

NORTHUMBERLAND

Northumberland County Council

AUDIT COMMITTEE

24 JANUARY 2018

ARCH BORROWING

Report of Alison Elsdon, Director of Finance

Cabinet Member: Councillor Nicholas Oliver – Portfolio Holder for Corporate Services

Purpose of Report

Following a request for information from the Audit Committee at the December 2017 meeting this report summarises the current annual financial impact for the Council of the cumulative value of the loan advances to Arch to the end of December 2017.

Recommendations

It is recommended that Members note the contents of the report.

Link to Corporate Plan

This report supports the “We want to be efficient, open and work for everyone” priority included in the proposed NCC Corporate Plan 2017-21, due to be approved by Council in February 2018.

Key issues

The analysis contained within this report is based on the value of loan advances to Arch by the Council to the end of December 2017.

It is important to note that the Council does not borrow specifically for individual loans to Arch; borrowing is undertaken to fund the global Council capital programme which also includes loans to Arch. The analysis in this report is therefore based on the Council’s **average external borrowing rate**.

The current net annual cost to the Council of loan advances given to Arch based on the information to the end of December 2017 is £592,158.21. However, it is important to note that this will change as loans are replaced and new borrowing occurs.

ARCH BORROWING ANALYSIS

1. Introduction

- 1.1. The Council provides Arch, its wholly owned subsidiary, with financing for capital projects via loan advances.
- 1.2. The analysis contained within this report highlights the cumulative value of loan advances to Arch from the Council to the end of December 2017, and the estimated annual revenue impact of these loan advances for the Council based on the information to the end of December 2017.

2. Current Position

- 2.1. In total the cumulative value of loan advances to Arch from the Council is £269.2 million to the end of December 2017. A schedule of individual loan advances, detailing the dates of each advance, the scheme and the interest rate charged by the Council is available should the Committee wish to scrutinise this.
- 2.2. The following table summarises the estimated annual net revenue impact for the Council of the Arch borrowing to the end of December 2017;

	Position at the end of December 2017
Outstanding Loans to Arch	£269,162,821.07
Weighted average interest rate on these loans (see 2.3)	5.09%
Annual interest due to the Council on Arch borrowing	£13,700,387.59
Weighted average rate of Council external borrowing (see 2.4)	2.81%
Notional Cost to Council of advances to Arch	£7,563,475.27
Net benefit to the Council (before Minimum Revenue Provision)	£6,136,912.32
Less Minimum Revenue Provision (MRP) (see 2.6)	£6,729,070.53
Annual Net Revenue Impact - Cost to the Council at the end of December 2017	£592,158.21

2.3. For the purpose of calculating the current annual net revenue impact for the Council the weighted average interest rate of all advances to Arch, from the Council, to the end of December 2017 has been used. It should be noted that this rate will change in future as additional loan advances are made to Arch with varying values and interest rates. A list of all individual loan advances is available showing the respective interest rates charged for each loan is available for scrutiny if required. The rate of interest charged for each category of loan advance is shown below;

- Arch Development 2.50 %
- Arch Housing 4.00 %
- Arch Commercial 5.75 %
- Executive Housing 4.50 %
- Cashflow 1.00 %

Within each of these categories there are instances where individual loan rates have been agreed.

2.4. The interest rate paid by the Council shown in the table is the weighted average interest rate of all external borrowing. It should be noted that this rate will change as loans mature and are replaced with new borrowing at a different interest rate. The rate of interest paid by the Council on its current loan portfolio ranges between 0.49% and 13.50%.

2.5. It is important to note that the Council does not borrow specifically for individual loans to Arch, borrowing is undertaken to fund the global Council capital programme which also includes loans given to Arch.

2.6. The Council is required to pay off an element of its accumulated General Fund capital spend each year (the Capital Financing Requirement) through a revenue charge. This is done via the minimum revenue provision (MRP). For capital expenditure incurred before 1 April 2008 the Council provides 4 per cent (MRP). For capital expenditure incurred after 1 April 2008 the Council provides MRP on an asset life basis. For the Arch loans this is 40 years or 2.5 per cent.

2.7. The implications referred to in 2.3 and 2.4 will change the Annual Net Revenue impact. However, the table shows the net revenue impact as at 31 December 2017.

Implications

Policy	n/a
Finance and value for money	The financial implications have been taken into account within the revenue budget for 2018-19 and Medium Term Financial Plan 2018-22.
Legal	The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (which were adopted by Northumberland County Council in February 2010).
Procurement	There are no direct procurement implications for the County Council.
Human Resources	There are no direct staffing implications for the County Council.
Property	There are no direct property implications for the County Council.
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	Not applicable for the County Council.
Risk Assessment	The report highlights the principal financial implications.
Crime & Disorder	There are no Crime and Disorder implications for the County Council.
Customer Consideration	There are no Customer Considerations for the County Council.
Carbon reduction	None.
Wards	All divisions.

Background Papers:

N/A

Report sign off:

	Name
Finance Officer	Alison Elsdon
Monitoring Officer/Legal	Liam Henry
Human Resources	Not applicable
Procurement	Not applicable
I.T.	Not applicable
Chief Executive	Daljit Lally
Portfolio Holder(s)	Nick Oliver

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