Appendix 1

South Yorkshire Mayoral Combined Authority

2024/25 Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

INDEX

1 Introduction

The Annual 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's 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 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.

The Strategy being presented is in respect of the MCA only. The Strategy and associated prudential Indicators will need to be updated in the event that the MCA integrates with the South Yorkshire OPCC. A revised Strategy incorporating the OPCC will be brought back to members for the MCA and OPCC combined should integration take place.

Notwithstanding this, whilst the medium-term income and expenditure projections of the OPCC have not been built into the forecast figures shown in this document, the MCA has sought and received written confirmation from HM Treasury that the debt cap will be increased in 2024/25 to take account of the OPCC's estimated capital financing requirement. This is reflected in the Borrowing Limits in Section B.

The Strategy does not reflect as yet changes to accounting for leases under IFRS 16 which come into effect on 1 April 2024. These changes require that certain leased assets not currently reported as part of the MCA's balance sheet may need to be brought on balance sheet. Should this be the case it will increase the value of Other Long-Term Liabilities. Officers are currently evaluating the impact of these changes and will bring back the results of this exercise in the revised Treasury Management Strategy update to be reported in 2024/25.

A national consultation on statutory MRP guidance is currently taking place which is scheduled to conclude mid-February 2024 and which will come into effect on 1 April 2024. It is predominantly designed to constrain speculative practice elsewhere in the Local Government sector by ensuring that MRP is charged on the full amount of an Authority's underlying need to borrow or Capital Financing Requirement (CFR). Proposals include prohibiting the use of capital receipts in lieu of charging MRP. The MCA is engaging DLUHC to seek assurance that previous proposals to use Gainshare capital in lieu of charging MRP will not inadvertently be undermined by the consultation. The MRP policy has also been updated to reflect the changes to lease accounting. The update provides that, in accordance with statutory MRP guidance, the amount charged in respect of PFI or on balance sheet leases is done in such a way that the impact is revenue neutral.

The Strategy sets out proposals to enable the Authority to make use of capital flexibilities (currently out to national consultation) should it be prudent to do so. These flexibilities allow authorities to identify and develop options for the use of capital resources and borrowing to support and encourage invest-to-save activity. The MCA Board are requested to grant delegated authority to the Executive Director of Resources and Investment to take advantage of the capital flexibilities where it is considered prudent to do so in accordance with the strategy set out in Section E.

This report presents estimates and indicators for the forthcoming and following two years (i.e. 2024/25 to 2026/27) in accordance with the requirements of the Code.

On 22 March 2024, the MCA's new wholly owned subsidiary South Yorkshire Future Trams Ltd (SYFTL) will take over the operations of Supertram from Stagecoach. The MCA will need to provide a financial guarantee on behalf of SYFTL in order to secure credit from suppliers with whom SYFTL, as a new trading entity, has no prior history.

SYFTL will be prohibited from entering into its own investment and borrowing. Therefore, to manage the liquidity of SYFTL, the MCA will provide an intercompany loan facility based on SYFTL's budgeted cashflow requirements. This facility will be reviewed monthly in line with the MCA group's reporting timetable.

In addition, the annual treasury management strategy sets out the MCA's position on:

- Borrowing in advance of need;
- Debt rescheduling; and
- Use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code,the CIPFA Treasury Management Code, MHCLG MRP Guidance and MHCLG Investment Guidance. The requirements of the updated Treasury Management and Prudential Codes on 20th December 2021 are provided in more detail in the next section – Background.

The Annual Treasury Management Strategy is the first formal report in respect of 2024/25 treasury activity. Further formal reports will be presented in 2024/25 comprising:

- A revised 2024/25 treasury management Strategy for the MCA and OPCC combined assuming that the planned integration in May 2024 goes ahead
- Three quarterly reports which will provide an update on treasury activity for the first 9 months of the 2024/25 financial year; and
- An annual report which will provide actual performance against the treasury management strategy after the end of the 2024/25 financial year.

Recommendations

Members are asked to:

- Approve the Annual Treasury Management Strategy;
- Approve the Borrowing Strategy set out in Section A;
- Approve the capital expenditure estimates and associated prudential indicators set out in Section B;
- Approve the Minimum Revenue Provision Policy set out in Section C;
- Approve the Annual Investment Strategy set out in Section D;
- Note that HM Treasury have agreed a debt cap for 2024/25 which makes allowance for the estimated OPCC debt that will be inherited on integration
- Grant delegated authority to the Executive Director of Resources and Investment to make use of capital flexibilities in accordance with the strategy outlined in Section E where he considers it prudent to do so, and
- Grant delegated authority to the Executive Director of Resources and Investment in consultation with the Chief Executive to provide a financial guarantee in favour of SYFTL

2 Background

The MCA is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low-risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

2021 Revised CIPFA Treasury Management Code and Prudential Code Changes

The main objective of the 2021 Codes was to respond to the major expansion of local authority investment activity over the past few years into the purchase of non-financial investments, particularly property. The Codes require an authority to ensure that: -

- it defines its risk appetite and its governance processes for managing risk.
- it sets out, at a high level, its investment policy in relation to environmental, social and governance aspects.
- it adopts a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
- its capital plans and investment plans are affordable and proportionate.
- all borrowing/other long-term liabilities are within prudent and sustainable levels.
- treasury management decisions are in accordance with good professional practice.
- reporting to members is done quarterly, including updates of prudential indicators.
- it should assess the risks and rewards of significant investments over the long term, to ensure the long-term financial sustainability of the authority.
- it has access to the appropriate level of expertise to be able to operate safely in all areas of investment and capital expenditure, and to involve members adequately in making properly informed decisions on such investments.

