

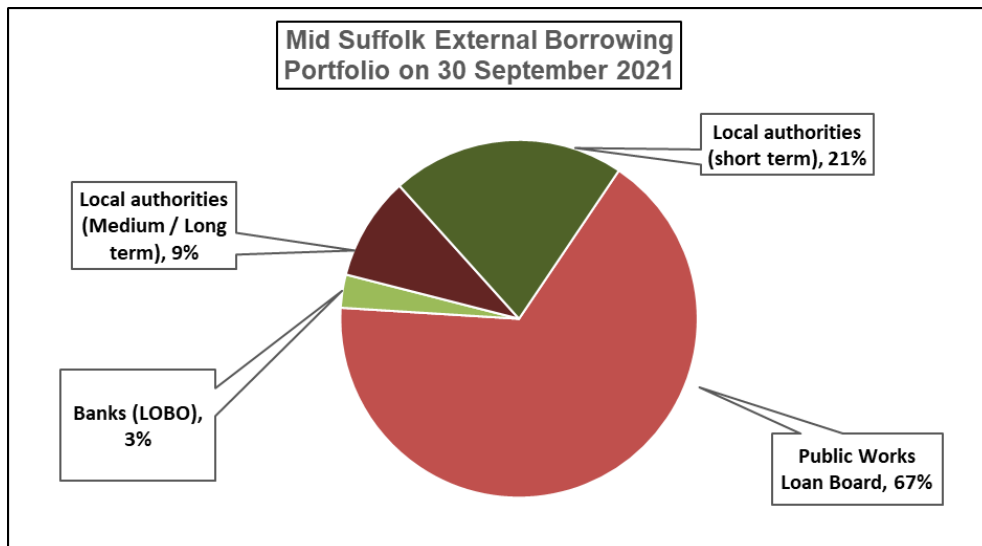
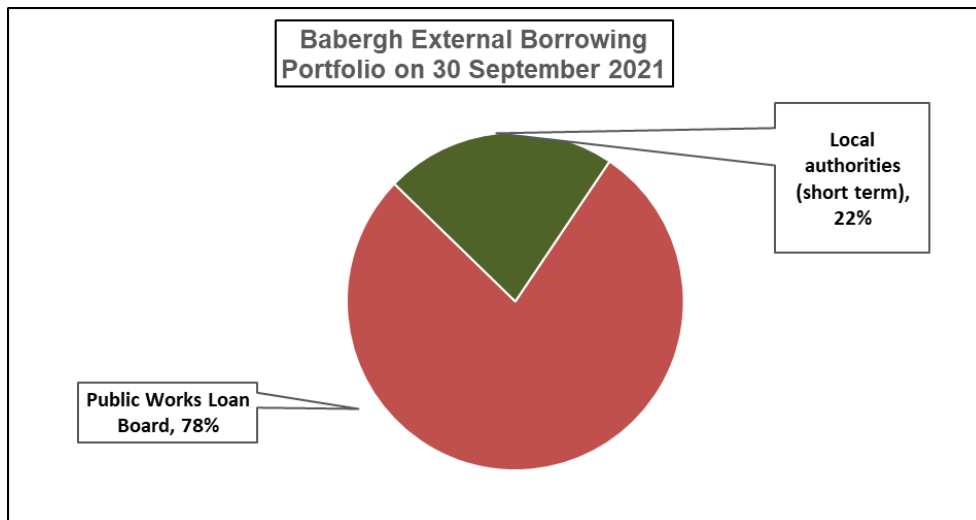
1 Borrowing Strategy

- 1.1 On 30 September 2021 Babergh held £121.7m of loans, a decrease of £5.4m and Mid Suffolk held £133.6m of loans, a decrease of £9m since 31 March 2021.
- 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 taking up new medium-term and repaying short-term loans with other local authorities.
- 1.4 The borrowing position on 30 September 2021 is shown in Table 3 that follows.
- 1.5 **Table 3: Borrowing Position**

Babergh	31.03.21 Balance	Movement	30.09.21 Balance	30.09.21 Weighted Average Rate
	£m	£m	£m	%
Public Works Loan Board	95.089	(0.420)	94.669	3.19%
Local authorities (short term)	32.000	(5.000)	27.000	0.08%
Total borrowing	127.089	(5.420)	121.669	

Mid Suffolk	31.03.21 Balance	Movement	30.09.21 Balance	30.09.21 Weighted Average Rate
	£m	£m	£m	%
Public Works Loan Board	89.572	(0.691)	88.881	3.28%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (Medium / Long term)	5.000	7.500	12.500	0.74%
Local authorities (short term)	44.000	(15.800)	28.200	0.22%
Total borrowing	142.572	(8.991)	133.581	

1.6 Table 3 - Charts - The Councils' Borrowing Portfolios on 30 September 2021:



- 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 to medium-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.

Appendix B cont'd

- 1.10 The Treasury Management Strategy shows that both Councils have increasing CFRs and estimated net borrowing requirements which are for capital expenditure on schemes including the HRA new build programme, the former HQ sites, Gateway 14 Ltd, solar car ports and vehicle renewals.
- 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 Mid Suffolk took out £7.5m of new medium-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 certainty 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 2021/22.

2 Borrowing Update

- 2.1 Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of the capital expenditure from the Section 151 Officer (Assistant Director, Corporate Resources). Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.
- 2.2 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 2.3 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2021 are likely to prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.
- 2.4 The Councils are not planning to purchase any investment assets primarily for yield within the next three years and so are able to fully access the PWLB.

Revised PWLB Guidance

- 2.5 HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:

- Capital expenditure incurred or committed to before 26 November 2020 is allowable even for an 'investment asset primarily for yield'.
- Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1 March and remain open all year. Returns must be updated if there is a change of more than 10%.
- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.
- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

2.6 **Changes to PWLB Terms and Conditions from 8 September 2021**

- 2.7 The settlement time for a PWLB loan has been extended from two working days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.
- 2.8 Municipal Bonds Agency (MBA): The MBA is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.
- 2.9 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.
- 2.10 UK Infrastructure Bank: £4bn has been earmarked for lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate.