Audit, Standards and Risk Committee

Wednesday, 13 December 2023

Mid-Year Treasury Management Report 2023/24

Is the paper exempt from the press and public?	No
Reason why exempt:	Not applicable
Purpose of this report:	Monitoring/Assurance
Is this a Key Decision?	No
Has it been included on the Forward Plan of Key Decisions?	Not a Key Decision

Director Approving Submission of the Report:
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Executive Summary

The following report sets out the Authority's performance as at Budget Revision 2 against the targets set in the 2023/24 treasury management strategy approved by the MCA Board in March 2023.

What does this mean for businesses, people and places in South Yorkshire?

The treasury management function serves to ensure that the Authority's borrowings, investments and cashflows, including banking, are adequately planned and the associated risks effectively controlled commensurate with the Authority's low-risk appetite. It also serves to show how the Authority's capital investment plans are funded and that these plans are affordable. It therefore forms an integral part of the budget, which provides the resource to deliver upon South Yorkshire's aspirations.

Recommendations

The Committee is asked to note the report, which was reviewed and approved by the MCA Board in November 2023

Consideration by any other Board, Committee, Assurance or Advisory Panel

The mid year treasury management update attached as Appendix A was reviewed and approved by the MCA Board as part of Budget Revision 2 at its meeting on 14th November 2023.

1. Background

1.1 CIPFA guidance requires that quarterly monitoring is undertaken of the Authority's treasury activities against the indicators and targets set out at the start of the year in the annual Treasury Management strategy. This paper provides an update as at Budget Revision 2 focussing on the key issues that need to be brought to Members attention.

2. Key Issues

2.1 There are three key issues to draw to Members attention regarding treasury activity for the first half of 2023/24:

- Investment performance – the latest forecast treasury investment income of £17m is substantially greater than the budget. This is due to a combination of high investment balances and rises in interest rates – see para 2.2 below for further detail. The windfall this has generated has provided an opportunity to invest £4m to help protect bus services and concessionary fares over the 2 years 2023/24 and 2024/25 £3m of which has been set aside in a Transport Innovation Fund; to set aside £2m to meet costs associated with integration with the PCC and to meet the costs of the early mayoral election that will take place as a consequence; £4m set aside in the Capability and Capacity reserve to invest in core organisational capacity; and, £4m to be held for investment in unfunded MCA priorities,
- Early repayment of borrowing – the high interest environment has provided an opportunity to repay early £20m of market loans (LOBOs) ahead of schedule, generating a material net ongoing saving
- Level of under-borrowing – this is in part linked to the early repayment referred to above

2.2 As shown Table 1 of Appendix A, investment balances have remained high throughout the first six months to September 2023 with the average rate of return increasing steadily to over 4% by the end of September. As illustrated in the table below, this trend has continued in October with investment balances rising to £488m and the average return to 4.48%. The general consensus is that Bank of England base rates may now have peaked so the investment strategy is to lock in the high returns by taking out longer term investments of up to 3 years up to the maximum permissible under the current investment strategy. Table 3 of Appendix A shows that there remained some headroom to take out additional long-term investments as at the end of September which we are in the process of taking up. A further review of the likely level of investments and returns for the remainder of the current year and forthcoming year will be undertaken at Budget Revision 3 and in formulating the 2024/25 treasury management strategy. This will be brought back to Members of the Committee for consideration at its next meeting.

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs WAM	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	75.45%	£368,791,000	32.21%	£118,791,000	24.30%	4.25%	255	552	376	814
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	16.37%	£80,000,000	25.00%	£20,000,000	4.09%	5.09%	59	161	47	183
Green	8.18%	£40,000,000	50.00%	£20,000,000	4.09%	5.44%	74	139	52	183
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£488,791,000**	**32.49%**	**£158,791,000**	**32.49%**	**4.48%**	**208**	**454**	**297**	**661**

2.3 Historically, under the low interest rate environment that has existed since the global financial crisis in 2008, the cost of repaying debt early has been prohibitively high. However, as the base rate has risen to 5.25% it has made early repayment much more economic as the rate is now comparable to the rates payable on some of the MCA's loans portfolio. A cost benefit analysis conducted in August 2023 identified an opportunity to repay £20m of market loans (LOBOs) early at a modest premium of £2.8m the cost of which is being spread over the 30-year term remaining on the loans at an annual cost of c. £100k p.a. Early repayment will generate annual interest savings of £945k p.a and eliminate the risk that interest rates on these loans might increase in the future over the remaining 30 year term of these loans should they be called thus generating a substantial annual saving going forward.

2.4 The level of external borrowing is monitored against the underlying need to borrow (Capital Financing Requirement) to assess the extent to which an authority is under- or over-borrowed. Historically, because of the maturity profile of the debt, very little external borrowing was repaid in the formative years following the loans being taken out. As a consequence, the level of debt of c. £186m exceeded the underlying need to borrow and the MCA Group was therefore in an over-borrowed position. However, since 2020/21, significant amounts of debt have been repaid as it starts to fall due with £50m scheduled for repayment in 2023/24. The £50m scheduled repayment has been supplemented by the early repayment of £20m of market loans as per para 2.3 above. As a consequence, as illustrated in Table 6 of Appendix A, there is a forecast level of under-borrowing of £62m at the end of 2023/24. The level of under-borrowing thereafter is forecast to remain broadly constant over the three years to 2026/27 but in 2027/28 is forecast to increase to £80m due to a further £22m of debt being scheduled for repayment. At present, this position is considered sustainable without the need for external borrowing due to high levels of reserves and unapplied capital grant being held by the MCA. There is therefore no need for any action in the short to medium term, but the position will be kept under review as cashflows can be forecast with greater accuracy on the run up towards 2027/28.

3. Consultation on Proposal

3.1 Not applicable – this report is for noting only.

4. Timetable and Accountability for Implementing this Decision

4.1 Not applicable – this report was approved by the MCA Board on 14 November 2023

5. Financial and Procurement Implications and Advice

5.1 The financial implications are explained in the body of this report and in Appendix A attached.

6. Legal Implications and Advice

6.1 There are no legal implications related to this report.

7. Human Resources Implications and Advice

7.1 There are no human resources implications related to this report.

8. Equality and Diversity Implications and Advice

8.1 There are no equality and diversity implications related to this report.

9. Climate Change Implications and Advice

9.1 There are no climate change implications related to this report.

10. Information and Communication Technology Implications and Advice

10.1 There are no information and communication technology implications related to this report.

11. Communications and Marketing Implications and Advice

11.1 There are no communications or marketing implications related to this report.

List of Appendices Included:

A Treasury Management Review – Budget Revision 2

Background Papers

Treasury Management Strategy 2023/24