Council
26 October 2022
Item 10 - Questions from Members of the Public

The following question has been submitted in accordance with Part 4 Section E of the Council's Constitution

Mr Bain has asked the following question of the Finance & Customer Services Portfolio Holder

"How will rising interest rates effect the Council's financial performance?"

The Finance & Customer Services Portfolio Holder has provided the following response:

"Firstly, I would like to repeat the response that the Council's Strategic Director Finance and Customer Services gave when asked a similar question at the last Performance and Finance Scrutiny Committee.

It is of course not possible for the Council to influence the major economic factors that have emerged in recent years to impact on Interest Rates. Issues such as the cost of the Covid pandemic and the Russian invasion into Ukraine and the impact that this has had on energy prices, have combined to drive up increases in inflation, which in turn has led the Bank of England (BoE) Monetary Policy Committee (MPC) to increase UK interest rates.

All the Council can do, is plan to mitigate as much of the impact of these economic conditions as it can.

In the next year or two inflation will impact Council service budgets, reflecting the rise in costs. With regard to our external contracts, we have standard, contractually defined mechanisms for uplifting the contract price annually in line with the inflation rate. The Council will also have to accommodate increases in the costs of wages, supplies and services, which will represent an additional pressure to be managed as part of our annual budget setting process (which is already underway).
Service managers are already reviewing contracts to see what the likely uplift will be, and are exploring mitigating actions, further efficiencies and income generation opportunities that could be delivered.

If service level implications arise from this exercise, any proposed change resulting would be finally agreed by the Council.

Debt servicing costs will also increase this year as we refinance some of the outstanding short term loans that mature, and move a number of short term loans to long term facilities. The Council's finance team have been proactive, and have already arranged at favourable rates, forward deals on short term loans that mature in the next few months. he finance team maintain a close eye on debt and investment maturities, and are planning to reduce funds in the investment portfolios to pay off more of the debt. The Council has to keep an element of liquid working capital for the revenue account, but there are funds available that could be released for debt repayment. This is effectively changing more of the Council's capital financing requirement into 'internal borrowing'.

During the past year the Council has moved more of its long term debt into long term fixed rate loans (Phoenix Life) which on top of the existing longer term PWLB loans support the property acquisitions. The interest rates on these have been significantly higher than the short term loans being used, but are fixed for the lifetime of the loan.

Rate changes tend to be cyclical and if inflation rates (as predicted by market analysts) fall in around twelve months' time, it is also likely that the BoE base rate will reduce.

It is worth noting that the PWLB interest rate is pegged to UK 10-year gilt rates which have risen in the past few weeks as the financial markets take account of the estimated level of central government borrowing required to fund the declared Government policies. This could of course change again given the change in Leadership.

In summary, I would repeat that this Council, like all Councils, is not immune to the changing economic climate, and the current rise in inflation and interest rates will form an important part of the context for budget planning over the next couple of years. The Council has a robust level of reserves, built up over several years of prudent financial management, that can be used temporarily to support the annual budgets; this is not of course a long term solution, but a method at this stage in the national economic cycle, of smoothing the impact on the local taxpayer."