

Committee(s): Finance	Dated: 3 May 2022
Subject: Interest Rates for Loan Facilities - Review	Non-Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	All
Does this proposal require extra revenue and/or capital spending?	N/A
If so, how much?	N/A
What is the source of Funding?	N/A
N/A	Y/N
Report of: The Chamberlain	For Decision
Report author: Kate Limna – Chamberlain's Department	

NOT FOR PUBLICATION

This report is exempt by virtue of the paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. Specifically, 3 the report contain sensitive information which may be exempted under the Act, and as this cannot be presented to Members as a separate appendix this report needs to be considered in closed session. It is considered that information falling under the following paragraphs outweighs the public interest in disclosing information:

3	Information relating to the financial or business affairs of any particular person or body (including the authority holding that information).
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Summary

From time to time the City of London Corporation has provided a loan facility to the institutional departments and third party bodies within the City of London Corporation 'family', e.g. sponsored academies and the Museum of London, to fund works with the terms of the loan being dependent on market conditions at that time.

The Finance Committee last considered this matter in May 2021 and agreed that the rates should be reviewed at least annually depending on the volatility of interest rates.

This report recommends that the interest rate for loan facilities for City's Cash remains at 2.35% whilst for City Fund the interest rate should be the PWLB rate for the relevant tenure prevailing on the date the loan is agreed and that these rates should remain in place for the next 12 months.

Recommendation(s)

Members are asked to agree that

- (i) the interest rate for loan facilities for City's Cash should remain at 2.35%;
- (ii) the interest rate for loan facilities for City Fund should be the PWLB rate for the relevant tenure prevailing on the date the loan is agreed; and
- (iii) that these rates should be reviewed in 12 months' time .

Main Report

Background

1. The City Corporation has provided loan facilities or draw down cash advance (loan) support to fund works to the Museum of London, the City's three schools, the City of London Police (for Action Fraud) and ULEZ vehicle loans. The terms of the loans and the interest charged have depended on the circumstances at the time the loans were made. Ultimately the decision to provide a loan facility and the terms (such as amount and duration) rest with the Resource Allocation Sub and Policy & Resources Committee with the rate of interest charged being advised by the Finance Committee.
2. In May 2019, the Finance Committee considered a report on the rate of interest that might be charged on future loan facilities. Members resolved
 - The costs of borrowing are 'passported' to internal departments including institutional departments.
 - The proposed interest rate principles are used when the City of London Corporation agrees to provide a loan facility:
 - Interest rate: (to be determined by fund and by the length of loan term requested);
 - Arrangement fee: a proportion of the fee incurred by the City of London Corporation for borrowing will be charged.
 - The actual rate and arrangement fee are to be determined by the Chamberlain and agreed under delegated authority by the Town Clerk in consultation with the Chairman and Deputy Chairman of the Finance Committee.
 - These rates are reviewed at least annually depending on the volatility of interest rates.
 - For third parties, but part of the City of London Corporation 'family' and wholly/partly owned subsidiaries, loans will be made on a commercial basis at a rate to be determined based on the individual circumstances of the request.
3. The principles referred to above were:
 - i. Fixed Rate (City Fund): PWLB Rate, based on the rate achieved at the time the loan is taken out;
 - ii. Fixed Rate (City's Cash): Private Placement Rate, based on the rate achieved at the time the loan is taken out.

Current Position

4. Following the successful completion of the City's Cash Private Placement offering in July 2019, the Chamberlain reviewed the tenures and rates payable over the period of this private placement and taking account of the costs of undertaking the borrowing, the fixed rate of interest that should be charged for City's Cash borrowing is 2.35%. This included an element for an arrangement fee.

