

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 11 JUNE 2013

Title of report	DELIVERING GROWTH AND PROSPERITY IN COALVILLE: COUNCIL LOAN OPPORTUNITIES TO SECURE ESSENTIAL UP FRONT INFRASTRUCTURE FUNDING
Key Decision	a) Financial Yes b) Community Yes
Contacts	<p>Councillor Trevor Pendleton 01509 569746 trevor.pendleton@nwleicestershire.gov.uk</p> <p>Councillor Nicholas Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Director of Services 01530 454555 steve.bambrick@nwleicestershire.gov.uk</p> <p>Head of Finance 01530 454520 ray.bowmer@nwleicestershire.gov.uk</p>
Purpose of report	<p>This report is concerned with the proposals for large scale developments around Bardon Grange which are contained within both the Council's saved Local Plan and the Submission Core Strategy approved by Council in 28th March 2013. To deliver this development significant highway infrastructure is required, and part of this may be funded through loans to the Council from the Growing Places Fund Round 32 Programme via the Leicestershire Local Enterprise Partnership (LLEP). This report follows on from the Cabinet report approved on 15th January 2013.</p> <p>The report asks members to consider two interest free loan offers (in amounts of £150,000 and £1.6m) from the Leicestershire Local Enterprise Partnership (LLEP) Growing Places Fund Round 2 programme totalling up to £1.75m over four years with the loan repayments being secured from developer contributions. It is recommended that the Council proceeds at this stage with the smaller of the two loans and agrees in principle to taking the larger loan.</p> <p>Members are also asked to consider the offer of a loan at Bank of England base rate from Leicestershire County Council for up to three years intended to cover any outstanding loan repayments to</p>

	<p>the LLEP after the four year loan period (i.e. as a contingency in the event that insufficient developer contributions are secured to repay the LLEP loans); but note that in the eventuality of such a loan becoming necessary it would be the intention of the Council to consider any other possibilities that there may be to provide such a contingency.</p> <p>Cabinet should note that, as this involves expenditure which was not included within the budget it is necessary, should Cabinet approve the recommendations, for the decision about the loans to be treated as a departure decision which it is necessary for Council to approve, and so a report will be needed to go to Council with the recommendations from Cabinet</p>
Reason for Decision	<p>The report seeks the necessary approvals from Cabinet and Council to put financial arrangements in place to progress the development of significant highway infrastructure, part of which may be funded through loans to the Council from the Growing Places Fund Round 32 Programme via the Leicestershire Local Enterprise Partnership (LLEP).</p>
Council Priorities	<p>This report links to the following Council priorities:</p> <p>Business and Jobs Value for Money</p>
Implications: Financial/Staff	<p>The initial loan will be interest free. The timing of drawing down the County Council/other provider loan will partly determine the cost to the Council as using base rate means that the interest rate will be variable. The period of outstanding debt will be affected by the profile of expenditure, the end date on the interest free loan from the Growing Places Fund and the dates when developer contributions become available to repay the County Council loan. The implications of these are outlined further in the report below. The loans can be taken on within the Council's approved borrowing limits.</p>
Link to relevant CAT	<p>Business CAT.</p>
Risk Management	<p>The purpose of the loans is to unblock development within Coalville with loan repayments being secured through developer financial contributions (Section 106 agreements and/or Community Infrastructure Levy should this be appropriate). The Council should be aware that where this approach is pursued it would need to demonstrate that its request for contributions towards the Link Road met the statutory tests in the Regulations. There is a risk that</p>

a request for a contribution could be challenged if the developer is of the view that the Link Road will not directly benefit its development.

There may be risks for loan repayment outside the Council's control as repayment is dependent on developers bringing forward development within the four (or seven) year loan periods and appropriate local housing market conditions to support housing sales.

The Council's ability to repay the loan is dependent upon developers making applications for planning permission and those applications, provided that they are within policy and where there are no material planning considerations which indicate otherwise, being approved in accordance with the legislation, with the developers entering into s106 agreements to recover the initial infrastructure cost. Otherwise the Council will have incurred a substantial debt for no good purpose.

