



Report To: Council
Lead Officer: Executive Director (Corporate Services)

26 November 2015

BORROWING AND INVESTMENT STRATEGY

Purpose

1. To report on the proposed amendment to the Council's Borrowing and Investment Strategy.

Recommendations

2. It is recommended that Council:
 - approve an amendment to the Council's Borrowing and Investment Strategy to include additional Council capital expenditure and borrowing of £100 million for on-lending to Ermine Street Housing with effect from December 2015
 - approve an amendment to the Council's Borrowing and Investment Strategy for the minimum revenue provision to include a fixed and floating charge over or an equity share of an asset of value as a full or partial proxy for the provision.
3. It is recommended that Council amends Cabinet's recommendation to reflect the expansion of the housing company portfolio over a six year period 2015/16 to 2020/21, as set out in option C of the Cabinet report and as clarified in paragraph 6 below.

Reasons for Recommendations

4. A business case for Ermine Street Housing was reported to Cabinet, 12 November 2015, demonstrating the financial viability of the company with an expanding portfolio of property investment.
5. The business case proposes that the property investment is funded by a series of loans from the Council providing interest income to the General Fund, with the first drawdown of funds in 2015-16 and being an addition to the previously agreed loan of £7 million.
6. The report to Cabinet, 12 November 2015, recommended for approval the expansion of the Ermine Street Housing portfolio over a five year period from 2016-17 to 2020-21, however the business plan is predicated on expansion beginning in 2015-16. The Business Plan accompanying the report was also approved by Cabinet and allows for increased activity to commence immediately following approval from full Council. For clarity it is therefore recommended that Council approve the sum of £6.486 million to be made available to Ermine Street Housing from December 2015 to March 2016 to allow immediate business opportunities to be acted upon.

7. The Council's capital expenditure programme would be increased to cover the proposed loan, being funded through borrowing from the Public Works Loans Board for on-lending. The Ermine Street business case proposes an initial five year loan.
8. As part of the loan agreement the Council would register a fixed and floating charge over the company's assets to secure the Council interest in the investment, or alternately an equity share interest in an asset with value.

Background

9. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:
 - a) increases in interest charges caused by increased borrowing to finance additional capital expenditure,
 - b) any increases in running costs from new capital projects, or
 - c) the loss of interest on balances or reserves arising from their use in financing the capital expenditure,

are limited to a level which is affordable within the projected income of the council for the foreseeable future.

Considerations

10. Council agreed to a housing company pilot scheme, 28 November 2013, including the advance of up to £7 million funding to secure an initial portfolio of properties for rental. Trading by the new company Ermine Street Housing began on 1 April 2014 and the first year accounts have been audited and filed with Companies House.
11. The Council has, to date, funded £6.9 million asset investments giving the Council an expected interest return of £226,070 to support General Fund services.
12. Where a local authority borrows and on-lends to a wholly owned subsidiary such on-lending must be recognised as capital expenditure and, as such, the authority is required to make a minimum revenue provision or set aside for the repayment of debt, which itself becomes a charge on the General Fund.
13. A fixed and floating charge over assets purchased by Ermine Street Housing, or alternately an equity share interest in such assets is considered to be a reasonable proxy for the minimum revenue provision, removing or minimising the charge to the General Fund.

Implications

14. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

Legal

15. Under both the Local Government Act 2003 and Localism Act 2011, the power to trade must be exercised through a company in order to generate a source of income. The legislation (the Local Authorities (Best Value Authorities) (Power to Trade) (England) Order 2009) permits councils to trade or 'to do for a commercial purpose', anything which they are authorised to do for the purpose of carrying on their ordinary functions (which include the well-being power and the power of general competence). This means councils can trade with the private sector for a profit and these profits may then go back to the Council through dividends or service charges.

Financial

16. The five year fixed rate interest charged to Ermine Street Housing would include an up-lift above the cost of the Public Works Loans Board charge providing a return on investment to the Councils General Fund.

Risk Management

17. The proposed loan will be secured by registering a fixed and floating charge over Ermine Street Housing assets, or alternately an equity share interest in an asset with value.

Consultation responses (including from the Youth Council)

18. Consultation was not deemed necessary in this case.

Effect on Strategic Aims

19. This report has no direct implications for any of the Strategic Aims but any increase in interest received (commensurate with risk) may reduce the need for cuts in individual services and assist in the achievement of actions to support those aims.

Background Papers

Business case for Ermine Street Housing – Cabinet report, 12 November 2015
Borrowing and Investment Strategy – Council report, 26 February 2015

Report Author: Sally Smart – Principal Accountant
Telephone: (01954) 713076