5. It should be noted that the City Corporation is unable to loan funds to academy schools and charge interest. The Education Funding Agreement between the City Corporation and the Department for Education specifically prohibits this.
6. For City Fund, it was envisaged that the Public Works Loans Board (PWLB) rates would be used.
7. At your meeting in May 2021 it was agreed that the following rates should apply and that they should be reviewed on an annual basis:
 - the interest rate for loan facilities for City's Cash should remain at 2.35%;
 - the interest rate for loan facilities for City Fund should be the PWLB rate for the relevant tenure prevailing on the date the loan is agreed.

Annual Review

8. There has been no change in the borrowing requirements for City's Cash and it is proposed that the interest rate for City's Cash remains at 2.35%.
9. During 2020 the Government launched a review of the PWLB and consulted various interests on the future lending arrangements (a consultation in which the Corporation participated). With effect from 9am on 26 November 2020, the Government confirmed new lending rules for the PWLB which were principally designed to prevent the controversial activity of borrowing to invest purely for commercial returns. The main changes were as follows:
 - As a condition to access PWLB, local authorities will be asked to submit a high level description of their capital spending plans for the next 3 years.
 - The Section 151 officer (the Chamberlain, in the Corporation's case) will be required to confirm that the local authority has no intention of acquiring investment assets primarily for yield at any time in next 3 years.
 - The PWLB will not lend to any local authority that plans to acquire investment assets primarily for yield anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB.
10. It is unclear whether these new rules would prevent the City Fund from accessing PWLB lending. The City Fund's capital plans include expenditure on existing investment assets which HM Treasury may judge to be incompatible with the PWLB's new lending rules. Although the City may not be eligible for PWLB borrowing, given our investment property base, the prevailing PWLB rates remain an appropriate proxy/benchmark for reasonable borrowing costs for internal loans from the City Fund, which we would aim to achieve through other financing mechanisms such as private placement, as the rates are readily accessible; they relate directly to market conditions (being priced from UK gilt yields); and they are priced on a daily basis.
11. Historically and since November 2012, the City Fund has benefitted from a 20 basis point (0.20%) discount on prevailing PWLB rates known as the "Certainty Rate", which is available to principal local authorities who provide information as required on their long term borrowing and associated capital spending. In previous years

this discount has been reflected in arrangements for internal loan facilities. However as PWLB borrowing is inaccessible for us, it would not be appropriate to use the more favourable “certainty rate” available to local authorities which meet the criteria.

12. The table below sets out indicative (annuity) rates as at 13 April 2022. It should also be noted that borrowing from the PWLB does incur fees of £0.35 per £1,000 or part thereof borrowed, with a minimum fee of £25.

	5 Years	10 Years	15 Years	25 Years
Rate (%)	2.55	2.66	2.76	3.00

13. The cost of external borrowing will vary dependant on the source of debt. For City Fund, the most likely source would have been from the (PWLB), however the current rules around PWLB borrowing make it unlikely that the City would have access to this source of borrowing. An alternative would be to focus on the opportunity cost of lost income through internal borrowing. In the present climate, officers consider that using the prevailing PWLB rates will effectively compensate the City Fund for lost investment income and recommend that for City Fund interest is charged at the PWLB rate for the relevant tenure prevailing on the date the loan is agreed.

Conclusion

14. The decision to provide loan facilities falls to the Resource Allocation Sub Committee and Policy & Resources Committee, whilst the rate at which the loan is charged, falls to the Finance Committee to determine. Members are asked to agree the interest rate for City’s Cash remains at 2.35% whilst for City Fund the interest rate should be the PWLB rate for the relevant tenure prevailing on the date the loan is agreed. These rates will be reviewed in 12 months’ time.

Background Papers

Interest Rates for Loan Facilities – Finance Committee (2 May 2017)
Interest Rates for Loan Facilities – Finance Committee (21 May 2019)
Interest Rates for Loan facilities – Finance Committee (Delegated May 2020)
Interest Rates for Loan Facilities – Finance Committee (19 May 2020)
Interest Rates for Loan Facilities – Finance Committee (11 May 2021)

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