1st June 2020

Treasury Management Strategy 2020/21

Purpose of Report

This paper sets out the proposed Annual Treasury Management Strategy and Investment Strategy for the financial year 2020/21.

Freedom of Information & Section 12A of the Local Government Act 1972

Under the Freedom of Information Act this paper and any appendices will be made available under the Mayoral Combined Authority Publication Scheme. This scheme commits the Authority to make information about how decisions are made available to the public as part of its normal business activities.

Recommendations

Members are asked to approve:

- The annual treasury management strategy
- The annual investment strategy set out in Appendix 1 of the annual treasury management strategy and to grant delegated authority to the Group Director of Finance to develop it further by investigating options for diversification in consultation with the MCA's external advisors and Audit and Standards Committee
- The capital expenditure estimates and associated prudential indicators set out in Appendix 2 of the annual treasury management strategy
- The borrowing strategy set out in Appendix 3 of the annual treasury management strategy
- The minimum revenue provision policy set out in Appendix 4 of the annual treasury management strategy
- Grant delegated authority to the Group Director of Finance in consultation with Chief Executive to provide a financial guarantee in favour of the SCR Financial Interventions Holding company.

1. Introduction

1.1 The MCA is responsible for approving the SCR Group's annual treasury management strategy and investment strategy.

The treasury management strategy serves 5 main purposes

- Compliance with good practice and legislation;
- Effective management of the authority's cash;
- Optimising returns on investment;
- Ensure that the MCA's capital investment plans are prudent, affordable and sustainable;
- Sound borrowing decisions are taken.

The main focus of the 2020/21 treasury management strategy is on developing the investment strategy (Appendix 1 of the annual treasury management strategy). There are two principal reasons for this:

- The SCR Group has substantial funds at its disposal (c. £240m throughout 2019/20) which have the potential to grow materially with the unlocking of the devolution deal and new funding streams which will flow into the SCR as a consequence.
- The overall yield from the investment portfolio is currently augmented by returns being earned on long term investments. These are now starting to mature so the benefit of the higher yields they earn will start to diminish. The availability of core funds over the longer term and the fact that existing long term investments are starting to mature provides an opportunity to consider how the investment portfolio might be diversified into new types of longer term investment instrument.

In addition to the investment strategy, the treasury strategy also sets out the SCR Group's capital expenditure plans (Appendix 2), borrowing strategy (Appendix 3) and its minimum revenue policy for making charges to revenue for the repayment of debt (Appendix 4). Their purpose is to ensure that capital expenditure plans are prudent, affordable and sustainable. This includes setting a series of Prudential indicators which specify the parameters within which the SCR Group will operate to deliver this objective.

In view of the significant developments proposed to the investment strategy, greater support is being placed on a wider range of external professional advisors. The policy on the use of such advisors is set out within the investment strategy.

The treasury management strategy and investment strategy has been prepared in accordance with CIPFA's Code of Practice on Treasury Management in Public Services (the Treasury Code), and CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and relevant statutory guidance on investments and on the amounts to be charged to revenue for the repayment of debt.

Treasury management reporting

Further reports will be presented during the course of the year to monitor and report on compliance with the treasury management strategy. These will include a mid-year report which will provide an update on treasury activity for the first 6 months of the 2020/21 financial year and an annual report which will report actual performance against the treasury management strategy after the year end.

In addition, should the significant changes that are anticipated from unlocking the Devolution Deal and development of medium and longer term financial plans lead to a need to reconsider treasury management strategies, policies or Prudential indicators, these will be brought back to the MCA for approval before being implemented where the change is considered material.

The monitoring of treasury management performance will be undertaken by the Audit and Standards Committee which has responsibility for the effective scrutiny of Treasury Management Strategy and Policies. Audit & Standards Committee Members have recently received training in this regard to help them meet their responsibilities.

2. Proposal and justification

2.1 Investments

The investment strategy set out in Appendix 1 seeks approval to diversify the investment portfolio within the MCA's overall risk appetite and striking an appropriate balance between security, liquidity and yield.
It proposes to make best use of longer term investments where core funds are available for more than one year whilst ensuring there is sufficient liquidity to meet liabilities as they fall due both in the longer term and on a day to day basis.

At this stage the options to invest in new forms of investment instrument are still being investigated. Delegated authority is therefore sought for the Group Director of Finance to undertake further work with external advisors and the Audit & Standards Committee to develop the strategy further. It is for this reason that some of the Lending Limits in the Investment strategy are highlighted in yellow to indicate that they have yet to be determined.

The investment strategy and target return for future years does not reflect the sudden announcement by the Bank of England on 11 March of an emergency 0.5% reduction in the base rate from 0.75% to 0.25% to counter the 'economic shock' of the coronavirus outbreak. This may lead to a need to downgrade target returns.

2.2 Capital and borrowing

The Capital expenditure estimates set out in Appendix 2 are based on known commitments at this point in time and where grant funding streams have already been secured or there is reasonable assurance that they will be, for example, Transforming Cities Fund Tranche 2. These will be updated in due course as the SCR Group's medium term financial plans are developed once there is a clarity over future funding streams.

The borrowing strategy set out in Appendix 3 remains unchanged from previous years with the strategy being to meet any borrowing need internally from investments rather than to borrow externally. The SCR Group's capital investment plans over the next three years have only a modest borrowing need. There is no realistic prospect of being able to reschedule debt so the costs associated with servicing the debt, which is mostly fixed rate, are relatively straightforward to forecast over the medium term and have been built into the SCR Group's financial plans with a reasonable degree of accuracy.

The policy for charging the revenue budget to make provision for the repayment of debt set out in Appendix 4 is unchanged from last year and compliant with revised statutory guidance which came into effect in 2019/20. The profile of estimated charges that arises from the adoption of this policy has been factored into the SCR Group's 2020/21 annual budget and future medium term financial plans.

2.3 Financial guarantee

As set out in Appendix 3, approval is sought to give the Group Director of Finance delegated authority to lodge a financial guarantee in favour of an SCR Group wholly owned subsidiary, the SCR Financial Interventions Holding company, with Companies House. The purpose of doing so is to exempt the company from audit and thereby make a cost saving.

3. Consideration of alternative approaches

3.1 The treasury management strategies, policies and associated prudential indicators set out in this report provide for the prudent and effective management of the SCR Group's debt and investments in accordance with CIPFA's Code of Practice and statutory guidance. Therefore there is no alternative.

4. Implications

4.1 Financial

The revenue implications of servicing the MCA's debt portfolio have been accounted for in setting the 2020/21 transport levy and the longer-term financial projections approved by the MCA on 27 January 2020

The expected returns relating to LEP activity are included in the Core LEP budget for 2020/21 which is being presented at this meeting for MCA approval.

4.2 Legal

None.

4.3 Risk Management

The management of risk in relation to the investment portfolio is defined by the risk appetite set out in the investment Strategy in Appendix 1.

The management of risk in relation to capital investment, borrowing and liquidity, are defined by the capital expenditure plans and borrowing strategy in Appendices 2 and 3 and associated Prudential Indicators.

4.4 Equality, Diversity and Social Inclusion

There are no equality, diversity or social inclusion implications directly related to this strategy.

5. Communications

5.1 None.

6. Appendices/Annexes

6.1 Appendix 1 – Investment Strategy
Appendix 2 - Capital expenditure estimates and performance indicators
Appendix 3 – Borrowing strategy
Appendix 4 - MRP policy

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Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