The following steps have been taken in response to the above:

- new liability benchmark adopted
- quarterly reporting to the MCA introduced in 2023/24
- training organised for Members of the Audit Scrutiny and Risk Committee in February 2024 to assist them in understanding and discharging their responsibilities

A number of additional requirements were also placed on authorities with regard to investments held for commercial purposes to subject them to tighter oversight. Officers have conducted a review of the investments held by the MCA against the Treasury Management Code and concluded that none of them are being held primarily for financial return. They are all linked to treasury management activity or are directly part of delivering services. Section A provides further detail in this regard.

Economic Background – Summary

The most recent Monetary Policy Committee (MPC) of the Bank of England on 1 February 2024 summarised the position as follows.

GDP growth is expected to pick up gradually in large part reflecting a waning drag on the rate of growth from past increases in the Bank Rate.

Twelve-month CPI inflation fell to 4.0% in December 2023, below expectations in the November Report. This downside news has been broad-based, reflecting lower fuel, core goods and services price inflation. Although still elevated, wage growth has eased across a number of measures and is projected to decline further in coming quarters.

CPI inflation is projected to fall temporarily to the 2% target in 2024 Q2 before increasing again in Q3 and Q4 this profile reflecting the distorting effect of energy prices. CPI is forecast to remain above the Bank of England's 2% target over most of the next 3 years reflecting the persistence of domestic inflationary pressures, despite an increasing degree of slack in the economy.

Hence, although services price inflation and wage growth have fallen by somewhat more than expected, key indicators of inflation persistence remain elevated. The MPC therefore concluded that monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term.

There are in addition major geopolitical factors which could lead to upward inflationary pressures, most notably the material risks from developments in the Middle East and from disruption to shipping through the Red Sea.

Our treasury management advisors expect the current Bank Rate to have peaked at 5.25%, but, in light of recent better than expected economic data releases following the Bank of England's MPC meeting, market expectations have dampened with the first expected rate cut to 5% now being pushed out to August followed by further moves in both September and November. This would take Bank Rate to 4.50% and hold it there through the remainder of the year.

Borrowing Strategy

The Combined Authority (Borrowing Powers) Regulations 2022 conferred on the MCA the same borrowing powers as its constituent member authorities. However, unlike other constituent member authorities the MCA's ability to borrow is subject to an annual agreement on an aggregated 'debt-cap' with Government. Each year the MCA submits a request to HM Treasury, with that cap reviewed against appropriateness and affordability. Whilst the MCA has no new plans to borrow for expenditure it has sought a cap that would afford it headroom to take on borrowing if a suitable investment opportunity arose. The MCA's debt-cap for 2023/24 is £209m which provides headroom for additional debt of c. £90m in 2023/24.

The imminent integration of the MCA and OPCC means that the 2024/25 debt cap will need to take into account debt relating to policing functions. The MCA has sought and received written confirmation from HM Treasury that the debt cap will be increased in 2024/25 to take account of the OPCC's estimated capital financing requirement. HM treasury have offered an overall debt cap of £594m for 2024/25 which allows for £139m for the OPCC.

The borrowing strategy remains unchanged from previous years, namely: where possible to meet any borrowing need for the year internally from treasury investments rather than taking out external borrowing. This is in the expectation that the cost of new borrowing will continue to exceed likely investment returns in the long run.

In addition, the strategy is to repay debt as it falls due rather than to refinance debt. This assumption has been built into the financial plans resulting in a projected fall in debt servicing costs as debt is repaid.

The strategy also seeks to take the opportunity to reschedule existing debt where this will lead to an overall saving.

Lending arrangements introduced by the government in November 2020 and latterly by the 2021 Prudential Code tightened the rules governing Local Authorities, including MCAs, access to PWLB borrowing. The new rules do not allow access to PWLB where a Local Authority intends to buy commercial investment assets held primarily or partially to generate a profit or yield within its capital plans at any point in the next three years regardless of whether the transaction would notionally be financed from a source other than PWLB. The definition of commercial investment assets in this case is that contained within DLUHC Statutory Guidance on Local Government investments and includes, for example, investment property portfolios whose main purpose is to generate a profit.

The MCA Group's investment property portfolio is a legacy of bus deregulation and comprises former transport assets which are not being actively managed to achieve commercial returns and do not fall within the definition of commercial investment assets under the Statutory Guidance.

Looking ahead, consideration will need to be given post integration with the OPCC on how existing MCA and OPCC debt and any new borrowing taken out will be managed to ensure that transport, non-transport and policing capital financing costs are fairly apportioned between the transport levy and police council tax precept.

Capital Expenditure Plans and Prudential Indicators: 2024/25 to 2026/27

The indicators listed in this Section are in respect of the MCA only. These will be revised, updated and re-submitted for approval once the integration of the MCA and OPCC has taken place.

Indicator 1 - Group Capital Expenditure Estimates

The table below summarises the MCA's capital investment plans for the forthcoming year and indicative estimates for the following two years.

The estimates are based on known commitments at this point in time.

Capital Expenditure Estimates	2023/24	2024/25	2025/26	2026/27
	Forecast	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Total Capital Investment	**£162**	**£187**	**£300**	**£292**

Indicator 2 – Capital Financing Requirement (CFR) Estimates

The table below shows how the planned capital expenditure is expected to be financed. Any capital expenditure not funded by capital grants, capital receipts, or revenue contributions, results in a need for borrowing.

