

URGENT DECISION BY CHIEF EXECUTIVE

Decision Relating to: Extending Council Authorised Limit for External Debt

Date of Urgent Decision: 24 June 2016

Reason for Urgency: Refer to report below.

Urgent Cabinet decision taken by Chief Executive in response to the above matter in accordance with Standing Order 58 of the Council's Procedure Rules.

Prior to exercising Standing Order 58 the Chief Executive has delegated the process of consultation to Chris Ward and he has taken account of the views of:

Leader of the Council: Cllr Donna Jones

Leader of the Opposition: Cllr Gerald Vernon-Jackson

Chair of Governance and Audit and Standards Committee: Cllr Ian Lyon

and is satisfied that it is necessary to invoke Standing Order 58 in the interests of the efficient administration of the Council's services to exercise any of the powers of the Council .

Signed Chief Executive:
David Williams

Note: All such decisions shall be reported to Cabinet at the next meeting.

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| To | David Williams | Chief Executive |
| cc | Stewart Agland | Local Democracy Manager |
| From | Chris Ward | Director of Finance and IS (S151 Officer) |
| Date | 24th June 2016 | |

Background

- 1.1. This report seeks approval to increase the borrowing limit by £50m from an Authorised Limit for External Debt of £567.849m to a revised Authorised Limit of £617.849m. **(Note increase in the Authorised Borrowing limit approved by the City Council in March 2016 from 2015/16 and 2016/17 was £69.263m)**
- 1.2. The Chief Executive requests that delegated authority be given to the Director of Finance and IS (S151 Officer) to approve the revised Authorised Limit for External Debt of £617.849m
- 1.3. Borrowing decisions are delegated to the Director of Finance & IS (S151 Officer) within the Authorised Limit approved by the City Council each year. This report seeks the approval to increase that Authorised Limit for External Debt. The actual decision to borrow will only be taken by the Director of Finance & IS (S151 Officer) after a thorough financial evaluation and proper appraisal of risk.
- 1.4. Public Works Loans Board (PWLB) rates (i.e. borrowing rates) have fallen to exceptionally low levels following the uncertainty arising from the E.U Referendum result. It is unclear how long this level of uncertainty will remain and therefore how long borrowing rates will remain at such depressed levels.
- 1.5. The Council has an approved Capital Programme which is predicated on requiring an overall Authorised Limit for External Debt of £567.849m. The Council however, has a strategy to pursue more entrepreneurial activities as a mechanism to generate income and therefore avoid cuts to public services throughout this austerity period.
- 1.6. Opportunities currently exist which have yet to be approved but will likely require additional levels of borrowing. This includes the extension of the Council's Property Investment Portfolio, future development at Dunsbury Hill Farm and the creation of Arms Length Organisations for other Employment Space and Housing Development opportunities.

2. Risks

- 2.1. That interest rates fall further and there is the opportunity cost of not securing the lowest rate possible.
- 2.2. That, in the event that the borrowing is undertaken, that the Capital Investment from which any return may be made does not take place in the short term and that in the interim period, the Council invests those funds but that investment rates remain low for a prolonged period of time resulting in a "cost of carry" (i.e. net cost to the Council) causing a budgetary pressure.
- 2.3. In the interim period between borrowing funds and then investing those funds into new Capital Investment to make a return, funds will be invested with approved counterparties in accordance with the Council's risk framework.

There is a risk that any investment with a counterparty could default (known as "credit risk"). This is mitigated through such actions as limiting investments to those with strong credit ratings as well as maintaining sectoral and geographical limits. It is unlikely that a default would result in a complete loss of the sum invested.

3. Reason for Urgency

- 3.1. It is unclear whether rates will continue at these low levels and if so for how long in the future. Interest rates may also rise in the future from current levels. This represents an opportunity to "lock into" historically low interest rates.
- 3.2. Borrowing decisions are long-term decisions and low interest rates will secure low cost finance for the Council for typically 25 years and over.

4. Consultation

- 4.1. The Director of Finance and IS on behalf of the Chief Executive has consulted and obtained the support of:

Leader of the Council: Cllr Donna Jones

Leader of the Opposition: Cllr Gerald Vernon-Jackson

Chair of Governance and
Audit and Standards: Cllr Ian Lyon

5. Approval request

- 5.1. The Director of Finance and IS (S151 Officer) be authorised to increase the Authorised Limit for External Debt of £567.849m to a revised Authorised Limit of £617.849m.