

PRUDENTIAL FUNDING STATEMENT

- 1 This statement has been prepared in accordance with the CIPFA Code of Practice 'Treasury Management in Local Authorities' which is re-adopted each year by Members of the Authority. The statement and its implementation is currently reviewed and updated twice annually, in the final accounts and budget reports.
- 2 The Local Government Act 2003 and Local Authorities (Capital Finance and Accounting) Regulations 2003 set out the system of capital finance to be followed by all local authorities from 2004. This appendix is intended to take account of the requirements of the regulations and to set them in the context of the Treasury Management Code of Practice.
- 3 This report assumes further borrowing may be required in 2018/19, increasing in subsequent years. The borrowing is required to support the delivery of the full West Yorkshire plus Transport Fund, to support internal capital projects and to support projects within the Growth Deal programme that may be delivered after 2021 when funding ceases. Estimates of the likely funding required are set out in the capital annex and further work is underway to ensure there is a full robust programme of delivery for all schemes that will enable the borrowing requirements for future years to be fully understood. In the short term new borrowing requirements are likely to be reduced by the use of cash and available reserves.

Treasury management activity – borrowing and investments

		£m
Total Loans outstanding at 1/4/2017		
Interest:	Fixed (incl LOBOs)	75.0
Activity expected during 2017/18:		
Loan repayments		0.0
Net movement in temporary loans		0.0
New borrowing		0.0
Anticipated loans outstanding at 31/3/2018:		75.0
Activity expected during 2018/19		
New borrowing		0.0
Debt repayments		0.0
Anticipated loans outstanding at 31/3/2019:		75.0
Total Investments		
Investments at 1/4/2017		98.0
New Investment		50.0
Anticipated Investments placed at 31/3/2018		148.0

- 4 The current financial year has seen generally a continuation of the overall economic situation. Interest rates have remained low, although bank base rate rose for the first time in a decade from 0.25% to 0.5% in November. Opportunities both to refinance loans and to place money on the market at competitive rates remain limited.

- 5 Leeds City Council undertakes the monitoring of the financial markets on behalf of WYCA. The agreed policy is to seek to minimise the rates at which WYCA borrows and to continue to refinance any longer term loans if rates appear advantageous.
- 6 No such opportunities have arisen so far in 2017/18. WYCA has a loan portfolio with extremely competitive rates and the economic climate has been such that there have been no suitable opportunities identified for refinancing.
- 7 The business planning and budget report sets out the requirement for borrowing to supplement the capital grants received. The calculations in the annex demonstrate how this works through the capital financing requirement and set out the financing costs which are then included within the revenue budget.
- 8 Since April 2015 when WYCA became the accountable body for the Leeds City Region Enterprise Partnership (LEP) cash balances have been high as a result of the Growth Deal funding paid in large instalments at the start of each financial year. Over the past three years the limits and counterparties have been kept under regular review to ensure the sums available for investment are able to be placed appropriately. WYCA has continued to utilise call arrangements in place with Svenska and Leeds City Council rather than leave money overnight with in our main Natwest account whose rate is significantly lower at only 0.01%. For longer term deposits the selected counterparties are constantly monitored and meet the strict eligibility criteria stipulated under Leeds City Council's investment policy which has been adopted by WYCA. This approach will continue during 2018/19 with an expectation that WYCA will continue to have cash balances to invest due to the advance payment of capital and other grant funding. Within the existing policy WYCA can also invest in money market funds and this opportunity may also be taken to enable effective management of what is expected to be further significant cash advances 2018/19 of Growth Deal and other funding.
- 9 The general level of borrowing and investments is handled efficiently by Leeds City Council and has produced a situation where WYCA has, in relative terms, very low borrowing costs. Regular meetings are held with the Leeds City Council staff who undertake treasury work for WYCA under the terms of a service level agreement, and these meetings ensure a satisfactory level of control and monitoring is achieved. These meetings also consider the overall treasury management strategy and ensure that the policies in place continue to be appropriate to ensure that WYCA's funds are managed in the most effective and secure way.
- 10 WYCA has strict rules on investment criteria which are set out in paragraphs 11 to 13 for consideration and re-approval. These are set so as to minimise the risk to WYCA's funds but does also mean that interest earned on deposits is lower than it could be. It is therefore in WYCA's interests to seek to utilise any cash balances to reduce the costs of long term borrowing and this policy will continue to be pursued if possible. The increase to the Public Works Loan Board (PWLb) rates, initially announced in October 2010, reduced the opportunities to repay long term debt without incurring extra cost. The PWLB rates were later improved through the introduction of a certainty rate reduction but discount rates have not changed and it is these rates that are used to determine premiums and discounts on loan

repayments. WYCA would incur significant premiums by repaying borrowing but will review this situation as and when interest rates start to rise.

