

**Audit & Standards Committee**

**18<sup>th</sup> March 2021**

**Draft Treasury Management Strategy**

**Purpose**

This report presents the draft Treasury Management Strategy for financial year 2021/22.

**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**

The Audit and Standards Committee are asked to note the Treasury Management Strategy.

**1. Introduction**

- 1.1** Regulation and the MCA's Constitution require that the MCA approve the adoption of an Annual Treasury Management Strategy (TMS). The MCA will consider the Strategy at their meeting on 22<sup>nd</sup> March. Ahead of this, the Audit and Standards Committee are asked to note the Strategy.

**2. Proposal and justification**

- 2.1** The TMS sets the parameters within which the MCA will deliver its cash and debt management activities. The proposed TMS is appended to this report and includes an Investment Strategy and Prudential Indicators. Progress against this proposed strategy will be reported to the MCA at the mid-year point, and again at outturn.
- 2.2** In common with most other public sector bodies, the MCA's approach to its Investment Strategy is governed by a hierarchy of considerations centred on protecting public funding. This hierarchy places a greater emphasis on the security and the liquidity of the MCA's investments than it does on the yield generated from them.
- 2.2** This relatively conservative approach limits the MCA's exposure to losses arising from counterparty default, but also limits the returns that can be generated from investing cash resource until it is required.
- 2.3** Noting the significant financial uncertainties prevailing in financial markets, the TMS proposes to maintain the current stance, limiting investments to the safest of counterparties.

- 2.4** With interest-rates forecast to remain at record lows for some time, it is likely that revenue generated from the MCA's investment activity will remain lower than previously forecast. The impact of this is felt in the Group's proposed revenue budgets, with depressed income returns impacting upon the scope of activity that can be funded.
- 2.5** The TMS also notes the intention to retire a further £8m of borrowing during the year, following the £53m repaid this year. The repayment of this borrowing reduces the cost of debt by c. £1.20m.
- 2.6** The ongoing retirement of legacy debt will reduce the overall burden of financing costs on the revenue budget and the transport levy. This trend is matched to the release of reserves from the Levy Reduction Reserve, meaning that when that reserve is exhausted the cost of debt will have fallen so significantly that the reserve subsidy can be withdrawn on a more sustainable basis.
- 2.7** Of note in the new financial year is the expectation that the MCA will accrue new powers to borrow for its non-local transport authority activity. The receipt of these powers is contingent on Parliament passing new legislation. It is expected that that process will begin in the summer, concluding in the Autumn.
- 2.7** Reflecting this, it should be noted that the TMS contains a proposal to increase the operational boundary and the authorised limit on debt the MCA can hold. Whilst at this stage there are no plans to undertake borrowing for new non-LTA activity in the new year, increasing the limits at this stage provides the MCA with the necessary headroom to initiate a programme of borrowing funded activity during the year should the need or opportunity arise. All investment decisions will be subject to the MCA's revised Assurance Framework.

### **3. Consideration of alternative approaches**

- 3.1** This Strategy has been informed by the Group wide Business Planning processes.

### **4. Implications**

#### **4.1 Financial**

This is a financial report, the details of which are presented in the main body of the report and in the appendices.

#### **4.2 Legal**

The MCA is obliged to set a Treasury Management Strategy.

#### **4.3 Risk Management**

The Treasury Management Strategy will help mitigate risk across the Group.

#### **4.4 Equality, Diversity and Social Inclusion**

None

### **5. Communications**

- 5.1** None

### **6. Appendices/Annexes**

- 6.1** Appendix 1 – Treasury Management Strategy