CABINET
2ND DECEMBER 2008

ITEM NO. ....

REVIEW OF COUNCIL BORROWING

Responsible Cabinet Member – Councillor Stephen Harker, Resources Portfolio
Responsible Director – Paul Wildsmith, Director of Corporate Services

SUMMARY REPORT

Purpose of the Report

1. To mitigate the effects of the current financial and economic downturn by achieving savings in the Council's capital financing costs.

Summary

2. Current financial and economic conditions pose many challenges for the Council, the local economy and residents, which are considered in a separate report on this agenda. Action has been taken, and officers are continuing to pursue opportunities, to mitigate the impact on the Council's own finances. One such opportunity is the rescheduling of borrowing. Repaying some carefully selected loans and replacing with loans at lower rates of interest enables the Council to reduce its revenue costs. A proportion of the total savings must be credited to the Housing Revenue Account. The estimated total saving on the General Fund account over the next three years is £1.1M.

3. The proposed rescheduling carries a risk that interest rates may rise, which could result in higher costs in future years. The alternative, i.e. not rescheduling, carries what officers believe to be a greater risk, that debt servicing costs would be higher than necessary.

4. Borrowing, including rescheduling of loans, is normally managed under the Director of Corporate Services' delegated powers. The proposals in this report are, however, different to usual practice in terms of scale, opportunity to reduce costs, and risks involved in either taking or declining the opportunity. It is believed appropriate, therefore, for Cabinet to consider this proposal.

Recommendation

5. It is recommended that Cabinet approve the proposed repayment of loans detailed in **Appendix 1**, funded by replacement loans at lower interest or reduced investments.

Reasons

6. The recommendations are supported by the following reasons: -

(a) Savings in annual financing costs can be made, which would mitigate the forecast reductions in investment income.

(b) The savings and risks involved in the proposed action are more advantageous to the Council than the estimated costs and risks of not acting.

Paul Wildsmith
Director of Corporate Services

Background Papers

No Background papers were used in the preparation of this report.

David Hall Extension 2303

S17 Crime and Disorder	There are no crime and disorder issues in this report
Health and Well Being	There are no health and wellbeing issues in this report
Sustainability	The report does not impact on sustainability
Diversity	There are no diversity implications in this report
Wards Affected	All wards are affected
Groups Affected	No particular groups are disproportionately affected
Budget and Policy Framework	The purpose of the proposed action is to improve the Council's financial position; it is within the Policy Framework
Key Decision	This is a key decision as it is likely to result in savings that are significant in regard to the budget for the service. It has not been advertised on the Forward Plan as the opportunity has arisen very recently and requires action to be taken quickly.
Urgent Decision	For the purpose of call-in, this is not an urgent decision. It is possible, however, that less favourable terms may be achievable if there is a delay in implementation.
One Darlington: Perfectly Placed	The intended outcome will help to safeguard resources to assist implementation of the Sustainable Community Strategy

MAIN REPORT

Information and Analysis

7. Councils' borrowing is restricted to financing capital expenditure and meeting short-term cash flow needs. The Council's total borrowing is currently £104M, which is all for financing capital expenditure.

8. The Council also has approximately £43M of investments. The investments are reserves, which the Council is required to hold for prudent financial management, and temporary cash flow surpluses. In light of the turbulence in the banking sector, particularly the breakdown of the Icelandic banking system, Cabinet reviewed the Council's Investment Strategy in November. The review formalised practices that had safeguarded the Council's investments. It also further reduced exposure to risks, which is likely to cause some reduction in returns. Recent reductions in Bank of England base rate, combined with forecast future reductions, mean that the Council's investment income will almost certainly be significantly reduced during 2009/10. By reviewing it's borrowing, the Council is able to mitigate that loss by reducing borrowing costs.

9. **Appendix 1** contains details of 13 loans totalling £28.6M with average interest rate of 4.38%. All of the loans are from the Public Works Loan Board (PWLB), the government agency that provides most lending to councils. They are long-term loans, at fixed rates of interest, due to be repaid between 2029 and 2040. They can, however, be repaid at any time.

10. PWLB's terms for early repayment include penalties or discounts, depending on forecasts of long-term interest rates. The loans identified in Appendix 1 can all currently be repaid with discounts, totalling approximately £0.9M. By repaying these loans, the Council would receive £0.9M. Regulations require such receipts to be credited to the Council's revenue account over a number of years. The estimated annual saving is £0.3M for 3 years.

