



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

**Finance, Economic Development and
Corporate Services Overview and Scrutiny
Committee**

22 September 2020

Report of: Councillor Adam Stokes

Cabinet Member for Finance and
Resources



Loan arrangements for Council owned companies

The report provides an overview of the loan arrangements that are in place between the Council and its wholly owned companies.

Report Author

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Corporate Priority:	Decision type:	Wards:
Administrative	Administrative	All Wards

Reviewed by:	Alison Hall-Wright, Head of Finance	2 September 2020
Approved by:	Paul Thomas, Strategic Director, Growth	7 September 2020
Signed off by:	Councillor Adam Stokes, Cabinet Member for Finance and Resources	9 September 2020

Recommendation (s) to the decision maker (s)

- The Finance, Economic Development and Corporate Services Overview and Scrutiny Committee is asked to note the loan arrangements that have been put in place between the Council and its wholly owned companies.**

1 The Background to the Report

- 1.1 At the previous meeting of the Committee (28 July 2020), it was agreed during the discussion of the Work programme that a report be compiled that sets out the loan arrangements that are currently in place between the Council (as the sole shareholder) and its companies.
- 1.2 To date loan arrangements have only been implemented for two of the Council owned companies – Gravitas Housing and Environment SK. The ability to award loans to the Local Authority companies is contained in the Annual Treasury Management Strategy that is considered each year by Council as part of the annual budget report. The criteria of any loan being made with a Local Authority Controlled Company (LACC) is based on receipt of a clear business plan from the respective company that demonstrates the affordability of the investment for the LACC.
- 1.3 For Gravitas Housing, a combination of a loan and an equity investment was approved by the Council. The Shareholder Committee (subsequently changed to the Companies Committee) approved the business plan for the Local Authority Controlled Company and recommended that £2.8m (made up of 60:40 loan and equity) is allocated in the capital programme in order to fund a new housing development utilising land owned (at that time) by the Council. The funding of £2.8m included funds to appropriate the land from the Council to the company, a s106 contribution, the construction costs of the development and other associated expenditure.
- 1.4. The funding was approved by Council on 2 March 2017 as part of the General Fund Capital programme. The Shareholder Committee subsequently approved the release of the funding to the company at its meeting on 3 April 2017.
- 1.5 The loan is structured on a commercial basis and was set at 2% above prevailing PWLB rates (Public Works Loan Board) at the time the loan was taken out. In this instance, the rate was set at 4.03% based on the principal being repayable from retained profits upon sale of developed properties or maturity on 31 March 2025, whichever is the soonest.
- 1.2 EnvironmentSK Limited commenced trading on 1 March 2019 and to enable the grounds maintenance service to be delivered there was a requirement for a loan to purchase the grounds maintenance vehicles and equipment, which was procured by the Council. The sale of the vehicles and equipment by the Council to Environment SK was set at £571k plus VAT which is the original cost incurred by the Council. The affordability of the loan was assessed and a loan structure of £571k plus interest of 4% was put in place with a repayment period of eight years. The loan will be repayable in quarterly instalments, structured as interest only in year one (October 2019 – September 2020) and principal and interest from year two onwards. The loan is due to mature on 1 July 2027.
- 1.3 At the time of compiling the report, there are no further loans in place for any other wholly owned companies.

2 Consultation and Feed Received, including Overview and Scrutiny

- 2.1 None.

3 Available Options Considered

- 3.1 None.

4 Preferred Option

4.1 This report is for information only.

5 Reasons for the Recommendation (s)

5.1 The report is for information only.

6 Next Steps – Communication and Implementation of the Decision

6.1 None.

7 Financial Implications

7.1 The financial arrangements between the Council and the Council owned companies are detailed in the report.

Financial Implications reviewed by: Richard Wyles, Interim Director of Finance

8 Legal and Governance Implications

8.1 As part of good governance, it is important Members are kept updated in respect of the financial position of the Council expenditure during the year.

Legal Implications reviewed by: Shelley Hardy, Legal Executive

9 Equality and Safeguarding Implications

9.1 None.

10 Risk and Mitigation

10.1 None.

11 Community Safety Implications

11.1 None.

12 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?

12.1 None.

13 Other Implications (where significant)

13.1 None.

14 Background Papers

14.1 Previous Committee – 28 July 2020; Work Programme –

<http://moderngovsvr:8080/documents/s26637/FEDCSWorkProgramme2021.pdf>

14.2 Council – 2 March 2017

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=261&MId=3827&Ver=4>

14.3 Shareholder Committee – 3 April 2017

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=616&MId=3352>

14.4 Annual Treasury Management Strategy –

<http://moderngov.southkesteven.gov.uk/documents/s25014/Appendix%20E%20-%20TM%20Strategy%202020-21.pdf>

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=261&MId=3827&Ver=4>

15 Appendices

15.1 None.

Report Timeline:	Date of Publication on Forward Plan (if required)	Not applicable
	Previously Considered by	Not applicable
	Final Decision date	To be confirmed