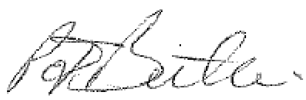
Proposed decision to be taken by the Deputy Leader on or after 10 July 2020

Public Works Loans Board – Future Lending Terms: Warwickshire County Council's Response to the Government Consultation

Lead Member	**Councillor Peter Butlin**
Date of decision	**13 July 2020**
	Signed 

Decision
(1) To approve the framework for the County Council's response to the Government's consultation, as set out in paragraph 7.3. and the draft response at Appendix A. (2) To authorise the Strategic Director for Resources to update the draft response, prior to its submission to Government, subject to any amendments being consistent with the approved framework.

Reasons for decisions
The Public Works Loan Board (PWLB) is a public body that lends to local authorities to enable them to finance capital projects. As part of the Budget, in March 2020, the Government announced its intention to cut the interest on all new loans from the PWLB, subject to market conditions, and the implementation of a robust lending framework. The primary purpose of the new lending framework is to deliver on the Government's intention to stop authorities borrowing from the PWLB to buy

commercial assets primarily for yield, without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration.

The Council has set out its ambitions for the future in the Council Plan, the MTFS and associated capital strategy. These plans and strategies include material growth in the level and pace of our capital investment over the medium term. Overall it is therefore in the Authority's interest for the new lending framework to be in place at the earliest opportunity so that the Government reduces the PWLB interest rate and the cost, to the Council, of borrowing to finance an enhanced capital programme decreases.

It is therefore important in responding to the consultation paper that, whilst the Council can accept the thrust of the Government's position that the use of PWLB for investment in services and local regeneration should be prioritised, rather than investment primarily for yield, the reality is more nuanced.

Local authorities need to be able to consider and evaluate the best financial options available to deliver their democratically agreed Council priorities and policy objectives. This rationale is consistent with the current statutory guidance, the Prudential Code. It represents a flexibility in public financial management, balanced by accountability, which we do not want to see eroded. Our response to the consultation should make this clear.

Background information

1. Purpose of the Report

1.1. As part of the Budget, in March 2020, the Government announced its intention to cut the interest on all new loans from the PWLB, subject to market conditions and the implementation of a robust lending framework. A consultation paper designed to deliver the new lending framework was issued, with a closing date of 31 July 2020. The purpose of this report is to seek approval to the County Council's response to that consultation paper.

1.2. The report highlights the key issues raised in the consultation that need to be considered as part of developing the new lending framework, the Government's proposed approach and those areas that, as an Authority, we would wish to highlight in any response. **Appendix A** lists the consultation questions and our draft response to them.

1.3. The Portfolio Holder is asked to approve the basis of the County Council's response, as set out in paragraph 7.3 and to authorise the Strategic Director for Resources to update the draft response, prior to its submission to Government, if further information and insight becomes available, subject to any amendments being consistent with the approved basis of the response.

2. Context: Purpose of the New Lending Framework

2.1. Local authorities are acknowledged as playing an essential role in the delivery of public infrastructure, investing £billions every year. It is also accepted that as part of this investment, local authorities' own buildings that could serve a commercial purpose and use commercial structures as part of this. The new lending framework is not designed to stop support for this investment.

2.2. However, a recent report by the National Audit Office (NAO) highlights that local authority borrowing has grown substantially in recent years, led by a minority of local authorities that have started using low-cost loans from the PWLB to buy investment property primarily for rental income/yield rather than for the direct pursuit of policy objectives.

2.3. Whilst Government had been raising concerns for a while, in the summer of 2019 local authority borrowing was so high it raised the risk that the statutory limit on the total PWLB debt that may be outstanding at one time would be breached, leading to an abrupt halt in lending. In response, the Government legislated to increase the statutory limit on PWLB lending from £85bn to £95bn and raised interest rates on new PWLB loans by 1%. The intention of raising rates on new PWLB loans was to slow all borrowing from the PWLB, not just borrowing for debt-for-yield activity, to get the overall national finances back on an even keel.

