



# **South Yorkshire Mayoral Combined Authority (incorporating PCC functions)**

## **Updated 2024/25 Treasury Management Strategy Statement**

Minimum Revenue Provision Policy Statement and  
Annual Investment Strategy

---

## INDEX

	<u>Page</u>
1 Introduction	3
2 Key Points	3
3 Economic Background	4
4 Budget Assumptions	5
5 Recommendations	6
Section A – Treasury Management Policy Statement	7
Section B – Borrowing Strategy	9
Section C – Capital Plans & Prudential Indicators	11
Section D – MRP Statement	18
Section E – Investment Strategy	20
Section F – Flexible Use of Capital Receipts	29

## 1 Introduction

The MCA approved its 2024/25 Treasury Management Strategy at its meeting on 12 March 2024. This related to the activities of the MCA pre integration with the OPCC.

The OPCC approved its 2024/25 Treasury Management Strategy at the meeting of the Public Accountability Board held on 26 February 2024. This related to the activities of OPCC pre integration with the MCA.

Following the formal integration of the MCA and OPCC on 7 May 2024, the 2024/25 Treasury Management Strategy has been updated to show the position of the MCA and PCC combined.

It includes an updated series of combined prudential indicators and additional commentary where circumstances and events have moved on since the original Treasury management strategies were approved.

In particular, the prudential indicators have been updated to show the 2023/24 outturn position and to reflect the latest forecasts in the Quarter 1 Budget Update presented to the MCA at its meeting on 4 June.

In the short term, the treasury management activities of the MCA and PCC functions will continue to be managed separately using existing arrangements. This means that Sheffield City Council will continue to manage the MCA's investment portfolio on a day to day basis under the existing Service Level Agreement (SLA). Likewise, the City of Doncaster Council will continue to manage the daily transactional treasury management activities of the PCC under the existing SLA.

The MCA Board will retain overall responsibility for the MCA's treasury management strategy and responsibility for the implementation and regular monitoring of the MCA's Treasury Management Policies and Practices will continue to rest with the Audit, Standards and Risk Committee.

In the case of PCC functions, the Mayor has overall responsibility for the PCC treasury management strategy. Responsibility for the implementation and regular monitoring of the PCC's Treasury Management Policies and Practices rests with the Audit, Standards and Risk Committee.

In the medium to longer term, officers are looking to bring treasury management under a single treasury management function.

As a first step towards working together more closely, officers are considering how lending between the MCA and PCC functions might be transacted and the operation of counterparty limits and creditworthiness policy for MCA / PCC investments.

A Treasury management policy statement has been added at Appendix A to set out more clearly the respective policies and objectives of the MCA and PCC treasury management activities and to clarify roles and responsibilities post integration.

## 2 Key Points

### (i) IFRS 16

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 due course.

### (ii) Statutory MRP guidance

The changes arising from the national consultation on statutory MRP guidance will not now come into effect on 1 April 2024 as was expected at the time of the original strategy but will instead be implemented with effect from 1 April 2025. The main purpose of the changes are 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) and prohibiting the use of capital receipts in lieu of charging MRP. The most relevant issue for the MCA/PCC is that the consultation withdrew the proposed restriction on the use of the asset life method for capital expenditure incurred prior to 1 April 2008 where financed by supported borrowing. This could potentially have led to the existing profile of MRP being challenged. The withdrawal of this restriction in the final statutory MRP guidance removes this risk.

### (iii) Commercial investments

The Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

#### Treasury Management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use.

#### Service Delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

#### Commercial Return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e. that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services.

Neither the MCA nor PCC holds or has any plans to hold any investments for commercial return.

### (iv) Further reporting

The Treasury Management Code 2021 requires reporting on a quarterly basis.

Reporting against the updated Treasury Management Strategy and prudential indicators will form part of the quarterly Budget Updates that are presented to the MCA Board at Quarter 2 and Quarter 3.

In addition, an end of year annual report will be presented to the MCA Board as part of the Outturn papers which will show actual performance against the updated treasury management strategy after the end of the 2024/25 financial year.

### **3 Economic Background**

The overall economic background remains broadly similar to that at the time the original 2024/25 Treasury Management Strategy was approved.

There is still a forecast gradual reduction in interest rates over time from the current peak of 5.25%. However, the pace at which rates are expected to fall to an anticipated baseline of 3% is a little slower than the previous forecast.

Headline CPI inflation fell to 2.0% in May 2024 in line with expectations but is expected to rise again in Q3 and Q4 as the dampening effect of declines in energy prices fall out of the equation. Services consumer price inflation fell slightly to 5.7% in May 2024 but remains a little higher than previously forecast. Core goods inflation by contrast was a little lower than expected.

GDP growth was a little better than expected in the first half of 2024 at 0.5% in Q1 and is expected to grow at a similar rate in Q2. However, business surveys continue to show a slower pace of underlying growth of around ¼% per quarter.

