

## Appendix B: Debt Management

- 1.1 The table below shows the level of activity on short and long term borrowing between 1<sup>st</sup> April and 30<sup>th</sup> September 2015:-

<b><u>BDC</u></b>	Balance 01/04/15 £'000	New borrowing £'000	Debt repaid £'000	Balance 30/09/15 £'000	Increase/ (Decrease) £'000
Short term	0	0	0	0	0
Long term	87,797	0	(250)	87,547	(250)
Total borrowing	87,797	0	(250)	87,547	(250)

<b><u>MSDC</u></b>	Balance 01/04/15 £'000	New borrowing £'000	Debt repaid £'000	Balance 30/09/15 £'000	Increase/ (Decrease) £'000
Short term	12,000	13,500	(19,500)	6,000	(6,000)
Long term	76,183	0	(275)	75,908	(275)
Total borrowing	88,183	13,500	(19,775)	81,908	(6,275)

- 1.2 The tables above show that all new borrowing for Mid Suffolk for the first six months of 2015/16 has continued to be short term in order to take advantage of the relatively low rates. The level of short-term borrowing has reduced though, as it normally does in the first 6 months of the year, due to Council Tax and other income exceeding expenditure.
- 1.3 The reduction in temporary debt has only slightly changed the total debt portfolio of Mid Suffolk, as shown below:

	<b>BDC</b>	<b>MSDC</b>
Average Interest Rate 31/03/15 (%)	3.27	3.35
Average Interest Rate 30/09/15 (%)	3.28	3.43
Average life of loans (years)	17	21

- 1.4 Babergh did not borrow any monies short term between April and September 2015. Mid Suffolk borrowed short term monies from other local authorities between April and September 2015 at interest rates between 0.40% and 0.45%. The total of short term loans held by Mid Suffolk at 30 September 2015 was £6m.
- 1.5 **LOBOs:** Mid Suffolk 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. Mid Suffolk acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.
- 1.6 **PWLB Certainty Rates:** The Councils qualify for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 1<sup>st</sup> November 2014. In April both Councils submitted applications to the CLG along with the 2015/16 Capital Estimates Return to access this reduced rate for a further 12 month period from 1<sup>st</sup> November 2015.

- 1.7 Where possible both Councils make use of internal resources (surplus funds) instead of external borrowing to fund their capital expenditure as this lowers the overall treasury risk by reducing both external debt and temporary investments.
- 1.8 Babergh expects to have sufficient internal resources to fund its capital programme until March 2016.
- 1.9 Mid Suffolk is planning to replace previous internal borrowing with short term external borrowing. In consequence, Mid Suffolk expects to borrow up to £7.5m in the six months to 31 March 2016 to finance the capital programme and to put in place the cash investments set out in the July reports to Councils.
- 1.10 The Councils' chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. As short term interest rates have remained, and are likely to remain lower than long-term rates at least over the next two years, it is likely to be more cost effective for Mid Suffolk to borrow short term loans.