

Committee(s): Ordinary Council	Date: 8 th October 2019
Subject: Extension of Loan Facility to Seven Arches Investments Limited	Wards Affected: None Specifically
Report of: Chris Leslie, Executive Director of Commercial Services	Public
Report Author/s: Name: Chris Leslie, Executive Director of Commercial Services Telephone: 01277 312500 E-mail: christopher.leslie@brentwood.gov.uk Name: Jacqueline Van Mellaerts Direct of Corporate Resources Telephone: 01277 312829 E-mail: Jacqueline.vanmellaerts@brentwood.gov.uk	For Decision

Summary

This report requests a £30m extension to the loan facility available to Seven Arches Investments Limited (SAIL). The governance arrangements and treasury management implication around this are also addressed.

Recommendations

Members are asked to:

- R1. Approve a £30m extension (total £60m) to the loan drawdown facility available to Seven Arches Investments Limited.**
- R2. Delegate authority to the Policy, Resources and Economic Development Committee to approve the use of the new total remaining drawdown facility as and when required.**
- R3. Approve the revised prudential indicators set out in paragraphs 6-9 and to update the Treasury Management Strategy accordingly.**

Main Report

Introduction and Background

1. On 27th June 2018 Ordinary Council approved a loan drawdown facility of £30m for SAIL with delegation given to the Chief Finance Officer in consultation with Group Leaders to approve its use.
2. Since the facility has been made available a total of £13.5m has been drawn down by SAIL and used to purchase two investment properties both outside of the borough.

Future Funding Objectives

3. Following a review of the Council's funding objectives in respect of SAIL it was recommended that increased focus should be on in-borough investments. In particular, the investments should look to provide an economic benefit to the area. However, out of borough investments will still be considered where appropriate, as part of the portfolio's risk management approach.
4. The remaining loan facility available to SAIL is £16.5m. Having considered appropriate in-borough opportunities, it became apparent that this remaining amount drastically restricts the Council's ability to fund investments that could make a significant contribution to the economic development of the borough. As such a further £30m extension to the facility is requested. This would provide a total remaining facility of £46.5m and assist with the Council's commercial income targets.
5. An extension to the loan facility does not guarantee its use and any drawdown needs to be approved by the Policy, Resources and Economic Development (PRED) Committee, who will assess investments on their merit. At its meeting on 11th September the PRED Committee approved a new governance process for the utilisation of the drawdown facility, which removed delegation from the Chief Finance Officer. Council is now requested to formalise this change of delegation to the PRED Committee as the body that originally delegated that power.

Treasury Management Implications

6. The increase to the loan drawdown facility will be financed by borrowing. It requires some updates to the prudential and treasury indicators agreed at Policy, Resources and Economic Development Committee on 11 September. The updates are as follows:

7. An increase in the Capital Financing Requirement (CFR), i.e. the Council's underlying borrowing need. The updated CFR for 2019/20 is as follows:

CFR 2019/20	PRED 9 Sept £000	Revised estimate £000
General Fund	26,137	26,137
HRA	62,646	62,646
Commercial activities	26,500	60,000
Total CFR	115,283	148,783

The General Fund CFR represents the financing of general fund capital expenditure in 2019/20 and 2018/19, including the works to the Town Hall and the Multi Storey Car Park. It also represents includes financing of historic general fund capital expenditure.

The HRA CFR represents the debt taken on when the Council left the former Housing Subsidy scheme in 2012, and more recent expenditure on housing acquisitions.

The previous Commercial activities CFR figure of £26.5m represents the £13.5m already drawn down (para 2) and £13m of the remaining £16.5m (para 4). It was assumed that the balance of £3.5m would be utilised in future years. The revised estimate represents the full revised drawdown facility and gives the Council the headroom to advance the total remaining facility of £46m to SAIL during 2019/20, should market conditions advancing this amount.

8. An increase in the Operational Boundary for External Debt. This is the limit beyond which external debt would not normally be expected to rise. This is calculated as the CFR plus an allowance of £5m to cover any major unforeseen cash flow needs.

Operational boundary 2019/20	PRED 9 Sept £000	Revised estimate £000
Capital Financing Requirement	115,783	148,783
Short term borrowing needs	5,000	5,000
Total	120,783	153,783

9. An increase in the Authorised Limit for External Debt, the maximum amount of external borrowing that the Council is permitted under statute to hold. This is calculated as the Operational Boundary plus an allowance of for any long-term financial liabilities other than borrowings.

