AGENDA ITEM 5

REPORT TO THE TEES VALLEY
COMBINED AUTHORITY CABINET

26th JANUARY 2024

REPORT OF GROUP DIRECTOR OF FINANCE & RESOURCES

TREASURY MANAGEMENT STRATEGY 2024/25

SUMMARY

This report presents the Authority's Treasury Management, Capital and Investment Strategies for the financial year 2024/25. The Capital Strategy incorporates within it the Minimum Revenue Provision Policy.

This report reflects a review of the Treasury Management Strategy taking account of the latest 2024/25 budget and Investment Plan report and the implementation of two new Mayoral Development Corporations for Hartlepool and Middlesbrough ("MDCs").

The strategy also takes into account discussions with the five Tees Valley Local Authorities regarding potential borrowing requirements for future strategic economic regeneration projects that may partner with TVCA in terms of the financing solutions. This update for potential strategic economic regeneration projects is for projects not yet included in the current investment plan however it is felt prudent to ensure Treasury Management limits and thresholds are appropriately future-proofed over the short to medium-term.

Any business cases and/or business plans associated with future strategic economic regeneration projects requiring debt finance will be agreed in accordance with key considerations form part of this Treasury Management Strategy.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet approves: -

(1) the Treasury Management, Investment and Capital Strategies for 2024/25;
(2) the Revised Treasury Management limits incorporating potential future borrowing requirements for strategic economic regeneration projects for both Hartlepool Development Corporation (HDC) and Middlesbrough Development Corporation (MDC) (£75m each) and for the other three Tees Valley Local Authorities (£75m each) representing a total facility of £375m.
(3) the approach to financing for Tees Valley Local Authorities, Middlesbrough Development Corporation, Hartlepool Development Corporation and South Tees Development Corporation strategic economic regeneration projects as set out at Appendix 4;

(4) the delegation of authority to TVCA statutory officers to conduct the appropriate due diligence procedures and processes and make the final TVCA investment decisions in terms of financing the strategic economic regeneration projects.

It is recommended that the Combined Authority Cabinet also notes the following as set out in Appendix 4: -

(1) the TVCA Group borrowing and Investment position;
(2) the TVCA Treasury Management, Capital and Investment strategy position;
(3) the respective roles of TVCA, Tees Valley Local Authorities, MDC, HDC and STDC the Group Treasury Management arrangements going forward set out at Appendix 4;
(4) the risks and associated risk management plans, controls and processes that will be operating to ensure that the Authority is securing value for money in the provision of appropriate finance solutions across Tees Valley Local Authorities, HDC, MDC and STDC to achieve their objectives whilst safeguarding public funds.

DETAIL

1. The Chartered Institute of Public Finance and Accountancy Treasury Management Code was updated in 2021. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2. The code defines Treasury Management as, the management of the organisations borrowing, investments and cash flows, banking, money market and its capital market transactions. The effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks. This definition is intended to apply to all public service organisations in their use of capital and project financings, borrowings and all investments.

3. To meet with these requirements the following three strategies have been produced:-

    i. Treasury Management Strategy (Appendix 1) - the management of the Authority's cash flows, borrowing, investments, and the associated risks.
    ii. Capital Strategy (Appendix 2) - a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the functions of the Authority. Including an overview of how associated risk is managed and the implications for future financial sustainability.
    iii. Investment Strategy (Appendix 3) – investments held by the Authority that are not managed as part of normal treasury management processes.

    Financing requirements in respect of future strategic economic regeneration projects proposed by Tees Valley Local Authority/MDCs for their respective projects are proposed to follow the systems/processes set out at Appendix 4.

4. The proposals set out in this paper are for facilities for the Hartlepool and Middlesbrough local authority areas to be available to the HDC and MDC respectively. The other three local authority areas (Stockton/Darlington/Redcar

and Cleveland) will have access to the Tees Valley Local Authority facility. All areas will have a facility of £75m each through these arrangements totalling £375m of facilities. The detail regarding drawdown of these facilities will be dependent on the review of individual project requests and business cases/plans for investment approved and agreed by either Local Authority Cabinet or Development Corporation Board meetings respectively.

