

TREASURY MANAGEMENT STATEMENT 2020/21
AND REVIEW 2019/20

1. The following sets out the results of the West Yorkshire Combined Authority's borrowing and lending transactions in 2019/20 in accordance with the CIPFA Code of Practice "Treasury Management in Local Authorities" adopted by the Authority.

2. **BORROWING AND INVESTMENT**

Total Loans outstanding at 1/4/2019	£m
Fixed term	75.0
Activity during 2018/19:	
Loan repayment	0.0
Net movement in temporary loans	0.0
Net borrowing	0.0
Loan outstanding at 31/03/2020:	75.0
Activity expected during 2020/2021:	
New borrowing	0.0
Borrowing repaid	0.0
Anticipated loans outstanding at 31/3/2021	75.0
Total Investments	
Investments at 1/04/2019	99.0
Net of new Investment in year	87.0
Investment placed at 31/03/2020	186.0

- 2.1 The schedule of the loans outstanding at 31 March 2020 is set out in the notes to the accounts and is shown in the annex at the end of this appendix.
- 2.2 The Combined Authority'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 Combined Authority'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 Combined Authority funds.
- 2.3 At the year end the Combined Authority had placed a number of sums totalling £186m 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 2020 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 Combined Authority has continued with its accountable body responsibilities for the Leeds City Region Enterprise Partnership. This means increased funding being paid to the Combined Authority for example in relation to Growth Deal funding and has led to the changes agreed during previous years to enable these larger sums to be better managed.

3. COMMENT

- 3.1 2019/20 did see a continuation of the overall economic situation, until the Covid-19 pandemic that emerged during March 2020. The impact on 2019/20 has been minimal, with greater impact anticipated for 2020/21. In 2019/20 the interest rates have remained low, with the bank base rate of 0.75% cut back to 0.1% on 11 March 2020. Opportunities both to refinance loans and to place money on the market at competitive rates remain limited.
- 3.2 Regular advice was received about the financial market which was closely monitored on behalf of the Combined Authority by Leeds City Council and its advisors. Further development and application of the stringent treasury management policy assisted in ensuring that the Combined Authority's funds were held securely. The agreed policy is to seek to minimise the rate at which the Combined Authority 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 Combined Authority's bank account is maintained with a minimum cash balance 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 Combined Authority funds by lending them to Leeds City Council has continued during 2019/20. 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 not changed. Previously capital expenditure had been financed through borrowing. Due to all Combined Authority funding having been received as direct grant in recent years, the Combined Authority therefore has had no need to make further long

term borrowing and has been instead in a position where borrowings would need to reduce to meet the requirements of the prudential code.

- 3.6 This situation will change as the Combined Authority considers the implication of the funding received through the local growth deal for the West Yorkshire plus Transport Fund. It is expected 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 once known will be considered and progress will be reported back to this Committee. Similarly the planned devolution deal currently being progressed will fundamentally change the way in which the Combined Authority operates and the investment and treasury management strategies will be reviewed as part of the work to become mayoral ready in May 2021.
- 3.7 It has previously been reported to this Committee that the instability in the banking sector led to increased difficulties in managing the Combined Authority's exposure risk. Previously the Combined Authority 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. Under the current situation due to Covid-19 this activity has been restricted for the foreseeable future until the economic environment improves.
- 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 Combined Authority continues to be at below 4.5%, well ahead of many local authorities historic debt.
- 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 Combined Authority'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 2019/20 was undertaken by Leeds City Council in accordance with rules approved by the Combined Authority 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 Combined Authority's exposure to any one

organisation, with the return on the investment being a secondary consideration.

- 4.1 As stated above the Combined Authority'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 Combined Authority budget meeting in February 2020 took the appropriate decisions for 2020/21. Any further changes to the capital programme or changes as a result of the West Yorkshire plus Transport Fund or devolution 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 due to the Covid-19 pandemic impact.
- 5.3 It is therefore recommended that the following decisions, as taken in February 2020, are endorsed:

5.3.1 That the treasury management policy shall be:

- 5.3.1.1 That the Combined Authority 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 £20 million will mature in each of 2020/21, 2021/22 and 2022/23;
- 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.

5.3.1.5.5 Investments with Leeds City Council will not exceed £15 million, the interest rate for such deposits being agreed between the Chief Financial Officers of both organisations.

5.3.1.5.6 Investments with any one counterparty should not exceed £15 million other than in 5.3.1.3.

5.3.1.5.7 Investments with the Combined Authority's bankers are specifically excluded from the limits set out, in recognition of the fluidity of such arrangements.

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 2020/21 – £90 million

5.4.2.2 authorised limit for 2020/21 - £112.067 million

5.4.2.3 maturity loan structure as set out in the budget approvals

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 31st March 2020

<u>Unique Identifier</u>	<u>Reference</u>	<u>Rate</u>	<u>Start</u>	<u>Maturity</u>	<u>Principal (£)</u>
LCR-Growing Places Fund					
<u>Non-Treasury Loans</u>					
7430	GPF102	5.90000	28/10/13	28/10/28	(1,697,914.06)
7483	GPF210	3.02000	26/02/14	26/02/24	(654,394.65)
7645	GPF209	2.94000	15/08/14	31/12/21	(248,048.03)
7684	GPF204	2.63000	09/10/14	09/10/27	(4,390,617.54)
8574	GPF308	6.60000	04/11/16	03/04/20	(1,771,614.55)
8893	GPF315	4.78000	23/10/17	23/10/22	(800,000.00)
9181	GPF209a	3.50000	29/01/19	31/03/23	(346,000.00)
LCR-Growing Place					(9,908,588.83)
LCR-Local Growth Fund					
<u>Non-Treasury Loans</u>					
8177	LGF002A	0.00000	16/02/16	26/02/27	(200,000.00)
8197	LGF003	0.00000	25/02/16	29/02/28	(1,757,000.00)
8198	LGF004	0.00000	08/03/16	28/02/27	(4,000,000.00)
8205	LGF005	0.00000	14/03/16	28/02/27	(575,000.00)
8267	LGF006	0.00000	05/04/16	28/02/27	(400,000.00)
8710	LGF002B	0.00000	23/03/17	28/02/27	(109,000.00)
8713	LGF007	0.00000	23/03/17	31/03/27	(2,350,000.00)
8714	LGF008	0.00000	31/03/17	28/02/27	(1,100,000.00)
9258	LGF009	4.74000	11/12/18	31/01/20	(6,500,000.00)
LCR-Local Growth					(16,991,000.00)

