

EXECUTIVE BOARD - 20 DECEMBER 2016

Subject:	Facilitation of Loans to Nottingham City Homes
Corporate Director(s)/Director(s):	Geoff Walker, Director of Strategic Finance
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration
Report author and contact details:	Glyn Daykin, Senior Accountant – Treasury Management
Subject to call-in:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Key Decision:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Criteria for Key Decision:	
(a) <input type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £1,000,000 or more taking account of the overall impact of the decision	
and/or	
(b) Significant impact on communities living or working in two or more wards in the City <input type="checkbox"/> Yes <input type="checkbox"/> No	
Type of expenditure:	<input type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital
Total value of the decision:	£500,000
Wards affected:	All
Date of consultation with Portfolio Holder(s):	
Relevant Council Plan Key Theme:	
Strategic Regeneration and Development	<input checked="" type="checkbox"/>
Schools	<input type="checkbox"/>
Planning and Housing	<input checked="" type="checkbox"/>
Community Services	<input type="checkbox"/>
Energy, Sustainability and Customer	<input type="checkbox"/>
Jobs, Growth and Transport	<input type="checkbox"/>
Adults, Health and Community Sector	<input checked="" type="checkbox"/>
Children, Early Intervention and Early Years	<input type="checkbox"/>
Leisure and Culture	<input type="checkbox"/>
Resources and Neighbourhood Regeneration	<input checked="" type="checkbox"/>
Summary of issues (including benefits to citizens/service users):	
To support Nottingham City Homes (NCH) by facilitating loans for the purchase and development of rented housing over the next 3 years subject to the Chief Finance Officer approval of the business case and loan security.	
Exempt information: None	
Recommendation(s):	
1 To approve a loan facility to Nottingham City Homes, noting that each individual loan will require a decision by the Leader, Executive Board, or the Portfolio Holder for Planning and Housing (dependant on the value) with an accompanying business case.	
2 To approve the £0.500m charge to Nottingham City Homes for an one-off arrangement fee for the loan facility	

1 REASONS FOR RECOMMENDATIONS

- 1.1 To support Nottingham City Homes (NCH) by facilitating loans for the purchase and development of rented housing over the next 3 years subject to Chief Finance Officer approval following receipt of satisfactory business cases

demonstrating the ability to repay the loan, supporting documentation and loan security.

- 1.2 Loan proposals to NCH will be on market terms in compliance with State Aid regulations which includes the charging of an arrangement fee for such a facility.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

- 2.1 NCH are an Arm's Length Management Organisation (ALMO) responsible for the management and maintenance of the Council's housing stock. NCH are purchasing and developing a number of residential properties over the next three years which they will own in their own right. This will contribute to the council's corporate plan to build 2,500 new homes that Nottingham people can afford to rent or buy. The number of homes planned will include around 350 properties for social rent and 100 properties for market rent. The properties for market rent will be operated by NCH's trading subsidiary which exists to generate new business and secure additional income to reinvest in Nottingham communities.

To finance the development and purchase costs for these properties NCH will need to have access to new borrowing.

Nottingham City Council (NCC) proposes to provide loans of up to a maximum of £50m at a rate equivalent to the Public Works Loan Board (PWLB) annuity rate for borrowing plus a premium for the inherent risk taken by the City Council. NCH reported to its board a request to borrow up to £50m from the council in its Board report dated 26 November 2015. The Council will need to ensure that the rate is state aide compliant and will be fixed by the Chief Financial Officer at the time of the transaction. This agreement to provide loans will subject to a one off arrangement fee of £0.500m; this equates to 1% which is deemed to be a market level fee for such a facility.

Each loan will require a business case supporting the property development and purchase financials including the forecast cash flows that will support the loan repayments. Each loan request will have an individual loan agreement and will include a legal charge over the assets as security for the borrowing.

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

- 3.1 The Council could develop and purchase rented housing – the council already has a programme of delivering around 300 new build properties with further schemes being explored. If NCH was not given financing then the corporate plan for creating new homes for the citizens of Nottingham would be more challenging to deliver.

4 FINANCE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

- 4.1 Any loans would be accounted for as service loans for capital purposes and be accounted for as capital expenditure and included in the capital program and therefore will not be subject to the constraints of the Treasury Management Strategy.
- 4.2 Approved loans are proposed to be funded by unsupported borrowing with the revenue financing costs to be met by the loan repayments being charged to

Nottingham City Homes over the life of the borrowing. The council will protect its interest by primary legal security over NCH assets to a value that is expected to cover the outstanding debt should this security need to be realised. Loans will be issued at a rate referenced to PWLB borrowing rate plus a premium for the inherent risk taken by the City Council and to allow the management of the interest rate risk until new fixed long term loans are taken.

- 4.3 Loans will be issued at a rate referenced to PWLB borrowing rate plus a premium for the inherent risk taken by the City Council. The council will have to manage the interest rate risk

5 LEGAL AND PROCUREMENT COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND INCLUDING LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

- 5.1 The City Council must ensure the provision of a loan to NCH is not unlawful state aid. It can do this by ensuring the terms are in line with market investors. The EU Commission provides a set of interest rates which are a proxy for market rates and are based on the financial standing of the borrower and the available security. The report proposes that security is provided in the form of a legal charge over the NCH assets. It may be necessary to seek advice from external advisors to ensure the other loan terms are in line with market expectations. The legal services team can assist the Treasury management team with the preparation of the loan agreement and legal charge.

6 STRATEGIC ASSETS & PROPERTY COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

- 6.1 Not applicable.

7 SOCIAL VALUE CONSIDERATIONS

- 7.1 Not applicable.

8 REGARD TO THE NHS CONSTITUTION

- 8.1 Not applicable.

9 EQUALITY IMPACT ASSESSMENT (EIA)

- 9.1 Has the equality impact of the proposals in this report been assessed?

No



An EIA is not required because:

This report is deemed outside the scope for the equality impact assessment, but each loan will be subject to formal approval including an equality impact assessment where appropriate.

**10 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT
(NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT
INFORMATION)**

10.1 None.

11 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

11.1 None.

12 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT

12.1 None.