From: Andrew Lycett
Sent: 17 October 2014 18:02
To: Pickett, Brian (SF - Housing&Regen-Homes & Places)
Cc: Malcolm Wilson; Lisa Pinney
Subject: Bellerophon Deal - RCT Update - AL to BP

EXTRACT FROM EMAIL

Regarding funding options:

We have negotiated an increase in RCT Homes equity share of the LLP such that our ownership now reflects 100% of the Cwmbach site and 80% of the Cardiff sites. We believe that it would be possible to secure a charge over the equity of the LLP held by RCT Homes in return for any funding support.

We have agreed with RCT CBC that in principle they would be able to support the provision of SHG to support the scheme.

I have considered whether the Grant can be paid to RCT Homes as additional Dowry under the existing Gap Funding Agreement. The4 termsof this agreement are set out in paragraph 1 and refer to an 'offer of financial assistance to RCT Homes... for the project". The project is further defined on page 2. Under section a of the project definition it includes 'improve services and work towards regeneration of the area in which they are situated"

The Gap Funding Offer is set out in section 4 and refers to 'and such further or other commitments as may be presented by the Association and which are from time to time approved in writing by the Welsh Ministers. The Welsh Ministers consider such financial assistance appropriate to support the promotion and improvement of social wellbeing of Wales in relation to some of the residents'.

It also provides for 'Welsh Ministers [to] review and assess the need for further offers of assistance'

Progress and monitoring arrangements are also established in the agreement which could be used as the basis for monitoring the utilisation of any further grant. Using the dowry mechanism would break the direct link between financing of build costs and the funding as our dowry is effectively being utilised to underpin the broader project as it is defined.

Payment could be facilitated by Welsh Government using a budget transfer between capital expenditure budget heads between Dowry (ex MRA) and SHG (earmarked for RCT CBC LA area).

Precedents have already been established regarding supporting non DQR compliant builds (eg SCIF and WHP schemes). Te principles of dowry payment are well established and of budget virements. Security could be offered on the LLP equity. There are many precedents in Housing and regeneration directorate of grants being made without equity securitisation also.

I will give you a ring on Monday to see if this provides a way forward for discussions.

Many thanks for your assistance and time on this

Kind Regards

Andrew Lycett
Chief Executive
RCT Homes

From: Pickett, Brian (SF - Housing&Regen-Homes & Places)
Sent: 20 October 2014 08:41
To: 'Andrew Lycett'
Cc: 'Malcolm Wilson'; 'Lisa Pinney'
Subject: RE: Bellerophon Deal - update request - BP to AL

Andrew

Thanks for this. Are you expecting a written report from Tony King architects, and if so when do you think you will be in possession?

Also I am starting the wording for the ministerial submission. Do you have the financial tables, which shows the calculation for the gap funding? i.e. one that shows the deficit at the 0.7 wedge and the one that shows the deficit with the 1.5 per cent wedge.

Thanks
Brian

Thanks
Brian

Brian J Pickett MBA (Warwick), FCCA
Head of Innovative Finance – Housing and Regeneration

From: Andrew Lycett
Sent: 20 October 2014 11:24
To: Pickett, Brian (SF - Housing&Regen-Homes & Places)
Cc: Lisa Pinney; Malcolm Wilson
Subject: Bellerophon Risk Sensitivity.xls - AL to BP

Bellerophon Risk Sensitivity.xls

Brian,

Please find attached the headline NPV figures showing the movement in sensitivities. We have built in the social rents for Cwmbach and shown how the grant funding matches the investment valuation shortfall. More detail can be provided if required.

We are continuing to work on the final details of the contracts today with a meeting down in the Bay, including understanding the tax position. As ever it is the detail that is improtatn, so we still have a few odds and ends that could cause us some difficulties if they don’t go the way we need them to.

Andrew is on the case with the DQR aspects.

Regards

Andrew Lycett
Chief Executive
RCT Homes

> From: Andrew Lycett
> Sent: 29 October 2014 08:23
> To: Palmer, Kath (SF - Housing&Regen-Homes & Places)
> Cc: Malcolm Wilson; Lisa Pinney
> Subject: Bellerophon
>
> Kath,
>
> I understand from Brian last Thursday that you will be meeting the Minister today to discuss the funding support proposal for RCT Homes Bellerophon deal. I am on annual leave this week however I am contactable if required.
>
> I would be grateful if you could copy both Malcolm and Lisa in to any notification you are able to provide as we are continuing to seek to bring the contracts to a point of signing on Friday.
>
> We continue the remaining aspects of our due diligence, notably
> accounting treatment and any in intended tax issues which we are
> seeking to also resolve to this timescale
>
> Kind regards
>
> Andrew Lycett
> Group Chief Executive
> Sent from my iPhone
>
> Andrew Lycett
> Chief Executive
> RCT Homes

From: Malcolm Wilson
Sent: 30 October 2014 14:22
To: Palmer, Kath (SF - Housing&Regen-Homes & Places)
Cc: Andrew Lycett; Lisa Balfe
Subject: LLP1 - Bellerophon

Kath

As requested I have set out below the timescales as we see them.

