PAPER NO. WRWA 25- 04

WESTERN RIVERSIDE WASTE AUTHORITY

MEETING	11th February 2025
REPORT AUTHOR/ DATE	Treasurer (Sukvinder Kalsi-Tel 020 8871 2788) 28 January 2025
SUBJECT	Report of the Treasurer on Treasury Management and Capital Strategy for 2025/26
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. The finances of WRWA are governed under the same regulations as local authorities. 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 key requirement is for local authorities to have regard to the Prudential Code of 2022 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). 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 A (Prudential Code – Indicators Adopted by the Authority) attached to this report.

3. In summary, the key Treasury Management and Capital Strategy Matters are summarised below:

   - The recommended Authorised Borrowing Limit and Operational Boundary for 2025/26 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.

   - 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. There is a Loan Repayment Reserve of £1m that relates to the entire loan outstanding and this will be repaid in September 2025.

   - The Authority maintains adequate liquidity levels (minimum of £4m) and generates good interest on the investment of the cash balances (estimated 5%)

   - The Better World Cautious Fund (BWCF) is currently valued at £6m (marginally below our investment of £6.5m) and generates interest income of £0.2m (about 3.5%). A full provision is included in our balances for the reduction in the fair value of the fund.

4.The capital strategy for the Authority is included within Appendix A.

PRUDENTIAL BORROWING CODE

5. 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.

6. 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 is requested annually in advance of 31st March and is expected to continue until 2025/26.

7. The key procedural requirement for individual local authorities is to set and review affordable borrowing limits, having regard to the Prudential Code issued by 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 and do not arise from cash flows and debt management.

INDICATORS ADOPTED BY THE AUTHORITY

8. <u>Prudential Indicators.</u> 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 Appendix A to this report, and these have been updated to reflect the Authority's previous borrowing requirements, and potential at Cringle Dock, Feathers Wharf and also the prudent approach to investments in the current economic situation.

9. 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. These indicators have been reviewed and updated as necessary.

10. <u>Affordable Borrowing Limit and Operational Boundary.</u> 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 1 long term fixed loan from the Public Works Loans Board (PWLB) totalling £1.0 million (which matures in September 2025). Being able to repay loans effectively reduces future revenue costs and the Levy.

11. 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 2025/26 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 2025/26, the above figures may need amending and a report will be made to the Authority authorising the amendments.

12. <u>Borrowing Policy.</u> 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 PWLB 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 remaining has just under 6 months outstanding as at 1st April 2025 as this matures on 10th September 2025). 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.

13. <u>Minimum Revenue Provision (MRP) statement for 2024/25 and for 2025/26</u> 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. A consultation was raised in early 2024 on MRP by Government. The changes proposed in the consultation do not affect the authority and the proposals were to strengthen the rules rather than change them, and authorities who set a prudent MRP historically and followed prudential regulations previously should find the new regulations are straightforward

14. 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 2024 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.

15. 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 (again last revised in December 2021). This Code requires authorities 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 MMFs or the CCLA Better World Cautious Fund 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 the CCLA Better World Cautious Fund. 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. As at 31st December 2025 cash balances were as follows:

	£m
CCLA Better World Cautious Fund	6.0
NatWest Bank (the authority's bank)	4.2
Wandsworth – MMFs	26.0
Total	36.2

16. In this report for 2023/24, it was recommended that in addition to investing in MMFs 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 is possible either directly or via the Treasury SLA with Wandsworth. It was expected that this proposal would increase returns to the Authority with no increase in risk. However, due to the high performing MMFs (due to the continued high Bank Rate), this option has not been taken in 2024/25 nor likely in the first half of 2025/26. The average interest rate earned in 2024/25 is expected to be in excess of 5%, which is a higher than which banks have offered for up to a £5 million investment. This will be kept under review and investment decisions made appropriately in 2025/26.

17. The current rate received in a Special Interest Bearing Account (SIBA) from the current retail banker (NatWest) has just decreased to 2.75% as at 2 December 2024. This is used for cashflow purposes on a day-to-day basis on overnight balances. The account held a larger amount than normal (£4.2 million) as at 31st December 2024 purely due to timing of payments due on 2nd January 2025 however the normal practice for under £1 million to be held to maximise investment in other funds (around the monthly payments due).

