

**PAPER NO. WRWA 862****WESTERN RIVERSIDE WASTE AUTHORITY**

<b>MEETING</b>	19 <sup>TH</sup> SEPTEMBER 2018
<b>REPORT AUTHOR/ DATE</b>	Treasurer (Chris Buss-Tel 020 8871 2788) 11 <sup>th</sup> SEPTEMBER 2018
<b>SUBJECT</b>	Report of the Treasurer on updated Treasury Management Investment Strategy
<b>CONTENTS</b>	Page 1 Executive Summary and Background Page 1 Current Borrowing and Cash Balances Page 2 Longer Term Investment Strategy Page 3 Recommendations
<b>STATUS</b>	Open - circulation of this paper is not restricted.
<b>BACKGROUND PAPERS</b>	No background papers were used in the preparation of this report.

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## EXECUTIVE SUMMARY AND BACKGROUND

1. The Authority is required by the Local Government Act 2003 to have in place arrangements for its Treasury management arrangements which covers both the management of Capital Expenditure and the arrangements for investing cash balances. These were agreed by the Authority at its meeting in February 2018 (Paper No WRWA 849).
2. The Authority's cash investment policy as set out in paragraph 17 of Paper No. WRWA 849 is to mirror that of Wandsworth who undertake the Treasury management investment function on behalf of the Authority. However, the cash balances are invested at one month market rates as the assumption underlying the policy is that the cash balances are historically held for short term purposes only.
3. In July 2018 the Authority received the outturn report and final accounts for 2017/18. The Authority accepted the Treasurer's recommendation that the balances arising in the year should be set aside to repay debt when it is due for redemption. In the light of this recommendation it is appropriate that the Authority reviews its cash investment Treasury management strategy to reflect the fact that cash will be held for longer periods until debt is due to be redeemed.
4. It is proposed that the revised investment strategy will be reviewed annually at the same time as the Authority's budget is set each year, including the review of the Authorised Borrowing Limit and Operational Boundary.

## CURRENT BORROWING AND CASH BALANCES

5. The current borrowing of the Authority relates to debt taken out with the Public Works Loan Board to finance the Materials Recycling Facility at Smugglers Way. The current debt redemption profile is as follows :

Date	£
31/03/2019	2,000,000
21/09/2019	1,000,000
19/01/2020	2,500,000
03/12/2021	2,000,000
10/09/2025	1,000,000
<b>TOTAL</b>	<b>8,500,000</b>

The Authority's cash balances varies from time to time but as at the end of August cash invested via Wandsworth was £11.9m. The Authority earned an average of 0.37% interest during 2017/18 and the proposals in this report will enable this to be increased.

6. If the Authority were to change its investment policy to invest longer than one month, then it would need to review how much cash is required to remain with Wandsworth to cover the Authority's short term cash flow needs, including any unexpected demands, and how much could be invested for a longer term including over a year. Having reviewed the situation it is proposed to keep a minimum of £2 million invested with Wandsworth in order to cover the situation of when a constituent Council pays its waste treatment bills late, which occurs from time to time.

### **LONGER TERM INVESTMENT STRATEGY**

7. All local authority investment strategies have to have regard to the Statutory Guidance on Local Government Investments which was revised in April 2018. In the guidance it is clear that Treasury management investments are required to prioritise Security, Liquidity and Yield in that order. These proposed amendments to the Authority's strategy ensure that the guidance is met.
8. There are three specific areas where it is proposed to specifically invest the Authority's funds. These are as follows:
  - a. Money Market Funds and Short Dated Income Funds. Investments may be placed directly in sterling money market funds (MMFs) with AAA ratings or with Short Dated Income Funds with AA ratings. Investments shall be placed in accordance with the following criteria:
    - i. these Funds may be either short dated funds with daily liquidity or slightly longer dated funds with a short notice period. The choice of fund is to be determined by the Treasurer in conjunction with the Deputy Treasurer and recorded at the monthly management meeting;
    - ii. Each MMF shall have as a minimum AAA credit rating from one of the three main credit rating agencies and, if the Fund has more than one rating, each rating shall be AAA. Each Short Dated Income Fund shall have as a minimum AA credit rating from one of the three main credit rating agencies.

- b. Investment in a property fund set up in a scheme approved by HM Treasury, so that it doesn't count as Capital Expenditure.
  - c. Diversified Income fund with at least AA rating or equivalent.
9. The categories above are based upon research undertaken by the Treasurer and would enable the Authority to meet the requirements of the statutory guidance. They are not untypical of other local authority's strategies.
10. It is proposed that no more than a total of 30% of the Authority's net cash balances at any one time should be invested in either property or diversified income funds, as described in paragraphs 8b or 8c above. It is likely that the Authority would need to opt for professional investor status under the Markets In Financial Instruments Directive II (MiFID II) regulations and as such the Authority is recommended to delegate to the Treasurer the authority to opt up under the MIFID II regulations should it be required.
11. It is not possible at this stage to indicate with any accuracy the likely level of any increase in income from this proposal but it will be reflected in the 2019/2020 budget.

## **RECOMMENDATIONS**

12. The Authority is recommended to:
- (a) agree the changes to the investment policy as set out in paragraph 8 above;
  - (b) agree to Authorise the Treasurer to agree any arrangements to ensure that the Authority is MIFID 2 compliant; and
  - (c) otherwise receive this report as information.

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CHRIS BUSS  
Treasurer

11<sup>th</sup> September 2018