

## Treasury Management Strategy Statement

- 1 This statement sets out the Treasury Management Strategy for 2022/23 and limits under the prudential framework. It has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 'Treasury Management in Public Services' which is re-adopted each year by Members of the Combined 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 any key findings reported to the Governance and Audit Committee.
- 2 The Combined Authority is required to operate a balanced budget. In particular, as a Local Authority, it must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that capital expenditure must be limited to a level where increases in charges to revenue from additional external interest and running costs are affordable within the projected income levels for the foreseeable future.
- 3 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 13.
- 4 The treasury management arrangements must encompass all activities undertaken by the Combined Authority. This treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both the General Fund (Combined Authority excluding policing) and the Police Fund. It should be noted that the decision making arrangements will differ for these two elements with the revenue costs of borrowing being included within the revenue budgets of the general fund and police fund accordingly.
- 5 For the Combined Authority non-policing activity 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. In addition, local funding has been committed to the Transforming Cities Fund and the arrival of gainshare funding provides an income stream which could be used to support borrowing. 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 to utilise gainshare is also expected to impact on the future capital programme and the extent of any borrowing required. Borrowing is also required to support the delivery of policing in West Yorkshire, with a range of projects in development.

## Treasury management activity – borrowing and investments

<b>Total Loans outstanding at 01/4/2021</b>	<b>£m</b>
Fixed term	75.0
<u>Activity during 2021/22:</u>	
Fixed term loans- Police Fund loans transferred in 10 May 2021	74.7
Loan repayment - CA General Fund	0.0
Loan repayment - Police Fund	-0.3
Net movement in temporary loans - CA General Fund	0.0
Net movement in temporary loans - Police Fund	0.0
<b>Anticipated total loan outstanding at 31/03/2022:</b>	<b>149.4</b>
<u>Activity expected during 2022/2023:</u>	
New borrowing for the Capital Programme - CA General Fund	0.0
New borrowing for the Capital Programme - Police Fund	0.0
Borrowing repaid - CA General Fund	0.0
Borrowing repaid - Police Fund	-0.6
<b>Anticipated loans outstanding at 31/3/2023</b>	<b>148.8</b>
<b>Total Investments</b>	
Investments at 01/04/2021	345.0
Investment - Police Fund transferred in 10 May 2021	53.1
Net of new Investment in year - CA General Fund	153.5
Net of new Investment in year - Police Fund	55.3
<b>Anticipated CA General Fund investment placed at 31/03/2022</b>	<b>498.5</b>
<b>Anticipated Police Fund investment placed at 31/03/2022</b>	<b>108.4</b>

- 6 The start of 2021 saw little change with the Covid-19 pandemic continuing to have an impact for 2021/22. Interest rates have remained low throughout 2021, however on 16th December the Bank of England unexpectedly raised rates by 0.15% to 0.25%. Further increases are expected during 2022/23 with the next increase expected in May 2022 although the economic impact of the Omicron variant will be watched closely and will affect the timing of this decision. Increases beyond 2022 are expected to be measured as the economy recovers to pre-pandemic levels. The impact of Brexit has been masked by the pandemic but this also continues to be a factor as this also impacts on economic performance. Opportunities to refinance loans remains limited and the returns available on investments still remain low due to the current low level of base rate.
- 7 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.
- 8 No such opportunities have arisen so far in 2021/22. 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.

- 9 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 appropriate revenue budget.
- 10 The Combined Authority has continued with its accountable body responsibilities for the Leeds City Region Enterprise Partnership (LEP). This has meant increased funding being paid to the Combined Authority for example 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. 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 Authority has a portfolio of investments in Fixed deposits but also keeps an element of liquid cash in call/notice accounts to manage day to day cashflow needs. 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 2022/23 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 Transforming Cities Funding, Brownfield Housing, Adult Education Budget, City Region Sustainable Transport Settlement and other capital funding initiatives under the Mayoral Combined Authority in 2022/23, including the £38 million annual gainshare payment.
- 11 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 to provide security and liquidity. A similar arrangement is in place for the policing funds, with support currently provided through Wakefield Council.
- 12 The Combined Authority has strict rules on investment criteria which are set out in paragraphs 13 to 15 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 taking a higher risk approach would 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 to reduce external Counterparty risk.

### **Treasury Management Activity – Investments Criteria**

- 13 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 Department for Levelling Up, Housing and Communities (DLUHC, formerly 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”.
- 14 It is proposed that the existing policy of utilising external support for treasury management continues. At present this is provided by the Treasury Management Teams in Leeds City Council and Wakefield Council and it is expected that these services will continue to be provided by one of the local authority partners.
- 15 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 Finance Officer (Director for Corporate and Commercial Services) 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 2022/23, 2023/24 and 2024/25.
  - 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. This arrangement is a continuation of approved arrangements put in place some years ago to recognise the potential conflict of interest that could arise.
  - 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.
- 16 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 and also reducing external Counterparty risk. The proposals are deemed low risk and are in accordance with the criteria applied by Leeds City Council to its treasury arrangements.