18. Better World Cautious Fund. The Authority invested £1 million in the CCLA Diversified Income Fund (DIF) in February 2019, which was topped up by £5.5 million in July 2019 to bring the total investment to £6.5 million. In 2023 the Treasurer received notification from CCLA of a merger of the DIF into the Better World Cautious Fund for which all unitholders of the DIF were asked to submit a vote. The core reason for the change by CCLA is to open the investment strategy to a wider customer base by reducing the minimum investment and therefore expects additional growth. The new fund has substantially the same investment strategy as the DIF but with an enhanced ethical investment policy. Following a meeting with the CCLA relationship manager at the time, the Treasurer used his discretion as part of his responsibilities to administer the Authority's banking arrangements to confirm approval for this change for submission to the Extraordinary General Meeting on the DIF on 31 January 2024.

19. The Better World Cautious Fund remains a capital longer term investment, the capital value for which can go up as well as down. The current balance on the fund as at 31st December 2024 is £6 million and the income earned from it in the last 12 months has been £208,000, or approximately 3.5%. Whilst this does not compare favourably to current interest rates it has increased from previous years where it has been averaging around 3% since investment in the DIF when the average interest rates on MMFs etc was closer to 1%. The Better World Cautious Fund yield should increase as interest rates fall and become the higher yielding fund in future years.

20. The Authority is required to follow international accounting practices. International Financial Reporting Standard 9 (IFRS 9) has been 'overridden' (i.e. does not apply) for local authorities until the end of 2024/25. The Government has issued consultations on the override ending however has still not issued a definite confirmation that the override will end as planned. If IFRS 9 must be applied, it would mean that annual gains or losses arising from changes in fair value (i.e. capital) of pooled investments such as the Authority's investment in the DIF would need to be charged to revenue in the accounts and therefore funded via the Levy in the year that they occur. Currently those losses sit solely on the balance sheet. This would mean that a charge of £0.5 million would need to be made to reflect the reduction in fair value of the fund from £6.5 million initial investment to the £6.0 million current value. Provision has been made

within the Authority's General Reserve risks within Appendix E of Paper No. WRWA 25-03 elsewhere on this agenda. Consideration will be given for the creation of a separate reserve at outturn when further information is available. It is not recommended to divest from this fund until the capital value is recovered, otherwise those losses are crystallised immediately. There is no notice period on the fund and any units can be sold daily.

RECOMMENDATIONS

21. The Authority is recommended to:-

(a) adopt an Authorised Borrowing Limit and Operational Boundary for 2025/26 of £5m;

(b) agree to the borrowing policy outlined in paragraph 12;

(c) note the information in relation to the CCLA Better World Cautious Fund DIF investment in paragraphs 18-20;

(d) agree to the MRP policy in 2024/25 and 2025/26 outlined in paragraphs 13-14;

(e) note the 'Prudential Indicators' contained in the Appendix A to this report; and

(f) otherwise receive this report as information.

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28th January 2025

APPENDIX A

Prudential Code Indicators Adopted by the Authority

1. **Estimates of capital expenditure**
   There is currently no planned capital expenditure in 2025/26 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 2024/25 the limit is set at £5 million, taking into account the maturing PWLB loan 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 2025/26.

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 PWLB and secured by statute on the revenues of the Authority.

6. **Maturity structure of borrowing**

The debt maturity structure of the outstanding PWLB loan is detailed below:-

Years to Maturity	£'000	Average Rate (%)
0-1 year	1,000	3.69
Total	1,000	3.69

7. **Ratio of gross loan interest to gross expenditure budget**

Current loan repayments are £37,000 per year, or 0.3% of gross expenditure in 2024/25.

8. **Ratio of outstanding debt to total assets**

The current £1 million outstanding debt is 0.72% of net assets as at 31st March 2024.

9. **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 PWLB or brokers in the sterling money market. This policy will continue to be applied during 2025/26.

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

a) MMFs with at least AA rating or equivalent
b) Better World Cautious 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.