Capital Financing Estimates	2023/24	2024/25	2025/26	2026/27
	Forecast	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Total capital investment	£162	£187	£300	£292
Total capital funding	**£162**	**£187**	**£300**	**£292**
Net borrowing needed for the year	**£0**	**£0**	**£0**	**£0**

Based on the above draft capital investment plans and capital financing proposals, the MCA's overall forecast underlying need to borrow or Capital Financing Requirement (CFR) is forecast to change as shown in the following table.

Group Capital Financing Requirement	2023/24		2024/25		2025/26		2026/27		2027/28	
	Forecast		Estimate		Estimate		Estimate		Estimate	
	Loans	OLTL	Loans	OLTL	Loans	OLTL	Loans	OLTL	Loans	OLTL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening CFR	**£107**	**£10**	**£110**	**£10**	**£107**	**£10**	**£103**	**£9**	**£100**	**£9**
Adjustment on integration	**£7**									
Implementation of IFRS 16	*	*	**TBD**							
movement in CFR										
Additional borrowing requirement	£0		£0		£0		£0		£0	
MRP	-£4	-£0	-£4	-£0	-£4	-£0	-£4	-£0	-£4	-£0
Capital receipts set aside for the repayment of debt	£0		£0		£0		£0		£0	
Other adjustments	£0		£0		£0		£0		£0	
Closing CFR	**£110**	**£10**	**£107**	**£10**	**£103**	**£9**	**£100**	**£9**	**£96**	**£8**

Other Long Term Liabilities (OLTL) post integration comprises Doncaster interchange PFI scheme and any right of use assets brought on balance sheet with effect from 2024/25 as a result of the changes to lease accounting rules under IFRS 16.

The adjustment arising on integration is an historic issue which stems from the refinancing exercise that was done in 2013/14 and 2014/15 which sought to transfer the CFR within SYPTE's accounts to the MCA through the award of capital grants of £103.4m. On integration it has emerged that a residual CFR of £6.8m remained within SYPTE's accounts which will be funded by MRP over 50 years from 2023/24 onwards.

Indicator 3 - Amount of external debt against the Capital Financing Requirement (CFR)

The purpose of this indicator is to assess the extent to which borrowing is only being used in the medium to longer term to finance capital expenditure. The benchmark recommended by CIPFA is that the estimated amount of gross debt should not exceed the estimated CFR for the current and following two years.

Group external borrowing	2023/24		2024/25		2025/26		2026/27		2027/28	
	Forecast		Estimate		Estimate		Estimate		Estimate	
	Loans	OLTL	Loans	OLTL	Loans	OLTL	Loans	OLTL	Loans	OLTL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
MCA Loans - start of the year	£25		£47	£10	£43	£10	£39	£9	£35	£9
Ex SYPTE Debt - start of the year on integration	£92									
Doncaster Interchange PFI - start of the year		£10								
Implementation of IFRS 16				TBD						
Expected change in MCA Loans	-£50		-£4		-£4		-£4		-£22	
Early repayment of market loans	-£20									
Expected change in PFI liability		-£0		-£0		-£0		-£0		-£0
Gross Debt - end of the year	**£47**	**£10**	**£43**	**£10**	**£39**	**£9**	**£35**	**£9**	**£13**	**£8**
Capital Financing Requirement (CFR)	£110	£10	£107	£10	£103	£9	£100	£9	£96	£8
Gross Debt in excess of / (less than) CFR	**-£63**	**-£0**	**-£64**	**-£0**	**-£64**	**-£0**	**-£65**	**£0**	**-£83**	**£0**

The combination of the early repayment of £20m market loans plus scheduled repayment of £50.4m of PWLB debt together with the absence of any new borrowing requirements means that the MCA is now in an under-borrowed position of £63m currently rising to £83m in 2027/28 as illustrated above.

The strategy is to meet this borrowing requirement internally from treasury investments in the short to medium term rather than taking out external borrowing. This is because the latest projections are for the Bank of England base rate to fall to c 3% by December 2025 from its current 5.25% and for PWLB rates to fall from their current range of 4.7% to 5.4% depending on term to 3.5% to 4.5% over the same period. It therefore is more cost effective should a borrowing need arise to defer taking out borrowing for the next 2 to 3 years if possible.

Maintaining an under-borrowed position without recourse to external borrowing is considered sustainable over the short to medium term, as the MCA is forecast to have surplus cash of at least £160m over the 4 year period to 2027/28 – see Table 2 Core Funds in Section D.

Indicator 4 - Liability Benchmark

The Liability Benchmark was introduced as a new prudential indicator in 2023/24.

The purpose of this prudential indicator is to present pictorially a comparison of the authority's existing loans outstanding against its future need for loan debt, or liability benchmark.

