WEST LONDON WASTE AUTHORITY

Report of the Managing Director and Treasurer 26 January 2018

Treasury Management

SUMMARY

This report provides the treasury management plan for 2018/19

RECOMMENDATION(S)

The Authority is asked to:-

1) Approve the treasury management plan for 2018/19
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 2018/19 alongside required prudential indicators as identified in the CIPFA Prudential Code.

2. Annual Treasury Management Plan for 2018/19

2.1 The plan for 2018/19 has two main elements.

2.2 In terms of funding of capital plans, the acquisition of transfer station sites is the key activity for the coming year. This will be financed by borrowing from the PWLB and utilising £10 million cash balances. This was detailed in a report to the December Authority meeting and has been incorporated into the 2018/19 budget.

2.3. In terms of cash balances the focus will continue to be on low risk options and ensuring adequate liquidity by maintaining healthy balances. The current arrangements (SLA with Ealing Council) remain the best option and provide quick access to cash and also deliver a return which is better than the interest rates the Authority can achieve directly from its own banker or other financial institutions. The SLA with Ealing Council has also been enhanced so that funds can now also be placed for fixed periods to achieve better returns. This facility will allow funds in excess of liquidity requirements to be placed for fixed terms and so deliver a better return. The SLA now essentially gives the Authority access to the wide range of money market rates that Ealing Council can achieve with the added benefit/security of the placement being with Ealing Council instead of another institution.

2.4 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.
- the upper limit for fixed term investments of more than 364 days will be £10 million

2.5 It is worth noting that the prudential code is currently being reviewed by CIPFA and an update is expected sometime in 2018. The consultation documents suggest a wider capital strategy, additional disclosure and more guidance. As the actual requirements become clear, the Treasury Management Policy will be reviewed, updated and reported to the Authority in due course.

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**	**Description**	**2018/19 Estimate £000s**	**2019/20 Estimate £000s**	**2020/21 Estimate £000s**
Ratio of financing costs to net revenue stream	**37/38**	**This is an indicator of affordability of plans**	9%	9%	8%
Capital expenditure	**47/49**	**This is a summary of the Authority's capital spending plans**	31,000	0	0
Capital financing requirement (CFR)	**50/53**	**This is a measure of the Authority's underlying borrowing need**	216,807	208,407	200,006
Operational boundary for external debt	**55**	**This is a projection of debt supporting the capital financing requirement**	206,108	200,061	193,826

Authorised limit for external debt	**54**	**This provides headroom for debt to deal with any unusual cash movements**	216,108	210,061	203,826
Net debt	**44/59**	**This reflects the amount of debt and should be less than the CFR**	193,477	184,370	175,248

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

3.3 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 and 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.

Contact Officers	Jay Patel, Head of Finance jaypatel@westlondonwaste.gov.uk Ian O'Donnell, Treasurer Odonnelli@ealing.gov.uk	020 8825 9524 020 8825 5269