

REPORT TO:	Audit & Governance
DATE:	22 November 2023
SUBJECT:	Premature Repayment of PWLB Borrowing
PURPOSE:	To inform Audit & Governance Committee of a delegated decision by the Deputy Chief Executive (Corporate Development) & S151 Officer in consultation with the Portfolio Holder for Finance to prematurely repay all PWLB borrowing.
KEY DECISION:	No
PORTFOLIO HOLDER:	Councillor Fry, Portfolio Holder for Finance
REPORT AUTHOR:	Sean Howsam, Interim Treasury and Investments Manager (PSPSL)
WARD(S) AFFECTED:	None Directly
EXEMPT REPORT?	No

SUMMARY

The Council borrowed £20m from the PWLB in 2018 following the Council's decision to purchase additional property fund investments.

Based on market rates on the 5 October 2023 the Council was eligible for a discount of £8.344m if it were to prematurely repay the £20m of loans. This would therefore require a payment of £11.656m to fully redeem the PWLB borrowing.

Due to the volatility of financial markets the value of discounts is subject to major fluctuations in value resulting from changes in the markets expectation for interest rates.

Following a review of the Council's overall treasury position the Deputy Chief Executive (Corporate Development) & S151 Officer in consultation with the Portfolio Holder for Finance made a delegated decision to prematurely repay all the PWLB borrowing of £20m at a cost of £11.656m.

The net general fund impact of the decision is an overall revenue gain each year in the first 10 years ranging from £740k to £930k.

This report is being submitted to Executive Board as an Appendix to the Quarter 2 Monitoring Report on 13 December 2023 and is being submitted to Audit and Governance Committee as the body responsible for receiving all treasury management reports.

RECOMMENDATIONS

It is recommended that Audit and Governance Committee note the report and delegated decision on 5 October 2023 by the Deputy Chief Executive (Corporate Development) & S151 Officer in consultation with the Portfolio Holder for Finance to prematurely repay all PWLB borrowing.

REASONS FOR RECOMMENDATIONS

The Council could be required to repay its external borrowing if the decision is made to redeem its property fund investment because of changes to Minimum Revenue Provision Statutory Guidance.

The Council is in a position where it can afford to repay the borrowing taking account of its projected Capital Programme and use of reserves in its Medium Term Financial Strategy.

The sudden rise in redemption rates provided an ideal opportunity to redeem the £20m borrowing with a reduced payment of £11.656m. Rates are reviewed by the PWLB twice daily and these discounts can rise or fall quickly.

The decision to redeem has produced an annual revenue saving of between £740k and £930k for the next 10 years.

The decision to repay the £20m of borrowing with the PWLB at an amount of £11.656m locks in the £8.344m discount even though this discount could have increased further or subsequently fallen, depending on market conditions.

In accordance with delegations contained in the Council's Constitution and the Council's Treasury Management Strategy the Section 151 Officer has delegated authority to make a decision to pay back existing borrowing providing all due diligence and other (CIPFA) financial rules have been complied with. The decision should be taken in consultation with the Portfolio Holder for Finance and reported to the next Audit & Governance Committee Meeting and the next quarterly meeting of the Executive Board.

OTHER OPTIONS CONSIDERED

Not to prematurely repay the borrowing or only repay part of the borrowing.

1. BACKGROUND

- 1.1** In 2018 the Council made the decision to invest a further £20m in property funds financed by borrowing.
- 1.2** The Council borrowed £20m from the PWLB at an average fixed rate of 2.465%. This borrowing is due for repayment in 2068.

1.3 The Council's annual budget for external interest payments on this borrowing is £493k.

2. REPORT

2.1 UK interest rates have risen rapidly from 0.10% in November 2020 to the present level of 5.25%. This has resulted in borrowing rates also increasing.

The Council can repay PWLB borrowing at any time and the general principal is that if the redemption percentage rate is below the existing loan rate, a premium would have to be paid. However, where the redemption percentage rate is above the existing loan rate, a discount would be received on the loan amount.