## **CONSULTATION ON THE PRUDENTIAL CODES**

- 17 During 2021 CIPFA began a consultation of the following codes and guidance documents:
- The Prudential Code for Capital Finance in Local Authorities
  - Treasury management in the Public Services Code of Practice and Cross sectoral Guidance Notes
  - Treasury management in the Public Services Guidance Notes for Local Authorities including Police bodies and fire and rescue authorities.
- 18 The first draft consultation closed in April 2021 after which a second consultation was undertaken after taking account of comments and feedback on the first consultation. This second consultation closed in November 2021. Following this the revised codes and guidance has been finalised and published on 20th December 2021 however this has introduced some timing issues resulting in the Codes being a “soft” launch. Recommendation from CIPFA is that these codes and guidance should be adopted at the earliest opportunity however given its close proximity to the budget and strategy setting process it is acknowledged that this may not be achievable for 2022/23.
- 19 The Codes and changes within them will be examined in detail and any changes will be considered and adopted once they have been fully identified and understood.
- 20 It should be noted that broad themes from the consultations were changes to:
- Investments primarily for yield.
  - Borrowing in advance of need primarily for yield
  - Introduction of new Prudential indicators (PI) in relation to investments
  - Introduction of a new PI called the Liability benchmark.
  - Changes to/removal of certain existing Prudential Indicators.
  - Changes to or redrafting of many sections of narrative to aid clarity or remove ambiguity.

## **PRUDENTIAL FUNDING ARRANGEMENTS**

- 21 The principal purpose of the prudential system is to allow authorities as much financial freedom as possible whilst requiring them to act prudently. There is no formal requirement arising from this to set government borrowing approvals but government retains the power to do so and it has determined that Combined Authorities are required to agree a debt cap with government. The Combined Authority has agreed the proposal from government of a limit on the Authority’s total long-term external debt at the end of 2021/22 of £248.3 million. This limit has been derived from the current agreed long-term investment plans of the authority including those investment required for provision of policing services, with some significant headroom to enable flexibility.

- 22 The debt cap operates on long-term external debt and does not limit capital spending funded from internal cash flow or short-term external debt (less than 1 year). The agreement will be reviewed in light of emerging initiatives, local or national, which have a material impact on the Combined Authority borrowing totals. Arrangements for 2022/23 will be agreed following the Government's conclusion of the Spending Review.
- 23 The projection of external debt figures outlined in this report falls well within the year end ceilings incorporated into the debt deal.
- 24 Irrespective of this cap restrictions are imposed through the CIPFA Prudential Codes which require every authority to set prudential indicators and limits and thus be satisfied that it can afford the results of its borrowing and to ensure investment is in line with its place making remit and not solely for financial yield. These limits, which must not be exceeded, must be formally agreed by the Authority before the start of each financial year.
- 25 The applicable codes governing our arrangements are the "Treasury management in the Public services – Code of Practice and the "Guidance notes 2021" and "The Prudential Code - for capital finance in Local Authorities 2021", as well as Treasury management in the Public Services Guidance Notes for Local Authorities including Police bodies and fire and rescue authorities 2021 which is now formally part of the CIPFA codes as well as recognising the DLUHC Investment guidance which has always had statutory underpinnings. 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.
- 26 A capital strategy should 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 April 2021, is reviewed and updated regularly, and will be reviewed alongside the West Yorkshire Investment Strategy in the first part of this year.
- 27 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 or through other confirmed income sources.
- 28 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.

- 29 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.
- 30 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 West Yorkshire plus Transport 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.
- 31 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.
- 32 The Annex initially creates limits set at the required level of borrowing for 2022/23 and 2023/24. 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.
- 33 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.

