

**TREASURY MANAGEMENT STATEMENT 2017/18**  
**AND REVIEW 2016/17**

1. The following sets out the results of the West Yorkshire Combined Authority's borrowing and lending transactions in 2015/16 in accordance with the CIPFA Code of Practice "Treasury Management in Local Authorities" adopted by the Authority.

2. **BORROWING AND INVESTMENT**

<b>Total Loans outstanding at 1/4/2016</b>		
Interest:	Fixed (incl LOBOs)	76.5
Activity during 2016/17:		
	Loan repayments	-1.0
	Net movement in temporary loans	0.0
	New borrowing	0.0
<b>Loans outstanding at 31/3/2017</b>		<b>75.5</b>
Activity expected during 2017/18		
	New borrowing	0.0
	Debt repayments	-0.5
<b>Anticipated loans outstanding at 31/3/2018:</b>		<b>75.0</b>
<b>Total Investments</b>		
	Investments at 1/4/2016	70.0
	New Investment	28.0
<b>Investments placed at 31/3/2017</b>		<b>98.0</b>

- 2.1 The schedule of the loans outstanding at 31 March 2017 is set out in the notes to the accounts and is shown in the annex at the end of this appendix.
- 2.2 The CA's cash balances have been increasing in recent years due primarily to large grant payments for capital schemes being received in advance. These are therefore of a cashflow benefit but cannot be used to repay borrowing as they are not long term positions. Placing sums on deposit across a number of institutions both reduces exposure risk by ensuring there is not an over reliance on one bank and allows a higher return than leaving the money on overnight deposit. The CA's regulations on placing money on deposit were reviewed during the previous year and some changes approved regarding the duration of deposits. The quality of the counterparties with whom such deposits can be made has not been changed and remains restricted to those of a high calibre. This follows similar arrangements to those in place at Leeds City Council whose Treasury team assist in managing the CA funds.

- 2.3 At the year end the CA had placed a number of sums totalling £98m on fixed deposit with different counterparties. The approach agreed during the year was to place tranches of funding out ensuring that each quarter there was sufficient flexibility to enable a consideration of future cashflow requirements in order to determine an optimal investment policy. Full details of the fixed deposits in place at 31 March 2017 are set out at the end of this appendix. In line with the strategy approved during the year there has been a shift to placing funds with appropriate local authorities rather than international banking institutions, in response to the unrest within the financial world.
- 2.4 The CA has continued with its accountable body responsibilities for the Leeds City Region Enterprise Partnership, previously undertaken by Leeds City Council. This has increased the funding being paid to the CA for example in relation to Growth Deal funding and has prompted the changes that have been agreed during the year to enable these larger sums to be better managed.

### **3. COMMENT**

- 3.1 2016/17 has seen a continuation of the overall situation from previous years, with interest rates remaining low. Bank base rate has continued at its record low of 0.5% and this has restricted opportunities to refinance loans and to place money on the market at competitive rates. The subsequent 0.25% cut to base rate in August further reinforces this position.
- 3.2 Regular advice was received about the financial market which was closely monitored on behalf of the CA by Leeds City Council (LCC) and its advisors. Further development and application of the stringent treasury management policy assisted in ensuring that the CA's funds were held securely. The agreed policy is to seek to minimise the rate at which the CA borrows and refinance existing debt when it is advantageous to do so. There have been no such opportunities to do so in the last year and the biggest challenge has been to seek to make best use of increasing cash reserves. As set out above a strategy has been followed to manage these balances within the current investment criteria which are aimed at protecting balances.
- 3.3 The money market is being constantly monitored to ensure that the CA's bank account is maintained with a minimum cash balance (nearly always below £1,000) with temporary borrowing and investments being used as appropriate. Two business reserve type accounts are being used to ensure interest from overnight funds is maximised but in the current climate the available rate is negligible and the focus has been on seeking to better forecast cashflow to be able to invest funds for longer periods.
- 3.4 The mechanism to utilise surplus CA funds by lending them to Leeds City Council was formalised during 2015/16 and has continued during 2016/17. The Chief Financial Officers of each organisation have agreed on the calculation of a rate that is deemed beneficial to both whilst not favouring one over the other. This is modelled on similar arrangements that are in place in other organisations.

