

**Manchester City Council
Report for Resolution**

Report to: Audit Committee – 22 September 2014
Subject: Revision to Treasury Management Strategy 2014-15
Report of: City Treasurer

Purpose

To report on a proposed revision to the Treasury Management Strategy for 2014-15

Recommendations

The Audit Committee is asked to note the contents of the report, and recommend to Council the changes to the Treasury Management Strategy for 2014-15 highlighted in paragraphs 3.3 and 4.3, namely:

- to approve the inclusion of the proposed HCA funding within the Borrowing Strategy for 2014-15.
- to allow no MRP to be charged in relation to capital expenditure funded by the proposed HCA loan, or in relation to any capital expenditure where the Council has received financial guarantees protecting against loss.

Wards Affected:

All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	This report sets out the Treasury Management Strategy for the Council for 2014-15. As such, it is aligned with the Medium Term Financial Plan, which sets out a framework for delivery of a balanced budget, aligned to the priorities of the Community Strategy.
Reaching full potential in education and employment	
Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy

- Risk Management
 - Legal Considerations
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Financial Consequences – Revenue

The revenue implications of the borrowing estimates set out in the report have been incorporated into the estimated revenue budgets set for 2014-15 to 2016-17.

Financial Consequences – Capital

None.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Treasury Management Strategy Statement and Borrowing Limits and Annual Investment Strategy Report 2014-15 (Executive Committee 12 February 2014)
Treasury Management Annual Report 2013-14 (Audit Committee 17 July 2014)

1 Introduction and Background

- 1.1 The Treasury Management Strategy for 2014-15 was agreed by Executive in February 2014. The Strategy contained suggested sources for long term borrowing, and asked members to agree a Borrowing Strategy based on those sources.
- 1.2 Since the Strategy was approved, a new opportunity has arisen for the Council to borrow which is not covered by the sources listed in the Borrowing Strategy. The Homes and Communities Agency (HCA) has made funding available to the City Council to invest in projects which support the Greater Manchester City Deal objectives. Details of this funding are given below.

2 HCA funding

- 2.1 The Homes and Communities Agency (HCA) has made available to the City Council c. £13m of funding. This is, in effect, a 'loan' of the HCA's receipts from the disposal of its land and property within Greater Manchester, as agreed in the GM City Deal. The funds can be used to invest in any project which supports GM City Deal objectives.
- 2.2 Due to restrictions on the Greater Manchester Combined Authority (GMCA) powers, as it has no powers to borrow for non transport purposes, Manchester City Council will receive the funds and facilitate investment across Greater Manchester.
- 2.3 The amount of funds to be received is approximately £13m, although the actual amount will depend on the level of receipts the HCA can realise from the disposal of its sites. The Council has already received c. £5m of this funding.
- 2.4 The funds are to be used for housing or commercial projects within Greater Manchester; the location depends on where the receipts originate from, and whether the receipt is due to the sale of residential or commercial property. Proceeds from commercial property will not be borough-specific, whereas proceeds from residential property will be. One of the key selection criteria in choosing the projects that will be funded by this loan is the need for the project to demonstrate that it can repay the funds loaned to it.
- 2.5 The funding from the HCA is held as an interest free loan, until such time as an investment approval is made. At this point, the approved element of the loan becomes risk-based, with the return to the HCA based on the performance of that investment.
- 2.6 The funds received are to be repaid to the HCA in March 2022. No interest will be charged to MCC for the receipt of the funds, however, should an investment made with HCA funds not be recovered, the loss is deducted from the amount due to HCA. Conversely, should any profit be made by an investment these will be added to the amount due to the HCA.

3 Change to the Treasury Management Strategy Statement for 2014-15

- 3.1 The terms of the loan, and the fact that it will be provided by an agency of central Government, mean that it was not covered by the borrowing sources mentioned in the original borrowing strategy for 2014-15 approved by Council in March 2014, nor by the revision to the borrowing strategy contained within the outturn report approved by Audit Committee in July 2014.
- 3.2 The loan is almost risk-free to the Council, as the HCA will suffer any losses on the investments made with the funding. As such, it is an extremely attractive form of funding, which can be used to benefit economic growth across the wider City Region.
- 3.3 Members are therefore asked to approve the inclusion of this HCA funding within the Borrowing Strategy for 2014-15.

4 Changes to the Minimum Revenue Provision (MRP) Policy

- 4.1 The terms of the proposed loan from the HCA are such that the City Council will, by March 2022, have returned the funding to the HCA. By this time the investments made by the City Council with the HCA funds will have ceased.
- 4.2 There is no financial risk to the City Council and therefore it is appropriate that no Minimum Revenue Provision is charged against this capital expenditure. This is similar to the treatment of loans to the Greater Manchester Loans Fund, which are covered by the existing MRP Policy, as contained within the Treasury Management Strategy approved by Council in March.
- 4.3 Members are therefore asked to approve a change to the MRP Policy to allow no MRP to be charged in relation to capital expenditure funded by the proposed HCA loan, or in relation to any capital expenditure where the Council has received financial guarantees protecting against loss.

5 Conclusion

- 5.1 The proposed loan from the HCA is, due to its almost risk-free nature, an attractive source of funding for the Council.
- 5.2 Members are therefore asked to approve the inclusion of the HCA funding within the Borrowing Strategy for 2014-15, and that no MRP will be charged in relation to the capital expenditure funded by the HCA loan, or in relation to any capital expenditure where the Council has received financial guarantees protecting against loss.