

NORTH LONDON WASTE AUTHORITY

MONDAY, 31 OCTOBER 2022 AT 2.30 PM
THE COUNCIL CHAMBER, CROWDALE CENTRE, 218 EVERSOLT STREET,
LONDON, NW1 1BD

Enquiries to: Cheryl Hardman, Committee Services
E-Mail: cheryl.hardman@camden.gov.uk
Telephone: 020 7974 1619 (Text phone prefix 18001)
Fax No: 020 7974 5921

SUPPLEMENTARY AGENDA

8. 2022/23 FINANCE UPDATE

(Pages
3 - 8)

Report of the Financial Adviser.

This report is supplemental to the Finance Update at agenda Item 8 on the agenda published for this meeting and updates the tables in paragraph 7 of the paper.

SUPPLEMENTARY AGENDA ENDS
Issued on: Monday, 31 October 2022

NORTH LONDON WASTE AUTHORITY
REPORT TITLE: SUPPLEMENTARY PAPER - 2022/23 FINANCE UPDATE
REPORT OF: FINANCIAL ADVISER
FOR SUBMISSION TO: AUTHORITY MEETING
DATE: 31 OCTOBER 2022
SUMMARY OF REPORT: This report is supplemental to the Finance Update at agenda item 8 on the agenda published for this meeting and updates the tables in paragraph 7 of the paper.
RECOMMENDATIONS: The Authority is recommended to agree the recommendations set out below which are the same as those in the Finance Update report at agenda item 8: <ul style="list-style-type: none">A. Approve a rebate to the 2022/23 levy of £4.753m and authorise the Financial Adviser to write to boroughs asking them to deduct this from their November payment;B. Approve the Prudential Indicators as laid out in this supplementary paper.C. Note this review of the 2022/23 revenue budget; andD. Note that a further update of the 2022/23 budget will be reported to the Authority meeting in December together with an updated assessment of the budget and resource requirements for 2023/24.
SIGNED: Jon Rowney, Financial Adviser DATE: 31 October 2022

1. INTRODUCTION

- 1.1. This paper reports that an error has been identified in the finance update paper. This necessitates a revision to the Prudential Indicators which Members are recommended to approve.
- 1.2. This report is supplemental to the Finance Update at agenda item 8. That report lays out a revised set of Prudential indicators. Paragraph 7.7 contained an error that this supplementary paper corrects and the full text of paragraph 7 has been reproduced below in paragraph 3.

2. BACKGROUND

- 2.1. Since papers have been published, officers have identified an error in the table that lays out the Authority's Capital Financing Requirement (CFR). The CFR table is intended to show the total requirement for each year, on a cumulative basis. The version of the table included in the Finance update contained the forecast capital expenditure for 2022/23 (£256 million) but did not add in the cumulative spend to the end of 2021/22 (£248 million), and the cumulative estimate for 2022/23 reported in the table should have been £510 million. This error also meant that the following years in the table were also lower than they should have been by £248 million.
- 2.2. Paragraph 3 below, contains the Prudential indicator section of the Finance Update paper in full. Only the table in paragraph 3.7 has been amended.
- 2.3. All other sections of the Finance Update paper are unchanged.

3. PRUDENTIAL INDICATORS

- 3.1. The Authority determines its capital investment needs to meet its service obligations. In doing so, it must have regard to The Prudential Code for Capital Finance in Local Authorities. The Code is designed to ensure that local authorities have capital investment plans that are affordable, prudential and sustainable. To demonstrate that they have fulfilled these objectives the Code sets out indicators that must be used.
- 3.2. The Authority usually sets its indicators only once a year, alongside the budget. This review of the Prudential Indicators has been brought forward due to changing conditions in the financial markets. The prudential indicators were last reviewed at the Authority meeting in December 2021. Since then, interest rates have risen. The Authority took early steps to borrow £280 million to support the NLHPP and protect itself from rising rates. The proposed indicators would increase the Authority's flexibility to borrow money to ensure that it can take maximum advantage of the lowest rates that are available, which in turn will ensure that the levy charged to boroughs in future is kept low.

- 3.3. Any borrowing undertaken will be in line with Financial Standing Orders (D9.2b), which require that any borrowing in excess of £100m will be undertaken only after consultation with the Directors of Finance of the constituent boroughs as well as the Chair and Vice Chair of the Authority.

