

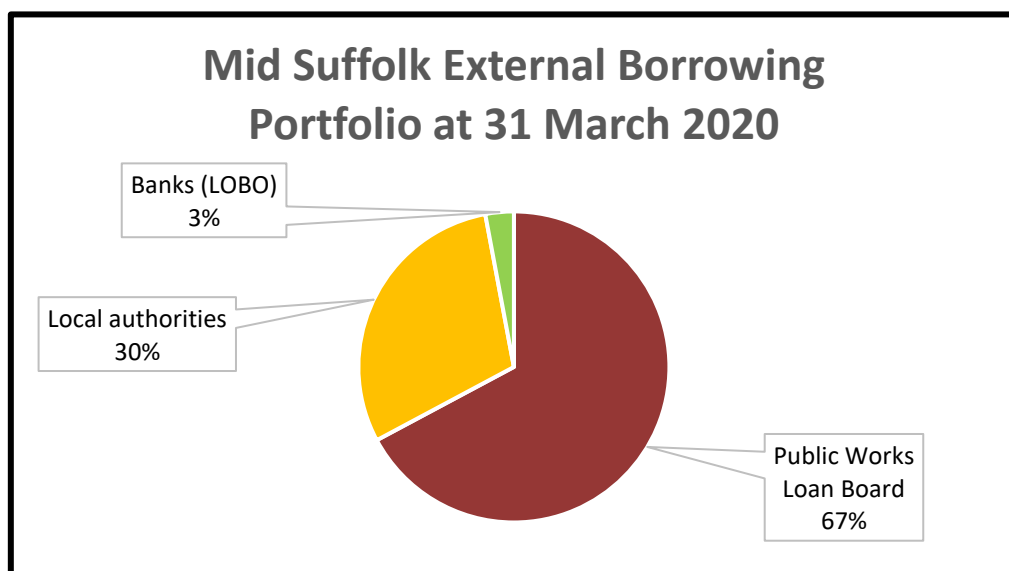
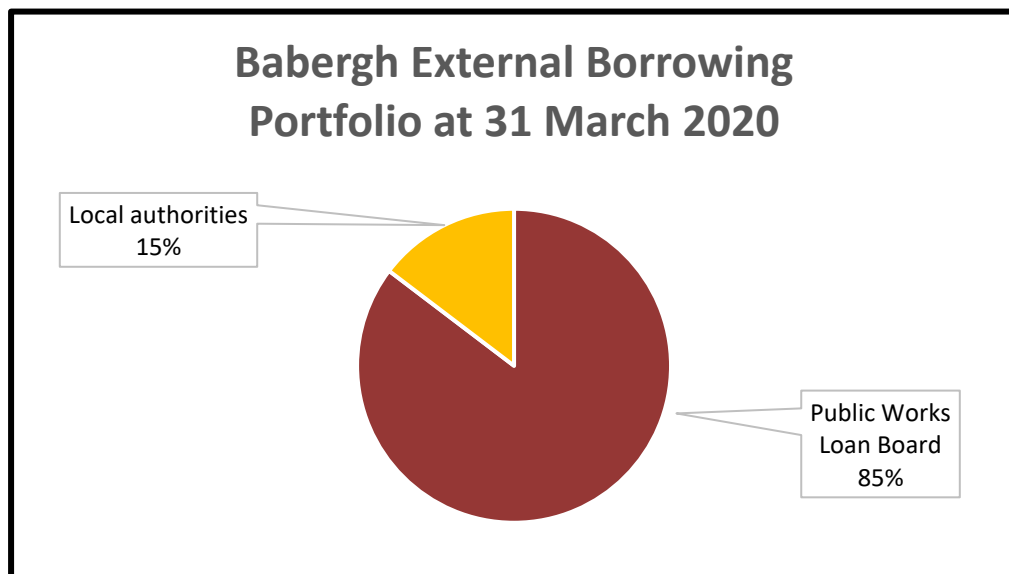
1. Borrowing Strategy during the year

- 1.1. On 9 October 2019 the Public Works Loan Board (PWLB) raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears relatively very expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.
- 1.2. The Chancellor's March 2020 Budget statement included significant changes to PWLB policy and launched a wide-ranging consultation on the PWLB's future direction.
- 1.3. At 31 March 2020, Babergh held £112.5m of loans and Mid Suffolk £135.3m. This was an increase for Babergh of £8.5m and an increase of £5.0m for Mid Suffolk on the previous year. These increases are part of both Councils' strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change is shown in Table 3 that follows.
- 1.4. The consultation entitled "Future Lending Terms" represents a frank, open and inclusive invitation, allowing key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals on allowing authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.
- 1.5. The Councils submitted their responses to the consultation which closed on 31 July 2020 with implementation of the new lending terms expected in the latter part of this calendar year or financial year beginning 2021/22.
- 1.6. **Table 3: Borrowing Position**

Babergh	31.3.19 Balance	2019/20 Movement	31.3.20 Balance	31.3.20 Average Rate
	£m	£m	£m	%
Public Works Loan Board	97.047	(1.024)	96.023	2.82%
Local authorities (short-term)	7.000	9.500	16.500	0.84%
Total borrowing	104.047	8.476	112.523	

Mid Suffolk	31.3.19 Balance	2019/20 Movement	31.3.20 Balance	31.3.20 Average Rate
	£m	£m	£m	%
Public Works Loan Board	92.287	(1.348)	90.939	3.79%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (medium / long-term)	16.000	0.000	16.000	1.20%
Local authorities (short-term)	18.000	6.400	24.400	0.80%
Total borrowing	130.287	5.052	135.339	

1.7. Table 3 - Charts: Borrowing Position



- 1.8. The Councils' objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with a secondary objective of flexibility to renegotiate loans should the Councils' long-term plans change.
- 1.9. LOBO loans: Mid Suffolk continues to hold £4m of LOBO loans (Lender's Option Borrower's Option) where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The banks did not exercise their option during 2019/20.