

## EAST LONDON WASTE AUTHORITY

27 SEPTEMBER 2010

### FINANCE DIRECTOR'S REPORT

<b>TREASURY MANAGEMENT OUTTURN REPORT 2009/10</b>	<b>FOR INFORMATION</b>
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#### 1 Introduction

- 1.1 The Treasury Management Strategy including borrowing and investment strategies is approved by Members on an annual basis. The current Strategy was agreed in February 2009 and this report details the outturn against the background of this Strategy.
- 1.2 Under ELWA's Constitution the Finance Director is responsible for all the Authority's banking, borrowing and investment activities. The Treasury Management function is carried out by the London Borough of Redbridge on behalf of ELWA.
- 1.3 The Authority's activities are regulated by statutory requirements, ELWA's Constitution, and a professional code of practice, the CIPFA Code of Practice on Treasury Management. The Authority has adopted this code as part of its Financial Rules. The Code recommends that Authorities produce an annual report on Treasury Management after the year-end, which would include Treasury Management indicators.
- 1.4 This report is presenting to Members the Treasury Outturn for 2009/10 and covers all borrowing and investment activities undertaken during the last financial year.

#### 2 Current Portfolio Position

##### External Borrowing

- 2.1 The external borrowing position is summarised below:

	<b>31.03.10</b>	<b>Average</b>	<b>31.03.09</b>	<b>Average</b>
	<b>£000's</b>	<b>Rate</b>	<b>£000's</b>	<b>Rate</b>
Public Works Loans Board	1,610	9.6%	1,610	9.6%

- 2.2 These loans were taken out many years ago when interest rates were much higher than they are today. Early repayment/rescheduling has been considered but given the PWLB redemption rates, the cost of early repayment would be prohibitive.

##### Investments

- 2.3 The Authority is required to produce an Annual Investment Strategy that sets out the Authority's policies in managing its investments. This was approved by Members as part of the Treasury Management Strategy at your meeting in February 2009.

- 2.4 The main objective of the investment strategy is to ensure the security of investments the Authority makes and also to maintain the liquidity of its investments in order to meet known liabilities. To meet this requirement the Authority has approved creditworthiness criteria which must be strictly adhered to when making investment decisions.
- 2.5 Against the background of the earlier credit crisis in international markets and the continued uncertainty during 2009/10, a restricted lending list was in place together with monetary and sector limits to manage counterparty exposure risk. The maturity date of all investments during 2009/10 was restricted to 364 days.
- 2.6 The Finance Director kept the lending list under review throughout the year and considered opportunities officers to broaden the list to include a few very highly rated overseas banks. In addition, the Authority was able to take advantage of slightly higher rates for deposits with terms of 6 months to a year.
- 2.7 In 2008, Heritable Bank went into administration. Ernst & Young LLP, the administrators of Heritable Bank, have reassessed the amount recovered by creditors and dividends are now expected to be not less than 84.98p in the pound as opposed to initial estimates of 70-80p in the pound. The total repayment received, as at 31st March was £369,000.
- 2.8 The summary position for the Authority in terms of investments at 31st March 2010 is as follows: -

	<b>31.03.09</b> <b>£000's</b>	<b>31.03.10</b> <b>£000's</b>
Long Term	2,619	283
Short Term	23,051	21,231
	25,670	21,514

### **3 Borrowing Requirements/Capital Programme 2009/10**

- 3.1 In February 2009 the Authority was advised that the estimated total borrowing at 31st March 2009 was £1,610,000 consisting of Public Work Loans Board (PWLB) loans on a fixed rate basis and that the financing of future capital expenditure would be via the temporary use of cash balances or to raise loans via the PWLB and capital markets. The Authority was also advised that ELWA might need to make arrangements to finance capital expenditure in 2009/10 as a result of the ongoing review of landfill sites. Taking account of borrowing at 31st March 2009 it was recommended that a borrowing requirement of £400,000 was set for 2009/10.
- 3.2 As reported to your meeting in June 2010, no capital expenditure was incurred.

### **4 Prudential Indicators**

- 4.1 The Authority is required by regulation to give due regard to the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities, and set Prudential Indicators for Treasury Management prior to the start of the financial year. Prudential Indicators cover borrowing, lending and capital expenditure levels and these are monitored on a monthly basis by the Finance Director.

- 4.2 In the Finance Director's report of 2nd February 2009, Prudential Indicators for 2009/10 were agreed. Actual performance against these is detailed in Appendix A.
- 4.3 Appendix A shows that the limit for Authorised Limit for External Debt was exceeded during 2009/10. As Members will be aware from agreeing the draft financial statements at the June Authority meeting, there have been significant changes to accounting standards during 2009/10 that the Authority has had to comply with. One of these requirements has been to make accounting entries to bring ELWA's PFI scheme onto the balance sheet. Calculating the correct assets and corresponding liabilities has been an extremely complex piece of work and the precise values were not known until after year-end. The effect of this accounting change is to add £102.8m to the Authority's liabilities in recognising the PFI lease deal. This matched by bringing PFI assets onto our balance sheet too.
- 4.4 It is important to stress that there is no material net impact to the Authority as a result of the change in accounting treatment of our PFI asset
- 4.5 This required change in accounting standards occurred after the setting of the prudential indicator limits for 2009/10.

## 5 Recommendations

- 5.1 Members are asked to note the report.

Geoff Pearce

**FINANCE DIRECTOR**

<b>Appendices</b>		
A	Prudential Performance Indicators (please provide)	
<b>Background Papers</b>		
21.06.10	Report & Minute No 49/2009	Treasury Management Strategy 2010/11 and Prudential Code Indicators 2010/11 to 2012/13
21.06.10	Report & Minute No 10/2010	Final Financial Outturn Report for 2009/10