

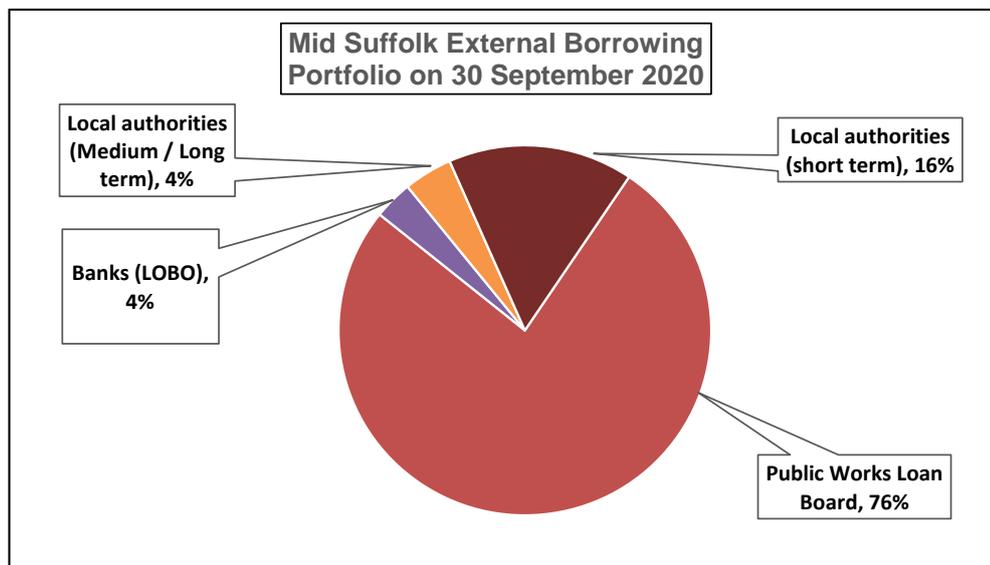
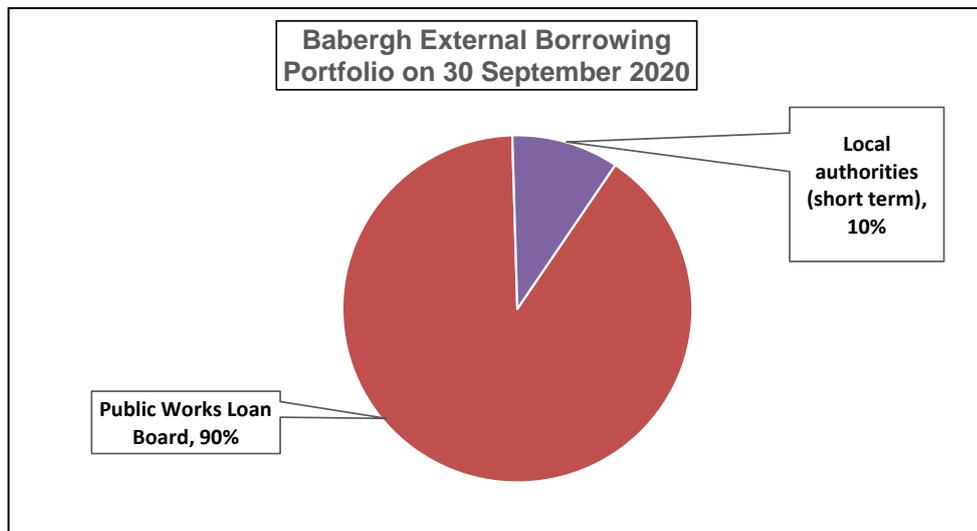
1 Borrowing Strategy

- 1.1 On 30 September 2020 Babergh held £106m of loans, a decrease of £6.5m and Mid Suffolk held £118m of loans, a decrease of £17m since 31 March 2020.
- 1.2 Babergh has reduced net overall borrowing by making repayments on long term Public Works Loan Board (PWLB) loans and by repaying short-term local authority loans.
- 1.3 Mid Suffolk has reduced net overall borrowing by making repayments on long term PWLB loans and by repaying both medium/longer term and short-term local authority loans.
- 1.4 The borrowing position on 30 September 2020 is shown in Table 3 that follows.
- 1.5 **Table 3: Borrowing Position**

Babergh	31.03.20 Balance	Movement	30.09.20 Balance	30.09.20 Weighted Average Rate
	£m	£m	£m	%
Public Works Loan Board	96.023	(0.516)	95.507	3.18%
Local authorities (short term)	16.500	(6.000)	10.500	0.67%
Total borrowing	112.523	(6.516)	106.007	

Mid Suffolk	31.03.20 Balance	Movement	30.09.20 Balance	30.09.20 Weighted Average Rate
	£m	£m	£m	%
Public Works Loan Board	90.939	(0.681)	90.258	3.26%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (Medium / Long term)	16.000	(11.000)	5.000	1.00%
Local authorities (short term)	24.400	(5.400)	19.000	0.96%
Total borrowing	135.339	(17.081)	118.258	

1.6 Table 3 - Charts - The Councils' Borrowing Portfolios on 30 September 2020:



- 1.7 The Councils' chief 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 the secondary objective of having flexibility to renegotiate loans should the Councils' long-term plans change.
- 1.8 With short-term interest rates remaining much lower than long-term rates, the Councils considered it more cost effective in the near term to use internal resources or short-term loans instead.
- 1.9 The impact of Covid19 has caused delays in the Councils' capital expenditure plans which has resulted in a temporary lower funding requirement.

- 1.10 The Treasury Management Strategy shows that both Councils have increasing CFRs and estimated net borrowing requirements which are for further expenditure on CIFCO Ltd and Gateway 14 Ltd.
- 1.11 The Councils' borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing was maintained.
- 1.12 The Councils did not take out any new medium or long-term borrowing in the period.
- 1.13 PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e. the PWLB HRA borrowing rate. The Councils will evaluate and pursue these lower cost solutions and opportunities with its treasury advisor, Arlingclose.
- 1.14 LOBO loans: Mid Suffolk continues to hold £4m of LOBO (Lender's Option Borrower's Option) loans 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. No banks exercised their option during the first half of 2020/21.

2 Borrowing Update

- 2.1 On 9 October 2019, the PWLB raised the cost of certainty rate borrowing to 1.8% above UK gilt yields making it relatively expensive. Market alternatives are available; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.
- 2.2 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. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields. The value of this discount is 1% below the rate at which the Councils usually borrow from the PWLB. £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% has been made available to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.
- 2.3 The consultation titled "Future Lending Terms" allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow 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. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.
- 2.4 Both Councils responded to the consultation, which closed on 31 July 2020, with the announcement and implementation of the revised lending terms expected in the latter part of this calendar year or early next year.

Appendix B cont'd

- 2.5 Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor.
- 2.6 If the Councils intend future borrowing through the MBA, they will first ensure that they have thoroughly scrutinised the legal terms and conditions of the arrangement and are satisfied with them.