

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	3 December 2019
Title	Treasury Management Mid Year Review 2019-20		
Report of	Chief Finance Officer		
Purpose of Report			
This report seeks Cabinets consideration of various matters in connection with the Treasury Management Mid-Year Review 2019/20 and associated revisions to the Council's Prudential Code Indicators.			
Key Decision (Y/N)	N	Date of Notice	Exempt (Y/N) N

Report Summary
<p>This report provides Cabinet with</p> <ul style="list-style-type: none"> • Performance information in relation to the Council's Treasury Management Activities for the period 1st April to 30th September 2019 (Appendix A). • Details of the total impact on the Prudential Indicators of agreed and likely property investment decisions up to 31st March 2020.

Recommendations of Councillors
<p>That Cabinet</p> <ol style="list-style-type: none"> (1) Consider the various matters in connection with the Treasury Management Mid-Year Review 2019/20 and associated revisions to the Council's Prudential Indicators. (2) Recommend that Full Council approves the acquisitions and associated funding into the Council's capital programme in accordance with the Council's Budget and Policy Framework. (3) Recommend that Full Council approves the revisions to the Council's Capital Financing Requirement (CFR), the Operational and Authorised limits for External Debt and the Ratio of Borrowing Cost to Net Revenue Stream as set out in the report and Appendix A.

Relationship to Policy Framework	
Treasury Management forms part of the Councils budget framework	
Conclusion of Impact Assessment(s) where applicable	
Climate	Wellbeing & Social Value
Digital	Health & Safety
Equality	Community Safety
<p>A Thriving & Prosperous Economy: Economic Prosperity is a high level Corporate Priority for the City Council; whilst the acquisition of an investment does not give an immediate opportunity to generate short term wealth building, the medium term control of land and redevelopment does.</p>	

Clean Green & Safe Neighbourhoods: As the freeholder of an estate the ability to provide renewable energy sources (solar power), can be delivered as part of the asset management strategy, however this can only be undertaken with the tenants consent or once a lease has been determined. The Council cannot force a tenant to change the terms of their lease.

A Smart & Forward Thinking Council: This is the first investment acquisition by the Council, helping to deliver the ambition to be smart, forward thinking and commercially astute. The Property Investment Strategy is one the four pillars of the Funding the Future Strategy which aims to provide financial stability.

Details of Consultation

No specific external consultation has been undertaken.

Legal Implications

None directly arising from this report

Financial Implications

The Council's Capital Financing Requirement will increase by £14.86m as will it's Operational Boundary for External Debt. The Authorised Limit for External Debt will increase to £117m.

The Council currently maintains an under-borrowed position and there is scope to purchase the initial investment, using existing internal balances (internal borrowing) with no additional external borrowing being incurred. There is also currently scope to further extend the amount of internal borrowing to fund the level of potential further investment proposed. This is the most cost effective approach in the current economic climate but this will, as always, be subject to ongoing monitoring.

Other Resource or Risk Implications

There are no additional resource or risk implications

Section 151 Officer's Comments

The s151 Officer has written this report in his role as Chief Finance Officer

Monitoring Officer's Comments

The Monitoring Officer has been consulted and has no further comments

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Links to Background Papers

1.0 Introduction

1.1 The Mid-Year Review (Appendix A) sets out the performance of treasury operations for the first six months of the 2019/20 financial year in terms of long and short term borrowing, investment activities and relevant borrowing limits and prudential indicators. Under CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) it is a requirement that an information report on these matters be presented to Cabinet and full Council.

1.2 The report also contains a number of revisions to the Council's Prudential Code Indicators to reflect Cabinet's agreed property investment acquisition. In addition it seeks to incorporate additional flexibility to facilitate further potential property investment acquisitions up to 31st March 2020. The Code requires Council to formally approve these revisions.

2.0 Prudential Indicators

2.1 In compliance with the Prudential Framework the Council sets an annual Treasury Management Strategy including key indicators, determined under regulation, to assist Members in assessing the affordability of borrowing and in determining that it is prudent and sustainable.

2.2 The tables below show the impact of the potential investments on the capital financing requirement, the ratio of borrowing costs to net revenue stream and its operational and authorised limits for external debt.

Capital Financing Requirement (underlying need to borrow)

2.3 This represents the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources.

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Current	85.82	87.15	84.48	82.43
Proposed	100.68	101.72	98.76	96.41
Change related to commercial activities/non-financial investments	14.86	14.57	14.28	13.98

Ratio of Financing Costs to Net Revenue Stream

2.4 This shows the cost of capital against the net revenue stream and is the main indicator of affordability.

	2019/20 %	2020/21 %	2021/22 %	2022/23 %
Current (General Fund)	16.80	16.60	17.40	16.90
Proposed (General Fund)	16.80	19.70	20.16	19.61
Change related to commercial activities/non-financial investments	0.00	3.10	2.76	2.71

The Operational Boundary

2.5 This is the limit beyond which external debt is not normally expected to exceed

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Current	85.82	87.15	84.48	82.43
Proposed	100.68	101.72	98.76	96.41
Change related to commercial activities/non-financial investments	14.86	14.57	14.28	13.98

The Authorised Limit for External Debt

2.6 This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set, or revised by the full Council.

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Current approved	102.00	103.00	100.00	98.00
Proposed	117.00	118.00	115.00	112.00
Change related to commercial activities/non-financial investments	15.00	15.00	15.00	14.00

4.0 Options and Options Analysis (including risk assessment)

<p>Option 1: Cabinet considers the report and passes to Full Council for approval of the revisions to the Prudential Code indicators.</p>
<p>Advantages: Should Cabinet forward on to Full Council for consideration and approval of the revisions to the Prudential Code indicators is given, the Council will be able to proceed with the purchase of the investment opportunities and associated net revenues.</p>
<p>Disadvantages: None</p>
<p>Risks: Council does not approve the revisions and the purchases are therefore unable to proceed resulting in the loss of important additional revenue contributions.</p>
<p>Option 2: Cabinet does not consider the report, or pass to Full Council for approval of the revisions to the Prudential Code indicators.</p>
<p>Advantages: None</p>
<p>Disadvantages: Should Cabinet not forward the report on to Full Council for approval, the purchases may stall until a point when Council is able to approve the Treasury Management Strategy and associated indicators, or fail all together resulting in the delay or loss of the associated revenue streams.</p>
<p>Risks: Council does not approve the revisions, the investment and revenue generating opportunities are lost</p>

3. Officer Preferred Option (and comments)

3.1 The officer preferred option is Option 1.

3.2 The Code requires Full Council to approve any revisions to the Council's Prudential Code Indicators. The Indicators have been revised to allow sufficient flexibility to enable the Council to proceed with its agreed initial purchased, but also allow for those which may occur before 31st March 2020.

The acquisition of commercial investment opportunities and the revenues streams for a central pillar in the Councils Funding the Future Strategy and plays a significant role in addressing the budget deficit over the next 4 years.