There are indications that wage growth has continued to ease and the labour market has loosened (although remains relatively tight by historical standards) but there remains considerable uncertainty over the future trend in pay growth with average pay increasing by close to 6% in the 3 months to April 2024 but expected to trend down in Q2 to nearer 5%. Labour market data will therefore be key to seeing if there is a further loosening in the labour market arising from a reduction in the prevailing near 1 million job vacancies and an increase in unemployment (currently 4.3%).

Internationally, UK gilt market movements have been heavily influenced by the sentiment pertaining to US monetary policy. US inflation and labour data has proven sticky and the market's expectation for rate cuts has gradually reduced throughout the course of the year, so that possibly rates may not start to be cut until November at the earliest. Even if the Bank of England starts to cut rates first, it may mean that the medium and longer parts of the curve take longer to fully reflect any such action until the US yield curve shifts lower too. The outcome of the upcoming US presidential election will have a major bearing on this.

There are in addition other major geopolitical factors which could lead to upward inflationary pressures, most notably the material risks from developments in the Middle East and from increased global shipping costs that have arisen amid longer-than-expected disruptions to routes through the Red Sea.

Overall, the Bank of England at its most recent MPC meeting on 19 June 2024 had a range of views on how persistent inflation would be going forward. However, on balance, it felt that more evidence was needed of diminishing inflation persistence before loosening monetary policy and therefore voted to retain the Base Rate at 5.25%.

Nevertheless, the MCA's treasury management advisors are of the view that the Bank of England may well consider a rate cut in either August or September followed by further cuts before the end of the 2024/25 financial year as previously forecast (see Section B borrowing strategy below for further detail).

#### 4 Budget Assumptions

Both the MCA and PCC are required to produce a balanced budget under Section 33 of the Local Government Finance Act 1992.

This includes ensuring that capital financing decisions are affordable and sustainable.

The budget assumptions included in relation to the MCA and PCC budgets in 2024/25 are summarised in the following table:

	2023/24		2024/25		2025/26		2026/27	
	Actual	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	MCA	PCC	MCA	PCC	MCA	PCC	MCA	PCC
	£000	£000	£000	£000	£000	£000	£000	£000
Interest payable	2,967	1,424	2,404	1,394	2,169	2,513	1,934	3,335
MRP	3,513	926	3,504	909	3,504	955	3,504	1,056
Premium on early repayment	93	0	93	0	93	0	93	0
Other debt management expenses	28	1	30	36	30	38	30	38
	£6,601	£2,351	£6,031	£2,339	£5,796	£3,506	£5,561	£4,429
Interest Receivable	-20,874	-2,824	-10,000	-923	-4,000	-240	-4,000	-220
<b>Total</b>	<b>-£14,273</b>	<b>-£473</b>	<b>-£3,969</b>	<b>£1,416</b>	<b>£1,796</b>	<b>£3,266</b>	<b>£1,561</b>	<b>£4,209</b>

The MCA's strong investment performance in 2023/24 was achieved due to the combined effect of having a sustained high level of investments throughout the course of the year (average balance of £484m) and steadily increasing returns (weighted average return 4.58%).

The strong performance was achieved at relatively low risk due to investments being weighted towards fixed term local authority deposits, low risk Money Market Funds with a high credit rating which are subject to only minimal risk of price fluctuation, and banks with a high credit rating.

The PCC's favourable outturn in 2023/24 was achieved because £18.4m of anticipated borrowing from PWLB was not required at this stage, due to a healthy cashflow. This was partly due to additional external government funding being received in advance which assisted the cashflow, partly due to a reprofile and some slippages to the capital programme, and the timing of legacy payments. This enabled the continuation of internal borrowing in line with the approved strategy.

The overall return on investments for the year was 4.95%.

## 5 Recommendations

The Committee is asked to:

- Endorse the updated 2024/25 Annual Treasury Management Strategy for the MCA / PCC combined;
- Endorse the treasury management principles and roles and responsibilities post integration set out in the Treasury Management Policy Statement in **Section A**
- Endorse the Borrowing Strategy set out in **Section B**;
- Endorse the capital expenditure estimates and associated prudential indicators set out in **Section C**;
- Endorse the Minimum Revenue Provision Policy set out in **Section D**;
- Endorse the Annual Investment Strategy set out in **Section E**;
- Note that delegated authority has been granted to the Executive Director of Resources and Investment to make use of capital flexibilities in accordance with the strategy outlined in **Section F** where he considers it prudent to do so

## **Section A**

### **Treasury Management Policy Statement**

The MCA/PCC defines its treasury activities as:

“the management of its borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.”

Proper practice in relation to treasury management activity is prescribed within CIPFA’s Treasury Management Code and associated Guidance for Local Authorities and Prudential Code as revised 2021. Treasury management strategy, policies and practices and practices have been designed to comply with all statutory controls and professional guidelines relating to treasury management.

In relation to MCA activities (excluding PCC functions), the MCA has overall responsibility for approving the Treasury Management Strategy.

Responsibility for the implementation and regular monitoring of the MCA’s Treasury Management Policies and Practices rests with the Audit, Standards and Risk Committee.

The Executive Director Resources and Investment as the Authority’s Chief Finance Officer is responsible for the execution and administration of treasury management decisions in accordance with proper practice.

