

ITEM 3

PAPER NO. WRWA 871

WESTERN RIVERSIDE WASTE AUTHORITY

MEETING	30 th January 2019
REPORT AUTHOR/ DATE	Treasurer (Chris Buss-Tel 020 8871 2788) 22nd January 2019
SUBJECT	Report of the Treasurer on Treasury Management and capital strategy for 2019/20
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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 2019/20 continues to be is £9 million to take account of the Authority’s repayment of loans during 2018/19 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 will be nil annually with the application of the MRP overprovision outlined in the Budget Paper. As the loans are repaid, MRP will be charged to the value of the repayment, based upon the policy outlined below.
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 2019 relating to 2019/20. The DCLG will collate the information and has not yet indicated whether it will set general borrowing

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limits for 2019/20.

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). 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

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 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 £8.5 million, with £2m due for repayment on 31st March. 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 reduce the Authority’s Authorised Borrowing Limit and Operational Boundary for 2019/20 to £9 million in order to allow for any possible borrowing currently not foreseen during the year.
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

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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 2019/20, the repayment of a further £3.5 million which will fall due during the year, will increase the average period of the remaining loans to just over 4 years and it is therefore recommended, as last year, that if any new loans are advanced, that the average must continue to be at least four years.

14. Revised Minimum Revenue Provision (MRP) statement for 2018/19 and for 2019/20. 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 the budgeted 2017/18 charge was £710,000. However, the Government has issued revised guidance which amend the definition of 'prudent provision' for debt repayment from April 2018. They changed the definition 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. The Authority has overpaid MRP in years prior to April 2017 to a total value of £934,000 which has been held in order to reduce future year's MRP at any point. The new guidance makes clear that an overpayment cannot be calculated retrospectively but does not specifically prevent the overpayment from being split across the remainder of the MRP term. However, in order to guarantee the use of the overpayment, the authority decided that the maximum overprovision would be applied in 2017/18 and the remainder in 2018/19. In addition, the Authority charged £2 million of debt repaid in 2017/18 as MRP in the accounts in 2017/18, providing a revised overprovision of MRP of £2,223,000 at April 2018.
16. Within the paper detailing the 2017/18 accounts, the Authority agreed that it would establish as a principle a reserve to redeem debt. As part of the budget setting process for 2019/20, the Authority is being recommended to transfer £8.5 million of cash backed reserves into an earmarked reserve. This would enable the Authority to have certainty that funds are available to redeem debt when it is due. As a result of this there would be no need to set aside any MRP in relation to this debt from 1st April 2018. It is recommended that the Authority adopt as a formal policy that where existing debt is matched by a cash backed reserve that MRP is nil.

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17. It should be noted that unless the cost of repayment of the loan is still charged to service expenditure, the appropriate annual provision continues at a reduced rate even when debt is repaid. During 2018/19, a further £2m of PWLB loans will have been repaid and it is proposed to charge this amount in full through the accounts, funded from the application of the reserve. Similar transactions will apply on other outstanding debt when it is repaid. This will be the only MRP charged in 2018/19, using the overprovision to offset MRP relating to any other loans. This will enable no MRP to be charged except that funded directly from the earmarked reserve. This policy has been agreed with the Authority's external auditors.
18. Investments. Any Authority short-term surpluses are 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.
19. 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

20. The Authority is recommended to:-
- (a) adopt an Authorised Borrowing Limit and Operational Boundary for 2019/20 of £9 million;
 - (b) agree the MRP policy in 2018/19 and 2019/20 outlined in paragraphs 14-17;
 - (c) agree to the investment policy outlined in paragraph 18;
 - (d) note the 'Prudential Indicators' contained in the Appendix to this report, including newly specified borrowing and investment policies and the capital strategy; and

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(e) otherwise receive this report as information.

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22nd January 2019

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“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 2019/20 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 current reprovision of the transfer station at Cringle Dock may require capital expenditure in relation to the relocation of bulk bays from Cringle to Feather’s Wharf. It is likely that this expenditure will form part of the cost of the wider capital project and therefore be fully reimbursed by the developer.

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 2019/20 the limit is set at £9 million, taking into account the reduced level of outstanding PWLB loans and the possibility of unknown future capital works at Cringle Dock.

4. Operational Boundary

For this Authority the operational boundary may be equated to the authorised borrowing limit, i.e. £9 million for 2019/20.

5. Actual External Debt

Actual external debt is currently reported within the Treasury Management and Accounts Reports. As at 30th January 2019 this will stand at £8.5 million, all borrowed from the Public Works Loan Board and secured by statute on the

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revenues of the Authority. A further £2million will be repaid before the end of the financial year 2018/19.

6. **Maturity structure of borrowing**

The debt maturity structure of the outstanding loans as at 30th January 2019, with an average period of 1.85 years, will be :-

Years to Maturity	£'000	Average Rate (%)
0.16	2,000	3.50
0.64	1,000	3.86
0.97	2,500	4.22
2.84	2,000	4.57
6.62	1,000	3.69
Total	<u>8,500</u>	<u>4.02</u>

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 2019/20.
8. **Investment Policy.** Authority short term cash surpluses are 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.
9. **CIPFA Treasury Management Code**

Adopted.