REPORT TO CABINET

<table>
<tr><td>Open (exempt appendices)</td><td></td><td rowspan="2">Would any decisions proposed :

Be entirely within Cabinet's powers to decide ~~YES~~/NO
Need to be recommendations to Council YES/~~NO~~

Is it a Key Decision YES/~~NO~~</td></tr>
<tr><td>Any especially affected Wards</td><td>Discretionary /</td></tr>
</table>

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Lead Officer: David Ousby E-mail: david.ousby@west-norfolk.gov.uk Direct Dial:01553 616505	Other Officers consulted: Executive Directors, Chief Executive, Monitoring Officer, S151 Officer

Financial Implications YES/~~NO~~	Policy/ Personnel Implications YES/~~NO~~	Statutory Implications YES/~~NO~~	Equal Impact Assessment YES/~~NO~~ If YES: Pre-screening~~/ Full Assessment~~	Risk Management Implications YES/~~NO~~	Environmental Considerations ~~YES~~/NO

If not for publication, the paragraph(s) of Schedule 12A of the 1972 Local Government Act considered to justify that is (are) paragraph(s) 3 and 5

Date of meeting: 15th January 2024

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

Summary

This paper needs to resolve the current position as follows:

1. Properties leased from the Council to the companies need to be offered for transfer (sale) into the companies freehold (subject to Company Board agreement);
2. New and clear funding criteria needs to be in place to support the transfer and to meet governance requirements

Recommendation

<u>Cabinet Resolves:</u>

1. To note the contents of the Report setting out (i) the advice of Grant Thornton, PS Tax, Link Group Treasury Services and Ensor Accountants relating to the structure options for financial support to WNPL and WNHC (the Companies), and (ii) the Council's current analysis as regards the best options;
2. To offer a Drawdown facility to the Companies (comprising a mix of loan facilities and repayable grant agreements, and which may include debt-equity arrangements and/or the extension of current lease arrangements), with an overall lending cap of £50 million;
3. To give delegated authority to the Executive Director (Place), in consultation with the Portfolio Holder for Business, the Section 151 Officer

and the Monitoring Officer, to agree the final terms of the Drawdown facility with the Companies.

<u>Recommendations to Full Council:</u>

4. To give delegated authority to the Section 151 Officer in consultation with the Portfolio Holder for Business to amend the Capital Strategy for 2023-2024 to reflect the approved Drawdown facility to the Companies.

Reason for Decision

1. To deliver on Council Corporate Objectives:

- Promote growth and prosperity to benefit West Norfolk;
- Protect our environment;
- Efficient and effective delivery of our services; and,
- Support our communities.

2. To deliver affordable and private rented housing for acquisition by the council's wholly owned housing companies to support the delivery of council corporate objectives.

1. Executive Summary

This paper brings together the advice the council has received from legal, financial and tax advisors on the funding of the council housing companies. It sets out:

1. The total amount of borrowing available that the council can provide to support the housing companies, and the details of the funding agreements between the council and the companies.

2. the financing arrangements for West Norfolk Housing Company Limited (WNHC), which expired in March 2023, to allow that company to continue to purchase properties, both from the councils Major Housing Programme (MHP) and elsewhere.

3. the options available to the council to allow West Norfolk Property Limited (WNPL) to manage the private rented (PRS) properties in its portfolio, and the future pipeline of properties being delivered through the councils Major Housing Programme (MHP), through a hybrid debt plus equity financing and lease extension provision

The report and its recommendations have been reviewed by external consultants Grant Thornton. Their findings have been incorporated in this report to Cabinet.

2. Background

2.1. West Norfolk Property Limited (WNPL)

WNPL was incorporated in April 2018 and was set up to acquire properties from the Borough Council of King's Lynn and West Norfolk (the Council), to let for private rent to residents of the Borough. In January 2019, Cabinet approved the business plan for WNPL, including the principle of retaining for private rent 20% of the homes developed by the Council on sites of more than 50 dwellings through the Development Management Agreement with Lovell Partnerships Limited. Delegated authority was also given to agree the financing arrangements for the freehold transfer of the properties from the Council to WNPL.