Although the intention is to repay the LLEP loans when required and to avoid the need for the loan with the County Council, there are two key risks for the Council. Firstly, if insufficient developer contributions have been secured within four years to repay the LLEP loans then the capital will have to be repaid to the LLEP. If the Council decides to take on the £1.6 million loan and is not in a position to repay at the point it will have to borrow the money. The County Council has agreed to provide a loan in this situation, which will then be triggered, unless NWLDC access alternative funding. In any event, it is likely that the Council will be exposed to a revenue interest liability for up to three years. The extent of this financial risk cannot be accurately predicted as the interest rate (whilst it will be at Base Rate) is variable and the amount of loan is unknown. Whilst the bank rate has stood at 0.5% since March 2009, prior to that a "normal" rate of 5% was assumed by a number of Treasury Management advisors. The revenue cost to the Council if Base Rate returned to 5% would be £87,500 if the entire LLEP debt of £1.75million remained. The second risk is a need for the repayment of the loan to the County Council after the 3 year loan period should insufficient developer contributions have still not been secured. The risk is of course significantly reduced if only the first loan of £150,000 is taken out and the Council will need to give this greater consideration when it decides whether to take out the second loan

In order to mitigate risks officers are working with developers to co-ordinate development; have negotiated a four year interest free loan period with the LLEP (as opposed to a LLEP preferred three year period) and a further three year loan at base rate with the County Council as a contingency; sought Cabinet consideration to prioritise developer highway contributions (see report of 15th

	<p>January 2013); and will manage loan draw down over the life of the loans to minimise risk to the Council by only borrowing that amount which is required at any given time. This report also includes recommended 'checks and measures' to limit Council risks.</p> <p>The Council's financial risks of proceeding with the loans must also be considered against the risks of development not being unblocked and stagnating; in summary local development needs not being met; impaired local economic recovery/growth; councils' missing out on New Homes Bonuses; Core Strategy housing delivery failure in Coalville; and risk of development release in other parts of the District in order to meet housing need.</p> <p>At this stage, the greatest risk is attached to the Council's acceptance and use of the £1.6 million loan towards the Bardon Link Road project. However it is recommended that Cabinet agrees in principle to the loan but does not formally accept the loan at this stage until greater clarity on the potential use of Compulsory Purchase Order to deliver the road is available. A further report will be brought back to Cabinet at the appropriate time.</p>
<p>Equalities Impact Assessment</p> <p>Human Rights</p> <p>Transformational Government</p>	<p>In the event of insufficient loan recovery, capital repayment of loans and/or revenue costs will likely require budget adjustments with the risk that funding may have to be redirected from service areas potentially impacting on equality issues.</p> <p>Development stagnation or delay will impact on equality issues through reduced affordable housing provision; delayed local economy recovery; and medium term Council budget reductions for service delivery for budget planning reliant on securing New Homes Bonuses. Cabinet should note that the equality issues arising from a reduction on affordable housing provision were considered as part of the report to 15th January Cabinet relating to Section 106 policy in Coalville, and the position remains unchanged.</p> <p>Not applicable.</p> <p>Partnership working with the LLEP, the County Council and developers/landowners to bring forward development to meet local needs and to support economic recovery is supported by the Government's transformational agenda and approach to planning contained within the National Planning Policy Framework.</p>
<p>Comments of Head of Paid Service</p>	<p>The report is satisfactory</p>