In relation to PCC functions, post integration on 7 May 2024, the Mayor exercises the functions of a Police and Crime Commissioner. As such, the Mayor has a statutory duty and electoral mandate to ensure an efficient and effective police service. Within this remit, the Mayor is responsible for approving the overall framework of accountability and control for the police service/PCC functions.

The implementation and regular monitoring of the PCC’s Treasury Management Policies and Practices rests with the Audit, Standards and Risk Committee.

The Director of Finance (Police and Crime) will be responsible for the execution and administration of the PCC’s treasury management decisions.

The MCA/PCC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.

The MCA/PCC acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

There are two main objectives in relation to treasury management:

- 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 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.

The Annual Treasury Management Strategy seeks to ensure that:

- The overarching Borrowing Strategy is appropriate in the context of the current economic climate
- Capital plans are affordable, prudent and sustainable
- 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 risk appetite
- The Investment Strategy pays due regard first and foremost to security (the management of risk and the protection of principal sums invested), then to liquidity (availability of cash to meet liabilities as they fall due) and finally to yield (maximising the return on investments commensurate with the risk appetite)

## 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 2024/25 was set with the impending integration of the MCA and OPCC in mind.

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 allowed £139m for the OPCC.

As shown below in Prudential Indicator 2, the latest forecast loans capital financing requirement at the end of 2024/25 is £232m of which £125m relates to the PCC.

The MCA and PCC are both maintaining an under-borrowed position. This means that the underlying need to borrow (capital financing requirement "CFR"), has not been fully funded with loan debt as core funds in the form of reserves, balances, unapplied capital and revenue grant, and cash flow are being used instead to meet the CFR from internal borrowing.

This is in accordance with the principle set out in the Treasury Management Policy Statement that borrowing should be deferred in an environment in which interest rates are forecast to fall as is the case currently – see the most recent forecast rates from our treasury advisors below.

Link Group Interest Rate View	28.05.24											
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>BANK RATE</b>	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

Our treasury advisors long-term (beyond 10 years) forecast for Bank Rate is that it will remain at 3%.

In view of the current elevated PWLB rates, our treasury advisors suggest that borrowing strategies for core debt management should continue to be to reappraise any capital expenditure plans, and to borrow internally or on a temporary basis for any financing and only seek medium to longer dated borrowing if absolute certainty is needed in the long-term and such borrowing is affordable, sustainable and prudent if funded at prevailing rates.

Our treasury advisors have suggested the target rates for taking out external borrowing longer term (set two years hence to reflect the anticipated fall in PWLB rates) are as follows:

<b>PWLB debt</b>	<b>Current borrowing rate as at 28.05.24 p.m.</b>	<b>Target borrowing rate now (end of Q1 2026)</b>	<b>Target borrowing rate previous (end of Q4 2025)</b>
5 years	5.01%	3.90%	3.70%
10 years	5.03%	4.10%	3.90%
25 years	5.46%	4.40%	4.20%
50 years	5.24%	4.20%	4.00%

The position of the MCA and PCC differ in that the MCA's capital programme is currently fully funded whereas the PCC has an estimated borrowing need of £55m in aggregate in the current year and following two years – as shown in Prudential Indicator 1.

Officers will examine opportunities for managing the position to the mutual benefit of both the MCA and PCC by continuing to maintain an under-borrowed position for as long as possible until interest rates fall to a target level at which it is considered prudent to borrow externally.

MCA and PCC funds will be ring-fenced in any such arrangement to avoid the risk of cross subsidisation to ensure that transport, non-transport and policing capital financing costs are fairly apportioned between the transport levy and police council tax precept.

In addition, the MCA will continue with its strategy 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.

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

The indicators listed in this Section represent the capital expenditure plans for the MCA and PCC combined.

**Indicator 1 - Capital Expenditure Estimates**

The table below summarises the capital investment plans for the current year, and indicative estimates for the following two years.

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

<b>MCA/PCC Estimates</b>	<b>Capital Expenditure</b>	<b>2023/24 Actual £m</b>	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>
MCA		£150	£180	£213	£207
PCC		£21	£18	£20	£22
<b>Total Capital Investment</b>		<b>£171</b>	<b>£198</b>	<b>£233</b>	<b>£228</b>

**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.

<b>MCA/PCC Capital Financing Estimates</b>	<b>2023/24 Actual £m</b>	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>
MCA	£150	£180	£213	£207
PCC	£21	£18	£20	£22
<b>Total capital investment</b>	<b>£171</b>	<b>£198</b>	<b>£233</b>	<b>£228</b>
MCA	£150	£180	£213	£207
PCC	£5	£4	£0	£0
<b>Total capital funding</b>	<b>£154</b>	<b>£184</b>	<b>£213</b>	<b>£207</b>
<b>Net borrowing need for the year</b>	<b>£16</b>	<b>£14</b>	<b>£20</b>	<b>£21</b>