2.4. The Government accept that for the individual project or local authority, the case for 'debt-for-yield' activity can be compelling, but the Government believes this unacceptably increases economic risk at a local level and national level:

- At the local level, it exposes taxpayers to the risk that the expected income does not materialise, leaving the local authority with an inflexible commitment to keep up with the repayments on their loans, resulting in reduced funding for core services where the authority's overall budget assumed a certain level of income;
- Within the wider public sector, it diverts money from core services such as schools, hospitals, and roads and as such is a low value use of public resources as the PWLB available to of local authorities is subject to a statutory limit on the total PWLB debt that may be outstanding at any one time; and

- It risks distorting local and regional markets because local authorities can access debt more cheaply than the private sector, making it hard for businesses to compete and, in the wider economy, crowds out private investment and risks distorting property markets. For example, the NAO estimate that 18% of all spending on commercial property sold in the South East since 2016 was by local authorities.

2.5. The overall position is that the Government remains supportive of the current prudential system of local authority capital finance and believe it leads to good outcomes in most areas. But the Government believes it has failed in relation to the potential return on investment assets; where it has destabilised the system and removed the natural affordability limit on local authorities' borrowing and debt.

2.6. It is therefore the Government's intention to use the new lending framework to stop authorities borrowing from the PWLB to buy commercial assets primarily for yield, without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration under the prudential regime. The consultation questions are primarily designed to meet this requirement.

2.7. All the County Council's outstanding borrowing (£340m) is from the PWLB, as it has traditionally provided loans at lower levels of interest than the other lenders in the market. With the increase in the interest rate announced last summer PWLB borrowing is now not always the cheapest option available. It is therefore in our financial interest, and that of local government more generally, to get the new lending framework in place at the earliest opportunity and reduce the cost of borrowing we face. This is especially crucial in the context of economic recovery post Covid-19, given the need for investment, business support and stimulus, in which councils will play a key role in supporting recovery from what is likely to be the most serious economic slump since the South Sea Bubble in 1720.

3. The Government's Proposals

3.1. The Government's proposals that form the basis of the consultation are:

- Requiring local authorities that wish to access the PWLB to confirm that they do not plan to buy investment assets primarily for yield, as assessed by the statutory S151 officer;
- Publishing guidance defining the activity that the PWLB will no longer support, with clear protections for service delivery, regeneration, housing, and the refinancing of existing debt;

- Continuing to allow local authorities to buy investment assets primarily for yield but, if they do so, removing their ability to take out <u>any</u> new loans from the PWLB in the year in which they have bought the asset. This is needed because it is accepted that local authorities fund their capital programmes as a whole rather than on a project-by-project basis;
- Requiring any local authority that wishes to borrow from the PWLB to submit a capital plan for the current and future years in sufficient detail for PWLB to assess whether the authority is planning a debt-for-yield scheme anywhere in their capital programme, including through a local authority-owned company or a joint venture, regardless of whether their planned PWLB borrowing is notionally tied to that project or to a different project; and
- Reserving the right, if a local authority borrowed from the PWLB and was subsequently found to have pursued a debt-for-yield scheme despite the assurances given through the application process, for HM Treasury to require loans in that year to be repaid on demand.

4. Government's Proposed "Allowable" Capital Spending

4.1. The critical issue for making the Government's proposals work is clearly and equitably defining the activity which the PWLB would support (service spending, housing, regeneration, and refinancing) or would not support (investment assets bought primarily for yield).

4.2. Individual projects and schemes may have characteristics of several different categories. In these cases, the Government propose that the s151 officer will be asked to use their professional judgment to assess the main objective of the investment and categorise a project as such.

4.3. For most areas of capital investment where we would look to borrow to finance the spending the service delivery outcomes are clear. Two areas are more complex to define – housing and regeneration - and both have the potential to be conflated with investment assets bought primarily for yield. The Government's position, as outlined in the consultation is:

- **Housing** - Housing is more complex because of the relative concentration of cross-subsidy and other innovative financing arrangements, which means there could be more projects that have characteristics of the unsupported activity. However, the intention is that access to the PWLB would in principle be allowed for land release, housing delivery, or subsidising affordable housing.

- **Regeneration -** The working definition of regeneration projects are those with one or more of the following characteristics:
    - The project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector;
    - The project prevents a negative outcome, including through buying and conserving assets of community value that would otherwise fall into disrepair;
    - The local authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or is otherwise making a significant financial investment;
    - The project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value; and
    - While some parts of the project may generate rental income, these rents are recycled within the project or applied to related projects with similar objectives, rather than being applied to wider services.

