

North East Derbyshire District Council

Council

5 September 2016

Treasury Management Strategy

**Report of Councillor P R Kerry, Portfolio Holder with Responsibility for Economy,
Finance and Regeneration**

Purpose of the Report

- For Council to approve undertaking General Fund Borrowing of up to £2.421m to progress work at Stonebroom (£0.650m) and at Dronfield (£1.771m) on the basis that such borrowing meets the requirements of the Prudential Code.
- On the basis the Council approves the Prudential Borrowing to update the Treasury Management Strategy to ensure that this borrowing is reflected in the Authorised Borrowing Limit, the Operational Boundary and the Capital Financing Requirements.
- To agree that the recommended schemes at Stonebroom and Dronfield are included within the Council's Approved Capital Programme.
- To update the Council's Capital Financing Requirement to reflect the outturn position for 2015/16.

1. Report Details

- 1.1 The Council has a long standing commitment to promote economic growth and to work with partners to ensure that Housing needs within the District are addressed. The Council pursues this objective through its partnership with Rykneld Homes, by working with the private sector, by releasing land holdings where appropriate and by direct investment to facilitate schemes. In order to address our housing priorities Cabinet has approved two schemes which can only be undertaken on the basis that the Council agrees to enter into Prudential Borrowing to fund the work concerned.

Development off Carlyle Road, Stonebroom

- 1.2 The first of the two schemes concerns a housing development of 30 housing units at a site off Carlyle Road, Stonebroom. Of the 30 units, 24 will be purchased by Futures Housing a Registered Social Landlord with funding support from the Homes and Communities Agency. The final six properties on the development would be constructed for Rykneld Homes Limited on the basis that Rykneld Homes would then sell these properties on the open market. The purchase of the six houses concerned would be at a cost of £0.650m, which would be repaid from the proceeds of the sale, with the anticipated surplus to be reinvested into the Council's housing stock. While negotiations are well advanced between Rykneld Homes and the private Sector Developer concerned, further details need to be clarified before the

position can be finalised. A business plan is in place which on the basis of current information demonstrates that the project is viable. That Business Plan will continue to be monitored and updated for any changes in construction or other costs, and for any change in anticipated house prices. Rykneld Homes will only enter into a contractual commitment on the basis that the Business Plan – as updated – continues to demonstrate that a positive return will be generated from the scheme.

- 1.3 A commitment from Rykneld Homes Limited will help ensure the overall viability of the project which includes the provision of 24 affordable houses and provides a long term solution to an under utilised garage site. As outlined, prudential borrowing of £0.650m would be necessary to progress this scheme with the borrowing being repaid once the properties are sold. It is currently anticipated that there will be maximum loan period of two year between payment being made to the Developer and the sale of the final property. Further details are available in a report approved by Cabinet at its meeting of 29th June 2016.

Manor Farm, Dronfield

- 1.4 The Manor Farm site which consists of a former area housing office and adjacent land has been underutilised for several years since the office was closed. The delay in developing the site has largely arisen because the site was bequeathed to the former Dronfield RDC in 1949 on the basis that the land would be utilised for social housing. Rykneld Homes have explored on several occasions options for securing social housing on this site, which would have fully met the requirements of the covenant. Given that the building currently on site will be difficult and expensive to convert into housing due to the requirement to protect its historical features, together with the location of the site in a conservation area it has not proved possible to identify a viable social housing scheme. In reality social housing rental streams are insufficient to cover the high costs of converting the existing building, or the cost of high quality new development which is consistent with the character of the conservation area.
- 1.5 Further work by Rykneld Homes – including a design competition – has identified a viable scheme based upon a private for sale housing development, which will generate a sufficient financial return to invest in social housing elsewhere in the Dronfield area. The Council will thereby be operating within the spirit of the covenant under which the land was bequeathed and will take other appropriate steps to ensure that any risk from breaching the covenant is minimised. Given that the site is showing some signs of deterioration and is increasingly the subject of anti social behaviour, it is crucial that a long term solution is put in place at the earliest opportunity. The scheme that has been identified will provide ten units of high quality housing for sale, will provide a high quality long term solution to a central site in one of the main towns in the District and will protect and enhance the existing Conservation area. On the basis of the current Business Plan the scheme will generate a surplus of £0.350m which as outlined earlier will be reinvested in social housing in the Dronfield area. In order to progress this scheme the development costs will need to be funded from Prudential Borrowing, until the houses concerned are sold. Prudential Borrowing of up to £1.771m will be necessary to progress the scheme with an anticipated period of two years between the start on site and the sale of the final property.

