WEST LONDON WASTE AUTHORITY

Report of the Treasurer 27 January 2017

Treasury Management

SUMMARY

This report provides the treasury management plan for 2017/18

RECOMMENDATION(S)

The Authority is asked to:-

1) Approve the treasury management plan for 2017/18

2) Adopt the prudential indicators and minimum revenue provision in Section 3.

1. Background

1.1 The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. A key function of treasury management is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Therefore funds are invested in low risk instruments commensurate with the Authority's low risk appetite, providing adequate liquidity before considering investment return.

1.2 Another key function of treasury management is the funding of the Authority's capital plans. These capital plans identify the borrowing need of the Authority which can involve arranging long or short term loans, refinancing or using longer term cash flow surpluses.

1.3 This report sets out the annual plan for 2017/18 alongside required prudential indicators as identified in the CIPFA Prudential Code.

2. Annual Treasury Management Plan for 2017/18

3.1 The plan for 2017/18 is low risk and simple.

3.2 With construction of the SERC complete, it is no longer necessary to hold significant cash balances for liquidity purposes. Therefore the focus will be to manage our funds to achieve better returns whilst ensuring their security and also ensuring that adequate cash remains available to meet day to day spending requirements.

3.3 The Authority will apply the practice which is in accordance with the treasury management policy:

- Funds will be invested with the London Borough of Ealing under existing arrangements to ensure liquidity and deliver a reasonable return.
- funds will be invested with local authorities and other low risk entities (banks with high credit ratings) to deliver better returns.
- the upper limit for fixed term investments of more than 364 days will be £10 million

3.3 In addition to this the 2017/18 budget includes activities to develop waste infrastructure by working with boroughs. Any consequent construction of infrastructure will provide the opportunity to better utilise excess cash balances instead of borrowing. Such infrastructure and funding options will be evaluated as part of any project appraisal and appropriate recommendations will be made to the Authority in due course. With significant lead times for any infrastructure project, no borrowing is currently planned for 2017/18.

3. Prudential indicators & minimum revenue provision (MRP)

3.1 The treasury management plans are fairly simple and explained above. However, the CIPFA Prudential Code prescribes a range of indicators and provides a framework to support decision making. These are probably more pertinent to organisations with complex treasury management arrangements however the indicators required for an annual treasury management plan and a brief explanation of what they illustrate are provided in the table below:

Prudential Indicator	Prudential code paragraph number	Explanation	2017/18 Estimate £000s	2018/19 Estimate £000s	2018/19 Estimate £000s
Ratio of financing costs to net revenue stream	**37**	This is an indicator of affordability of capital plans. It shows that financing costs will only account for a small portion of overall income, so the borrowing is affordable	15%	14%	13%
Capital expenditure	**47**	This is a summary of the Authority's capital spending plans identified in the long term plan.	270	0	0
Capital financing requirement (CFR)	**50**	This is a measure of the Authority's underlying borrowing need to finance capital expenditure – primarily to finance the cost of constructing the SERC, by far the largest capital item	180,519	172,547	164,572
Operational boundary for external debt	**55**	This is a projection of debt supporting the capital financing requirement – essentially the value of loans and long terms liabilities financing the construction of the SERC	184,670	179,886	174,898
Authorised limit for external debt	**54**	This provides £10m headroom for the operational boundary (above) to deal with any unusual cash movements and timing of cashflows	194,670	189,886	184,898

4.2 The historic capital expenditure and borrowing in relation to the construction of the £185 million Energy from Waste plant accounts for the majority of the figures in the table above.

4.3 Minimum Revenue Provision (MRP) - The Authority is required to pay off an element of the accumulated capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP). The Authority will continue with its current approach where MRP will follow standard depreciation accounting procedures. This will provide for a reduction in the borrowing need over the asset's life.

4. **Financial Implications** – These are detailed in the report.

5. **Legal Implications** – There are no legal implications as a result of this report**.**

6. **Impact on Joint Waste Management Strategy** – Improvements to financial management in the Authority will continue to ensure that the Authority addresses policies of the JWMS.

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