Comments of Section 151 Officer	The report is satisfactory
Comments of Monitoring Officer	The report is satisfactory
Consultees	Leicestershire County Council, LLEP, Developers
Background papers	<p>Documents relating to planning application reference number 12/00376/OUTM, documents contained on the Council's website: http://www.nwleics.gov.uk/pages/view_planning_applications</p> <p>Saved Local Plan and Submission Core Strategy contained on the Council website: http://www.nwleics.gov.uk/pages/core_strategy</p> <p>Report to Cabinet, 15 January 2013: “Delivering Growth and Prosperity in Coalville”</p> <p>Confidential papers related to the LLEP Growing Places Fund Round 2 bids and loan offers, County Council loan offer and Coalville development sites - Estimated impacts on highway infrastructure. Exempt under Paragraph 3 of Schedule 12a of the Local Government Act 1972.</p>
Recommendations	<p>CABINET IS RECOMMENDED TO :</p> <p>A) AGREE TO ACCEPT THE LEICESTERSHIRE LOCAL ENTERPRISE PARTNERSHIP GROWING PLACES FUND ROUND 2 LOAN (GPF) FOR UP TO £150,000 TOWARDS A42, JUNCTION 13 IMPROVEMENTS;</p> <p>B) AGREE TO ACCEPT IN PRINCIPLE THE LEICESTERSHIRE LOCAL ENTERPRISE PARTNERSHIP GROWING PLACES FUND ROUND 2 LOAN (GPF) FOR UP TO £1.6 MILLION TOWARDS THE BARDON LINK ROAD BUT NOT TO TAKE UP THIS LOAN UNTIL A FURTHER REPORT CAN BE CONSIDERED BY COUNCIL CLARIFYING WHETHER A COMPULSORY PURCHASE ORDER MAY BE REQUIRED TO DELIVER THE LINK ROAD AND WHETHER THE GPF LOAN CAN BE USED FOR THAT PURPOSE ;</p> <p>IF APPROVED, THESE RECOMMENDATIONS WILL NEED TO BE TREATED AS DEPARTURE DECISIONS AND REFERRED TO COUNCIL FOR APPROVAL AS THEY ARE OUTSIDE THE APPROVED BUDGET.</p> <p>C) DELEGATE AUTHORITY TO THE HEAD OF FINANCE IN CONSULTATION WITH THE CORPORATE PORTFOLIO</p>

	<p>HOLDER TO NEGOTIATE AND ENTER INTO FORMAL LOAN ARRANGEMENTS WITH LEICESTERSHIRE LOCAL ENTERPRISE PARTNERSHIP TO DRAW DOWN THE A42 PROJECT GPF LOAN OFFER AND TO INCLUDE THE PROJECT EXPENDITURE IN THE CAPITAL PROGRAMME;</p> <p>D) AGREE TO ESTABLISH AN EARMARKED RESERVE OF £175,000 AS A CONTINGENCY FOR UP TO TWO YEARS' INTEREST CHARGES SHOULD THE LLEP LOANS NOT BE REPAYED WITHIN THE DEFINED PAYBACK PERIOD</p> <p>E) AGREE, FURTHER TO THE RECOMMENDATION IN THE 15 JANUARY 2013 CABINET REPORT TO PRIORITISE INFRASTRUCTURE PAYMENTS OVER OTHER CONTRIBUTIONS FROM S106 AGREEMENTS, SO FAR AS IS PERMISSIBLE SO THAT THOSE MONIES WILL BE RINGFENCED TO REPAY THE LOAN TO THE LLEP.</p>
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1.0 EXECUTIVE SUMMARY

- 1.1 The Leicestershire Local Enterprise Partnership (LLEP) has been allocated Government funding to support the delivery of its local economic objectives. This funding, currently £8.7m, has been offered as loan opportunities to developers and local planning authorities to help unblock stalled development to directly deliver growth and employment and to help stimulate the local economy.
- 1.2 The Council has been working in partnership with the County Council as Highway Authority, the Highways Agency and developers/landowners to try to unblock major housing and employment development in Coalville so as to commence a cycle of initial infrastructure investment, to enable some new development, leading to released developer funding to pay for more infrastructure, etc as a self-sustaining cycle. However it is clear that current economic conditions and circumstances are such that the development market is unable to secure this initial infrastructure investment and deliver the necessary programme of on-going investment without the Council's intervention.
- 1.3 The LLEP Growing Places Fund (GPFR2) is designed to assist circumstances such as in Coalville and the Council has successfully made bids, via the Director of Services acting under his delegated powers; for £1.75m for this purpose as an interest free loan over 4 years. The loans if accepted by the Council will enable investment to deliver improvements to Junction 13 of the A42 currently blocking large scale development in Coalville and to contribute to the delivery of a new Vehicular Link Road to enable the early phases of a 3,500 dwelling and 20ha plus of employment land development. The Council would recover the loan (and secure additional funding for other related infrastructure) from financial contributions from developers via legal agreements linked to planning approvals and potentially a Community Infrastructure Levy.
- 1.4 The GPFR2 loans would need to be repaid in four years and so there is a risk to the Council that unless development progresses at the anticipated rate then there could be insufficient funding to repay the loans. Officers are however confident that through careful project management, partnership working and understanding developer plans that this risk

