Appendix 6

Treasury outturn

Treasury Management Strategy 2018/19

The 2018/19 Treasury Management Strategy approved by the MCA on 9 March 2018 set out the MCA's treasury strategy, investment strategy and policy for charging revenue for the repayment of debt (MRP policy). These are designed to ensure that the MCA's capital expenditure and investment plans are prudent, affordable and sustainable.

A series of 11 Prudential Indicators were set at the start of financial year to monitor compliance with these principles.

This annual report sets out treasury performance against these Indicators and mid-year revised estimates included within the mid year report on treasury management.

As a reminder, members are asked to note that the ability to borrow is restricted to the MCA's transport functions. The MCA currently has no borrowing powers in relation to its economic development powers.

Indicator 1 - Capital expenditure estimates

The figures for the South Yorkshire transport programme include the capital expenditure plans for SYPTE.

Capital Expenditure	2018.19	2018.19	2018.19
	Estimate	Mid-Year Forecast	Actual
	£'000	£'000	£'000
South Yorkshire Transport Programmes	£44,747	£52,009	£41,746
Local Growth Fund	£43,290	£42,471	£45,541
Corporate	£0	£0	£1,411
Total Expenditure	**£88,037**	**£94,480**	**£88,698**

Appendix 4 of the Outturn report provides commentary on the financial performance in delivering the South Yorkshire Transport programme.

The Local Growth Fund (LGF) outturn position for 2018/19 of £45.541m compares to an allocation for the year of £42.471m received in April 2018. The additional £3.070m funding required to balance off the spend for the year was drawn down from unapplied Growth Deal grant brought forward at the end of 2017/18 of £8.660m. This therefore leaves £5.590m of unapplied Growth Deal grant at the end of 2018/19 which is being carried forward to provide funding for the 2019/20 LGF programme.

The Corporate expenditure represents: (a) capital works on Broad Street West to upgrade meeting facilities and make the building fully health and safety compliant and (b) on financial assistance to housing developers financed from the Housing Fund (£867k).

Indicator 2 – Capital Financing Requirement (CFR) estimates

The table below shows how the capital expenditure in the year has been financed.

Capital Expenditure	2018.19	2018.19	2018.19
	Estimate	Mid-Year Forecast	Actual
	£'000	£'000	£'000
South Yorkshire Transport Programmes	£44,747	**£52,009**	£41,746
Local Growth Fund	£43,290	**£42,471**	£45,541
Corporate			£1,411
Total Expenditure	**£88,037**	**£94,480**	**£88,698**

Transport Programme Financed by:			
Capital Receipts	£3,343	£3,343	£1,879
Capital Grants & Contributions	£26,625	£34,932	£27,780
Revenue Contributions	£26	£0	£0
Net borrowing needed for the year	**£14,753**	**£13,734**	**£12,087**

Local Growth Fund Programme Financed by:			
Capital Receipts	£0	£0	£0
Capital Grants & Contributions	£43,290	£42,471	£45,541
Revenue Contributions	£0	£0	£0
Net borrowing needed for the year	**£0**	**£0**	**£0**

Corporate capital programme financed by:			
Capital Receipts	£0	£0	£867
Capital Grants & Contributions	£0	£0	£0
Revenue Contributions	£0	£0	£544
Net borrowing needed for the year	**£0**	**£0**	**£0**

The table above indicates that there is a borrowing requirement of £12.087m in respect of transport schemes. This is less than the estimate due to a re-profiling of spend from the BDR pot.
The change in MCA's underlying need to borrow or Capital Financing Requirement (CFR) is set out in the table below. These figures relate to the MCA only excluding SYPTE.

