

Homelessness Loan to NCH / Due Diligence and State Aid

NCH will require a state aid compliant loan of **£6.200m** from the Council to finance the purchase of 50 properties to be used for temporary homeless use.

This loan is the third tranche of homeless loan, the NCH total loans approved for the homelessness project equates to the following:

- Tranche 1, £4.745m, drawdown during 2017/18
- Tranche 2, £6.000m, expecting drawdown 2018/19
- Tranche 3, £6.200m, this decision
- Total £16.945m

Properties in tranche 3 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.

Prior to drawing down the loan, due diligence will need to be undertaken to ensure project viability. The following information will be required:

- 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, including cumulative deficits with regards to alternative loans.

Capital Programme

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

- General Fund Capital Programme - an addition of **£6.200m** 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 – market value should be sufficient to provide security for the loan.
- Financial exposure – NCH (group) has an existing loan facility of **£50.000m**, this decision would mean NCH have a remaining balance of **£13.800m**. If NCH require borrowing in excess of the remaining **£13.800m** then a further loan facility will require approval along with an appropriate arrangement fee.

- NCH (group) capacity to deliver this scheme in the context of the existing and future capital projects.
- Adequacy of governance arrangements including adequate 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 having 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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