- 3.5 As can be seen from the appendix the loan portfolio has only reduced during the year by £1m due to the instalment repayment of the EIP loan. This follows a reduction in the previous year also, due to all CA funding having been received as direct grant in recent years. Previously capital expenditure had been financed through borrowing. The CA therefore has no need to make further long term borrowing and is instead in a position where borrowings will need to reduce to meet the requirements of the prudential code.
- 3.6 This situation is now likely to change as the CA considers the implication of the funding received through the local growth deal for the West Yorkshire plus Transport Fund. It is highly likely that as an integral part of such a Fund borrowing will be required to assist in maximising the funding available and also to assist with cashflow of the infrastructure investment. The implications of this on the Treasury Management Policy will be considered and progress will be reported back to this Committee.
- 3.7 It has previously been reported to this Committee that the instability in the banking sector had led to increased difficulties in managing the CA's exposure risk. Previously the CA was able to choose to invest surplus funds in a wide range of British and overseas banks with very high credit ratings and which delivered a useful interest income stream. Since the start of 2009/10 the number of institutions meeting the necessary credit ratings had fallen significantly and within the UK the takeover of high street banks by other high street banks further reduced the scope available.
- 3.8 As well as it being difficult to place funds on the market the interest rates available have been extremely poor, reflecting the very low bank base rate. The policy that continued to be followed during the year was therefore to seek to repay loans if an appropriate opportunity was identified and fund any short term funding shortfall with a short term loan. This was not possible during the year, largely due to the low interest rates attached to the current loans and also due to the prevailing PWLB rates.
- 3.9 The average borrowing rate for the CA continues to be at below 4.5%, well ahead of many local authorities. The CA has £25m of LOBOs (Lenders option/borrowers option) which have now effectively been converted by the bank to fixed rate loans.
- 3.10 As has been stated all rates continue to be constantly monitored to see if any further refinancing can be undertaken, either to take advantage of opportunities to reduce the CA's exposure risk or to reprofile the debt to assist in making repayments in the coming years.
- 3.11 The prudential limits set in February are reviewed below.

#### **4 TREASURY MANAGEMENT**

- 4.1 All placement of funds during 2016/17 was undertaken by Leeds City Council in accordance with rules approved by the CA adopting the advice from the Chartered Institute of Public Finance and Accountancy (CIPFA). This ensured all investment decisions sought to ensure the safety of those funds and to limit the WYCA's exposure to any one organisation, with the return on the investment being a secondary consideration.
- 4.2 As stated above the WYCA's investments and cash position are monitored on a daily basis to ensure any available balances are promptly invested.

#### **5 PRUDENTIAL BORROWING CODE**

- 5.1 The 2003 Local Government Act requires local authorities to have regard to the prudential code. Under this code Members approve a treasury management policy and review the prudential indicators for the year.
- 5.2 Members at the WYCA budget meeting in February 2017 took the appropriate decisions for 2017/18. Any further changes to the capital programme or changes as a result of the WY+TF will be considered to ensure there is no resultant requirement to amend the prudential indicators. Members can, having regard to changing circumstances, approve amendments during the year. This may become necessary as the implementation of the West Yorkshire Transport Fund progresses or as the financial and economic landscape changes.
- 5.3 It is therefore recommended that the following decisions, as taken in February 2017, are endorsed:
  - 5.3.1 That the treasury management policy shall be:
    - 5.3.1.1 That the CA adopts the CIPFA code of practice for Treasury Management in the Public Sector.
    - 5.3.1.2 To operate the financing on a short term basis to minimise both investments and income to avoid taking out expensive loans and re-lending them at a lower rate of interest.
    - 5.3.1.3 That there shall be no long term investments for a term of greater than one year, other than to other local authorities and then only for a period not exceeding 36 months. The limits for each of the next three years are that for investments for a period greater than 364 days, that no more than £20m will mature in each of 2017/18, 2018/19 **and 2019/20;**
    - 5.3.1.4 To utilise the expertise of the treasury management team in Leeds City Council for future years.

5.3.1.5 To use the following rules for short term investments:-

5.3.1.5.1 the investments shall be determined by the Chief Financial Officer.

5.3.1.5.2 the Chief Financial Officer shall determine the amounts and periods.

5.3.1.5.3 the procedural document as approved for their Treasury Management Division by Leeds City Council shall be adopted in relation to the authority's short-term investments encompassing the council's list of approved financial organisations and the maximum lending limits per organisation, as specified in that document from time to time.