On 4 October 2023 the PWLB redemption rates rose sharply following a rise in yields on US treasuries and this had a knock on effect in the UK. These rates had fallen back slightly on 5 October 2023.

2.2 On 5 October 2023 the redemption rate was 4.70%. If the full £20m was to be repaid the Council would receive a discount of £8.344m meaning it would repay £11.656m to clear the borrowing with the PWLB. Under accounting regulations, the discount received would have to be allocated to revenue over a period of 10 years.

In addition to the above, the accrued interest up to the date of repayment of £161,027 would need to be paid.

Attached at **Appendix A** is a summary from Link Group, the Council's external treasury advisors, showing the revenue implications of repaying in full. The calculations take into account:

- the savings the Council will make on external interest payments
- the investment interest foregone which would have otherwise been invested based on Links current forecast for interest rates
- the annual discount of £834,425 for the first 10 years.

The Net General Fund Impact column shows the overall revenue gain each year in the first 10 years ranging from £740k to £930k. After 10 years this turns into a revenue loss of £117k each year with the final column showing the value of this amount based on net present value.

2.3 The Council invested a total of £24,080,935 (after deducting M&G liquidation distributions) in property funds of which £20,080,984 was capital expenditure.

The unfinanced element of this capital expenditure is £18.419m after taking into account Voluntary Revenue Provision charged to revenue in previous years.

The Council is required to make a prudent charge to revenue each year for this unfinanced capital expenditure and amended guidance is due to be released imminently which is expected to change how we calculate the minimum revenue provision. It is expected that we may be required to make an annual Minimum Revenue Provision charge over the

lifetime of the asset (maximum 25 years) for the property funds which would mean an annual charge to revenue of approximately £735k.

Once the guidance is released the Council's property fund investments will be reviewed. Early indications are that it may be more beneficial for the Council to redeem these investments to avoid this annual charge.

If the Council redeems the property fund investments the Council's financing requirement would drop to "Nil". The Council's external borrowing is not permitted to be above its borrowing requirement (except in the short term) so auditors would most likely take the view that the Council is over borrowed so Boston BC would be required to repay its £20m borrowing.

- 2.4** On 30 September 2023 the Council held investments totalling £108m and these investments range from instant access funds, time deposits for varying periods and property fund investments.

The decision to repay the borrowing will result in the Council having to temporarily borrow for cash flow purposes for short periods of time until such time as other fixed term time deposits are repaid to replenish instant access cash.

Based on current cash flow projections the Council would only be required to temporarily borrow in the region of £10m from 13/10/23 for approximately 2 weeks. There may be smaller amounts of temporary borrowing required if expenditure is higher or income lower than currently predicted but this would be minimal.

- 2.5** The Council's Capital Programme and Financing approved as part of the budget report is detailed below.

Capital Expenditure £'000's	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Non Towns Fund Projects	21,411	8,445	8,194	2,255	2,609	7,051
Towns Fund Projects	6,595	38,543	11,280	880	-	-
Total	28,006	46,988	19,474	3,135	2,609	7,051
Financing	(28,006)	(46,330)	(18,926)	(2,587)	(1,830)	(1,732)
Net financing need for the year	-	658	548	548	779	5,319

The 2023/24 budget has subsequently been increased to £66.4m to allow for previous years slippage and additional items which have been approved.

2.6 The projected reserve balances detailed in the budget report are detailed below.

Year End Resources £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund Balance	1,822	1,822	1,822	1,822	1,822	1,822
Earmarked Reserves	17,756	16,904	22,932	30,386	37,823	45,275
Capital Grants Unapplied	16,400	2,600	2,600	2,600	2,600	2,600
Capital receipts	5,525	5,525	5,525	5,525	5,525	5,525
Total core funds	41,503	26,851	32,879	40,333	47,770	55,222
Working capital*	4,000	4,000	4,000	4,000	4,000	4,000
Under borrowing	(5,499)	(4,657)	(5,108)	(5,489)	(6,032)	(10,988)
Expected investment	40,004	26,194	31,771	38,844	45,738	48,234

These expected investment balances are expected to be higher at each year end due to slippage in the capital programme.

