WEST LONDON WASTE AUTHORITY

Report of the Treasurer 25 September 2020

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 2019-20

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 2019-20 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 deposit money with the borough for fixed periods to enjoy higher rates.

2.3 The average interest rate achieved for 2019/20 was 0.9% returning £114,379 of investment income. The amount held with the London Borough of Ealing ranged from £2.5 million to £17.5 million during the year as a mixture of cash balances and fixed period deposits. At the end of the year a total of £17.5 million of cash balances were 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 2020/21 operations have been steady and excess cash balances have remained at £17.5 million ensuring liquidity and a return. In response to Covid-19 pandemic term deposits have been avoided to ensure immediate access to cash if required and certainty of interest.

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

2.6 For 2019/20 the Authority commenced the year with a total of £92.3 million of loans from the 4 London boroughs and the PWLB. The half yearly payments repaid principle amounting to £2.0 million leaving loan balances at the end of 2019/20 of £90.3 million.

2.9 The interest on the 4 borough loans accrues at a fixed rate of 7.604% and the PWLB loan is at a fixed rate of 2.24%. The year saw £5.5 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 (22 years) which are approved alongside 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 for long term planning.

It is worth noting that current cash balances are in line with the long term plan which identifies that balances will rise in the early years to £30 million and then fall back to £5 million over the latter part of the plan.

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.

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	Description	2019/20 Estimate £000s	2019/20 Actual £000s	2020/21 Estimate £000s	2020/21 Actual to date £000s	2021/22 Estimate £000s	2022/23 Estimate £000s
Ratio of financing costs to net revenue stream	73/74	This is an indicator of affordability of plans	9%	9%	9%	8%	8%	8%
Capital expenditure	48/50	This is a summary of the Authority's capital spending plans	248	17	1,852	95	0	0
Capital financing requirement (CFR)	51/54	This is a measure of the Authority's underlying borrowing need	213,535	204,448	204,509	201,597	195,730	186,952
Operational boundry for external debt	56	This is a projection of debt supporting the capital financing requirement	199,967	185,004	189,331	183,044	179,622	169,892
Authorised limit for external debt	55	This provides headroom for debt to deal with any unusual cash movements	209,967	195,004	199,331	193,044	189,622	179,892
Gross debt (new Prudential Indicator replaces net debt)	60/62	This reflects the amount of gross debt and shouldbe less than the CFR	208,892	202,953	198,539	200,544	191,935	185,119