

Subject:	Treasury Management	Status:	For Publication
Report to:	Cabinet	Date:	Cabinet 14 th September 2016 Council 28 th September 2016
Report of:	Head of Finance	Portfolio Holder:	Resources & Performance
Key Decision:	<input checked="" type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	General Exception <input type="checkbox"/>	Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required:	No	Attached: No
Biodiversity Impact Assessment	Required:	No	Attached: No
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1.	RECOMMENDATION(S)
1.1	That Cabinet recommend to Full Council to re-mortgage the Rosendale Transport Limited's Haslingden Depot at a rate equivalent to PWLB's 15 year fixed rate plus 1%.
1.2	That Cabinet recommends to Full Council to repay the outstanding finance lease with Alliance Leisure on behalf of Rossendale Leisure Trust.
1.3	That Cabinet recommends to Full Council the transfer of Rossendale Transport Limited's Local Government Pension fund to Council, subject to the Head of Finance confirming the final values, the financial advantages to Rossendale Transport and a maintaining a neutral position for Council. The final decision being delegated to the Head of Finance in consultation with the Portfolio Holder for Resources and Performance.

2. PURPOSE OF REPORT

- 2.1 The purpose of the report is to seek approval in using the Council's cash reserves to support more efficiently and effectively two of the Council's key partners (Rossendale Transport Limited and Rossendale Leisure Trust)

3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **Regenerating Rossendale:** This priority focuses on regeneration in its broadest sense, so it means supporting communities that get on well together, attracting sustainable investment, promoting Rossendale, as well as working as an enabler to promote the physical regeneration of Rossendale.
 - **Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
 - **Clean Green Rossendale:** This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition.

4. RISK ASSESSMENT IMPLICATIONS

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:

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- Maximising the value of the Councils resources in order to efficiently and effectively mitigate cost to partners of the cost of Council guarantees.
- The Council is already formal guarantor for a loan taken out by Rossendale Leisure to Alliance leisure – the proposal will eliminate that guarantee.
- In relation to Rossendale Transport, Council funding will be secured on the company's assets.

5. BACKGROUND AND OPTIONS

5.1 Rossendale Transport Limited (“Rosso”) and the Haslingden Depot Mortgage

- a. Rosso's is a 100% owned subsidiary of the Council. Rosso's number one priority over the medium term is to achieve financial sustainability. Despite forecasting a revenue profit over the medium term current capital repayments in excess of depreciation charges are not producing the equivalent growth in cash balances. Forecast cash balances and 2015 / 2016 actuals being:

i. March 2015	£431,885	(plus RBC loan balance £Nil)
ii. March 2016	£56,400	(plus RBC loan balance £Nil)
iii. March 2017	£133,088	(plus RBC loan balance £150k = -ve £17k)
iv. March 2018	£94,468	(plus RBC loan balance £150k = -ve £-56k)

- b. Rosso currently has a mortgage with CR Financial Solutions Ltd (recently acquired from The Co-Operative Bank). The current amount outstanding, which is in two parts fixed and variable and the applicable rates are noted below.
- c. The value of the Depot has recently been evaluated (June 2016) by the Council's Estate's Office at £2.150m.
- d. The Council is currently achieving an interest rate of c. 0.5% with medium to long term prospects of any significant increase in rates being unlikely and with an expectation of a reduction in the short term following the Bank of England's base rate cut (August 2016). The current PWLB 15 year fixed borrowing rate being 1.2%. The proposal is to charge Rosso a 1% premium on the current PWLB fixed borrowing rates. This rate reflects the security of equity available within the assets to be charged.
- e. The current mortgage is due for repayment by September 2023 but is at the expense of a c. £180k per annum cash drain within Rosso.
- f. The plan is to refinance the mortgage over a 15 year period using Council resources and to secure a fixed charge over the company's property portfolio and any other available assets in order to secure the Council's interest.
- g. The rationale behind the proposal is simply to reduce the annual cash drain on Rossendale Transport and to use the saving towards the sustainability of the company. The net cash impact is as follows:

	Fixed	Variable	Total
Balance as at June 2016	815,584	299,130	1,114,713
Redemption Value (it not as above)	815,584	299,130	1,114,713
Interest rate	6.313%	1.750%	
Date of final payment	Sep-23	Sep-23	
No of monthly payment remaining	87	87	
Capital Repayments (pa)	112,494	41,259	153,754
Average Interest remaining (pa)	25,744	2,617	28,361
Net cash out going			182,115
Remortgage over 15 years with Council			
Interest rate fixed (PWLB + 1%)	2.20%		
Capital Repayments (pa)	74,314		74,314
Average Interest remaining (pa)	12,262		12,262
Net cash out going			86,576
Net annual cash saving to Rosso			95,539

- h. The actual cash outflow from Rosso is neutral between the current arrangements and the proposal in relation to the capital repayments with a saving on interest payments 3*
- i. The current Haslingden site is one of a number of industrial units on the Knowsley Road Industrial Park, all of which are fully occupied at the time of writing.
- j. Given the current valuations the mortgage is equivalent to 52% of the current value
- k. Compared to the current investment returns achieve by Council the above interest gain is c £9.5k in excess of current investment returns to Council.

