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 are currently updated twice annually in the final accounts and budget reports and also reviewed quarterly at Treasury Management meetings with Leeds City Council, with any key findings reported to the Governance and Audit Committee.

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. It also takes into account the risk appetite of the Combined Authority in this regard and the focus on ensuring security of the funds is set out further in section 11.

3 The borrowing is required to support the delivery of the full West Yorkshire plus Transport Fund and to support corporately determined schemes for which no capital resource other than borrowing has been identified. Estimates of the likely funding required are set out in the capital annex below 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. The short term borrowing requirement is likely to be offset as external investments are internalised to reduce counterparty risk implicit within external investments. Work underway on the way to utilise gainshare is also expected to impact on the future capital programme and the extent of any borrowing required.

Treasury management activity – borrowing and investments

Total Loans outstanding at 01/04/2020	**£m**
Fixed Term	75.0
Activity during 2020/21:	
Loan Repayment	0.0
Net movement in temporary loans	0.0
Net borrowing	0.0
Anticipated loans outstanding at 31/03/2021	**75.0**
Activity expected during 2021/22	
New Borrowing	0.0
Borrowing Repaid	0.0
Anticipated loans outstanding at 31/03/2022	**75.0**
Total Investments	
Investments at 01/04/2020	186.0
Net new investments in year	169.0
Anticipated investment placed at 31/03/2021	**355.0**

4 At the start of 2020 there had been a continuation of the previous overall economic situation but the Covid-19 pandemic that emerged during March 2020 has continued with greater impact anticipated for 2020/21 and continuing into

2021/22. Interest rates remain low and are not expected to increase for the foreseeable future with any increase in bank base rate expected to be slow and measured., The bank base rate was 0.75% for the majority of 2019/20 however 2 emergency cuts were made in March 2020 to the current level of 0.1% on 11 March 2020. The impact of Brexit continues to be an additional source of uncertainty to markets in forecasting GDP growth, inflation and bank base rate movements. Opportunities to refinance loans remains limited and the returns available on investments remains low due to the current low level of base rate.

5 Leeds City Council undertakes the monitoring of the financial markets on behalf of the Combined Authority. The agreed policy is to seek to minimise the rates at which the Combined Authority borrows and to continue to refinance any longer term loans if rates appear advantageous.

6 No such opportunities have arisen so far in 2020/21. The Combined Authority has a loan portfolio with historically 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 estimated 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 The Combined Authority has continued with its accountable body responsibilities for the Leeds City Region Enterprise Partnership (LEP). This means increased funding being paid to the Combined Authority for example Growth Deal, Leeds Public Transport Investment Programme (LPTIP) and Transforming City Fund (TCF) at the start of the financial year has led to the changes agreed during previous years to enable these larger sums to be better managed. 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. The Combined Authority has continued to utilise call arrangements in place with Svenska and Leeds City Council rather than leave money overnight in the main NatWest account whose rate is lower at 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 the Combined Authority. This approach will continue during 2021/22 with an expectation that the Combined Authority will continue to have high cash balances to invest due to the advance payment of capital and other grant funding. Within the existing policy the Combined Authority 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 of TCF, Brownfield Housing, Getting Building Funds, Adult Education Budget and other capital funding initiatives under the Mayoral Combined Authority in 2021/22, including the £38 million annual gainshare payment.

9 The general level of borrowing and investments is handled efficiently by Leeds City Council and has produced a situation where the Combined Authority has, in relative terms, very low borrowing costs. Regular meetings are held with the

Leeds City Council staff who undertake treasury work for the Combined Authority under the terms of a signed 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 the Combined Authority's funds are managed in the most effective and secure way.

10 The Combined Authority has strict rules on investment criteria which are set out in paragraphs 11 to 13 for consideration and re-approval. These are set to minimise the risk to the Combined Authority's funds but does also mean that interest earned on deposits is lower than it could be. It is therefore in the Combined Authority's interest 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. The Combined Authority would incur significant premiums by repaying borrowing but will review this situation as and when interest rates start to rise. Further the PWLB introduced a 1% increase in its borrowing costs in September 2019 pending a review and consultation on PWLB rates undertaken during Summer 2020. This consultation concluded and new rules were implemented which effectively prevents borrowing from the PWLB if borrowing for invest for yield schemes are undertaken. The Authority has no such schemes and can now access PWLB rates at the pre September 2019 levels after the 1% increase was removed by HM treasury as a result of the Consultation.