can be mitigated so as to be a low risk. In addition the Council has secured the potential for a three year loan (at base rate) from the County Council if financial contributions fall short at the loan repayment point. Also, at this stage due to the need for greater clarity on the need for Compulsory Purchase Order (CPO) to deliver the Bardon Link Road Project, it is recommended that whilst the loan is accepted in principle, any drawing down of that loan is delayed.

- 1.5 Development benefits will include helping to meet local housing need; direct local economic support; confidence in town centre investment and regeneration; opportunities for local job creation; and addressing existing highway infrastructure deficiencies. In addition new dwellings will secure New Homes Bonuses for the Council.
- 1.6 Without the Council taking the initiative of the GPFR2 loan then large scale development in Coalville will continue to be blocked; local housing needs suppressed; the Council's Core Strategy approach to meeting development needs put under threat (and other less suitable areas potentially released for development under challenge or appeal); new job opportunities and local economic stimulus missed or delayed; and the Council missing out on higher New Homes Bonuses over the coming years. The most pressing highway infrastructure improvement that is required to unblock major developments in Coalville are the improvements to junction 13 of the A42.
- 1.7 The GPFR2 process has provided challenge to the robustness of the Council bids both in terms of need and ability to repay while the County Council are prepared to support the Council by offering an extension to the LLEP loan if required.

2.0 BACKGROUND

- 2.1 Cabinet considered a report on 15 January 2013 on 'Delivering Growth and Prosperity in Coalville' setting out in broad terms highway infrastructure requirements necessary to meet proposed Core Strategy housing to 2031, anticipated highway costs and developer funding issues. Members will recall that Cabinet resolved to prioritise developer financial contributions to meet the cost of highway infrastructure on the basis that without securing highway improvements major new development will not be able to proceed. This approach has been the subject of consultation, the outcome of which is reported as part of a separate report on this agenda.
- 2.2 Subject to Cabinet's decision on prioritising financial contributions, this approach will give the Council a basis on which to secure sufficient highway infrastructure investment from development in Coalville. However developer contributions will generally need to follow development in order for developers to secure returns from the sale of housing. Therefore where up-front developer contributions are required to enable development to commence (or progress beyond certain thresholds) there could be a block to development commencing without some form of 'pump-prime' funding. For example where highway junctions are at capacity and improvement works are required to avoid severe congestion, delays or undermine safety.
- 2.3 Such a block to development is occurring in relation to the A42 Junction 13 improvements for all major developments in and around Coalville. In addition development at Bardon Grange (initial phase), for which planning permission is granted for 800 dwellings, is limited to 600 dwellings, until a new Vehicular Link Road is constructed. Delivery of the

Link Road is likely to require a long lead in process including land acquisition and is currently a block to further phases of development at Bardon Grange.