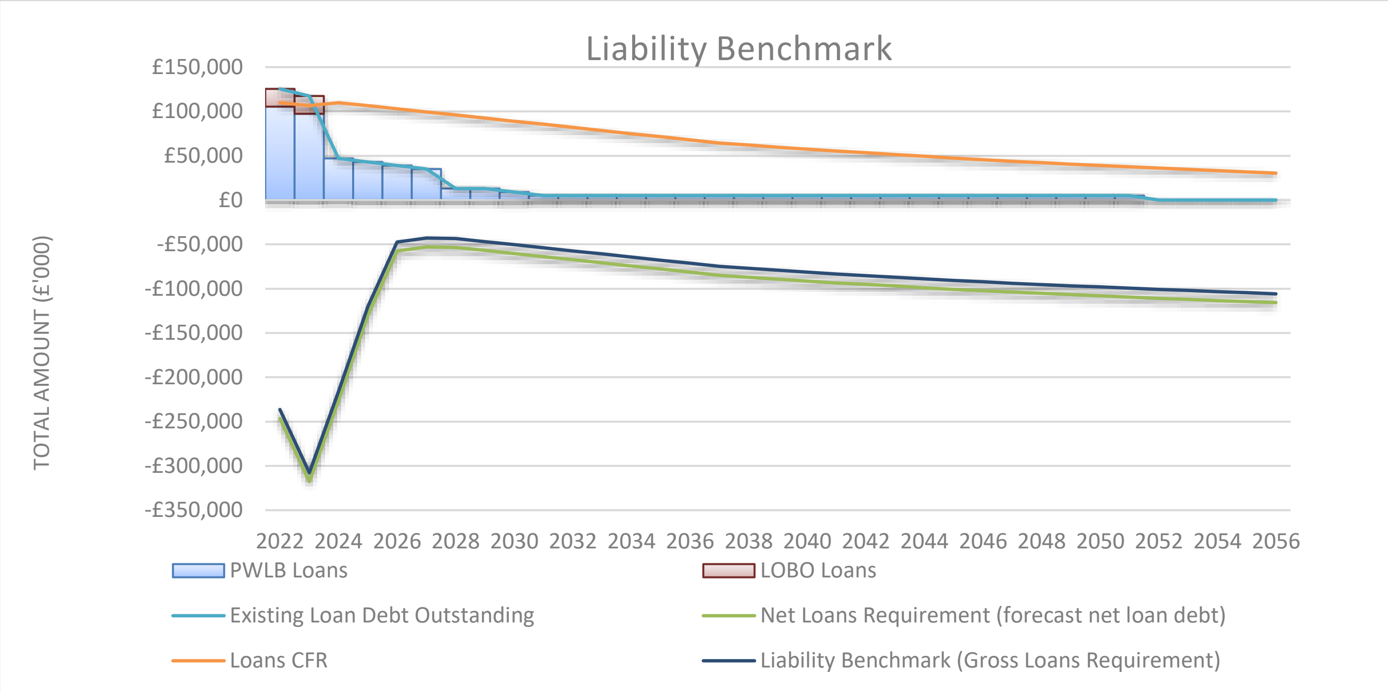
If the existing loans outstanding are below the future need for loan debt, the existing portfolio outstanding is less than the loan debt required, and the authority will need to borrow to meet the shortfall.

By contrast, if the existing loans outstanding are above the future need for loan debt, the authority will have more debt than it needs, and the excess can be invested.

The future need for loan debt is calculated as the Capital Financing Requirement for borrowing (excluding Other Long-Term Liabilities) less forecast treasury investments plus the liquidity allowance for day to day cash flow management (£10m as per investment Strategy Section D).

In the chart below, the solid dark blue line represents the future need for loan debt (liability benchmark). The light blue line shows the existing loan debt outstanding.

The chart below shows that the MCA will have existing loans outstanding in excess of future need for loan debt over the next 3 financial years, and that therefore there is surplus cash available for investment.



Indicator 5 - Ratio of Financing Costs to Net Revenue Stream

This indicator is a measure of the affordability of decisions taken to finance capital investment borrowing in the context of the MCA's overall financial sustainability.

Ratio of financing costs to net revenue streams	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Interest	£5	£4	£3	£3	£2
MRP	£4	£4	£4	£4	£4
Financing Costs	**£8**	**£8**	**£7**	**£7**	**£6**
Income - transport levy	£55	£57	£58	£59	£60
Other unrestricted income	£32	£23	£17	£17	£17
Net Revenue Stream	**£88**	**£80**	**£74**	**£76**	**£77**
Finance Costs/net Revenue Stream	10%	9%	10%	9%	8%

The downward trend in interest payable is due to the ongoing repayment of PWLB borrowing (see the Maturity table in Indicator 8 for scheduled repayments).

It has been assumed that the transport levy will increase by 2% p.a over the period to 2027/28 as set out in the budget paper.

The Other Unrestricted income principally comprises treasury management investment income , MCA corporate income and LTA commercial income. The assumptions around the latter two are that they will remain reasonably stable over the period. The main variation is around the assumed level of treasury management investment income.

Overall financing costs are considered sustainable at this level.

External Debt – borrowing limits – Indicators 6 and 7

There are two indicators on borrowing limits: the authorised limit and operational boundary.

The **authorised limit** represents a control on the maximum amount of debt the MCA can borrow for capital investment and temporary cash flow purposes. Under Section 3 of the Local Government Act 2003 this limit is agreed by the MCA 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.

The **operational boundary** is the maximum amount of money the MCA expects to borrow during the financial year. It acts as a useful warning if breached during the year that underlying spend may be higher than expected or income lower than budgeted.

Authorised Limit	2023/24		2024/25		2025/26		2026/27		2027/28	
	Forecast		Estimate		Estimate		Estimate		Estimate	
	Loans	OLTL	Loans	OLTL	Loans	OLTL	Loans	OLTL	Loans	OLTL
	£m		£m		£m		£m		£m	
Loans	£47	£10	£43	£10	£39	£9	£35	£9	£13	£8
Underlying need to borrow	£63		£64		£64		£65		£83	
Headroom	£99		£348		£352		£355		£359	
OPCC			£139		£139		£139		£139	
Debt cap	£209		£594		£594		£594		£594	
Temporary Revenue borrowing	£40		£40		£40		£40		£40	
Total	**£249**	**£10**	**£634**	**£10**	**£634**	**£9**	**£634**	**£9**	**£634**	**£8**

The Combined Authorities (Borrowing) Regulations 2022 conferred additional borrowing powers on the MCA which allows the MCA to borrow in respect of all its existing functions up to a maximum "debt cap" agreed annually with HM Treasury. The debt cap provides for annual maximum limits on the long term external debt (borrowing for more than 12 months) into which the authority may enter.

