

Taunton Deane Borough Council

Full Council – 30 September 2014

Loan to Somerset Waste Partnership for Waste Vehicles

Report of the Director of Operations

(This matter is the responsibility of Executive Councillor Williams, Leader of the Council)

1. Summary

The purpose of this report is to seek approval for Taunton Deane Borough Council to loan Somerset Waste Partnership £3.5 million. South Somerset District Council (SSDC) will be considering a similar recommendation at their Full Council Meeting in October 2014.

As with any investment this is not risk free, however risks are considered to be minimal and managed through the cost sharing agreement of the Waste Partnership. There are financial benefits for the Council, particularly through increased investment income.

2. Background

- 2.1 Most of the Somerset Waste Partnership's (SWP's) Refuse Collection Vehicles are approaching the end of their economic working life and need to be replaced to avoid escalating maintenance costs and the impact of increasing breakdowns on customer service. There is a contractual requirement that vehicles provided should be no more than 7 years old.
- 2.2 Somerset Waste Board (SWB) is a joint committee and not a legal entity in its own right and therefore cannot own vehicles. Currently, on behalf of the partners, Somerset County Council owns the vehicles.
- 2.3 Kier (the collection contractor) will undertake the procurement process, with Somerset County Council placing the orders for the vehicles on SWP's behalf. This will take advantage of Kier's purchasing power. It is anticipated that orders would be placed in October, with delivery being completed by the end of the financial year.

3. Loan Requirement

- 3.1 Somerset Waste Partnership seeks to borrow £7million over a 7 year period, paying back both principal and interest on an annual basis.

Taunton Deane Borough Council is able to offer the partnership a fixed rate of 3.50% for £3.5 million and South Somerset are recommending the same rate for the residual £3.5 million to their Full Council meeting in October 2014. This compares with interest rates that Somerset County Council and Kier can offer (4.64% and 4.5% respectively) and therefore is considered competitive.

- 3.2 The start date of the loan would be 1st April 2015. In the event that monies are required sooner, SCC would be willing to order the vehicles and pay ahead of completion if required.

4. Finance Comments

- 4.1 Providing a loan of £3.5 million to Somerset Waste Partnership alongside other capital commitments within the capital programme is affordable and an annual cashflow of repayments will serve to replenish cash balances.

- 4.3 Repayment of the principal amount of c£0.5 million each year will form a capital receipt which will replenish the unallocated capital, and it is proposed to 'set aside' this capital receipt to offset the capital financing of the loan. This means there is no revenue impact for the loan principal amount.

- 4.4 Providing such a loan would generate interest receipts in the region of £506,840 over the 7 year period which would support revenue budgets and equate to additional average income of £72,405 for the each of the next 7 years.

- 4.5 Our average investment return is in the region of 0.6% currently which equates to £147,000 in total on £3.5m over 7 years. The return on this loan would therefore provide additional income in the region of £51,405 per annum over the term of the loan.

- 4.6 We have consulted our Treasury Advisors, Arlingclose, and they are satisfied with the interest rate we are proposing; our ability to lend this level of funds for seven years; and the limited risk that this would attract. They also confirmed that this arrangement would fall outside of our Treasury Management Strategy as it is not an investment and therefore we do not have the restriction of counter-party limits.

5. Legal Comments

- 5.1 The legal implications have been considered and there will be a need to draft a formal loan agreement. This will be dealt with "in-house" and costs should be minimal when compared to the size and term of the transaction.

6. Links to Corporate Aims

6.1 None specific for this report.

7. Environmental and Community Safety Implications

7.1 The environmental and community safety implications have been considered and there are not expected to be any specific implications relating to this report.

8. Equalities Impact

8.1 Equalities impact has been considered in respect of this report and no specific impacts have been identified.

9. Risk Management

9.1 There are credit and interest rate risks associated with this proposal. Credit risk is considered to be low as we are lending to another local authority. Interest rate risk will be mitigated through our normal treasury management arrangements.

