



ICE CENTRE BORROWING STRATEGY

Presented by the Head of Finance

SUMMARY

The Authority agreed the financing strategy for the £30m Ice Centre Redevelopment project at its meeting on 29 April 2021 (Paper A/4300/21).

At that meeting Members approved a borrowing strategy of short term loans during the construction stage, followed by restructuring with long term loans repayable over the lifetime of the asset.

With the current national market volatility in interest rates, along with the international economic backdrop, there is a need to look for some flexibility to the agreed approach to be able to maximise the options available to the Authority.

RECOMMENDATION

Members Approve: (1) delegated authority to the Chief Executive, in consultation with the Chair, and the Section 151 Officer (with associated advice from treasury management consultants as necessary), to determine the borrowing requirements for the Ice Centre Redevelopment, as per paragraph 17 of this report.

BACKGROUND

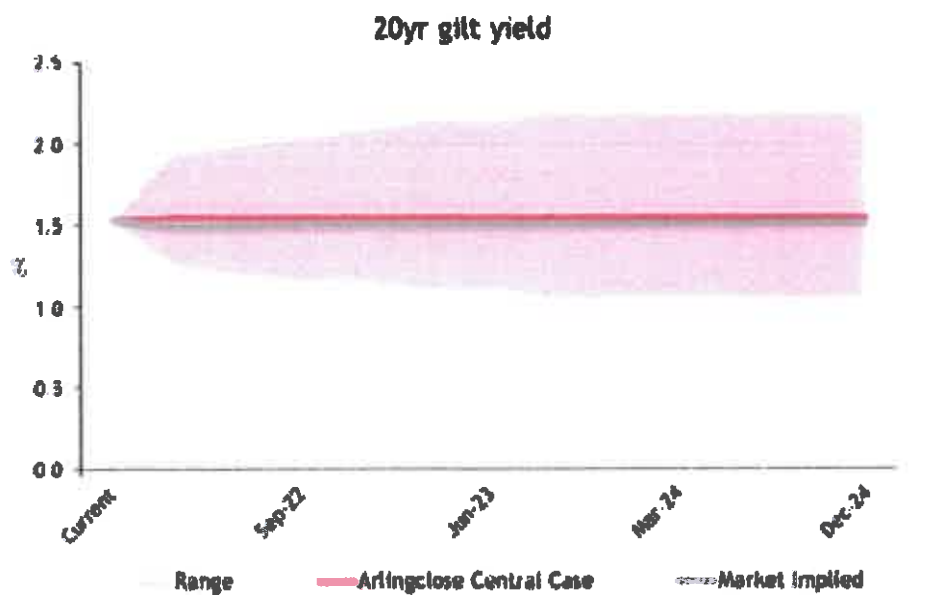
- 1 The Authority agreed the financing strategy for the £30m Ice Centre Redevelopment project at its meeting on 29 April 2021 (Paper A/4300/21). The total project budget, including contingency, for the construction was £30million. In addition, there was a further £600,000 of fixtures and fitting to be funded from Authority reserves.
- 2 Members previously agreed a strategy of short-term borrowing during the construction phase, to be replaced with long-term loans from Public Works Loans Board (PWLB) at completion. This approach was agreed following initial advice from Arlingclose, Treasury Advisor to London Borough of Enfield (and many other local authorities in the UK), and then through further review by a small working group.

- 3 Confirmation of our legislative ability to borrow long-term, per local authority regulatory powers, was confirmed through dialogue with the Secretary of State.
- 4 We eventually anticipated the need to finance circa £28m, with £1m of funding having been separately sourced from the London Borough of Waltham Forest.
- 5 So far, £15m has been borrowed short-term via the inter-local authority market, £10m of which is to be repaid in December 2022, and a further £5m in May 2023. There has also been some internal borrowing, which is where the Authority has borrowed against its cash reserves, meaning no borrowing cost (though we forego the ability to invest).
- 6 The deteriorating national and international economic outlooks, which have been developing since the initial borrowing strategy was agreed, means that officers are now returning to Members to propose a more nuanced approach to financing of the Ice Centre Redevelopment.