The details of the financing arrangements were not resolved prior to the first stock being transferred to WNPL. To facilitate the transfer of properties into the company, in September 2020 a lease agreement for the term of 4 years based on 70% of gross rent until such time as the loan agreement was agreed between the council and the company. The first PRS properties were leased to WNPL in November 2020, with a total of 27 PRS properties joining the portfolio from November 2020 to April 2021.

Managing agents (Touchstone) and legal services (Howes Percival) for the company were procured in 2021, and a Service Level Agreement (SLA) between the council and the company was also agreed.

Between June 2022 and June 2023, a further 47 PRS properties from the council's Nora 4 (Nar Valley Park) development were leased to the company. One of the original 27 properties was transferred at open market value to West Norfolk Housing Company in 2023 to provide accommodation funded through the Local Authority Housing Fund. The number of properties in the portfolio is currently 74 dwellings. This is planned to increase to 139 dwellings, with 46 being delivered on Florence Fields (Parkway) with a further 19 on Lynnsport 1.

Item	Number of units	OMV (A)	Build costs	Proposed Loan value (B)	LTV (B/A)
Existing portfolio	74	£15.8m	£12.3m	£14.1m	89%
Parkway (20% PRS)	46	£8.8m	£7.9m	£7.9m	90%
Lynnsport 1	19	£4.5m	£4.0m	£4.1m	92%
Total	**139**	**£29.1m**	**£25.9m**	**£24.2m**	

Table 1 – WNPL portfolio information

The performance of the portfolio is reported through a KPI dashboard, which summarises key metrics including rent collected, voids, bad debts and management and maintenance costs. The gross to net revenue ratio is around 16.5%. In addition to the management and maintenance costs, the company is charged for services provided by the council through the SLA (approx. £54k per annum).

2.2. West Norfolk Housing Company (WNHC)

WNHC was incorporated in 2016 and set up to increase capacity in the social housing sector to deliver new affordable housing in the Borough and to provide a vehicle to help meet the Council's priorities particularly in relation to accommodation for homeless households. It was registered as a not-for-profit Registered Provider of Social Housing in 2018.

The Company has acquired 47 affordable homes to date (35 rent and 12 shared ownership). The Company also leases 7 flats from the council at 37 Broad Street which are used to help meet the Council's statutory homelessness duties to provide temporary accommodation.

The company's properties are managed and maintained by Broadland Housing Association under a mix of leases and management contracts.

To date, the principal way in which the Company has acquired new affordable homes has been through debt finance provided by the Council with loans of £3.2m currently outstanding. The company's £10m loan facility with the Council expired in March 2023. The increase in the Bank of England Base Rate had meant that the interest rate of 4.5% above the Bank of England base rate, with the interest rate for each drawdown fixed at the time of each drawdown, was no longer financially viable for the company when acquiring new stock.

This has meant that the Company has had to make alternative temporary arrangements to acquire units on the NORA 4 developments including agreeing to defer payment on several units.

The company is due to acquire an additional 73 homes from the Council up until 2026-27. The estimated value of these homes is circa £7.9m

The Company acquires S106 affordable housing units based on the capitalised income from the properties minus costs such as management and maintenance. This is typically around 50% of open market value. This is the standard methodology for valuing S106 units in the affordable housing market and reflects that the homes are secured as affordable housing in perpetuity.

The price offered by West Norfolk Housing Company is benchmarked against other affordable housing transactions and data held by the council.

The Company may be able to obtain grant funding from Homes England to deliver additional affordable housing both on the Council's developments and elsewhere. This funding would only be available where the affordable housing is not a requirement of planning policy. Discussions with Homes England regarding access to grant funding are ongoing.

3. Prudential Borrowing – The Prudential Code

Section 2 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires Local Authorities to have regard to the Prudential Code when complying with the duty under section 3 of the Local Government Act 2003 – the duty to keep under review how much it can afford to borrow.

The finance team in the council has reviewed the current Capital Programme and advised that the "maximum" borrowing limit for external debt for the council is £64.5m. Referred to as the Operational Boundary, in CIPFA guidance, this is the limit for external borrowing, with the exception that headroom for a further £5m exists in the "Authorised Limit", but that is intended for very short-term borrowing such as overdrafts for cashflow purposes.

