

REFERENCE FROM CABINET – 13 OCTOBER 2020

CAPITAL PROGRAMME SECOND REVIEW 2020/2021 (INCLUDING TREASURY MANAGEMENT)

Report of the Assistant Director of Law and Governance

1. Purpose of the Report

- 1.1 To seek the views of this Committee on an extract from a report of the Executive Director of Corporate Services considered by Cabinet on 13 October 2020 which detailed:
- the outcome of the Second Capital Review for 2020/2021;
 - progress in implementing the Treasury Management Borrowing and Investment Strategy for 2020/2021; and
 - an amendment to the Treasury Management Lending List and Criteria to be recommended to Council.
- 1.2 Members' views are requested in accordance with the Budget and Policy Framework Procedure Rules.

2. Background and Current Position

- 2.1 In accordance with the Council's Budget and Policy Framework Council Approval is required for changes to the Lending List and Criteria. The following extract refers to those changes:-

“Revisions to Lending List and Criteria

As part of the annual budget setting process each March, Council approves the Lending List and Criteria that will be used when making investments. The Criteria approved at its meeting on 4 March 2020 is copied below for reference (Treasury Management Policy Statement, Appendix 6):

1.2.2 The general policy objective for the Council in considering potential investments is the prudent investment of its treasury balances.

- *the Council's investment priorities in order of importance are:*
 - 1) The security of its capital*
 - 2) The liquidity of its investments and then*
 - 3) The Council aims to achieve the optimum yield on its investments, but this is commensurate with the proper levels of security and liquidity*

- *the Council has a detailed Lending List and criteria must be observed when placing funds – these are determined using expert treasury management advice, view of money market conditions and using detailed rating agency information as well as using our own market intelligence.*
- *Limits are also placed on the amounts that can be invested with individual and grouped financial institutions based on the Lending List and detailed criteria which is regularly reviewed.*

The Council has been approached by EPNE, which is the group brand for Sunderland College, Northumberland College and Hartlepool Sixth Form College. The College has set out a business plan that demonstrates a sustainable financial future and conforms with the requirements of its funding body, the Education and Skills Funding Agency (ESFA) in the medium-term through to July 2022.

Whilst the business plan demonstrates a sustainable position each year, the cyclical nature of the ESFA funding payments means that it forecasts the need for an overdraft facility each spring. Until 2020, EPNE has been able to secure this facility from its bank. EPNE has explained that this is simply a reflection of their bank's view of the Further Education sector as a whole, rather than the group itself.

As set out above, the Council's key criteria is the security of its capital. Unfortunately, EPNE are not able to provide any security, based on the assets that it holds, due to existing lenders holding charges on the group's assets for existing loan facilities.

In response to this, EPNE has provided detailed financial forecasts to support the request for a short-term working capital/overdraft facility. The request is as follows:

- An unsecured facility of up to £2m for the period January – May 2021; and
- An unsecured facility of up to £1m for the period January – May 2022.

The financial forecasts demonstrate that EPNE would be able to repay the facility in full by the end of May each year based on its current assumptions, notably the profile of the ESFA funding payments. This is consistent with the annual profile of payments and the repayment of the overdrafts by EPNE in previous years.

The proposed change to the Lending List and Criteria is a departure from the approach adopted by the Council for its wider investments, but this reflects the major role that the group, through Sunderland College, plays in the City. However, the additional risk exposure being taken on by the Council through the provision of an unsecured facility must be acknowledged as the Council would have limited recourse if the facility was not repaid in line with the agreed timescales.

To mitigate this risk, if the change to the Lending List is agreed, it is proposed that any loan advances made to the College are via instalments and subject to individual monthly drawdown requests which will include:

- An assessment undertaken by the Executive Director of Corporate Services each month of the latest financial position of EPNE, including actual student numbers compared to the business plan and a detailed cashflow forecast. This will reconfirm that the business plan assumptions still stand, thereby reducing the security risk for the Council. If the financial position of EPNE has deteriorated, further advances will be withheld by the Council;
- A monthly payment based on the cashflow required for that month rather than the full value of the facility (£2m in 2021 and £1m in 2022). This will limit the cash exposure, therefore will reduce the liquidity risk for the Council; and
- An assessment of the latest external assessments, such as any ESFA analysis and the External Auditor opinion on the financial statements.

Whilst the Council's Lending Criteria has yield as a lower priority after security and liquidity, the Executive Director of Corporate Services will agree a suitable interest rate at the time of the cash advance. This rate will be based on EPNE's previous overdraft facility, taking into account the latest treasury management position at the time of the advance.

As a consequence, taking into account the key strategic role of EPNE within the city, the key mitigations as set out in paragraph 6.7 above and the reasonable level of yield to be received by the Council, it is considered that the provision of the proposed loan facility to EPNE can be justified in this case."

- 2.2 Copies of the 13 October, Cabinet Agenda were made available to all Members of the Council. The Cabinet agreed, in relation to the Treasury Management Strategy, to endorse the proposed amendment to the Lending List and Criteria (as set out in the extract in paragraph 2.1) and recommend to Council that the proposed change is approved at its November 2020 meeting.

3. Conclusion

- 3.1 The matter at 2.1 is referred to this Committee for advice and consideration. The comments from the Scrutiny Co-ordinating Committee will be reported to Cabinet on 17 November and then Council on 18 November 2020.

4. Recommendation

- 4.1 The Scrutiny Co-ordinating Committee is invited to give advice and consideration on the issue set out in the above extract.

5. Background Papers

- 5.1 Cabinet Agenda, 13 October 2020.
- 5.2 A copy of the Agenda is available for inspection from the Assistant Director of Law and Governance or can be viewed on-line at:-

<https://www.sunderland.gov.uk/committees/cm5/Meetings/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/10355/Committee/1953/Default.aspx>

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