Treasury Management Activity – Investments Criteria

11 In general it is intended there should be no long term investments by the Combined Authority 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 the Combined Authority follow the guidance of the Ministry for Housing, Communities and Local Government ((MHCLG) 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 2021/22.

13 The Combined Authority has several 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 the Combined 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.

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 £20 million will mature in each of 2021/22, 2022/23 and 2023/24.

d. 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.

e. Investments with any one counterparty should not exceed £15 million

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

14 The proposals above would provide the flexibility for the Combined Authority to invest its surplus funds which, as they are expected to continue to increase, will become increasingly difficult to place on the market. As the Capital programme progresses and new borrowing requirement increases it is anticipated that external investments will be internalised to fund this borrowing requirement pending locking into long term funding. The proposals are deemed low risk and are in accordance with the criteria applied by Leeds City Council to its treasury arrangements.

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, must 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 applicable codes governing our arrangements are the "Treasury management in the Public services – Code of Practice and the "Guidance notes 2017" and "The Prudential Code - for capital finance in Local Authorities 2017". In summary these codes emphasise that local authorities must ensure that all its capital and investment plans and borrowing are prudent and sustainable. In doing so it will consider its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the authority's overall fiscal sustainability. While indicators for sustainability are required to be set over a minimum three year rolling period, indicators should be set in line with a capital strategy and asset management plan that is sustainable over the longer term.

17 A capital strategy is to demonstrate that the Combined Authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy, last approved in May 2020, is reviewed and updated annually, and will be submitted for approval to the Combined Authority in April 2021.

18 The Code requires full capital and revenue plans to be prepared for at least three years forward in order to assess the financial effects of the planned capital investment. In the Combined 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 by the Combined Authority through its levy on the Districts.

19 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.

20 There are significant levels of grant provided to the Combined Authority under a range of programmes and with the prospect of future funds through any successor programmes. 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. 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.

21 The Combined Authority has in place a five year borrowing facility with the European Investment Bank (EIB) which provides a flexible financing offer to support the West Yorkshire Plus Transport Fund. Many of the schemes in the Fund meet the EIB funding criteria and this provides an attractive alternative to the traditional PWLB lending. The UK's withdrawal from the European Union does not preclude this arrangement taking place.

22 It is not proposed at this stage that the Combined Authority enter any credit arrangements as defined by the regulations (examples being Finance Lease' or PFI schemes), other than as described above. If and when these are to be progressed then it should be recognised that they would be classified as other long term liabilities and would need to be recognised and reported on/managed against separate limits for the operational boundary and authorised limit. Should any such arrangements be required these will be expected to be funded within the approved strategy.

23 When Leeds City Council and the Combined Authority 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 two 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.

24 The Annex initially creates limits set at the required level of borrowing for 2021/22 and 2022/23. 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 two years. In view of the previous change to the Local Transport Plan 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.

25 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 the Combined Authority as it is effectively controlled through the level of the levy (as referred to above).

b. Gross external Borrowing requirement (Gross Debt and CFR) The gross borrowing requirement should not exceed the Capital Financing Requirement (CFR).

c. The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be seen as a management tool for on-going monitoring of external debt, and may be breached temporarily due to unusual cash flow movements.

d. The authorised limit represents the legislative limit on the Combined Authority's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, in order for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed.

e. The Combined Authority is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. It is proposed that these limits remain unchanged.

26 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.

Indicative Capital Estimates

Capital Expenditure	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Growth Deal - Economic Development	47,439,952	0	0	0
West Yorkshire plus Transport Fund CIP	80,273,172	97,055,893	131,050,039	154,054,773
Leeds Public Transport Investment Programme	68,492,090	57,595,374	0	0
Transforming Cities Fund	12,325,731	65,224,365	241,846,996	137,548,223
Integrated Transport Block / Highways Maintenance / Challenge Fund	66,223,502	57,461,017	43,101,000	43,101,000
Corporate Projects	5,690,578	5,438,709	1,000,000	0
Broadband	2,274,633	4,363,915	1,007,792	0
Land Release Fund & One Public Estate	1,070,522	0	0	0
Low Emission Vehicles	1,058,434	0	0	0
Getting Building Fund	26,300,000	26,300,000	0	0
Brownfield Housing Fund	600,000	20,000,000	29,178,719	14,000,000
Emergency Active Travel Fund (Revenue and Capital)	2,513,000	10,053,000	0	0
Other (inc. Clean Bus)	3,934,447	38,500,000	0	0
A - Total Capital Spend	318,196,060	381,992,274	447,184,546	348,703,996