As outlined in the Council Budget and MTFS (Medium Term Financial Strategy) currently the council has £10m of external debt finance taken out in 2007 through Barclays Bank at a fixed rate of 3.81% which is fixed for 70 years and due to expire in 2077.

Therefore, the Council effectively has £54.5m of potential external debt financing available before it meets it's Prudential Borrowing 'ceiling' as determined in accordance with statute and guidance by the s.151 statutory officer.

The council is budgeted to have £3.497m for capital expenditure in earmarked reserves as at 31 March 2024 and so will look to balance any capital requirement using a mix of reserves and borrowing from external markets to support the capital programme requirement. This means that it is possible that not all of the 'drawdown facility' will be required from external finance. This balance will be managed in accordance with the Treasury Management

Strategy and in liaising with the s151 officer (AD Resources) to ensure that this is held within acceptable limits.

The S151 officer, as statutory officer, has advised that the maximum prudential lending facility for Housing Companies is £50m. For illustration, this could be made up as follows:

- West Norfolk Housing Company (WNHC) - £14m
- West Norfolk Property Limited (WNPL) - £36m

This would leave £8m capital available for other requirements (for example, enterprise zone infrastructure and other capital programme development costs).

3.1. Advice on Loans to Companies – Lending Criteria

External advice has been taken regarding the lending criteria that the Council should use when acting as lender to companies. This advice was used as the basis for the lending criteria set out below, which has been further refined following advice from consultants Grant Thornton.

The preferred approach would be for the companies to acquire the freehold interest in their respective properties outright, as per the business plans. This is possible for WNHC, but is difficult for WNPL, principally due to the current interest rates.

3.2. Basis for a Loan Facility

The council is advised that the principles governing the basis for determining the interest that should be charged by the council to the companies are the EU Reference Base Rate, and the Subsidy Control (Gross Cash Amount and Gross Cash Equivalent) Regulations 2022).

1) EU Reference Base Rate. This is based on an initial reference rate as set under European Commission legislation. Additionally, where a company has limited or no credit history, the interest rate should be increased by 400 base points and where the loan exceeds 1 year, a further 2 base points should be added to reflect the additional administration required. This results in an interest charge to the company of 9.11% made up as follows (at 30 September 2023):
    - State aid reference rate – 5.09%
    - Limited credit history – 4.00%
    - Loan beyond 1 year – 0.02%
2) The Subsidy Control (Gross Cash Amount and Gross Cash Equivalent) Regulations 2022. These regulations set out the requirements for determining an interest rate on a loan that might reasonably have been expected to be available on the market. It sets a base rate according

to the length of the loan and then looks at the creditworthiness of a company as rated between satisfactory to strong. There are 3 levels of satisfactory to consider based on the level of risk of loss in the event of a default on the loan. Applying this results in an interest charge to the company of 6.5% which is made up as follows:

- Length of Loan @ 25 years – 3.1%
- Creditworthiness as satisfactory with loss in the event of default as more than 60% or not known – 3.4%

When considering the above options, it has been recommended that the Subsidy Control Regulations are preferable to the EU Reference Base Rate as the Competition Markets Authority would not regard the latter as a determinative in their decisions on this issue. However, it should be noted that the Subsidy Control Regulations were written when the Bank of England (BoE) interest rate was set at 3% and there is no mechanism in the legislation to track against BoE base rate which is now 5.25%. It is also noted that the length of loan only goes up to 25 years and the calculated loan rate of 6.5% provides less than 1% margin against the PWLB loan rate of 5.63% which does not allow sufficient risk margin for the council (see section 3.6 for the council's proposal to build a risk reserve).

Taking all of the above into consideration, the following sets out the recommendation for a suitable basis for a loan facility to the companies which would be to use the higher of the following:

- The loan rate as set out in the Subsidy Control (Gross Cash Amount and Gross Cash Equivalent) Regulations 2022 (currently maximum of 6.5%); or
- PWLB rate plus 2% (currently 7.63%)

This would mean that the council is covering its position in applying the Subsidy Control Regulations but also allowing for a margin against PWLB rates so the council can set aside an amount in a risk reserve. It also allows some flexibility for the loan rate to reduce as interest rates fall or to adopt the Subsidy Control rate at such time when it is appropriate to do so in line with a fall in BoE base rate which is currently forecast to reduce to 2.5% in 2027. It is also recommended that the loan facility allows for a review of the creditworthiness of the companies when the servicing of their loan arrangements are more established and they can take advantage of a lower mark-up rate.

