Brent	**Audit and Standards Advisory Committee** 20 January 2020
	Report from the Director of Finance

BRENT COUNCIL BORROWING STRATEGY UPDATE

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	**Part Exempt** Appendix 1, 2, 3 & 5 is not for publication as it contains exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely "Information relating to the financial or business affairs of any particular person (including the authority holding that information)".
No. of Appendices:	Five: 1. Forward Borrowing Strategy Review – September 2019 2. Addendum to Forward Borrowing Strategy following PWLB rate announcement 3. Revised Indicative Transaction Timetable 4. Member Briefing – PWLB rate rise 5. Local Authorities: Pricing Benchmarks
Background Papers:	None
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1.0 Purpose of the Report

1.1 In September 2018 cabinet approved a comprehensive borrowing strategy setting out the medium to long-term borrowing requirement for the council, whilst at the same time highlighting several options for funding. The report recommended that cabinet endorse the strategy and agreed that officers should (with the support of treasury and legal advisors) commence negotiations to agree a forward funding loan of up to £40m.

1.2 This report provides an update on the progress made in implementing the actions noted above.

2.0 Recommendations

2.1 That the committee note the work performed to date (in conjunction with our advisors) in developing and implementing the borrowing strategy set out in Appendix 1 and 2.

2.2 That the committee note the conclusion and next steps summarised in section 6 (Appendix 1) of the borrowing strategy report, along with the revised indicative transaction timetable summarised in Appendix 3.

3.0 Detail

3.1 In September 2018 cabinet approved a comprehensive borrowing strategy setting out the medium to long-term borrowing requirement for the council, whilst at the same time highlighting several options for funding. As explained in the report, up until now the council had adopted the strategy of funding capital spend from internal cash balances and delayed entering into borrowing commitments, which has proved to be highly effective.

3.2 As the council's borrowing requirement has not been immediately funded with loan debt but instead by using cash reserves, this has used up c£230m in cash that could otherwise have generated 0.7% (£1.6m) of investment income.

3.3 There was an option to borrow the £230m, however a 25-year loan at 3% would have cost the council £6.9m a year in interest payments. In simple terms, this strategy means that the council has foregone £1.6m investment income whilst at the same time saving £6.9m in loan interest payments. Capital financing costs of £5.3m per year have therefore been avoided for several years.

3.4 A key element of the council's successful financial strategy has been to expand the capital investment programme and enable it to deliver substantial revenue savings (e.g. the NAIL and PRS acquisition programmes are forecast to save £3.9m over the next 2 years).

3.5 Looking further ahead there are plans to utilise CIL (Community Infrastructure Levy) to undertake major infrastructure projects and in October 2019 cabinet agreed to fund i4B a further £110m equity and loan funding for phase 2 of the PRS programme (on top of the £110m agreed for phase 1). There have also been a number of major property acquisitions either already completed or near to completion in 2019. At the time of writing this includes 235 affordable units at Gloucester & Durham, 153 key worker units in Wembley plus a number of smaller property acquisitions in Harlesden.

3.6 To date major capital investment has been managed without the need to enter into new borrowing commitments, thereby reducing external interest costs as described above in paragraph 3.3. However, it is self-evident that this cannot be continued indefinitely; hence, this report provides an update on the steps taken for raising additional finance to support delivery of the capital investment programme.

3.7 A detailed review of the council's financial projections and borrowing requirement alongside key financial objectives are set out in Appendix 1. In line with the aspirations set out in September 2018 this strategy review recommends that the council utilise forward funding from the PP (Private Placement) market to partially fund the borrowing requirement and lock in the low rate environment whilst securing certainty of funding for the capital programme.

3.8 It is also worth noting that a key driver for this recommendation was to desire to diversify away from government funding, thereby opening up other funding options and reducing funding risk for the council. The decision to prioritise this approach has subsequently been vindicated post the PWLB rate hike which demonstrates the downsides of relying primarily on one funding source such as PWLB.

3.9 The council's formal response to the 1% PWLB rate rise on 9th October has been included in Appendix 4.

MBA (Municipal Bonds Agency)

3.10 The recent PWLB rate rise has boosted hopes that the UK Municipal Bonds Agency can finally issue its first bond. The MBA has failed to get its first bond off the ground since its launch more than five years ago, partly due to the low rates on offer to councils through the PWLB but also due to concerns around the joint and several liability that requires all members to collectively and individually guarantee the debt of each borrower.

3.11 However, the 1% hike in the PWLB's borrowing rates has given fresh impetus to the agency's hopes of getting an issue off the ground and the MBA will be a core part of the councils borrowing strategy going forward (see Appendix 4).

4.0 Financial Implications

4.1 Until recently the council has utilised internal cash resources to fund the elements of the capital programme in lieu of borrowing. This helps keep interest costs low as it delays the requirement to undertake new external borrowing. However, these resources are expected to be depleted by the end of 2019/20 so any capital expenditure not immediately financed by grants, reserves or other resources will have to be covered with new external borrowing.

4.2 This requirement could be met using a variety of sources including the MBA (Municipal Bonds Agency), PWLB or banks and private institutions. The interest cost and MRP arising from new borrowing will be met from the capital financing budget held within central items. Borrowing costs relating to HRA schemes are recharged to the HRA.

4.3 As set out in the Treasury Management Strategy the council has an internally set authorised borrowing limit of £1.2bn. Current actual external borrowing amounts to £491m (as at Dec 2019).

5.0 Legal Implications

5.1 Under part 1 chapter 1 of the Local Government Act 2003, a local authority may borrow for any purpose relevant to its functions or for “the prudent management of its financial affairs”. Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), as amended.

5.2 Each authority must set a total borrowing limit for itself in accordance with the principles of the Prudential Code. The borrowing limit will be related to the revenue streams available to the local authority, with which it can repay the debt.

5.3 The total amount that a local authority may borrow is governed by the requirements of CIPFA’s Prudential Code for Capital Finance in Local Authorities; and by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), as amended

6.0 Equality Implications

6.1 None

7.0 Any Other Implications (HR, Property, Environmental Sustainability - where necessary)

7.1 None

8.0 Proposed Consultation with Ward Members and Stakeholders

8.1 N/A

<u>Report sign off:</u>

Minesh Patel
Director of Finance