

## Treasury Management

### **SUMMARY**

This report provides an update on the treasury management activities

### **RECOMMENDATION(S)**

The Authority is asked to:-

- 1) Note the treasury management out-turn for 2016-17
- 2) Note the update for the current year including the treasury management and prudential indicators

## **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. Surplus monies 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 outlines the 2016-17 out-turn and treasury management activities so far this year.

## **2. Treasury Management Activity**

2.1 The Authority's scale and variety of treasury management activities has been limited to the low risk and essential operations identified below.

2.2 Excess funds are invested through the London Borough of Ealing under a service level agreement. Local Authorities have a high security/credit rating and are a risk averse option. Interest is paid annually based on the average return achieved by the borough over the year.

2.3 The average interest rate for 2016/17 was 0.5% returning £60,000 of investment income. The amount held with the London Borough of Ealing has ranged from £8.5 million to £15.0 million during the year. At the end of the year a total of £14.0 million was placed with the borough. Prompt access to funds without the loss of any interest is a strong feature of this arrangement.

2.4 So far, in 2017/18 operations have generated further net cash inflows and balances have ranged between £14.0 million and £17.0 million. These balances will earn approximately 0.5%. However, the services with LBE have been reviewed and the SLA is currently being finalised to include their placement service which will help achieve a better rate of return in the latter part of the year.

2.5 Currently the Authority borrows money from 4 London boroughs to finance the construction of a major Energy from Waste Recovery Centre (SERC) under a public private partnership (PPP) project. All funds when drawn are immediately paid over to the contractor for completed construction milestones. Under the PPP arrangements the contractor also makes significant contributions towards the construction of the plant.

2.6 For 2016/17 the Authority commenced the year with a total of £52.5 million of loans from 4 London boroughs. During 2016/17 construction of the new plant progressed and further loan drawdowns took place monthly. At the end of 2016/17 total borrowings stood at £66.6 million.

2.7 The contractor's contribution is approximately double that of the Authority. By the end of 2016/17 the contractor contributed £122.3 million.

2.8 So far, during 2017/18 there has been no borrowing. £0.9 of loan facility remains and will be drawn when the final invoices for the SERC are issued by the contractor later this year.

2.9 The interest on these loans accrues from the date of each drawdown at a fixed rate of 7.604% and payments commenced when the plant came into full service, in December 2016/17. The year saw £1.5 million interest paid.

### **3. Prudential indicators & minimum revenue provision (MRP)**

3.1 The treasury management activities 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 identified in the annual treasury management plan and a brief explanation of what they illustrate are provided in Appendix 1.

3.2 The construction of the £185 million Energy from Waste plant accounts for the majority of the figures in Appendix 1.

**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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## Appendix 1

Prudential Indicator	Prudential code paragraph number	Explanation	2015/16 Estimate £000s	2015/16 Actual £000s	2016/17 Estimate £000s	2016/17 Actual £000s	2017/18 Estimate £000s	2017/18 P4 Actual £000s	Comments
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	0%	0%	11%	5%	15%	15%	Within threshold
Capital expenditure	47	This is a summary of the Authority's capital spending plans identified in the long term plan.	50,837	51,673	6,691	29,264	270	0	Delays to the completion of SERC shifted spend out from 2014/15 to later years, principally 2016/17. Otherwise within threshold
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	174,734	157,315	191,649	183,380	180,519	177,023	Within threshold

<b>Operational boundary for external debt</b>	<b>55/59</b>	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	170,338	152,115	193,721	188,966	184,670	184,645	Within threshold
<b>Authorised limit for external debt</b>	<b>54</b>	This provides £10m headroom for the operational boundary (above) to deal with any unusual cash movements and timing of cashflows	180,338	162,115	203,721	198,966	194,670	194,645	Within threshold