The MCA's debt-cap for 2023/24 is £209m. This provides headroom of £162m which allows for £63m to meet the under-borrowing requirement plus a further £99m to allow for additional investment opportunities should they arise. It should be noted that the MCA has no plans to borrow for investment at this stage.

The MCA has sought and received written confirmation from HM Treasury that the debt cap will be increased in 2024/25 to take account of the OPCC's estimated capital financing requirement. HM Treasury have offered an overall debt cap of £594m for 2024/25 which allows for £139m for the OPCC.

The figures for 2025/26 to 2027/28 are indicative only and will be updated for the projected OPCC capital financing requirement for each of these years in due course once the MCA has integrated with the OPCC.

The authorised limit allows for an additional £40m headroom over the maximum expected amount of gross debt. The headroom provides capacity for short-term temporary borrowing to manage the MCA's cash position rather than having to realise higher yield longer-term investments early before they are due to mature. There has been no need for temporary revenue borrowing in 2023/24 to date and it is only envisaged that it would be called upon in exceptional circumstances. It also provides for temporary revenue borrowing to be taken out to support the new tram company should the need arise.

The Other Long-Term Liabilities set out in the table above represents the PFI liability in respect of Doncaster Interchange. Should the new IFRS 16 accounting rules result in leased assets being brought on balance sheet when the new rules are implemented on 1 April 2024, the authorised limited for Other

Long-Term Liabilities will be increased. This will not impact on affordability as the lease payments are already budgeted for in full.

Operational Boundary	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Loans	£209	£594	£594	£594	£594
Other Long Term Liabilities	£10	£10	£9	£9	£8
Temporary revenue borrowing	£0	£0	£0	£0	£0
Total	**£219**	**£603**	**£603**	**£602**	**£603**

As described above, it is not envisaged that the MCA should have a need for temporary revenue borrowing due to the level of treasury investments held in highly liquid Money Market Funds. No allowance for this is therefore built into the operational boundary above.

Indicator 8 – Maturity Structure of Borrowing

The maturity profile is important in ensuring there is sufficient liquidity to meet loan repayments as they fall due.

Maturity of Group borrowing:	Amount £m	%
2024/25	4	9%
2025/26	4	9%
2026/27	4	9%
2027/28	22	47%
2028/29	0	0%
2029/30	4	9%
2030/31	4	9%
2051/52	5	11%
Total	**£47**	**100%**

In the period 2024/25 to 2026/27 the amount raised as MRP through the levy will more or less match the loan repayments of £4m p.a. in each of these years.

In 2027/28, whilst there is a significant increase in loan repayments, the current forecast level of Core Funds (table 2 Section D) suggests that there will be sufficient internal resources to meet these repayments without recourse to external borrowing should it be cost effective to do so.

This will however be kept under review as the MCA is forecast to be under-borrowed by £83m by the end of 2027/28 (see the table in Indicator 3) and will remain substantially under-borrowed for many years thereafter if annual MRP charges remain at £4m p.a as currently profiled.

Debt Rescheduling

The MCA successfully negotiated early repayment of £20m of market loans during 2023/24. This involved paying a premium of £2.8m in order to create annual interest savings of £945k p.a over the remaining term of the loans which was 30 years or more.

All of the remaining debt at the end of 2023/24 of £47m is with PWLB. As at early February 2024, the prevailing interest rates for early repayment of PWLB debt were below the rates being paid. The MCA would incur a premium on early repayment under these circumstances which is not cost effective and does not represent value for money. The position will however be kept under review and reconsidered should prevailing rates for early repayment rise over the course of the year.

The prospect of refinancing or paying off early some of the underlying PFI debt relating to Doncaster Interchange in order to reduce future unitary payments over the remainder of the PFI term has been kept under review but no opportunity has presented itself to date. This will continue to be explored with the PFI Operator as part of this year’s annual review.

Borrowing in Advance of Need

The MCA 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.

Risks associated with any borrowing in advance will be subject to prior appraisal and reporting through the mid-year treasury report or annual report on treasury management.

Financial Guarantee

On 22 March 2024, the MCA’s new wholly owned subsidiary South Yorkshire Future Trams Ltd (SYFTL) will take over the operations of Supertram from Stagecoach. The MCA will need to provide a financial guarantee on behalf of SYFTL in order to secure credit from suppliers with whom SYFTL, as a new trading entity, has no prior history.

On 9 January, the MCA Board approved the Local Transport Authority revenue budget and transport levy for the forthcoming financial year. The planning assumption contained within that budget is that SYFTL will require an operating subsidy of c.£7m in its first year of operations, in addition to c.£1.8m per annum of concessionary fare reimbursement (similar to the amount currently paid to Stagecoach based on current patronage and yield).

SYFTL will be prohibited from entering into its own investment and borrowing. Therefore, in order to manage the liquidity of SYFTL, the MCA will provide an intercompany loan facility based on SYFTL's budgeted cashflow requirements. This facility will be reviewed on a monthly basis in line with the MCA group’s reporting timetable.

The Supertram business plan, which was also approved by the MCA Board on 9 January, illustrates that various measures will be implemented over the course of the next few years to move tram operations to a more financially sustainable footing, such that the operating subsidy should reduce to c.£5m per annum by the end of this decade.

