

**27 June 2018**

**Ordinary Council**

**Treasury Management Strategy 2018/19 Review**

**Report of:** *Jacqueline Van Mellaerts – Interim Chief Finance Officer*

**Wards Affected:** *All*

**This report is:** *Public*

**1. Executive Summary**

- 1.1 As part of the Council's Policy Framework, The Council must approve the Treasury Management Strategy. This report presents changes to the Treasury Management Strategy 2018/19, which was agreed at Full Council on 6 March 2018.
- 1.2 The changes are driven by recommendations approved at PPR Committee on 19 June to increase the loan drawdown facility to the Council's newly established wholly owned company Seven Arches Investments Ltd (SAIL) of up to £30m.
- 1.3 In order to provide the loan drawdown facility to SAIL, the Council will need to increase two prudential indicators included with the Treasury Management Strategy, so that the Council has the power to Borrow additional funds required.
- 1.4 The Council is required by regulations issued under the Local Government Act 2003 to have regard to *The CIPFA Prudential Code for Capital Finance in Local Authorities (2017)*. The Prudential code allows the Council to revise the indicators at any time.

**2. Recommendations**

- 2.1 To approve the changes to the Treasury Management Strategy as set out in this report, which includes the revised operational and authorised borrowing limits.**
- 2.2 To approve a total £30m loan drawdown facility (Including the £10m already approved) to Seven Arches Investments Ltd following recommendations from the Project Board, and that delegated power be given to the Chief Finance Officer in consultation with the Chair of PPR Committee and Group Leaders or their deputies to approve the use of the drawdown facility.**

### 3. Changes to Treasury Management Strategy 2018/19

- 3.1 Following recommendations from the Project Board, Policy Projects & Resources Committee on 19 June, approved to increase the lending to SAIL of up to £30m. PPR also approved capital slippage brought forward from 2017/18 totalling £5.7m.
- 3.2 With the potential to borrow and lend £30m to SAIL as well as the agreed capital slippage the revised capital program over the next three years is:

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
General Fund	40,689	5,041	380
HRA	5,972	8,331	3,250
<b>Total capital expenditure</b>	<b>46,661</b>	<b>13,372</b>	<b>3,630</b>
Financed by:			
Capital receipts	(3,815)	(2,522)	(649)
Revenue contributions	(1,982)	(5,117)	(1,211)
Government grants	(250)	(250)	(250)
S106 agreements	0	0	0
Major repairs reserve	(3,140)	(1,021)	(1,520)
Internal borrowing	(2,770)	0	0
External borrowing	(34,703)	(4,461)	0
<b>Total Financing</b>	<b>(46,661)</b>	<b>(13,372)</b>	<b>(3,630)</b>

- 3.3 This has led to an increased Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure that has not yet been funded from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The increased CFR is as follows:

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
General Fund	48,436	51,683	50,405
HRA	61,091	60,591	60,091
<b>Total CFR</b>	<b>109,526</b>	<b>112,274</b>	<b>110,496</b>
New borrowing	37,473	4,461	0
Debt repayment provision	(635)	(1,713)	(1,779)
<b>Increase/(decrease) in CFR</b>	<b>36,839</b>	<b>2,748</b>	<b>(1,779)</b>

- 3.4 The Council is required by regulations issued under the Local Government Act 2003 to have regard to *The CIPFA Prudential Code for Capital Finance in Local Authorities (2017)*.
- 3.5 The prudential Code states ‘The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. **They may be revised at any time**, following due process, and must be reviewed, and revised if appropriate, for the current year when the prudential indicators are set for the following year’
- 3.6 Following the recommendations approved at PPR Committee on 19 June 2018, The Council must approve increases to the following **two prudential indicators**. Without these increased limits being in place, the Council does not have the powers to borrow the additional funds.
- 3.7 Operational Boundary for External Debt: This is the limit beyond which external debt would not normally be expected to rise.
- 3.8 Authorised Limit for External Debt: This is the maximum level of external borrowing that the Council is permitted to hold under the Local Government Act 2003. Any borrowing above this level would be *ultra vires* (beyond the powers).
- 3.9 The proposed new Operational Boundary is the updated CFR plus an allowance of £5m to cover any short-term borrowing needs. The previous operational boundary approved at Full Council on 6<sup>th</sup> March for 2018/19 was £90,103.
- 3.10 The Council is recommended to approve the following revised Operational Boundaries:

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
CFR	109,526	112,274	110,496
Short term borrowing needs	5,000	5,000	5,000
<b>Operational boundary</b>	<b>114,526</b>	<b>117,274</b>	<b>115,496</b>

- 3.11 The proposed new Authorised Limit is the operational boundary plus £3m for any future long-term liabilities. The previous Authorised Limit for External debt approved at Full Council on the 6<sup>th</sup> March for 2018/19 was £93,103.

- 3.12 The Council is recommended to approve the following revised Authorised Limits:

	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>	<b>2020/21 Estimate £'000</b>
Operational boundary	114,526	117,274	115,496
Long term liabilities	3,000	3,000	3,000
<b>Authorised limit</b>	<b>117,526</b>	<b>120,274</b>	<b>118,496</b>

#### **4. Loan Drawdown Facility**

- 4.1 Following approval at Full Council and to comply with the requirements of the Localism Act 2011 the Council established a wholly owned company, Seven Arches Investments Ltd ("SAIL") on 12<sup>th</sup> April 2018.
- 4.2 The wholly owned company will seek to engage in a variety of commercial activities that will be asset based initially, and subject to appropriate business cases and financial sustainability could be extended into other areas such as service provision.
- 4.3 The Project Board advises on all projects relating to the Asset Development Programme, which includes projects relating to Corporate Asset Management, Property Joint Venture Partnerships and Seven Arches Investments Ltd. It will in turn be informed by the work of the Corporate Asset Management Group.
- 4.4 The Project Board has received several initial investment opportunities that have been presented by the appointed property investment advisors. From these opportunities and the recommendations of the property investment advisors it became apparent that access to a loan drawn down facility would be more commercially appropriate than tranches of loans.
- 4.5 The draw down facility allows more than one potential investment to be pursued at a time, preventing lost opportunities for relatively small amounts and allowing greater diversification. It also allows the company to operate in a more commercially competitive manner.
- 4.6 Also following recommendation from Policy, Projects & Resources Committee on 19<sup>th</sup> June 2018. Approval is therefore now being sought to set up a "loan drawdown facility" of £30m to be set aside for use by SAIL for investment purposes. This will include the £10m already approved but will give flexibility

for when future investments become available, and funds will need to be readily accessible. This will be administered by the Chief Finance Officer in consultation with the Chair of PPR and Group Leaders or their deputies.

## **5. References to Corporate Plan**

- 5.1 Good financial management underpins all priorities within the Corporate Plan.

## **6. Implications**

### **Financial Implications**

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- 6.1 The financial implications are set out in the report.

### **Legal Implications**

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- 6.2 The Council is obliged by Section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. The legal position and application of the Prudential Code are set out in the body of this report.

## **7. Background Papers**

- 7.1 Policy, Projects & Resources Committee 19<sup>th</sup> June – Asset Development Programme Update.
- 7.2 Full Council 6<sup>th</sup> March - Medium term Financial Plan 2018/19 – 2020/21

## **8. Appendices to this report**

- 8.1 None

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