

**CASH AND BORROWING**  
**WDA/26/18**

**Recommendation**

That:

1. Members note the proposals to reduce the cost of the Authority's cash and borrowing position; and
2. Members delegate authority to the Treasurer, in consultation with the Chief Executive and Chairperson, to put cost effective arrangements into place.

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**CASH AND BORROWING****WDA/26/18****Report of the Treasurer****1. Purpose of the Report**

- 1.1 The Authority does not have a bank account, but instead uses the services of St Helens Council (the Council) under a Service Level Agreement (SLA) to manage its cash. Over a number of years the Authority's cash position with the Council has been overdrawn. While interest rates have been historically low this position has been financially sustainable. However, with recent rises in those rates the Council has advised that the Authority may be better off taking out a formal bank loan at a lower cost rather than continuing with the overdrawn position. This report examines the circumstances and makes recommendations for following this advice.

**2. Background**

- 2.1 The Authority is provided with a range of financial services by St Helens Council under an annual SLA. The SLA includes the provision of Treasury Management advice and Cash management.
- 2.2 Over the course of a number of years where the Authority's budget has not raised the same amount in Levy as has been planned to be spent, the Authority has used General Fund reserves to support that spending the Authority's cash position with the Council has been overdrawn.
- 2.3 At the same time the Authority has used surplus General Fund monies to finance Capital schemes rather than borrowing (as at the time it was the lowest cost option), meaning that in technical accounting terms it is "under borrowed" and has scope to borrow additional funds from the market.
- 2.4 While the Council's own cash position has been relatively robust over the same period and the interest rates have been historically low this position has been sustainable. The Council is now advising that changes to interest rates, and potentially also changes in the Council's appetite to support the Authority's overdrawn position mean that it is now time to review the overdraft and to assess whether it will be better for the Authority to convert

the overdraft to a more formal loan from the Public Works Loans Board (PWLB) at a lower and more certain rate of interest.

### 3. **Cash and Borrowing**

- 3.1 During the current year the Council has estimated that the Authority's overdrawn position will vary between £14M and £20M, with an estimate that at the year end the overdrawn cash position will be around £16M. The Council charges interest to the Authority on this overdraft, and under the SLA that rate is 2% above the Bank Rate set by the Bank of England. Whilst the Bank Rate has been at historically low rates that cost has been sustainable.
- 3.2 The Bank of England recently raised the Bank Rate and has indicated that it will seek to continue to raise the rate, albeit slowly, over the next few years. The Council advised the Treasurer that should the Bank raise the Bank Rate then it may be more beneficial to the Authority to seek a formal loan to replace the overdraft, as this would provide certainty and a lower rate of interest.
- 3.3 The following table shows the Council's Treasury advisers' predictions of how the Bank Rate will change over the medium term:

	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20
Link Asset* Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
Capital* Economics	0.75%	0.75%	0.75%	1.00%	1.25%	1.25%	1.25%	1.25%	1.25%

*\*Link Asset Services are St Helens Council's independent professional Treasury Management advisers, among other things they provide estimates of how interest rates may change. Capital Economics are another separate organisation that provides similar advice and are used to demonstrate that Link's projections are in line with Market expectation.*

- 3.4 As a local authority MRWA is able to access Public Works Loans Board borrowing, which may be over the short, medium or longer term. The Authority, along with other local authorities also applies each year for a slightly lower rate than the PWLB normally lends at. This 'certainty rate' provides the Authority with access to loan rates that are 0.2% below the PWLB quoted rates, current rates are as follows:

Length	Interest Rate
1 Year	1.53%
5 Years	1.90%
10 Years	2.32%

20 Years	2.74%
40 Years	2.67%
50 Years	2.64%

- 3.5 These rates are very low and are forecast to increase over the medium term, as follows

%	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
5yr PWLB	2.00	2.10	2.20	2.20	2.30	2.30	2.40	2.50	2.50
10yr PWLB	2.50	2.50	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25yr PWLB	2.90	3.00	3.10	3.10	3.20	3.30	3.30	3.40	3.50
50yr PWLB	2.70	2.80	2.90	2.90	3.00	3.10	3.10	3.20	3.30

- 3.6 It is therefore the right time to consider moving from a cash overdraft which is currently at affordable rates but where the costs may grow in the medium term, to a borrowing position taking advantage of the currently low rates of interest.

#### 4. **Capital Financing Requirement**

- 4.1 In order to borrow monies to replace the Authority's cash overdraft with more sustainable PWLB debt the Authority has to conduct an exercise to confirm that it remains within its borrowing limits; which are calculated as the 'Capital Financing Requirement'.
- 4.2 The Capital Financing Requirement is a technical accounting estimate of the amount of borrowing the Authority may take out without putting the financial position at risk.
- 4.3 The latest estimated position regarding borrowing at the Authority suggested that compared with the underlying Capital Financing Requirement the Authority had significant capacity for taking out more borrowing than it has historically. This is where the Authority is technically 'under borrowed' compared to the borrowing it could take out:

	£M
Capital financing requirement	46.596
Long term borrowing	(16.830)
Under-borrowed	29.766

- 4.4 While any proposal to replace the Authority's cash overdraft with borrowing would not take up the whole of this amount it is proposed that the Treasurer work with the Council's Treasury Manager and their Treasury Management adviser to review this calculation. This will give assurance that the Authority will remain within its borrowing limits when it converts the overdraft to borrowing.
- 4.5 In common with other local authorities the Authority has the power to borrow under the terms of the 'Local Government Act 2003' and following guidance within CIPFA's 'Prudential Code for Capital Finance in Local Authorities'.

