

## Borrowing Strategy 2022/23 to 2024/25

### 1. Background

- 1.1 Historically the Council has either been debt free or has had a very low-level of debt. This changed significantly in 2012 when, as part of the HRA reform, £265.9m of debt was transferred to the Council's HRA.
- 1.2 In January 2015, £89m was borrowed for the Council's General Fund (GF) from the European Investment Bank (EIB) to fund the regeneration of Abbey Road 2 and Gascoigne East (Weavers). Both schemes are now operational, bringing in sufficient income to cover the management and maintenance, lifecycle, capital, and interest costs, as well as generating income for the Council.
- 1.3 In November 2016, Cabinet approved the establishment of an Investment and Acquisition Strategy (IAS). The purpose of the IAS is to support the Borough's growth opportunities and to ensure that the Council, and future generations, benefit by increasing the Council's ownership of long-term income producing assets. The IAS is reviewed annually by Cabinet, with the next review to be taken to the March 2022 Cabinet. The IAS has an income target of delivering £6.6m per year from 2020/21. The IAS will be delivered primarily by the Council's development vehicle, Be First, and through its property companies, Reside.
- 1.4 The Council will ensure that all its investments are covered in the IAS and will set out, where relevant, its risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management. The Council will set out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure.
- 1.5 Capitalisation of Development Interest
  - 1.5.1 The Council's IAS will increase the Council's interest payment costs. Were the Council to borrow a billion pounds at 2.0% (the current target average long-term debt rate) then the interest costs would be £20m per year, although this would decrease as debt is repaid. This will be funded by rental income from the various schemes but will result in a long-term obligation for future generations as some of the loans that will be taken out have maturity dates of up to 50 years.
  - 1.5.2 During the construction stage there is a cost of carry as there is no income from the scheme. Interest incurred during the construction phase will be capitalised against developments that cost over £10m and that take in excess of two years to build. Capitalisation of interest starts from when the development has been agreed at Gateway 2. Where land has been purchased as part of land assembly the capitalisation of interest will be from the later date of either the completion date of the purchase or the date of this accounting policy. Interest will be capitalised quarterly and is based on the weighted average borrowing costs. Cessation of capitalisation will occur when the scheme is operational.
  - 1.5.3 As part of the Treasury outturn report, an outturn figure for the amount of interest that was capitalised for the year, will be provided to Members.

## 2. The Council's Borrowing Strategy

2.1 The decision to borrow is a treasury management decision and is taken by the Investment Fund Manager (IFM), after agreement by the S151 Officer under delegated powers of the Council's constitution. The key objective of the Council's borrowing strategy is to secure long term funding for capital projects and IAS at borrowing rates that are as low as possible.

2.2 Currently the Council has a holistic approach to borrowing, taking into account cashflow, borrowing costs and investment and loan returns to drive the net cost of borrowing down, while keeping the borrowing transparent and simple. This holistic approach has resulted in very low net borrowing costs, with the 2021/22 net interest budget of £7.1m supporting £784.4m of GF long term borrowing. This equates to a net cost (interest payments less interest income) of 0.91% for an average duration of approximately 26.8 years.

2.3 The Council can borrow funds from the PWLB, from capital markets, from bond issuance and from other local authorities. The Council would look to borrow for several purposes, including:

- (i) *Short term temporary* borrowing for day-to-day cash flow purposes.
- (ii) *Medium term borrowing* to cover construction and development costs.
- (iii) *Long-term borrowing* to finance the capital and IAS programme.

2.4 The IFM will monitor interest rates and will recommend borrowing decisions when rates are low, while taking into account the Council's debt repayment profile and cashflow requirements. The Council's borrowing strategy will give consideration to the following when deciding to take-up new loans:

- Use internal cash balances;
- Short-term borrowing from other Local Authorities;
- Using PWLB, the EIB or financial Institutions;
- Ensure new borrowings are drawn at suitable rates and periods;
- Consider the impact of grant and sales on long term borrowing; and
- Consider the issue of stocks and bonds if appropriate.