However, as with all new operations, there is a degree of risk associated with changes in ways of working. Furthermore, 2024/25 is likely to see the start of Phase 3 re-railing on the tram network, which will entail planned disruption to services and a temporary reduction in ticket sales. This assumption has been built into the 2024/25 budget when considering the appropriate amount of operating subsidy. However, there are likely to be other issues which SYFTL will encounter, thus putting pressure on the operating subsidy. Therefore, as part of the MCA’s 2024/25 reserves strategy, it is proposed to earmark £5m of capital resources for the purposes of purchasing additional share capital in SYFTL which can then be used for responsive investment into any failing assets, thus mitigating the risk of loss of patronage and ticket sales due to prolonged network closure.

Use of External Advisors

Link Group have been appointed as treasury advisors to the MCA to provide technical guidanceand support on treasury matters, including providing a creditworthiness service to financial institutions and other potential counterparties.

The MCA continues to operate a service level agreement with Sheffield City Council to provide treasury services including managing the MCA’s investment portfolio on its behalf.

Where external advisors are appointed to provide specialist skills and resources, Officers will ensure that the terms of their appointment and methods by which their value will be assessed are properly agreed and documented.

Minimum Revenue Provision (MRP) Policy Statement

This Policy Statement has been prepared having regard to the Revised Statutory MRP Guidance issued in 2018 and the proposed revision to the Guidance which is currently out to consultation. The outcome of the consultation is not yet known but it is not envisaged that it will have a significant bearing on the MRP policy or way in which MRP is currently profiled.

The broad aim of MRP is for an authority to make a prudent provision by charging revenue over time to reduce its Capital Financing Requirement. In doing so, an authority should align the period over which they charge MRP to one that is commensurate with the period over which its capital assets/expenditure provides benefits either in terms of service potential or economic return.

Regulation 28 of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended]* gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance on determining MRP which offers a number of options for meeting this requirement.

In addition, an authority may charge an amount greater than the statutory minimum should it wish to do so. The MCA has not elected to charge in excess of the minimum statutory amount to date.

The MCA is recommended to approve the following MRP statement for financial year 2024/25:
MRP on the residual Capital Financing Requirement at the end of 2015/16 relating to capital expenditure incurred before 1 April 2008, is being charged on a flat line basis over fifty years. This is considered a more prudent approach to the "regulatory method" adopted up to and including 2015/16, as it better aligns the charges to revenue to the benefits the related assets deliver.

MRP on capital expenditure incurred since 1 April 2008, financed by unsupported borrowing, will be based on the 'asset life method'. This means that MRP will be based on the estimated useful life of the assets created. The MCA will apply a maximum life of 50 years to new assets unless a suitably qualified professional advisor advises that an asset will deliver service functionality for more than 50 years or where an asset is a lease or PFI asset, and the length of the lease/PFI contract exceeds 50 years.

MRP will commence in the year after an asset becomes operational to align charges to revenue to the economic benefits generated from those assets.

MRP on capital loans and capital grants awarded to partners and third parties financed by borrowing will be charged over the useful life of the assets concerned.

MRP on capital expenditure on assets not owned by the MCA or on assets for use by others will similarly be charged over the useful life of the assets concerned. MRP on expenditure capitalised by virtue of a statutory direction, repayment of capital grants or loans received, or acquisition of share capital, will be charged over a period not exceeding the maximum period specified by regulation.

Where a PFI or right-of-use asset is on balance sheet, MRP will be charged at an amount equal to the element of the payment that goes to write down the balance sheet liability.

If, as noted in the section concerning the Authorised Limit and Operational Boundary, the MCA agrees to use borrowing to accelerate delivery of the South Yorkshire Renewal Plan, Gainshare capital will be applied in the first instance to meet the requirement to set aside an amount to repay debt in lieu of charging revenue.

Members are asked to note the consultation on MRP changes, the results of which have not yet been received. The draft proposals on this consultation may preclude the use of capital grant in-lieu of charging revenue. The MCA has engaged DLUHC on this issue and believes it has a strong basis to challenge the proposals.

Investment Strategy

The MCA's investment policy has regard to the following:

- The 2021 Treasury Management Code;
- MHCLG's Guidance on Local Government Investments; and
- CIPFA Treasury Management in the Public Services Guidance Notes 2021.

The MCA's investment priorities will be security, portfolio liquidity second and yield (return) in that priority order. The MCA will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the MCA's risk appetite.

The MCA is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the MCA is also appreciative of the statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The MCA uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement. For short term investments with counterparties, the MCA utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The MCA will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

DLUHC and CIPFA place a high priority on the management of risk. Accordingly, the MCA has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

- A defined list of **types of investment instruments** that the treasury management team are authorised to use. These fall into two categories - 'specified' and 'non-specified' investments.

    1. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
    2. **Non-specified investments** are those with less high credit quality, maybe for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

Lending limits (amounts and maturity) for each counterparty will be set through applying the matrix in Table 4

- A limit on investments which are invested for **longer than 365 days** - see Table 2

Given the risks and uncertainties in the current economic climate, the focus for the time being at least, has been and will continue to be on maximising returns from traditional types of investment rather than on diversification.

Now that interest rates are predicted to have peaked with a gradual reduction forecast from the second half of 2024 onwards (see table below), the investment strategy has been to switch to longer term investments in order to secure better returns going forward. At the time of preparing the Strategy the MCA held £138m of long-term investments against a limit of £144m.

In addition to the more traditional types of investment, the Investment Strategy has in recent years provided for consideration in investments in alternative or longer-term options. These options could include:

- Short-dated bond funds (suitable for investors with a minimum time horizon of 2 to 3 years);
- Property Funds (suitable for investors with a minimum time horizon of at least 5 years); and
- Multi-asset income funds (suitable for investors with a minimum time horizon of at least 5 years).

