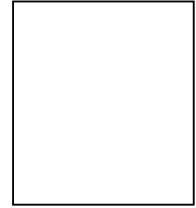




## SHEFFIELD CITY COUNCIL Cabinet Report



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**Report of:** Eugene Walker

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**Date:** 19 June 2013

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**Subject:** Sheffield City Trust's Financing Obligations

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**Author of Report:** Anna Peysner; 34035

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**Summary:** This report outlines the potential to change the way the Council funds Sheffield City Trust to meet its financing obligations.

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**Reasons for Recommendations** To allow the Executive Director Resources to negotiate and enter into an agreement to alter the way the Council discharges its commitment to support Sheffield City Trust in meeting its financing obligations.

**Recommendations:**

Please refer to paragraph 17 of the main report for the recommendations.

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**Category of Report:** OPEN/~~CLOSED~~

## Statutory and Council Policy Checklist

<b>Financial implications</b>
YES/NO      Cleared by: Eugene Walker
<b>Legal implications</b>
YES/NO      Cleared by: David Hollis
<b>Equality of Opportunity implications</b>
YES/NO      Cleared by:
<b>Tackling Health Inequalities implications</b>
YES/NO
<b>Human rights implications</b>
YES/NO      :
<b>Environmental and Sustainability implications</b>
YES/NO
<b>Economic impact</b>
YES/NO
<b>Community safety implications</b>
YES/NO
<b>Human resources implications</b>
YES/NO
<b>Property implications</b>
YES/NO
<b>Area(s) affected</b>
<b>Relevant Scrutiny Board if decision called in</b>
Overview and Scrutiny Management Committee
<b>Is the item a matter which is reserved for approval by the City Council? NO</b>
<b>Press release</b>
YES/NO

## Sheffield City Trust's Financing Obligations

### Summary

1. The City Council revenue budget currently includes £25m being the cost of financial support to Sheffield City Trust (SCT). This is to enable SCT to discharge their responsibility in respect of leasing arrangements.
2. An opportunity has become available to reschedule these arrangements with the potential to release annual savings of up to £7m for a defined period of time.

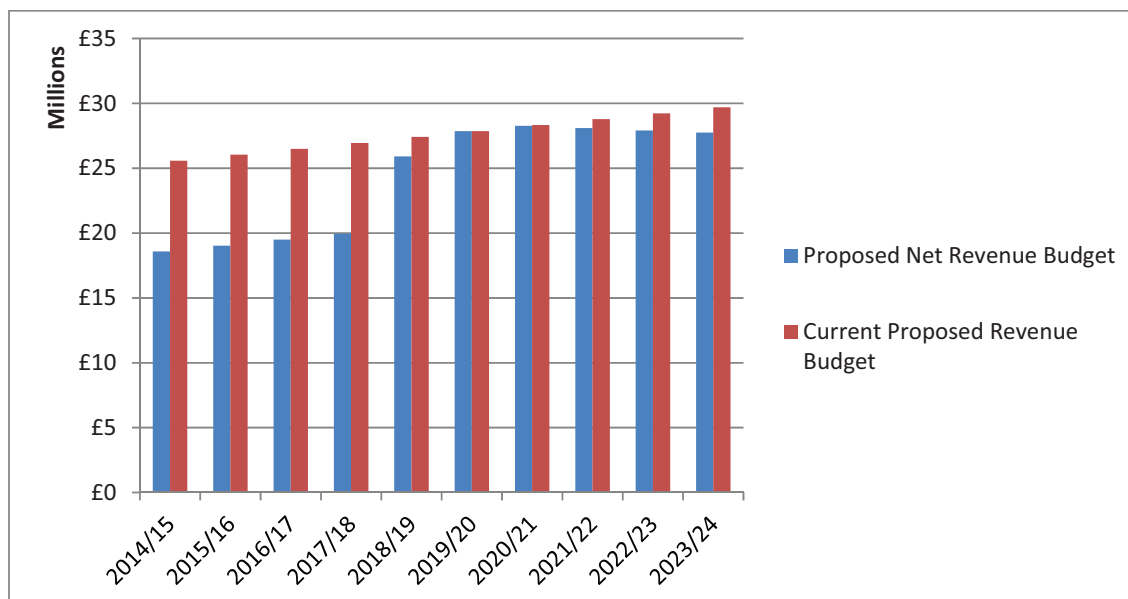
### Background

3. Sheffield City Trust (SCT) is currently party to a £140m leasing arrangement with Lloyds Bank for several sporting facilities across the City. The Council guarantees SCT's involvement in this arrangement and funds SCT to make rental payments due under the lease. From 2013/14 the Council is also advancing SCT cash to meet principal payments that will allow SCT to repay to Lloyds all money owed by 2024.
4. The cost of support to SCT will increase over time as the principal amount payable increases: by 2024 the annual budgeted cost of support to SCT will have risen to almost £30m from £25m now. To mitigate this increase in cost a cash reserve has been built up over the last decade by the Council that will allow these costs to be smoothed.
5. To date, penalties on early repayments have meant that it has not been in the Council's or SCT's interest to look at repaying these obligations before the 2024 end date. However, following the banking crisis Lloyds have reviewed their asset portfolio and are now extremely keen to end the current arrangements and allow SCT to prematurely repay their obligations.
6. Lloyds' change in attitude towards these arrangements provides the Council with the opportunity to review the way it funds SCT to meet its obligations. Funding SCT to repay its obligations early could deliver significant savings.

