

## Lancaster City Council | Report Cover Sheet

<b>Meeting</b>	Cabinet	<b>Date</b>	26 October 2021
<b>Report of</b>	Chief Finance Officer		
<b>Purpose of Report</b>			
This report seeks Cabinet's consideration of various matters in connection with the Treasury Management Mid-Year Review 2021/22.			
<b>Key Decision (Y/N)</b>	<b>N</b>	<b>Date of Notice</b>	<b>Exempt (Y/N)</b> <b>N</b>

<b>Report Summary</b>
<p>This report provides Cabinet with</p> <ul style="list-style-type: none"> <li>Performance information in relation to the Council's Treasury Management Activities for the period 1<sup>st</sup> April to 30<sup>th</sup> September 2021 (Appendix A).</li> </ul>

<b>Recommendations of Councillors</b>
<p>That Cabinet</p> <ol style="list-style-type: none"> <li>Consider the various matters in connection with the Treasury Management Mid-Year Review 2021/22</li> <li>Forward the Mid-Year Review 2021/22 on to Budget &amp; Performance Panel and Full Council for consideration in accordance with CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).</li> </ol>

<b>Relationship to Policy Framework</b>	
Treasury Management forms part of the Council's budget framework	
<b>Conclusion of Impact Assessment(s) where applicable</b>	
Climate	Wellbeing & Social Value
Digital	Health & Safety
Equality	Community Safety
<b><i>A Thriving &amp; Prosperous Economy:</i></b>	
<b><i>Clean Green &amp; Safe Neighbourhoods:</i></b>	
<b><i>A Smart &amp; Forward-Thinking Council:</i></b>	
Effective Treasury Management and use of the Council's resources is fundamental to the delivery of its priorities and outcomes	
<b>Details of Consultation</b>	
Consultation has been undertaken with the Council's external Treasury Management Advisors	

**Legal Implications**

None directly arising from this report

**Financial Implications**

There are no financial implications arising directly from this report.

However, although currently impacted by COVID-19 areas of capital investments may require additional borrowing and other associated costs. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal and external advice considered ahead of any borrowing being incurred.

**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**

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## **1.0 INTRODUCTION**

1.0 The Council's Treasury Management Activities are regulated the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued under the Local Government Act 2003

1.1 During 2021/22 the minimum reporting requirements are that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 24 February 2021)
- a mid-year (minimum) treasury update report (This report).
- an annual review following the end of the year describing the activity compared to the strategy

1.2 In addition, Members will receive treasury management update reports on which are presented to Cabinet and Budget and Performance Panel.

## **2.0 BACKGROUND**

2.1 The Mid-Year Review (Appendix A) sets out the performance of treasury operations for the first six months of the 2021/22 financial year in terms of long- and short-term borrowing, investment activities and relevant borrowing limits and prudential indicators.

2.2 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.

## **3.0 SUMMARY DETAILS**

### Investments

3.1 The average level of funds available for investment purposes over the six-month period was £38.3M (2020/21 £41.0M). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

3.2 The Council's investments returned an average rate 0.02% on deposit generating c£4.6K of interest against a profiled budget of c£20K.

### Borrowing

3.3 The Capital Financing Requirement (CFR) measures the Council's underlining need to borrow for capital purpose, i.e. its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue.

- 3.4 The Council's capital financing requirement (CFR) for 2021/22 was forecast as £134.88M with the current forecast CFR at quarter 2 is, however, £105.13M as much of the expenditure funded by unsupported borrowing, most notably that in the Development Pool, is expected to slip.
- 3.5 If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council currently has borrowings of £60.04M. It intended to utilise £33.09M of cash flow funds in lieu of borrowing and with current forecasts estimating new borrowing of £12M later in the financial year. This will be considered when the need arises and will be in consultation with the Council's external advisors.
- 3.6 The capital programme is being kept under regular review due to the effects of COVID-19, the shortage of materials and labour and delays to schemes within the Development Pool. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

Changes to Prudential Indicators

- 3.7 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.
- 3.8 This table shows the current estimates for the General Fund and Housing Revenue Account capital programmes, compared to the original estimates

<b>Capital Expenditure by Service</b>	<b>2021/22</b>	
	<b>Original Estimate £m</b>	<b>Quarter 2 Position £m</b>
Communities and Environment	10.08	11.54
Economic Growth and Regeneration	2.54	4.05
Corporate Services	0.14	0.14
Development Pool	50.15	0.76
<b>Total for General Fund</b>	<b>62.91</b>	<b>16.49</b>
<b>Council Housing (HRA)</b>	<b>4.78</b>	<b>4.78</b>
<b>Total Capital Expenditure</b>	<b>67.69</b>	<b>21.27</b>

- 3.9 Capital Expenditure by service is in line with figures provided with the published Q2 monitoring (Delivering our Priorities Q2). The reduction in capital expenditure reflects programmes predominately within the Development Pool not being delivered.
- 3.10 This table shows the changes in the financing of the capital programmes, and the level of borrowing required.

<b>Capital Expenditure</b>	<b>2021/22</b>	
	<b>Original Estimate £m</b>	<b>Quarter 2 Position £m</b>
<b>Total capital expenditure</b>	<b>67.69</b>	<b>21.27</b>
Financed by:		
Capital receipts	0.64	0.64
Capital grants	19.57	7.17
Reserves	5.25	4.39
Revenue	0.00	0.00
<b>Total Financing</b>	<b>25.46</b>	<b>12.20</b>
<b>Borrowing Requirement</b>	<b>42.23</b>	<b>9.07</b>

- 3.11 The table shows that the capital financing requirement (CFR) is £29.75M lower than the original estimate due to the 2021/22 than the original estimate due to schemes within the Development Pool not being delivered as originally forecast.

<b>Capital Financing Requirement</b>	<b>2021/22</b>	
	<b>Original Estimate £m</b>	<b>Quarter 2 Position £m</b>
General Fund	98.69	68.94
HRA	36.19	36.19
<b>Total Capital Financing Requirement</b>	<b>134.88</b>	<b>105.13</b>
<b>Net movement in CFR</b>	<b>39.01</b>	<b>-29.75</b>

- 3.12 A key control over treasury management activity is to ensure that over the medium term, net borrowing (borrowings less investments) will only be for capital purposes. Gross external borrowing should not, except in the short term, exceed the total capital financing requirement.
- 3.13 The table below shows compliance with this control as the Council's external borrowing £60.04M compared to its CFR £105.13M

<b>External Debt v Borrowing Need (CFR)</b>	<b>2021/22</b>	
	<b>Original Estimate £m</b>	<b>Quarter 2 Position £m</b>
External Debt	102.09	61.08
Other long term liabilities	-1.04	-1.04
Expected Change in Other long term liabilities	0.00	0.00
<b>Total Debt</b>	<b>101.05</b>	<b>60.04</b>
<b>Compared to current :</b>		
<b>Capital Financing Requirement</b>	<b>134.88</b>	<b>105.13</b>
<b>Operational Boundary:-</b>		
Debt	95.87	105.13
<b>Authorised Limit:-</b>		
Debt	112.00	112.00

#### **4.0 OPTIONS AND OPTIONS ANALYSIS**

- 4.1 As the report is for consideration and progressing to Budget and Performance Panel and Full Council, no alternative options are put forward.

#### **5.0 CONCLUSION**

- 5.1 Consideration of Treasury Management Mid-Year Review and presentation to Full Council will ensure the Council complies with CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).