



Committee and Date

Council

27 September 2012

Item

**19**

Public

**LOAN TO IP&E**

**Responsible Officer** Rachel Musson

e-mail: Rachel.Musson@shropshire.gov.uk Tel: (01743) 252007

**1 Summary**

- 1.1 This report seeks the approval of Council to a loan agreement between Shropshire Council and ip&e in line with the requirements of financial rules.

**2 Recommendations**

It is recommended that Members:-

- 2.1 Approve a loan of £500,000 to ip&e the terms of which will be as detailed in Section 7.

**REPORT**

**3 Risk Assessment and Opportunities Appraisal**

- 3.1 Council has recognised in previous reports the opportunities to the Council through the establishment of a new wholly owned Council company to act as an umbrella delivery vehicle for a range of new service provider solutions would.
- 3.2 Approval of the loan will allow ip&e to fund the set up costs, including specialist expertise and advice to ensure the new company structure, including legal and financial arrangements, minimises the risk of inappropriate or inefficient use of resources.
- 3.3 Agreeing the start up funding required by ip&e is provided by the Council as a loan at standard market rates, also reduces the risk of it being construed as State Aid.
- 3.4 The Council has identified and earmarked resources from the general reserve to ensure prudent accounting arrangements can be made.

## **4 Financial Implications**

- 4.1 The funding will be provided to ip&e as a loan at standard commercial market rates and will be accounted for on the Council's balance sheet as a debtor. The Council's revenue account will be compensated by the interest paid.

## **5 Background**

- 5.1 On 3 May 2012, the Council agreed the creation of NEWCO a wholly owned Council company to act as an umbrella delivery vehicle for a range of new service provider solutions. Subsequently on 6 June, Cabinet agreed the company would be named ip&e (inspiring partnerships and enterprise) and approved the initial arrangements required for the set up of the company.
- 5.2 Further to the strategic decision to create ip&e, the first wave of services transferring to ip&e are currently producing detailed business plans. These business plans will clarify the future resource requirements and revenues.
- 5.3 The transfer of services in the first wave to ip&e is planned for 1 April 2013. However, it is recognised that prior to the transfer of services, ip&e will incur set up costs. As ip&e is an essential part of the Council's transformation, it is important to ensure it is set up in line with legal requirements and in the most efficient way.
- 5.4 Options for the terms under which any start up monies could be provided to ip&e have been considered taking into account the issues around State Aid. To mitigate the risk that funding is construed as State Aid, it is recommended that any funding agreed is provided as a loan at standard market rates.

## **6 Start up Funding Requirements**

- 6.1 A start up funding requirement of £500,000 has been identified for ip&e. This figure includes the recruitment and salary costs of managerial posts identified as required for the company for the first 12 to 18 months and also allows external advice to be sought to ensure the company is established in the most efficient way. The advice will include legal, financial and personnel advice. Further detail of how the start up funding would be applied would form part of the funding agreement.

## **7 Terms of Loan agreement**

- 7.1 The following terms are recommended:
- The initial loan is up to £500,000.
  - The loan amount is based on the estimate of costs for ip&e and will be detailed in the loan agreement.
  - The loan can be advanced on 1 October 2012.
  - The loan period will be 30 months commencing from the date of any advance.
  - Repayment will be deferred for 12 months after the loan advance is made during which time interest will accrue.
  - The interest rate will be the appropriate loan rate set by the Public Works Loan Board as determined by the Council at 1 September 2012.

- Repayment will commence 12 months after the advance, for a period of 18 months.
- A repayment schedule will be attached to the agreement.
- There will be the option for a review of the terms and conditions after 12 months i.e. 1 October 2013
- At review, the possibility of an extension of the loan period by a maximum of a further 12 months can be considered.
- If at review the term is extended, the interest rate will be amended to reflect the equivalent rate at that time.

7.2 Subject to the agreement of Council, the loan agreement will be finalised by the Corporate Head of Finance and Commerce in consultation with the Leader.

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p> <p>Cabinet 2 May 2012, Council 3 May 2012 - Delivering Change, Changing Delivery A new Trading Company for Shropshire Council</p> <p>Cabinet 2 May 2012, Council 3 May 2012 – Strategic Commissioning Our Preferred Response to New Challenges</p> <p>Cabinet June 6 2012 – Arrangements for Strategic Commissioning and the Creation of a New Council Owned Company for Service Delivery</p>
<p><b>Cabinet Member (Portfolio Holder)</b> Mike Owen</p>
<p><b>Local Member</b> All</p>
<p><b>Appendices</b> None</p>