These types of investment can generate a higher rate of return but may create more risk than more 'vanilla' investment options. A comprehensive understanding of the varying degrees of risks associated with these types of investment would therefore be required to assess against the potential rewards having regard to appropriate professional advice from external advisors should the MCA choose to diversify into these options.

Investment Performance

Over the course of 2023/24 in the 10 months to January 2024, the average size of the investment portfolio was £490m with the weighted average return on investments averaging 4.2%. This represents a significant increase on 2022/23 where the average return was 1.88% on an average portfolio of £458m.

The types of investment included within the investment portfolio are the more traditional ones held by local authorities, namely:

- Deposits with local authorities through the local authority to local authority market;
- Call accounts with reputable banks with a high credit rating; and
- Short term Low volatility Net asset Value (LVNAV) Money Market Funds which provide for instant access and which are purchased or redeemed at a constant price so long as the value of the underlying assets does not deviate by more than 0.2%.

Table 1 - Prospects for Interest Rates

The latest projections provided by our treasury advisors are set out below. They take account of the Bank of England's Monetary Policy Committee decision at its meeting on 1 February 2024 to hold the base rate at 5.25%.

Link Group Interest Rate View	05.02.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

A prudent approach has been taken to estimating the amount of treasury investment income the MCA expects to earn in the 2024/25 budget to c. 3% on average. This reflects the fact that returns are still being damped down to some extent by longer term investments taken out prior to the start of the surge in the base rate which have an average return of c. 1.8%.

Further ahead, there are many variables that could impact on where the Bank Rate goes, but at present, our treasury advisors suggest that the Base rate may stay at or around 3% for up to the next 10 years and that average returns will follow a similar pattern.

This is summarised in the table below.

Returns on investments	2023/24 Forecast %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %
Target return on treasury investments	4.20%	3.00%	3.00%	3.00%	3.00%

Table 2 - Core Funds and Balances and Longer Term Investments of More Than 365 days

Core Funds	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
General Fund - revenue	£5	£5	£5	£5	£5
Earmarked Reserves - revenue	£97	£89	£61	£43	£36
capital receipts reserve	£16	£11	£10	£5	£5
Underlying borrowing requirement	-£63	-£63	-£64	-£64	-£83
Capital grant received in advance / capital grant unapplied	£246	£252	£143	£105	£105
Provisions	£1	£1			
Sub-total	**£302**	**£294**	**£156**	**£93**	**£68**
revenue grant received in advance	£23	£25	£15	£15	£15
Total	**£325**	**£319**	**£171**	**£108**	**£83**
Less: maximum bal to be retained for short term liquidity	-£10	-£10	-£10	-£10	-£10
Amount available to invest	**£315**	**£309**	**£161**	**£98**	**£73**

Projections of the level of funds beyond 2024/25 are very much indicative at this stage. A prudent approach has been taken to limit assumed core funds to those that can most reasonably be estimated given current spend profiles and the risks faced by the MCA for which reserves will need to be set side, for example, bus franchising.

The 2027/28 projected capital grant received in advance figure of £100m will be revisited once Government provide further detail on how the indicative CRSTS 2 allocation of £1.455m will be profiled over the 5 year period 2027/28 to 2031/32.

Based on the projected level of core funds above, the following limits have been placed on the level of long term investments of more than 365 days that should be held at the end of each financial year as follows after allowing for the retention of a short term liquidity allowance of £10m.

Investment greater than 365 days	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Maximum - end of the year	£309	£161	£98	£73
Existing long term investments	£133	£15	£0	£0
Balance available to invest	**£176**	**£146**	**£98**	**£73**

The current level of long term investments is close to the limit set within the 2023/24 Treasury Management Strategy of £144m. We will continue to work actively with the Sheffield City Council treasury team who manage investments on behalf of the MCA over the forthcoming year to maintain a high level of long term investments in order to secure higher returns.

Security

The risk of default varies according to the type of investment.

CIPFA/LASAAC, the board responsible for setting the local authority Accounting Code, reviewed whether all local authority accounts should continue to be prepared on a going concern basis in light of the financial challenges faced by some local authorities and determined that the statutory framework means there can be no material uncertainties related to events or conditions that can cast significant doubt upon their ability to continue to report on a going concern basis. Accordingly, Local authorities are assumed to have a zero default rate.

The default risk attached to other counterparties depends on their creditworthiness and duration of investment. The MCA's treasury advisors provide historic default rates for different types of counterparty as a guide. The risk of default on non-local authority investments in the investment portfolio as at March 2023 using historic default rates provided by the MCA's treasury advisors is c. 0.014% or £14k.

This is considered an acceptable level of risk against the average treasury investment portfolio for the year to date of £490m.

Liquidity

A balance of up to £10m will be maintained as short term liquidity to manage day to day treasury activity.

Creditworthiness Policy

The MCA has adopted the creditworthiness service provided by its external treasury management advisors to manage counterparty risk.

The service involves a risk weighted scoring of the three main credit rating agencies to arrive at a colour coding system to recommend the maximum duration of investments. This is summarised in the table below:

Colour Band	Duration
Yellow	5 years *
Dark pink	5 years for Ultra Short Dated Bond Funds with a credit score of 1.25
Light pink	5 years for Ultra Short Dated Bond Funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised/semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

The Lending limits (amounts and duration) for each counterparty are unchanged from 2023/24.

At the foot of the matrix table, other investment options have been introduced. These include, for example, short-dated bond funds, property funds and multi-asset income funds. No limits have been specified for these new investment types as yet, as there has been no consideration yet into the risks and suitability of these options.