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

MCA/PCC Capital Financing Requirement	2023/24		2024/25		2025/26		2026/27	
	Actual Loans	Actual OLTL	Estimate Loans	Estimate OLTL	Estimate Loans	Estimate OLTL	Estimate Loans	Estimate OLTL
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Opening CFR</b>	203	10	222	10	232	10	247	9
Adjustment on integration	7							
Implementation of IFRS 16				TBD				
<b>movement in CFR</b>								
Additional borrowing requirement	16		14		20		21	
MRP	-4	0	-4	0	-4	0	-5	0
Capital receipts set aside for the repayment of debt	0		0		0		0	
Other adjustments	0		0		0		0	
<b>Closing CFR</b>	<b>222</b>	<b>10</b>	<b>232</b>	<b>10</b>	<b>247</b>	<b>9</b>	<b>264</b>	<b>9</b>

The MCA's Other Long Term Liabilities ("OLTL") represent the Doncaster Interchange PFI scheme. The PCC has no Other Long term Liabilities.

The TBD reference in 2024/25, denotes 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. These are denoted TBD as the impact is still being assessed. Once quantified, the Treasury Management Strategy will be updated.

### 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.

MCA/PCC external borrowing	2023/24		2024/25		2025/26		2026/27	
	Actual		Estimate		Estimate		Estimate	
	Loans	OLTL	Loans	OLTL	Loans	OLTL	Loans	OLTL
	£m	£m	£m	£m	£m	£m	£m	£m
Loans - start of the year	58		77	10	85	10	101	9
Ex SYPTE Debt - start of the year on integration	92							
Doncaster Interchange PFI - start of the year		10						
Implementation of IFRS 16				TBD				
Repayment of debt - scheduled	-53		-6		-5		-5	
Repayment of debt - early repayment	-20		0		0		0	
New debt	0		14		20		21	
Expected change in PFI liability		0		0		0		0
<b>Gross Debt - end of the year</b>	<b>77</b>	<b>10</b>	<b>85</b>	<b>10</b>	<b>101</b>	<b>9</b>	<b>116</b>	<b>9</b>
Capital Financing Requirement (CFR)	222	10	232	10	247	9	264	9
<b>Gross Debt in excess of / (less than) CFR</b>	<b>-145</b>	<b>0</b>	<b>-147</b>	<b>0</b>	<b>-147</b>	<b>0</b>	<b>-148</b>	<b>0</b>

The under-borrowed position at the end of 2023/24 comprises £63m in respect of the MCA and £82m in respect of the PCC. This remains stable over the following 3 years on the assumption that the PCC takes

out borrowing equal to its additional borrowing requirement in each of the years 2024/25 to 2026/27 and that the annual amount of MRP charged each year broadly matches the amount of loan repaid.

As set out in Section B, the borrowing strategy is to borrow internally or on a temporary basis for any financing and only seek medium to longer dated borrowing if absolute certainty is needed in the long-term and such borrowing is affordable, sustainable and prudent if funded at prevailing rates.

In the case of the MCA, maintaining an under-borrowed position without recourse to external borrowing is considered sustainable over the medium term, as the MCA is forecast to have core funds of at least £150m over the 3 year period to 2026/27 sufficient to cover its internal borrowing requirement. The position becomes more uncertain from 2027/28 as the under-borrowed position is to forecast to increase to £83m and the level of core funds will depend on the amount of unapplied capital grant on transition from City Region Sustainable Transport Settlement (CRSTS) 1 to CRSTS 2.

The 2024/25 PCC budget assumed reserves of £74m at the end of 2023/24 comprising a General Fund balance of £34.5m, earmarked reserves of £35.6m and an insurance provision of £4m. The earmarked reserves includes amounts set aside to meet expected legacy costs associated with civil claims against South Yorkshire Police regarding Hillsborough and Child Sexual Exploitation. The funding strategy is for these costs to be met from reserves rather than fall on the annual police council tax precept. The latest estimates indicate that legacy costs may total £86m over the period 2024/25 to 2028/29, with £56m of Special Grant receivable under the current rules, leaves a funding gap of £30m to be met from the PCC's resources, mainly reserves. The profiled use of reserves is £10.1m in 2024/25, £11.2m in 2025/26 and £8.5m in 2026/27.

As a consequence of the planned draw down of reserves, in isolation, there will not be sufficient core funds to cover the under-borrowed position of £82m, and the PCC will need to undertake borrowing within the next 12 months to meet its additional borrowing requirement in 2024/25.

However, as illustrated in Table 2 in Section E, the level of core funds for the MCA and PCC combined is sufficient to maintain an under-borrowed position for the period to 2026/27 without recourse to external borrowing if the PCC were to borrow internally from the MCA.

#### **Indicator 4 - Liability Benchmark**

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

If the existing loans debt outstanding is below the future need for loan debt, the authority will need to borrow to meet the shortfall.

