Cyngor **Abertawe**
Swansea Council

Cabinet Office
The Guildhall,
Swansea, SA1 3SN
www.swansea.gov.uk

Councillor Chris Holley
Convener, Service Improvement and
Finance Scrutiny Performance Panel

VIA EMAIL

Please ask for: Councillor Rob Stewart
Direct Line: 01792 63 6366
E-Mail: cllr.rob.stewart@swansea.gov.uk
Our Ref: RS/JW
Your Ref:
Date: 20 April 2021

Dear Councillor Holley

Service Improvement and Finance Scrutiny Performance Panel

Thank you for your letter of 23 March setting out the panel's thoughts on our long term capital plans and borrowing strategy, plus the latest update on the in year revenue positon for 2020-21.

I can see that the S151 Officer has answered many of your questions in great detail and accordingly you have only one specific follow up requiring a formal response. Before answering that question I would convey that the discussions I have had with the S151 Officer continue to affirm that the outturn position is likely to remain very good for this authority, once again hugely boosted by the borrowing strategy and resultant savings on capital financing costs, and provides the backbone of the £20m recovery fund I announced at March Council.

In terms of the specific question asked I would predominantly refer you to the medium term financial plan approved at Council in March. This sets out the clear medium term assumptions over increased future borrowing costs and, most crucially, how they are to be fully funded in the round. This explains that by 2025-26 revenue costs were expected to increase by £6.3m over the budgeted sums agreed for 2021-22, with a further £1.3m to be caused by the unwinding of the current very substantial annual savings from the MRP review which have been prudently set aside into the capital equalisation reserve for several years. The MTFP also makes clear that £9m of reserves in total will be used over the 4 years of the life of the mtfp to smooth the costs of those charge increases. This was the primary reason for the creation of the capital Equalisation Reserve, banking savings in the short term, and prudently setting aside to meet the known future costs. As the S151 Officer made clear at Council, the late announcements from the UK and Welsh Governments around various budget matters, but especially the City Deal accelerated funding meant that he thought it likely that peak borrowing would potentially shift from 2025-26 to 2028-29 because extra City Deal funding up front would reduce the pace and scale of external borrowing needed over the life of the mtfp.

As set out in the MTFP and capital and treasury management strategies there is a complex interplay between the overall capital programme, the approved borrowing envelope, the certainty of locking in at historically low interest rates, the requirement to not borrow ahead of need and to factor in all anticipated future cash and financing flows from grant, including that accelerated City Deal funding. Timing and affordability, as well as ensuring a gradual transition to the peak borrowing costs to avoid a future cliff edge rise in costs is also of paramount importance.

For serval years now the revenue outturn positon has been improved by a combination of getting the first £90m of approved borrowing away at low rates and ahead of the 1% PWLB penalty premium and deferring the anticipated other £90m until after the premia lapsed, which occurred in November 2020. The S151 Officer has repeatedly made clear he intended to exercise his delegated powers, within the parameters set out in the Treasury Management Strategy to externalise a further tranche of the borrowing and to again borrow long term to harness historically low rates and match future funding liabilities with the expected lifetime benefits of assets created with the funds borrowed, in line with Wellbeing of Future Generations Act principles. .

I have very recently been advised by the S151 Officer that early in 2021-22 he has exercised those powers and his officers have now externalised a further £45m for 49-50 years at rates below 2%, taking the average cost of borrowing down to 4% (Appendix 1). This means ¾ of the overall extra borrowing has now been externalised and rates locked in at again historically low levels for another near half a century proving great vfm and certainty for current and future generations of taxpayers. This will be more formally reported at the half year interim review of the Treasury Strategy to Council in October or November 2021 but I thought it appropriate to advise the panel of the significant further steps made by officers to securing certainty of future borrowing costs.

Yours sincerely

Y CYNGHORYDD/COUNCILLOR ROB STEWART
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