

BORROWING STRATEGY UPDATE

Finance & Investment Advisory Committee – 3 September 2024

Report of: Deputy Chief Executive and Chief Officer – Finance & Trading

Status: For Information

Key Decision: no

Executive Summary:

Provide members with information on the past present and future borrowing strategy and utilisation of cash resources to fund both operational and capital requirements.

Portfolio Holder: Cllr. Kevin Maskell

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Recommendation to Finance & Investment Advisory Committee:

- (a) That the report be noted.

Reason for recommendation: To ensure sound financial management by providing information on expected and future cashflows and borrowing requirements to aid with decisions relating to the Council's Capital Programme.

Introduction

- 1 The Borrowing Strategy is put forward as part of the Treasury Management Strategy each year and is approved by Council following consideration by the Finance and Investment Advisory Committee. The Council has some borrowing but in recent years has chosen to maintain an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt. Instead, cash balances have been utilised. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed and the Bank Rate begins to fall.
- 2 However, this strategy has resulted in a reduction in the level of investment balances the Council is able to hold, and therefore reduces investment income. In addition, the reduction in the overall cash balances has meant that short term temporary borrowing has been required due to the reduced cash flows experienced towards the end of the financial year.
- 3 The current level of internal borrowing is not sustainable and the ambitious capital aspirations of the council going forward, as set out in the capital programme, will require projects to be funded using appropriate levels of external borrowing.

Background

- 4 This Council has undertaken borrowing in previous years from the Public Works Loan Board (PWLb). This borrowing was taken on a long-term annuity basis and was used to fund specific capital projects. This borrowing is set out in the table below.

Reference	Amount Borrowed (£000)	Interest Rate	Term	Maturity Date	Balance at 31/03/24 (£000)
506539	5,500	2.66%	30 years	03/11/2047	4,504
444374	8,000	1.70%	20 years	25/11/2041	7,316
Total	13,500				9,350

- 5 The decisions not to fund capital spend from existing capital resources or external borrowing made over the last few years have resulted in internal borrowing balances. The table below sets out the movements over a 5-year period.

	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)	2022/23 (£000)	2023/24 (£000)
New Internal borrowing	4,096	5,795	3,533	3,119	3,146
Borrowing Repaid	0	(2,200)	(3,328)	0	(4,086)
Balance	4,096	7,691	7,896	11,015	10,074

6 The following table sets out other short-term cash flow and medium-term borrowing.

Reference	Amount Borrowed (£000)	Interest Rate	Term	Maturity Date	Balance at 31/03/24 (£000)
Crawley BC	2,600	4.6%	3 Years	12/06/2026	2,600
Furness Building Society	5,000	6.6%	1 month	19/04/2024	5,000

Capital Programme

7 Historically the capital programme has been relatively small but in recent years as the Council seeks to deliver its ambitions the capital programme has grown significantly. The capital programme is approved as part of the budget process each year and covers the 3-year period. Where a capital project is of sufficient value or importance it may be approved as a separate report which is approved by Cabinet or Council as appropriate.

8 The table below shows the value of the capital Programme excluding the Property Investment Strategy from 2019/20 to 2024/25.

Financial Year	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
Capital Programme	5	345	39	102	114

9 Through the initial years there has been no real requirement to borrow, and the capital programme could be funded through capital receipts or internal borrowing. These options have the added benefit of increasing project viability as there are no financing costs, although investment income is lost.

- 10 In addition to the savings made from not having to borrow we have also been able to lend to Quercus 7 and charge a market rate for these loans.
- 11 The table below shows the true value of our investment income and the savings that were made when internal borrowing was using to fund the capital programme and loans to Quercus 7.(is the income budget below relevant to the other lines as Q7 interest is included in the PIS?)

Financial Year and average %	19/20 £	Average %	20/21 £	Average %	21/22 £	Average %	22/23 £	Average %	23/24 £	Average %
Investment Income	254,295	0.89%	79,276	0.35%	40,428	0.110%	518,346	2.63%	901,922	5.11%
Interest from Loans to Quercus 7	105,985	2.93%	191,047	4.8%	275,993	4.66%	275,993	4.66%	275,993	4.66%
Interest saved on not borrowing externally	96,658	2.36%	140,239	2.4%	85,499	2.42%	145,969	4.68%	162,019	5.15%
Total	456,938		410,563		401,920		940,308		1,339,934	
Average % return		1.4%		1.2%		0.99%		2.59%		4.01%

- 12 However, as the capital programme value increases and the council has used its cash balances to the point that there is a need to ensure we have good operational liquidity. However, we are at the point that where a capital scheme includes external programme as part of the schemes approval then we will seek to borrow at the most advantageous time in terms of rates and funding requirement.
- 13 It should be noted that there has previously been a push to borrow in advance of schemes being approved. If this approach had been taken this would have been costly as some schemes have not been approved (e.g. Bevan Place) or delayed.
- 14 Detailed cashflows are produced to incorporate both operational needs and expenditure capital expenditure.

Key Implications

Financial

All financial implications are covered elsewhere in this report.

Legal Implications and Risk Assessment Statement.

Under Section 151 of the Local Government Act 1972, the Section 151 officer has statutory duties in relation to the financial administration and stewardship of the authority.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Climate Change Implications

The decisions recommended through this paper have a remote or low relevance to the council's ambition to tackle the challenge of climate change. There is no perceived impact regarding either an increase or decrease in carbon emissions in the district or supporting the resilience of the natural environment.

Conclusions

Sound financial management has been the key to the council's success and the decision to internally fund capital schemes and loans when interest rates were low has resulted in additional benefits through efficient use of cash resources.

However, as the capital programme expands it is proving to be more difficult to fund schemes through this method.

As interest rates have increased as well as the cost of construction the viability of schemes becomes more challenging and great importance is placed on due diligence and feasibility studies prior to material commitment to the scheme.

Appendices

None

Background Papers

None

Adrian Rowbotham

Deputy Chief Executive and Chief Officer – Finance & Trading