3.3. Prevailing Economic Conditions

The most recent Bank of England Monetary Policy Report (November 2023) found that:

- Maintaining higher interest rates are working to reduce inflation;
- Inflation has fallen and is expected to fall further this year and next;
- Interest rates will be kept high enough for long enough to get inflation back to the 2% target

It is to be expected therefore that interest rates will remain at the current level until inflation begins to fall in line with the current BoE outlook (table 1 below)

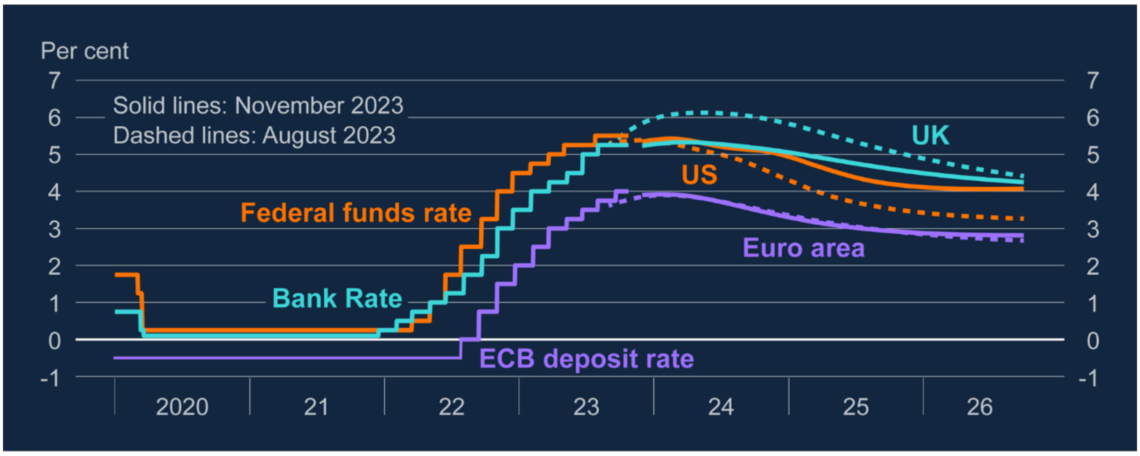


Figure 1- Interest rates are at or close to the peak of their market-implied paths in the US, euro area and UK (source: BoE, November 2023)

3.4. Tax Considerations

HMRC typically expects the most restricting ratio to be applied for the purpose of calculating an arm's length interest expense for UK transfer pricing purposes. This is traditionally the interest cover ratio for real estate investments.

We highlight that higher interest rates and higher Loan to Value and Loan to Cost (LTVs, LTCs) can be observed in the market, however the application of these LTVs and interest rates may increase the risk of challenge by HMRC given their expectation on applying the most restricting ratio (the interest cover ratio).

Should higher LTVs, LTCs and interest rates be applied, then the interest expense on the excess will need to be disallowed in UK tax returns, subject to the findings of the detailed analysis.

Borrowers are required to have evidence that their interest deduction is considered arm's length. There is typically more than one arm's length price and typically there is a range of prices that can be considered arm's length. It is recommended that the council undertake a detailed thin capitalisation review based on the options it is considering in order to assess the arm's length nature of the resulting interest deduction of these options. The selected option to determine the level of debt and interest expense that can be considered both arm's length and aligned with the Council's strategic and commercial objectives.

In future periods, the council is required to reassess whether the position achieved each year is still in compliance with the findings of the thin capitalisation study.

