Corporate Overview & Scrutiny Committee

Update on Council Borrowing – Briefing Note

Author Jonathan Wilson, Interim Director of Finance, Corporate Finance

Executive Summary

This briefing note provides the Committee with a summary of the impact of the recent intervention by government on the Council's approach to accessing loan finance to support the delivery of the capital programme and investment strategy. This is specifically in response to the wider impacts of directions announced by the Secretary of State on 2 September 2022 which implemented an intervention package at the Council.

From 2010 onwards the Council has largely funded the capital programme and investment strategy through the inter-authority borrowing market. However, since the announcement of the intervention package, access to this market has contracted significantly. Consequently, an urgent solution has been sought to ensure the Council could meet its debt repayments in accordance with the agreed contractual arrangements. This also ensures the ongoing integrity of the inter-authority borrowing market and manage further reputational risk in the sector

Furthermore, the Council is required to work with the appointed Commissioners to deliver specific directions which include the need to deliver sustainable capital, investment, and treasury management strategies. Hence, the revised approach to borrowing aims to create 'breathing space' to meet the directions by developing a sustainable Treasury Management Strategy which supports the longer-term strategic goals of the Council.

Background

The Council has a Treasury Management Strategy in place that was approved by Council in February 2022. This continued an approach to borrowing which has been operated since 2010 which prioritised the use of short-term funding to support the wider capital and investment strategies of the Council. This funding has been secured in the inter-authority market which, typically provides access to short-term funding (funding taken for up to one year) at rates lower than equivalent PWLB rates. By the end of the 2021/22 financial year short-term funding made up £1.162bn of the total £1.452bn debt held by the Council.

This approach initially funded the capital requirements of the Council but was subsequently expanded to support the funding of investments which was then formalised in the investment strategy agreed by Council in November 2017.

The approach continued into the current financial year but there remained exposure to interest rate risk and an over reliance on the inter-authority market. Furthermore, the prioritisation of short-term funding meant that borrowing was not specifically linked to the lives of the associated capital assets being funded. Finally, the ultimate repayment of circa £1bn of debt was linked to the redemption of investments of the same value and hence the Council accepted significant exposure to capital investment risk of circa £1bn representing the total value of capital debt and investments.

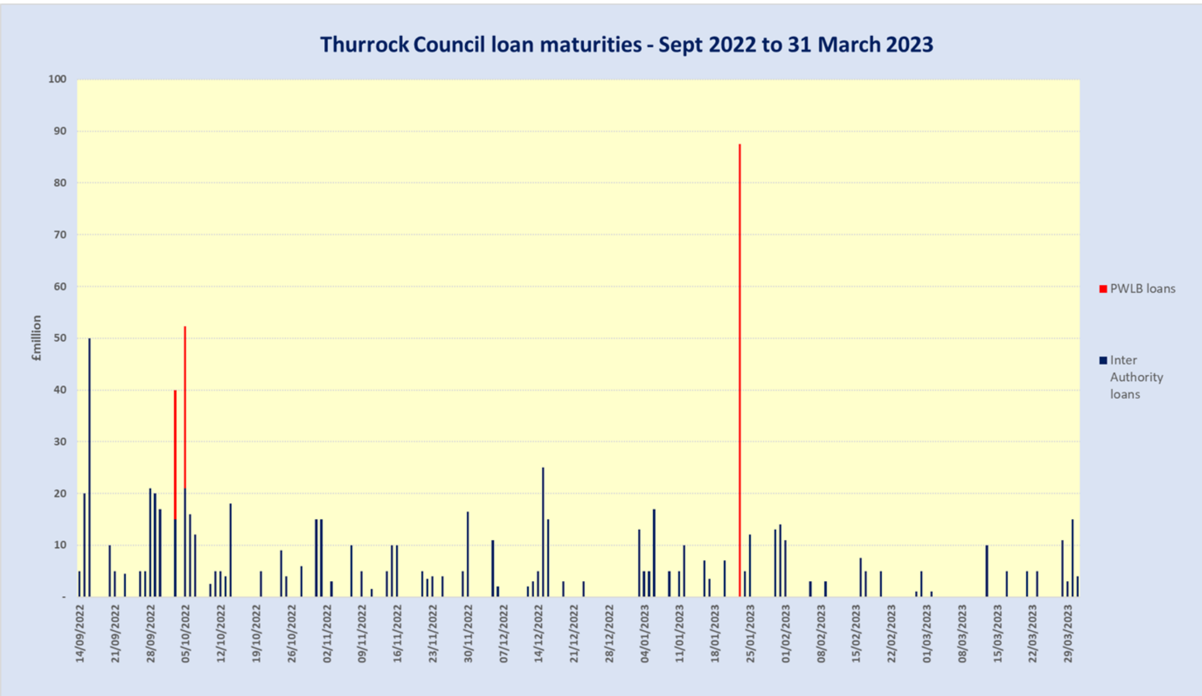
On 2 September 2022 the Secretary of State for the Department of Levelling Up, Housing and Communities (DHLUC) announced directions ordering an intervention package which reflected the scale of the financial and commercial risks potentially facing the Authority. The potential risks attach to the investment portfolio and remain under consideration between the Council, Commissioners and DHLUC.

