

ACHIEVING FOR CHILDREN JOINT COMMITTEE

DATE: 24 JUNE 2019

REPORT OF: FINANCIAL CONTROLLER – ACHIEVING FOR CHILDREN

SUBJECT: RESERVED MATTER – APPROVAL OF AfC’s TREASURY PLAN

1. INTRODUCTION

1.1 The approval of the Treasury Plan for AfC (the Plan) is a Band Three Reserved Matter that is delegated to the Joint Committee for decision. The Plan is approved annually and when events require a review. The Plan was last reviewed and approved by the Joint Committee in March 2018.

2. RECOMMENDATION

That the Joint Committee:

- a) **Note the contents of this report,**
- b) **Consider the review of the share of the Revolving Credit Facility (paragraph 4), and**
- c) **Approve Treasury Plan as set out in the Appendix to this report.**

3. PURPOSE AND OPERATION OF THE TREASURY PLAN

- 3.1 The Reserved Matters preclude AfC from entering into any borrowing, credit facility or investment arrangement without the approval of the Councils and the Plan provides the authority for AfC to carry out the agreed actions set out in the Plan.
- 3.2 Approval of the Plan is also an important element in the arrangements that support the ‘Teckal’ exemption in respect of the services provided by AfC to the Councils, and approving the Plan is a primary control exercised by the Councils over the activities of AfC.

Borrowing

- 3.3 Although the Inter Authority Agreement (IAA) provides for AfC to seek finance or debt funding from third party sources (subject to agreement by the Councils), the primary funding for AfC is provided by the Councils through the Revolving Credit Facility (RCF) because the cost of any borrowing undertaken directly by AfC will be higher than for the Councils. As AfC is unlikely to seek funding from third parties for the foreseeable future no provision for this is included in the current Plan.
- 3.4 The RCF sets out the terms on which AfC can borrow from the Councils and these include:
 - a) The total amount of loans made available by the Councils is £45million and the shares of this amount for each Council are currently as follows:

LB Richmond upon Thames (LBR)	£17.8million
RB Kingston upon Thames (RBK)	£15.5million
RB Windsor and Maidenhead (RBWM)	£11.7million

- b) These shares of the total facility are currently based on the estimated annual contract prices between AfC and the Councils on 1 August 2017 (the admission of RBWM to the Company). The Councils can unanimously agree to change the share that each Council will make available and the RCF agreement includes a 'trigger' to review the shares if the value of the contract between any of the Councils and AfC increases or decreases by 5% on an annual basis. The impact of the new contract prices between AfC and the Councils for the 2019/20 financial year are considered in paragraph 4.
- c) The Councils contribute to any borrowing request from AfC in proportion to their share of the total facility as set out (currently) below, and repayments by AfC are also in these proportions.

LBR	40%
RBK	34%
RBWM	26%

- d) AfC can only borrow from the Councils to fund 'Qualifying Expenditure' which is:
- I. The Borrower's working capital requirements in connection with the Contracts.
 - II. Any deficits incurred by the Borrower in providing the services to the Lenders under the Contracts (including the original set-up costs).
 - III. Any expenditure incurred by the Borrower in relation to the provision of children's services that is ancillary to the expenditure incurred in providing services under the Contracts to the Lenders (for example the advice and support services that have historically been, and continue to be provided to schools).
 - IV. Any other expenditure of the Borrower as the Lenders may from time to time approve in writing in advance as being Qualifying Expenditure, such permission of the Lenders not to be unreasonably withheld or delayed, provided that such permission shall not be given in circumstances where this may give rise to a breach of the State Aid Regulations.
- e) Loans from the Councils are short-term and AfC is required to repay loans outstanding on each interest date (31 March and 30 September) and re-borrow any requirement as new loans.
- f) Interest is set at 0.5% above base rate and applies to borrowing in relation to the 'Qualifying Expenditure' to comply with State Aid rules.

3.5 The current borrowing by AfC (as at 14 June) is:

	<u>£000</u>
LBR	5,960
RBK	5,066
RBWM	<u>3,874</u>
Total	<u>14,900</u>

3.6 The main purpose of this borrowing is to fund the cash flow requirement resulting from contract payments being paid monthly in arrears by the Councils.

Thus AfC incurs expenditure and invoices the Councils at the end of each month and this is then paid on the 29th of the following month. This means AfC is funding expenditure for up to nearly two months before receiving payment. There are also peaks in expenditure, for example payments made on a termly basis and VAT payments that are based on three-monthly VAT returns.

