

**PAPER NO. WRWA 825****WESTERN RIVERSIDE WASTE AUTHORITY**

<b>MEETING</b>	24TH JANUARY 2017
<b>REPORT AUTHOR/ DATE</b>	Treasurer (Chris Buss-Tel 020 8871 2788) 16th January 2017
<b>SUBJECT</b>	Report of the Treasurer on Treasury Management for 2017/18
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<b>STATUS</b>	Open - circulation of this paper is not restricted.
<b>BACKGROUND PAPERS</b>	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 2017/18 is £14 million to take account of the Authority’s repayment of loans during 2016/17 and any future possible expenditure relating to the potential development of Cringle Dock.
4. A Minimum Revenue Provision (MRP) from revenue for the repayment of debt of £710,000 is forecast for 2017/18 and the minimum average debt life if any new loans were advanced in 2017/18 will be four years.

## **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 was requested in March last year and expected to be similarly requested in March 2017 relating to 2017/18. The DCLG will collate the information and has not yet indicated whether it will set general borrowing limits for 2017/18.

7. 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). The impact of the Authority’s intended borrowing for the next financial year is included in the report on the Budget elsewhere on this agenda.

#### **INDICATORS ADOPTED BY THE AUTHORITY**

8. 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 Household Waste and Recycling Centre (HWRC), and potential at Cringle Dock 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.
10. 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 £10.5 million. 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 reduce the Authority’s Authorised Borrowing Limit and Operational Boundary for 2017/18 to £14 million in order to allow for any possible borrowing currently not foreseen during the year.
12. 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. During 2017/18, the repayment of a further £2 million which will fall due during the year, will reduce the average period of the remaining loans to below 3 years and it is therefore recommended that if any new loans are advanced, that the average must be brought up to at least four years. As a cost reduction exercise for future years, options for redeeming the remaining loans have been explored but the early redemption penalties from the Public Works Loan Board (PWLB) are largely prohibitive.

13. Minimum Revenue Provision (MRP) statement for 2017/18. 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.' In the case of the Authority the MRP has traditionally been calculated as a percentage of historic borrowing and stands in 2016/17 at £716,000. Under accounting policies, this provision continues at a reduced rate even when debt is repaid and an MRP of £710,000 is forecast for 2017/18.

14. Investments. Any Authority short-term surpluses are invested with Wandsworth Council at one month market rates. Consequently, the WRWA balances are invested according to the Council's Treasury policy. Wandsworth's policy allows amounts of up to 50% of investments to be placed with Money Market Funds (MMFs) and Short Dated 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. Average interest rates vary between 0.23% and 0.70% dependent upon the level of risk offered. The limit for amounts placed for periods longer than 364 days but for no longer than two years is £150 million, with no more than £50 million with an individual counterparty. The Treasury Policy Statement also permits investments of up to £100 million for a period of 364 days with UK local authorities or precepting authorities. It is intended to continue to adhere to Wandsworth's Treasury Policy as amended from time to time.

15. The current rate received in a Special Interest Bearing Account (SIBA) from the current retail banker (RBS/ Nat West) is 0.25%. This is used for cashflow purposes on a day-to-day basis on overnight balances.

## **RECOMMENDATIONS**

16. The Authority is recommended to:-

*Treasury Management*

- (a) adopt an Authorised Borrowing Limit and Operational Boundary for 2017/18 of £14 million;
- (b) agree to the investment policy outlined in paragraph 14;
- (c) note the 'Prudential Indicators' contained in the Appendix to this report, including newly specified borrowing and investment policies; and
- (d) otherwise receive this report as information.

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The Town Hall  
Wandsworth SW18 2PU

CHRIS BUSS  
Treasurer

16th January 2017

**“Prudential Code” Indicators Adopted by the Authority**

1. **Estimates of capital expenditure**

The capital projects of both the MRF and the CA site are now complete. There is currently no planned capital expenditure in 2017/18 that will not be fully reimbursed by third parties.

2. **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 2017/18 the limit is set at £14 million, taking into account the reduced level of outstanding PWLB loans and the possibility of unknown future capital works at Cringle Dock.

3. **Operational Boundary**

For this Authority the operational boundary may be equated to the authorised borrowing limit, i.e. £14 million for 2017/18.

4. **Actual External Debt**

Actual external debt is currently reported within the Treasury Management and Accounts Reports. As at 1<sup>st</sup> February 2017 this will stand at £10.5 million, all borrowed from the Public Works Loan Board and secured by statute on the revenues of the Authority.

5. **Maturity structure of borrowing**

The debt maturity structure of the outstanding loans as at 1<sup>st</sup> February 2017, with an average period of 3.32 years, will be :-

## Treasury Management

Years to Maturity	£'000	Average Rate (%)
1.01	1,000	4.25
1.15	1,000	3.81
2.16	2,000	3.50
2.64	1,000	3.86
2.96	2,500	4.22
4.84	2,000	4.57
8.61	1,000	3.69
Total	<u>10,500</u>	<u>4.03</u>

6. **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 2017/18.
7. **Investment Policy.** Authority short term cash surpluses are invested with Wandsworth Council at one month market rates.
8. **CIPFA Treasury Management Code**

Adopted.