Borrowing

The SCR Group's debt portfolio relates solely to its transport functions.
The MCA currently has no borrowing powers in relation to its economic development powers at present. This will however change when the Devolution deal is implemented.

Current debt portfolio

The SCR Group has a £187m debt portfolio. A summary analysis is provided in the table below:

External borrowing	29.1.2020 Actual £'000	29.1 2020 Actual %
Fixed rate PWLB	166,375	89
Market loans	20,000	10
Other loans	660	1
Total investments	**187,035**	**100**

With regard to the £20m of market loans, the lender has an option to change the interest rate periodically on specified call dates. Under CIPFA's Code of Practice on treasury Management these are classified as variable where they are in their call period. However, in the current low interest rate environment it is considered unlikely that these call options will be exercised given interest rates currently being paid on these loans ranges from 4.50% to 4.95% whereas the prevailing rate for equivalent PWLB borrowing is between 3.0 and 3.1%.

Borrowing strategy

The interest rate prospects set out in the investment strategy in Appendix 1 indicate that investment returns are likely to remain low for the foreseeable future and below PWLB borrowing rates with both on a gently rising trend over the next few years. In particular, the Government's decision to increase PWLB rates by 1% on 9 October 2019 to between 2.2% and 3% means that the gap between the cost of borrowing and likely rates of return on short term investments has widened significantly.
In view of this, the policy adopted by the MCA has been to avoid the cost of carry by using treasury investments to meet borrowing requirements internally rather than take out external borrowing.
The Director of Finance will monitor interest rates in the financial markets and consider the appropriateness of maintaining this strategy should there be a material change in circumstances.
In addition, it is the SCR Group's current strategy is to repay debt as it falls due rather than to refinance debt. This assumption has been built into the financial plans resulting in a projected fall in external interest costs as debt is repaid.

Indicator 7 – Maturity structure of borrowing

This indicator is used where an authority refinances rather than repays debt when it falls due. The aim is to spread the maturity profile so that an authority is not exposed to debt repayments being concentrated at a time when interest rates might be disadvantageous.
This risk doesn't apply to SCR Group under the current borrowing strategy of repaying debt as it falls due.

The maturity profile is important however in ensuring there is sufficient liquidity to meet loan repayment as they fall due and on determining what investments returns can be expected in future years.
This maturity profile is summarized in the table below on the assumption that market loans will not be called leading to early repayment.

Maturity of borrowing:	Amount £'000	%
2020/21	53,000	28%
2021/22	7,975	4%
2022/23	8,000	4%
2023/24	50,400	27%
2024/25	4,000	2%
2025/26	4,000	2%
2026/27	4,000	2%
2027/28	22,000	12%
2028/29	0	0%
2029/30	4,000	2%
2030/31	4,000	2%
2043 to 2056	25,000	13%
Total	**£186,375**	**100%**

Borrowing in advance of need

The MCA will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the MCA can ensure the security of such funds.

Risks associated with any borrowing in advance will be subject to prior appraisal and reporting through the mid-year treasury report or annual report on treasury management.

Debt Rescheduling

Short term borrowing rates are currently lower than longer term rates.
There would therefore be potential opportunities to generate savings by switching the PWLB debt portfolio from long term to short term.

However, the current premature repayment rates of between 0.3% and 1% are significantly lower than rates on the SCR Group’s PWLB loan portfolio which range from 4.25% to 8.75%. Early repayment would therefore incur a substantial premium. When this was last reviewed in 2017/18, that cost of terminating loans early far outweighed any potential gain. There is therefore little realistic prospect of repaying PWLB debt early in the current low interest rate environment.

Financial guarantee

The MCA has a wholly owned subsidiary, the SCR Financial Interventions Holding Company whose sole purpose is to hold finance to support the delivery of the LGF programme. The company does not trade, is controlled by the SCR Executive and only has intercompany transactions with the MCA.

Under Companies legislation, the company can be made exempt from the requirement for audit, and therefore save the public purse, if the MCA as parent provides a financial guarantee in the required format stating the financial year to which it relates.

The effect of the guarantee is that the MCA guarantees all outstanding liabilities to which the company is subject at the end of the financial year to which the guarantee relates until they are satisfied in full; and, the guarantee is enforceable against the MCA by any person to whom the company is liable in respect of those liabilities. However, as the company’s only liability is to the MCA, there is no risk to the SCR group. It is therefore proposed that the MCA provides a financial guarantee in respect of the 2019/20 financial year and that this remains in force if and until such time that the company transacts with parties other than the MCA. As the MCA's Financial Regulations allow the Finance Director to enter into any borrowing, investment and financing arrangements on behalf of the Authority compliant with the Treasury Management Policy, it is recommended that delegated authority be given to the Group Director of Finance to provide the financial guarantee on the MCA's behalf for filing with Companies House.