WEST LONDON WASTE AUTHORITY

Report of the Treasurer 20 September 2019

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 2018-19

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 both the 2018-19 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 2018/19 was 0.7% returning £87,000 of investment income. The amount held with the London Borough of Ealing has ranged from £2 million to £17 million during the year. At the end of the year a total of £7.0 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 2019/20 operations have been steady and excess cash balances have ranged from £7 million to £17 million ensuring liquidity and a return.

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

2.6 For 2018/19 the Authority commenced the year with a total of £66.6 million of loans from the 4 London boroughs. During 2018/19 the Authority borrowed £26.7 million from the PWLB to finance the purchase of transfer station freeholds. The half yearly payments repaid principle amounting to £1.0 million leaving loan balances at the end of 2018/19 of £92.3 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's contribution stood at £116 million.

2.9 The interest on the 4 borough 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. The PWLB loan borrowed in December 2018 is at a fixed rate of 2.24%. The year saw £5.2 million interest paid.

3. Prudential indicators

3.1 The key requirements of the CIPFA 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:

- balanced budgets over the period
- good liquidity is maintained throughout
- all debt is repaid
- all capital expenditure is ultimately recovered through levies
- the growth in the levies is significantly less than inflation.

This provides a complete picture in a typical commercial way of long term planning.

3.3 The Prudential Code also prescribes a range of indicators to report. These are more pertinent to public bodies with complex treasury management arrangements and complex long term plans. They are less relevant to the Authority's operations, however the indicators and a brief explanation of what they illustrate are provided in Appendix 1.

3.4 The construction of the Energy from Waste plant accounts for the majority of the value in figures in Appendix 1. A notable point relating to 2018/19 is that the purchase of transfer station freeholds will save £7 million over 25 years (as reported in December) however as the price was more than originally estimated this is reflected in the prudential code figures for capital expenditure and debt exceeding originally planned thresholds for that year.

4. Other treasury management plan actions

4.1 These are detailed in Appendixes 2, 3 and 4 which contain commercially sensitive information so are included in the Part 2 papers.

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

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

7. **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	Description	2018/19 Estimate £000s	2018/19 Actual £000s	2019/20 Estimate £000s	2019/20 Actual to date £000s	2020/21 Estimate £000s	2021/22 Estimate £000s
Ratio of financing costs to net revenue stream	73/74	This is an indicator of affordability of plans	9%	9%	9%	9%	9%	9%
Capital expenditure	48/50	This is a summary of the Authority's capital spending plans	31,000	38,434	2,148	50	0	0
Capital financing requirement (CFR)	51/54	This is a measure of the Authority's underlying borrowing need	216,807	197,721	205,868	203,202	194,486	183,289
Operational boundry for external debt	56	This is a projection of debt supporting the capital financing requirement	206,108	208,592	202,886	203,816	196,413	189,728
Authorised limit for external debt	55	This provides headroom for debt to deal with any unusual cash movements	216,108	218,592	212,886	213,816	206,413	199,728
Gross debt (new Prudential Indicator replaces net debt)	60/62	This reflects the amount of gross debt and shouldbe less than the CFR	206,108	208,592	202,886	203,816	196,413	189,728