

Taunton Deane Borough Council

Full Council – 6 February 2017

Loan to Somerset Waste Partnership for Vehicles to support the New Operating Model

This matter is the responsibility of Councillor Williams, Leader of the Council

Report Author: Jo Nacey, Finance Manager

1 Executive Summary

- 1.1 The purpose of this report is to provide detail in relation to a request to lend £3,500,000 to the Somerset Waste Partnership for the purchase of new vehicles associated with the New Operating Model. There may be a later request for a further advance in relation to new or reconfigured depots but the details of these and the funding required is not yet available.
- 1.2 As with any investment this is not risk free, however the 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 Recommendations

- 3 Full Council is recommended to approve a £3,500,000 loan in principle and incorporate the associated capital budget requirement in the 2017/2018 Capital Programme, and delegate authority to the Leader and S151 Officer to agree full terms and conditions with the Somerset Waste Partnership in line with the principles in this report.

4 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
As with any loan agreement there is a risk that the borrower fails to make repayments on a timely basis	3	4	12
<i>Mitigated by – The loan is supported by an appropriate agreement and managed through the cost sharing agreement of the Waste Partnership of which the Council is a partner. The vehicles act as security for the agreement.</i>	1	4	4

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

5 Background

- 5.1 At Full Council 30 September 2014 a loan of £3.5m was approved to enable Somerset Waste Partnership to purchase new vehicles as part of a rolling programme, through the purchasing power of Kier. This loan was not drawn down until 1 August 2016 and was split between ourselves and South Somerset District Council. Our resulting share was £1.567m.
- 5.2 The term of the loan was 7 years at a fixed rate of 2.22% (1% above PWLB rate at the time) giving the Council a healthy interest income contribution but still being attractive to Kier in relation to the loan rates they could secure.
- 5.3 We have now been approached for a further loan in relation to new vehicles which will be required by the Waste Partnership for the new operating model, of which we are in support.

6 Loan Requirement

- 6.1 Somerset Waste Partnership seeks to borrow £17.5 million over a 7 year period, paying back both principal and interest on an annual basis. This borrowing has been proposed to be spread across the five district partners of the Waste Partnership in equal proportions. At this stage, the County Council are not proposing to be one of the lenders.
- 6.2 Taunton Deane Borough Council's share (excluding the County Council) equates to 20%. This would mean that our share would be £3.5m.
- 6.3 We are able to offer the partnership a fixed rate of PWLB plus 1% for £3.5 million. As a guide, as at 28 December this would give a rate of 2.18% for a 7 year loan.
- 6.4 The start date of the loan would be approximately September 2017 and the interest rate would have to be calculated again to ensure that the rate we receive is current. The "surplus" that the 1% equates to would of course stay the same.

7 Links to Corporate Aims / Priorities

- 7.1 None specific to this report.

8 Finance / Resource Implications

- 8.1 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.
- 8.2 Repayment of the principal amount of average £500,000 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 advance. This means there is no revenue impact for the loan principal amount.
- 8.3 Providing such a loan would generate interest receipts in the region of £286,125 over the 7 year period which would support revenue budgets and equate to average income of £40,875 for each of the next 7 years.
- 8.4 This assumes that the loan is funded by internal borrowing. If external borrowing is required the "surplus" to the Council will be the 1% premium which equates to £131k (or an average of £19k per annum).
- 8.5 Our average investment return is in the region of 0.84% currently which equates to £205,800 in total on £3.5m over 7 years. The incremental improvement of investment return on this loan (based on internal borrowing) would therefore provide additional income in the region of £11,475 per annum over the term of the loan. Although, this assumes no repayment of principal which could be reinvested. Hence, the differential between our existing return and that of a loan with annual principal repayments is in excess of £11,475 per annum.
- 8.6 Another factor of benefit to the Council is that the Waste Partnership will charge Kier (the supplier) a further 0.3% in interest which will then be shared across the partners.

9 MTFP Implications

- 9.1 The following table outlines the additional net interest income which could be added to the MTFP each year depending on the level of loan agreed. This assumes external funding is used therefore any internally funded elements will increase the return.

Year	Externally Funded Value of Loan (£3.5m)
	Additional Interest Income
1	33,750
2	28,750
3	23,750
4	18,750
5	13,750
6	8,750
7	3,750
Total Additional Income	131,250

- 9.2 The timing of the interest payments will be dependent on the date of drawdown of the loan. The first payment will be factored into the year following the drawdown and then for the subsequent 6 years.

10 Legal Implications

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

11 Environmental Impact Implications

- 11.1 None for the purposes of this report.

12 Safeguarding and/or Community Safety Implications

- 12.1 None for the purposes of this report.

13 Equality and Diversity Implications

- 13.1 None for the purposes of this report.

14 Social Value Implications

- 14.1 None for the purposes of this report.

15 Partnership Implications

15.1 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.

16 Health and Wellbeing Implications

16.1 None for the purposes of this report.

17 Asset Management Implications

17.1 None for the purposes of this report.

18 Consultation Implications

18.1 None for the purposes of this report.

19 Scrutiny Comments

19.1 The proposal was discussed at Corporate Scrutiny Committee on 25 January. Corporate Scrutiny Committee noted the report and supported a recommendation to Full Council to approve the loan in principle and for the associated capital budget requirement to be incorporated in the 2017/18 Capital Programme.

The following salient comments and questions were raised:

- The Committee sought clarification about the status of SWP as the borrower? *The Finance Manager clarified that the loan agreement is between the Borough Council and the County Council as SWP are not an entity in legal terms.*
- The request is for £17.5m split equally. What would happen if one of the five districts did not offer to lend the proposed equal share of £3.5m per district? *The Finance Manager clarified the remaining districts would be approached to ask if they would like to share the unallocated share and in what proportions.*
- Would the Council be at risk if the funds were not requested to be drawn down by SWP until sometime in the future? *The intention is for the loan advance to be required in September/October 2017. Whichever the underlying PWLB rate is at the time of the advance, plus 1%, would be used. If any changes to the proposed loan arrangements or financial borrowing position has a material effect on the Council's financial position and/or risks this would be reported to Members as appropriate.*
- Will there be appropriate registration and tracking of assets? *Yes. The Finance Manager clarified that the assets are registered on the fixed asset register of the County Council with registration numbers of the vehicles recorded. The Waste Partnership compile their own Balance Sheet which is reflected in the Balance Sheet of the County Council as the administering body. NB All the vehicles will have tracking devices in case of theft.*
- How many vehicles were purchased when TDBC and SSDC lent £3.5m to SWP in 2014? *23 refuse vehicles of various sizes and configurations were purchased.*
- Would the commitment to the loan bind the new Council if approved by the Secretary of State? *The loan would be a long term debtor within TDBC accounts and the presumption is any outstanding debtor balance, along with all concurrent assets and liabilities of the Council at the time, would pass to the new council.*

Democratic Path:

- Corporate Scrutiny Committee – Yes
- Executive – No
- Full Council – 6 February 2017

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