- 2.4 An opportunity has arisen under the Leicester and Leicestershire Enterprise Partnership (LLEP) Growing Places Fund Round 2 (GPFR2) to gain funding to contribute towards the cost of delivering the A42 junction improvements and unblocking the Link Road at Bardon Grange. The funding through the GPFR2 process would be in the form of a loan, the terms of which are set out later in this report. As the infrastructure that would be required to be 'pump-primed' is highway infrastructure, it could normally be expected that possible front-loading of funding or applications for loans might usually be met by the Highways Authority. However in this case the Highways Authority is not able to commit to such funding and is not prepared to enter into a loan agreement with the LLEP due to the fact that the method of repayment would be through Section 106 funding which is in the control of the District Council as Local Planning Authority.
- 2.5 Therefore, using their delegated powers officers submitted two Expressions of Interest (EOI's), one for £150,000 towards the delivery of the A42 junction 13 improvements and one for £1.6 million towards the Bardon Link Road (i.e. a new link from the Bardon Road/Stephenson Way roundabout to the Bardon Grange development site). The EOI's were based on guidance from the LLEP, and to provide sufficient funding to progress development in order facilitate a cycle of investment and re-investment to deliver development. i.e:
- initial infrastructure provision >
 - release of development capacity >
 - development delivery >
 - properties sales >
 - release of developer contributions >
 - further phased infrastructure provision >
 - further development capacity, etc.
- 2.6 The purpose and use of the GPFR2 funding for each of the EOI's is set out in more detail in the LLEP funding application which is available as a background paper, but in summary the smaller loan will deliver the A42 junction improvements and the larger one will fund the design finalisation and initial phase(s) of the Bardon Road Link Road.
- 2.7 The importance of unblocking development was set out in the 15th January 2013 Cabinet report, summarised as enabling development to meet local housing and employment needs; stimulating the local economy; support town centre regeneration; deliver Local Plan and emerging Core Strategy housing needs; and to assist future Council (and County Council) general funding through securing New Homes Bonuses.

3.0 TERMS OF THE LOAN

- 3.1 As set out earlier in this report, officers submitted EOI's to access GPFR2 funding towards essential infrastructure in Coalville. Those EOI's have now been assessed by the LLEP and on 11 April 2013, the Council received a formal offer of GPFR2 funding for a total of up to £1.75 million.

- 3.2 As set out above, a loan or loans of this nature, providing for essential highway infrastructure, might normally expect to be entered into by the Highways Authority. In this case, as the Highways Authority has not been prepared to enter into a loan arrangement, the District Council can, as Local Planning Authority, act as a facilitating body to enable works and therefore development to commence.
- 3.3 Therefore before entering into a commitment of this nature, the Council must be satisfied that
- a) The terms of the GPFR2 loans are acceptable to the Council;
 - b) There is a reasonable prospect of the Council being able to meet the repayments within the loan period;
 - c) There is a clear understanding of the potential financial scenarios;
 - d) That there is a plan in place for repayment of the loans;
 - e) There is a clear understanding of the risks involved; and
 - f) There are well understood contractual arrangements for spending the money

These points are considered in more detail below:

The terms of the GPFR2 loan

- 3.4 The loan offers that have been made to the Council relate to two specific projects; the A42 project and the Bardon Grange Link Road project. The projects have been offered a maximum loan of £150,000 and £1.6 million respectively, the terms of the loans have been subject to negotiation, however the terms that have now been offered to the Council are set out in Table 1 below:

Table 1: Terms of GPFR2 loan offers

	A42 Project	Bardon Grange Link Road Project
Loan Value	£150,000	Up to £1.6m
Loan Period	4 years (to commence on draw down)	4 years (to commence on draw down)
Interest Rate	Interest Free	Interest Free

- 3.5 Provided members are satisfied that it would be appropriate for the Council to borrow the GPFR2 funding from the LLEP, then the terms of the loans are the most affordable way of immediately funding these essential infrastructure works and do not expose the Council to any revenue funding liability for at least 4 years. As the money is in the form of a loan it is required to be paid back.

Making repayments and Financial scenarios

- 3.6 The Council proposes that repayments to the LLEP loan will be through developer contributions, either through Section 106 contributions or, possibly in due course, through

Community Infrastructure Levy (CIL) subject to the Council resolving at some future point that it wishes to proceed with the introduction of CIL.