5. Government's Proposed 'Disallowed" Capital Spending

5.1. The type of projects that the Government's proposed are intended to stop because they are designated as primarily investment for yield are projects with one or more of the following characteristics:

- Buying land or existing buildings to let out at market rate;
- Buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification; and
- Buying land or existing buildings other than for housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly.

6. Implications for the County Council

6.1. The Council set out its ambitions for the future in the Council Plan, the MTFS and associated Capital and Commercial Strategies. These plans and strategies include material growth in the level and pace of our capital investment over the medium term. Overall it is therefore in the Authority's interest for the new lending framework to be in place at the earliest opportunity so that the Government reduces the PWLB interest rate and, as a consequence, the Council's cost of borrowing to finance an enhanced capital programme decreases.

6.2. Two of the Council's newly approved strategies potentially conflict with the Government's direction of travel as set out in the consultation paper:

- The Investment Strategy states that one type of our non-treasury management investment we will consider is commercial investments – where an investment is primarily for the purpose of generating an income stream or return to support the overall financial position of the local authority; and
- One of the purposes of the Commercial Strategy is to increase income streams into the Council to reduce the amount of financial savings it will need to make, which will in turn help the Council invest in priority services.

6.3. The Government's proposals mean any capital projects delivered under these two criteria would no longer be eligible for PWLB borrowing and may restrict access to PWLB borrowing for other purposes. To avoid falling foul of any new requirements and avoid having to resource significantly higher borrowing costs as part of financing any investment it is critical that all our future capital investment has, as its prime driver, an economic or social policy rationale.

6.4. It is this risk to our investment plans that is at the heart of why responding to this consultation paper is important. Our responses to the consultation questions will need to be framed in light of what the Government is seeking to achieve. The alternative to finding a positive way through is the Government replacing the statutory prudential framework that underpins current capital investment decisions and reverting to giving individual authorities borrowing limits that restrict the size of their capital programme. For Warwickshire, such an approach has the potential to detrimentally curtail what we are trying to achieve and will mean more capital investment decided through a competitive bidding process administered by central Government, and obvious detriment to local ability to undertake place shaping activity and stimulate economic recovery post Covid-19.

7. Framework for the County Council's Response

7.1. The central purpose of the consultation - to develop a new lending framework to stop authorities borrowing from the PWLB to buy commercial assets primarily for yield, without impeding their ability to pursue their core service policy objectives - is fundamental to the structure and shape of the Authority's capital programme and its financing going forward.

7.2. Many of the consultation questions are technical and relate to the treasury management practices of local authorities. However, it is important, given the potential wide-ranging impact, that Members agree the basis of the County Council's position and require the detailed responses to the individual consultation questions to align with that position.

7.3. It is therefore recommended that the Deputy Leader approves the following framework as the basis of the County Council's response to the Government's consultation and requires that the responses to the detailed technical questions are consistent with this framework:

- We support the thrust of the Government's position that the use of PWLB for investment in services and local regeneration should be prioritised;
- In doing this, local authorities need to be able to consider and evaluate the best financial options available to deliver their democratically agreed Council priorities and policy objectives, taking into account the risk and revenue impact of any capital expenditure.
- This rationale is consistent with the current statutory guidance, the Prudential Code. The Code represents a flexibility in public financial management, balanced by accountability, which we do not want to see eroded. We would strongly oppose any further moves towards a more prescriptive framework and any punitive penalty regime;
- This consultation commenced prior to what will be the biggest economic challenge in many decades. Local authorities will need to be ambitious to get the country back up and running economically and taking appropriate levels of risk on a local basis. We would not wish to see changes implemented that restrict how we can meet this challenge;
- The review should not stop ambitious authorities from delivering for their residents. Being ambitious and taking appropriate risks and being risk aware is not being reckless, and it is important Government does not set an excessively tight framework as a result of outlying borrowing practice by a small number of councils;
- We would encourage the Government to move at pace in implementing plans for a more robust system so that the intention to lower interest rates on all new PWLB loans can be delivered; and
- We accept the Government needs to have a monitoring role, but they also need to set out some rules and parameters within which they will work so local authorities understand their role clearly. We do not support any proposal that risks imposing 'back door' controls on council spending.