Investment

- 3.7 There are no specific provisions in the legal documents governing AfC's activities that deal with investments apart from the reference in the IAA that decisions in relation to investments by AfC are a Reserved Matter.
- 3.8 The only use that AfC has made, and is likely to make of investments for the foreseeable future, is in relation to treasury management where AfC needs to maintain sufficient funds on deposit and with instant access in order to meet its regular payments. The alternative would be for AfC to borrow from the Councils on almost a daily basis to fund its payments, which is not realistic in terms of the administration and bank costs involved.
- 3.9 The banks that AfC can use to hold deposits, and the amounts that it can hold in each, will require specific approval from the Councils because as 'guarantors' for AfC the Councils will ultimately bear the risk of AfC's investments. Thus AfC will only make investments in banks/institutions that are included in each Council's list of counterparties and to the amounts that the Councils advise AfC.
- 3.10 The current Plan includes the following limits:

BANK	LIMIT OF INVESTMENT
Barclays Bank	£4,000,000
Nationwide	£3,000,000
NatWest bank	£5,000,000
Svenska Handelsbanken	£2,000,000
Total Investment	£14,000,000

AfC's main operational bank accounts are with NatWest and the limit for this bank includes both the operational current accounts and deposit account.

- 3.11 When RBWM was admitted to the Company the Treasury Plan was reviewed and Barclays Bank was added to the list of authorised banks that AfC could invest in. This was intended to provide sufficient capacity in AfC's resources to deal with the increase in turnover arising from the contract with RBWM and to be able to fund this additional expenditure without having to regularly borrow (and repay) from the Councils on a frequent basis.
- 3.12 In the event, it has not been necessary to use the Barclays facility to date and whilst there has been some increase in the size and frequency of borrowing from the Councils this has not proved to be onerous. However, it is anticipated that the Barclays facility could be required at some time in the future so it is proposed to retain Barclays as an approved investment with the limit of £4 million. Before the facility is activated AfC will inform the Council's finance officers as they will need to take this into account in their own investment limits with Barclays.

- 3.13 The Plan allows a degree of flexibility to deal with events that may arise during the course of the year that could impact on the risk of approved banks and investment limits, and provides for the Councils (through their Finance Directors/s151 officers or nominated deputies) to agree such urgent actions as required with subsequent reporting to the Joint Committee and retrospective adoption as amendment(s) to the Plan as a Reserved Matter.

Treasury Operation and Monitoring

- 3.14 In addition to the provisions of the RCF in relation to borrowing, and the arrangements for AfC making investments as outlined above, the Plan also provides assurances to the Councils around the procedures in place for banking and treasury management in AfC and for monitoring by the Councils.
- 3.15 The treasury management and banking functions in AfC are supervised by the Director of Finance and Resources and carried out by suitably experienced staff with appropriate training. Treasury transactions are undertaken on the basis of formal proposals and authorisations requiring at least two members of staff and following the current treasury procedures and policies of the Company. Physical transactions are carried out using the RBS/NatWest secure internet banking system. AfC plans and reviews its treasury activities on a regular basis and longer term plans are reviewed at least annually in line with AfC's business planning process.
- 3.16 The Councils monitor AfC's borrowing through the formal borrowing and repayment requests and they have access to all AfC's financial records on request. Proposed changes to the Treasury Plan are agreed at officer level prior to reporting to the Joint Committee.
- 3.17 AfC will take advice from the Councils on all aspects of its treasury management function and will comply with any instruction or direction from the Councils, acting jointly, with regard to its treasury activities and investments.

4. REVIEW OF THE REVOLVING CREDIT FACILITY (SHARES OF THE COMMITMENT)

- 4.1 As outlined in paragraph 3.4(b) above, the Councils can review and agree their respective shares of the total Commitment at any time and when the annual value of their contract with AfC increases or decreases by 5%. The annual contract values for each Council in August 2017 (the basis of the current share of the Commitment in the RCF) and the budgeted contract values for 2019/20 are:

	Contract Price			
	July 2017	Budget	Change	
		£000	2019/20 £000	£000
LBR	52,894	52,379	-515	-0.97%
RBK	46,066	49,238	3,172	6.89%
RBWM	34,741	35,665	924	2.66%
Total	133,701	137,282	3,581	2.68%

- 4.2 The value of the contract between RBK and AfC has increased by 6.89% since the current shares of the loan facility were agreed and in accordance with the terms of the RCF the Councils can review their respective share of the loan facility and any changes to the shares have to be agreed unanimously by the three Councils.
- 4.3 The RCF does not indicate how the review should be undertaken or the basis on which the Councils would agree a new share of the facility but it is reasonable to assume that the intention was to keep the shares of the loan facility in proportion to values of the Council's contracts with AfC. So if there were agreement to vary the shares of the facility to align them with the contract values for 2019/20, the new shares of the Commitment would be as follows:

	Budget 2019/20	Share of Commitment		Previous Share of Commitment	
	£000	£000		£000	
LBR	52,379	17,200	38.1%	17,800	40.0%
RBK	49,238	16,100	35.9%	15,500	34.0%
RBWM	35,665	11,700	26.0%	11,700	26.0%
Total	137,282	45,000		45,000	

