SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	**Treasury Management Strategy Statement 2025/26**	**Status**	For Publication
Report to	Authority	**Date**	13 February 2025
Report of	Chief Finance Officer		
Equality Impact Assessment	Not Required	Attached	N/a
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1 Purpose of the Report

1.1 To comply with: the Local Government Act 2003 and supporting regulations, CIPFA's *Treasury Management in the Public Services: Code of Practice 2021 Edition*, and *Prudential Code for Capital Finance in Local Authorities 2021 Edition* and the Ministry for Housing, Communities and Local Government's (MHCLG) *Statutory Guidance on Local Government Investments 3rd Edition (2018)*.

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2 Recommendations

2.1 Members are recommended to:

a. **Approve the 2025/26 Treasury Management and Annual Investment Strategy, and the treasury & prudential indicators set out in this report;**

b. **Approve the Treasury Management Policy Statement attached at Appendix B;**

c. **Approve the Treasury Management Practices attached at Appendix C; and**

d. **Approve the Minimum Revenue Provision statement as set out in this report.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

The Treasury Management Strategy sets out the parameters in which the cash balance of the Fund will be managed with the aim to achieve optimum return commensurate with proper levels of security and liquidity as the key priorities. By producing this report, the Authority ensures compliance with the relevant legislation, CIPFA Codes of Practice and statutory guidance.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report contribute to the management of the risk around imbalance in cash flows. Aside from this, they have no direct implications for the other identified risks outlined in the Corporate Risk Register but robust risk management is central to the development and implementation of the treasury management strategy.

5 Background and Options

5.1 Treasury management is the management of an Authority's cash flows, borrowing and investments, and the associated risks.

5.2 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to "have regard to" the following guidance:

a. The CIPFA Prudential Code of Practice (2021);
b. The CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes (2021);
c. MHCLG Statutory Guidance on Local Authority Investments (2018); and
d. MHCLG Statutory Guidance on Minimum Revenue Provision (2018)

5.3 This Authority's sole purpose is as administering authority for the South Yorkshire Pension Fund and therefore all of the expenditure of the Authority (save for the residual liabilities of the former SYCC, met by a levy on the four district Councils) is on behalf of the Fund and is recharged to or financed by the Fund. Consequently, not all of the objectives and requirements of the Prudential Code (e.g., in respect of borrowing and capital expenditure and financing) are directly applicable to the Authority.

5.4 However, the Authority has regard to all of the relevant guidance as required and sets out in this annual strategy all of the appropriate objectives, indicators and policy statements as applied to the operating context of the Authority.

5.5 The CIPFA TM Code adopts the following as its definition of treasury management activities:

"The management of the organisation's borrowing, investments and cash flows, 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".

5.6 The above definition is intended to apply to public service organisations. In our context as an administering authority for the SY Pension Fund, it is applied to our management of the cash balance of the Fund and the management of the Authority's operational cash flows (i.e. payment of benefits, receipt of contributions, payments to suppliers, etc.). Whereas the management of the Pension Fund itself is separately governed by the Investment Strategy in accordance with extant regulations.

Reporting Requirements

5.7 The Authority will receive reports on its Treasury Management activities including, as a minimum, an annual strategy for the forthcoming year (this report), an annual report after year end, and interim updates as part of the quarterly corporate performance reports (rather than the minimum six-monthly report required by the Code).

5.8 This annual strategy report is forward looking and includes:

a. the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators;
b. the Treasury Management Policy Statement, at Appendix B;
c. the Treasury Management Practices, at Appendix C;
d. an Investment Strategy, (the parameters on how the treasury management investments are to be managed); and
e. To the extent that they apply in this Authority, capital plans, prudential indicators and minimum revenue provision policy statement.

5.9 The responsibility for the implementation and regular monitoring of its treasury management policies and practices remains with the full Authority, and responsibility for the execution and administration of treasury management decisions is delegated to the Authority's Section 73 Officer (the Chief Finance Officer), who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management. In accordance with the Authority's financial regulations, responsibility for the day-to-day application of the strategy is delegated to the Head of Finance and Performance, who is the Deputy S.73 Officer. Both officers are professionally qualified CIPFA members.

Training

5.10 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training relevant to their needs and responsibilities. At this Authority, Members receive an annual induction which includes coverage of treasury management issues and have undertaken a programme of quarterly training seminars during the year with an emphasis on investments and the management of risk.

5.11 Officers involved in treasury management have their training needs regularly reviewed as part of the appraisal and review process. Officers have attended external training courses on "Strategic Treasury Issues" and "Introduction to Treasury Management Activity" through our advisers MUFG Corporate Markets Treasury Limited (previously known as Link) and additionally CIPFA training and workshops.

Use of External Service Providers

5.12 The Authority uses MUFG Corporate Markets Treasury Limited as its external treasury management advisers.

5.13 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

5.14 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

5.15 The Authority also uses Broker services from the following providers to assist in placing deals and deposits with banks and with local authorities as required:

a. City Deposits
b. BGC Partners
c. Imperial Treasury Services

d. MUFG Pension and Market Services

Annual Investment Strategy

5.16 The Authority's strategy in relation to investments of the Fund's cash balances has the objective to invest surplus cash prudently whilst managing risk effectively. The Authority's priorities in this respect are, in order of importance:

a. The security of capital; and
b. The liquidity of its investments.