3.5. Drawdown Facility and Lending Criteria

As part of this the lending criteria for loans to companies will include:

- Loans will be available for up to 90% LTV (or at 100% LTC, where this is less than 90% of OMV);

- Subject to review of the Business Plan of the company and suitable plan re: affordability & repayment to ensure that cash-flow allows for the company to remain sustainable over the long term (10 years) and meeting its repayment requirements. The business plan should also outline an acceptable ‘exit plan’ in order to meet its obligations;

- The Council will place a charge against the properties in relation to the loan as security for up to the full market value of the properties;

- Funding will only be available for where the Council has a controlling interest in the Company;

- The interest charged and conditions for the loans will differ depending on the situation of the companies, risk and where the activities of the company meet key objectives of the Council (e.g., homelessness), notwithstanding other conditions set out in this paper (i.e., sustainability). An illustrative outline is provided below for WNHC and WNPL;

- Interest will be at the prevailing rate obtained by the Council plus a ‘risk-premium’ as advised;

- The Council reserves the right to withdraw future funding through the facility.

3.6. <u>Risk Reserve</u>

The council will hold a ‘risk reserve’ based on a percentage of the income generated through the interest rate differential between the Council and the Company i.e., between the % charged to the Companies and the interest rate paid by the council on borrowing. The % and total fund required to be defined by the S151 Officer. This will be held to manage the risk around the uncertainty in the market in the short to medium term and support the Council/ shareholder to help mitigate some of the risks.

3.7. <u>Overall Flows of Finance for Lending</u>

The diagram below sets out the relationships between the housing companies, the councils borrowing and the funding facility between the council and the companies.

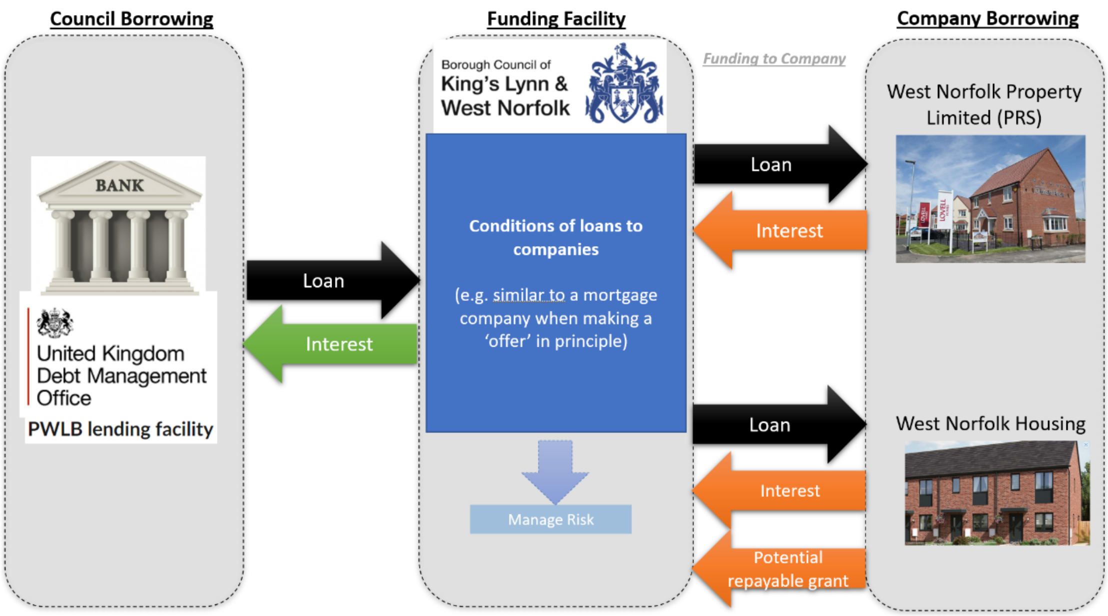


Figure 2 - -illustrative outline of funding arrangements

3.8. Affordability to the Companies

The funding solution must be structured to ensure that it meets the requirements of both the Council and the Companies, recognising there will be a cost of borrowing to the Council for providing the support to the Companies and a need to demonstrate value for money.
From a Company perspective the funding solution will need to be financially sustainable and structured to be the most tax efficient. The table below sets out the critical success factors.

Table 2 – Success factors of the funding solution

BCKLWN	WNPL/ WNHC
• The Council will need to cover the borrowing costs associated with the funding provided. • The Council wishes to hold a risk reserve to manage risk of uncertainties in the market conditions to mitigate the risks to Council	**WNPL** • Revenues generated from PRS need to be sufficient to meet debt costs • Tax efficiency of funding solution **WNHC** • Revenues generated from affordable rents sufficient to meet debt costs

4. Companies Funding Requirements

The assumptions applied by the Council on the cost of borrowing are; an interest rate of 7.5% p.a. from 2023, reducing to 5.0% p.a. in 2027.

