WEST LONDON WASTE AUTHORITY

Report of the Treasurer 24 January 2020

Treasury Management

SUMMARY

This report provides the treasury management plan for 2020/21

RECOMMENDATION(S)

The Authority is asked to:-

1) Approve the treasury management plan for 2020/21

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

1. Background

1.1 This report sets out the annual plan for 2020/21 alongside various information as required by the CIPFA Prudential Code and CIPFA Treasury Management Code

1.2 The Authority's current Treasury Management Policy Statement is provided in Appendix 1 and is reflected in the two following key treasury management activities.

1.3 The first key activity is to ensure that the Authority's 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.

1.4 The second key activity 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.

2. Annual Treasury Management Plan for 2020/21

2.1 The plan for 2020/21 is low risk and very simple.

2.2 There are no significant capital spending requirements / plans and no plans for any new borrowing.

2.3 Therefore, the focus will be on managing cash to ensure adequate liquidity for day-to-day operations whilst also using low risk options to deliver a return. The current arrangements (a service level agreement with Ealing Council) remain the best option and provide both a return and quick access to cash. The arrangement also allows the Authority to tap into money market rates offering a better return i.e. funds can be placed with the local authority for fixed periods to achieve better returns. Placing funds with a local authority is a low risk option.

3. Prudential indicators & minimum revenue provision (MRP)

3.1 The CIPFA Prudential Code prescribes a range of indicators and provides a framework to support decision making. These are more pertinent to organisations with complex treasury management arrangements, however are provided in the table below with a brief explanation of what they illustrate:

Prudential Indicator	Prudential code	Description	2019/20 Estimate £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%	8%
Capital expenditure	**48/50**	**This is a summary of the Authority's capital spending plans**	248	1,852	0
Capital financing requirement (CFR)	**51/54**	**This is a measure of the Authority's underlying borrowing need**	213,537	204,509	195,730
Operational boundary for external debt	**56**	**This is a projection of debt supporting the capital financing requirement**	199,967	189,331	179,622
Authorised limit for external debt	**55**	**This provides headroom for debt to deal with any unusual cash movements**	209,967	199,331	189,622
Gross debt	**60/62**	**This reflects the amount of gross debt and should be less than the CFR**	208,892	198,539	191,935

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 (CFR in the table above) through a revenue charge (the minimum revenue provision - MRP). The current approach largely follows standard depreciation accounting procedures and provides for a reduction in the borrowing need over the asset's life.

3.4 The impact is reflected in the Authority's long term financial plans. This illustrates a strong financial outlook and in particular: how all capital spend will be paid off through revenue charges; how the Authority will only see significantly lower than inflation rises in costs; and how all borrowing will be repaid whilst maintaining good levels of liquidity – all key requirements of the CIPFA codes.

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

WEST LONDON WASTE AUTHORITY

TREASURY MANAGEMENT POLICY STATEMENT

The West London Waste Authority (WLWA) defines the activities and objectives of its treasury management policy as follows:-

1. The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. WLWA regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. WLWA acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques within the context of effective risk management.