

Cheltenham Borough Council
Council – 14 October 2019

Treasury Strategy Statement & Capital Strategy 2019/20
Updated October 2019

Accountable member	Cabinet Member for Finance, Councillor Rowena Hay
Accountable officer	Executive Director Finance and Assets (Section 151 Officer), Paul Jones
Accountable scrutiny committee	Treasury Management Panel
Ward(s) affected	All
Significant Decision	Yes
Executive summary	<p>The 2019/20 Treasury Strategy Statement and Capital Strategy was approved by Full Council in March 2019. Since that date, the Council wish to invest and lend funds to new ventures which were not part of the approved Treasury Strategy.</p> <p>In addition, Cheltenham Borough Homes are currently pursuing a wide range of opportunities to deliver additional affordable housing within the Housing Revenue Account (HRA). Financial rules specify that the Section 151 Officer is responsible for ensuring that a capital programme is prepared on at least an annual basis for approval by Full Council.</p>
Recommendations	<p>That Council considers and approves the following:</p> <ol style="list-style-type: none">1. The updated Treasury Management Strategy Statement 2019/20 as shown at Appendix 2 to include £10m equity funding to Cheltenham Borough Homes and £75k investment through Folk2Folk for a peer to peer lending scheme.2. The Authority entering into an equity funding agreement with Cheltenham Borough Homes.3. The authorised borrowing limit and operational boundary limit are increased to the new levels as shown in Appendix 3 – table 7.4. Approve the revised HRA capital programme for 2019/20 to 2021/22 as shown at Appendix 4.

Financial implications	The financial implications are detailed within the report and appendices 2 – 4. Contact officer: Andrew Sherbourne, andrew.sherbourne@publicagroup.uk, 01242 264337
Legal implications	The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) requires the authority to approve a Treasury Management Strategy before the start of each financial year and to keep it updated throughout the year. The report at Appendix 2 fulfils the authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. Contact officer: Shirin Wotherspoon shirin.wotherspoon@tewkesbury.gov.uk 01684 272696
HR implications (including learning and organisational development)	None arising directly from this report. Contact officer: Julie McCarthy, julie.mccarthy@publicagroup.uk, 01242 264355
Key risks	As noted in Appendix 1.
Corporate and community plan Implications	The purpose of the strategy is to improve corporate governance, a key objective for the Council.
Environmental and climate change implications	None arising directly from this report.

1. Background

- 1.1 Local authorities in England are legally obliged to “have regard” to the CIPFA Treasury Management Code and the Prudential Code by relevant Capital Finance Regulations.
- 1.2 Local authority investment decisions have made headlines over the past year with the financial press questioning the role of local authorities investing in property and assets as a means to generate income to compensate for the reduction in government funding. Investing in property and other assets, such as Housing, is nothing new for Cheltenham Borough Council whom has historically held major assets such as housing and commercial property for some time now. In recent years however the emphasis on using these assets to generate a commercial yield has become much greater and this has involved some councils investing in property outside of its area.
- 1.3 However, the Cabinet believes the longer term approach to finding efficiencies to close the funding gap is fundamentally through economic growth and investment and the efficient utilisation of our assets; linking our Place and Commercial Strategies to ‘Invest in Cheltenham, for Cheltenham’. This has seen a place focused investment approach offering long term investment, income through rents as well as other social and financial benefits.

2. Folk2Folk

- 2.1 Cheltenham Borough Council has the opportunity to become the first council to lend via the award winning local business to business lender FOLK2FOLK, to help local small to medium size enterprises with straightforward access to finance to support their business growth. FOLK2FOLK matches local businesses looking for finance to grow, with investors looking to receive a return on their investment. By becoming a FOLK2FOLK lender, the council will be able to invest money locally whilst also benefitting local businesses.
- 2.2 More than £300 million of investor funds have been injected, via the Folk2Folk platform, into local businesses across a variety of sectors, including agriculture, alternative energy, leisure and tourism, hospitality and property development. There is often a flow-on of benefits to the wider community resulting from local investment. Usually this takes the form of job creation, retention of local talent and the shoring up of local supply chains, but it may also attract visitors to the area, increase house prices and result in improvements to local facilities and services; all of which contribute to the sustainability of healthy local economies which are essential for Britain's future success.
- 2.3 The Cabinet wish to provide investment of up to £75,000 with FOLK2FOLK a body which matches the council with local businesses or commercial enterprises within a 5-mile radius of the borough of Cheltenham. Interest rate returns of between 4.5% and up to 9% per annum can be achieved, but the aim is to help the businesses to start, grow or diversify, buy an asset or boost working capital. In return for investment, security against the asset will be provided.
- 2.4 If proposed investments are to be made other than on market terms, there will be state aid considerations about which advice will be sought from One Legal before making the investment.