2.5 In 2021/22 to 2023/24 a significant amount of borrowing is required, with the main borrowing required to fund the IAS. The borrowing requirements include schemes that have been agreed and are in various stages of development and also pipeline schemes that have not been agreed but are included in the Be First Business Plan. A summary of the borrowing requirement for the IAS to 2024/25 and then the total forecast borrowing forecast for the Council is below:

IAS (net costs)	2021/22	2022/23	2023/24	2024/25
	£ms	£ms	£ms	£ms
Residential	381.7	386.8	373.2	182.8
Temp. Accommodation	0.7	4.5	-	-
Commercial	15.8	26.9	-	-
<b>Total Net IAS Borrowing Requirement</b>	<b>398.2</b>	<b>418.2</b>	<b>373.2</b>	<b>182.8</b>
<b>Total GF Borrowing For IAS</b>	<b>904.2</b>	<b>1,322.4</b>	<b>1,695.6</b>	<b>1,878.3</b>

2.6 An increase from a debt rate of approximately £904.2m by 2021/22 to nearly £1.9bn potentially by £2024/25 is a significant increase in borrowing. With borrowing rates starting to increase and with significant increases in build costs, the pipeline schemes will potentially struggle to meet viability thresholds. This level of borrowing will also have an impact on managing the increase in cash held resulting from the borrowing.

### 3. Council's Current Debt

3.1 The Council currently (at 31/12/2021) has £1,080.3m of debt at an average rate of 2.32% and average duration of 29.09 years. This is broken down as follows:

	Principal £000s	Return %	Average Life (yrs.)
<b>General Fund Fixed Rate Long Term Borrowing</b>			
PWLB	635,780	1.92	29.27
European Investment Bank	76,820	2.21	22.26
DEXIA BANK LOBO	10,000	3.98	55.53
L1 RENEWABLES	6,782	3.44	24.76
<b>Total General Fund Debt</b>	<b>729,382</b>	<b>1.99</b>	<b>28.85</b>
<b>General Fund Fixed Rate Short Term Borrowing</b>			
Local Authority Short Term	55,000	0.03	0.13
<b>Total GF Debt</b>	<b>784,382</b>	<b>1.85</b>	<b>26.83</b>
<b>HRA Fixed Rate Borrowing</b>			
PWLB	265,912	3.50	34.05
Market Loans	30,000	4.03	43.99
<b>Total HRA Debt</b>	<b>295,912</b>	<b>3.55</b>	<b>35.06</b>
<b>Total Council Borrowing</b>	<b>1,080,294</b>	<b>2.32</b>	<b>29.09</b>

