Subject: **Equinox Property Holdings – Financing**

Report to: **ELT – 16 May 2022**

Policy and Resources Committee – 24 May 2022

Council – 23 June 2022

Report by: **Finance Director and S151 Officer**

Subject Matter/Recommendations:

This report provides an update to Members on the current financing provided to the wholly owned company trading as Equinox Property Holdings Limited (EPH) and makes recommendations for an increased level of loan financing for the company in order to fulfil EPH's Business Plan which is reported to Members separately on the agenda.

Recommendations:

That Committee :-

(1) **Recommend to Council** approval of the financing for Equinox Property Holdings of £4m, from a £3m loan facility and £1m initial share capital and that this be included in the updated capital programme;

(2) Delegate the draw down of the financing facility to the S151 Officer.

1. INTRODUCTION / BACKGROUND

1.1. Council approved the establishment of Equinox Property Holdings in 2019 as a sister company to Equinox Enterprises Ltd to hold properties for rental to actively support regeneration and improve the quality of private sector rental accommodation.

1.2. Following the establishment of EPH, the Council in June 2020 council approved the virement of £500,000 from the existing capital programme to fund the equity in Equinox Property Holdings, at the same time it was recommended that the Council approve a loan to EPH of £1.5million, to enable EPH to actively acquire properties to be held for rental within a total funding availability of £2million. The report included separately on the agenda provides details on the 2022/23 EPH Business Plan, this report is recommending an update to the financing to EPH from the Council in order to enable the company to deliver a range of properties for rental as part of that business plan, this will result in the company having access to up to £4million (through a mixture of loan and equity in the company).

2. FINANCIAL IMPLICATIONS

2.1. As the shareholder for EPH the Council has previously agreed to provide the initial financing to the company in the form of debt (via a loan facility and equity). This means the debt to equity ratio of 75:25. The updated business plan has identified a total funding requirement of £4million, which in the current proposed ratio of debt to equity would equate to loans to EPH of £3 million and equity of £1 million.

2.2. The report is therefore recommending the total financing of EPH be made up of £3 million loan facility and £1million equity/share capital, the timing of the draw down of the loan and equity would be in consultation with the S151 Officer.

2.3. The Council will be required to account for the loan and equity in EPH as capital expenditure as the purpose of the funds is for capital expenditure, albeit by EPH. The financial impact to the Council of the loan facility to the company will increase the council's capital financing requirement (the underlying need to borrow) and will require the council to borrow externally.

2.4. Where local authorities finance capital expenditure by borrowing, they are required to make an annual charge to the revenue account for future repayment of the debt (minimum Revenue Provision). In 2021 the government consulted on changes to the application of MRP, following concern that local authorities have not been making prudent revenue provision specifically around the provision capital loans. The assumptions of the financial impact to the council of the provision of loans to EPH has taken a prudent approach and therefore does make an allowance for an MRP charge. Should there be any changes following the outcome of the consultation the impact will be considered as part of the wider capital programme planning.

2.5. The loan facility will be on an annual repayment of principal and interest basis for a period of up to 40 years. Over the lifetime of the loan the MRP charge within the Council's general fund will be mitigated by the interest received from EPH for the borrowing. The annual repayment of the principal of the loan from EPH to the Council will provide the Council with a capital receipt to fund future capital projects (therefore reducing the need to borrow for the future projects and subsequently the MRP charge incurred).

2.6. The need to update the investment strategy approval limits for 2022/23 for the Councils subsidiaries (EPH and Equinox Enterprises Limited, EEL) have been considered. The investment strategy approved by Council in February 2022 allowed for loans of up to £5.5m in 2022/23 for both its subsidiaries. This limit had included the potential for further loans to EPH and EEL than those current approved and budgeted and is therefore sufficient to cover the increase in borrowing being requested as part of this report for EPH (£3m) at this time. However, the approved limit will need to be reconsidered again should EEL require borrowing during the year, should this exceed £2.5m.

2.7. The investment strategy also allowed for £3.5m of shares to be held in 2022/23 for the subsidiaries. The Council has £2.2m of shares currently in EEL so the limit allowed for further shares to be acquired in the financial year from the subsidiaries. Again, the limit approved is sufficient to cover the £1m shares now being requested for EPH within this report but should EEL require further share investment this limited would need approval to be increased.

3. RISK IMPLICATIONS

3.1. Risk of non-payment of interest and loan repayments. This is mitigated by the Council's equity within the housing assets purchased with the loans as RPH is 100% owned by the Council.

3.2. Impact of changes to the MRP requirements – the outcome of the consultation will be monitored and if changes are required to the Council's MRP policy these will be updated accordingly, in the meantime a prudent approach has been taken in respect of allowing for MRP.

3.3. The financial stability of the company will continue to be monitored including the ability to repay the loan and proactive action will be taken as required to mitigate the financial implications to the Council.

4. CONCLUSIONS

4.1. To enable EPH to complete its business plan an increased level of loan financing and share purchase is required. Approval from Council is therefore being sought for a total of £4m to be invested with EPH (loan facility of £3m and shares to be purchased of £1m). The drawdown of these funds by the company will be delegated to the s151 officer to administer and control.

Area for consideration Comment	Comment
Monitoring Officer Consultation	
Section 151 Officer Consultation	
Existing Council Policies See background papers	
Financial Implications Within existing budgets	
Legal Implications (including human rights)	
Risk Implications	
Equality Issues/EQIA assessment	
Details contained in strategy	
Crime & Disorder	
Every Child Matters	