Financial implications
There are no immediate financial implications for the Authority as a result of the decisions made in this report. However, there are likely to be financial consequences for the Authority once the outcome of the Government's consultation is known and new arrangements put in place. These will be picked up as part of the annual Medium Term Financial Strategy (MTFS) refresh.

Environmental implications
There are no environmental implications are a result of this report.

Timescales Associated with the Decision and Next Steps
The County Council's response to the Government consultation on a new Lending Framework and local authorities access to the PWLB will be submitted by the consultation deadline of 31 July 2020 (extended from the original date of 4 June due to Covid-19). The outcome from the Government's consultation and the resulting revised Lending Framework will then be published in the coming months. Once this has happened the Authority will need to reflect the outcomes in the refreshed MTFS. Depending on the outcomes of the consultation with may also include updating the Commercial, Capital, Investment and Treasury Management strategies.

Members and officers consulted and informed		
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The following Elected Members have been consulted in the preparation of this report: Boad, Butlin, Chattaway, Chilvers, O'Rourke, Seccombe, Singh Birdi, Roodhouse, Warwick.

List of background papers
None

Appendix A

Draft Warwickshire County Council Response to the Government's PWLB Future Lending Terms Consultation

Q1: Do you use the PWLB to support treasury management, for example by refinancing existing debt, or to externalise internal borrowing?
Yes, if the opportunity arises and the business case supporting the decision indicates it would represent value for money for the Authority over the short **and** medium term. There is an opportunity, through this consultation, to look more widely at the cost of refinancing and/or the early repayment of debt that could support local and national financing priorities in a post Covid-19 economy.

Q2: How far do the lending terms of the PWLB affect the terms offered by private lenders?
We cannot quantify the impact of PWLB lending terms on private lenders, but undoubtedly they affect supply and demand in lending market as whole.

Q3: Are there any other effects or uses of the PWLB beyond those described here?
We have not identified any other effects or uses of the PWLB but, as in our response to Q2, local authorities are such big players in the market that the PWLB influences all aspects of the lending market.

Q4: Do you think the Government's proposals would be effective in achieving the aim of stopping authorities borrowing from the PWLB to buy commercial assets primarily for yield, without impeding their ability to pursue their core policy objectives?
We support the thrust of the Government's position that the use of PWLB for investment in services and local regeneration should be prioritised. The proposals wouldn't be frictionless but would go some way to achieving goals Government has set out. We would caveat this by saying that in doing this, local authorities need to be able to consider and evaluate the best financial options available to deliver their democratically agreed Council priorities and policy objectives, taking into account the risk and revenue impact of any capital expenditure.

This rationale is consistent with the current statutory guidance, the Prudential Code. It represents a flexibility in public financial management, balanced by accountability, which we do not want to see eroded. We would strongly oppose any further moves towards a more prescriptive framework. The Debt Management Office should not be taking powers upon itself to make decisions that should be taken by elected councillors or undermine controls on council spending which have been delegated to councils by Parliament.

This consultation commenced prior to what will be the biggest economic challenge in many decades. Local authorities will need to be ambitious to get the country back up and running economically and taking appropriate levels of risk on a local basis. We would not wish to see changes implemented that restrict how we can meet this challenge. The review should not stop ambitious authorities from delivering for their residents. Being ambitious and taking appropriate risks and being risk aware is not being reckless.

Local authorities are now required to agree an Investment Strategy on an annual basis. Part of the Investment Strategy is to set indicators that place limits on investment for commercial return that will introduce new controls. The proposals in this consultation paper introduce further changes before there has been time for Investment Strategies to be effective.

Q5: Do you agree that local authorities finance their capital requirement in the round, and that it is not therefore possible to meaningfully link PWLB borrowing to specific spending?

We agree. Any revised arrangements should continue to allow authorities to borrow to finance their programme overall and should not link borrowing to individual projects.

Q6: If you answered 'no' to question 5, do you have an alternative suggestion?

N/A

Q7: Do you agree that the approach of requiring repayment-on-demand is a reasonable approach to the situation in which a local authority borrowed from the PWLB and was subsequently found to have pursued a debt-for-yield scheme despite the assurances given through the application process? If not, how would you recommend that the government addresses this issue?