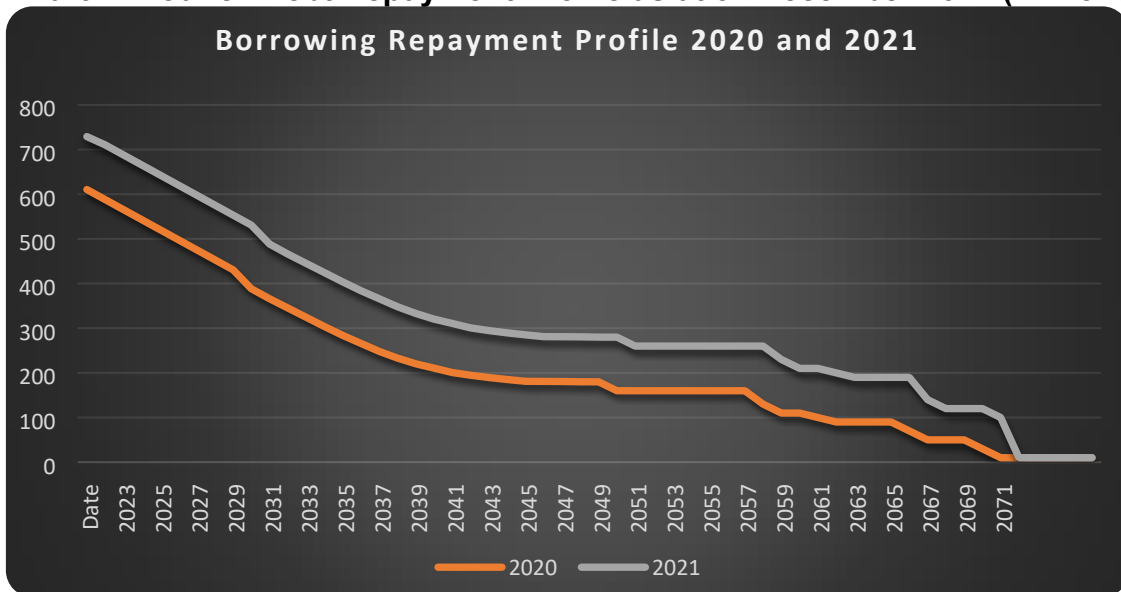
### 3.2 General Fund Debt

The GF debt can be split into short and long-term borrowing. Short-term borrowing is used to manage the Council's daily cash requirements and allows treasury to make strategic, longer term borrowing decisions while keeping the cost of carry low. Annual long-term borrowing amounts are summarised below. Repayments are from annuity and equal instalment repayments:

Year	Amount	Reason for Borrowing
Pre-2015	30.0	Capital Expenditure
2015	89.0	Abbey Road 2 and Gascoigne East Regen (Weavers)
2016	60.0	Film Studio Land
2017	120.0	Borrowing for Street Purchases and IAS
2018	150.0	IAS
2019	140.0	IAS
2020	60.0	IAS
2021	140.0	IAS
Various	- 59.6	Borrowing Repaid
<b>Total</b>	<b>729.4</b>	

Although the borrowing is long-term, a part of the Council's debt is repaid each year through either an annuity repayment or equal instalment repayment. As a result, the Council's debt repayment profile is relatively smooth, as outlined in the chart below. Future borrowing will be mapped against this repayment profile and the forecast cashflows to help refinancing risk but also allow for a steady reduction in the Council's debt exposure. The chart below also shows the increased borrowing taken by the Council in 2021/22 and the impact it has had on the repayment curve, showing there is a steeper repayment

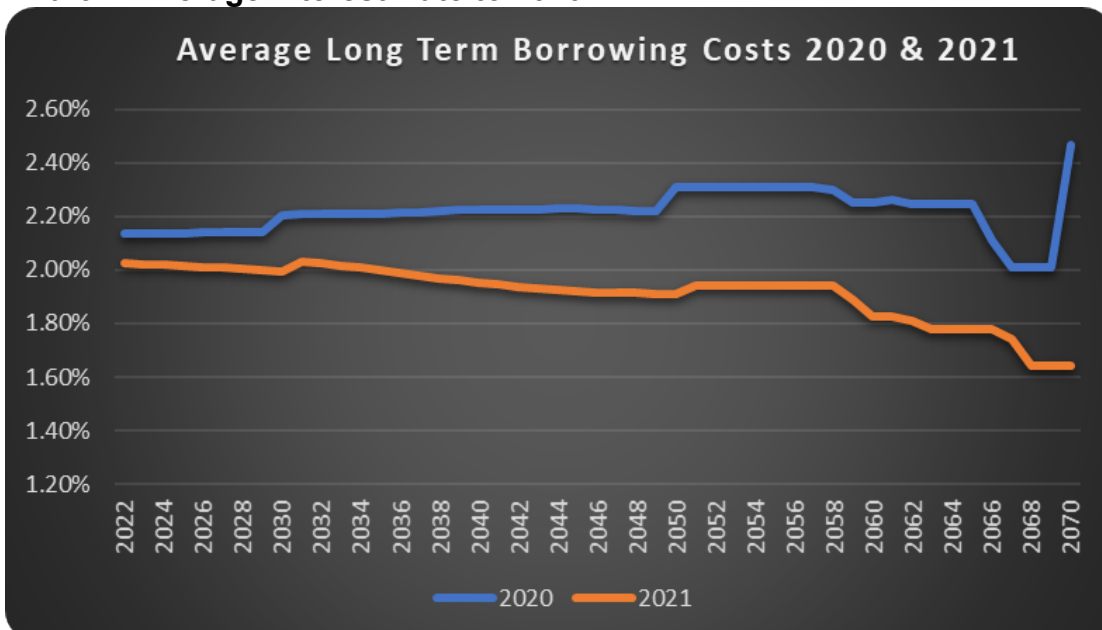
**Chart 1: Council Debt Repayment Profile as at 31 December 2021 (millions)**



