

Guildford Borough Council

Report to: Executive
Date: 28th November 2024
Ward(s) affected: All
Report of Strategic Director of: Finance and Resources (s.151)
Report Author: Jo Knight Interim Assistant Director
Finance
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Lead Executive Member: Cllr Richard Lucas
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Status: Open
Key decision: No

Review of the loan to North Downs Housing

1.0 Executive Summary

North Downs Housing Limited (NDH) is a wholly owned housing company that was established by the Council in 2016. The company is funded through a mixture of equity funding and a loan from the Council.

This report provides a summary of the investment into North Downs Housing so far, the interest charged to date and the value outstanding.

On 10 February 2017 the Executive varied an earlier decision and approved the granting of a 25 year secure variable rate loan of £1.44 million and an equity investment of £0.96 million. Subsequent decisions were taken to increase the loan to £15.18 million alongside further increases in the equity investment.

At 31 March 2023, the Council had invested a total of £25.3 million in NDH comprising £10.12 million in equity investment and the loan of £15.18 million.

2.0 Recommendation to Executive Shareholder & Trustee Committee

That the Executive shareholder and trustee committee resolves to:

- 2.1 Note the investment into North Downs Housing, the interest charged to date and the value outstanding.

3.0 Reasons for Recommendations

- 3.1 A decision needs to be taken about the treatment of the outstanding debt.
- 3.2 To ensure that the Executive remains informed of financial matters in order to be transparent and make decisions.

4.0 Status of Report

- 4.1 This report is open.

5.0 Strategic Priorities

- 5.1 This report on our financial matters relating to North Downs Housing contributes to the Council's Corporate Strategy by managing our finances effectively and transparently, helping us become a resilient and well managed Council.

6.0 Background

- 6.1 Loans to North Down Housing.
The Council has provided a loan facility to NDH of £15.18 million which has been drawn down between December 2016 and September 2022.

In accordance with the loan agreement, interest is presently being charged at 5.5%.

The interest charged for the first five years of the loan was rolled up and added to the loan amount. This added £2,253,984 in rolled up interest up until 22 August 2022, taking the loan to a total of

£17,433,984. Interest from 23 August 2022 is now payable from North Downs Housing to GBC on a quarterly basis.

6.2 Interest Payments.

The interest is payable quarterly in arrears on the last business day of March, June, September and December each year. The first payment becoming due in September 2022.

23 August 2022 to 31 March 2023

The interest due to GBC for this period was £679,546. The financial position of the company at the time did not allow for this to be paid. This sum remains outstanding and is a debtor from NDH to GBC. GBC [is/is not] charging interest on this outstanding amount at 6.5% in accordance with the loan agreement.

1 April 2023 to 31 March 2024

The interest due to GBC for this period was £958,869 and has been paid in full.

1 April 2024 to 31 March 2025

The interest due to GBC for the period will be £956,249 and NDH [is/is not] up to date with all the interest payments.

6.3 Interest Rates.

There was originally an inconsistency on what interest should be charged on the loans. The rate charged until December 2022 was base rate plus 5% but this was inconsistent with the loan agreement and therefore the interest was revised to 5.5% from that point. NDH were notified in writing of the variation in the interest rate.

6.4 Provisions in GBC accounts

In 2021-22, a provision was made in the GBC accounts for £2.854m to cover the possibility of the company being unable to meet the interest payments due including those that had been rolled up in the loan. At this point, the valuation of the properties was lower than the total investment including rolled up interest. This is no longer the case, with the latest valuation of the NDH housing stock as at 31 March 2024 being £30.4 million.

6.5 Other charges to North Downs Housing

In addition to interest, charges are also made to NDH for the services provided by the Council including tenancy management, tenant finding, legal support and accountancy. These charges totalled around £170k in 2023-24 and all historic charges under the service level agreement have been paid by NDH.

GBC also provides some services in relation to repairs and maintenance of the properties. Costs incurred by the Council are recharged to NDH on a monthly basis.

7.0 Options

7.1 Options are being looked at for the future of NDH. The company is now trading profitably but still needs to deal with the outstanding interest from 2022-23.

7.2 A report will be brought to executive in March 2025 outlining the options available for dealing with the outstanding interest owed.

8.0 Consultation

8.1 The portfolio holder for finance and resources has been consulted about this report.

9.0 Key Risks

9.1 There are no direct risks from this report.

9.2 There is a risk that the profitability of NDH would prevent it from meeting interest payments in the future.

9.3 There is a risk that NDH fail to repay the interest owed from 2022/23.

10.0 Legal and Governance Implications

10.1 The Council, acting through the Executive Shareholder and Trustee Committee, has the power to operate and manage the companies using the General Power of Competence under s1 of the Localism Act 2011. In exercising its powers the Council remains subject to its

general duties, such as its fiduciary duty, and must exercise the power with proper purpose.

10.2 The Council has provided a 25 year loan to NDH which should be kept under review in accordance with the Council's duties.

11.0 Financial Implications

11.1 There are no direct financial implications from this report.

11.2 The outstanding interest is held on the balance sheet of GBC as a debtor.

12.0 Human Resources Implications

12.1 There are no human resource implications from this report.

13.0 Equality and Diversity Implications

13.1 There are no equality of diversity implication from this report.

14.0 Climate Change and Sustainability Implications

14.1 There are no climate change and sustainability Implications from this report.

15.0 Next Steps

15.1 GBC will continue to monitor the interest payments from NDH.

15.2 Options regarding the future of NDH is being discussed.

16.0 Background Papers

16.1 There are no background papers for this report.

Report clearance progress:

Finance	Jo Knight	20 November 2024
Legal & Governance	Claire Beesly	20 November 2024
Human Resources	Insert name	Insert date cleared
Equalities	Insert name	Insert date cleared
Strategic Director	Richard Bates	20 November 2024