5. The underpinning Treasury Management Practices adopted to implement the Treasury Management Strategies have been revised this year to incorporate changes to CIPFA's Code of Practice for Treasury Management in Public Services and are elsewhere on this agenda for approval.

FINANCIAL IMPLICATIONS

1. The financial implications of this report are summarised as: -
    a. 2024-25 Treasury Management Strategy approval – This recommendation is to approve the annual strategy and associated strategies that underpin its delivery. The main changes are to limits to account for strategic economic regeneration projects (see below).
    b. Strategic Economic Regeneration Projects – Tees Valley Local Authorities and MDC and HDC project proposals – The financial implication for these proposals are provided below with full detail provided at Appendix 4.

<u>Investment Plan</u>

2. TVCA approved the creation of both MDC and HDC at Cabinet on 22 July 2022. The TVCA Cabinet approved £10m for each Development Corporation from within the Tees Valley Investment Plan.

<u>Commercial Projects outside the Investment Plan</u>

3. TVCA makes investments to assist in delivering the Strategic Economic Plan, including making loans to the special purpose vehicles, Local Authorities and local businesses. TVCA Cabinet has previously approved the use of their borrowing powers to support the delivery of the STDC Business Case approved by Government up to a value of £350m.

4. Decisions on such investments will be considered by TVCA statutory officers. The Section 73 officer is responsible for ensuring that adequate due diligence is carried out before investment is made. The following factors will be taken into consideration (not exhaustive as there may be some project specific factors to take into account): -

- Loan to value ratio (security)
- Debt service cover ratio (affordability)
- Financing costs as % revenue (affordability)
- Debt yield level (sustainability)

- Treasury Management limits and boundaries (prudence)
- Step-in rights
- Exit strategy

5. Both MDC and HDC have Business Cases will be signed off by their respective Board meetings. Any Tees Valley Local Authority equivalent business cases/plans will be expected to be signed off by their respective Cabinets prior to submission to TVCA statutory officers for consideration of financing requirements.

6. Any MDC or HDC commercial investment decisions will be considered on their own respective merits in terms of risk and reward in line with each Development Corporation Masterplan and associated risk framework.

7. Tees Valley Local Authority strategic regeneration projects that are commercial proposals outside the investment plan will consider the business plans, risks/opportunities associated with the investment and the type and level of finance required to deliver the proposals as part of TVCA s73 officer Final Investment Decision(s) including any debt finance requested. Any investment decision will be required to be a joint funding arrangement between the relevant Local Authority and TVCA.

8. For MDCs' commercial investment decisions these will also require the respective Development Corporation Board to consider the business plans, risks/opportunities associated with the investment and the type and level of finance required to deliver the proposals as part of the Development Corporation's Final Investment Decision(s) including any debt finance requested from TVCA. The Board will be kept appraised of any terms agreed with TVCA and obligations placed on MDC and HDC, wherever applicable, as part of loan agreements with TVCA and will ensure appropriate approvals are in place to consider and, as required, accept the loan agreements.

9. For Tees Valley Local Authorities commercial investment decisions these will also require the respective Local Authority Cabinet to consider and approve the business plans, risks/opportunities associated with the investment and the type and level of finance required to deliver the proposals as part of the Local Authority Final Investment Decision(s) including any debt finance requested from TVCA. The Local Authority officers will ensure that their respective Cabinet meetings are kept appraised of any terms agreed with TVCA and obligations placed, wherever applicable, as part of loan agreements with TVCA and will ensure appropriate approvals are in place to consider and, as required, accept the loan agreements.

10. This paper sets out the approach that TVCA (as funder) will take to making these investments and the controls and limits that will be applied as part of due diligence processes. The following key limits and indicators are proposed for MDC, HDC and

Tees Valley Local Authorities in respect of any request for debt finance coming for consideration by the s73 officer in consultation with the Group Chief Executive Officer and Monitoring Officer: -

Middlesbrough Development Corporation	-	£75m
Hartlepool Development Corporation	-	£75m
TVCA led local authority commercial projects	-	£225m

11. The proposed limits and thresholds in respect of debt finance from TVCA to HDC, MDC and the other three Tees Valley Local Authorities are estimates of the potential future commercial transactions that they would wish to undertake in furtherance of their respective objects and Masterplans.