5.2 Rossendale Leisure Trust (RLT) and the Alliance Leisure finance lease

- a. Rossendale Council is the guarantor of a finance lease with Alliance Leisure, currently liable for £1.092m as at June 2016.
- b. The original finance was taken in March 2009 in order to extend the Haslingden Sports Centre (the Adrenaline Centre) and to purchase gym equipment. The Gym equipment has subsequently been replaced and has separate finance.
- c. The total repayments at the start of the finance lease were £2.3m including an interest rate of 5.75%.
- d. The current annual cost to RLT is £152k (plus vat non-recoverable c £27k)
- e. As a result of the building extension and as part of the Councils 5 year revaluation cycle the buildings value to Council was increased by £1.2m in 2010 albeit the most recent

valuation review in March 2016 valued the extension at £1.1m

- f. The proposal is to:
- i. Repay the Alliance Leisure Loan
 - ii. Recharge the Trust a fixed annual rental charge for 15 years (£60k pa)
 - iii. Cancel the annual grant to the Trust of £95k pa (albeit pro rata for 2016/17)
- g. The financial impact on both parties over the 15 years is as follows:

	Year	1	2 - 15
Capital Investment			
Refinancing		1,064	
RBC Revenue Impact			
MRP (capital Repayment)	15yrs	71	71
Average Int foregone	3%	16	16
Grant saving		(95)	(95)
Rental Income		(60)	(60)
(Net Saving)		(68)	(68)
RLT Revenue Impact			
Lease payments (ex VAT costs)		(152)	(152)
RLT Grant foregone		95	95
Rent payment		60	60
(saving) re total VAT costs		(7)	(7)
(Net Saving) / cost		(4)	(4)

- h. The Board of RLT have been given the challenge of becoming self-financing within 3 years allowing the Council to end its annual funding support of £95k per annum. The above immediately allows RLT to be financially self-sufficient with the Council seeing the ending of the grant support within one year albeit an on-going net gain of £68k compared to the £95k goal.

5.3 Rosendale Transport Limited (“Rosso”) Local Government Pension Scheme (LGPS) deficit

- a. When Rosso was established as a separate legal entity in 1985 the LGPS was closed to new members shortly after its formation as a limited company. Rosso currently has a LGPS deficit in its balance sheet of £1.24m (as per 31/03/16) with less than a handful of active members currently employed by Rosso. The current deficit has significantly reduced from the previous year when it was valued at £1.70m.
- b. The deficit recovery period at 2013 was 7 years compared to the Council’s then 19 year recovery, the difference being the early anticipated retirement of remaining Rosso staff.
- c. The 7 year recovery period has resulted in an annual cost currently of £145700 (+ an annual 4% increase) with 4 years remaining.
- d. Given that the Council is a guarantor for the Rosso deficit the proposal is to:
 - i. Transfer the whole pensions deficit to Council
 - ii. Recharge the deficit to Rosso over a remaining 13 years
 - iii. The annual estimated charge to Rosso being £48,181 per annum for 13 years

- Subject to the 2016 Actuarial Revaluation
- iv. Secure, as far as possible, the value by way of charge over the assets of the company.
- e. The anticipated increase in Council costs is estimated to equate to the recharge to Rosso and will be confirmed as part of the 2016 actuarial review.
- f. The proposal is therefore to seek approval of the pensions deficit transfer to Council in principle subject to the outcome of the 2016 valuation and the quantifying to the net annual savings as a result of the transfer, by the pension actuary.
- g. Should the actuarial valuation confirm the cash flow savings the effective transfer will take place 1st April 2017.
- h. Such a transfer will also result in an equivalent improvement to the Rosso balance sheet, improve its credit worthiness and potential disposal value.

5.4 Financial Sustainability

a. Rosso

- i. The current cash outgoing is currently c £328k, the above two initiatives are worth an annual c £193k in cash savings and therefore significantly assisting in its medium term financial sustainability.

b. RLT

- i. The above is financial neutral for RLT but with the added benefit of spreading repayments over a longer period, making the Trust financially self-financing and ending the Council's annual £95k grant support.

COMMENTS FROM STATUTORY OFFICERS: SECTION 151 OFFICER

6.

6.1 Financial matters are noted in the report.

6.2 As part of the Council's Treasury Management Strategy as approved by Members (February 2016) Rosso has access to £400k working capital from Council secured on Rosso properties (Rochdale Depot and Peters St. Rawtenstall). At the time of writing Rosso have drawn down £150k. (in April 2016).

7. MONITORING OFFICER

7.1 Legal implications are commented on in the body of the report.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 No policy implications.

9. CONCLUSION

9.1 The Council is using its own resources to mitigate the cost of liabilities for which it is guarantor or to mitigate costs of its subsidiary backed by security of assets.

9.2 The debt restructuring as noted in the report will significantly add to the financial sustainability of both organisations over the medium to long term.

Background Papers	
Documents	Place of Inspection
Rosso's Helmshore Depot Valuation	RBC Estates Office