TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 7

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

21 DECEMBER 2017

REPORT OF THE FINANCE DIRECTOR

PORTFOLIO: INVESTMENT

BORROWING POWERS

SUMMARY

This paper sets out the recommendation that Cabinet approves the borrowing powers proposed by HM Treasury.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet delegate authority to the Managing Director to consent to the necessary secondary legislation to establish the Combined Authority's borrowing powers.

DETAIL

1. The primary legislation which established Combined Authorities made provision for them to receive borrowing powers, akin to those already in place for other local authorities. In Budget 2016, the Chancellor of the Exchequer confirmed his intention to enact this provision using secondary legislation. The draft legislation is now available, and Combined Authorities – including the Tees Valley Combined Authority – are asked to formally approve it, before it is considered by parliament. Due to the stage of the draft regulations in the Parliamentary process, the Cabinet is asked to delegate authority to the Managing Director to consent to the regulations, once requested to by government.

2. Borrowing powers provide a substantial additional financial flexibility for the Combined Authority, allowing us to borrow against future income to finance upfront investment. The principles against which borrowing will be determined were set out in our Investment Plan, approved by Cabinet in March 2016. It is important to note that, as with other local authorities, borrowing can only take place when strict conditions are met, as determined by the Director of Finance in her statutory role.

There must be a designated income source to repay the finance costs of borrowing before it can be approved.

3. We have now received confirmation from HMT that the order granting the Combined Authority its borrowing powers will be placed before Parliament in January 2018. Before this can be done, agreement to the powers needs to be granted by the Combined Authority Cabinet as well as those of the constituent authorities. That process is underway within the authorities.

4. The Chancellor has proposed that borrowing by Combined Authorities will be subject to a cap on debt. To avoid limiting the Cabinet's ability to approve borrowing where the requirements of the prudential code are met, we have argued that the cap should be set sufficiently high that it would not in practice restrict the flexibility of the Combined Authority to borrow for investment.

5. It is important to note that the levels are strict maximums set by the Treasury, and do not imply that the Combined Authority will be borrowing to this level. Debt limits will instead be set by Cabinet, on the basis of approved business cases for individual projects, and with the overall debt position reported to Cabinet quarterly.

FINANCIAL IMPLICATIONS

6. Once enacted, the legislation will remove a restriction on the Combined Authority which currently prevents it from borrowing to invest. The financial implications of enacting this power will be determined on a case-by-case basis according to the business case set out for individual projects.

LEGAL IMPLICATIONS

7. Approval to this recommendation, and from individual constituent authorities, will allow HM Treasury to seek parliamentary approval for the secondary legislation.

RISK ASSESSMENT

8. The acceptance of borrowing powers is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

9. Approval is being sought from constituent authority Executives (or equivalent) according to their specific procedures. No further consultation is required.

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