INTEREST RATE OUTLOOK

- 7 The model worked up for the initial financing strategy used a rate of 2.11% from PWLB for 40 years borrowing, however the equivalent rate (as at 14/04/2022) is 2.87%. Members will recall that short-term inter-authority borrowing is generally at rates considerably lower than PWLB – the three £5m tranches of short-term borrowing we currently hold are at 0.45%, 0.7% and 1.5%.
- 8 We have already seen one Bank of England base rate increase in recent weeks, and Arlingclose have priced in a second rate rise (in May) into their forecasting of 20 year gilt yields, which PWLB rates track plus 0.8%. This means PWLB rates could be heading towards rates in excess of 3%.

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Forecast gilt yield, with possible rate ranges.

- 10 An illustrative example of a £28million Equal Instalment of Principal (EIP) loan at differing interest rates would see the following total interest payable over the life of the loan.

Interest Rate	Interest Charge £m	Cumulative increase from 2.11% base £m	Cumulative impact to 2032/33 £m
2.11%	11.963	-	-
2.50%	14.175	2.212	0.963
3.00%	17.010	5.047	2.197
3.50%	19.845	7.882	3.431

- 11 The cumulative impact of locking into a higher rate is considerable over 40 years – if we lock into a 3% rate, we will be paying an additional £5.1m of interest over 40 years, when compared to a rate of 2.11%. On an annual basis, we see a greater proportion of the impact in the initial years of the borrowing. This is because we will be borrowing long term on an “equal instalments” basis, meaning the principal is repaid on a straight-line basis each year, and the annual interest tapers down accordingly.
- 12 The additional interest would be manageable in terms of the Authority’s medium-term financial plan, on an annual basis, but clearly it is preferable to avoid the extra cost.
- 13 Impact on Medium Term Financial Plan (MTFP) Revenue Outturn of different borrowing rates. Assumes repayment of long-term borrowing commences in 2023/24.

(Surplus)/Deficit	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s
As per MTFP	176.6	(253.1)	(1,063.0)	(1,067.0)	(1,084.8)
Borrowing @ 2.5%	176.6	(127.5)	(940.9)	(948.4)	(970.7)
Borrowing @ 3.0%	176.6	11.7	(805.2)	(816.2)	(842.0)
Borrowing @ 3.5%	176.6	150.8	(669.6)	(684.1)	(713.4)

* MTFP as amended for changes to Leisure Services Contract (LSC) Management Fee

PROPOSAL FOR REVISED APPROACH

- 14 The international economic backdrop as it currently stands, and the anticipated continuing increase in interest rates, means that PWLB borrowing is expected to increase its lending rates in the coming months.
- 15 As such Members are asked to agree to a flexible borrowing strategy, which will enable officers to lock into longer term borrowing when the market is at a

preferable position, or positions. This could mean retaining an element of short-term borrowing past the point of completion of the Ice Centre.

- 16 Borrowing would always be done in several tranches, rather than one block, in order to provide some flexibility. This would enable, for example, the Authority to pay down some debt early, should capital receipts be generated through a land sale.
- 17 Members are asked to give delegated authority to the Chief Executive, in consultation with the Chair, Section 151 Officer (with associated advice from Arlingclose as necessary), to take a flexible approach to the borrowing strategy for the Ice Centre Redevelopment financing, using a combination of long-term and short-term borrowing. Changes to the borrowing profile will be made at points at which the market is preferable, ensuring the best long-term financial outcome for the Authority.

ENVIRONMENTAL IMPLICATIONS

- 18 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 19 The financial implications are included within the body of the report.

HUMAN RESOURCE IMPLICATIONS

- 20 There are no human resource implications arising directly from the recommendations in this report.

LEGAL IMPLICATIONS

- 21 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

- 22 There are no risk management implications arising directly from the recommendations in this report.

EQUALITY IMPLICATIONS

- 23 There are no equality implications arising directly from the recommendations in this report.

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BACKGROUND PAPERS

None

PREVIOUS COMMITTEE REPORT

Authority A/4300/21 Lee Valley Ice Centre Redevelopment 29 April 2021

LIST OF ABBREVIATIONS

PWLB	Public Works Loans Board
MTFP	Medium Term Financial Plan
LSC	Leisure Services Contract
EIP	Equal Instalment of Principal

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