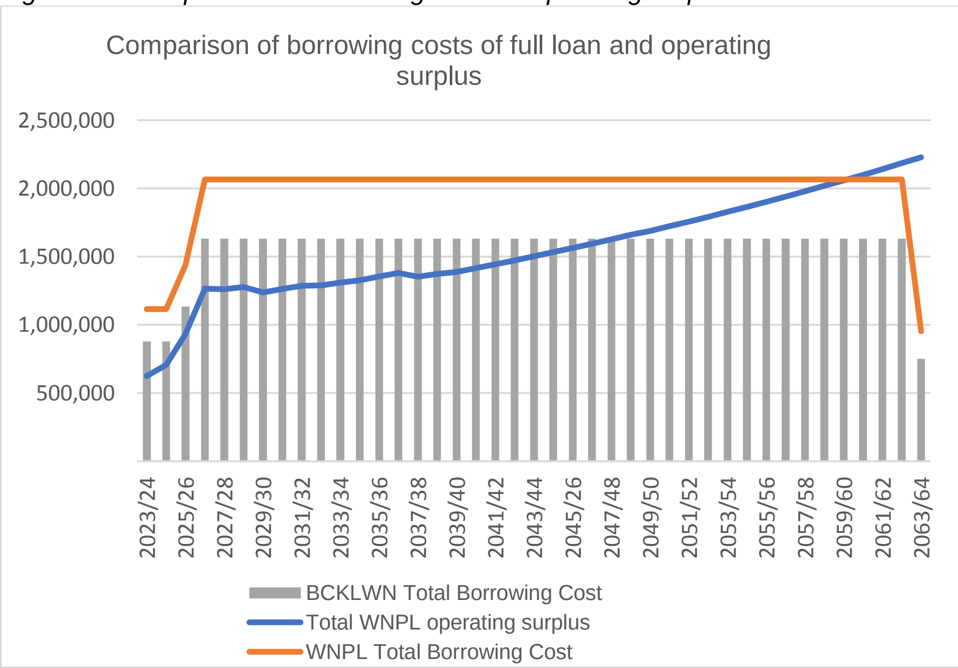
The 7.5% p.a. interest rate is calculated based on a PWLB rate of 5.5% p.a., plus an additional 2.0% p.a. to recognise the element of risk associated with the proposed financing.

The funding requirements for both housing companies have been modelled by officers and reviewed by Grant Thornton. The summary findings are as follows:

WNPL

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 3 – 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 Lynnsport1 positions).

Table 3 - 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.

WNHC

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

Table 4 - 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 already has loan repayments in place which will leave an outstanding balance to be serviced of £7.9m.

Table 5 - 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	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 company's 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

5. Policy Implications

The long term funding of WNPL to manage private rented properties allows the council to intervene in the private rented market and set a high standard for the quality of housing and management with longer term family friendly tenancies.

Similarly, the investment in WNHC ensures that the Council has a vehicle to deliver affordable housing in the borough and meet the Council's housing priorities.

6. Financial Implications

Rent income and capital values will increase over time, whilst borrowing costs are fixed (based on maturity loans).

The financial implications for the council are that it will have a commitment to borrow capital to finance the housing company portfolios for the longer term, thereby restricting capital available for investment in other areas. The risk is mitigated by the extent to which the companies are able to dispose of properties (or portfolios) on the open market, with WNPL able to dispose of the portfolio either as investments or with vacant possession, at open market values.

For WNHC, the funding agreement the liquidity of the portfolio (the ability to dispose of the properties) is limited by the Existing Use Value (EUV) of the properties as affordable rented or shared ownership homes.

7. Personnel Implications

The WNPL portfolio is managed via agents (Touchstone), and an SLA exists to recover council staff costs.

The WNHC portfolio is predominantly leased to Broadland Housing Association – due to expire in March 2029 - and an SLA exists to recover council staff costs.