We would hope that such a situation would not arise, but if it does there is a need for any response to be proportionate. It is probable that any council involved will have acted in good faith. Given the nuanced and overlapping categorisation likely for individual schemes and the potential for a scheme classified as 'debt-for-yield' to be relatively small compared to an authority's overall use of PWLB in any year, any penalties should be restricted to the level of capital spend on the scheme itself and be proportionate e.g. linked to the interest rate being charged. In this circumstance, the charging of an early repayment penalty seems to be harsh. Anything more than this may impact on service delivery and impact on the delivery of core services to local residents and should be avoided. The reputational risk to an authority's S151 officer if they found themselves subject to such a clawback regime would, of itself, influence decision-making.

PWLB, like a commercial lender, is entitled to deny credit on a proposition which does not meet its criteria; but we are concerned about the potential to refuse finance in an arbitrary way on all propositions just because there is another, separate, activity being undertaken to which the lender objects. It is also worth nothing that all these discussions and decisions take place in a political environment. We would oppose any aspect of the arrangements that risk the politicisation of treasury management.

Q8: Do you think that the Government's proposals would limit your ability to effectively manage your existing investment portfolio in a year in which you still wish to access PWLB borrowing for 'accepted' purposes?

We do not expect the proposals to impact at this stage, but some of the activity we might want to invest in to support Covid-19 recovery (e.g. taking equity shares in companies, providing loans to businesses to support economic recovery) may require us to manage the profile of spend in our capital programme more carefully. It may also encourage us to use non-PWLB sources of financing if there is a perceived lack of flexibility or risk, so reducing the options available to us. There is a risk of unintended consequences if such potentially excessive sanctions, such as immediate repayment, prevent appropriate, policy-driven opportunities to shape Warwickshire as a place for fear of destabilising core service delivery.

Q9: Do you have a view on when in the calendar or financial year this new system should be introduced?
The parts of the proposals that would result in a reversion to the interest rate calculations used before October 2019 should be introduced as soon as possible. The wider changes should be introduced from the start of a financial year. However, the decision should be announced in advance – at the latest by the December of the previous calendar year so Authorities can include any financial implications as part of their budget setting for the year in which the new arrangements come into effect.

Q10: Do you agree that these new lending terms should apply uniformly to larger LAs in England, Scotland, and Wales?
Yes, the private lending market is single market and anything other than a uniform application risks distorting the market.

Q11: Do you agree that it is not necessary to change the arrangement for smaller authorities?
Yes, but this should be kept under review depending on the level of PWLB borrowing taken out by smaller authorities. Also, the level of risk to the sustainability of smaller authorities' finances through engaging in such activity is significantly more than for larger authorities.

Q12: The government proposes that you submit your plans for the year or years ahead. Over what period could you provide meaningful plans?
We could provide meaningful plans over 3-5 years in terms of expected levels of borrowing in the MTFS, accepting that the later years would be subject to change and are less detailed than those for the current and next financial year. For example, this year Covid-19 has significantly changed the planned content of our programme in year. Over the medium term many allocations in the capital programme are based on programmes of activity in service areas rather than individual projects e.g. highway maintenance, school maintenance, provision of new school places. The individual projects are often only identified through prioritisation processes for 1 or 2 years ahead.

There is also a need for the system to be sufficiently flexible to recognise financing changes over time not just the programme e.g. the timing of capital receipts is always variable.

Q13: This proposal would also require a short description of the projects in each spending area to improve the government's understanding of how the PWLB is used, but without putting an unreasonable reporting requirement on local authorities. What level of granularity would give this understanding? For example: projects covering 75% of spending? Anything over £5 million per year? Etc
The government acknowledged in the consultation paper that local authorities finance their capital programme overall. Therefore, for this approach to work would require authorities to provide details of their overall programme. Any system would also need to recognise that capital programmes change materially in year as new developer funded schemes are agreed or new government grants, whether as a result of a policy initiative or success in a bidding process, are awarded.