5.3.1.5.4 no investment will be for a period exceeding one year, other than as set out in 5.3.1.3.

5.4.1.6 To restrict all additional borrowing to meet capital expenditure to the level of specific approvals issued by the government.

5.4.2 That as there have been insufficient changes to alter the predictions the prudential limits for the current year be reiterated as set out below:-

5.4.2.1 operational boundary for 2017/18 – £84.736m

5.4.2.2 authorised limit for 2017/18 - £104.736m

5.4.2.3 maturity loan structure as shown

5.4.2.4 a variable rate loan limit of 40%

5.4.2.5 a fixed loan limit of 200%

**Outstanding Transactions as at 31 March 2017**

<u>UID</u>	<u>Counterparty</u>	<u>Their Reference</u>	<u>Rate</u>	<u>Start</u>	<u>Maturity</u>	<u>Principal</u>
<b>LCR-Growing Places Fund</b>						
<b>Non-Treasury Loans</b>						
	BDW Trading Ltd	GPF04 Garnetts Mill	2.74000	06/06/13	06/06/17	(250,000.00)
	St Pauls Development PLC	GPF13 Knottingley East	6.50000	15/02/13	29/12/17	(2,450,000.00)
	LEP loan 102		6.50000	28/10/13	28/10/28	(1,697,914.06)
	Oxford GB Two Limited	GPF217-Hilton	6.50000	04/11/13	04/11/18	(4,800,000.00)
	Waystone 32 Limited	GPF201 Glasshoughton	6.50000	18/11/13	18/11/19	(2,393,682.00)
	Harworth Esates (Waverley F	GPF07 Prince of Wales	2.49000	10/12/13	10/12/18	(809,063.64)
	Witt and Son	GPF210 Wiit Group	3.02000	26/02/14	26/02/24	(1,096,194.32)
	Aire Valley Land LLP	GPF09 - Aire Valley Land	3.75000	11/08/14	07/08/24	(3,000,000.00)
	Canal Road Urban Village Lt	GPF209 - New Bolton W	2.94000	15/08/14	15/08/19	(307,830.50)
	GMV 12	GPF204 - Kirkstall Forge	3.94000	09/10/14	09/10/24	(5,000,000.00)
	Leeds City Council	GPF301 RIF GP - CITU L	8.50000	04/11/16	03/04/20	(1,000,000.00)
	OE Electrics Ltd	GPF302 OE Electrics Ltd	4.05000	10/03/17	07/03/22	(1,000,000.00)
					<b>Non-Treasury Loans</b>	<b>(23,804,684.52)</b>
					<b>LCR-Growing Places Fund</b>	<b>(23,804,684.52)</b>
<b>LCR-Local Growth Fund</b>						
<b>Non-Treasury Loans</b>						
	Calderdale Metropolitan Borou	LGF001 - Northgate Hou	0.00000	01/02/16	01/02/26	(300,000.00)
	Kirklees Metropolitan Boroug	LGF002A - Kirklees Hou	2.02000	16/02/16	26/02/27	(200,000.00)
	Barnsley Metropolitan Boroug	LGF003 - Barnsley TC D	0.00000	25/02/16	29/02/28	(1,757,000.00)
	Leeds City Council	LGF004 - Redhall/Whinn	0.00000	08/03/16	28/02/27	(4,000,000.00)
	Leeds City Council	LGF005 - Leeds Bath R	0.00000	14/03/16	28/02/27	(575,000.00)
	City of Bradford	LGF006 - One City Park	0.00000	05/04/16	28/02/27	(400,000.00)
	Kirklees Metropolitan Boroug	LGF002B - Kirklees Hou	0.00000	23/03/17	28/02/27	(109,000.00)
	York City Council	LGF007 - York Central	0.00000	23/03/17	31/03/27	(1,221,500.00)
	Leeds City Council	LGF008 - Leeds Brownfi	0.00000	31/03/17	28/02/27	(1,100,000.00)
					<b>Non-Treasury Loans</b>	<b>(9,662,500.00)</b>
					<b>LCR-Local Growth Fund</b>	<b>(9,662,500.00)</b>