- 3.7 Relying on these contributions does introduce a risk into the process as Section 106/CIL contributions will be maximised where the Council is able to provide planning permission and the market is accordingly able to deliver a regular and consistent stream of development each year. In the current economic climate, even with some of the highway infrastructure funded up front by GPFR2 funding, there cannot be a guarantee that sufficient funding will be made available within the 4 year pay-back period to pay back the loan in full.
- 3.8 There is also a further risk of applying this approach through Section 106 agreements in advance of establishing a Community Infrastructure Levy (CIL). The Council is, like many authorities, still some way off deciding its position in relation to CIL. However, after 1 April 2015 the use of pooled contributions collected through S106 obligations will be limited for all authorities. For those adopting the CIL before April 2015 the restrictions will come into place on its adoption. This is consistent with the principle that the vehicle for future collection of pooled contributions for infrastructure should be CIL. The impact of this provision is that authorities will only be able to accept a maximum of five contributions towards infrastructure projects or types of infrastructure that could otherwise be funded from the CIL, this includes the highways projects dealt with in this report. In order to address this, officers have already defined a number of highway infrastructure projects, secured cost estimates from the County Council and determined potential contributions from planned development schemes. This is by its nature subject to change and adjustment. Officers will work closely with the Highways Authority to manage Section 106 receipts to ensure that no more than 5 contributions are requested for each project.
- 3.9 The Council maintains a housing trajectory as part of the Core Strategy evidence base. This is the most up to date information available to the Council. This trajectory shows that in Coalville, in the period to 2019, 1254 dwellings are expected to be completed. To date, the Council has been able to collect £5,000 per house on average from major development sites under Section 106 agreements (although this contribution includes contributions to affordable housing).
- 3.10 The resolution of Cabinet in January 2013 to see highways contributions maximised from developments in Coalville is therefore directly relevant at this point. If the related report elsewhere on this Agenda is agreed as recommended and the approach to Section 106 agreements in Coalville is amended, the amount of funding available to highways infrastructure is increased proportionately (as the amount available to affordable housing is reduced). Coupled with this Officers will seek to ensure the earliest payment of contributions to increase the opportunity for the GPFR2 loans to be repaid within the loan period.

Understanding the risks

- 3.11 From the above Members will note that officers have sought to minimise the risk of not being able to repay the LLEP loans. However, a risk remains that planning permissions are not granted; that when they are either housing completions will not be as fast as predicted here or payments are successfully challenged by developers, or delayed due to triggers after certain levels of development; or that the level of contributions which can be obtained towards highways infrastructure is not sufficient to ensure payment of the loan.

- 3.12 The Council can further mitigate these risks through the management of loan spend over this period so that loan draw downs are delayed if development does not progress at anticipated rates or through seeking alternative arrangements with developers such as agreeing different trigger points for payments of 106 funds.
- 3.13 However, it will not be possible to mitigate risk completely as the level of contributions will depend upon the buoyancy of the development market. Therefore Leicestershire County Council has recently agreed to a 'bridging loan' in the event that the Council is unable to pay back the LLEP loan at the end of the GPFR2 four year loan period.
- 3.14 Leicestershire County Council would provide such a loan to the District Council in the event that the District Council was unable to repay some or all of the LLEP Loan at the end of the 4 year period. The terms of any such loan would be as set out in Table 3 below:

Table 3: Terms of LCC bridging loans

	A42 Project	Bardon Grange Link Road Project
Loan Value	Up to £150,000	Up to £1.6m
Loan Period	3 years	3 years
Interest Rate	Bank of England base rate (variable rate)	Bank of England base rate (variable rate)

- 3.15 Members will note that the offer of a bridging loan from the County Council is not interest free and therefore should the circumstances arise where the District Council would have to consider the County Council loan, a further report to Cabinet would be necessary to assess all the options available to the Council at that time. Those options might include accessing funding through another, more affordable source or one with more favourable timing of payments.
- 3.16 However, as members will note that it is recommended to accept only in principle the larger loan of £1.6 million towards the Bardon Link Road project at this stage until greater clarity is provided on the need for Compulsory Purchase Orders (CPO) to deliver the road and the use of the GPFR2 loan to service the CPO process. Until the Council is in a position to agree the £1.6 million loan, it is unlikely that it would be necessary to call upon the County Council's offer of a bridging loan.

