APPENDIX A

INTEREST COSTS AND DEBT REPAYMENT OPTIONS

INTEREST COSTS

The Public Works Loans Board (PWLB) have announced that they will provide low rate borrowing to local authorities specifically to cover HRA self financing payments.

The indicative rates they have quoted are below other rates currently available on the market and consequently it is expected that all local authorities will use this route to borrow funds.

A number of different loans will be taken out to minimise exposure to future interest rate movements and to spread risk in accordance with standard treasury management principles. This will ensure that the debt portfolio has a range of fixed and variable rate loans and a spread of short, medium and long term borrowing. Expert advice will be sought from our treasury management consultants, Sector, on the best way to structure this debt portfolio.

The budget estimates currently assume that the average rate of interest on the debt portfolio will be 3.02%. However this will vary dependent on movements in interest rates between now and the end of March, and the exact structure of the debt portfolio that is used.

The Council will need to borrow around £77m to fund the one off payment to the Government but can borrow up to its borrowing cap of £94m. The interest costs for differing debt amounts are shown in the table below for illustrative purposes.

Debt Amount	Estimated Interest Rate	Interest Cost per Annum
£77m	3.02%	£2.325m
£89m	3.02%	£2.688m
£94m	3.02%	£2.839m

DEBT REPAYMENT OPTIONS

Under the new self financing system there are no prescriptive rules concerning how debt should be repaid and consequently it is a matter for local discretion. In reaching any decision careful consideration will need to be given to balancing the need for investment in the housing stock with the requirement for a business plan that is prudent, affordable and sustainable.

There are a number of different debt repayment strategies that could be used under the new system and a range of options are set out below. The annual cost figure is based on taking out borrowing of £77m.

Debt Repayment Strategy	**Annual Cost, £000**
[1] No debt repayment The business plan does not allow for any debt repayment. This is the approach used by RSL's and means the real value of the debt reduces over time due to inflation	NIL
[2] Repay debt over 30 year business plan period	
(a) Equal re-payment of debt in each year of the business plan period	2567
(b) Assume no debt repayment is made in the first five years to allow for the requirements of the stock condition survey and then the debt is paid off in the remaining 25 years	Nil / 3080
[3] Repay debt over 75 years - the estimated useful life of a property for asset management purposes is 75 years. Repaying the debt over this period would then tie the debt repayment and asset management strategies together	
(a) Equal re-payment of debt in each year of the 75 year period	1027
(b) Assume no debt repayment is made in the first five years to allow for the requirements of the stock condition survey and then the debt is paid off in the remaining 70 years	Nil / 1100
(c) Repay debt over 75 years in equal real value instalments This approach adjusts the value of the payment each year so that it is equal in real terms after allowing inflation at 2.5% per year.	359 Year 1 value