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WESTERN RIVERSIDE WASTE AUTHORITY

MEETING	9th February 2023
REPORT AUTHOR/ DATE	Treasurer (Chris Buss-Tel 020 8871 2788) 26th January 2023
SUBJECT	Report of the Treasurer on Treasury Management and capital strategy for 2023/24
CONTENTS	
STATUS	Open - circulation of this paper is not restricted.
BACKGROUND PAPERS	No background papers were used in the preparation of this report.

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EXECUTIVE SUMMARY AND BACKGROUND

1. From the financial year 2004/05, the Local Government Act 2003 replaced quantitative controls on local authority borrowing with new procedural requirements. Local authorities remain potentially subject to limits if the Government considers that borrowing increases are excessive, either for particular authorities or for authorities generally.

2. The chief requirement is for local authorities to have regard to a "Prudential Code" issued by the Chartered Institute of Public Finance and Accountancy. Having regard to this Code, the Treasurer considers that the Authority's current arrangements for the control of capital finance are satisfactory. The Authority's arrangements for borrowing and investment are specified in the Appendix 'Prudential Code' attached to this report.

3. The recommended Authorised Borrowing Limit and Operational Boundary for 2023/24 is £5 million to take account of any future possible capital expenditure. At present the Authority has no authorised or planned capital expenditure which will need to be separately reported and authorised by the Authority and any need for expenditure above the £5 million limit will need an amendment to the above limit.

4. The Authority's current arrangements are for an annual Minimum Revenue Provision (MRP) for the repayment of debt on the basis of the asset life as set out in the statutory guidance for MRP where necessary. A Loan Repayment Reserve currently holds the full balance of all outstanding loans.

5. The capital strategy for the Authority is included within the appendix.

PRUDENTIAL BORROWING CODE

6. The current Local Authority capital finance regime flows from the Local Government Act 2003, with details deriving from the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

7. This regime replaced former quantitative controls ("credit approvals") on local authority borrowing with new procedural requirements. However, local authorities may still be subjected to quantitative limits if Government considers that borrowing increases are excessive, either for particular authorities or for authorities generally. The Government established statutory reporting arrangements to monitor local authority borrowing plans and performance, to inform its decisions about the need for such interventions which require the Authority to submit plans for capital expenditure in advance. This information was requested in March last year and expected to be similarly

requested in March 2023 relating to 2023/24. The DLuHC will collate the information and has not yet indicated whether it will set general borrowing limits for 2023/24.

8. The chief procedural requirement for individual local authorities is to set and review affordable borrowing limits, having regard to a "Prudential Code" issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This Code was revised with publication on 20 December 2021. The amendments largely relate to investments that are not part of the Authority's treasury management activity.

INDICATORS ADOPTED BY THE AUTHORITY

9. Prudential Indicators. The Code proposes a range of "Prudential Indicators" for capital expenditure, external debt and treasury management. Those adopted by the Authority in February 2004 (Paper No. WRWA 459) are detailed in the Appendix to this report, and these have been updated to reflect the Authority's previous borrowing requirements in relation to the Western Riverside Materials Recycling Facility (MRF), the Smugglers Way Civic Amenity (CA) site, and potential at Cringle Dock, Feathers Wharf and also the prudent approach to investments in the current economic situation.

10. The Code recommends that reporting arrangements to Members for borrowing and financing decisions should follow the same route as the budget. The relevant indicators are, therefore, included in Treasury Management and Accounts Reports in February and June respectively alongside the Budget and Accounts papers.

11. Affordable Borrowing Limit and Operational Boundary. The Local Government Act 2003 stipulates that the affordable borrowing limit and Operational Boundary is to be set and reviewed by the Authority. The Authority's borrowing currently consists solely of long term fixed loans from the Public Works Loans Board totalling £1.0 million. Being able to repay loans effectively reduces future revenue costs and the Levy.

12. The Operational Boundary for external debt is based upon a prudent estimate of the most likely requirement for gross borrowing. It is proposed to retain the Authority's Authorised Borrowing Limit and Operational Boundary for 2023/24 at £5 million in order to allow for any possible borrowing currently not foreseen during the year. In the event that the Authority chooses to proceed significant design work on Cringle Dock or on Feathers Wharf which qualifies as capital expenditure in 2023/24, the above figures may need amending and a report will be made to the Authority authorising the amendments.

13. Borrowing Policy. Generally, Authority policy has been for borrowing to be taken in the form of loans raised for a period in excess of one year, with an average period of at least six years, with no more than 15% of long term debt maturing in any one year. All long-term loans are to be taken up through either the Public Works Loan Board or brokers in the sterling money market. The Authority agreed in February 2013 (Paper No. WRWA 729) to amend the average period of loan to at least four years for the year 2013/14 as by default without any new loans, the average was likely to fall below four years. This was approved again for subsequent years in each Treasury Management paper where no new loans were likely. The one loan of £1m has a period of 2.45 years outstanding as at 1st April 2023. It is therefore recommended, as last year, that if any new loans are advanced, that the average must be brought up to at least four years.

14. Minimum Revenue Provision (MRP) statement for 2022/23 and for 2023/24 Regulations issued under the Local Government Act 2003 require local authorities to calculate an annual amount of MRP to be set aside from revenue for the repayment of debt that is 'prudent.' From April 2018, the Government issued revised guidance which amended the definition of 'prudent provision' for debt repayment to one that requires MRP to be set in a way that covers the gap between the Capital Financing Requirement and the amount of that requirement that is funded by other means.

