Policy Committee – 6th June 2017

Loan To Craven College for Four Years

Report of the Strategic Manager – Financial Services (s151 Officer)

Lead Member – Finance: Councillor Mulligan

Ward(s) affected: All

1. Purpose of Report

1.1 To seek member approval to enter into a commercial loan arrangement with Craven College to provide £400,000 of loan funding towards the development of their Animal Management Centre.

2. Recommendations

2.1 Members approve the Four Year loan funding of £400,000 to Craven College.

2.2 Members approve the supplementary estimate of £400,000 to the Council's capital programme, to be funded from internal cash resources.

2.4 Members delegate authority to the Solicitor to The Council & monitoring Officer and Strategic Manager – Financial Services (s151 Officer) to enter into the necessary arrangements with Craven College for the Loan Terms

2.3 Members approve the proposed change to the Council's Minimum Revenue Provision (MRP) policy to allow for the subsequent debt liability to be written down as the loan is repaid.

3. Background Information

3.1 Craven College is in the process of undertaking a project for the provision of a new Animal Management Centre on the Aireville Campus which is scheduled for completion for use in January 2018. This presents a significant opportunity for the College to upgrade the estate and reduce operating costs whilst improving the learner experience across a wide range of existing and new students and remain attractive to future cohorts of students. A planning application was submitted in December 2016 and approved by Planning Committee on 8 May.

3.2 The total cost of the development is £1.6m. The College made a successful project funding submission to the York, North Yorkshire and East Riding (YNYER) Local Enterprise Partnership (LEP) in May 2015 and the LEP is providing a 50% grant of £800k and the College will put £400k of its own cash reserves into the build but is looking to finance the remaining £400k through loan financing.

3.3 A meeting was held with the Leader of the Council, Chief Executive, Strategic Manager – Financial Services (s151 Officer) in the presence of the Monitoring Officer, to agree that the s151 Officer should submit a funding proposal to the College, and if successful a report would be presented to Policy Committee to approve the proposal.

3.4 The College Board met on 18 May 2017 to consider the funding proposals and the Council was notified on 19 May 2017 that the College wished to accept the funding proposal subject to Craven DC member approval.

4. <u>The Report</u>

4.1 Officers in discussion with Colleagues from Craven College were made aware in February that part of the Colleges future expansion and development plans was the building of an Animal Management Centre.

4.2 The Head of Finance from the College then approached the Council's s151 Officer to see if Craven DC would be interested in providing a loan to the College for 4 years as part of the funding package that they were in the process of securing.

4.3 Advice was sought from the Council's Treasury Management Advisors – Capita Treasury Services to ascertain that the Council could enter into such an arrangement.

4.4 Capita confirmed that: loan to a third party, Regulation 25(1)(b) of SI 2003 No 3146 confirms that the following may be treated as being capital expenditure:- "*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".*

4.5 This provides the accounting ability to treat any loan/financial assistance as capital. Such capital expenditure increases the Capital Financing Requirement (CFR) of the Council. The loan can be financed from our borrowing, but it then gives rise to an annual MRP liability which through an amendment to the annual MRP strategy can be written down when the loan is repaid. An amended MRP Policy is attached at appendix A.

4.6 Before the loan submission was made officers have considered the powers under which the Council can undertake this transaction. The offer was made under the Localism Act 2011 and Economic Development opportunities through the Council's priorities.

4.7 The Council received the funding proposal documentation request from the

College just before Easter with a response date of 28 April. The process was an open tender and the College also approached financial institutions.

4.8 Both the Council and Craven College are mindful that this loan facility must comply with State Aid Regulations and that the Council Tax Payers of Craven are being recompensed for the “risk” that they are taking. Capita have advised on the State Aid limits, which start at 1%.

4.9 The Council submitted proposal at a commercial rate for the Loan taking into account that risk factors can add a further 5% to 10% to the interest rate. The college provided information on its finances and due diligence was done on this information to assess the risks.

4.10 This project provides an opportunity for the Council to work with the college to facilitate the provision of a new educational facility.

5. Implications

5.1 Financial and Value for Money Implications

5.1.1 All financial implications are contained in the body of the report. The Council has had to consider “State Aid” implications and the interest rate chargeable for the loan is above these limits.

5.1.2 The College’s preferred repayment of the loan is monthly over the four years and the repayment schedule has been worked out accordingly.

5.1.3 It is proposed to utilise the Council’s existing cash resources for the loan, however, should there be a requirement to borrow before the end of the 4 year term, then this cost can be accommodated within the interest rate charged.

5.2 Legal implications

The Council is able to use the following powers to make the advance:
A council also has a general power to borrow and to make loans under the General Power of Competence in Section 1 of the Localism Act 2011. This power is not to be relied upon as a specific power to lend or invest but rather to supplement Section 12 of the Local Government Act 2003 or Section 24 of the Local Government Act 1988 when investing or lending.

The loan will require a formal loan agreement to be drafted and an allowance has been made in the submission to the college to cover the costs involved with this work.

5.3 Contribution to Council Priorities

Enterprising Craven, through assiting the college to fund its business expansion plans to provide education and training facilities for its students. Resilient Communities, through assisting the College to provide facilities to

assist students in their goals of achieving employment.
Financial resilience, through enabling the Council's cash reserves to generate income through interest charged.

5.4 **Risk Management**

Default on the loan is a possibility, but given the Colleges Financial standing it is extremely unlikely. However, security is sought for the loan in the form of an asset.

That interest rates may rise above the level of that charged on the loan over its four year life. Interest rate forecasts indicate that investment rates available from financial institutions will remain at current levels for at least twelve months and are unlikely to rise above 1.25% before 2020.

5.5 **Equality Impact Assessment**

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

6. Consultations with Others

Leader of the Council

7. Access to Information : Background Documents

Finance proposal request from Craven College.

8. Author of the Report

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9. Appendices

Appendix A – Minimum Revenue Provision Policy 2017/18 - Updated

APPENDIX A

Revised Minimum Revenue Provision Policy Statement 2017/18

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the MRP policy will follow the existing practice outlined in former CLG regulations – that is, providing an approximate 4% reduction in the borrowing need (CFR) per year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be to make a provision based on the estimated life of the assets, in accordance with the regulations. If, in the future, any expenditure is capitalised under a government direction this method will also be applied.

Loans to third parties funded from borrowing will give generally give rise to an annual MRP requirement. The MRP liability arising from these types of transaction will be extinguished through earmarking the receipt of the loan when it is repaid and using this receipt to reduce the CFR and any associated debt liability of the Council.