Indicators for Affordability

- 3.4. The Authority's capital programme for 2021/22 to 2025/26 includes:
- 3.4.1. Purchase of the Western Road RRC.
 - 3.4.2. Acquisition of lease for EcoPark land.
 - 3.4.3. Construction of the Resource Recovery Facility, EcoPark House and the Energy Recovery Facility at the Edmonton EcoPark.
 - 3.4.4. Acquisition of waste transfer station should the opportunity arise, and refurbishment works at existing RRC sites.
- 3.5. Based on this capital programme of £1,045m (2021/22 to 2025/26) the following ratios of financing costs to net revenue stream are recommended for approval. It should be noted that for the Authority, the net revenue stream is represented by the levy:

Ratio of Financing Costs to Net Revenue Stream					
	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
	11.82%	14.80%	22.47%	20.10%	19.59%

- 3.6. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have been previously taken by the Authority are:

Impact on the NLWA Levy					
	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
£m	Nil	0	0	0	14.579

Indicators for Prudence

- 3.7. The Capital Financing Requirement measures the underlying need to borrow. The Code provides that over the medium-term net external borrowing does not exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current and next two years. This provides assurance that borrowing will be incurred only for capital purposes. The Authority met this requirement in 2021/22 and no difficulties are envisaged in 2022/23 or

subsequent years. The following Capital Financing Requirements are therefore recommended for approval:

Capital Financing Requirement					
	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
£m	248	510	755	975	1,056

- 3.8. The Code requires that treasury management is carried out in accordance with good practice. The prudential indicator is that a local authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. Members will be aware that the Authority's cash resources are pooled with those of London Borough of (LB) Camden and that LB Camden undertakes treasury management activities on the Authority's behalf. LB Camden has adopted this code and its treasury management policies and procedures conform to the Code's requirements. Officers are satisfied that through the arrangement that the Authority has with LB Camden that treasury management activities undertaken on behalf of the Authority also meet the requirements of this Code.

Indicators for capital expenditure, external debt and treasury management

- 3.9. In 2021/22, the Authority continued the construction of the EcoPark South Facilities, completed the construction of the laydown area and the sewer diversion continued to plan for the construction of the Energy Recovery Facility. Planned capital expenditure for 2021/22 to 2025/26 is as outlined in paragraph 3.4.1.
- 3.10. Accordingly, the following estimated capital expenditure (including inflation) is recommended:

Capital Expenditure					
	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
£m	99	268	256	230	91

- 3.11. The following two Prudential Indicators (PI's) govern the Authority's ability to borrow funds in the money markets or from the Public Works Loans Board. They must be set at a level that allows headroom for the capital programme to be achieved. The following authorised limits for external debt are recommended for approval:

Authorised Limit for External Debt					
	2021/22	2022/23	2023/24	2024/25	2025/26
£m	Actual	Estimate	Estimate	Estimate	Estimate
Borrowing	819	1,310	1,310	1,400	1,400
Other long term liabilities	Nil	1	1	1	1

- 3.12. The following operational boundaries for external debt are recommended for approval:

Operating Boundary for External Debt					
£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Borrowing	819	1,310	1,310	1,400	1,400
Other long term liabilities	Nil	1	1	1	1

- 3.13. The following prudential indicators are relevant for setting a treasury management strategy. The Authority has currently only taken fixed interest loans, but the indicators are set at a level that will enable the Authority to react to changing circumstances that may favour the use of variable rate loans.

Net Principal re Fixed Rate Borrowing					
	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
£m	819	1,310	1,310	1,400	1,400

Net Principal re Variable Rate Borrowing					
	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
£m	0	509	509	609	609

- 3.14. In order to ensure flexibility in the loans that might be taken it is recommended that the following maturity structure of fixed rate borrowing is set for 2022/23. Given the Authority's particular investment needs, the limits provide maximum flexibility for short-term borrowing.

Maturity Structure of fixed rate borrowing during 2022/23	Upper Limit %	Lower Limit %	Current %
Under 12 months	100	0	2
12 months and within 24 months	100	0	0
24 months and within 5 years	100	0	2
5 years and within 10 years	100	0	2
10 years and above	100	0	94

- 3.15. The indicators will be kept under review.

4. CONCLUSION

- 4.1. Members are recommended to approve recommendation A as explained in the Budget Update paper and note recommendations C and D. Members are asked to approve recommendation B as explained in this supplemental report

5. EQUALITIES IMPLICATIONS

- 5.1. Budgets and forecasts are considered an allocation of resources. Approval to spend is sought separately by officers. The equalities implications are considered as part of the spending approval.

6. COMMENTS OF THE LEGAL ADVISER

- 6.1. The legal comments set out in the budget paper apply to this paper.
- 6.2. This paper can be accepted as urgent under the Authority's Standing Orders (SO A,4.6).

Contact officer:

Paul Gulliford
Unit 1b Berol House
25 Ashley Road
London N17 9LJ
020 8489 5833
paul.gulliford@nlwa.gov.uk