

1 Borrowing Strategy

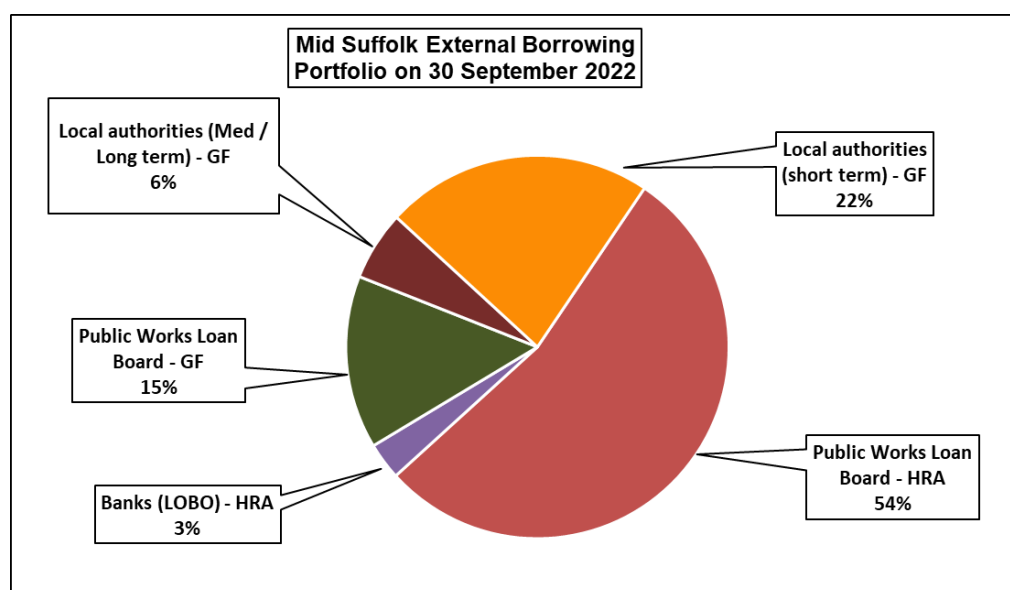
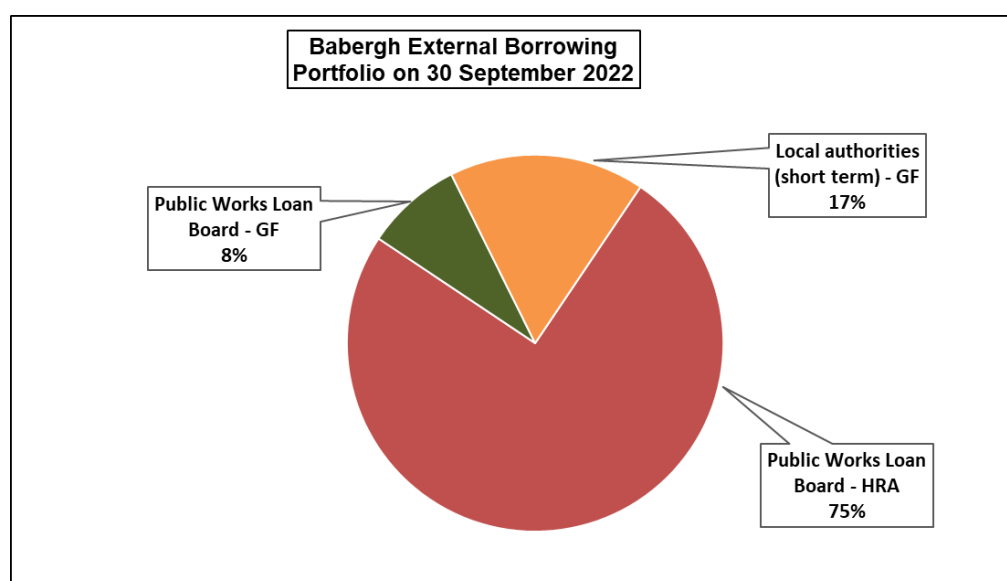
- 1.1 On 30 September 2022 Babergh held £113.1m of loans, a decrease of £7.28m and Mid Suffolk held £128.3m of loans, a decrease of £7m since 31 March 2022.
- 1.2 Babergh has reduced net overall borrowing by making repayments on long term Public Works Loan Board (PWLB) loans and by repaying short-term local authority loans.
- 1.3 Mid Suffolk has reduced net overall borrowing by making repayments on long term PWLB loans and repaying both medium-term and short-term loans with other local authorities.
- 1.4 The borrowing position on 30 September 2022 is shown in Table 3 that follows.

1.5 **Table 3: Borrowing Position**

Babergh	31.03.22 Balance	Movement	30.09.22 Balance	30.09.22 Weighted Average Rate
	£m	£m	£m	%
Public Works Loan Board - HRA	84.747	0.000	84.747	3.30%
Public Works Loan Board - GF	9.649	(0.275)	9.374	2.30%
Local authorities (short term) - GF	26.000	(7.000)	19.000	1.07%
Total borrowing	120.396	(7.275)	113.121	

Mid Suffolk	31.03.22 Balance	Movement	30.09.22 Balance	30.09.22 Weighted Average Rate
	£m	£m	£m	%
Public Works Loan Board - HRA	69.037	0.000	69.037	3.30%
Banks (LOBO) - HRA	4.000	0.000	4.000	4.21%
Public Works Loan Board - GF	19.298	(0.551)	18.747	2.30%
Local authorities (Med / Long term) - GF	12.500	(5.000)	7.500	0.53%
Local authorities (short term) - GF	30.500	(1.500)	29.000	1.04%
Total borrowing	135.335	(7.051)	128.285	

1.6 Table 3 - Charts - The Councils' Borrowing Portfolios on 30 September 2022:



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. The Councils' borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

1.8 Over the April-September period short term PWLB rates rose dramatically, particularly in late September after the Chancellor's 'mini-budget' prompted a fall in sterling and rise in market interest rate expectations. Interest rates rose by over 2% during the period in both the long and short term. As an indication the 5-year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%.

Appendix B cont'd

- 1.9 Although interest rates across the board have risen, short-term borrowing from other local authorities remains at lower interest rates than long term borrowing.
- 1.10 With short-term interest rates remaining much lower, the Councils considered it more cost effective in the near term to use internal resources or short to medium-term loans instead.
- 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.

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Councils will evaluate and pursue these lower cost solutions and opportunities with its treasury advisor Arlingclose.

- 1.12 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, and vehicle renewals.
- 1.13 Both Councils repaid medium-term and short-term borrowing in the period.
- 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 2022/23.

2 Borrowing Update

- 2.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Councils.
- 2.2 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. 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.
- 2.3 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

Appendix B cont'd

- 2.4 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.

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.