



## **EXECUTIVE DECISION NOTICE**

<b>SERVICE AREA:</b>	<b>FINANCE</b>
<b>SUBJECT MATTER:</b>	<b>LONG TERM BORROWING DECISION</b>
<b>DECISION:</b>	That it be DETERMINED that given the current rate of interest the council proposes to borrow £15m repayable on maturity in 50 years at the current interest rate of 1.67%.
<b>DECISION TAKER(S):</b>	Tom Wilkinson Councillor Oliver Ryan
<b>DESIGNATION OF DECISION TAKER (S):</b>	Assistant Director of Finance Executive Member for Finance and Economic Growth
<b>DATE OF DECISION:</b>	16 August 2019
<b>REASON FOR DECISION:</b>	To allow the financing of the Council's approved capital programme in line with its Treasury Management Strategy as approved by Council on 26 February 2019.
<b>ALTERNATIVE OPTIONS REJECTED (if any):</b>	To delay borrowing and risk paying a high rate of interest
<b>CONSULTEES:</b>	Executive Leader, Deputy Executive Leader and Chief Executive
<b>FINANCIAL IMPLICATIONS:</b> (Authorised by Section 151 Officer)	The cost of borrowing the proposed loan is at an interest rate of 1.67% (as at the morning of 16 August), with the principal repayable on maturity in August 2069. This is within the Treasury Management budget and in line with the Council's Treasury Management Strategy as approved by Full Council on 26 February 2019.
<b>LEGAL IMPLICATIONS:</b> (Authorised by Borough Solicitor)	Under paragraph 17 section 103 of the Council Constitution Financial Regulations and Procedures the Council has delegated responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive Cabinet, and for execution and administration of treasury management decisions to the Assistant Executive Director (Finance).  To act intra vires therefore the Assistant Executive Director (Finance) must act in accordance with the approved Treasury Management Strategy as referred to in the financial comments above, which is set out in Appendix 19E of the Treasury Management Strategy.
<b>CONFLICT OF INTEREST:</b>	None
<b>DISPENSATION GRANTED BY STANDARDS COMMITTEE ATTACHED:</b>	None
<b>ACCESS TO INFORMATION:</b>	The background papers relating to this report can be

	inspected by contacting the Report Writer, Saira Azim by:  Telephone: 0161 342 2111  E-mail: <a href="mailto:saira.azim@tameside.gov.uk">saira.azim@tameside.gov.uk</a>
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Signed   
Tom Wilkinson Assistant - Director of Finance

Dated: 16 August 2019

Signed   
Councillor Oliver Ryan - Executive Member for Finance and Growth

Dated: 16 August 2019

## 1. BACKGROUND

- 1.1 The Treasury Management Strategy was approved by Executive Cabinet on 13 February 2019 which includes the Council's Borrowing Strategy. The Strategy is in line with the CIPFA Prudential Code and Local Government Act 2003.
- 1.2 The Council is only permitted to borrow to finance its capital investment programme, and cannot borrow to fund on-going day to day expenditure, which must be funded from day to day income sources such as council tax, business rate income, government grant or revenue reserves. If an authority does borrow for capital investment purposes it has a duty to ensure that its borrowing is affordable, and must set its own limits on how much it may borrow. The method of doing this is set out in the Prudential Code for Capital Finance in Local Authorities.
- 1.3 All borrowing is to fund the purchase or enhancement of long term assets and as such the borrowing taken can be for periods of up to 50 years.
- 1.4 Tameside's loan portfolio as at 31 March 2019 was £111.7m containing £71.6m of long term fixed loans from the PWLB, £10m long term fixed bank loans and £30m of Lender Option Borrower Option (LOBO) loans. A further £15m was taken up on 7 August 2019, bringing the total borrowing to £126.7m.

## 2. CAPITAL FINANCING REQUIREMENT (CFR)

- 2.1 The Capital Financing Requirement (CFR) represents the level of borrowing required for capital purposes and is calculated from the aggregate of specified items on the balance sheet. The opening balance at the 01/04/19 is £182.611m. If other long term liabilities are included the total capital financial requirement is £282.176m.