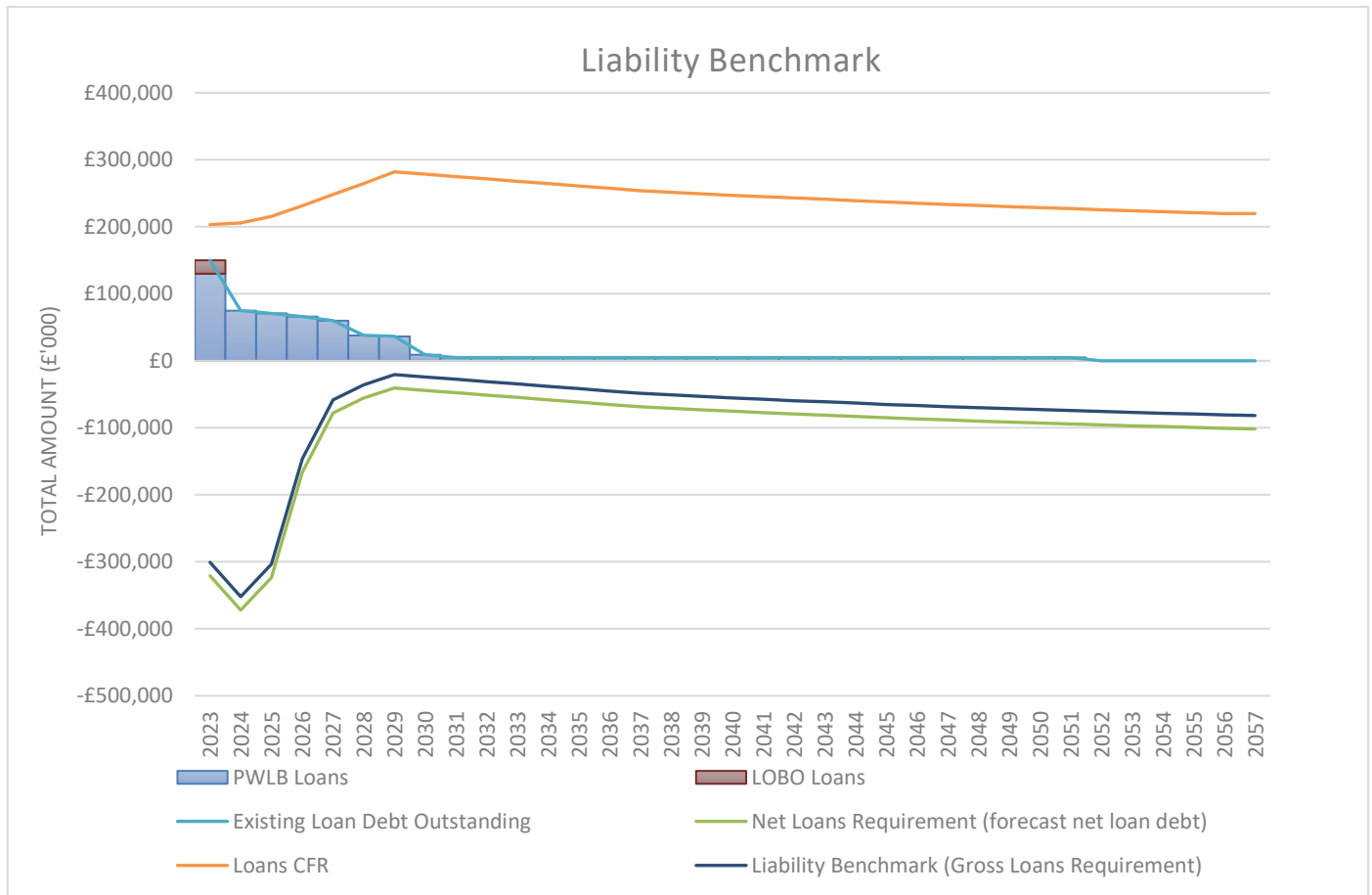
By contrast, if the existing loans debt outstanding is above the future need for loan debt, the authority will have more debt than it needs, and the excess can be invested.

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

The PCC is forecast to have a maximum additional borrowing requirement of around £68.5m in 2029 based on approved capital schemes.

However, the forecast level of core funds held by the MCA/PCC as shown in Table 2 in the Investment Strategy (Section E), shows that there are sufficient funds to meet this borrowing requirement internally without recourse to external borrowing.

This is reflected in the chart below which shows that the MCA/PCC combined will have existing loans outstanding in excess of future need for loan debt over the next 3 financial years or more, 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 - MCA/PCC	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Interest	4	4	5	5
MRP	4	4	4	5
<b>Financing Costs</b>	<b>9</b>	<b>8</b>	<b>9</b>	<b>10</b>
Transport levy	55	57	58	59
MCA - Other unrestricted income	33	21	15	15
PCC budget requirement	318	347	354	360
<b>Net Revenue Stream</b>	<b>406</b>	<b>424</b>	<b>426</b>	<b>433</b>
<b>Financing Costs/Net Revenue Stream</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>

There is a downward trend in interest payable on MCA borrowing costs due to the ongoing repayment of PWLB borrowing. This will see interest fall from £2.9m in 2023/24 to an estimated £1.9m in 2026/27.

This is offset by an upward trend in interest payable on PCC borrowing costs which are forecast to rise from £1.4m in 2023/24 to £3.3m in 2026/27 as additional borrowing is taken out to meet capital financing requirements.