3. CONCLUSION

3.1 This report updates the Audit & Governance Committee of the delegated decision on 5 October 2023 by the Deputy Chief Executive (Corporate Development) & S151 Officer in consultation with the Portfolio Holder for Finance to prematurely repay all PWLB borrowing.

4. EXPECTED BENEFITS TO THE PARTNERSHIP

4.1 None

5. IMPLICATIONS

5.1 SOUTH AND EAST LINCOLNSHIRE COUNCILS PARTNERSHIP

5.1.1 None

5.2 CORPORATE PRIORITIES

5.1.1 None

5.3 STAFFING

5.3.1 None

5.4 WORKFORCE CAPACITY IMPLICATIONS

5.4.1 None

5.5 CONSTITUTIONAL AND LEGAL IMPLICATIONS

5.5.1 In accordance with delegations contained in the Council's Constitution and the Council's Treasury Management Strategy the Section 151 Officer has delegated authority to make a decision to pay back existing borrowing providing all due diligence and other (CIPFA) financial rules have been complied with. The decision should be taken in consultation with the Portfolio Holder for Finance and reported to the next Audit & Governance Committee Meeting and the next quarterly meeting of the Executive Board.

5.6 DATA PROTECTION

5.6.1 None

5.7 FINANCIAL

5.7.1 The financial implications are covered in detail in paragraph 2.2 of this report.

5.7.2 The decision to redeem has produced an estimated annual revenue saving of between £740k and £930k for the next 10 years.

5.8 RISK MANAGEMENT

5.8.1 The Code of Practice sets out the framework for controlling the risks associated with treasury management decisions for borrowing and investing. Ultimately investment and borrowing decisions are made in accordance with the Council's Treasury Management Strategy.

5.8.2 The Prudential and Treasury Indicators control the limits for investing and borrowing, to ensure that any borrowing is affordable and sustainable and long term borrowing is for capital purposes only.

5.8.3 Repaying borrowing will reduce the level of investments held by the Council. This will therefore reduce the Council's counterparty exposure with financial institutions.

5.9 STAKEHOLDER / CONSULTATION / TIMESCALES

5.9.1 The Portfolio Holder for Finance was fully consulted prior to the delegated decision to repay being made on 5 October 2023.

5.10 REPUTATION

5.10.1 None.

5.11 CONTRACTS

5.10.1 None

5.12 CRIME AND DISORDER

5.12.1 None

5.13 EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING

5.13.1 None

5.14 HEALTH AND WELL BEING

5.14.1 None

5.15 CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

5.15.1 None

5.16 LINKS TO 12 MISSIONS IN THE LEVELLING UP WHITE PAPER

5.16.1 None

6. ACRONYMS

6.1 CIPFA - Chartered Institute of Public Finance and Accountancy

6.2 Public Works Loan Board

APPENDICES

Appendices are listed below and attached to the back of the report: -

APPENDIX A	Link Document – ELDC Premature Repayment of PWLB Borrowing 051023
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BACKGROUND PAPERS

Background papers used in the production of this report are listed below: -

Document title	Where the document can be viewed
ELDC Paper for Delegated Decision to Prematurely Repay PWLB Borrowing	Available on request
ELDC Executive Decision Notice	Available on request
ELDC Treasury Management Strategy Statement for 2023/24	(Public Pack)Agenda Document for Council, 01/03/2023 14:00 (e-lindsey.gov.uk)

CHRONOLOGICAL HISTORY OF THIS REPORT

This report is being submitted to Executive Board as an Appendix to the Quarter 2 Monitoring Report on 13 December 2023 and is being submitted to Audit & Governance Committee as the body responsible for receiving all treasury management reports.

REPORT APPROVAL

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