Limit/indicator	2019/20 £000	2020/21 £000	2021/22 £000
Core Capital Financing Requirement	182,611	190,758	186,392
Other long term liabilities (e.g. PFI and finance leases)	99,565	96,874	94,059
Total Capital Financing Requirement	282,176	287,632	280,451

- 2.2 The Council's current actual long term borrowing is £126.7m, which represents an under-borrowed position of £54.548m, as outlined in the Treasury Outturn report to Audit Panel on 22 July 2019. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as the Council has taken the strategy to use cash from its reserves to meet the borrowing requirement.
- 2.3 This strategy is prudent as investment returns are low and counterparty risk is relatively high. The Council continues to have a high level of investments, and it is expected that these will continue during the next financial year. The Council will seek to maintain levels of external debt as low as possible, consistent with a consideration of wider risks and benefits.

### 3. INTEREST RATES

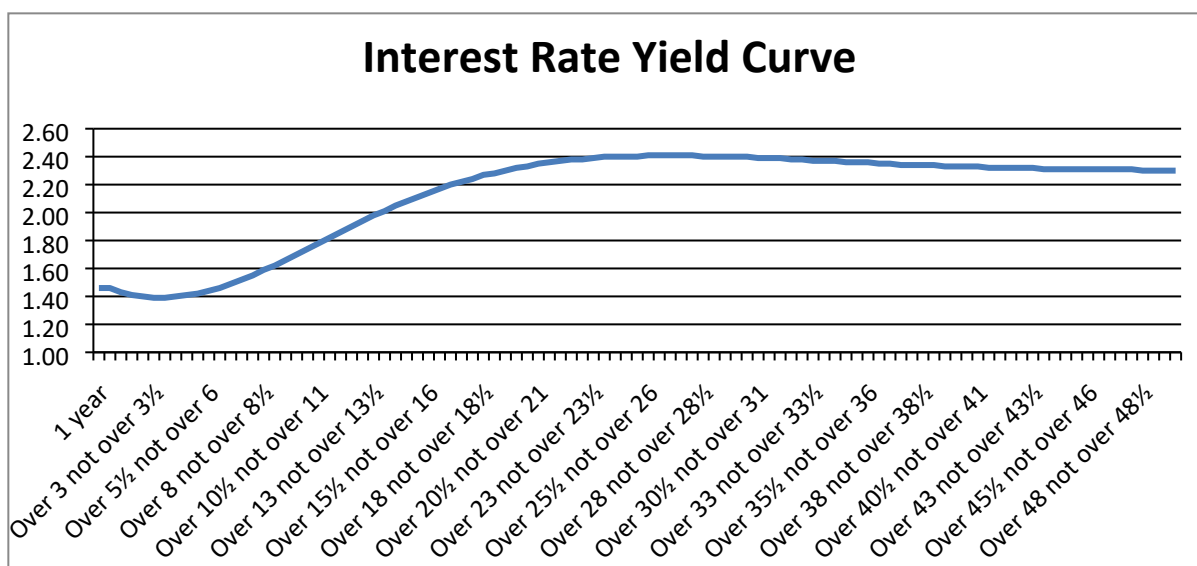
- 3.1 The uncertainty over future interest rates and concerns over counterparty credit worthiness increases the risks associated with treasury activity. In line with the Treasury Strategy, the Section 151 Office monitors the interest rates in financial markets and adopts a pragmatic approach in changing circumstances.

Interest Rate Forecasts								
Bank Rate	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Link	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%
Cap Econ	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	-	-
5Y PWLB RATE								
Link	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.10%
Cap Econ	1.50%	1.60%	1.70%	1.80%	1.95%	2.05%	-	-
10Y PWLB RATE								
Link	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%
Cap Econ	1.70%	1.80%	1.95%	2.05%	2.20%	2.30%	-	-
25Y PWLB RATE								
Link	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%
Cap Econ	2.20%	2.23%	2.40%	2.48%	2.55%	2.63%	-	-
50Y PWLB RATE								
Link	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%
Cap Econ	2.20%	2.20%	2.35%	2.45%	2.55%	2.70%	-	-

\*interest rate forecast as at 24 July 2019.