The level of capital spend also varies materially between authorities based on their size and functions. Therefore, in terms of granularity a figure based on the size of the capital programme more appropriate. At an authority level a figure for the ratio of the average annual capital programme to the net revenue spend may also be an indicator of the potential level of risk in the borrowing. The £5m figure for identifying individual schemes is a reasonable balance between the extra administrative burden and the need for greater clarity about how funding is being used, however it has to be accepted that most authorities will only have a handful of individual schemes in their capital programme of over £5m.

For Warwickshire County Council, 75% of our approved capital programme for the next five years is made up of individual programmes costing over £5m. On the face of it this would suggest the proposed criteria are reasonable. However, in concluding that these criteria seem reasonable the following caveats should be borne in mind:

- the 75% only relates to 12 programmes/projects and the three largest (£64.5m for highway maintenance, £49.7m for the provision of additional school places and £51.3m for Section278 schemes) are all funded from government grant or developer contributions and would therefore not help assessing whether PWLB borrowing is being used for the purposes intended; and
- the individual projects over £5m only equate to 15% of the programme.

Q14: Do you agree that the section 151 officer of the applicant authority should assess if the capital plan is eligible for PWLB access, or would it be more suitable for another body to do this?
Yes. Should the proposal be implemented, there is no other body/individual to do this. It also reinforces the accountability of the S151 officer in the management of the financial affairs and decision-making of the authority.

Q15: Would you as an s151 officer feel confident categorising spending into the categories proposed here? If not, what would you propose instead?
Yes.

Q16: Would these proposals affect the ability of local authorities to pursue innovative financing schemes in service delivery, housing, or regeneration?
Any proposals need to recognise that the economy can change both gradually and with near immediacy and this passage of time can alter the nature of the investment outcomes and review findings against the original objectives. The strategic objectives and approach by the Government must help with the much-needed support for the economy, jobs and residents. Any oversight must be sufficiently flexible to look through the investments and focus much more importantly on a medium- and longer-term basis without penalising the authority unnecessarily.

Authorities have already started to discuss more innovative arrangements to supporting post Covid-19 economic recovery that these proposals might hinder. We would be concerned in these uncertain times that the proposals prevent such activity going ahead.

There is a secondary risk that authorities would need to consider when deciding whether to go ahead with a planned investment - how the retrospective review of the use of borrowing is undertaken. A key concern is in relation to time elapsed between the initial investment and a scheme going forward to completion. There are instances of buying land or existing buildings which generate income as part of the land assembly but then the overall project is delayed due to changes in market/economic conditions (covid-19) or getting funding approval/planning permission for the whole regeneration package. We would not want these changes in external factors to mean than retrospectively investment is deemed to be ‘for yield’.

Q17: Are there specific examples of out-of-area capital spending for service delivery, housing, or regeneration that support policy aims?
We work collaboratively with neighbouring authorities to deliver joint policy aims/projects and this may mean investing out-of-area. Examples include projects funded through the Coventry and Warwickshire LEP where capital spend is 'shared' e.g. A46 Stoneleigh, KNUCKLE rail, shared fire stations across the border.

In these cases, out-of-area means investment that straddles or is just over the county border of is part of a wider collaborative agreement such as the LEP or combined authority. We would not wish to see any of these examples excluded from access to PWLB if it was needed to complete the funding package for a major project.

Q18: Would these proposals affect your ability to refinance existing debt?
No, subject to the concerns raised in the answer to Q16 on the risk of retrospective reviews.

Q19: Would these proposals affect your ability to undertake normal treasury management strategies? If so, how, and how might this be avoided?
Normal treasury management is about having the cash to function and deliver funding needed for services and that resources are allocated to spread the risk. Policies are dependent on the level of cash we have. These proposals should not change what we want/need a sustainable treasury management policy to be.

Q20: Do you have any views about the implications of these proposed changes for people with protected characteristics as defined in section 149 of the Equality Act 2010? What evidence do you have on these matters?
We have nothing to add to the comments in the consultation paper.

Q21: Is there anything that could be done to mitigate any impact identified?
N/A

Q22: Is there anything else you would like to add on this issue?
No.

Q23: Why did MRP fall as debt rose? Was the 2018-19 increase a one-off, or do you expect MRP to continue growing?
Any private sector organisation going through difficult financial times has the option to re-finance debt and/or lengthen the period of loans. Local government, during the period of austerity, considered opportunities to do the same and many authorities changed their MRP policies. The result would be a step change in the link between MRP and debt. If MRP policies have now stabilised again then there should be no reason why the swings of recent years should continue.