Prudential Borrowing

- 1.6 In considering whether or not to agree that the schemes outlined in this report should proceed Council needs to take its decision in the light of the CIPFA Prudential Code for Capital Finance. While decisions to undertake borrowing to fund investment are a decision of the local authority concerned, in making a decision to incur borrowing the Council must satisfy itself that such borrowing is prudent, affordable and sustainable. That is to say that the additional revenue income or cost reduction arising from the investment must be sufficient to cover the cost of the borrowing over the period of the loan. In the normal course of events prudential borrowing is judged by its impact upon the revenue streams of the Council.
- 1.7 The projects that are being considered for approval by Council in this report are slightly different in that the intention is to generate a capital sum which will suffice to repay the borrowing and associated interest costs. In arriving at the recommendation that the Council should support these proposals Council Officers and our Strategic Housing Partner Rykneld Homes have relied on the fact that there is a robust Business Case in place which supports the view that both schemes should cover their costs and generate a financial surplus. Officers will continue to manage the risks that have been identified and will ensure that the schemes only proceed on the basis that any updated information informs the Business Plan, with the Business Plan continuing to demonstrate that a surplus will be generated. Progress against these Business Plans will be monitored by both Cabinet and by the Rykneld Homes Board.
- 1.8 While it is anticipated that the schemes concerned will generate sufficient income to repay both the loan and the associated interest cost - with a financial surplus achieve by both schemes – Council should note that the generation of a financial surplus is not the prime consideration in recommending these schemes. Both schemes will help progress the economic, social and environment well being of the District as set out in sections 1.2 to 1.5 (above). Given the extent of the benefit which will arise to local residents from progressing both schemes it is considered worth accepting the risks that inevitably accompany any development proposals. The reports to Cabinet set out in greater detail how these risks would be mitigated.
- 1.9 In agreeing to enter into the General Fund prudential borrowing as set out within this report Council should note that the borrowing limits previously agreed will need to be amended to reflect this proposed new borrowing. The position agreed in the Treasury Management Strategy approved by Council as at February 2016 is set out in the table below. By revising the Capital Financing Requirement Council is in effect approving that officers may enter into further borrowing on behalf of the Council. In addition to increasing the Capital Financing Requirement by the cost of the work at Stonebroom and Dronfield it is also necessary to increase both the Operational Boundary and the Authorised Limit for borrowing by a corresponding amount. As part of the Treasury Management Strategy agreed by Council at its meeting in February 2016 these limits were to exceed the Capital Financing Requirement by £5m and £10m respectively.

	2016/17	2017/18	2018/19
	£000's	£000's	£000's
Capital Financing Requirement 1 st April (previously approved)	173,509	169,633	166,461
Adjustment to reflect 2015/16 outturn	(6,107)	(5,406)	(7,633)
Add Prudential Borrowing costs arising from housing schemes at Stonebroom and Dronfield	605	2,421	0
Capital Financing Requirement 31 st March (year end)	168,007	166,648	158,828
Operational Boundary as at 31 st March (year End)	173,007	171,648	163,828
Authorised Limit as at 31 st March (year end)	178,007	176,648	168,828

2 Conclusions and Reasons for Recommendation

- 2.1 The Council has a range of priorities – as set out in its Corporate Plan – which it seeks to deliver for local residents. While the two schemes proposed within this report will make their major contribution to addressing housing need within the District, they will also facilitate economic growth, whilst improving the environment in the areas concerned. In order to secure these benefits the Council will require to undertake a total of £2.421m of prudential borrowing. Both schemes will be delivered on the Council's behalf by Rykneld Homes our strategic housing partner.
- 2.2 While progressing these schemes requires that the Council undertake additional short term borrowing of £2.421m Officers are satisfied that both schemes – which are supported by robust Business Plans – meet the requirements of the Prudential Code that Council borrowing be prudent, sustainable and affordable. Officers will continue to monitor and actively manage both schemes to ensure that they progress in line with the Business Plan. Council should note in particular that both schemes are subject to final due diligence work before contractual commitments are entered into and officers will only commit to either scheme on the basis that the further work that is undertaken does not identify any areas of concern.
- 2.3 On the basis that Council agrees to the recommendations contained within this report it will be necessary to amend the borrowing limits previously agreed within the Treasury Management Strategy at Council on February 2016. Likewise these schemes will need to be included within the Council's Approved Capital Programme.

3 Consultation and Equality Impact

- 3.1 Appropriate consultation on both schemes recommended within the report will be undertaken. Such consultation will primarily be achieved through the Planning process.

4 Alternative Options and Reasons for Rejection

- 4.1 Given the limited financial resources available to the Council it would not be possible to progress these schemes without utilising prudential borrowing. Other options at the scheme level were considered in more detail in the reports approved by Cabinet.

Implications

5 Finance and Risk Implications

- 5.1 The financial implications are set out within the main body of the report. In terms of managing financial and other risks Officers from both the Council and Rykneld Homes are continuing to ensure that effective management arrangements are in place and that we continue to work to a robust and up to date business plan. In a worst case scenario where the loan was fully utilised and no income received then interest costs would amount to £80,000 p.a.
- 5.2 While there are clearly risks associated in delivering both these schemes, these need to be considered against the benefits that the scheme will deliver. Given the current financial framework within which local government operates it is essential for all local authorities to deliver economic growth in order to be able to achieve financial sustainability. The two schemes outlined within this report deliver in total 40 housing units which will benefit the Council both by increased council tax income and additional new homes bonus. When considering financial risk Council also needs to take into account the risk that failure to progress the recommended schemes would lead to a reduction in the Council's underlying revenue income from both Council Tax and New Homes Bonus.

6 Legal Implications including Data Protection

- 6.1 These are covered where appropriate in the main body of the report. There are no Data Protection issues arising directly from the report.

7 Human Resources Implications

- 7.1 There are no HR issues arising directly from the report.

8 Recommendations

- 8.1 That Council approves the undertaking of Prudential Borrowing of £1.771m to progress the scheme at Manor Farm, Dronfield, with a further amount of £0.650m to progress the scheme off Carlyle Road Stonebroom.
- 8.2 That Council approves both the schemes as outlined within this report for inclusion into the Approved Capital Programme
- 8.3 That Council approves the new Capital Financing Requirement, Operational Boundary and Authorised Limit as set out in section 1.9 of this report.

9 Decision Information

Is the decision a Key Decision? (A Key Decision is an executive decision which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
Is the Decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
District Wards Affected	Stonebroom, Dronfield
Links to Corporate Plan priorities or Policy Framework	Growth, Meeting Housing Need.

10 Document Information

Appendix No	Title
N/A	
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
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