### 3.3 General Fund Interest Costs

Currently the average long-term interest rate on GF borrowing is 1.99% for £729.4m borrowed. This rate now drops steadily to 1.64% in 2070 but on a reduced balance, as borrowing is repaid. The average rate for the duration is 1.92%. The average interest rate to 2070 is provided in chart 2 below:

**Chart 2: Average Interest Rate to 2070**



This balance include in the chart excludes short-term borrowing, which reduces the average rate for one year to 1.85% for £784.4m borrowed. The interest rate forecast is for rates to stay low for the next few years and there is a target to reduce the long-term average borrowing to below 1.7% (the previous target was to reduce it to under 2.0%).

### 3.3 Borrowing from Financial Institutions

The treasury section will generally borrow from the PWLB when rates are low. However, where cheaper or more appropriate borrowing is available from other financial institutions then this is used as an additional source of financing. With the PWLB margin back to 0.8% above Gilts, this provides an excellent source of finance to support the Council regeneration strategy.

Currently the following loans have been borrowed from financial institutions:

- i. European Investment Bank (EIB) Borrowing: In 2014/15 Cabinet agreed to borrow £89m from the European Investment Bank (EIB) as outlined below:
  - £66m from the EIB to finance the Gascoigne Estate (East) Phase 1;
  - £23m from the EIB to finance Abbey Road Phase 2.

The drawdown of the full £89m was completed on 30 January 2015 at a rate of 2.207% and currently the balance owed is £79.4m. The EIB loan does contain financial covenants that restrict to the Council's overall investment strategy. Discussions have been held with the EIB to increase the financial covenants of the EIB loan. These discussions have resulted in a significant increase in the covenant limits, as outlined below but also resulted in the interest rate from the EIB increasing by 1 basis point to 2.217% and a fee of £27,597.86 was payable:

- i. the Total Debt shall not exceed 150% of Operating Revenues;
- ii. Financing Costs shall not exceed 10% of Operating Revenues;
- iii. Liquid Assets should be at least 1.2 times Short-term debt; and
- iv. Debt Service shall not exceed 10% (ten percent) of Operating Revenue.

- ii. Green Investment Bank (GIB) Borrowing (now L1 Renewables)

At its meeting on 2 December 2015 the Council agreed to borrow £7.5m from the GIB to finance the Low Energy Street Light Replacement Programme via the UK GIB Green Loan. On 15 December 2016, a loan of £7.0m was borrowed from the GIB at a rate of 3.44% for a duration of 30 years. The borrowing drawdown period will be over a two-and-a-half-year period and will match the forecast expenditure. The repayment of the loan has been structured to best match the cashflows expected to be generated from the energy savings.

### 3.4 HRA Self Financing

The Council uses a two loans pool approach for long-term debt. The £265.9m of PWLB is from the HRA reform in 2012, with an additional £30m of borrowing transferred to the HRA in 2016 and 2020 to finance HRA new builds. The HRA previously had a debt cap of £291.60 but this was removed in 2018. A breakdown of the HRA borrowing is provided in table 5 below:

<b>Loan Type</b>	<b>Loan Amount</b>	<b>Maturity profile</b>	<b>Interest Rate</b>
	<b>£'000s</b>	<b>Yrs.</b>	<b>%</b>
<b>PWLB</b>	50,000	24	3.51
<b>PWLB</b>	50,000	34	3.52
<b>PWLB</b>	50,000	42	3.49
<b>PWLB</b>	50,000	43	3.48
<b>PWLB</b>	65,912	44	3.48
<b>Barclays</b>	10,000	60	3.98
<b>Phoenix Life</b>	20,000	40	4.05
<b>Total</b>	<b>295,912</b>		

#### **4. Repayment of Borrowing**

As short term borrowing rates are usually cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, any savings will need to be based on the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhance the balance of the portfolio (amend the maturity profile).

Internal borrowing can also be reduced by generating capital receipts, which will replenish cash balances and in accounting terms be used for financing historic spend rather than for new capital projects.

#### **5. Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.