## Proposal

7. The Council has been working closely with Lloyds and SCT to establish the most cost effective restructure arrangement. Various options were identified but the majority of these posed insurmountable obstacles by way of changing existing legal arrangements that were not in control of the Council.
8. If the Council were to change the current arrangements in order for SCT to repay their obligations early, it would involve advancing SCT with approximately £99M now. Lloyds would then be completely removed from all arrangements, with SCT becoming a tenant of the Council rather than the bank. The Council would manage the advancement of this amount through its Treasury Management Strategy, with cash being found from existing balances and borrowing as required.
9. Over the entire period to 2024, this proposed arrangement would save a total of £33.5m overall:

	Total costs to 2024 £m
Current arrangement with Lloyds Bank	301.5
LESS Proposed arrangement	268.0
<b>TOTAL SAVING</b>	<b>33.5</b>



10. The proposal involves the Council advancing around £99m to SCT in order for them to break the current arrangements. The funds needed for this could be found from a variety of means, but for prudence purposes it is assumed that borrowing is used and the costs of servicing this are included within the savings figures detailed above. Charging the advancement to the revenue account will mean, however, that we raise cash to repay any borrowing used for the initial advancement. It is expected that any borrowing needed will be raised from the Public Works Loans Board (PWLB) which is an arm of HM Treasury. PWLB borrowing is generally more flexible and of a lower rate than loans from other organisations.
  
11. Using borrowing for this transaction will necessitate a revision of the Council's Treasury Management Strategy to take account of a new cash requirement and more up-to-date forecasts for our own cash balances and interest rates. A revised set of Prudential Indicators will also be provided to show the implications of raising cash from borrowing.
  
12. The revised Strategy and Indicators show that the Council expects to comfortably come in under its authorised limit for debt as previously approved by members. Revisions in the strategy also mean that there are no significant variations on the Prudential Indicators that were previously approved. The points to note about the impact on the Treasury Management Strategy are:
  - The proportion of the revenue budget that will be spent on SCC's and SCT's debt charges will fall overall

- The Council will remain within the authorised borrowing limit
13. Should the Council choose to enter into a transaction to allow SCT to repay its obligations early, statute will ensure that this transaction can never again be restructured or amended.

### **Legal Implications**

14. The current legal arrangements are complex and unravelling them will need the consent and co-operation of Lloyds and SCT. The Council will need to ensure it is released from all obligations to Lloyds and that its interest as freeholder of the land will be not be unnecessarily diminished.
15. The Council will also need to ensure that any changes to the relationship with SCT continue to meet the legal obligation of fiduciary duty and financial prudence.
16. Revised arrangements will also need to be considered to comply with State Aid and Procurement laws. There are a number of powers the Council can or will need to rely upon to achieve the necessary changes. These will clarified as more detail is obtained through discussions with Lloyds and SCT, but Officers consider at the present that none of the proposals would lead to the Council acting ultra vires.

### **Recommendations**

17. That Members
- a) Approve the principle of restructuring the funding arrangements with SCT to allow SCT to repay their obligations early;
  - b) Delegate the authority to finalise the agreement to the Executive Director, Resources in consultation with the Cabinet Member for Finance and delegate authority to approve a scheme for restructuring the funding arrangements, including without limitation any scheme that varies from the one recommended in this report;

- c) In consultation with the Director of Legal and Governance authority to negotiate, finalise and enter into any agreements considered appropriate to ensure the release of the Council's current obligations and liabilities to Lloyds;
- d) In consultation with the Director of Legal and Governance authority to negotiate, finalise and enter into any agreements considered appropriate to facilitate SCT to be released from its current obligations and liabilities to Lloyds, including without limitation by way of acquiring property; and,
- e) In consultation with the Director of Legal and Governance authority to negotiate, finalise and enter into any agreements considered appropriate in relation to the Council's on-going relationship with SCT; and,
- f) In consultation as the Executive Director considers appropriate take such steps as she considers appropriate to achieve any approved scheme for restructuring the funding arrangements with SCT, including without limitation the authority to borrow money and enter into new or revised property transactions.

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