

## **Homelessness Loan to NCH / Due Diligence and State Aid**

NCH will require a state aid compliant loan of **£10.745m** from the Council to finance the purchase of 100 properties to be used for temporary homeless use.

The cost of acquiring and refurbishing these properties is as follows:

- £4.745m for Homeless properties already acquired.
- £6.000m for phase 2 Homeless properties yet to be acquired.

Properties will be used as dispersed properties for homelessness. NCH will retain the surplus generated, distribution of any surplus in accordance with the Articles of Association of NCH, or reflected in a reduction to the management agreement. Financial benefit will arise to the council through a reduction in the Homelessness B&B expenditure.

This loan will be secured against the assets being acquired by NCH. The value and phasing of the loan(s) is subject to agreement of the schedule and phasing of the acquisitions.

Before agreeing each loan drawdown further due diligence and gateway reviews will need to be undertaken to ensure project viability. This due diligence will require NCH Ltd to provide the following:

- Latest business case / financial model with assumptions. This will include detailed forecasts and cash flows, a risk assessment and sensitivity analysis
- Anticipated market value of properties included in this phase following reconfiguration.
- Evidence of how the financing costs and any scheme deficits are to be funded.
- Details of governance and monitoring arrangements.

## **Capital Programme**

The City Council's capital programme require amending as follows:

- General Fund Capital Programme - an addition of **£10.745m** loan facility to NCH to be funded by prudential borrowing and secured against the acquired properties.

## **Financial Risks / Benefits**

The key financial risks associated with the project are as follows:-

- Negative equity – Should the property works not add the required market value to the properties current valuation then the loan could have negative equity.
- Financial exposure – NCH has an existing loan facility of **£50.000m**, this decision would increase this facility by **£6.000m** to **£56.000m**. NCH E (a wholly owned NCH subsidiary) has a decision pending approval of **£8.860m**.
- NCH (group) capacity to deliver this scheme in the context of the existing and future capital projects
- Adequacy of governance arrangements to in relation to monitoring and key controls to ensure that project is delivered on time and within budget
- Project overspends and financing of revenue deficits in the early years – adequacy of reserves and cash flow.
- NCH have insufficient reserves to absorb potential losses should they crystallise in relation to: project overspends, and revenue shortfall in the early years i.e. during construction and other unforeseen revenue pressures

*Advice provided by:*

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