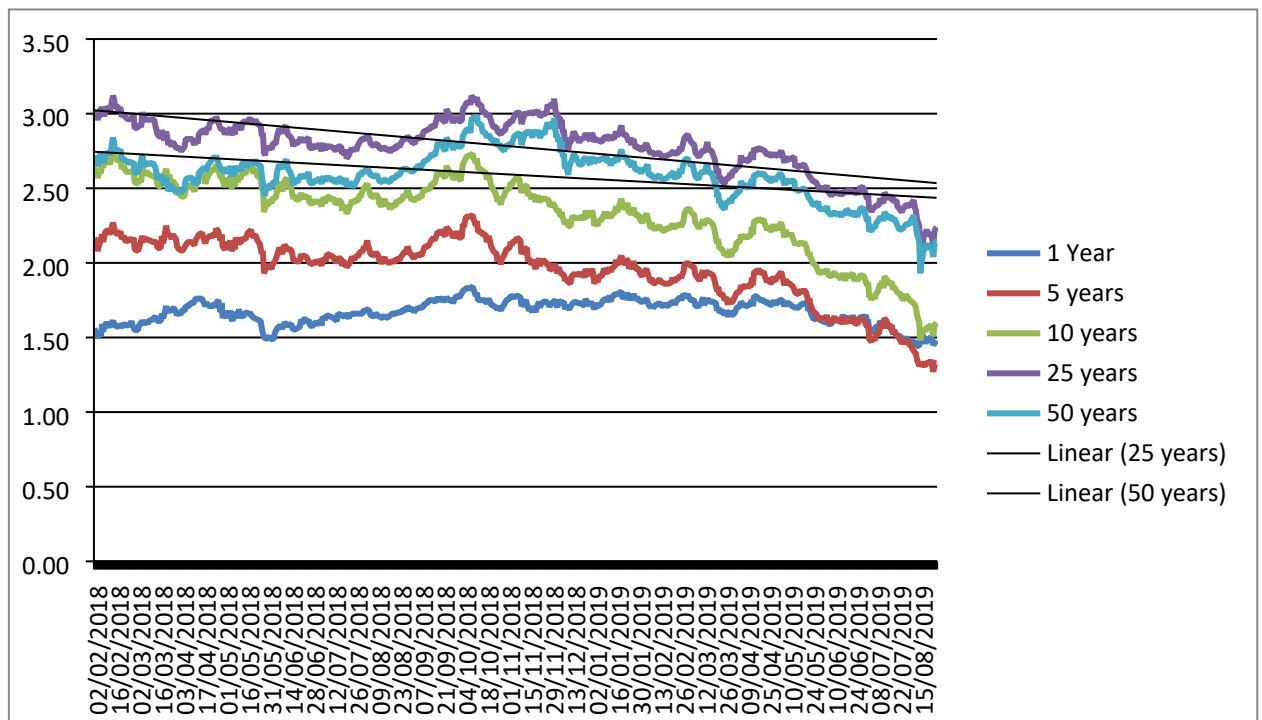
### 4. PROPOSAL

- 4.1 The Council's level of long term borrowing is significantly less than its underlying need to borrow as determined by the Capital Financing Requirement (CFR), as demonstrated through its under borrowed position of almost £70m. The Council has taken the proactive decision to delay borrowing, and use its internal resources to finance the capital programme, due to prevailing market interest rate conditions.
- 4.2 Currently the interest rate yield curve is positive, meaning that it costs more to borrow in the long term and it is cheaper to borrow over the short term. Whilst the Council holds significant cash balances it has been prudent to reduce these cash balances, which are invested in the short term money markets, rather than taking more expensive long term borrowing. In the long run the Council will need to borrow close to its CFR.



- 4.3 However, borrowing to fund the long term capital programme will affect the local taxpayer for many years to come, meaning that the decision to borrow, whilst influenced by the current short term interest rates, should also take into consideration the long term rates and the forecast for those interest rates. Taking long term borrowing whilst influenced by the current market interest rates, needs to be considered over the long term. Long term interest rates are forecast to increase by around 80 basis points over the next few years. Current long term interest rates are at an all-time low. This means it is prudent to take a proportion of the Council's borrowing requirement now to lock in the current low interest costs. Whilst there is a short term cost of carry (the difference between the cost of borrowing on the loan and the rate of return the Council will receive on its investment balances) with the interest rate outlook and the £55m under borrowed position it is likely to work out more cost effective in the long run.

#### **Interest Rates since January 2018.**



- 4.4 Given the current rate of interest the council proposes to borrow £15m repayable on maturity in 50 years at the current interest rate of 1.67%.