MQ 17/23

Audit and Governance Committee – 11 December 2023

Written question from Cllr Clare Mosdell to the Audit and Governance Committee:

Although Audit Committee Members were told that the homes for Ukrainian refugees would be at zero cost to the Council, it would appear that a sum in excess of £800,000 has, or would be, drawn down as a loan to support and part fund this activity; is this true?

If it is true:
- Why was Audit Committee misled?
- What was the exact value of the loan?
- Was/is it to be supplied by Public Works Loan Board?
- What is the interest rate?
- How will repayments and interest be funded?

Response

On reviewing the recording of the Corporate Scrutiny Committee on 7 November 2023, I am aware that there was discussion in relation to the funding allocated to support the development of refugee accommodation.

It seems that the QPMR2 capital report commentary caused some confusion and it was interpreted to suggest that the full grant was circa £2m, which needed to be match funded to the same amount by the council, which led to the assumption that the council would therefore need to borrow circa £2m to deliver the scheme. I am told that this is not the case.

I am told that the purchase of the 9 units of accommodation to support refugees on the Island is funded as follows:

	7 units of accommodation to support Ukrainian households	***2 units of accommodation to support Afghan households***	
Local Authority Housing Fund Grant	*£518,000*	*£306,000*	
Local Authority Housing Fund Grant	*£140,000*	*£40,000*	
Homes for Ukraine Grant	*£325,000*	*£0*	
IWC Capital (Cash)		*£55,000*	
Sub Total	*£983,000*	*£401,000*	***£1,384,000***
Borrowing required	*£599,000*	*£251,000*	***£850,000***
Total	***£1,582,000***	***£652,000***	***£2,234,000***

I am told that following the meeting, this information was shared with the Chair of Corporate Scrutiny and Cllr Mosdell as a direct response to the question.

The following has been kindly provided to me by officers.

At the Corporate Scrutiny Committee, the Section 151 Officer advised that borrowing provision exists in the capital budget for schemes where viability is established, where the borrowing would not have any ongoing impact on the council's revenue account. In the case for Ukrainian and Afghan Homes, the balance required from borrowing of £850,000 (after grant funding and a £55,000 cash contribution from the Council's Capital Programme) could be undertaken without it having an impact on the ongoing revenue position of the Council.

Borrowing provision exists in the capital budget for schemes where viability is established. This means that it has been assessed that there is sufficient funding from income streams, in this case net rent, to fund the total costs of borrowing, therefore having no ongoing net impact on the council's revenue account.

The loans from the PWLB will only be drawn down at the point that this is required. To date 5 of the properties have been purchased and the expenditure incurred has been set against the grant-based funding, therefore to date no PWLB loans have actually been drawn down. In practice, borrowing from the PWLB is undertaken at a Corporate level based on need as an when the Council's overall cashflow requires. Borrowing from the PWLB is not undertaken on a project-by-project basis.

When further expenditure for the remaining properties takes place, the remainder of the grant based funding will be utilised first and then the council's overall cash flow balances will be considered and if the council has sufficient cash balances then this will be utilised in the short term instead of taking the borrowing as this is more cost effective (i.e. the cost of borrowing long term is greater than the loss of interest from using temporary surplus cash balances, this practice is known as internal borrowing). At the time external borrowing is required the appropriate rates will be determined. At current rates of c. 5.2% for 50 year borrowing and allowing for some variation in this rate it is considered that net rental income is sufficient to fund the cost of borrowing and to ensure there will be no ongoing impact on the council's revenue position.