5.17 The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

5.18 The Authority has defined the list of approved investment instruments in the Treasury Management Policy Statement, Appendix B.

Risk Assessment and Credit Ratings

5.19 Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

a. No new investments will be made;
b. Any existing investments that can be recalled or sold at no cost will be; and
c. Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.20 The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above investment criteria.

5.21 A summary of the treasury investments held at 31 December 2024 is attached in Appendix A to this report.

Treasury and Prudential Indicators

5.22 The CIPFA Treasury Management and Prudential Codes require local authorities to set and monitor against specified indicators for prudence and sustainability. The indicators specified relate to capital expenditure and financing, external debt and affordability. The majority of these are not directly relevant in the Authority's context.

5.23 <u>Capital Expenditure</u>

5.24 Capital Expenditure is that which is incurred on assets that provide service potential for more than one year such as buildings, equipment and IT software. The Authority incurs very limited capital expenditure, and this will always be on behalf of the Fund and financed by the Fund.

5.25 It is estimated that during the forthcoming financial year, capital expenditure will be £135,000.

5.26 <u>Capital Financing Requirement</u>

5.27 The capital financing requirement (CFR) reflects an authority's underlying need to finance capital expenditure by borrowing or other long term liability arrangements.

5.28 The Authority has a CFR of Nil. Capital expenditure is incurred on behalf of the Fund and is financed by the Fund so there has been no underlying need to borrow. The estimated CFR for the next three-year period (2025/26 to 2027/28) is Nil. Based on current plans, any capital expenditure to be undertaken in this period will be fully financed in the year in which it is incurred from available reserves as outlined above.

5.29 External Debt

5.30 For the reasons outlined above, the Authority has no requirement to undertake external borrowing in its own right under the powers granted in the Local Government Act 2003.

5.31 Therefore the indicators for gross external debt and the capital financing requirement and actual external debt are not applicable.

5.32 Whilst there is no expectation of any external borrowing requirement, the Authority nevertheless sets and keeps under review the Authorised Limit and Operational Boundary indicators as required by the Prudential Code.

5.33 Both the authorised limit for its gross external debt and the operational boundary should be consistent with the Authority's plans for capital expenditure, financing and treasury management activities.

5.34 The limits for the Authority are therefore set as follows.

	2025/26	**2026/27**	**2027/28**
Authorised Limit	£750,000	£750,000	£750,000
Operational Boundary	£500,000	£500,000	£500,000

5.35 Affordability

5.36 The Prudential Code sets out the need for local authorities to ensure that the revenue implications of capital finance, including financing costs, are properly taken into account and in assessing affordability, authorities should consider the council tax implications of capital, borrowing and investment decisions. As all expenditure of this Authority is on behalf of and recharged to the Fund, there are no direct implications for taxpayers. However, we do have a responsibility to manage the resources for which we are responsible in such a way that our expenditure does not negatively impact on the overall performance of the Pension Fund. Therefore, affordability is a key consideration when making decisions on capital expenditure and financing.

5.37 The indicator of the ratio of financing costs to net revenue stream is not applicable as there are no financing costs expected for the Authority in the forthcoming period and up to 2027/28.

Minimum Revenue Provision (MRP) Statement

5.38 The Authority is required to have regard to the statutory guidance on MRP issued by the Ministry for Housing, Communities and Local Government's (MHCLG). MRP is a provision for the repayment of debt based on paying off the accumulated capital financing requirement through an annual charge to the revenue account. The statutory guidance requires that authorities make an MRP charge that is deemed to be prudent and to have their policy on MRP approved by the equivalent of Full Council in advance of each year.

5.39 There is no requirement to charge MRP where the capital financing requirement (CFR) is nil or negative at the end of the preceding financial year. For this Authority, a nil MRP charge is made because the CFR is nil.

5.40 There is no expectation currently that there will be any CFR generated in the next three years because, as outlined above, it is planned that any capital expenditure will be fully financed from reserves. Therefore, it is anticipated that there will be no MRP charges required in the next three years.

5.41 Nevertheless, the Authority is required to set out its policy on MRP. Therefore, should the capital plans of the Authority change and lead to a CFR, the policy for the MRP charge will be to apply the 'Asset Life Method – Equal Instalments' set out as Option 3 in the MHCLG Statutory Guidance. Using this method, MRP is calculated based on the estimated useful life of the assets created. This provides for a reduction in the borrowing needs over approximately the useful life of the asset.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	As outlined in the report. The strategy is to seek the optimum return consistent with prioritising security & liquidity.
Human Resources	None apparent.
ICT	None apparent.
Legal	This report ensures compliance with the Local Government Act 2003 and supporting regulations.
Procurement	None apparent.

Gillian Taberner

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Background Papers	
Document	**Place of Inspection**
None	