Table 4 - Lending Limits

	Colour (and long term rating where applicable)	Maximum sum and/or % Limit (per institution)	Time Limit
Banks *	Yellow	100%	5 years
Banks	Purple	£30m	2 years
Banks	Orange	£30m	1 year
Banks – part nationalised**	Blue	£50m	1 year
Banks (UK Banks)	Red	£40m	6 months
Banks (non-UK Banks)	Red	£15m	6 months
Banks	Green	£10m	100 days
Banks	No colour	Not to be used	

MCA's banker (Barclays) in the event of the bank being 'no colour'	-	100 %	5 days***
DMADF	AAA	100%	6 months
Local authorities and other suitable public bodies or bodies delivering public services funded by the government	N/A	£50m	10 years
Money market funds – CNAV ****	AAA	100 %	Liquid
Money market funds – LVNAV *****	AAA	100 %	Liquid
Money market funds – VNAV ******	AAA	100 %	Liquid
Ultra short dated bond funds with a credit score of 1.25	Dark pink / AAA	100 %	Liquid
Ultra short dated bond funds with a credit score of 1.5	Light pink / AAA	100 %	Liquid
Short dated bond funds/ Property Funds/ Multi Income Asset Funds	TBD	TBD	TBD

** Please note: the yellow colour category is for UK Government debt, or its equivalent, constant net asset value money market funds and collateralised deposits where the collateral is UK Government debt.*
*** When placing deposits with part nationalised banks the MCA will take care to review when it expects the UK Government to divest its interest in the institution, and the impact this move would have on the MCA's view of the institutions security.*
**** to cover period to next working day allowing weekends and bank holidays such as Easter*
***** CNAV refers to Constant Net Asset Value Money Market Funds when investors will be able to purchase and redeem at a constant Net Asset Value (£1 in / £1 out)*
****** LVNAV refers to Low Volatility Net Asset Value Money Market Funds when investors will be able to purchase and redeem at a stable Net Asset Value to two decimal places, provided the fund is managed to certain restrictions*
******* VNAV refers to Variable Net Asset Value Money Market Funds where the price may vary*

The MCA is alerted to changes to ratings through the creditworthiness service provided by its external treasury advisors.

If a downgrade results in the counterparty/investment scheme no longer meeting the MCA's minimum criteria, its further use as a new investment will be withdrawn immediately. Any existing investment will be redeemed as soon as it is economically viable.

Investment instruments identified for use in the financial year are listed under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the MCA's treasury management practices.

<u>Country Limits</u>

The MCA has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of "AA-" from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are as shown below. Should ratings change, this list will be added to, or deducted from, by officers in accordance with this policy.

AAA
- Australia
- Denmark
- Germany
- Netherlands
- Norway

- Singapore
- Sweden
- Switzerland

AA+
- Canada
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)

AA-
- Belgium
- France
- Qatar
- **U.K.**

Specified and Non-Specified Investments

The distinction between specified and non-specified investments is important because of the additional procedures that need to be undertaken in considering the risk attached to non-specified investments.

Specified Investments

Statutory Guidance on Investments defines specified investments as ones having the following characteristics:

- Denominated in sterling
- The original term is 12 months or less, or, have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year
- The investment is high quality or is with the UK Government or a Local Authority

High quality is determined by reference to the matrix table included in the creditworthiness policy.

Table 5 - Limits on Specified Investments

	Minimum credit criteria / colour band	** Max % of total investments / £ limit per institution	Max. maturity period
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LVNAV	AAA	100%	Liquid
Money Market Funds VNAV	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid

Local authorities	yellow	100%	12 months
Term deposits with banks and building societies or housing associations	Blue Orange Red Green	As per lending limits table	12 months 12 months 6 months 100 days
CDs or corporate bonds with banks and building societies	Blue Orange Red Green	As per lending limits table	12 months 12 months 6 months 100 days
UK government debt	Yellow	100%	12 months

Non-Specified Investments

These are any investments which do not meet the specified investment criteria.

As far as the MCA is concerned, Non-specified investments represent those with a duration of more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

The table below illustrates the types of non-specified investments that are currently being invested in or could be considered at a future date. The list is not however intended to be exhaustive and may be expanded as other types of investment are investigated.

Table 6 - Limits on Non-Specified Investments

Duration of more than one year	* Minimum Credit Criteria	** Max % of total investments	Max. maturity period
Term deposits – local authorities	N/A	100%	10 years
Term deposits – banks and building societies	Purple	£30m	2 years
UK Government Debt	Yellow	100%	5 years

NB: The Authority will review the limits for other 'non specified' investments such Short dated bond funds/ Property Funds/ Multi Income Asset Funds during 2024/25

Section E

Flexible Use of Capital Receipts

The Flexible Use of Capital Receipts Direction gives local authorities the freedom to use capital receipts from the sale of their own assets to help fund the revenue costs of transformation projects that will reduce costs, increase revenue or support a more efficient provision of services.

Examples of qualifying expenditure include:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
- Integrating public facing services across two or more public sector bodies (for example children's social care or trading standards) to generate savings or to transform service delivery.

For 2024/25, up to £1.9m (the projected level of capital receipts available from the disposal of assets) may be used towards meeting the revenue costs of OPCC integration and transformational projects such as bus franchising.

Members are requested to grant delegated authority to the Executive Director of Resources and Investment to submit details of any planned use of the flexibility in accordance with this strategy, to the Secretary of State, as required by the Direction.

These details will include as a minimum:

- the amount of planned capitalisation using the flexibility for the relevant financial year;
- the purpose of the expenditure to be capitalised with a description of the associated projects;
- the amount of expenditure that was capitalised using the flexibility for the prior financial year; and,
- the efficiency savings that are directly attributable to the use of the flexibility that were achieved for the prior financial year.