

COUNCIL	AGENDA ITEM No. 13(b)
8 OCTOBER 2014	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor David Seaton, Cabinet Member for Resources	
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UPDATE TO THE TREASURY MANAGEMENT STRATEGY

R E C O M M E N D A T I O N S	
FROM : Councillor David Seaton, Cabinet Member for Resources	
Council approves the updates to the Council's Treasury Management Strategy, providing the changes to approach to Minimum Revenue Provision statement to allow the Council to invest in Housing Associations and other bodies.	

1. ORIGIN OF REPORT

- 1.1 This decision is brought to Council by the Cabinet Member for Resources following consultation with Cabinet and senior council officers regarding options for investing in Housing Associations.
- 1.2 It will be necessary to retain two of the papers relating to an Executive Decision as exempt annexes because they contains information on the heads of terms agreed with Axiom Housing, as well as the legal advice relating to those arrangements. These exempt annexes are NOT FOR PUBLICATION by reason of paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972. The public interest test has been applied to the exempt information and it is considered that the need to retain the information as exempt at this stage outweighs the public interest in disclosing it. This is because the information is considered to be commercially confidential, as to disclose may compromise the Councils ability to benefit from similar arrangements in the future.

2. PURPOSE AND REASON FOR REPORT

- 2.1 This report seeks the approval of the Council for an amendment to the Treasury Management Strategy, enabling an executive decision to be brought forward to allow the Council to invest directly into Axiom Housing, to further support the provision of housing in the area.

3. TIMESCALE (If this is not a Major Policy item, answer **NO** and delete second line of boxes).

Is this a Major Policy Item/Statutory Plan?	No	If Yes, date for relevant Cabinet Meeting	
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- 3.1 This is not a major policy decision. This decision comes to Council as the Treasury Management Strategy does not allow the accounting treatment that would enable the Council to make such a loan. Council is the decision making body for any decisions affecting this strategy.
- 3.2 In order to provide clarity, Council is only being asked to make the decisions relating to the amendment to the Treasury Management Strategy. Many of the decisions referred to in this report are Executive Decisions, which by law can only be exercised by the Leader or those

persons to whom he delegates his powers. The draft decision regarding the investment in Axiom Housing is included to provide context for this decision.

4. BACKGROUND

4.1 The Council has a long history of helping to support economic growth and support the development of new homes within the City. This has included provision and support for provision of social housing within the area, including through its Housing Strategy.

4.2 The Council has used its financial covenant to support this approach where it can. For example it has invested £2m within Lloyds as part of the Local Authority Mortgage scheme (LAMS). As well as the Council receiving a return on the investment, the scheme has also helped nearly 70 first time buyers move into their first home since inception. The scheme was a model for the national help to buy scheme. In order to proceed with LAMS, the Council needed to amend its Housing Strategy. This was a decision for Full Council, whilst the scheme itself was an executive decision.

4.3 The Council has continued to review options for further supporting the development of housing. This has included discussions with Axiom Housing regarding investing directly into the Association. The Council would become one of the Association's lenders, providing finance for them to invest in housing provision. This approach provides two major benefits:

- Axiom can deliver more housing due to being able to secure lower cost finance through the Council
- The Council receives a return that it can use to help protect services

4.4 A number of Councils have proceeded with similar arrangements, including Warrington and East Lindsey.

4.5 As outlined above, the actual loan facility is an executive decision, and a draft CMDN is attached at Appendix 2. For the Executive to consider this, an amendment to the Treasury Management Strategy is needed. This is outlined in more detail in the next section.

5. Treasury Management Strategy

5.1 The Treasury Management Strategy (TMS) is approved as part of the Councils Medium Term Financial Strategy. It outlines the Councils approach to investment, borrowing and how it should account for borrowing that supports Capital Expenditure.

