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Provisional 2017-18 Pool Rate for Welsh Local Authorities

Summary

1. This paper includes the provisional calculations of the 2017-18 pool rate of interest for local authorities in Wales. Local authority debt profiles are used to calculate an average interest rate, which is then used to determine the debt financing element of the revenue settlement.
2. The pool rate of interest used in the 2017-18 Settlement is 6.3 per cent, 0.2 percentage points higher than the final 2016-17 Settlement at 6.1 per cent.

Views sought

3. For information only.

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Background

4. The Partnership Council introduced a pool rate of interest for Welsh local authorities for the 2000-01 Settlement. The method used is similar to that used by the Department of Communities and Local Government (DCLG), except that:
 - a full set of Welsh local authority data is used;
 - information on non-Public Works Loan Board (non-PWLB) debt is one year more recent than in the DCLG model; and
 - unsupported borrowing is reversed out of the calculation.
5. The pool rate is calculated on the basis of:
 - the latest available information (31st March 2016) about the outstanding PWLB and non-PWLB long term and short term Local Authority debt;
 - the average interest rates associated with that debt; and
 - the assumption that net new borrowing is derived from supported borrowing totals.
6. From 2010-11 onwards, the pool rate of interest used to determine the debt financing element of the revenue settlement has unsupported borrowing reversed out of total outstanding debt.
7. In May 2015, the DSG agreed that the basket of loans taken out through PWLB totalling £919 million to fund the buyout from the HRA subsidy scheme would be excluded from the pool rate calculations for the 2017-18 Settlement onwards.
8. The pool rate is used to determine the debt financing element of the revenue settlement. In the past, the pool rate has also been used as the interest rate for calculating PFI revenue support.

Calculation of the 2017-18 Pool Rate

9. Net new borrowing for 2016-17 and 2017-18 was £12.95m and -£57.81m respectively and was calculated as 'supported borrowing less maturing debt' (*top two lines in Table 5 in Annex A*).
10. The first line of Table 1 in Annex A shows the amount of new unsupported borrowing in each year since prudential borrowing was introduced. (The basket of loans taken out through PWLB totalling £919 million to fund the buyout from the HRA subsidy scheme have been reversed out of the unsupported borrowing figure for 2015-16, as agreed by DSG in May 2015.)
11. Lines 2 to 9 show the amounts of all new borrowing by UK local authorities from the PWLB.
12. The corresponding interest rates are shown at line 10. This information in Table 1 is used to derive notional residual maturities for unsupported borrowing that are set out in lines 2 to 14 in Table 2. This assumes that Welsh debt financed by unsupported borrowing assumes the same residual maturity profile as all UK local authority borrowing.
13. The amount outstanding at line 17 takes into account debt redeemed. This assumes that debt maturing within a year is not refinanced. The interest rate for notional outstanding debt also assumes that new supported borrowing is borrowed at the same rate as all UK local authority borrowing for the year in question.

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14. The important data in Table 2 are the notional amount outstanding at the end of 2015-16 (£1,638.4m) and the average rate of interest of 3.4 per cent. These are the figures that are reversed out of the pool rate calculation for use in the revenue settlement.
15. Tables 3 and 4 show the residual maturities of long-term PWLB and non-PWLB debt. Table 3 shows the adjustment for the unsupported borrowing which assumes that all unsupported borrowing is provided by the PWLB. As expected the adjustment reduces the amount outstanding and leaves the interest rate slightly higher as the unsupported borrowing has a lower rate of interest.

Conclusion

16. Table 3 shows that around £2.9 billion of debt is outstanding to the PWLB, and the average rate of interest for PWLB debt has fallen from 5.37 per cent in the 2016-17 calculation, to 5.19 per cent in 2017-18.
17. Table 4 shows the non-PWLB long-term debt. The average rate of interest of 4.32 per cent is less than last year's rate of 4.37 per cent. Around £813 million is outstanding to non-PWLB bodies, approximately £16 million more than last year (£797 million).
18. Table 5 shows the calculation of the pool rate used to determine the debt financing element of the revenue settlement, **which gives a rate of 6.3 per cent.**
19. The majority of local authority debt is financed through the PWLB. Table 6 shows the total amount of PWLB debt outstanding for each authority in Wales paying average rates of interest ranging from 2.31 per cent for North Wales Fire Service to 9.31 per cent for Dyfed-Powys Police Force.