8. Environmental Considerations

The high standard of homes acquired by the housing companies from the MHP sites ensures the portfolio will contribute towards net zero for the council with low running costs for tenants due to high EPC ratings, ensuring less disposable income required on household energy bills and therefore less stress on affording rental payments.

9. Statutory Considerations

Latest HM Treasury guidance is that they will support the use of PWLB finance by wholly owned council housing companies where the council has set up a housing strategy to address housing shortages in its area.[1]

9.1. <u>Subsidy Control (previously State Aid)</u>

The Council will be disposing of the properties under section 123 Local Government Act 1972, which generally provides that a local authority may dispose of land in any manner it wishes. Under the General Disposal Consent (England) 2003 local authorities can dispose of land for less than best consideration, on condition that the undervalue does not exceed two million pounds, and where the authority considers that this will contribute to the promotion or improvement of economic, social or environmental well-being in its area.

The Council has received external advice around the UK Subsidy Control requirements that relate to the proposed financing. A summary of that advice is set out below.

WNPL

WNPL is a company whose business is set up to act commercially by providing private rented sector housing. The company is set up to return a profit to its shareholder: the Council. It is considered that providing a subsidy to a company such as this will detrimentally interfere with the market in which it operates, i.e. the private rented sector. The Council has no intention of making such a subsidy available to other companies or individuals that are in similar circumstances to WNPL. Accordingly, the finance provided to WNPL by the Council must remain on market terms so that it is not deemed a subsidy.

WNHC

Since the facility element for WNHC is not on market terms and is used for financing the development of social housing, this will be deemed a subsidy to which the rules governing assistance for services of public economic interest would apply. This is the same position as the grant element that is to be provided to WNHC.

We have therefore undertaken an assessment of the WNHC facility and grant elements against the relevant principles within UK Subsidy Control legislation, with these being subsidy control compliant if the Council details the clear case for a policy-led intervention in local housing provision. Also, since the grant element provided to WNHC exceeds £100,000, the Department for Business and Trade must be notified of the subsidy, within the overall context of the support provided to WNHC by the Council

[1] PWLB Guidance to Applicants, HM Treasury, June 2023

10. Equality Impact Assessment (EIA)

(Pre-screening report attached)

11. Risk Management Implications

Table 6 **Risk items**	**Risk Implications and Sensitivity**	**Level of Risk**
Market values fall	**Risk** In terms of market values, these are anticipated to fall by 11% in 2023, with an overall growth of 3% in the 5 years to 2027. Within the Major Housing Programme, there are 32 properties due to complete in May 2024 at Southend Road Hunstanton, 6 of these are affordable homes for WNHC. There are no PRS properties on this scheme, and no other properties of any tenure due to complete before the end of 2024. **Sensitivity/Consequences** The sales valuations are based on current market values, which are due to fall in the near term but recover in the medium term.	Medium
Market values fail to increase as expected	**Risk** The anticipated growth over the 5 years to 2027 does not materialise- property prices either stagnate or fall in real terms **Sensitivity/Consequences** Housing markets are cyclical, but demand for housing remains strong. The council will retain the option of disposing of properties into the private rented market to mitigate this risk.	Low
Higher than anticipated interest rates	**Risk** Mortgage interest and PWLB rates continue to increase **Sensitivity/Consequences** Markets are currently pricing BoE holding the base rate at 5.25% with no further increases anticipated, and rates remaining at this level until core inflation is seen to fall within acceptable parameters. Base rates have a direct impact on PWLB rates.	Low
Borrowing requirement to fund the development phase	**Risk** Council is required to use PWLB borrowing to support the development of the scheme, and to fund the purchase of properties for the wholly owned companies. **Sensitivity/Consequences** PWLB rates are considered to be at the peak of the cycle. The risk can be mitigated by the council borrowing at short term rates from other local authorities, at rates generally below current PWLB. Over the longer term the options for borrowing are: 1. Public Works Loan Board (PWLB) between 1-50 years. This can be based on interest only or have some form of repayment of the principle. An application form is submitted and generally the funding is received in 5 days. 2. Pension funds will also lend to local authorities. These are typically used on a forward funding basis and helps to manage risk if the council knows that there is a need to borrow in future and knows how much is required. The forward interest rate curve will be used to assess the applicable rate to be charged. Currently there are no interest rate reductions built into the curve to reflect any downturn in future interest rates so there is currently no benefit in looking at this option, but it could be considered in a year's time as the position is likely to change once inflation comes down and stabilises. Typical entry level is £30m which does not have to be in one loan payment. This can	Low