Capital Funding	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Growth Deal	(51,827,225)	0	0	0
Leeds Public Transport Investment Programme	(88,760,803)	0	0	0
Broadband	0	(1,948,112)	(1,007,792)	0
Getting Building Fund	(26,300,000)	(26,300,000)	0	0
Emergency Active Travel Fund	(12,566,000)	0	0	0
West Yorkshire Transport Fund	(48,510,837)	(48,300,000)	(48,300,000)	(48,300,000)
Integrated Transport Block	(13,104,000)	(13,104,000)	(13,104,000)	(13,104,000)
Highways Maintenance / Pothole (DfT) / Challenge Fund	(50,347,000)	(29,997,000)	(29,997,000)	(29,997,000)
Transforming Cities Fund	(39,995,010)	(123,248,290)	(137,519,145)	0
Brownfield Housing Fund	(600,000)	(20,000,000)	(29,178,719)	(14,000,000)
Gainshare - capital - TCF Commitment	*(9,500,000)*	*(9,500,000)*	*(9,500,000)*	*(9,500,000)*
	(341,510,875)	(272,397,402)	(268,606,656)	(114,901,000)
	(23,314,814)	109,594,872	178,577,890	233,802,996

West Yorkshire Combined Authority **Capital Financing Annex**

Calculation of Prudential Indicators:

	2020/21	2021/22	2022/23	2023/24
AFFORDABILITY	£000	£000	£000	£000
Ratio of financing costs to net revenue stream				
Debt Charges	4,844	6,104	6,413	7,022
Levy	98,375	98,375	98,375	98,375
Resultant ratio:	**4.9%**	**6.2%**	**6.5%**	**7.1%**

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.

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Loans outstanding at 1 April	75,000	75,000	75,000	75,000
Estimate of Capital Financing Requirement (CFR)	77,116	123,111	201,157	366,911
Additional borrowing requirement in year	5,591	49,499	81,640	169,163
Less debt repayments in year	-3,515	-3,504	-3,594	-3,409
Estimate of (CFR) 31 March	**79,192**	**169,106**	**279,203**	**532,665**
Calculated Operational Boundary	**100,000**	**100,000**	**100,000**	**283,847**
Safety factor	300,000	369,000	287,000	118,000
Forecast Authorised Limit	**400,000**	**469,000**	**387,000**	**401,847**

Maturity of Loan Structure	Minimum	Maximum	Authority	Projected 31/03/2021	
Loans up to 1 year	0%	30%	0	0%	
Loans between 12 and 24 months	0%	20%	0	0%	
Loans between 24 months and 5yrs	0%	50%	0	0%	
Loans between 5 and 10 years	0%	75%	0	0%	
Loans between 10 and 20 years			0	0%	
Loans between 20 and 30 years			0	0%	
Loans between 30 and 40 years	25%	100%	50,000,000	67%	100%
Loans between 40 and 50 years			15,000,000	20%	
Loans 50 years +			10,000,000	13%	
			75,000,000	100%	

Reserves Policy Calculation

The reserves calculation is used to set a level of reserves required to support the core functions of the Combined Authority and known emerging financial risks, including for 2021/22 the potential further impact of Covid19. The % contingency on key budget lines was designed to represent the risk of factors such as inflation, implementation of new capital projects and the risk of not realising savings.

Reserves Policy	Budget 2021-22 £m	Reserves 2021-22 £m
Risk on Concessions	53.80	
5% contingency for volatility of payments and bus operator landscape risks (up to 2020/21 had been 3% but increased to 5% until more information known)		2.69
Risk on Subsidised Bus services (gross)	25.86	
5% contingency due to inflationary and market conditions due to Covid19		1.29
50% Risk of not reducing budget/unintended reactions from operators & Covid19		0.50
Risk (general) on other areas of spend		
Passenger & Bus Station Services (net)	7.17	
Trade and Inward Investment	0.99	
Policy, Strategy and Communications	5.49	
Financing (net)	5.65	
Corporate Services	7.14	
	26.44	
Risk of inflation increases/capacity demands etc at 5% (previously 3%)		1.32
Other Risks 2021/22 (Covid19, Brexit, devolution, operational matters)		1.00
Risk on income		
Risk that income falls short of expectations (eg Enterprise Zone receipts, Covid19)		1.00
Total reserves required		**7.81**