5.2 Within the Council's accounts, the investment with Axiom will be treated as Capital Expenditure. Within the definition of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (the "Regulations") section 25 states that expenditure of a local authority will be treated as capital expenditure if:

‘the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure’

Therefore, as the loan to Axiom will be used for the provision of housing, the Council will need to class the loan as Capital Expenditure.

5.3 The TMS includes the Minimum Revenue Provision Policy. When the Council borrows money to finance capital expenditure, this outlines how much provision the Council needs to make towards repayments. Even if a loan is only repaid at the end of the term, Councils would typically make provision over the life of the asset. It is similar to a depreciation charge, but focuses on the financing of the asset.

5.4 The Council has flexibility to determine the approach followed. Currently all approaches in the Policy statement mean the Council makes some provision each year. This makes

sense when the Council is investing in assets that will be used each year e.g. schools. In the case of the investment in Housing Associations or other bodies by the way of a secured loan, the Council does not need to make provision, as the loan will be repaid in full at the end of the term. Indeed to make provision would not match the profile of the loan, and would mean the Council incurs cost unnecessarily.

- 5.5 As such it is proposed to amend the Minimum Revenue Provision Policy statement within the TMS to allow such provision to align to the terms of the loan. As such para 3.3 of the TMS will be updated as follows, and a new para 3.4 will be added (the wording in italics is new):

3.3 The Council is recommended to approve the following MRP statement:

Capital Expenditure Incurred	MRP Methodology
Historic debt liability and expenditure funded by supported borrowing	Continue to be charged at the rate of 4% in accordance with existing practice outlined in former CLG regulations
Expenditure funded by unsupported borrowing reflected within the debt liability after the 31 st March 2008 and up to 31 st March 2009	Asset Life Method, equal instalments - MRP will be based on the estimated life of assets equally across each year
Expenditure funded by unsupported borrowing reflected within the debt liability after the 31 st March 2010	Asset Life Method, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project.
<i>Expenditure investing in third parties via a loan which is fully secured and where repayment is in bullet form.</i>	<i>The Council considers the repayment of the loan negates the need for an amount of MRP to be charged each year as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security</i>

- 3.4 *The Council intends to make secured loans to third parties. These loans are only made after the Council's formal decision making process has been followed, which includes formal approval by the Head of Strategic Finance. As part of the formal decision to grant the loan the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment.*

A fully updated version of the TMS is attached as Appendix 1.

- 5.6 Provided that the Axiom arrangement is approved and proves successful, then the Council could consider whether it can use its financial covenant to invest elsewhere to generate a return. Any such proposals would follow the Council's decision making process, as outlined in the TMS update in 5.5 above.
- 5.7 No other areas of the TMS are affected. As the arrangement is treated as capital expenditure, rather than a treasury loan, none of the elements relating to investment in counterparties are affected.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no immediate financial implications from the amendments to the Treasury Management Strategy. The financial implications arising from the Cabinet Member Decisions are outlined within that decision notice.
- 6.2 If the Council were to consider any other options for external investment, then the full financial implications would be included in any report or decision notice. It is thought likely that any such proposals would be key decisions.

5. LEGAL IMPLICATIONS

- 5.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 places a duty on the Council to make an amount of MRP which it considers prudent. It is considered prudent that the repayment of the loan (as the loan will have security over the housing stock of Axiom) will negate the need of an amount of MRP to be charged as reliance can be placed on the capital receipt that will be generated when the loan is repaid, or in the event of default, on the sale of the housing stock over which the Council has security.

6. CONSULTATION

- 6.1 Consultation has been held with Cabinet Members and the Leader of the Council.

7. ANTICIPATED OUTCOMES

- 7.1 Approval of this report's recommendations by Council will allow the Executive Decision for a loan to Axiom Housing to be considered. It will also enable the Council to consider further options for investment of this nature.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 Do nothing – the Council would not receive a return on its investment, and Axiom would potentially have to pay higher rates in the market, reducing their ability to invest in housing

9. BACKGROUND DOCUMENTS

Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/251994/2008.pdf