Capital Financing Requirement	2018.19	2018.19	2018.19
	Estimate	Mid-Year Forecast	Actual
	£'000	£'000	£'000
Total CFR	£115,271	£114,252	£113,045
Movement in CFR	**£11,620**	**£10,601**	**£9,394**
Movement in CFR represented by:			
- Expenditure not funded by grants, capital receipts or contributions	£14,753	£13,734	£12,087
- MRP/VMRP	-£3,133	-£3,133	-£3,145
other movements			£452
Movement in CFR	**£11,620**	**£10,601**	**£9,394**

The other movements relate to the value of property, plant and equipment and investment properties transferred from the MCA's subsidiary, SYITA Properties limited, when the company's business was transferred to the MCA in November 2017. The exact impact of this transfer on the MCA's CFR will be finally determined once the MCA's accounts have been audited and liquidation of the company is complete. The value is therefore at this stage uncertain and may be liable to change.
In addition to the above, SYPTE has a capital financing requirement on the PFI arrangement relating to Doncaster Interchange. As at 31 March 2019 the outstanding underlying debt stood at £11.25m.

Indicator 3 - Amount of external debt against the CFR

The MCA Group's debt portfolio position is outlined in the table below. It shows actual external debt against the CFR to identify whether the MCA Group (MCA plus SYPTE) is under or over borrowed.

CURRENT BORROWING POSITION	2018.19	2018.19	2018.19
	Estimate	Mid-Year Forecast	Actual
	£'000	£'000	£'000
External Debt			
-MCA Loans at 1st April	£25,660	£25,660	£25,660
-Expected change in MCA Loans	£14,753	£0	£0
-PTE Debt at 1st April	£167,875	£167,875	£167,875
-Expected change in PTE Loans	-£6,500	-£6,500	-£6,500
Sub Total	**£201,788**	**£187,035**	**£187,035**
The Capital Financing Requirement	£115,271	£114,252	£113,045
Authority Under/(Over) Borrowing	**-£86,517**	**-£72,783**	**-£73,990**

As can be seen, the MCA Group is over borrowed by £73.99m.

The reduction in over-borrowing in 2018/19 has arisen because the net borrowing requirement for the year of £12.087m has been met internally from treasury investments. This is in accordance with the MCA's treasury strategy which is to avoid the financing cost that would arise on any new long-term borrowing by instead applying treasury investments to meet borrowing requirements whilst ever borrowing rates are forecast to exceed investment returns over the medium to long term. This remains the case at present as returns on investments (1.13% currently) are lower than the cost of borrowing (1.5% to 2.5% for PWLB currently depending on term).

The MCA itself is under borrowed by £87.385m representing the amount by which its CFR of £113.045m exceeds the MCA's external borrowing of £25.66m (PWLB borrowing of £25m plus LEP inward investment loan £0.660m).

SYPTE has borrowings of £161.375m for which it has no CFR. This is because the PTE's CFR was transferred to the MCA as a result of capital financing transactions between the MCA and PTE that took place in 2013/14 and 2014/15.

The net over borrowed position for the MCA Group as a whole is unusual for local authorities. Typically, the aim is to ensure that gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. The reason it has arisen in the case of the MCA is that Capital Financing Regulations applicable to the PTE in the past required amounts set aside by the PTE to enable it to meet future debt repayments to be held in cash.

This is one of the main contributory factors why the CA holds substantial investments (£204.361m as at 31 March 2019 – see indicator 11).

Indicator 4 - Ratio of Financing Costs to Net Revenue Stream

This indicator shows the cost of capital as a proportion of the net revenue stream for the MCA's transport activities only. (The MCA currently has no borrowing powers and therefore has not incurred any capital financing costs in relation to its LEP economic development activities)
The income figure represents the transport levy for the year, and other revenue income sources that are without restriction and can be spent as the MCA sees fit.

