BCC Long Term Debt

Resources Overview & Scrutiny Committee

8 September 2022

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BIRMINGHAM 2022 commonwealth games

PROUD HOST CITY

Birmingham City Council

Why have Debt?

Two reasons Council's borrow:

- To pay for Capital expenditure
- To manage Cash flow in the short term

- Long term Debt relates to Capital Expenditure
- Illegal to borrow to fund day to day activities

Financing of Capital Expenditure

- Borrowing is an accepted form of Capital financing – Prudential Code
- Matches costs to the benefits – e.g. 40 year asset be paid for over 40 years, not 1.
- Generational equity
- Revenue budget could not afford such level of investment

Other Capital financing sources:

Grants (Govt, developers, donations); Capital receipts and revenue.

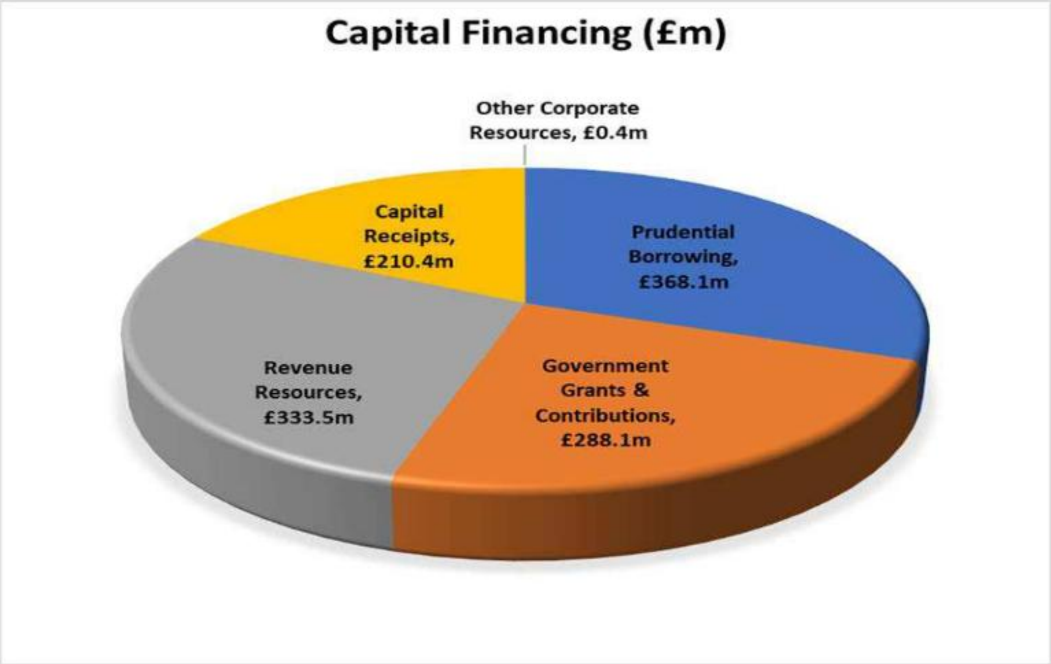
Debt is the sum of past borrowing yet to be repaid

BCC Capital programme and Borrowing

Financial Plan identified £1,200.4m of Capital Spend over 2022-26

Some 30% is funded by borrowing –

and of this 2/3 is self - financed



BCC Debt statistics

As at 30 June 2022, the Council had total external loan debt of £3.035bn

Debt per head of population is £2,661: 41st in the ranking for all 480 UK local authorities. (DHULC data)

When adjusted by the proportion of gross service expenditure that the authority is responsible for, Birmingham's debt position is 130th out of the 480 local authorities. (Arlingclose)

How we borrow

- Internal Borrowing : where we use our reserves set aside for other purposes – can save on borrowing costs but is usually time limited.

- External Borrowing / loans: borrowing from external bodies. Main sources are:

<u>Long term:</u>

- PWLB,
- Financial Institutions
- Public Bond issue

<u>Short term:</u>

- Other local authorities, BCC bankers working capital facility

Cost of borrowing / Debt

- Internal Borrowing : opportunity cost of lost investment income. Usually lower than the cost of external borrowing

- External Borrowing / loans: Two parts:

1. Interest cost

2. Debt Repayment (Minimum Revenue Provision): whilst debt is outstanding we have a statutory duty to make a PRUDENT revenue provision to repay debt each year. Can repay / provide more if we wish!

Budgeted Debt Costs

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Net interest costs	128.809	129.839	127.411	128.043
Revenue charge for loan debt repayment	108.067	112.776	117.998	133.314
Other charges	(10.394)	4.182	2.102	1.998
Total	226.482	246.797	247.511	263.355
Met by the HRA	46.705	46.953	47.331	56.507
Met by the General Fund	179.777	199.844	200.180	206.848
Total	226.482	246.797	247.511	263.355

*Other charges include pensions early payment discount, debt management expenses and premiums/discounts from refinancing

Strategies to Reduce Debt Costs

- Note that cost is one of 3 Treasury Management risks which we need to balance: Liquidity, Security, Market (cost)

<u>Debt level:</u>

- Reduce Capital programme
- Reduce future borrowing (e.g. cap on borrowing)
- Repay Debt faster via Cap receipts or increased MRP

<u>Reduce Debt Servicing Costs</u>

- Balanced Loan portfolio
- Reschedule or Refinance Debt
- Reduce MRP – whilst staying prudent