EAST KENT OPPORTUNITIES – SPINE ROAD REPAYMENT

To:	**Cabinet – 14 November 2013**
Main Portfolio Area:	**Financial Services**
By:	**Sarah Martin, Financial Services Manager**
Classification:	**Unrestricted**
Ward:	**All**

Summary: **To approve the repayment of the Spine Road liability from internal balances**

<u>For Decision</u>

1.0 Introduction and Background

1.1. East Kent Opportunities (EKO) was established as a Limited Liability Partnership (LLP) in 2008 to incorporate Kent County Council's landholdings at Manston Park and Eurokent and Thanet District Council's landholdings at Eurokent.

1.2. The successful development of the Eurokent site was dependent upon the construction of a new access road across it, which would also act as a by-pass for the existing Haine Road. KCC undertook to forward fund the road on the understanding that this would ultimately be repaid by EKO, including any borrowing costs. The road scheme was opened in November 2008.

1.3. The Members' Agreement, dated 22 August 2008, states:
"The LLP shall reimburse to KCC the costs not later than two years after the date of this Agreement or on such other terms and timescales as may be set out in the Business Plan to be agreed between the parties. Such costs are estimated at £5,400,000 but this estimate shall not limit the sums that may be claimed by KCC from the LLP in respect of the Eurokent Spine Road. In addition the LLP shall pay interest to KCC on the costs incurred, calculated on monthly rests at the rate at which KCC can borrow similar sums from time to time, from the date the costs were incurred to the date of payment."

1.4 Repayment was therefore due in 2010/11; however, KCC passed a decision on 10 June 2010 to reschedule repayment to before the end of the 2013/14 financial year. The Council's share of this repayment is 50%.

2.0 The Current Situation

2.1 Under this joint venture, the economic returns and liabilities are split on a 50:50 basis between Kent County Council and Thanet District Council. The amount due from the Council in respect of the Spine Road liability is £2,698,311. Interest will be charged in addition to this which is likely to be in the region of £50,000 (interest rate to be applied for 2013/14 is expected to be just under 2%). Any further spend incurred over the course of 2013/14 in relation to the Spine Road will also be added to the liability.

2.2 The Council is already making a Minimum Revenue Provision (MRP) in respect of this liability, in accordance with good accounting practice. The MRP is a charge to the General Fund to enable funds to be set aside for the repayment of external loans. The Council's MRP policy is to set MRP based on the estimated life of the asset. The Spine Road is treated as an infrastructure asset and in line with the Council's depreciation policy for infrastructure assets, the useful life has been determined at 40 years. An annual MRP is therefore already budgeted and being provided for in the sum of £66.8k.

2.3 In order to repay the Spine Road liability, the Council could either borrow externally or use internal cash flows:

- If it were to borrow externally, the Council would incur interest charges on this borrowing. The interest charge would be in the region of £113k per annum, based on borrowing £2.7m over 40 years at an interest rate of 4.2%.

- Rather than borrowing externally, the Council could use internal cash flows to repay the loan. This means that the Council could fund the repayment at the 'opportunity cost' of the investment income foregone. It is estimated that the investment income lost would be in the region of £20k per annum (based on an average interest rate of 0.75%). Funding the repayment in this way would also help to reduce the counter-party risk of investing surplus funds. There is a risk from internal borrowing that this could leave the Council's internal funds at a level where some future borrowing may be required in order to meet the Council's needs which may occur at a time when interest rates are unfavourable. However, a review of the Council's cash flow has been undertaken and it has been determined that cash balances would still be sufficient to meet the anticipated cash flow needs of the authority over the medium term after this withdrawal.

3.0 Options

3.1 The Council could borrow externally to repay the Spine Road loan at an annual cost of approximately £113k.

3.2 The Council could use internal cash flows to meet the repayment. This would result in a loss of interest on balances of approximately £20k per annum but is a considerably cheaper option than borrowing externally.

3.3 KCC may be prepared to negotiate an extension to the repayment date, however, the liability will have to be repaid at some stage and it may be preferable to repay it now whilst we have sufficient cash balances to do so.

4.0 Corporate Implications

4.1 **Financial and VAT**

4.1.1 It would be financially beneficial to repay the loan from internal balances rather than borrowing externally. The proposal within this report is in line with the Council's approved treasury management strategy.

4.2 **Legal**

4.2.1 The Council is committed to repay the Spine Road loan under the EKO members' agreement.

4.3 **Corporate**

4.3.1 The EKO venture is important for the development of the Manston and Eurokent sites.

4.4 **Equity and Equalities**

4.4.1 There are no equality or equity issues arising from this report.

5.0 Recommendation

5.1 That Members approve the repayment of the Spine Road liability from internal balances.

6.0 Decision Making Process

6.1 Budget provision has already been made for the revenue impact of the repayment of this loan. This is therefore within the budgetary framework agreed by Council. The proposal also complies with the treasury management strategy as approved by Council.

Contact Officer:	Sarah Martin, Financial Services Manager
Reporting to:	Sue McGonigal, Chief Executive and S151 Officer

Annex List

None	N/A

Background Papers

Title	**Where to Access Document**
None	N/A

Corporate Consultation Undertaken

Finance	N/A
Legal	