Ratio of financing costs to net revenue streams	**2018.19**	**2018.19**	**2018.19**
	Estimate	**Mid-Year Forecast**	**Actual**
	£'000	**£'000**	**£'000**
Interest	£13,239	£13,190	£13,232
MRP	£3,133	£3,133	£3,145
Less Investment Income	-£1,647	-£1,847	-£2,095
Total Financing Costs	**£14,725**	**£14,476**	**£14,282**
Income	£57,225	£57,425	£57,853
Finance Costs/Unrestricted Revenue Income %	25.7%	25.2%	24.7%

The interest figure of £13.232m comprises £12.232m interest on the CA / SYPTE's loan portfolio and £1.000m PFI interest on Doncaster Interchange. The latter is being funded through the PFI grant.
The interest of £12.232m excluding PFI represents a significant reduction compared to the 2017/18 figure of £13.913m. It is as a consequence of loan repayments of £11.5m made in 2017/18 and a further £6.5m in 2018/19.

__External Debt__

Indicator 5 – Authorised Limit

The authorised limit on external debt represents a control on the maximum amount of debt the CA can borrow for capital and cash flow purposes. Under Section 3 of the Local Government Act 2003 this limit is agreed by the CA and cannot be revised without that body's agreement.
The authorised limit reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the long term.

Indicator 6 – Operational Boundary

The operational boundary is the limit beyond which external debt is not normally expected to exceed and serves as a useful tool for monitoring day to day treasury activity.
The actual level of external debt in 2018/19 measured against the authorised limit and operational boundary was as follows;

Limits & Debt Levels 2018.19	Estimate	Mid-Year	Actual
	£'000	£'000	£'000
Authorised Limit	247,000	247,000	247,000
Operational Boundary	232,000	232,000	232,000
Maximum External debt:			
Loans – long term borrowing	193,535	193,535	193,535
Temporary borrowing	0	0	0
Other Long Term Liabilities	11,454	11,454	11,454
Total	**204,989**	**204,989**	**204,989**

External debt has therefore been managed within the parameters set by the treasury management strategy and there has been no need to adjust either the Authorised Limit or the Operational Boundary.

<u>Treasury management</u>

Liquidity risk

The MCA's aim is to hold a sufficient balance in liquid funds to enable cash to be managed on a day to day basis without holding excessive levels which could otherwise be invested longer term to earn a better return.

Typically, the aim is to hold at least £25m in instant access Money Market Funds (MMFs).

At the year end, the amount invested in MMFs was £78.861m. This balance was high due to the inherent uncertainty in the timing of cash outflows associated with the Local Growth Fund capital programme shortly before year end. The interest rate on MMFs at the year end was in the range 0.73% to 0.79% and therefore not dissimilar to the interest on local authority fixed term deposits and call accounts which was only marginally higher in the range 0.90% to 1.00%.

Liquidity - Policy on Borrowing in Advance of Need

The MCA adheres to CIPFA guidance that it will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the MCA can ensure the security of such funds.
As there has been no borrowing taken out in 2018/19, there has been no need to apply his policy.

Debt related Interest rate risk and refinancing risk

Indicators 7 and 8 – Interest rate exposures on variable and fixed rate loans (Interest rate risk management)

The table below summarizes the position against Indicators 7 and 8 at the end of 2018/19:

Limits on interest rate exposure based on net debt	2018.19	2018.19	2018.19
	Estimate	Mid-Year Forecast	Actual
	£'000	£'000	£'000
	Upper	Upper	Upper
Fixed interest rates loans	100%	100%	89%
Variable interest rate loans	10%	10%	11%
Fixed interest rates investments	100%	100%	100%
Variable interest rate investments	25%	25%	49%

The variable interest rate loans represent the £20m of market loans.

The variable rate investments comprise MMFs of £78.861m and call accounts of £20.5m. The type of MMFs held by the MCA are low volatility funds whose value remains more or less constant and are not subject to market fluctuations.

These two indicators which are intended to be a measure of interest rate risk on fixed and variable rate borrowing and investments have been withdrawn with effect from 2019/20 and have instead been replaced by a need to explain the strategy employed for managing interest rate risks.
The MCA's strategy for managing interest rate risk is set out below for the sake of completeness

Borrowing
As most of the MCA's debt portfolio is fixed rate PWLB debt it is not exposed to risk from interest rate fluctuations.
The exception is the £20m of market loans (LOBOs) where the lender has an option to change the interest rate periodically on specified call dates. This has not happened to date and given the current historically low interest rate environment, it is thought unlikely to occur in the short to medium term as rates are forecast to remain significantly below the interest rates currently being paid.