## **5. Options available**

- 5.1 The Authority may continue to carry a cash overdraft with St Helens Council. That approach is increasingly expensive and carries the risk that the Council will review its own cash position and decide that it can no longer offer that facility to the Authority. Such an unplanned withdrawal would be likely to lead to a significant additional cost of arranging an alternative borrowing source. The Authority could consider a normal bank loan, but given that it can access PWLB loans, and at the certainty rate which is even lower than published PWLB rates it is likely to be more preferential for the Authority to replace its overdraft with a PWLB loan. The Council has provided their analysis of the borrowing position at Appendix 1 to this report.
- 5.2 Comparisons of the costs of the options are shown in Appendix 2, and depend upon the interest rate and the proposed time over which the loan is taken out. So for example if the loan was repaid over a five year period that would give a saving compared with the cost of maintaining the overdraft of £765k, or if taken over 10 years of £774k. Other longer term loan periods do not provide such a large opportunity for savings to be realised.

## **6. Proposed approach**

- 6.1 In order to ensure that the proposed arrangement is effective for the Authority in the medium to longer term it is proposed that the costs and benefits of the options are discussed in detail with St Helens Council and with their professional Treasury Management advisers at Link Asset Services, with a view to taking out a loan of between £14M and £20M to replace the ongoing overdraft with a more formal loan from the PWLB.

- 6.2 As a part of this review it is proposed that the Treasurer will review with St Helens and the advisers the Capital financing requirement and the extent to which the Authority should extend its borrowing, both to convert the cash overdraft into a loan and to provide the Authority with a small cash buffer for future flexibility.
- 6.3 The Treasurer will consult with the Chief Executive and Chairperson before putting any new loan arrangement in place, and will report back to the Authority at the next meeting to confirm the arrangement that has been put into place.

## **7. Risk Implications**

- 7.1 The Authority is in a cash overdrawn position with St Helens Council. As the cost of borrowing increases the cost of the Authority's overdraft will continue to increase. To mitigate that risk it is proposed that the Authority replaces the overdraft with PWLB borrowing.
- 7.2 Borrowing from the PWLB at the 'certainty rate' that the Authority can obtain is the lowest cost option for the Authority to mitigate the impact of the cost of the overdrawn position.
- 7.3 By replacing the overdraft with the borrowing the Authority will reduce the risk that the Council can no longer sustain the overdraft and the risk that the facility be withdrawn without suitable notice.
- 7.4 By proposing to review the capital financing requirement and borrowing options with the Council's Treasury Managers and with their Treasury Management Advisers the Treasurer will be in a position to put into place the most effective arrangements going forward.
- 7.5 To ensure there is an overview of this arrangement it is proposed that the Treasurer consults with the Chief Executive and Chairperson prior to finalising any changes.

## **8. HR Implications**

- 8.1 There are no new HR implications arising from this report

## **9. Environmental Implications**

- 9.1 There are no new environmental implications arising from this report

## **10. Financial Implications**

- 10.1 The Authority is in a cash overdraft position with St Helens Council who provide banking services under a service Level agreement.
- 10.2 The overdraft ranges between £14M and £20M and is expected to be at around £16M by the end of the current year unless there is a change to the arrangement.
- 10.3 While interest rates were low the Council were prepared to sustain this level of overdraft. However, the council also advised that if interest rates changed the Authority may be better off financially replacing the overdraft with a loan from PWLB at the lower, certainty rate.
- 10.4 The Council has provided advice on the options that will give the Authority the opportunity to reduce the cost of its cash overdrawn position by replacing the overdraft with a loan. There is potential for saving between £765k and £777k over 5 to 10 years depending on the loan period adopted.
- 10.5 The Treasurer will work with St Helens Council and their advisers Link to put in place the most advantageous financial arrangement for the Authority. This will involve a PWLB loan of between £14M and £20M and is likely to be for between 5 and 10 years.

## **11. Legal Implications**

- 11.1 The Authority's powers to borrow within prudential limits are set out in section 4 of this report.

## **12. Conclusion**

- 12.1 Members are asked to note the proposal to convert the Authority's cash overdraft with St Helens Council into a loan from PWLB to reduce the costs to the Authority.
- 12.2 Members are asked to delegate to the Treasurer, in consultation with the Chief Executive and Chairperson, authority to put arrangements in place that convert the overdrawn position into a loan from PWLB at a rate that is effective for the Authority.



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The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.