

**Agenda Item No:** 4  
**Report To:** Trading and Enterprise Board  
**Date of Meeting:** 12 March 2018  
**Report Title:** Loan Facility Drawdown  
**Report Author & Job Title:** Maria Hadfield  
Senior Accountant  
**Portfolio Holder:** Cllr. Shorter  
**Portfolio Holder for:** Finance and IT



**Summary:** The Property Company's Business Plan approved at Cabinet on 13 July 2017 proposed a significant expansion of the residential portfolio to 400 – 500 properties over the next 5 years.

The company is requesting an approved loan facility available to drawdown on to support the agreed expansion.

Currently, the company does not have sufficient draw down facilities to pursue any opportunities of acquiring properties in a competitive and commercial manner.

**Key Decision:** YES

**Significantly Affected Wards:** None

**Recommendations:** **The Trading and Enterprise Board recommend the following recommendations to Cabinet and subsequently Council where necessary:-**

- 1. Recommend to Council that a loan facility be available up to a maximum of £30m subject to the conditions in the report**

**Policy Overview:** The Council has an ambition to be self-funding and the Property Company is one tool that has been developed to contribute towards this aim.

**Financial Implications:** This report recommends that £30m of funding be made available under the terms of the original loan facilities.

**Legal Implications** The Council has the ability to make loans to the property company under the Local Government Act 2003, Section 1 and the Localism Act 2011.

State Aid prevents the Council from providing lower than market interest rates to the property company which would give them an unfair advantage in the sector. To ensure that loans made to the Property Company are at a commercial rate, external work has been undertaken by the Council's treasury advisors Arlingcose, and is considered when providing loan facilities.

**Equalities Impact Assessment**

Not required

**Other Material Implications:**

None

**Exempt from Publication:**

**NO**

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## **Report Title: Extension to Loan Facility**

### **Introduction and Background**

1. The Council established its Property Company in 2014, with a primary purpose to generate income for the Council.
2. The Property Company's Business Plan approved at Cabinet on 13 July 2017 proposed a significant expansion of the residential portfolio to 400 – 500 properties over the next 5 years.
3. To achieve these aims Cabinet on 7 December 2017 approved the appointment of a Senior Commercial Development Manager. Following the recruitment process a suitable candidate was appointed to the post in January 2018 and is actively negotiating on various potential investment

### **Proposal**

4. This report requests that the Board advises Cabinet to recommend to Council that a drawdown loan facility of £30m be made available to the Property Company to secure investments.
5. These funds would be used to acquire residential property or small to medium sized developments including off plan purchases. These would be up to £10m supported by a business plan (including returns and risks) and approved by the Director of Finance and the Economy and the Portfolio Holder for Finance and IT.
6. Developments over £10m would be brought on a case by case basis, up to the maximum of the £30m facility, supported by a business plan (including returns and risks) and agreed by the Director of Finance and the Economy and the Portfolio Holder for Finance and IT and to be approved by the TEB.
7. All investments over and above the facility will be referred back through the Committee process through to Council.
8. All investments will be reported to TEB at the next available meeting after the investment has been made, updating Members on progress.

### **Implications and Risk Assessment**

9. The Council will seek to manage its risks through taking security for loans made to the company secured on the value of the property. Therefore the main risk to the Council is that should the company become insolvent and the value of the properties is lower than the value of the debt then the Council could make a loss. This risk would be mitigated through the equity that the company has built up in its existing properties and if the Council were to take

ownership of the properties, they could continue to be let until the market had recovered in value.

10. To be able to achieve value for money for the Council, the sole shareholder of the company, the recently appointed Senior Commercial Development Manager needs to be able to act quickly and enter into negotiations on a timely basis. This requires the necessity to have funds available to pursue opportunities as they arise.

### **Other Options Considered**

11. The Council could approved a substantial share issue to the value of the requested loan facility. However this would not have the same securities as a loan which would be secured on the properties.
12. The company could seek funding from an independent loan provider, however this would mean a third party would have security over the company's assets. This could restrict the future direction the Council wants the Property Company to pursue.

### **Reasons for Supporting Option Recommended**

13. The Property Company forms an integral part of the Council's Commercial Strategy and the Council has previously taken a decision to grow the company to support the Council's budget. The Property Company has recently appointed a Senior Commercial Development Manager to support this decision. The loan will be secured on the properties, reducing the risk exposure. This funding stream creates the working capital needed for the property company to fulfil its ambitious new Business Plan and it should be supported, as it is commercially appropriate.

### **Conclusion**

14. The Company requests that the Board asks the Cabinet to recommend that a loan draw down facility of £30m be made available to the property company by the Council.

### **Portfolio Holder's Views**

15. To be given at the meeting

### **Contact and Email**

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