Outstanding Transactions as at 31st March 2020

Deposit – Fixed		Refn	Rate	Start	Maturity	Principal (£)
9212	London Borough of Enfield		1.00000	04/04/19	01/04/20	(5,000,000.00)
9215	Sedgemoor District Council		1.00000	22/05/19	01/04/20	(5,000,000.00)
9233	Thurrock Borough Council		1.05000	02/05/19	28/04/20	(5,000,000.00)
9237	Slough Borough Council		1.00000	28/05/19	28/04/20	(5,000,000.00)
9240	Rotherham MBC		0.90000	10/06/19	14/04/20	(15,000,000.00)
9268	Aberdeenshire Council		0.90000	01/08/19	02/07/20	(10,000,000.00)
9273	Salford MBC		0.86000	03/09/19	10/07/20	(5,000,000.00)
9274	Salford MBC		0.86000	09/09/19	10/07/20	(5,000,000.00)
9300	Cambridgeshire CC		0.90000	08/08/19	06/08/20	(5,000,000.00)
9331	North Lanarkshire Council		0.75000	20/09/19	22/06/20	(5,000,000.00)
9338	Salford MBC		0.80000	29/10/19	29/07/20	(5,000,000.00)
9348	Slough Borough Council		0.78000	31/10/19	30/04/20	(5,000,000.00)
9349	West Dunbartonshire Council		0.78000	23/10/19	23/04/20	(5,000,000.00)
9350	Blackburn and Darwen BC		0.77000	26/11/19	26/05/20	(7,000,000.00)
9351	Thurrock Borough Council		1.02000	29/11/19	08/10/20	(10,000,000.00)
9353	Liverpool City Council		0.90000	15/11/19	15/05/20	(10,000,000.00)
9354	London Borough of Croydon		1.00000	28/10/19	09/10/20	(10,000,000.00)
9374	Blackpool Borough Council		0.85000	30/01/20	30/07/20	(6,000,000.00)
9375	Kingston upon Hull BC		0.90000	28/02/20	28/08/20	(15,000,000.00)
9377	Blackburn and Darwen BC		0.95000	31/01/20	31/07/20	(8,000,000.00)
9378	Brentwood Borough Council		0.95000	03/02/20	03/08/20	(2,000,000.00)
9379	Plymouth City Council		0.90000	27/01/20	27/07/20	(15,000,000.00)
9380	Aberdeen City Council		0.95000	13/01/20	13/10/20	(5,000,000.00)
9381	Worthing Borough Council		1.40000	28/02/20	28/02/22	(5,000,000.00)
9407	Fife Council		1.28000	31/03/20	01/03/21	(8,000,000.00)
9414	Surrey heath BC		0.95000	18/03/20	18/09/20	(5,000,000.00)
Deposit – Fixed						(186,000,000.00)
Deposit – Notice						
9344	National Westminster Bank PLC		0.30000	30/09/19	Call	(32,538,185.53)
9347	Svenska HandelsBanken AB		0.60000	30/09/19	Call	(14,700,519.15)
Deposit – Notice						(47,238,704.68)
Fixed Term Deposits (long term)						
7532	Barclays Bank PLC	W4 ITA U4956	3.97000	31/05/05	31/05/65	5,000,000.00
7533	Barclays Bank PLC	W5 ITA U5006	3.80000	24/08/05	24/08/65	5,000,000.00
7534	Barclays Bank PLC	W7 ITA U5231	3.99000	27/10/06	27/10/66	5,000,000.00
7535	Barclays Bank PLC	W8 ITA U5374	4.30000	18/12/06	18/12/76	5,000,000.00
7536	Barclays Bank PLC	W9 ITA U5627	4.32000	02/05/07	02/05/77	5,000,000.00
Fixed Term Deposits (long term)						25,000,000.00
PWLB – Maturity						
7537	Public Works Loans Board	491184W ITA U5135	3.70000	23/01/06	15/01/56	5,000,000.00
7538	Public Works Loans Board	491481W ITA U5223	4.40000	28/04/06	15/01/52	5,000,000.00
7539	Public Works Loans Board	492865W ITA U5505	4.40000	31/01/07	15/07/54	8,000,000.00
7540	Public Works Loans Board	492866W ITA U5507	4.40000	31/01/07	02/06/53	8,000,000.00
7541	Public Works Loans Board	493266W ITA U5645	4.55000	03/05/07	10/06/52	4,000,000.00
7542	Public Works Loans Board	493268W ITA U5646	4.55000	04/05/07	27/04/55	6,000,000.00
7543	Public Works Loans Board	493269W ITA U5647	4.55000	04/05/07	25/04/56	6,000,000.00
7544	Public Works Loans Board	493270W ITA U5648	4.55000	04/05/07	18/04/57	8,000,000.00
PWLB – Maturity						50,000,000.00
WYCA						(158,238,704.68)