

Audit, Standards and Risk Committee

Wednesday, 20 March 2024

Treasury Management Strategy 2024/25

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?	No

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Executive Summary

This paper provides an update to the Committee on the development of the 2024/25 Treasury Management Strategy for SYMCA. The Strategy appended is in respect of the MCA only and does not, at this stage, take account of the impending integration with the OPCC in May 2024. A revised Strategy incorporating the OPCC will be brought back in due course once integration has been formally approved by Parliament.

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

The MCA's treasury management strategy is an integral part of its budget, which provides the resource to deliver upon South Yorkshire's aspirations. The developing business plans and accompanying budgets will determine how, where, and to what level the MCA invests in the region in the coming years and will set out how that investment is to be funded.

Recommendations

The Committee is asked to:

- Endorse the 2024/25 Treasury Management Strategy;
- Endorse the borrowing strategy set out in Section A of Appendix 1;
- Endorse the capital expenditure estimates and associated prudential indicators set out in Section B of Appendix 1;
- Endorse the minimum revenue provision policy set out in Section C of Appendix 1;
- Endorse the annual investment strategy set out in Section D of Appendix 1;
- Note that HM Treasury have agreed a debt cap for 2024/25 which includes the estimated OPCC debt that will be inherited on integration;
- Note the Executive Director of Resources and Investment's intention to make use of capital flexibilities in accordance with the strategy outlined in Section E of Appendix 1 where he considers it prudent to do so; and
- Note the Executive Director of Resources and Investment's intention in consultation with Chief Executive to seek delegated authority to provide a financial guarantee in favour of SYFTL

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

Mayoral Combined Authority Board

12 March 2024

1. Background

- 1.1 The 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 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 organised 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.

2. Key Issues

- 2.1 In common with constituent member authorities, regulation and the MCA's Constitution require that the MCA approve the adoption of an Annual Treasury Management Strategy (TMS) which must comply with the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.
- 2.2 New versions of CIPFA's Prudential Code and Treasury Management Code came into effect in 2023/24, the main purpose of which was strengthen accountability and tighten controls over commercial investments. These included: -

- New performance indicators to demonstrate the proportion of speculative investments in commercial properties;
- A new liability benchmark to outline the financing risk management of the capital financing requirement;
- A new requirement to report on the progress on performance indicators on a quarterly basis;
- A specific requirement to re-assess training provision for Officers and Members to ensure it is appropriate to the role carried out;
- The need to address environmental, social and governance (ESG) issues within the Authority's treasury management policies and practices.

In response to these new requirements:

- Quarterly reporting of performance against prudential and treasury indicators was introduced in 2023/24, and
- A training session was run for members of ASRC in February 2024 to assist in them understanding and discharging their responsibilities

- 2.3 The borrowing strategy remains as in previous years to repay debt as it falls due and to meet any underlying borrowing requirement internally from cash backed reserves and balances (in the expectation that the cost of new borrowing has now peaked and will start to fall making borrowing more affordable in the future should the need arise). This strategy has left the MCA in an under-borrowed position of £63m over the 3 years to 2026/27. This is considered sustainable due to the high level of reserves and balances the MCA is expected to retain over this period.
- 2.4 Notwithstanding para 2.3, officers have sought and agreed with HM Treasury a debt cap of c.£594m for 2024/25. This provides headroom of £348m for the MCA to accelerate capital investment from the South Yorkshire Renewal Fund should the opportunity arise. The borrowing limits in the form of the operational boundary and authorised limit have been set with this in mind. Officers would consult with the Audit Standards & Risk Committee in the event that officers wished to take up this headroom.
- 2.5 The MCA's approach to its Investment Strategy is determined by a hierarchy of considerations designed to protect the public purse known as "SLY". This hierarchy places greatest priority on security ("S") to minimise the risk of default, liquidity ("L") to ensure that cash is available when required, and, then yield ("Y") which seeks to optimise returns having regard to security and liquidity and the MCA's risk appetite.
- 2.6 This approach has resulted in a good return on investments in 2023/24 against a low risk rating. The average return on the 10 months to January 2024 was 4.2% with the average risk rating being 1.5 on a range of 1 to 7.
- 2.7 The indications are that interest rates have now peaked and are expected to start to fall back in the second half of 2024 and over 2025 to a baseline of 3%. Returns on investments are therefore similarly expected to fall. The investment strategy is therefore now to lock in higher returns in longer term investments as far as possible in order to secure higher returns in future years.

2.8 The MCA has maintained a high level of balances in 2023/24 with an average treasury investment portfolio of £458m for the 10 months to January 2024. These balances together with much better returns mean that treasury investment income is expected to generate £20m in 2023/24. The average level of balances is expected to fall in 2024/25 as capital delivery accelerates and returns are expected to reduce as interest rates fall. Nevertheless, treasury investment income is still budgeted to generate £10m in 2024/25.

2.9 The additional treasury investment income generated is playing a crucial role in meeting cost pressures associated with transport and enabling monies to be set aside to meet identified risks associated with bus franchising, OPCC integration, organisational capacity and capability, and mayoral priorities.

3. Options Considered and Recommended Proposal

3.1 The requirement to produce a Treasury Management Strategy is a statutory requirement.

4. Consultation on Proposal

4.1 N/A

5. Timetable and Accountability for Implementing this Decision

5.1 The Treasury Management Strategy must be approved by the MCA Board before the forthcoming financial year.

6. Financial and Procurement Implications and Advice

6.1 The financial implications are clearly set out in the main body of this report as well as in Appendix 1.

7. Legal Implications and Advice

7.1 In the opinion of the Section 73 Officer, the Treasury Management Strategy is fully compliant with all relevant legislation.

8. Human Resources Implications and Advice

8.1 N/A

9. Equality and Diversity Implications and Advice

9.1 N/A

10. Climate Change Implications and Advice

10.1 N/A

11. Information and Communication Technology Implications and Advice

11.1 N/A

12. Communications and Marketing Implications and Advice

12.1 The key principles underpinning this Treasury Management Strategy have been checked by the MCA's external treasury management advisers.

List of Appendices Included:

A 2024/25 Treasury Management Strategy

Background Papers

N/A