Appendix 1 – Planned Borrowing

1. Introduction

The Treasury function aims to ensure that the Council does not find itself in a position where it needs to borrow funds at unfavourable rates due to a lack of planning. In the June 2023 Treasury Management Strategy meeting (attended by the Section 151 officer among other officers) the need was identified for a cost analysis on whether it would be cost effective to borrow ahead of need for 24/25.

2. Updated borrowing need

In July 2022 the Council recognised that interest rates were increasing and likely to increase at a significant rate in the coming months. After taking advice from its Treasury Management Adviser, Link, the Council borrowed £66m in advance of need so as to reduce future anticipated higher interest rate costs.

This £66m was required to fund the following loans which were due to mature in the short to medium term and required refinancing:

Year	Value (£m)	Rationale
2022/23	20	Refinance short term loans maturing
2022/23	16	Replace cash received in advance of need
2023/24	22	Refinance short term loans maturing
2024/25	8	Refinance part of £21m PWLB loan – the balance of £13m was due to be repaid by other planned cashflows
Total	66	

This borrowing was due to cover planned expenditure; any new capital programme requirements identified after this would require additional borrowing. In addition, there may have been short-term borrowing required to cover general Treasury cashflow management activity. This strategy would have left the next PWLB maturity in 2025 when the Council would have had to review its cashflow position and consider whether borrowing to refinance was required, but this decision was expected to be taken past the major spike in interest rates which was forecast at the time.

There was an underlying assumption within this that the Council would retain a minimum balance of £10m available to it in short-term deposits in order to retain our Markets in Financial Instruments Directive (MiFID) status.

3. Latest Position

The anticipated cashflows of £13m may not now happen, which means the Council may need to borrow earlier than anticipated above*. The Council needs to consider when the best time is to borrow – i.e. now and invest surplus cash, or when the cash is needed.

**Please note that if these cashflows are not received that would mean that the Council receives additional interest payments from this.*

Link has also advised that, in the current market, it is harder to access cash at short notice. Therefore, the Council should consider whether it continues to assume a minimum balance of £10m or it should increase this to £20m to manage its liquidity.

4. Change of interest rate forecast

The other factor that has changed considerably since July 2022 are the interest rates. It was previously thought that 10-year PWLB interest rates would peak in Q2 & Q3 23/24 at 3.30% while it is now forecast to peak in Q3 23/24 at at least 5.00% with a much slower reduction in rates after that.

Link's forecast June 2022

Interest Rate Forecasts								
Bank Rate	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**
Link	1.75%	2.25%	2.75%	2.75%	2.75%	2.75%	2.50%	2.50%
Cap Econ	1.75%	2.25%	2.50%	2.75%	3.00%	3.00%	3.00%	3.00%
5Y PWLB RATE								
Link	3.20%	3.30%	3.30%	3.30%	3.30%	3.20%	3.10%	3.00%
Cap Econ	3.40%	3.80%	3.70%	3.60%	3.50%	3.50%	3.30%	3.20%
10Y PWLB RATE								
Link	3.40%	3.50%	3.50%	3.50%	3.50%	3.40%	3.30%	3.20%
Cap Econ	3.60%	3.80%	3.80%	3.70%	3.60%	3.60%	3.50%	3.30%
25Y PWLB RATE								
Link	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.60%	3.50%
Cap Econ	3.70%	3.80%	3.80%	3.80%	3.80%	3.70%	3.60%	3.50%
50Y PWLB RATE								
Link	3.40%	3.40%	3.50%	3.50%	3.40%	3.40%	3.30%	3.20%
Cap Econ	3.60%	3.80%	3.80%	3.70%	3.70%	3.70%	3.60%	3.50%

Link's forecast June 2023

Interest Rate Forecasts								
Bank Rate	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**
Link	4.75%	5.00%	5.00%	4.75%	4.50%	4.00%	3.50%	3.25%
Cap Econ	4.75%	5.25%	5.25%	5.25%	5.25%	4.75%	4.50%	4.00%
5Y PWLB RATE								
Link	5.00%	5.00%	5.00%	4.80%	4.50%	4.10%	3.70%	3.50%
Cap Econ	5.10%	4.90%	4.80%	4.60%	4.40%	4.20%	4.00%	4.00%
10Y PWLB RATE								
Link	5.00%	5.00%	5.00%	4.80%	4.40%	4.10%	3.80%	3.60%
Cap Econ	5.10%	5.00%	4.80%	4.60%	4.50%	4.30%	4.10%	4.00%
25Y PWLB RATE								
Link	5.30%	5.30%	5.20%	5.10%	4.80%	4.50%	4.20%	4.00%
Cap Econ	5.40%	5.30%	5.10%	4.90%	4.70%	4.60%	4.40%	4.30%
50Y PWLB RATE								
Link	5.10%	5.10%	5.00%	4.90%	4.60%	4.30%	4.00%	3.80%
Cap Econ	5.10%	5.00%	4.90%	4.80%	4.60%	4.40%	4.30%	4.20%

5. Borrowing ahead of need cost analysis

Calculations based on taking a loan now at the current PWLB rate for 2.5 years, compared to the cost of a 1-year loan from another Local Authority at the time of need at rates based on Link's forecast, showed that borrowing for a shorter term at the time of need was the most cost effective solution.

6. Link's advice

Working closely with our Treasury Management advisor, Link, their opinion on the matter is as follows:

'£12m temporary loans mature before [the] end of 2023 (calendar year) and £21m PWLB loan matures 19th Oct 2024 and as cash balances have fallen the expectation is for these to be re-financed with new loans – particularly if a cap is placed on minimum level of external investment.

The shortfall may not be replaced if cash balances allow for an increase in Internal Borrowing but if not, the cost will be higher than previously budgeted and our view is that any loan should be short term/temp to allow future refinancing when rates have fallen back from current levels.

Our forecast currently expects PWLB rates to be at around 4% (and possibly a margin higher) in Oct 2024, so the Council should plan for that cost if it will need to refinance the loan when it matures.

The key is going to be how quickly inflation in UK falls and how much MPC feel they have to increase [the] Bank Rate by to achieve their objective of returning CPI to 2%.'

7. Conclusion and Reasons for Recommendations

After carefully considering the cost implications with the data that was available on 16th June 2023, it was decided that borrowing ahead of need would not be in the Council's best interest at this time

The market will be closely monitored and, should any changes occur, new analysis and calculations will be carried out.

As interest rates are currently forecast to continue to fall the Council would then adopt a policy of borrowing short term as interest rates fall so it is not locked into higher interest rates for long periods of time.

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