Spending the Money

- 3.17 As set out above, the expenditure of any loan monies will be carefully managed to minimise the financial risk to the Council. However the purpose of the loans for each project is as follows:

A42 Project

Required for: Junction improvement designs and to carry out the improvement works commissioning the County Council to carry out/commission the design works and deliver the improvements

Project Delivery Costs: Estimated by the County Council to be £100,000 with a further £50,000 to cover project management costs and provide a contingency.

Loan used for: To commission the County Council as Highways Authority to complete the design works and procure and manage delivery of works.

Contractual arrangement: The District Council will contract the County Council to complete the works under fixed cost terms following a competitive process in line with financial regulations

Bardon Link Road Project

Required for: Fees and legal costs of progressing any associated Compulsory Purchase Orders or initial pump priming and design costs

Project Delivery costs: £1.6m

Loan used for: Design costs and initial delivery phase works for the scheme

Contractual arrangement: Design costs/initial works, for which the Council will again contract the County Council to undertake this work under fixed cost terms.

Risks around the use of the loan: As part of the negotiation on the Expression of Interest, the LLEP have indicated that they would not allow the use of any of the GPFR2 loan to support CPO work.

This restriction could prove to be a major barrier in the use of the loan and may impact on the Council's ability to directly influence the early delivery of the link road. Whilst the Council may be prepared to use its CPO powers where necessary to ensure the road can be delivered, this commitment would need to be supported by the GPFR2 loan and a developer commitment to cover the Council's reasonable costs in progressing a CPO.

Therefore officers have written to the LLEP to ask them to reconsider the use of the loan to support a CPO process or alternatively to ask for a delay in the availability of the loan, upto March 2014 to allow the developer consortium at South East Coalville sufficient time to conclude their negotiations on the acquisition of land without the need for a CPO.

At this stage therefore, Cabinet is asked to endorse the principle of the Bardon Link Road project loan, but for a further report to be considered later in the year when the position with regards to the use of the loan and the potential need for a CPO is clearer.

4.0 SECTION 151 OFFICER COMMENT

- 4.1 The granting of loans by the LLEP at 0% interest shields the Council from the revenue costs of servicing this debt for a period of four years and allows time for at least part of the debt to be repaid before the interest free period expires. The guarantee of a bridging loan from the County Council with repayments linked to the receipt of developer contributions also shields the Council from the cash-flow implications of repaying the debt for a further three years.

- 4.2 The County Council loan is being offered at Bank of England Base Rate and exposes the Council to interest rate risk. Whilst this interest rate has stood at 0.5% since March 2009, prior to that a “normal” rate of 5% was assumed by a number of Treasury Management advisors. The revenue cost to the Council if Base Rate returned to 5% would be £87,500 if the entire LLEP debt of £1.75 million remained. The Council would need to find ongoing revenue budget savings to meet this new financial burden. As the report indicates above, whilst the County Council has made this offer, it would also be prudent for the Council to consider other possible options for a loan should the need arise. As there would be a lead-in time to make savings of this size it would be prudent to provide for up to two years’ costs. The Council needs to consider the impact on other service provision and delivery if it had to make these revenue budget savings which would be in addition to those already required in the Medium Term Financial Strategy.
- 4.3 Members will note from the report that at this stage officers are only recommending to accept the £150,000 loan to deliver the A42 improvement works. Officers have considered how they envisage Section 106 contributions will be collected in order to service this debt, and provided development in Coalville is permitted and proceeds as planned, the Council can be confident that the £150,000 debt can be repaid well within the required four year period.
- 4.4 To be prudent however the recommendation of the Section 151 Officer is that an earmarked reserve of £175,000 be established for servicing the total amount of the loans for two years should the Council not be able to recover the necessary section 106 contributions. This reserve can of course be reduced over time as developer contributions are received and debt is repaid and/or additional ongoing budget savings are implemented. Should the Council not proceed with the second loan of £1.6m it would have the option of reducing this earmarked reserve to £150,000 and thereby providing for repayment of the first loan in full.