Following the announcement of the intervention, the Council's access to the inter-authority market contracted and significantly increased the refinancing risk in the short term. Consequently, the Council has needed to work with Commissioners to seek a solution to the issue and provide wider assurance to local authority partners over the security of the funds lent to the Council.

Actions to Address Refinancing Requirements

The Council worked with the Commissioners to assess the funding requirements of the Council up to the end of the current financial year (to 31 March 2023). This confirmed that a total of £836m of short-term funding that was required to meet forthcoming cashflow requirements including the replacement of existing loans from counterparties in the inter-authority market. These total £687.5m of the total with the replacement of existing PWLB loans representing the balance. £177.5m has been repaid as at the 4 October 2022.

A detailed view of the maturity of this debt is shown in the graph below:



In light of the financial risks faced the Council and Commissioners have been in dialogue with DLUHC to agree a funding strategy that enabled the Council to repay the short-term funding back to wider local authority partners.

DLUHC have now agreed the funding strategy which provides access to funding from PWLB to replace existing funding. This is taken as a series of loans over one year which also supports the wider objective of providing further time for the Council to develop a response to the following specific directions of the Secretary of State. These require the Council to implement action plans to ensure its:

- Capital, investment, and treasury management strategies are sustainable and affordable.
- Debt is strictly reduced.
- Minimum Revenue Provision (MRP) policy for the repayment of debt is updated in line with all relevant rules and guidelines.

These actions are inextricably linked and will inevitably take some time to implement. As these directions are addressed the Treasury Management Strategy will then be refreshed.

The PWLB loans will be taken on a weekly basis and the amount will reflect the projected cashflow needs of the Council including the requirement to repay existing loans. This ensures the Council only borrow just in advance of need, so the overall quantum of debt is managed and the associated interest costs. It also ensures the Council is not exposed to a significant single debt repayment as the PWLB funding matures. It is noted there will be exposure to interest rate movements and this will impact the Council's revenue position in the current financial year initially. The current year impact will be confirmed as part of the Quarter 2 financial monitoring report and the MTFS is being updated to assess the projected longer term impact and will be reported to members as soon as practicable. The current proposed profile is set out below:

Loan	Application date	Settlement date	Repayment date	Principal £m
1	15 Sept 2022	23 Sept 2022	23 Sept 2023	50
2	22 Sept 2022	29 Sept 2022	29 Sept 2023	50
3	26 Sept 2022	03 Oct 2022	03 Oct 2023	100
4	04 Oct 2022	11 Oct 2022	11 Oct 2023	50
5	14 Oct 2022	21 Oct 2022	21 Oct 2023	50
6	25 Oct 2022	01 Nov 2022	01 Nov 2023	30
7	08 Nov 2022	15 Nov 2022	15 Nov 2023	45
8	18 Nov 2022	25 Nov 2022	25 Nov 2023	40
9	30 Nov 2022	07 Dec 2022	07 Dec 2023	50
10	12 Dec 2022	19 Dec 2022	19 Dec 2023	60
11	30 Dec 2022	09 Jan 2023	09 Jan 2024	40
12	16 Jan 2023	23 Jan 2023	23 Jan 2024	100
13	18 Jan 2023	25 Jan 2023	25 Jan 2024	60
14	02 Feb 2023	09 Feb 2023	09 Feb 2024	30
15	20 Feb 2023	27 Feb 2023	27 Feb 2024	45
16	16 Mar 2023	23 Mar 2023	23 Mar 2024	36
				836

The loan advances have commenced in line with the dates set out above and maturing loans from local authorities are being repaid in accordance with the contracted terms and conditions. The exact timing and amount of each drawdown may vary slightly from the dates set out above, depending on the Council's prevailing cash flow position.

Agreement of the process provides certainty over loan funding and enables certainty to be provided to existing counterparties in the sector over the security of their funds.