15. As members will be aware, the Authority holds an earmarked reserve called the Loan Repayment Reserve with £1 million balance as at the 1st April 2022 matching the value of the outstanding loan. This eliminates the need for MRP provision in both the current and future years. The reserve has not been used to redeem the loan early due to the penalties due for early redemption.

16. Investments. Paragraph 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, requires local authorities to have regard to the CIPFA Treasury Management Code. This Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the best rate of return, or yield. The Authority prioritises security and liquidity over yield, focusing on minimising risk rather than maximising returns. Any Authority short-term surpluses are currently invested in either Money Market Funds and Short Dated Income Funds, a property fund set up in a scheme approved by HM Treasury or a Diversified Income fund with at least AA rating or equivalent. No more than 30% of the Authority's net cash balances at any one time should be invested in either property or diversified income funds. All MMFs must have at least AAA credit rating and if more than one, each rating must be AAA. The maximum counterparty limit for AAA funds is £50million and 7.5% of assets under management in the Fund. Short Dated Income Funds can have a lower

AA rating but with the additional restriction that only £5 million can be invested in any one Fund. As at 31st December cash balances were as follows:

	£m
Diversified Income Fund CCLA	5.9
RBS/Nat West	4.5
Wandsworth – Money Market Funds	12.9
Total	23.3

17. In view of the size of the Authority's likely cash balances over the next six to twelve months it is recommended that in addition to investing in Money Market Funds or Short Dated Income funds that cash may be invested with banks with a Fitch or similar rating of F1+ (Equivalent to AAA) and that such funds be invested for no longer than 6 months and that sums should not exceed £5 million for each investment. Investment may be undertaken directly or via the Treasury SLA with Wandsworth. This proposal would increase returns to the Authority with no increase in risk.

18. The current rate received in a Special Interest Bearing Account (SIBA) from the current retail banker (RBS/ Nat West) is 0.8%. This is used for cashflow purposes on a day-to-day basis on overnight balances.

RECOMMENDATIONS

19. The Authority is recommended to:-

(a) adopt an Authorised Borrowing Limit and Operational Boundary for 2023/24 of £5 million;

(b) agree to the borrowing policy outlined in paragraph 13;

(c) agree to the MRP policy in 2022/23 and 2023/24 outlined in paragraphs 14-15;

(d) agree to the investment policy outlined in paragraphs 16 and 17;

(e) note the 'Prudential Indicators' contained in the Appendix to this report, including newly specified borrowing and investment policies and the capital strategy; and

(f) otherwise receive this report as information.

CHRIS BUSS
Treasurer

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26th January 2023

APPENDIX

"Prudential Code" Indicators Adopted by the Authority

1. **Estimates of capital expenditure**
   There is currently no planned capital expenditure in 2023/24 that will not be fully reimbursed by third parties.

2. **Capital Strategy**
   Capital expenditure or cash investment, including any borrowings, will only occur in assets that directly relate to the Authority's own activities which is the disposal of waste from its constituent councils. Any decision to incur capital expenditure will be subject to a formal business review in each case. Capital expenditure decisions will be in line with this service objective and will take account of stewardship, value for money, prudence, sustainability and affordability. The future reprovision of the transfer station at Cringle Dock may require capital expenditure in relation to the reprovision of the service. Similarly works may be needed to fulfil requirements under the Environment Act 2021. It is likely that such expenditure will form part of the cost of the wider capital project and form part of the overall business case.

3. **Authorised Borrowing Limit**

   This limit refers to gross external borrowing, ignoring investments. The Authority's investments only relate to the investment of surplus cash. The Local Government Act 2003 requires the Authority to determine each year "how much money it can afford to borrow" for the ensuing year. The Authority can fulfil this obligation by setting a limit close to its gross borrowing at the start of the year plus intended borrowing for the ensuing financial year. For 2023/24 the limit is set at £5 million, taking into account the reduced level of outstanding PWLB loans and the possibility of unknown future capital works.

4. **Operational Boundary**

   For this Authority the operational boundary may be equated to the authorised borrowing limit, i.e. £5 million for 2023/24

5. **Actual External Debt**

   Actual external debt is currently reported within the Treasury Management and Accounts Reports. The current balance is £1.0 million, all borrowed from the Public Works Loan Board and secured by statute on the revenues of the Authority.

6. **Maturity structure of borrowing**

The debt maturity structure of the outstanding loans, with an average period of 2.69 years, is :-

Years to Maturity	£'000	Average Rate (%)
2.69	1,000	3.69
Total	1,000	3.69

7. **Borrowing Policy.** Authority policy is for borrowing to be taken in the form of loans raised for a period in excess of one year, with an average period of at least four years for all new loans, with no more than 15% of long term debt maturing in any one year. All long term loans will be taken up through either the Public Works Loan Board or brokers in the sterling money market. This policy will continue to be applied during 2023/24.

8. **Investment Policy.** Authority short term cash surpluses are invested in :

a) Money Market Funds with at least AA rating or equivalent
b) Short Dated Income Funds, a property fund set up in a scheme approved by HM Treasury or a Diversified Income fund with at least AA rating or equivalent.
c) Banks with a Fitch or similar rating of F1+ (Equivalent to AAA) and that such funds be invested for no longer than 6 months and that sums should not exceed £5 million for each investment.

9. **CIPFA Treasury Management Code**

Adopted.