MCA 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 which is forecast to fall from £10m budgeted in 2024/25 to £4m thereafter.

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 that can be borrowed for capital investment and temporary cash flow purposes. Under Section 3 of the Local Government Act 2003 this limit is agreed by the MCA/PCC 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/PCC 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	2024/25		2025/26		2026/27	
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	Loans	OLTL	Loans	OLTL	Loans	OLTL
	£m		£m		£m	
MCA	452	10	432	9	409	9
PCC	141		163		185	
Overall Debt cap - MCA/PCC	594	10	594	9	594	9
Temporary Revenue borrowing	40		40		40	
<b>Total</b>	<b>634</b>	<b>10</b>	<b>634</b>	<b>9</b>	<b>634</b>	<b>9</b>

The MCA has sought and received written confirmation from HM Treasury that the debt cap for 2024/25 is £594m.

The figures for 2025/26 to 2026/27 are indicative only and will be updated in due course.

The debt cap for 2024/25 allows for £342m of headroom over and above the maximum expected capital MCA financing requirement for the year. This allows for additional investment opportunities should they arise.

The PCC figures allow a modest amount of additional headroom above the estimated capital financing requirement for the year to allow for operational management, for example unexpected cash movements.



The £40m additional capacity for short-term temporary borrowing is likewise to allow the MCA additional headroom for this purpose.

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	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate
	£m	£m	£m
Loans	594	594	594
Less : Additional headroom built into PCC authorised Limit	-13	-15	-17
Other Long Term Liabilities	10	9	9
Temporary revenue borrowing	0	0	0
<b>Total</b>	<b>590</b>	<b>589</b>	<b>586</b>

The Operational Boundary excludes the additional headroom of £40m included in the Authorised Limit for MCA temporary revenue borrowing as it should not be required due to the access to highly liquid Money Market Funds.

Similarly, the Operational Boundary excludes the modest amount of additional headroom included in the PCC Authorised Limit to allow for unexpected cash transactions.

### 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.

MCA/PCC Maturity of borrowing:	£m	%
2024/25	6	8%
2025/26	5	6%
2026/27	5	7%
2027/28	23	30%
2028/29	2	2%
2029/30 to 2033/34	23	30%
2034/35 to 2038/39	5	6%
2039/40 to 2043/44	1	1%
2044/45 to 2048/49	2	2%
2049/50 to 2053/54	6	8%
<b>Total</b>	<b>77</b>	<b>100%</b>

The MCA/PCC will seek to minimise risk of exposure to large fixed rate sums falling due for refinancing in the future by having a reasonably even spread of maturity dates for outstanding loans, thereby avoiding the need to replace a large proportion of total borrowings in a single year.

The PCC has approved the following upper and lower limits for fixed interest rate borrowing in 2024/25:

**PCC Maturity structure of fixed interest rate borrowing:**

	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	50%
12 months to 2 years	0%	75%
2 years to 5 years	0%	80%
5 years to 10 years	0%	80%
10 years and above	25%	100%

**Debt Rescheduling**

All of the £77m of borrowing for the MCA/PCC combined is with PWLB.

The interest rates on these loans (which are all fixed rate) range from 4.25% to 5.88% in the case of the MCA and 4.05% to 5.1% in the case of the PCC with the exception of two loans of £3m in aggregate at rates of 2.35% and 2.46%.

As at early June 2024, the prevailing interest rates for early repayment of PWLB debt were generally at or below the rates being paid. The MCA/PCC would incur a premium on early repayment under these circumstances which is not cost effective and does not represent value for money.

With interest rates set to fall, it seems unlikely that opportunities to reschedule debt will arise. 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/PCC 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 security of such funds can be ensured.

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**

As set out in the original Treasury Management strategy On 22 March 2024, a new wholly owned subsidiary South Yorkshire Future Trams Ltd (SYFTL) has taken over the operations of Supertram from Stagecoach and authority delegated to the Executive Director Resources and Investment to provide a financial guarantee on behalf of SYFTL should it be required in order to secure credit from suppliers with whom SYFTL, as a new trading entity, has no prior history.

**Use of External Advisors**

Link Group have been appointed as treasury advisors to provide technical guidance and 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.

Similarly, the PCC will continue to use the City of Doncaster Council treasury service to provide day to day management of treasury activities through a service level agreement. Under the service level agreement, the PCC has access to Link Group as its external treasury management advisers.

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.

## Section D

### Minimum Revenue Provision (MRP) Policy Statement

This Policy Statement has been prepared having regard to the Revised Statutory MRP Guidance issued in 2018 and has regard to the revised Statutory MRP Guidance that will be implemented with effect from 1 April 2025.

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.

Under Regulation 27 of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003* local authorities are required to charge MRP to their revenue account in each financial year in respect of all capital expenditure financed by debt. Regulation 28 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. These comprise;

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

In addition, an authority may charge an amount greater than the statutory minimum should it wish to do so.