3. Cheltenham Borough Homes

- 3.1 As agreed by Full Council in October 2018, Cheltenham Borough Homes (CBH) is looking to borrow from the Council up to £100m drawn down over the next 10 years.
- 3.2 Initial financial modelling of the Private Rented Sector (PRS) Initiative was carried out using a range of assumptions covering the potential cost of development/acquisitions, operating costs, achievable rent levels and loan support from the Council. These were compared through several output measures including operating surplus/deficit, net present value, net rental yield and impact on cash-flow.
- 3.3 Following further legal advice on state aid issues it became clear that loan support from the Council needed to be restricted to 90% of acquisition costs and 75% of development costs. Officers from both the Council and CBH, working with their legal advisors, have recommended an innovative solution whereby the balance of required funding is provided by the Council through equity investment in the form of an unsecured loan note. Specialist legal advice has been received that the proposed equity funding agreement constitutes "Financial Assistance" for the purposes of Section 24 of the Local Government Act 1988 and more specifically "Loan Capital" for the purposes of Section 24 (2)(d). The Council is permitted to provide this financial assistance under General Consent C of the general consent issued under section 25 of the Local Government Act 1988 for financial assistance to any person 2010.
- 3.4 The proposed terms for the Equity Funding Agreement are as follows:
 - Investment to be made in tranches accompanying loan advances as required.
 - Return on investment to be calculated as 5% of turnover (after voids), equivalent to initial 2.5% p.a. This will rise marginally each year in line with rent increases.
 - Repayment of investment triggered by disposal of property – CBC to receive premium on repayment, calculated as 25% of capital gain.
 - Option to refinance through loan in the future should the capital appreciation of the property be sufficient to keep total loan below 90% of value.
- 3.5 This is a new venture in a competitive market, and it is essential that early results are closely

monitored to ensure that acquisitions are meeting targets set in the investment template. The cash flow position will determine the pace of investment and this will be reviewed regularly to inform annual investment plans.

4. Housing Revenue Account - New Supply 2019/20 to 2022/23

4.1 The current HRA capital programme for 2019/20 and projections for 2020/21 and 2021/22 were approved by Council on 18th February 2019. These included the following budgets for new supply:

- 2019/20 £7,631,000
- 2020/21 £6,423,000
- 2021/22 £3,096,000

4.2 As outlined in the report those estimates were only based on schemes that were currently in progress. The report also confirmed that additional schemes would be brought forward during the period as new sites were identified. Contingency sums for market acquisitions and the purchase of new affordable units provided through Section 106 planning agreements were included in the overall budgets.

4.3 Following the removal of the HRA debt cap last year it was anticipated that the Council would be able to significantly increase the scale of new build subject to the identification of appropriate sites and financial viability.

4.4 Cheltenham Borough Homes are currently pursuing a wide range of opportunities to deliver additional affordable housing within the HRA. These include.

- Further development of Council owned sites
- Acquisition of land for development
- Acquisition and refurbishment of market properties
- Purchase of Section 106 units from developers
- Regeneration of existing sites

4.5 As a result of progress to date it is now recommended that Council approve a significant increase in new supply budgets as follows: -

- 2019/20 £8,700,000
- 2020/21 £20,000,000
- 2021/22 £30,000,000
- 2022/23 £25,000,000

4.6 It is anticipated that this investment could provide up to 500 new homes, but the timing of delivery will be dependent on issues such as the success of competitive bids, negotiating deals, obtaining planning approvals and the availability of Homes England grant.

4.7 All schemes will be assessed for financial viability to ensure there is a long term positive return for the HRA and be subject to appropriate approval as required. The budgets will be reassessed annually as part of the normal budget cycle.

4.8 This exciting programme will be complemented by the imminent start of the CBH private rented initiative which is being supported by Council finance.

5. Reasons for recommendations

5.1 As outlined in the report.

6. Consultation and feedback

- 6.1 The updated Treasury Management Strategy Statement and Capital Strategy have been recommended for approval by the Treasury Management Panel at its meeting on 23rd September 2019 to Council.

7. Performance management – monitoring and review

- 7.1 The Treasury Management Panel meet regularly in order to monitor the performance of investments which need to be matched with performance against the corporate strategy action plan to ensure that resources are used to best effect and prioritised.
- 7.2 In addition, treasury management activity and performance is reported quarterly to Cabinet as part of the budget monitoring report which is scrutinised by the Budget Scrutiny Working Group.

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Appendices	Appendix 1 – Risk Assessment Appendix 2 – Updated Treasury Management Strategy Statement 2019-20 Appendix 3 – Updated Capital Strategy 2019-20 Appendix 4 – HRA Capital Programme
Background information	Section 15(1)(a) of the Local Government Act 2003 Cheltenham Borough Council Treasury Management Practices

Risk Assessment

Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If the assumptions made within the strategies change, then the aspirations within the capital programme may become unaffordable.	ED Finance & Assets Paul Jones	13 th March 2019	3	2	6	Accept	The Treasury Management Strategy and Prudential and Treasury Indicators reflect various assumptions of future interest rate movements and Government support for capital expenditure. These will be continually monitored and any necessary amendments will be made in accordance with the Strategy		ED Finance & Assets Paul Jones	
	If the assumptions made within the strategies change, then the projected returns and the return of the initial investments may not be received.	ED Finance & Assets Paul Jones	13 th March 2019	3	2	6	Accept	The Treasury Management Strategy and Prudential and Treasury Indicators reflect various assumptions of future interest rate movements and Government support for capital expenditure. These will be continually monitored and any necessary amendments will be made in accordance with the Strategy		ED Finance & Assets Paul Jones	

	If thorough due diligence is not undertaken when pursuing PRS schemes, the Council may not meet all of the criteria set out within its capital and investment strategies.	ED Finance & Assets Paul Jones	10th October 2019	4	2	8		Due diligence is of paramount importance. All of our investments have individual business cases that are subject to thorough risk assessment and stress testing and we also stress test the whole housing to ensure all risks are captured and properly controlled. Where appropriate to the size and scale of the project we also commission independent technical, legal, accounting, risk management, property, taxation advice		ED Finance & Assets Paul Jones	
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