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Annex A

Table 1: Welsh unsupported and all UK new borrowing

	2004-05*	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
												£'m
1 Unsupported borrowing	30.5	62.5	97.2	163.7	125.0	106.1	144.4	175.8	205.1	213.0	234.7	238.6
New borrowing:												
2 Up to 5 years	762.2	579.8	129.4	722.8	3,029.2	1,057.3	880.0	492.0	110.0	34.0	82.0	113.0
3 Over 5 but not over 10 years (£m)	85.8	386.0	83.6	336.3	491.5	1,744.6	1,934.0	2,114.0	542.0	564.0	95.0	262.0
4 Over 10 but not over 15 years (£m)	22.8	48.0	1.7	99.6	153.0	641.7	278.0	2,120.0	1,145.0	440.0	344.0	235.0
5 Over 15 but not over 25 years (£m)	254.4	540.3	279.6	65.2	65.8	710.4	1,224.0	4,470.0	1,140.0	447.0	632.0	958.0
6 Over 25 but not over 30 years (£m)	4,236.8	3,914.1	664.4	666.2	91.9	296.7	142.0	2,793.0	114.0	8.0	329.0	285.0
7 Over 30 but not over 40 years (£m)		330.4	1,009.0	1,574.7	571.6	104.7	101.0	1,490.0	47.0	22.0	217.0	280.0
8 Over 40 years (£m)		3,000.1	10,153.9	6,535.4	1,866.7	509.2	696.0	2,632.0	61.0	109.0	888.0	888.0
9 Total	5,362.0	8,798.7	12,321.6	10,000.2	6,269.7	5,064.6	5,255.0	16,111.0	3,159.0	1,624.0	2,587.0	3,021.0
10 Average interest rates (%)	4.69	4.19	4.29	4.55	3.37	3.25	3.26	3.20	3.07	3.38	3.38	2.49

* New UK borrowing maturing over 25 years not disaggregated for this year

Source: STATSWALES/Annual Reports of the Public Works Loan Board

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Annex A

Table 2: Notional residual maturities and amounts outstanding for unsupported borrowing

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
												£'m
1 Total unsupported borrowing	30.5	62.5	97.2	163.7	125.0	106.1	144.4	175.8	205.1	213.0	234.7	238.6
2 1 year	0.9	0.8	0.2	2.4	12.1	4.4	4.8	1.1	1.4	0.9	1.5	1.8
3 1-2 years	0.9	0.8	0.2	2.4	12.1	4.4	4.8	1.1	1.4	0.9	1.5	1.8
4 2-3 years	0.9	0.8	0.2	2.4	12.1	4.4	4.8	1.1	1.4	0.9	1.5	1.8
5 3-4 years	0.9	0.8	0.2	2.4	12.1	4.4	4.8	1.1	1.4	0.9	1.5	1.8
6 4-5 years	0.9	0.8	0.2	2.4	12.1	4.4	4.8	1.1	1.4	0.9	1.5	1.8
7 5-6 years	0.1	0.5	0.1	1.1	2.0	7.3	10.6	4.6	7.0	14.8	1.7	4.1
8 6-7 years	0.1	0.5	0.1	1.1	2.0	7.3	10.6	4.6	7.0	14.8	1.7	4.1
9 7-8 years	0.1	0.5	0.1	1.1	2.0	7.3	10.6	4.6	7.0	14.8	1.7	4.1
10 8-9 years	0.1	0.5	0.1	1.1	2.0	7.3	10.6	4.6	7.0	14.8	1.7	4.1
11 9-10 years	0.1	0.5	0.1	1.1	2.0	7.3	10.6	4.6	7.0	14.8	1.7	4.1
12 10-15 years	0.1	0.3	0.0	1.6	3.1	13.4	7.6	23.1	74.3	57.7	31.2	18.6
13 15-25 years	1.4	3.8	2.2	1.1	1.3	14.9	33.6	48.8	74.0	58.6	57.3	75.7
14 25+ years	24.1	51.5	93.3	143.7	50.4	19.1	25.8	75.5	14.4	18.2	130.1	114.7
15 Cumulative unsupported borrowing	30.5	93.0	190.2	353.9	478.9	585.0	729.4	905.2	1,110.3	1,323.3	1,558.0	1,796.6
16 Amount redeemed	0	0.9	1.7	1.9	4.3	16.3	20.0	24.6	25.6	25.7	16.5	20.8
Cumulatively redeemed	0	0.9	2.6	4.5	8.7	25.1	45.1	69.6	95.2	120.9	137.4	158.2
17 Notional amount outstanding	30.5	92.1	187.6	349.4	470.2	559.9	684.3	835.6	1,015.1	1,202.4	1,420.6	1,638.4
18 Interest rate (%)	4.7	4.4	4.3	4.4	4.2	4.0	3.8	3.7	3.6	3.6	3.5	3.4

Table 3: Local authority long-term debt - PWLB data*

	Balance outstanding at 31/03/2016 (£million)	Average rate of interest (%)
Maturity within		
1 year	59.7	5.3
1-2 years	70.9	6.5
2-5 years	203.4	5.2
5-10 years	386.5	5.5
10-15 years	300.7	5.3
15-20 years	283.5	4.7
20-25 years	175.6	4.4
25-30 years	160.5	4.6
30-35 years	161.1	4.9
35-40 years	695.2	5.2
40-45 years	391.5	5.8
45+ years	43.5	2.9
	2,932.2	5.19
Adjustment for unsupported borrowing		5,565.6
Adjusted for unsupported borrowing	1,293.9	7.5