#### **The MCA approved 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.

The revised Statutory MRP Guidance that comes into effect on 1 April 2025 has been amended to state explicitly that capital receipts cannot be used to directly offset a prudent charge for MRP that has been properly determined in accordance with the guidance. The MCA has previously discussed with DLUHC proposals to use borrowing to accelerate delivery of the South Yorkshire Renewal Plan and to apply Gainshare capital to meet the requirement to set aside an amount to repay debt in lieu of charging revenue (the Authorised Limit and Operational Boundary provide headroom to take out additional borrowing in 2024/25 should this eventuality arise). The revised Statutory MRP Guidance is silent on this matter but DLUHC have indicated that the amendments made to the guidance in this regard are not intended to impact on existing arrangements which are considered prudent.

### **The PCC approved the following MRP statement for financial year 2024/25**

a. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

Existing practice MRP will follow the existing practice outlined in the DLUHC regulations (option one), which provides for an approximate 4% reduction in the borrowing need (CFR) each year.

b. From 1 April 2008 for all unsupported borrowing (including leases) the MRP policy from 2019/20 will be:

Asset life method MRP will be based on the estimated life of the assets, in accordance with the regulations (option three), whereby the annuity method has been adopted.

## Section E

### Investment Strategy

The MCA/PCC both apply common principles for investments.

The 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.

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

The MCA/PCC is supportive of the Principles for Responsible Investment ([www.unpri.org](http://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/PCC 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/PCC 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/PCC 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/PCC 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/PCC 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 separate limit applies to longer term investments which are invested for **longer than 365 days**

### Investment portfolio

The scale and nature of the investments held by the MCA and PCC is markedly different as illustrated in the table below:

<b>Investments by type - May 2024</b>	<b>MCA Actual £'000</b>	<b>PCC Actual £'000</b>	<b>Total Actual £'000</b>
Fixed term local authority deposits - long term	125,000	0	125,000
Fixed term local authority deposits – short term	123,000	0	123,000
Fixed term bank deposits - short term	20,000	0	20,000
Call accounts & bank accounts	20,000	13,000	33,000
Money Market Funds - Low volatility	195,706	0	195,706
<b>Total investments</b>	<b>483,706</b>	<b>13,000</b>	<b>496,706</b>

As interest rates are now forecast to have peaked with a gradual reduction forecast from 5.25% to 3%, the focus of MCA's investment strategy has been to switch to longer term investments in order to secure better returns going forward.

By contrast, the PCC is forecast to need to borrow within the next 12 months so the focus is on short term investments to provide liquidity when required. The PCC's investment strategy does not permit longer term investments.

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%.

In addition to the more traditional types of investment, the MCA 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 returns**

As set out in the table in Section B, the expected return on investments is expected to decline as interests start to fall from their current peak.

The most recent budgeted earnings rates for investments up to about three months' duration suggested by our treasury advisors for the current and subsequent financial years is as follows:

- 2024/25 – 4.70%
- 2025/26 – 3.35%
- 2026/27 – 3.10%
- 2027/28 – 3.25%
- 2028/29 – 3.25%

A prudent approach has been taken in estimating the target return for MCA financial planning purposes of 3% for 2024/25 to 2026/27. This reflects the fact that returns are 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%.

The PCC's budgeted investment earnings rates are aligned to the suggested average earnings in the table above due to the fact that the PCC's investment portfolio is short term in nature.



## Investment balances (Core Funds)

The estimated Core Funds available to the MCA/PCC combined over the period to 2027/28 is summarised in the table below

Table 2 - Core Funds and Balances

	2023/24	2024/25	2025/26	2026/27	2027/28
Core Funds - MCA/PCC	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
General Fund - revenue	40	40	39	36	26
Earmarked Reserves - revenue	148	127	79	52	45
capital receipts reserve	15	12	10	5	5
Underlying borrowing requirement	-145	-147	-147	-148	-166
Capital grant received in advance	225	248	205	157	157
Capital grant unapplied	53	41	0	0	0
Provisions	12	12	11	11	11
<b>Sub-total</b>	<b>347</b>	<b>333</b>	<b>197</b>	<b>113</b>	<b>78</b>
revenue grant received in advance	55	55	35	35	35
<b>Total</b>	<b>402</b>	<b>388</b>	<b>232</b>	<b>148</b>	<b>113</b>

Projections of the level of funds beyond 2024/25 are very much indicative at this stage.

The pinch-point is over 2026/27 to 2027/28. This is when the City Region Sustainable Transport Settlement (CRSTS) 1 programme comes to an end and CRSTS 2 is due to commence. The capital grant received in advance figure makes a prudent assumption about the pace of delivery of CRSTS 1 up to its scheduled conclusion at the end of 2026/27. However, if delivery were to accelerate more quickly than assumed, the amount of capital grant received in advance may be less than that included in the table above in the years up to and including 2026/27.

In October 2023, the government announced an additional £8.55 billion of funding available for CRSTS 2 over the 5 year period 2027/28 to 2031/32. The MCA's indicative CRSTS 2 allocation over the 5 year period is £1,455m. It is likely that the balance of capital grant received in advance will rise significantly in 2027/28 should a first annual instalment of c.£300m be received. However, this has not yet been factored in pending confirmation of the allocation and its profiling.

