Hill Chief Executive (01353) 616271 E-mail: john.hill@eastcambs.gov.uk