- 4.4 The Councils' Finance Officers have been consulted on the review of the RCF Commitment and their responses are –
 LBR – Adjust the share of the commitment in line with contract values
 RBK – No response by report despatch
 RBWM - No change to the share of the commitment
- 4.5 If the Joint Committee unanimously approves the revision to the RCF Commitment in line with the latest contract prices it will be necessary to re-align the current loan balance to the new shares for each Council. The impact is shown below:

Share of Current Loan to AfC			
	Existing Share	Revised Share	Change
	£000	£000	£000
LBR	5,960	5,677	-283
RBK	5,066	5,349	283
RBWM	3,874	3,874	0
Total	14,900	14,900	0

5. REVIEW OF THE TREASURY PLAN

- 5.1 The IAA requires the Plan to be adopted or amended from time to time and this should be done at least annually and both take account of and inform the Councils' treasury policies and strategies. AfC will undertake a review of its Plan as part of its annual business planning process and will also review the

lucy.kourpas@achievingforchildren.org.uk

Plan at any time that its
business or cash flow

indicates that a review is necessary to ensure that its banking and treasury activities are operating efficiently and that risks are being appropriately managed.

- 5.2 The changes to the Plan approved by the Committee in September 2017 (and reviewed again in April 2018 with no changes) were designed to meet the changes arising from RBWM joining the Company and have worked quite well so no changes are proposed at the current time. The potential change to the share of the RCF Commitment is not included in the formal Plan as this forms part of the legal framework governing AfC's relationship with the Councils and will be a change to the Revolving Credit Facility.
- 5.3 The Plan for 2019/20 is attached as the Appendix to this report.
- 5.4 The Councils' Finance Directors and treasury officers have been consulted on the report and Treasury Plan.

6. FINANCIAL IMPLICATIONS

AfC's Treasury Plan is an essential element in the financial governance of the Company and enables the owning Councils to exercise a significant degree of control over the Company's financial arrangements. The financial implications for each Council of potential changes to the share of the RCF Commitment are set out in paragraphs 4.3 and 4.4.

7. BACKGROUND PAPERS

None.

8. CONTACTS

Chris Smith
Financial Controller
chris.smith@achievingforchildren.org.uk

Lucy Kourpas
Director of Finance and Resources

ACHIEVING FOR CHILDREN TREASURY PLAN 2019/20
Introduction

1. AfC is not allowed to enter into any borrowing, credit facility or investment arrangement (other than trade credit in the normal course of business) unless it has been approved by the Councils. The Financial Plan (the Plan) provides the authorisation for AfC to borrow and invest in the particular situations specified and the Plan has to be approved by the Members, as the owners of AfC. The decision to approve the Treasury Plan has been delegated to the joint Committee as a Band Three Reserved Matter.
2. The Plan will be reviewed at least annually and when events require a review in order to ensure that the Company's banking and treasury activities are operating efficiently and that risks are being appropriately managed in order to comply with the Councils' treasury policies.

Borrowing

3. AfC will only borrow from the Councils and in accordance with the terms set out in the Revolving Credit Facility (RCF).

Investment

4. AfC will only invest surplus funds, including sums borrowed under the RCF, in order to manage its cash flow to make payment of its obligations in a timely manner without having to borrow on a frequent basis from the Councils.
5. Such investment will be on the following basis:
 - a) Investment will be in deposit/instant access bank accounts that can be withdrawn at notice on the same day
 - b) Investment will be in banks approved by the Councils
 - c) Investment in each bank will be subject to a maximum amount (or limit) invested at any time
 - d) The aggregate of investments in all banks will also be subject to a maximum amount
 - e) The banks that AfC can make investments in and the limits are as follows:

BANK	LIMIT OF INVESTMENT
Barclays	£4,000,000
Nationwide	£3,000,000
NatWest bank	£5,000,000
Svenska Handelsbanken	£2,000,000
Total Investment	£14,000,000

The total aggregate investments that AfC can have outstanding at any time is £14million

6. At any time the Councils can jointly agree to
 - a) remove approval or vary the investment limits for any of the banks, and vary the total aggregate investments
 - b) approve additional bank(s) with appropriate limits on investment, and
 - c) any such changes shall be agreed in writing (email) by the Finance Directors of each Council and AfC (or their appointed deputies for this purpose) and shall be reported to the next meeting of the Joint Committee and adopted as a change to the Plan as soon as practical and appropriate.
7. The treasury management and banking functions in AfC will be supervised by the Director of Finance and Resources and undertaken by appropriately experienced staff within the finance section of AfC. Treasury activity will be planned and reviewed weekly and longer term plans prepared at least annually.
8. AfC will take advice and act on instructions from the Councils, acting jointly, on its treasury activities and investments.