SOUTH YORKSHIRE SYMCA MAYORAL COMBINED AUTHORITY

Audit, Standards and Risk Committee

Wednesday, 25 January 2023

Draft Treasury Management Strategy 2023/24

Is the paper exempt from the press and public?	No
Reason why exempt:	Not applicable
Purpose of this report:	Monitoring/Assurance
Is this a Key Decision?	No
Has it been included on the Forward Plan of Key Decisions?	No

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Executive Summary

This paper provides an update to the Committee on the development of the 2023/24 Treasury Management Strategy for the SYMCA group. This draft Strategy will shape the MCA's approach to managing its cash and debt portfolios over the course of the following financial year.

What does this mean for businesses, people and places in South Yorkshire?

The MCA's treasury management strategy is an integral part of its budget, which provides the resource to deliver upon South Yorkshire's aspirations. The developing business plans and accompanying budgets will determine how, where, and to what level the MCA invests in the region in the coming years and will set out how that investment is to be funded.

Recommendations

The Committee is asked to:

- Endorse the draft Treasury Management Strategy for onward approval by the MCA Board, alongside the proposed 2023/24 Revenue Budget and Capital Programme, in March 2023;
- Endorse the borrowing strategy set out in Section A of Appendix 1;
- Endorse the capital expenditure estimates and associated prudential indicators set out in Section B of Appendix 1;
- Endorse the minimum revenue provision policy set out in Section C of Appendix 1;
- Endorse the annual investment strategy set out in Section D of Appendix 1;
- Endorse the granting of delegated authority to the Group Finance Director in consultation with the Chief Executive to provide a financial guarantee in favour of the SCR Financial Interventions Holding company;
- Note the intention to negotiate with HM Treasury and DLUHC to agree a borrowing cap for 2023/24 for all functions (transport & non-transport), and;

Endorse the draft treasury management practices at Appendix 2.

Consideration by any other Board, Committee, Assurance or Advisory Panel

Mayoral Combined Authority Board 06 March 2023

1. Background

1.1 The treasury management strategy is forward looking and seeks to ensure that:

- The MCA's overarching borrowing strategy is appropriate in the context of the current economic climate;
- The MCA capital plans are affordable, prudent and sustainable (as measured via a series of prudential indicators);
- Prudent charges are made to revenue for the repayment of debt by adopting a minimum revenue provision (MRP) policy that is compliant with statutory MRP guidance;
- Investments and borrowings are organised in accordance with the MCA's risk appetite (as measured via a series of treasury indicators); and
- The MCA's investment strategy pays due regard to security (the management of risk and the protection of the principal sums invested) and liquidity (availability of cash to meet liabilities as they fall due) as first priorities and then what level of return (yield) can be obtained based on risk appetite and the contribution each investment activity makes.

2. Key Issues

2.1 In common with constituent member authorities, regulation and the MCA's Constitution require that the MCA approve the adoption of an Annual Treasury Management Strategy (TMS) which must comply with the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

2.2 Several significant changes to CIPFA's Prudential Code and Treasury Management Code will come into effect in 2023/24, including: -

- New performance indicators to demonstrate the proportion of speculative investments in commercial properties;
- A new liability benchmark to outline the financing risk management of the capital financing requirement;
- A new requirement to report on the progress on performance indicators on a quarterly basis;
- A specific requirement to re-assess training provision for Officers and Members to ensure it is appropriate to the role carried out;
- The need to address environmental, social and governance (ESG) issues within the Authority's treasury management policies and practices.

2.3 The annual treasury management strategy is set in the wider context of the MCA's medium and longer-term capital investment plans. At this stage, whilst business investment, capital infrastructure and transport programmes beyond 2022/23 are still being developed, the financial planning horizon has been limited to the three-year minimum specified by the Code based on existing commitments.

2.4 The TMS sets the parameters within which the MCA will deliver its cash and debt management activities. The key sections of the draft TMS are appended to this report, including an Investment Strategy and Prudential Indicators. Progress against this proposed strategy will be reported to this Committee and to the MCA on a quarterly basis (as required under the revised Prudential Code) as well as at the customary mid-year point and at outturn.

2.5 The MCA's approach to its Investment Strategy is determined by a hierarchy of considerations designed to protect the public purse. This hierarchy places greater focus on the security and the liquidity of the MCA's investments rather than on the yield generated from them.

2.6 The key advantage of this approach is to limit the MCA's exposure to losses arising from counterparty default. However, it also has the potential to limit the returns that can be generated from investing cash resource until it is required. An appropriate balance is therefore required, with continuous refinement of risk-appetite. Given the significant uncertainties in financial markets, the draft TMS proposes to maintain the current stance, limiting investments to the safest of counterparties.

2.7 Interest rates have increased at pace in 2022/23, and they are forecast to increase over the coming financial year. In this context it is probable that yields on returns will continue to grow. However, as capital programme slippage begins to unwind and a significant amount of debt falls due for repayment, the cash balances held on deposit will begin to fall. Forecasts suggest that whilst investment income generated from cash held on deposit will be higher in the new year than had previously been forecast it will not reach the scale seen in the current financial year. At this stage, income generated over forecast will be held to meet an anticipated loss of revenue grant funding and be used to meet inflationary pressures particularly around utilities.

2.8 The draft TMS notes that £50m of borrowing will be retired as planned during the year, following the £69m repaid over the past two years. The repayment of this borrowing in 2023/24 reduces the cost of debt by c. £2.2m.

2.9 Repaying legacy debt will reduce the overall burden of financing costs on the revenue budget and the transport levy. This trend is matched to the release of reserves from the Levy Reduction Reserve, meaning that when that reserve is exhausted the cost of debt will have fallen to such an extent that, all things being equal, the revenue budget will be much less dependent on the reserve subsidy. In practice, emerging pressures since the Covid-19 pandemic affecting bus and light rail patronage mean that the transport levy will need to increase in 2023/24. This decision was approved by the MCA Board on 16 January 2023.

2.10 Committee members should note that the draft TMS proposes to reduce the operational boundary and the authorised limit on debt the MCA can hold, until such time as requirements to finance new expenditure from borrowing are identified. HM Treasury have been asked to agree to a debt cap of c.£594m for the 3 years to 2024/25 which, if successful, would mean that the only approval required to increase the operational boundary and the authorised limit is from the MCA Board. Officers would also consult with the Audit Standards & Risk Committee, should the need or opportunity arise in-year.

3. Options Considered and Recommended Proposal

3.1 The option to adopt a less conservative approach to its investment strategy was discounted on the basis of prudency.

4. Consultation on Proposal

4.1 N/A

5. Timetable and Accountability for Implementing this Decision

5.1 The proposed TMS must be approved by the MCA Board before the forthcoming financial year.

6. Financial and Procurement Implications and Advice

6.1 The financial implications are clearly set out in the main body of this report as well as in Appendix 1.

7. Legal Implications and Advice

7.1 In the opinion of the Section 73 Officer, the draft TMS is fully compliant with all relevant legislation.

8. Human Resources Implications and Advice

8.1 N/A

9. Equality and Diversity Implications and Advice

9.1 N/A

10. Climate Change Implications and Advice

10.1 N/A

11. Information and Communication Technology Implications and Advice

11.1 N/A

12. Communications and Marketing Implications and Advice

12.1 The key principles underpinning this draft TMS will be tested on the four South Yorkshire Directors of Finance, their technical teams and the MCA's external treasury management advisers.

List of Appendices Included:

A Principal Sections of the Draft TMS

B Proposed Treasury Management Practices

Background Papers

N/A