11. In terms of cash, the Council would actually receive £0.9M from PWLB this year. The cash flow saving on that receipt would be approximately £0.040M per annum.

12. To be able to repay £28.6M of loans, the Council must either replace them with other borrowing or reduce the amount of money it has invested. Replacement loans can be arranged with PWLB at lower interest than is being paid on existing loans. The actual interest rates obtained will depend on the period of each loan. Shorter term loans would achieve the best rates, but a manageable spread of maturity dates must also be maintained. The estimated total annual saving in interest is approximately £0.3M.

13. Officers, assisted by Butlers, the Council's treasury management advisers, are continuing to evaluate the options. It is proposed that the Director of Corporate Services, under existing delegated power, determine the most advantageous option, possibly involving some reduction in investments in combination with replacement loans. The figures in this report are based on replacement loans with an equal spread of maturity periods of one, two and three years. The information in Appendix 1 is as at 5th November 2008. Actual rates fluctuate daily so that the precise savings may be greater or less than those indicated.

14. There is a risk that interest rates may rise, resulting in higher costs in future years. Long-term rates are forecast in increase over the next 3 to 5 years. The risk of future interest rate changes is managed by ensuring that the Council avoids having very large amounts of loans due for repayment within too short periods of time. The current profile of loan repayment dates is shown in **Appendix 2** and the profile that would result from the proposed rescheduling is shown in **Appendix 3**. Clearly, the proposed action increases the value of loans that mature in the short term (next 3 years).

15. Officers, with advice from Butlers, believe that this risk is manageable, in terms of likelihood, impact and action that will be possible to mitigate any increase in costs. If interest rates rose by 1% above the rates being paid on existing loans, the cost would be approximately £0.3M per annum. On balance, the risks and costs inherent in not taking advantage of current rescheduling opportunities are believed to be greater than those of the proposed rescheduling.

Outcome of Consultation

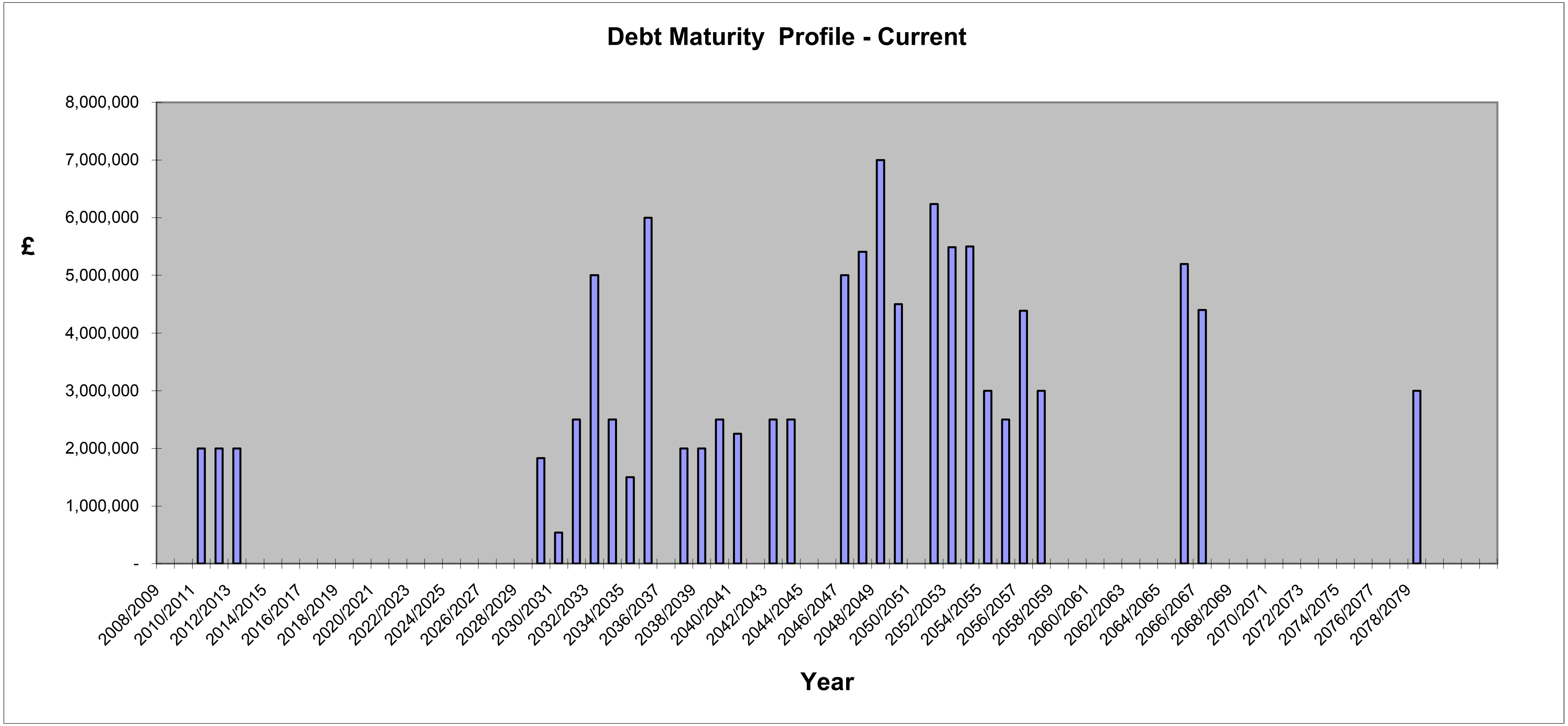
16. The subject of this report does not require consultation.