Table 6 **Risk items**	**Risk Implications and Sensitivity**	**Level of Risk**
	be drawn down in tranches over time. The arrangements tend to be on an annuity basis as these organisations tend to buy long dated gilts. They will look at the credit rating of a local authority and many local authorities do not have one. Those that do will have paid to have their rating. There is also a tendency to use Moody's metrics to assess the rating of a LA and these organisations will carry out their own due diligence and they will determine the pricing according to their own assessment. A local authority can borrow from PWLB at gilt plus 80 basis points so they will benchmark against that based on the authorities position so it is a fairly subjective approach that is undertaken. It is also worth noting that there are no recent transactions evident in the market since early 2022 as authorities are holding back and using short term solutions. 3. Bonds – The council could not issue in our own name as these are in general around £200m plus. The council would need its own credit rating which can cost circa £40k and it is unlikely that the council would get any better terms than PWLB at the moment. 4. UK Municipal Bond Agency – activity has gone quiet. The last report issued stated that they were not able to compete with PWLB. However, they would want more assurance and would drill down into more detail to ensure the council's business case stacks up and the loan can be repaid. Due to the issue of more and more local authorities in headlines for the wrong reasons, this has the potential to add more risk to pricing based on previous experience.	

12. Declarations of Interest / Dispensations Granted

13. Background Papers

(Definition : Unpublished work relied on to a material extent in preparing the report that disclose facts or matters on which the report or an important part of the report is based. A copy of all background papers must be supplied to Democratic Services with the report for publishing with the agenda)

Anthony Collins legal advice

Pre-Screening Equality Impact Assessment

Borough Council of
King's Lynn &
West Norfolk

Name of policy/service/function	Housing Companies
Is this a new or existing policy/ service/function?	New / ~~Existing (delete as appropriate)~~
Brief summary/description of the main aims of the policy/service/function being screened. Please state if this policy/service is rigidly constrained by statutory obligations	COUNCIL COMPANY FUNDING – WEST NORFOLK PROPERTY LIMITED (WNPL) AND WEST NORFOLK HOUSING COMPANY LIMITED (WNHC) N/A
Question	**Answer**

Question		Positive	Negative	Neutral	Unsure
1. Is there any reason to believe that the policy/service/function could have a specific impact on people from one or more of the following groups **according to their different protected characteristic**, for example, because they have particular needs, experiences, issues or priorities or in terms of ability to access the service? Please tick the relevant box for each group. NB. Equality neutral means no negative impact on any group.	Age			x	
	Disability			x	
	Gender			x	
	Gender Re-assignment			x	
	Marriage/civil partnership			x	
	Pregnancy & maternity			x	
	Race			x	
	Religion or belief			x	
	Sexual orientation			x	
	Other (e.g., low income)			x	

Question	Answer	Comments
2. Is the proposed policy/service likely to affect relations between certain equality communities or to damage relations between the equality communities and the Council, for example because it is seen as favouring a particular community or denying opportunities to another?	~~Yes~~ / No	
3. Could this policy/service be perceived as impacting on communities differently?	~~Yes~~ / No	
4. Is the policy/service specifically designed to tackle evidence of disadvantage or potential discrimination?	~~Yes~~ / No	
5. Are any impacts identified above minor and if so, can these be eliminated or reduced by minor actions? If yes, please agree actions with a member of the Corporate Equalities Working Group and list agreed actions in the comments section	~~Yes~~ / No	**Actions:** **Actions agreed by EWG member:** …………………………………………

If 'yes' to questions 2 - 4 a full impact assessment will be required unless comments are provided to explain why this is not felt necessary:

Decision agreed by EWG member: …………………………………………………..

Assessment completed by: **Name**	**David Ousby**
Job title	**Assistant Director**
Date	**29th November 2023**

Appendix 1

Reports from Link, PS Tax and Ensor Included here

Appendix 2

WNPL business plan

Appendix 3

WNHC business plan

Appendix 4

Grant Thornton report