<b>WYCA</b>						
<b>Deposit - Fixed</b>						
	London Borough of Enfield		0.55000	15/04/16	13/04/17	(10,000,000.00)
	Salford Metropolitan Borough Council		0.55000	12/04/16	11/04/17	(1,000,000.00)
	Salford Metropolitan Borough Council		0.55000	03/05/16	02/05/17	(3,000,000.00)
	Clackmannanshire Council		0.55000	13/04/16	12/04/17	(3,000,000.00)
	Stockport Metropolitan Borough Council		0.90000	21/07/16	23/07/18	(5,000,000.00)
	City of Newcastle Upon Tyne		0.90000	31/08/16	31/08/18	(10,000,000.00)
	London Borough of Enfield		0.47000	15/07/16	18/04/17	(5,000,000.00)
	Corby BC		0.45000	26/08/16	10/07/17	(2,000,000.00)
	Blackburn and Darwen BC		0.39000	30/08/16	12/04/17	(5,000,000.00)
	Blackburn and Darwen BC		0.40000	13/09/16	18/07/17	(5,000,000.00)
	Guildford Borough Council		0.42000	01/08/16	24/07/17	(2,000,000.00)
	Dundee City Council		0.40000	30/09/16	31/08/17	(5,000,000.00)
	Glasgow City Council		0.40000	10/10/16	09/10/17	(7,000,000.00)
	Southampton City Council		0.40000	07/10/16	06/10/17	(5,000,000.00)
	Salford Metropolitan Borough Council		0.35000	03/01/17	03/07/17	(5,000,000.00)
	Cornwall County Council		0.35000	03/01/17	03/07/17	(5,000,000.00)
	Walsall Council		0.45000	01/02/17	01/09/17	(10,000,000.00)
	Doncaster Metropolitan District Council		0.50000	03/02/17	01/02/18	(2,000,000.00)
	London Borough of Croydon		0.52000	31/03/17	29/03/18	(8,000,000.00)
					<b>Deposit - Fixed</b>	<b>(98,000,000.00)</b>
<b>Deposit - Notice</b>						
##	Leeds City Council		0.43000	11/04/16	11/04/15	(15,000,000.00)
##	National Westminster Bank f WYCA		0.25000	30/09/16	03/10/15	(898.70)
##	Svenska HandelsBanken AB WYCA		0.20000	30/09/16	03/10/15	(8,384,995.20)
					<b>Deposit - Notice</b>	<b>(23,385,893.90)</b>
<b>Lenders option/Borrowers option</b>						
##	Barclays Bank PLC	W4 ITA U4956	3.97000	31/05/05	31/05/65	5,000,000.00
##	Barclays Bank PLC	W5 ITA U5006	3.80000	24/08/05	24/08/65	5,000,000.00
##	Barclays Bank PLC	W7 ITA U5231	3.99000	27/10/06	27/10/66	5,000,000.00
##	Barclays Bank PLC	W8 ITA U5374	4.30000	18/12/06	18/12/76	5,000,000.00
##	Barclays Bank PLC	W9 ITA U5627	4.32000	02/05/07	02/05/77	5,000,000.00
					<b>Lenders option/Borrowers option</b>	<b>25,000,000.00</b>
<b>PWLB - EIP</b>						
##	Public Works Loans Board	495590W ITA U6407	2.81000	18/06/09	03/06/17	500,000.00
					<b>PWLB - EIP</b>	<b>500,000.00</b>
<b>PWLB - Maturity</b>						
##	Public Works Loans Board	491184W ITA U5135	3.70000	23/01/06	15/01/56	5,000,000.00
##	Public Works Loans Board	491481W ITA U5223	4.40000	28/04/06	15/01/52	5,000,000.00
##	Public Works Loans Board	492865W ITA U5505	4.40000	31/01/07	15/07/54	8,000,000.00
##	Public Works Loans Board	492866W ITA U5507	4.40000	31/01/07	02/06/53	8,000,000.00
##	Public Works Loans Board	493266W ITA U5645	4.55000	03/05/07	10/06/52	4,000,000.00
##	Public Works Loans Board	493268W ITA U5646	4.55000	04/05/07	27/04/55	6,000,000.00
##	Public Works Loans Board	493269W ITA U5647	4.55000	04/05/07	25/04/56	6,000,000.00
##	Public Works Loans Board	493270W ITA U5648	4.55000	04/05/07	18/04/57	8,000,000.00
					<b>PWLB - Maturity</b>	<b>50,000,000.00</b>
					<b>WYCA</b>	<b>(45,885,893.90)</b>
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