### Longer Term Investments of More Than 365 days

As set out above, the focus of MCA's investment strategy has been to switch to longer term investments in order to secure better returns going forward before rates start to fall.

The PCC's investment strategy does not permit longer term investments.

A review of the projected level of core funds has been undertaken since the original treasury management strategy was approved to take account of the 2023/24 outturn and Quarter 1 2024/25 budget update. This has led to an upward revision of the estimated core funds available to the

MCA for investment in longer term investments over the 3 years to 2026/27.

The revised limits on the level of long term investments of more than 365 days that should be held at the end of each financial year are now as follows after allowing for the retention of a short term liquidity allowance of £10m:

	2023/24	2024/25	2025/26	2026/27	2027/28
Investment greater than 365 days	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Maximum - end of the year	144	223	151	125	0
Existing long term investments	133	125	30	0	0
<b>Remaining Balance available to invest</b>	<b>11</b>	<b>98</b>	<b>121</b>	<b>125</b>	<b>0</b>

The existing investments in 2024/25 and 2025/26 in the table above represent long term investments held by the MCA as at May 2024.

We will continue to work actively with Sheffield City Council's treasury team throughout the remainder of the year to maintain as high a level of long term investments as possible in order to secure higher returns in subsequent financial years.

In doing so, regard will be given to holding sufficient funds to meet the PCC's additional borrowing requirement from internal borrowing until a decision is made on how this will be financed longer term.

## Security

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

CIPFA/LASAAC, the board responsible for setting the local authority Accounting Code, has 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 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 2024 using historic default rates is c. 0.012%.

This is considered an acceptable level of risk against the treasury investment portfolio at the end of 2023/24 of £417m.

## Liquidity

The MCA and PCC both maintain a liquidity allowance of up to £10m as short term liquidity to manage day to day treasury activity.

## Creditworthiness Policy

The MCA/PCC uses 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 colourcoding 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

If a counterparty is downgraded such that it no longer meets the 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 to do so.

The treasury advisors provide regular updates on the creditworthiness ratings of banks and other financial institutions which are used to monitor any changes.

### Table 4 - Lending Limits

The lending limits and time limits are designed to support diversification and thus avoid concentration of risk in proportion to the overall size of the investment portfolio.

The limits summarised in the table below represent the maximum amounts that can be invested with a single counterparty across the MCA/PCC combined and maximum duration that they can be invested for.

Included at the foot of the table, are the other investment options that may be considered at some time in the future, ie short-dated bond funds, property funds and multi-asset income funds. Limits for these options will be set according to their risk and suitability should the MCA decide to pursue these options.

	Colour (and long term rating where applicable)	Maximum sum and/or % Limit (per institution)	Time Limit
UK Government debt or equivalent including the Debt Management Office (Debt Management Account Deposit Facility), UK Government Gilts, UK Government Treasury bills, and, collateralised deposits where the collateral is UK Government debt.*	Yellow	100%	5 years
Term deposits with Banks, Building Societies or other counterparties	Purple	£30m	2 years
Term deposits with Banks, Building Societies or other counterparties	Orange	£30m	1 year
Banks – part nationalised**	Blue	£50m	1 year
Term deposits with Banks, Building Societies or other counterparties (UK Banks)	Red	£40m	6 months
Term deposits with Banks, Building Societies or other counterparties (non-UK Banks)	Red	£20m	6 months
Term deposits with Banks, Building Societies or other counterparties	Green	£10m	100 days
Banks	No colour	Not to be used	N/A
MCA's banker (Barclays) in the event of the bank being 'nocolour'	-	100 %	5 days***
PCC's banker (Lloyds) - one colour band uplift from the standard rating			
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*

## Country Limits

The MCA has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of “AA-” from Fitch (the PCC includes the UK as an approved country but applies a higher sovereign threshold of AA for other overseas countries). 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 in accordance with this policy.

<b>AAA</b>	<b>AA+</b>	<b>AA</b>	<b>AA-</b>
Australia Denmark Germany Netherlands Norway Singapore Sweden Switzerland	Canada Finland USA	Abu Dhabi (UAE) Qatar	UK Belgium France

The PCC restricts investments in overseas banks operating in sterling markets to those with a green rating in the creditworthiness service provided by our treasury advisors.

No investment will take place outside of the UK without prior approval by the MCA/PCC.

## **Credit and counterparty risk management - Specified and Non-Specified Investments**

Investments are categorised as specified and non-specified investments.

The distinction is important because additional risk assessment procedures 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 risk matrix table included in the creditworthiness policy.

## **Non-Specified Investments**

Non specified investments 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 before being authorised for use. In particular, decisions on investing longer term in local authority fixed term deposits of more than 365 days are reserved to the Executive Director Resources and Investment or those to whom he has given delegated responsibility.

The PCC has determined that no more than 30% of its investments, up to a maximum of £20m, will be held in aggregate in non-specified investment, and, that, any new non-specified counterparties must be approved by the Director of Finance (Police and Crime).

## Section F

### 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.