Investments
The investment portfolio predominantly comprises fixed term deposits with local authorities and other high quality counterparties, call accounts and Money Market Funds "MMFs". Included within the local authority fixed term deposits are longer term investments with partners (£60m at 31 March 2019). The short term deposits enable the MCA to take advantage of the projected gradual rise in Bank of England base rates, the longer term investments provide the security of a higher return over the medium term.

Indicator 9 – Maturity structure of borrowing (Refinancing risk)
The upper and lower limits in the table below are expressed in terms of the MCA group's fixed rate borrowing at the end of 2018/19 excluding the PTE's PFI liability and £20m market loans which for treasury purposes are regarded as being variable rate loans.

2018.19 Maturity of borrowing:	Fixed Rate Borrowing				
	Estimate		Mid Year Forecast		
	Lower	Upper	Lower	Upper	Actual
Under 12 months	0%	5%	0%	4%	0%
12 months to 2 years	0%	30%	0%	0%	32%
2 years to five years	0%	35%	0%	40%	40%
5 years to 10 years	0%	20%	0%	43%	20%
10 years to 20 years	0%	5%	0%	5%	5%
20 years to 30 years	0%	3%	0%	0%	0%
30 years to 40 years	0%	12%	0%	3%	3%

During the course of 2018/19, the PTE repaid a PWLB loan of £6.5m which carried an interest rate of 10%. Debt costs will continue to fall materially in the coming years as MCA and SYPTE loans are repaid.

Debt rescheduling / early repayment

The MCA has continued to monitor whether there is any scope to accelerate savings through rescheduling debt or repaying it early. However, it is currently only possible to do so by incurring a very substantial premium on early redemption. This is due to the fact that borrowing was taken out at a time when prevailing interest rates were much higher (4.25% to 8.75%) than PWLB rates for early repayment (currently in the range 0.6% to 1.5%). As a consequence, there has been no opportunity to repay debt early during the financial year.

Rate of return on investments (Yield)

Indicator 10 – Target return on treasury investments

Returns on investments	2018.19	2018.19	2018.19
	Estimate	Mid-Year Forecast	Actual
	%	%	%
Target return on treasury investments	0.90	1.05	1.13

The target return set at the start of the financial year of 0.90% reflected the Bank of England base rate at the time of 0.50% and expected return on long term investments deposited with partner authorities.
The actual return on investments in 2018/19 was 1.13%.
The better than target investment performance was helped in part by an increase in the Bank of England base rate from 0.50% to 0.75% on 2 August 2018.
The improved return on investments combined with higher than forecast cash balances during the year due to capital spend taking place later than profiled (particularly in respect of the LGF programme) has led to investment returns being £880k higher than budget.
Impairment of investments – a change in accounting standards has required local authorities to take a prospective view of potential losses on investments due to default. The MCA's investment strategy of prioritising security and liquidity over maximising returns (yield) means that only counterparties with the highest credit rating are used, in the main local authorities. The impact on the MCA's treasury investments is minimal (c.£3k).

Indicator 11 - Liquidity: Funds invested for greater than 365 days

Indicator 11 shows the maturity profile of investments at the year end.

£60m is invested for greater than 365 days. These limits are set with regard to longer term cash flow projections and are held with secure counterparties (local authorities within South Yorkshire).
The limit for investments of 365 days or more was set at £130m.

	Fixed Term £000's	Money Market Fund / Instant Access £000's
Less than one year	45,000	99,361
Between one and two years	15,000	-
Between two and five years	30,000	-
Between five and ten years	15,000	-
Total	**105,000**	**99,361**