Authorised limit 2019/20	PRED 9 Sept £000	Revised estimate £000
Operational boundary	120,783	153,783
Long term financial liabilities	3,000	3,000
Total	123,783	156,783

10. The following paragraphs provide working definitions of the above three terms:

Term	Definition
Capital Financing Requirement (CFR)	What the Council estimates could be its total borrowing for historic and current capital expenditure.
Operational Boundary for External Debt	An early warning limit on borrowing including the CFR and estimated cashflow needs.
Authorised Limit for External Debt	The borrowing limit the Council must not exceed.

The Council's Borrowings Position

11. The Council currently has long-term borrowings of £61.166m and short-term borrowings (i.e. duration of less than one year) of £12m. These are shown on the following tables:

Long-Term Borrowings

HRA/GF	Counterparty	Start date	Maturity date	Amount borrowed (£000)	Interest rate
HRA	PWLB	28/03/2012	28/03/2022	5,000	2.40%
HRA	PWLB	28/03/2012	28/03/2027	10,000	3.01%
HRA	PWLB	28/03/2012	28/03/2032	15,000	3.30%
HRA	PWLB	28/03/2012	28/03/2037	15,000	3.44%
HRA	PWLB	28/03/2012	28/03/2042	14,166	3.50%
GF	PWLB	30/04/1995	30/04/2055	800	8.88%
GF	PWLB	24/04/1995	24/02/2055	800	8.88%
GF	PWLB	08/01/2003	08/01/2028	400	4.88%
			Total	61,166	
			Average interest rate		3.42%

Short-Term Borrowings

HRA/GF	Counterparty	Start date	Maturity date	Amount borrowed (£000)	Interest rate
GF	LB Ealing	04/02/2019	04/11/2019	4,000	1.02%
GF	Western Isles Council	01/03/2019	28/02/2020	3,000	1.10%
GF	Lichfield DC	30/07/2019	29/07/2020	2,000	0.93%
GF	South Northants DC	30/07/2019	29/07/2020	1,000	0.95%
GF	LB Redbridge	30/08/2019	28/02/2020	2,000	0.75%
			Total	12,000	
			Average interest rate		0.97%

Joint Venture

12. It should be noted that the £60m facility approved by Extraordinary Council on 30th July 2019 in relation to the activities of the joint venture is a **separate** facility to this. The treasury management implications of the joint venture facility will be addressed in the 2020/21 treasury management strategy.

Reasons for Recommendation

13. Council approval is required to make changes to the treasury management strategy and delegate its powers.

References to Corporate Plan

14. This fits with the Council's Economic Development vision and its Transformation vision, to explore new income generating ideas and opportunities.

Implications

Financial Implications

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15. The additional loan facility will assist the Council to achieve its commercial income targets. However, funding of investment properties carries a degree of risk.
16. The treasury management implications are outlined in the report. The Treasury Management Strategy will need to be updated to reflect the required changes to the prudential indicators. The entire Strategy will be brought back to Full Council in March as part of the Budget setting cycle.
17. On 11th September 2019, Policy, Resources and Economic development Committee was updated with the Council's long and short term borrowings as at 31st July for 2019/20. This has been included in the report above.
18. The Council has not yet entered into further Long term Borrowing activity since the approval of the original loan drawdown facility to SAIL of £30m. Officers are currently utilising the low interest rates that are available and managing Cash Flows on a short term basis.
19. Officers are in discussions with our Treasury Management Advisors and are looking to review our borrowing options and implement a longer term strategy.

Legal Implications

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20. The Council has power under s1(1) of the Localism Act 2011 to do anything which individuals may do provided it is not prohibited by legislation and subject to public law principles ('the general power of competence'). Further statutory powers exist to create and invest in SAIL and s1 of the Local Government Act 2003 permits the Council to borrow and lend. The recommendations set out in this report are in accordance with decisions previously taken by Council for establishing and implementing the business.

21. Members should be mindful of their fiduciary duty to ratepayers, when approving the next stage of investment. Local authorities have a fiduciary duty to act prudently with public monies entrusted to them and must establish that it has been given due and proper consideration in accordance with the normal public law principles.
22. The ongoing procurement activity relating to SAIL must continue to remain compliant with EU procurement law and appropriate legal advice taken on an ongoing basis.
23. Providing the additional funding required will require an additional loan agreement to be put in place for the Council to deploy funding into SAIL. Such agreement will need to reflect any conditions attached to the original funding source. It is recommended that these terms are agreed and included in any financial modelling ahead of the Council releasing further funding to SAIL and in a form approved by Legal Services.
24. The Council will have a requirement to meet its repayment terms to its own lenders, irrespective of the performance of the Council's lending to SAIL. The risks to the Council, as lender, are minimised by the terms of the loan agreements, the Council's oversight of the running of SAIL as its sole shareholder and governance measures implemented through the shareholder reserved matters.

Economic Implications

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25. An increase in loan facility has the potential to increase investment in the borough and promote economic growth.

Appendices to this report

26. None