12. Whilst these levels represent the limits for TVCA investment purposes each proposal for development will be considered by the respective Development Corporation Board/Cabinet including an assessment of commercial risk and reward prior to them approving proposals. TVCA will conduct its own due diligence of any request for debt funding from these parties.

13. The proposed revised Treasury Management limits compared to previous levels are summarised in the Table below: -

	2023/24 £m		2024/25 £m		2025/26 £m		2026/27 £m		2027/28 £m	
	Prev	Now	Prev	Now	Prev	Now	Prev	Now	Prev	Now
HMT Borrowing Cap	1,000	1,000	1,237	1,237	1,237	1,237	1,237	1,237	1,237	1,237
Authorised Limit – Borrowing	426	426	447	1,017	457	1,017	443	1,017	n/a	1,017
Authorised Limit – Leases	207	207	207	220	207	220	207	220	n/a	220
Authorised Limit - Total	633	633	654	1,237	664	1,237	650	1,237	n/a	1,237
Operational Boundary – Borrowing	355	355	372	943	380	943	369	943	n/a	943
Operational Boundary – Leases	173	173	173	190	173	190	173	190	n/a	190
Operational Boundary – Total	528	528	545	1,133	553	1,133	542	1,133	n/a	1,133

LEGAL IMPLICATIONS

6. The CIPFA Code on Treasury Management clearly states that a Local Authority should not invest primarily for yield. All proposed commercial economic regeneration projects will have regeneration as the first priority with yield secondary in order to comply with the CIPFA Code.

7. The incurring of expenditure on new projects will consider the overall value for money of the business case/plan and will be appraised accordingly on this basis.

8. Both MDC and HDC are distinct legal persons respectively – they are each a statutory corporation. They are public bodies with the specific objects to secure the regeneration of their respective areas over which they are granted very wide powers. The creation of MDC and HDC, continuation and dissolution are in the remit of the Combined Authority. But in respect of operation they are each given very wide powers.

9. Both MDC and HDC for the most part, operate independently of the TVCA in that property, rights and liabilities are vested (unless transferred) with the corporations and not the Combined Authority.

10. Both MDC and HDC have the power to borrow funds in line with the following legislation: -

    Extract Localism Act 2011: -

    > ***"..201Object and powers***
    >
    > ***(1)The object of an MDC is to secure the regeneration of its area.***
    >
    > ***(2)An MDC may do anything it considers appropriate for the purposes of its object or for purposes incidental to those purposes.."***

11. All five Tees Valley Local Authorities have established legislative provisions and powers to enter into borrowing arrangements with third parties as part of their respective governance structures.

12. TVCA will ensure that all necessary legal and commercial due diligence has been undertaken prior to transacting any loan documentation and associated money flows. This will include arrangements for security and default conditions.

RISK ASSESSMENT

13. The Treasury Management Strategy is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

14. All future commercial economic regeneration projects will have project risk assessments produced as part of the preparation of business cases/plans. By approving these proposals the Cabinet are agreeing to approval for these projects to be conducted at Local Authority Cabinet and MDC/HDC Board meetings respectively prior to submission to TVCA statutory officers. The final statutory officer sign off on financing requirements would be under delegated powers from TVCA Cabinet.

15. The Corporate Risk Register has the following relevant financial risks that are tracked and managed throughout each financial year. The proposed approach to funding Tees Valley Local Authority strategic regeneration projects and both HDC and MDC via debt finance has controls and management plans built into the arrangements as part of the required due diligence work on any investment decision by TVCA officers.
16. The proposed loan agreements will have requirements for regular reporting on programme/project performance to provide assurance to TVCA that the purpose of the investment is being met and the required milestones, outputs are being achieved to deliver the necessary revenue streams and cashflows to service debt and interest costs. The necessary default provisions and security arrangements will be factored into the due diligence process and loan documentation processes and the interest rates determined by the relevant TVCA advisory teams.

CONSULTATION & COMMUNICATION

17. The approval of business cases/plans for future projects will require TVCA Cabinet approval which includes consultation with Local Authority officers.

Name of Contact Officer: Gary Macdonald
Post Title: Group Director of Finance and Resources