APPENDIX 1

SCHEDULE OF CURRENT LOANS PROPOSED TO BE REPLACED

Principal £	Interest rate	Maturity Date	Discount Rate	Life of Current Loan (years)	(Discount) £	Interest on Existing Loan £	Interest on New Loan £	Cash flow benefit of Premium £	Premium Debited to HRA p.a £	Premium Debited to GF p.a £	Annual General Fund Savings £	Total General Fund Savings £
£1,831,819	4.625%	31-May-29	4.74%	20.56	(27,481)	84,722	59,351	(1,237)	(902)	(9,229)	27,508	55,015
£539,814	4.700%	30-Sep-30	4.73%	21.89	(2,194)	25,371	17,490	(99)	(72)	(737)	6,129	12,259
£2,500,000	4.250%	31-Oct-31	4.70%	22.98	(157,061)	106,250	81,000	(7,068)	(5,156)	(52,749)	76,777	153,554
£3,000,000	4.350%	31-Aug-32	4.68%	23.81	(141,235)	130,500	97,200	(6,356)	(4,637)	(47,434)	76,157	152,314
£2,000,000	4.500%	31-Oct-32	4.68%	23.98	(51,556)	90,000	64,800	(2,320)	(1,693)	(17,315)	36,562	73,124
£2,500,000	4.350%	31-Aug-33	4.65%	24.81	(109,736)	108,750	81,000	(4,938)	(3,603)	(36,855)	60,433	120,865
£1,500,000	4.450%	30-Apr-34	4.64%	25.48	(42,336)	66,750	48,600	(1,905)	(1,390)	(14,219)	28,315	56,630
£3,500,000	4.450%	30-Apr-35	4.61%	26.48	(85,139)	155,750	113,400	(3,831)	(2,795)	(28,594)	60,872	121,743
£2,500,000	4.250%	31-Oct-35	4.59%	26.98	(130,754)	106,250	81,000	(5,884)	(4,293)	(43,914)	66,758	133,516
£2,000,000	4.350%	31-Jul-37	4.54%	28.73	(60,652)	87,000	64,800	(2,729)	(1,991)	(20,370)	38,011	76,022
£2,000,000	4.350%	31-Jul-38	4.51%	29.73	(52,109)	87,000	64,800	(2,345)	(1,711)	(17,501)	34,757	69,515
£2,500,000	4.350%	31-Jul-39	4.45%	30.73	(41,650)	108,750	81,000	(1,874)	(1,367)	(13,988)	34,502	69,004
£2,250,000	4.350%	31-Jul-40	4.43%	31.73	(30,513)	97,875	72,900	(1,373)	(1,002)	(10,248)	28,397	56,794
28,621,633	4.38%			26.27	(932,415)	1,254,968	927,341	(41,959)	(30,611)	(313,152)	575,177	1,150,355