We are still satisfying our Board resolution in regard to tax treatment and this is expected to be completed by Friday 31 October.

The contractors who have been holding their prices for some time are prepared to wait into next week.

The legal documents are now setting the deadlines.

These are expected to be agreed by Prudential (M&G) Friday 31, or at the latest Monday the 3rd November. There will be a two day cooling off period and the lawyers are seeking to sign all the contract documents on Wednesday 5th No ember with completion five days later on the 12th November 2014. On this day the funds will be placed in the Escrow account.

To meet the Board's pre condition that Welsh Government's approval to support the deal financially is in place before documents can be signed, Tuesday next week is a key date in terms of confirmation that the Minister is willing to support the project.

I hope this is sufficient for you, if you need more don't hesitate to contact me.

Thanks again for you support with this project.

Best wishes

Malcolm

Malcolm Wilson
Deputy Chief Executive
RCT Homes

From: Malcolm Wilson
Sent: 11 November 2014 14:45
To: Palmer, Kath (SF - Housing&Regen-Homes & Places); Pickett, Brian (SF - Housing&Regen-Homes & Places)
Subject: LLP 1 Bellerophon - Malcolm Wilson Update

Kath/Brian

Just to give you an update other than for final approval to release our land in Cwbach from the Prudential Trustee who our lang is charged too we are ready to exchange contracts.

So we are now waiting for the decision from Welsh Governemnt.

We look forward to hearing from you either way shortly.

Best wishes

Malcolm

Sent from my RCT Homes iPad

Malcolm Wilson
Deputy Chief Executive
RCT Homes

From: Malcolm Wilson
Sent: 18 November 2014 09:00
To: Palmer, Kath (SF - Housing&Regen-Homes & Places)
Subject: BO042-05 Bellerophon Model Update Report

Kath

Just come off the phone with Andrew and he suggested I sent our last Board report to you as it shows all the movements in the project financials and gives you the context in which we are making the request for support.

Best wishes

Malcolm

Malcolm Wilson
Deputy Chief Executive
RCT Homes

EXTRACT FROM ATTACHMENT

Current Developments with Welsh Government (WG)

In addressing some of the risks highlighted above, we have entered into negotiations with WG to see if there is any possibility of reducing the long term risk exposure of LLP1. Welsh Government have indicated they are keen to see the project succeed and are trying to identify ways in which an injection of Social Housing Grant or Dowry Funding can be made. WG are currently preparing a business case to be presented to the Minister requesting financial support for the projectThe basis of the request is that the Cwmbach element of the project is negative in the funding model as the rents do not generate enough investment to cover the build costs. Within the project, Cwmbach properties are currently £616,000 adverse. WG requested that the rents charged be changed from affordable to social benchmark rents. This would have the effect of improving the financial viability of the project in the long term as the rents will increase by CPI plus 1.35% / 1.5% after 10 years rather than just CPI increases. In submitting our financial analysis to WG we have omitted the potential to get SDLT back into the project to ensure it is demonstrating the worst case scenario and to strengthen our case.

The support in effect is payment to counteract the CPI / RPI risk on the scheme and could potentially be recalled by WG if this risk never materialises. As the payment would be received in the early years it would have the impact of improving the NPV position considerably. WG are currently investigating whether a payment can be made as additional GAP funding or as SHG. If it is paid as GAP funding there may be more flexibility in the future if the risk doesn't materialise and we can repay the cash.

The indicative support rate for the Cwmbach site would equate to 21% of the scheme cost and 70% of ACG rates

The indicative support rate for the Cwmbach site excl 1 bed flats equates to 28% of the scheme cost & 68% of ACG rates

Clearly our ability to obtain this funding will have a key part to play in the overall financial viability of the project. It is hoped that a paper can be presented to the Minister before the Board takes place – a further verbal update on progress will be provided at the meeting.

The paper has given the Board a recap on decisions made so far during the life of the project and an understanding of the current deal from M&G. The main changes to the deal are the increase in build costs offset by lower fees to Bellerophon. There has also been a materialisation of the RPI / CPI risk that has adversely affected the financial modelling of the project. Clearly the financial aspects of the project are dependent on the potential to draw down funds from the Welsh Government or Local Authority.

From: Andrew Lycett
Sent: 18 November 2014 21:59
To: Palmer, Kath (SF - Housing&Regen-Homes & Places)
Cc: Malcolm Wilson
Subject: Re: another question

Kath,

As requested,

The Cardiff mix is:
80 units at 80% LHA all DQR complaint
20 units at 100% LHA all DQR Compliant
58 units at Market rent, 42 of which are DQR compliant

Cwmbach is 37 units of which 27 are DQR as previously discussed. All of these would be at Social Rent

Kath, as you are still working on this can I ask whether a submission has yet to be approved for/ submitted to the Minister in the morning now ?

I will have my phone with me for the remainder of the evening if you require anything else, please come back to me.

Kind Regards

Sent from my iPad