*To note: In this context Local Authorities refer to the 22 Unitary Authorities; 4 police forces and 3 fire services

Table 4: Local authority long-term debt – non PWLB data*

	Balance outstanding at 31/03/2016 (£million)	Average rate of interest (%)
Maturity within		
1 year	16.1	1.09
1-2 years	75.7	1.62
2-3 years	24.5	3.43
3-4 years	48.7	7.65
4-5 years	8.2	2.69
5-6 years	2.2	6.26
6-10 years	0.1	0.59
10-15 years	4.0	0.00
15+ years	633.4	4.55
	812.9	4.32

*To note: In this context Local Authorities refer to the 22 Unitary Authorities; 4 police forces and 3 fire services

Table 5: Calculation of pool rate of interest used to determine the debt financing element of the revenue settlement for 2017-18

Basic data	Total	
Supported borrowing less maturing debt 2016-17 ¹	12.95	
Supported borrowing less maturing debt 2017-18 ²	-57.81	
PWLB share assumed ³	61	%
Non-PWLB share ³	39	%
	balance	average
	outstanding	interest rate
PWLB debt * at 31 March 2016	1,294	7.5
plus PWLB new debt 2016-17	8	1.5 ⁴
plus non-PWLB debt at 31 March 2016	813	4.3
plus non-PWLB new debt 2016-17	5	1.5
equals		
Total debt at 31 March 2017	2,120	6.2
plus PWLB new debt 2017-18	-36	1.5
plus non-PWLB new debt 2017-18	- 22	1.5
equals		
Total debt at 31 March 2018	2,062	6.4
Average for 2017-18	2,091	6.3

Notes

1. Increase in borrowing for 2016-17 is based new supported borrowing for unitaries (£88.800) and police authorities (£0m) less debt maturing within the year (£75.848).

2. Increase in borrowing for 2017-18 is based new supported borrowing for unitaries (£88.800) and police authorities (£0m) less debt maturing within the year (£146.612).

3. The assumed non-PWLB/PWLB split for new debt is based on the ratio of PWLB to non-PWLB outstanding long term debt as at 31/03/2016.

4. Quarterly average of yield from British Government Securities, 20 year Nominal Zero Coupon (Series IUQALNZC). See the statistics output from the Bank of England (BoE) on <http://www.bankofengland.co.uk/>

* PWLB Debt at 31 March 2016 has been adjusted for unsupported borrowing.

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Annex A

Table 6: Local authority PWLB debt

Authority Name	Total Debt (£,000)	Average Interest Rate
Isle of Anglesey	89,575	5.72%
Gwynedd	94,299	6.04%
Conwy	73,862	5.85%
Denbighshire	150,120	5.16%
Flintshire	153,163	5.52%
Wrexham	119,975	5.53%
Powys	108,973	4.77%
Ceredigion	108,539	4.79%
Pembrokeshire	77,129	6.80%
Carmarthenshire	290,623	4.92%
Swansea	229,793	5.68%
Neath Port Talbot	150,258	4.59%
Bridgend	77,617	4.70%
The Vale of Glamorgan	88,055	5.29%
Rhondda Cynon Taf	109,297	4.81%
Merthyr Tydfil	57,234	7.53%
Caerphilly	171,192	5.17%
Blaenau Gwent	76,438	4.42%
Torfaen	50,744	5.32%
Monmouthshire	52,760	4.34%
Newport	72,437	4.39%
Cardiff	425,434	5.23%
Total Unitary Authorities	2,827,516	5.25%
Dyfed-Powys Police	2,455	9.31%
Gwent Police	4,260	5.85%
South Wales Police	19,033	3.58%
North Wales Police	2,514	3.01%
Total Police Authorities	28,263	4.10%
Mid and West Wales Fire	20,746	3.14%
North Wales Fire	19,657	2.31%
South Wales Fire	36,050	4.12%
Total Fire Authorities	76,454	3.39%
Total All Authorities	2,932,232	5.19%

Related papers

Distribution Sub Group (2016)

- Paper 03: Final 2016-17 Pool Rate for Welsh Local Authorities

Distribution Sub Group (2015)

- Paper 05: Final 2015-16 Pool Rate for Welsh Local Authorities

Distribution Sub Group (2014)

- Paper 03: Final 2014-15 Pool Rate for Welsh Local Authorities

Distribution Sub Group (2013)

- Paper 17: Final 2013-14 Pool Rate for Welsh Local Authorities

Distribution Sub Group (2012)

- Paper 18: Pool Rate for Welsh Local Authorities – Final Calculation for 2012-13

Distribution Sub Group (2011)

- Paper 8: Pool Rate for Welsh Local Authorities – Final Calculation for 2012-13

Distribution Sub Group (2010)

- Paper 04: Pool rate for Welsh Local Authorities – Final Calculation for 2010-11

Distribution Sub Group (2009)

- Paper 27: Pool rate calculation – reversing unsupported borrowing out of total outstanding debt
- Paper 04: Pool Rate for Welsh Local Authorities – Final Calculation for 2009-10