WEST LONDON WASTE AUTHORITY

Report of the Treasurer 21 September 2018

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 2017-18
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 201718 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 simple, low risk and essential operations identified below in accordance with the annual plan approved by the Authority in January.

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. The service level agreement also gives the opportunity for the Authority to place money with the borough for fixed periods to enjoy higher rates.

2.3 The average interest rate for 2017/18 was 0.4% returning £57,000 of investment income. The amount held with the London Borough of Ealing has ranged from £10 million to £17 million during the year. At the end of the year a total of £17.0 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 2018/19 operations have been steady and excess cash balances remain at £17 million, most of which will be used in the acquisition of the transfer station sites freehold.

2.5 The Authority has loan facilities from 4 London boroughs which financed the construction of the Energy from Waste Recovery Centre (SERC). The loans are of a repayment type with half yearly instalments including an element of both interest and loan repayment.

2.6 For 2017/18 the Authority commenced the year with a total of £66.7 million of loans from the 4 London boroughs. During 2017/18 the Authority borrowed the final sum of £0.9 million in total from the borough loan facilities for its final payment for the construction of the new plant. The half yearly payments repaid principle amounting to £1.0 million leaving loan balances at the end of 2017/18 of £66.6 million.

2.7 It is worth noting that the contractor's contribution to the construction of the SERC is approximately double that of the Authority. By the end of 2017/18 the contractor contributed £124 million.

2.9 The interest on the 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 2017/18. The year saw £5.1 million interest paid.

3. Prudential indicators

3.1 A new Prudential Code was recently published by CIPFA resulting in only very minor changes to the current reporting, now incorporated. The key requirements of the prudential code are for authorities to ensure that capital expenditure plans are affordable, prudent and sustainable.

3.2 It is worth noting that the Authority demonstrates this in its long term financial plans (25 years) which are approved together with the budget at every January Authority meeting. The plans show that the Authority has balanced budgets over the period and that all debt is repaid, all capital expenditure is ultimately recovered through levies and that the growth in the levies is significantly less than inflation. Appendix 1 is an extract of the plan outputs.

3.3 The Prudential Code also prescribes a range of indicators to report. These are probably more pertinent to organisations with complex treasury management arrangements and that are too complex to produce long term plans. However the indicators and a brief explanation of what they illustrate are provided in Appendix 2. The construction of the £190 million Energy from Waste plant accounts for the majority of the figures in this table.

3.2 CIPFA has also published a new Treasury Management Code. Once again only minor changes are needed and will be incorporated into the next policy update in January.

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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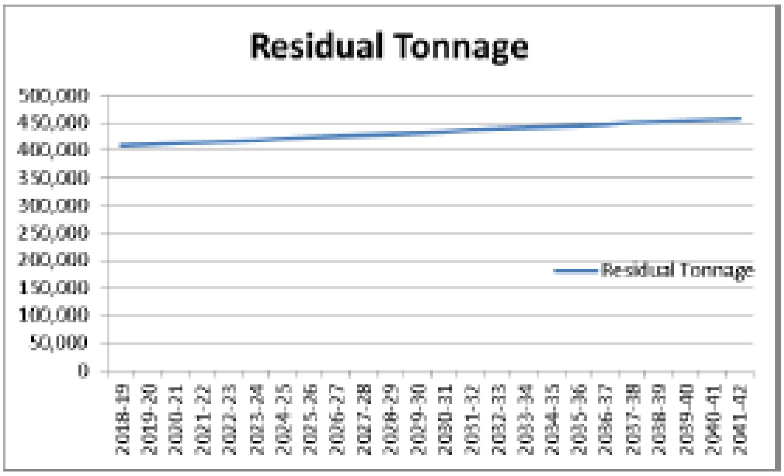
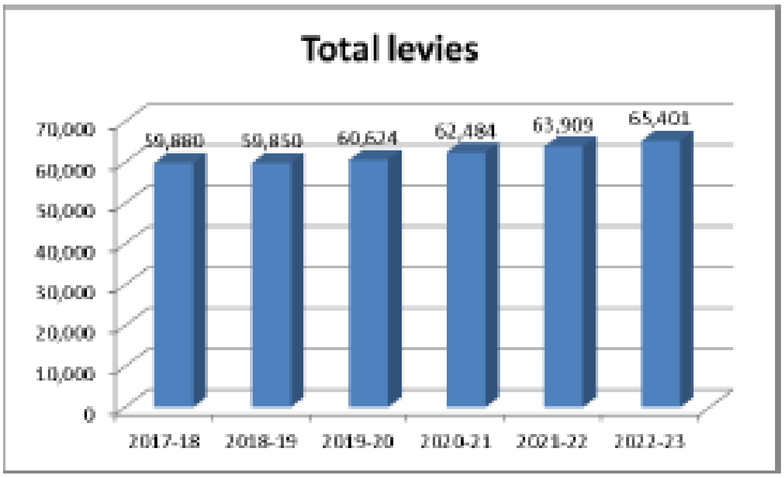
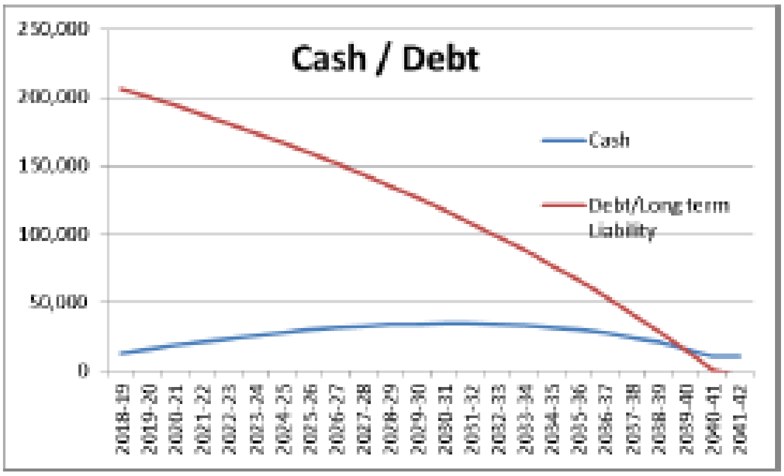
Appendix 1



The plan assumes 0.5% waste volume growth per year and 4.0% inflation per year.



This chart shows the resulting growth in levies dampened by the PPP contract pricing mechanism



The Authority will be debt free at the end of the PPP contract term and will hold healthy cash balances to manage liquidity risk throughout the term

More details about the long term financial plan can be found in the published December 2017 and January 2018 Authority papers

Appendix 2

Prudential Indicator	New Prudential code	Description	2017/18 Estimate £000s	2017/18 Actual £000s	2018/19 Estimate £000s	2018/19 Actual £000s	2019/20 Estimate £000s	2020/21 Estimate £000s
Ratio of financing costs to net revenue stream	73/74	This is an indicator of affordability of plans	15%	9%	9%	8%	9%	8%
Capital expenditure	48/50	This is a summary of the Authority's capital spending plans	270	174	31,000	21	0	0
Capital financing requirement (CFR)	51/54	This is a measure of the Authority's underlying borrowing need	180,519	170,424	216,807	165,904	208,407	200,006
Operational boundry for external debt	56	This is a projection of debt supporting the capital financing requirement	184,670	183,195	206,108	181,684	200,061	193,826
Authorised limit for external debt	55	This provides headroom for debt to deal with any unusual cash movements	194,670	183,195	216,108	191,684	210,061	203,826
Gross debt (new Prudential Indicator replaces net debt)	60/62	This reflects the amount of gross debt	No target set	N/A	206,108	204,597	200,061	193,826