Loan Repayment FOR DECISION	20/02/2018
Corporate, Policy and Resources Committee	

Linkage to Council Strategy (2015-19)	
Strategic Theme	Innovation and Transformation
Outcome	The Council will continuously examine and introduce ways to provide services in more accessible and efficient ways
Lead Officer	Chief Finance Officer
Saving: (If agreed)	£376k

1.1 Background

Council currently manages a substantial debt portfolio made up of a variety of loans taken out over time to finance numerous capital projects across the borough.

1.2 Detail

At 1st February 2018 the total value outstanding on the loans portfolio was £69.09m. The annual cost of financing this debt is currently budgeted at £9.67m which equates to approximately one sixth of councils annual expenditure. The majority of these loans are at a fixed rate for a fixed term through the Government Accounts Branch however Council does have a number with commercial banks. The commercial loans are for agreed terms but three loans with Danske Bank now have a break point whereby they can be repaid in full without any penalty at 3 April 2018.

1.3 Loan Details

The three loans are set out below in terms of outstanding principal at 3 April:

Loan 1	£311,727
Loan 2	£948,014
Loan 3	£1,198,508
Total	£2,458,249

The total cost of financing these 3 loans currently amounts to approximately £376k per annum, this figure being included in the annual budgeted Minimum Revenue Provision (MRP) and interest figure in the rates estimates. The current annual interest on these loans amounts to approximately £61.5k. The loans have a remaining life varying from 20 years to 30 years, it is estimated that over the remaining life of these loans the interest cost would be approximately £867k (at current interest rates).

1.4 Reserves and Cash

Council's reserves as at 31 March 2017 were £7,875,812 equating to 15.35% of the Net Operating Expenditure.
Department for Communities (DfC) guidance indicates that the General Fund Level should be between 5% and 7.5% (£2,564,615 and £3,846,921) of the Net Operating Expenditure.

In order to repay these loans at 3 April there would be a reduction in Council's reserves amounting to £2,458,249 due to the fact that the principal of the loan will no longer be charged to reserves on annual basis by way of the MRP charge over the remaining lives of the loans. The effect of this would be to reduce reserves to £5,417,563 which is still well in excess of the DfC prescribed limits.
There would be an annual benefit to the ratepayer by virtue of a reduction of approximately £376k in the MRP and interest figure which is included in the rates estimates.

In terms of cash Council does have the necessary funds to make the repayment on 3 April, with interest rates currently low the return on investments is also low therefore the net benefit will be in council's favour with the interest that could be earned on these funds being less than the interest payable on the loans. Going forward these loans are variable rate therefore the interest cost will rise as interest rates do thereby negating any increase in investment income at the same time. This would not be the case for other council loans which are at a fixed rate for the term of the loan therefore a rise in interest rates would increase income without the associated increase in the cost of interest being paid.

1.5 Recommendation

It is recommended that council approve the repayment of the loans as detailed on 3rd April 2018.