Q24: Why do you think the average loan length is increasing?
The length of loan preferred by local authorities depends on their view of current compared to future interest rates. Interest rates have been at a historic low for a long period of time and are expected to return to 'normal' levels over the medium to long term. Therefore, at the point where refinancing/replacing short term loans is judged on the balance of probabilities to be more expensive there will be a move to take out longer length loans.

Q25: What impact would changes to the maximum available length of loan, and/or the existing offer of repayment methods, have on your finances?
Reducing the maximum available length of loans reduces one of flexibilities available to authorities when operating an effective treasury management service and may impact on debt financing costs of authority, for which resourcing would need to be identified.

The impact of the changes to repayments methods would depend of the options provided and which of the current options were removed.

Q26: What are the benefits of the existing two-day turnaround time for PWLB loans?
No comment.

Q27: What would the impact be of increasing the time between loan application and advance – for example, to three or five working days?
No comment.

Q28: How long could the turnaround time be for a PWLB loan before the PWLB becomes less attractive?
No comment.

Q29: Do you have any PWLB debt that would you like to repay early? If so, what is the total value of this debt and at what price/discount would this be viable?
We have £342m PWLB debt outstanding at weighted average interest rate of 4.9% and would look to refinance some/all of this if the cost/premium made it worthwhile. An assessment on a loan-by-loan basis would need to be undertaken, using an NPV methodology to balance short and long-term costs.

Q30: How much PWLB debt would you transfer to other local authorities if you could?
Any decision to transfer PWLB debt to another authority would depend on the terms and whether it was in our financial interest to do so.

Q31: If novation were permitted, under what circumstances would you take on debt from another LA rather than taking on new borrowing from the PWLB or another source?
If novation were permitted, any decision would require the option to be competitive in terms of rates and suitable in terms of maturity profile. Additionally. we would want conditions that ensure lending to us is 'clean' and our reputation and financial standing is not impacted by the perceptions of another authority. Having the ability to novate loans would be positive, but the extent to which it would be used depends on local conditions e.g. the availability of capital receipts.

Q32: Are there any other barriers to discharging unwanted PWLB debt?
The main barrier to discharging unwanted PWLB debt is the early redemption penalties. A secondary consideration is the local policy priorities that support the use of cash balances for other purposes in the short to medium term e.g. to provide loans for non-treasury, service purposes.

Q33: Should HM Treasury introduce a process by which borrowing by an individual authority might be slowed or stopped without affecting PWLB access or terms for other local authorities?
We would be supportive of ability to target individual authorities, but only where there is evidence it is the right thing to do. We have concerns about the impact on reputation of the individual S151 and reputation of individual authorities from such intervention. Whilst generally not supportive, the oversight process it is preferable to a blanket approach that affects all authorities.

Q34: Under what circumstances should this process be applied?
See comments in response to Q34. Where authorities are breaking the rules that were in place when the borrowing was requested or assessed to be borrowing beyond affordable limits are the type of circumstances where a process could be applied.

Q35: Do you use DMADF currently, and if so, why?
We use DMADF to invest short term balances where quick, fast access to cash is required or for diversification and security.

Q36: What would make you increase your use of DMADF?
We would increase our use of DMADF if it provided better rates of return.

Q37: Does your local authority actively consider borrowing from alternative lenders to finance capital investment?
If we were actively considering borrowing, we would look wider than PWLB to assess whether it is the right answer at the time.

Q38: If you answered 'yes' to question 37, what are the reasons that would inform your choice to borrow from other providers?
Any decision to borrow from other providers would depend on the terms, particularly the interest rate and flexibility of us.

Q39: What are the main reasons that you borrow from other local authorities and how do these reasons differ to borrowing from the PWLB?
The reasons for borrowing from other local authorities do not differ from borrowing from the PWLB or other providers. It is a business decision and would depend on the terms, particularly the interest rate and flexibility of us.

Q40: Following this, is there a case for changing the name of the PWLB?
PWLB is a well-known and understood term, therefore the benefits of changing the name are unclear.