9.2 We are confident that any risk associated with this loan is negated through the cost sharing agreement, central to the Waste Partnership and as such it is not necessary to take a charge over the assets.

10. Partnership Implications

10.1 We have a vested interest in that the ability of the Waste Partnership to borrow at the best available rate will in turn be reflected in the net costs of the partnership, of which we take a share.

11. Recommendations

11.1 This proposal was considered by the Corporate Scrutiny Committee on 18 September 2014. The minutes, which include comments from the Committee, are included in Appendix A.

11.2 Full Council is requested to:-

- (a) Agree the principle of a 7-year fixed rate loan at 3.5% to Somerset Waste Partnership of £3.5 million (detailed terms within this framework to be agreed, through delegated authority, by the S151 Officer).

(b) Agree to add this capital expenditure to the Capital Programme with the understanding that the principal payments will be treated as capital receipts offsetting the Capital Financing Requirement.

Contact: Shirlene Adam
Director - Operations
(01823) 356310
s.adam@tauntondeane.gov.uk

Appendix A

DRAFT MINUTE – CORPORATE SCRUTINY COMMITTEE 18 SEPTEMBER 2014

The Director – Operations attended the meeting and briefed the Committee on the opportunity that had arisen for Taunton Deane to become involved in the funding of the replacement vehicle fleet for Somerset Waste Partnership (SWP).

She explained that currently Somerset County Council (SCC) owned and funded the vehicles on behalf of all partners in SWP and the costs were shared to partners through the agreed cost sharing agreement. The fleet was approaching the end of its working life, and plans were in hand to procure replacements (the funding needed to support this was £7,000,000 for a 7 year period). Should SCC fund the replacement vehicles – the rate charged to the SWP would be 4.64%.

Having discussed various alternatives, the Director–Operations would be recommending to Full Council on 30 September 2014 that Taunton Deane and South Somerset District Council (SSDC) jointly fund the replacement fleet by offering a loan to SWP (SSDC will be taking the proposal through their Council for approval in October). The funding requirement of £7,000,000 will be offered equally by both Districts (£3,500,000 by SSDC and £3,500,000 by Taunton Deane) at a rate of 3.5%. This will benefit all partners in SWP and also provide additional interest income to SSDC and Taunton Deane.

The Council would fund the loan from internal cash management and therefore maximise the interest benefit to the Council. The details still have to be finalised but the Director–Operations envisaged a net benefit to Taunton Deane of around £40,000 - £50,000 per annum over the 7 year period.

The Committee asked for assurances on procurement which the Director confirmed was being handled by Keir on behalf of SWP (taking advantage of their purchasing power).

The Committee discussed risk – the key issue being interest rate risk and default. The Director reported that she was comfortable the Council could manage the loan within cash-flow thus avoiding the need to externalise the debt. Should interest rates move significantly this would be reviewed alongside all other treasury decisions of the Council. The Council would gain protection through the Cost Sharing Agreement for any changes to the service of the partnership.

The Director confirmed that the Council's Treasury Advisors, Arlingclose had reviewed the proposal and were supportive. Some points and questions were raised by Members that the Director – Operations said she would look at as follows:-

- Could the rate be variable to safeguard against the expected rise in interest rates anticipated in late 2015 by the Bank of England? (This was answered at the Scrutiny meeting – the loan would be fixed rate.)

- What was the timing of the replacement fleet in terms of the necessity for Money Management purposes?
- Was there any danger of competition from other Local Authorities? (This was answered at the Scrutiny meeting – the potential was open for all Districts but to date only SSDC and Taunton Deane had expressed an interest. This was due to each authority being in different positions with regard to cashflow etc).
- How was the loan to be secured and how sure was the Council that SWP was going to exist for the next 7 years? (This was answered at the Scrutiny meeting – the “assurance” would come to SSDC and the Council via the Cost Sharing Agreement).

The Committee after hearing the Director’s responses to the above questions and the promise that the points raised in the discussion would be mentioned in the paper going to Full Council, voted unanimously to support the principles of the proposal and to progress a report for Full Council consideration on 30 September 2014.