Treasury Management Activity – Investments Criteria

- 11 In general it is intended there should be no long term investments by WYCA with any surplus cash being invested short term up to a maximum term of one year. The level of future investments will fluctuate on a short-term basis due to cash flow requirements but will be maintained as low as possible. Any investments undertaken by WYCA follow the guidance of the Department of Communities and Local Government (DCLG) having regard to the concept of Security, Liquidity and then Yield with emphasis being placed on the “return of funds” rather than the “return on funds”.
- 12 It is proposed that the existing policy of utilising the expertise of the Treasury Management Team in Leeds City Council be reaffirmed for 2018/19.
- 13 WYCA has a number of rules in place for short term investments/borrowing, as set out below and that these should continue to be applied, with changes highlighted in bold below:-
 - a. The Chief Financial Officer shall determine the amounts and periods.
 - b. The procedural document as approved for their Treasury Management Division by Leeds City Council shall be adopted in relation to WYCA’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.
 - c. No investment will be for a period exceeding 12 months other than with 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 2018/19, 2019/20 and 2020/21.
 - d. Investments with Leeds City Council will not exceed £15m, the interest rate for such deposits being agreed between the Chief Financial Officers of both organisations.
 - e. Investments with any one counterparty should not exceed £15m other than in c above.
 - f. Investments with WYCA’s bankers are specifically excluded from the limits set out, in recognition of the fluidity of such arrangements.
- 14 The amendments proposed above would provide further flexibility for WYCA to invest its surplus funds which, as they are expected to continue to increase, will become increasingly difficult to place on the market. The amendments proposed are deemed low risk and are in accordance with the criteria applied by Leeds City Council

to its treasury arrangements. The amendment at point c continues arrangements previously agreed for a further year and that at point d increases the sum available following a review of how this has operated since it was approved in 2016/17.

PRUDENTIAL FUNDING ARRANGEMENTS

- 15 The principal purpose of the prudential system is to allow authorities as much financial freedom as possible whilst requiring them to act prudently. There will be no government borrowing approvals issued but restrictions are imposed through the CIPFA Prudential Code which requires every authority to set prudential indicators and limits and thus be satisfied that it can afford the results of its borrowing. These limits, which must not be exceeded, have to be formally agreed by the authority before the start of each financial year. The government has retained the power to, if it so wishes, limit the level of borrowing incurred by authorities.
- 16 The Code requires full capital and revenue plans to be prepared for at least 3 years forward in order to assess the financial effects of the planned capital investment. In this Authority the three year financial strategy is considered by Members on a regular basis and to ensure a level of affordability it is currently the policy that borrowing to meet capital expenditure will be limited to proposed levels. Restricting borrowing in this way ensures that all debt charges are covered WYCA through its levy on the Districts.
- 17 The capital programme is considered in detail earlier in this report. It should be noted that in accordance with the above, overall capital expenditure will be met firstly by grants and other resources leaving the balance to be met by borrowing or through charges to revenue.
- 18 There are significant levels of grant provided to WYCA under the Integrated Transport block, Leeds Public Transport Investment Programme (LPTIP) and Growth Deal for 2017/18 and 2018/19. Recognising the demands upon infrastructure investment it is proposed that other alternative methods of financing during the year remain under consideration as and when appropriate. As an example leasing might be used for the acquisition of vehicles. The financial viability and value for money of such methods will require investigation and savings found within the budget to accommodate the costs involved. Members will be asked to approve any such methods before they are implemented.
- 19 Discussions were progressed, following approval to do so in 2016, with the European Investment Bank (EIB) regarding the provision of an option whereby it could provide a flexible financing offer to support the WY+TF. Many of the schemes in the Fund meet their funding criteria and this would provide an attractive alternative to the traditional PWLB lending. Negotiations are close to conclusion and WYCA is continuing with its application to the EIB. The UK's decision to withdraw from the UK decision does not preclude this arrangement taking place.
- 20 It is not proposed at this stage that WYCA enter into any credit arrangements as defined by the regulations, other than as described above. If and when these are to

be progressed then it should be recognised that they would be classified as borrowing and would need to be recognised in the operational boundary and authorised limit approval. Should any such arrangements be required these will be expected to be funded within the approved strategy.