APPENDIX 2



Debt Maturity Profile - Current
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
-
£
2008/2009
2010/2011
2012/2013
2014/2015
2016/2017
2018/2019
2020/2021
2022/2023
2024/2025
2026/2027
2028/2029
2030/2031
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2062/2063
2064/2065
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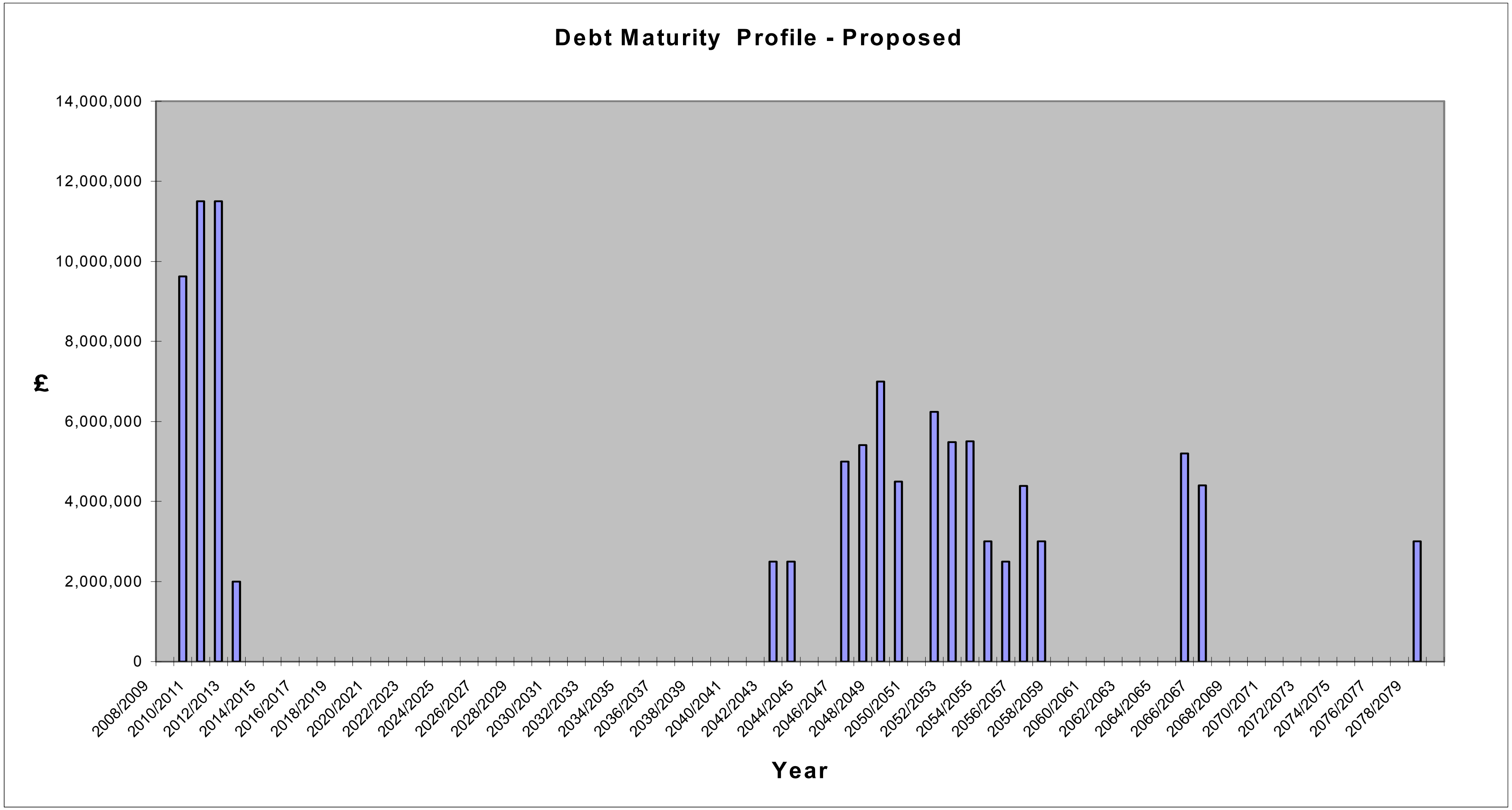
2072/2073
2074/2075
2076/2077
2078/2079
Year

APPENDIX 3


Debt Maturity Profile - Proposed
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
£
2008/2009
2010/2011
2012/2013
2014/2015
2016/2017
2018/2019
2020/2021
2022/2023
2024/2025
2026/2027
2028/2029
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2060/2061
2062/2063
2064/2065
2066/2067
2068/2069
2070/2071
2072/2073
2074/2075
2076/2077
2078/2079
Year