REPORT TO CABINET - addendum

Date of meeting: 5th December 2023

COUNCIL COMPANY FUNDING – WEST NORFOLK PROPERTY LIMITED (WNPL) AND WEST NORFOLK HOUSING COMPANY LIMITED (WNHC)

Attached is the report from Grant Thornton referred to in the Cabinet report.

The summary findings are as follows:

WNHC

The forecast cashflow modelling for WNHC demonstrates the proposed funding arrangement is affordable, considering the base case assumptions presented.

WNHC funding arrangement

WNHC	Apr-23	Apr-24	Apr-25	Apr-26	Apr-27	Apr-28	Apr-29	Apr-30
WNHC Borrowing costs (£m)	0.13	0.23	0.40	0.51	0.56	0.56	0.56	0.55
Total WNHC operating surplus (£m)	0.13	0.25	0.44	0.55	0.60	0.62	0.64	0.66
Difference (£m)	0	0.02	0.04	0.04	0.04	0.06	0.09	0.11

The Council is planning to provide funding through a combination of grant, in the form of a repayable grant (as a 0% p.a. interest loan), and loans at an appropriate interest rate to WNHC, in order to support the acquisition of properties at the total required value.

The table below sets out the overall Council position once the current pipeline of acquisitions is completed in April 2027 (i.e. the mature position), noting that £3.2m has already been repaid which will leave an outstanding balance to be serviced of £7.9m.

Council position in April 2027

Council	Apr-27
Total Borrowing drawn and outstanding from the PWLB (£m)	7.900
Council interest cost payable at a 5.5% p.a. interest rate (£m)	0.435
Council interest income receivable from WNHC (£m) in April 27 per Table 1a	0.560
Surplus to the Council (£m)	0.125

As the table demonstrates, the Council will have a buffer of £125,000 which is the excess of the interest receivable once the Council make its interest payments back to PWLB. Please note that WNHC is a company limited by guarantee and hence cannot pay dividends.

RECOMMENDATION For WNHC

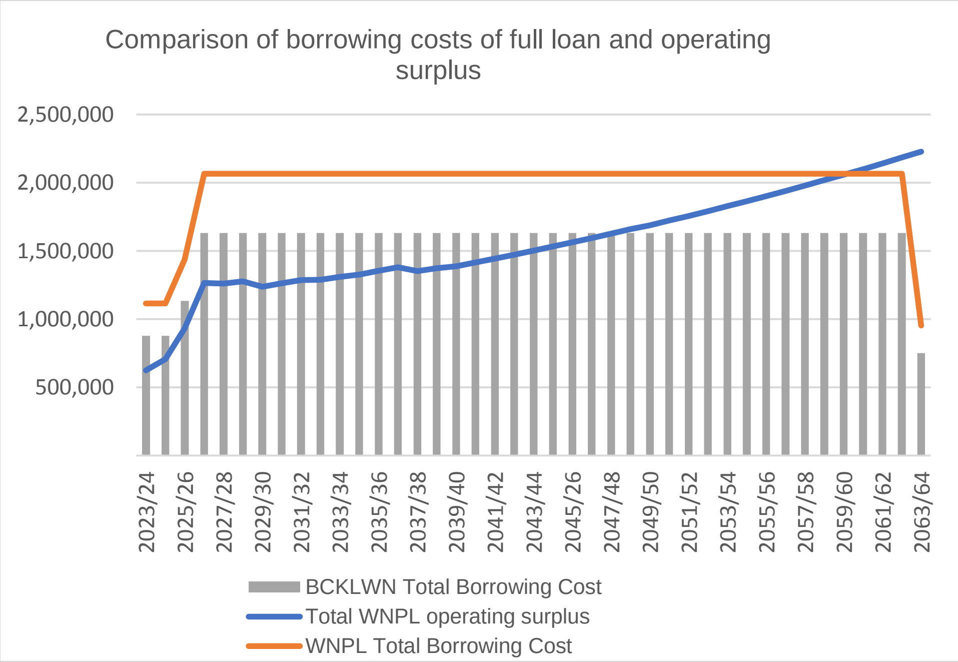
It is proposed that the Council provides WNHC with 2 separate facilities:

- A loan facility equal to circa 70% of the companies total funding requirement. This facility should include flexibility for the company to take out interest only or repayment loans at fixed or variable rates as long as defined covenants set by the Council are complied with.
- A repayable grant facility equal to circa 30% of the total funding requirement

WNPL funding agreement

The financial modelling undertaken for WNPL demonstrates that the costs associated with the borrowing are unaffordable for the Council in the short- to medium-term. At current interest rates, the purchase of the freehold is unaffordable up to 2045, where there is a deficit between WNPL's forecast operating surplus and the Council's interest costs. Given the impact of forecast inflation, from this point onwards the operating surplus exceeds the borrowing costs - therefore the overall proposal across the 60-year appraisal presents a forecast where the total operating surpluses are sufficient to meet interest costs. This is shown in the graph below.

Figure 1 – Comparison of borrowing costs to operating surplus



The table below sets out the position for WNPL based on the forecasts shared by the Council (using the Parkway 20% PRS scenario alongside the base case and Lynnsport positions).

WNPL funding arrangement

WNPL	Apr-23	Apr-24	Apr-25	Apr-26	Apr-27	Apr-28	Apr-29	Apr-30
BCKLWN annual PWLB interest payment (£m)	n/a	0.78	0.83	1.39	1.53	1.54	1.55	1.56
Total WNPL operating surplus (£m)	0.63	0.71	0.93	1.27	1.26	1.28	1.24	1.26
Difference (£m)	0.63	(0.07)	0.10	(0.12)	(0.27)	(0.27)	(0.31)	(0.30)

As shown above, the operating surplus of WNPL is exceeded by the BCKLWN borrowing costs in every year from the borrowing inception date apart from April 2025.

The following options have been considered:

1. reduce the debt servicing cost through:

(a) a lower level of debt (e.g. increasing the equity contributions)

(b) structure some form of interest/capital repayment holiday in the early periods

2. extend the lease period until interest rates are more favourable

(a) lease extension

(b) lease extension with option to purchase at a later date

3. seek to adjust the operating cashflow that the units generate (e.g., charge higher rents).

RECOMMENDATION For WNPL

A hybrid of Option 1 and 2 between the debt plus equity option 1a and the lease extension option 2a. is recommend at the present time for WNPL.

Appendix 1

Grant Thornton report on Council Companies Financing 30th November 2023