- 21 When Leeds City Council last reviewed the borrowing limits in the light of market rates they determined that they would allow the limit to be set at a level sufficient for the current year plus the equivalent of 2 years anticipated borrowing requirement which is derived from the capital allocations. This was intended to provide flexibility for fund management allowing borrowing to take place when rates are low rather than being tied into strictly annual borrowing.
- 22 The Annex initially creates limits set at the required level of borrowing for 2017/18 and 2018/19. To provide more flexibility in managing the funding operation it was previously agreed that approval be given to borrow to cover loan requirements for the current plus the following 2 years. In view of the change to the LTP allocation from borrowing to grants this is now irrelevant and will only be applied if any new major schemes are approved. Such approval will therefore be sought at that time.
- 23 The attached Annex shows the calculation of the following prudential indicators:
 - a. The ratio of debt charges to overall expenditure. This is not significant to WYCA as it is effectively controlled through the level of the Levy (as referred to above).
 - b. Setting the borrowing requirement for the year (similar to total loans outstanding) but called 'the operational boundary'.
 - c. Setting the maximum borrowing permitted in the year defined as 'the authorised limit'. This is £20m higher than the operational boundary to create flexibility to allow temporary additional borrowing (for example if it becomes prudent to borrow in advance of normal requirements because long term interest rates are low).
 - d. Setting the maturity loan structure which is defined as 'amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate' as well as the draft capital programme. These are set out in the Annex.
- 24 The Prudential Code requires Members to have an approved Treasury Management Policy (this is set out above) and to agree limits for variable and fixed rate loans. It is recommended that the maximum limit for variable rate loans continues to be set at 40% and the limit for fixed rate loans remains at 200%. This reflects the current position that arises from the increase in cash balances and investments resulting from an increase in advance grant funding.
- 25 The Prudential Code for capital has been updated as at December 2017, with the main change being around the commercialisation agenda. Leeds CC are reviewing the impact of the code changes during 2018/19, in line with further changes to the

Department for Communities and Local Government guidance (also recently updated in 2017). Leeds CC will report back to WYCA, via the Governance and Audit Committee on the impact, if any, of these changes during the year.

Summary Capital Programme

	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000
Expenditure per programme				
Local Transport Plan	13,100	13,104	13,104	13,633
Highways Maintenance Plan	32,259	30,634	28,403	28,403
Major scheme Expenditure	2,000	15,000	40,000	50,000
Non LTP Funding (transport)	0	14,282	42,847	85,693
Growth Deal	100,150	102,080	105,960	129,350
Other incl economic growth funding	27,311	19,898	5,228	2,700
	174,820	194,998	235,542	309,779
Less overprogramming		0	0	0
	174,820	194,998	235,542	309,779
Financing				
LTP Grant	13,104	13,104	13,104	13,104
LTP Grant carry forward	780			
Highways Maintenance Plan	32,260	30,634	28,403	28,403
Major scheme Expenditure	21,000	48,700	49,100	54,700
Non LTP Funding (Excluding Majors)	14,641	0	0	0
Growth Deal & Economy	72,228	74,349	73,510	100,338
Other economic growth funding	21,300	8,727	5,919	2,365
Carry forward	73,160	73,653	59,469	7,500
Borrowing requirement		5,300	13,537	103,369
Total Funding Available	248,473	254,467	243,042	309,779

Calculation of Prudential Indicators:

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
<u>AFFORDABILITY</u>				
Ratio of financing costs to net revenue stream				
Debt Charges	5,674	5,527	5,127	5,939
Levy	100,901	99,901	98,901	97,901
(Assumes continuing levy freeze)				
Resultant ratio:	5.6%	5.5%	5.2%	6.1%
Notes: All additional debt charges should be covered by Levy				

PRUDENCE

Net external borrowing does not exceed the total of capital financing requirement in previous year plus the estimate of any additional financing requirement for the current and later years.

Loans outstanding at 1 April	75,000	75,000	75,000	191,906
Estimate of Capital Financing Requirement (CFR)	81,346	78,092	80,268	90,594
Additional borrowing requirement in year	0	5,300	13,537	103,369
Less debt repayments in year	-3,254	-3,124	-3,211	-3,624
Estimate of (CFR) 31 March	78,092	80,268	90,594	190,339
Calculated Operational Boundary	81,346	83,392	93,805	193,963
Safety factor	20,000	20,000	20,000	20,000
Forecast Authorised Limit	101,346	103,392	113,805	213,963

Maturity of Loan Structure	Minimum	Maximum	Projected 31/03/2018	Interest Rate Structure:
Loans up to 1 year	0%	30%	1%	Variable rate loans - maximum 40% Fixed rate loans - maximum 200%
Loans between 12 and 24 months	0%	20%	7%	
Loans between 24 months and 5yrs	0%	50%	21%	
Loans between 5 and 10 years	0%	75%	0%	
Loans between 10 and 20 years	25%	100%	0%	70%
Loans between 20 and 30 years			0%	
Loans between 30 and 40 years			60%	
Loans between 40 and 50 years			11%	
Loans 50 years +			0%	
			100%	