

## **Internal Lending and Borrowing – Funding LGA Group Property Developments and Investments**

### **Purpose**

For decision.

### **Summary**

The LGA group operates a 'Loan Pool' arrangement whereby group companies are able to offer and receive loans from other group companies, at close to commercial rates.

In December 2016, the Board approved a plan in principle to fund the development of the properties at 18 Smith Square (owned by LGA (Properties) Ltd) and Layden House (owned by Local Government Management Board) through a combination of internal loans (from the LGA and IDeA), supplemented by an external loan.

Due to changes in the timing and phasing of the development projects, only the first tranche of the internal loans proposed were executed. This report seeks approval for a new suite of internal loans (superseding the later tranches of those previously proposed), to come into force on 1 January 2019, recalculated to meet the current and updated needs on the LGA Group Companies.

### **Recommendation**

Leadership Board Members are asked to:

- Agree that £2 million should be loaned to the internal borrowing pool, at the prevailing pool interest rate, on or around 1 January 2019; and
- Authorise the Deputy Chief Executive to sign the loan documentation to reflect the transaction when this has been prepared.

### **Action**

As per Members' instructions.

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## **Internal Lending and Borrowing – Funding LGA Group Property Developments and Investments**

### **Background**

1. The LGA Group operates a 'Loan Pooling' arrangement whereby group companies are able to offer and receive loans from other group companies, at close to commercial rates.
2. In December 2016, the respective Boards of the several LGA Group companies involved approved a plan in principle to fund the development of the properties at 18 Smith Square (owned by LGA (Properties) Ltd) and Layden House (owned by Local Government Management Board) through a combination of internal loans (from the LGA and IDeA), supplemented by an external loan (from a supplier not identified at the time). The amounts of the proposed internal loans (as set out below) were based on the latest estimates of the costs of the developments at that time.
3. Only the first tranche of the internal loans were executed (see below), and LGA (Properties) Ltd and Local Government Management Board have been funding their respective developments through using LGA group funds (ie running with overdrawn funds in the LGA's cash/investment pool) without formal arrangements in place.
4. Now that the £20 million external loan has been recently secured from Westminster City Council, and the latest cost estimates for the property developments are better understood, we are now in a position to complete the later tranches of the proposed loans, but at slightly revised rates to better reflect the latest need.
5. Separately, a new funding requirement has also arisen for a new LGA Group company, LGA Commercial Services Ltd, to fund its investment in supporting the LGA Mutual and it seems appropriate to therefore adjust the prior proposal to also include this investment funding as part of the package of loans.
6. We require the formal loan arrangements to be set up before the LGA Group companies' year end (31 March) in order to ensure that their respective Balance Sheets in the Statutory Accounts show the correct position.

### **Borrowing Arrangements**

7. The LGA will be the funding pool manager for the group's needs; managing a borrowing pool on behalf of the group, and accounting for charges, interest and principal payments as required.
8. The LGA will borrow internal funds from its own and the IDeA's cash balances, as well as the additional external funds obtained. The external loan has been guaranteed via cross security over the Layden House property asset.
9. It is expected the pool will charge the borrowing Companies at a similar rate as per currently provided for existing loans already in place.

### Previous proposal and new proposal

10. The previous proposal approved by the respective Company Boards in December 2016, compared to the latest proposal is set out below:

<b>LGA Group Internal Lending and Borrowing</b>				
	<b>Original Proposal £ million</b>	<b>First Tranche £ million</b>	<b>New Proposal £ million</b>	<b>New Total £ million</b>
<b>Borrowing From:</b>				
LGA	4.0	4.0	2.0	6.0
IDeA	15.0	11.0	5.0	16.0
External Source	20.0	0.0	20.0	20.0
<b>Total Borrowing</b>	<b>39.0</b>	<b>15.0</b>	<b>27.0</b>	<b>42.0</b>
<b>Lending To:</b>				
LGA(P)	(16.5)	(9.0)	(11.0)	(20.0)
LGMB	(22.5)	(6.0)	(14.0)	(20.0)
LGA CS	0.0	0.0	(2.0)	(2.0)
<b>Total Lending</b>	<b>(39.0)</b>	<b>(15.0)</b>	<b>(27.0)</b>	<b>(42.0)</b>

11. Overall, the LGA and IDeA will be providing borrowing at a slightly higher level than previously proposed; LGA(P) requires higher funding while LGMB requires less funding; LGACS is a new funding request.
12. It is proposed that the Board considers, and if they deem it to be in the best interest of the Company, taking into account all relevant considerations and risks, resolve to approve the internal loan arrangements as set out above.

### Implications for Wales

13. None.

### Financial Implications

14. The internal loans will attract interest at the pool rate.

### Next steps

15. Leadership Board Members are asked to:
- 15.1. Agree that £2 million should be loaned to the internal borrowing pool, at the prevailing pool interest rate, on or around 1 January 2019; and
  - 15.2. Authorise the Deputy Chief Executive to sign the loan documentation to reflect the transaction when this has been prepared.