34 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

<u>Capital Expenditure</u>	2021/22	2022/23	2023/24	2024/25
	£	£	£	£
Growth Deal - Economic Development	480,329			
West Yorkshire plus Transport Fund	86,025,688	102,395,761	115,196,453	117,555,161
Leeds Public Transport Investment Programme (LPTIP)	45,270,442	368,755		
Transforming Cities Fund	43,230,653	125,893,508	125,000,000	110,790,642
Integrated Transport Block / Highways Maintenance /Challenge Fund	52,450,545	4,281,941	225,446	
Corporate Projects	4,038,709	2,609,900		
Broadband	4,363,915	1,007,792		
Land Release Fund & One Public Estate	1,028,993			
Getting Building Fund	44,557,357			
Brownfield Housing Fund	19,955,552	29,178,719	14,000,000	3,000,000
Emergency Active Travel Fund (Revenue and Capital)	7,805,868			
British Library North	151,414	3,803,586	8,482,333	12,562,667
Other (inc. Business Accelerator Fund, Clean Bus)	1,000,000	3,070,000	2,289,000	3,702,000
New Station Fund	2,000,000	10,000,000		
<i>Police capital programmes - Estate, ICT and Fleet&amp;Equipments</i>	25,182,000	45,847,000	23,866,000	14,258,000
<b>A - Total Capital Spend</b>	<b>337,541,465</b>	<b>328,456,962</b>	<b>289,059,232</b>	<b>261,868,470</b>

<u>Capital Funding</u> (includes c/fwd from 2020/21)	2021/22	2022/23	2023/24	2024/25
	£	£	£	£
Growth Deal / Transport Fund	(63,128,837)	(50,450,000)	(50,450,000)	(50,450,000)
Leeds Public Transport Investment Programme (LPTIP)	(44,685,761)			
Broadband	(6,543,641)			
Getting Building Fund	(44,557,357)			
Emergency Active Travel Fund	(7,805,868)			
Land Release / One Public Estate	(1,028,993)			
Integrated Transport Block, Highways Maintenance / Pothole (DfT)	(57,991,550)			
Transforming Cities Fund	(169,124,161)	(137,519,145)		
Brownfield Housing Fund	(19,955,552)	(29,178,719)	(14,000,000)	(3,000,000)
British Library North	(25,000,000)			
New Station Fund	(2,000,000)	(10,000,000)		
Single Investment Fund - TCF Commitment	(19,000,000)	(9,500,000)	(9,500,000)	
Ringfenced Reserves	(1,268,273)			
Capital Receipts	(32,535,959)	(1,038,764)	(711,760)	(555,049)
Other	(2,626,242)			
<i>Police capital funding - Grants</i>	<i>(13,413,000)</i>	<i>(9,232,000)</i>	<i>(7,150,000)</i>	<i>(10,771,000)</i>
<i>Police capital funding - Capital Receipts</i>	<i>(4,403,000)</i>	<i>(2,379,000)</i>	<i>(2,200,000)</i>	
	<b>(515,068,194)</b>	<b>(249,297,628)</b>	<b>(84,011,760)</b>	<b>(74,276,049)</b>
	<b>(177,526,729)</b>	<b>79,159,334</b>	<b>205,047,472</b>	<b>187,592,421</b>

NB:

Figures have been included for unapplied capital from previous years, capital receipts and other available sources.  
Balance to be funded by borrowing.

**West Yorkshire Combined Authority**

**Capital Financing Annex**

**Calculation of Prudential Indicators:**

	2021/22	2022/23	2023/24	2024/25
<b>AFFORDABILITY</b>	£000	£000	£000	£000
Ratio of financing costs to net revenue stream - CA General Fund				
Debt Charges	6,118	5,830	6,490	6,867
Levy	98,375	98,375	98,375	98,375
<b>Resultant ratio:</b>	<b>6.2%</b>	<b>5.9%</b>	<b>6.6%</b>	<b>7.0%</b>
Ratio of financing costs to net revenue stream - Police Fund				
Debt Charges	3,867	3,810	3,747	3,678
Net revenue stream - precept	138,222	146,941	155,117	163,443
<b>Resultant ratio:</b>	<b>2.8%</b>	<b>2.6%</b>	<b>2.4%</b>	<b>2.3%</b>

**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.

	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000
Loans outstanding at 1 April - CA General Fund	75,000	75,000	75,000	75,000
Gross Market and PWLB Debt at 1 April - Police Fund	74,407	73,761	88,052	87,274
Total Loans outstanding at 1 April	149,407	148,761	163,052	162,274
Estimate of Capital Financing Requirement (CFR) - CA General Fund	77,594	101,350	152,214	212,905
Estimate of Capital Financing Requirement (CFR) - Police Fund	98,961	103,957	135,710	147,596
Additional borrowing requirement in year - CA General Fund	27,416	54,556	64,746	125,377
Additional borrowing requirement in year - Police Fund	7,366	34,235	14,516	3,487
Less debt repayments in year - CA General Fund	-3,660	-3,692	-4,055	-3,641
Less debt repayments in year - Police Fund	-2,370	-2,482	-2,630	-2,760
Estimate of (CFR) 31 March - CA General Fund	101,350	152,214	212,905	334,641
Estimate of (CFR) 31 March - Police Fund	103,957	135,710	147,596	148,323
Total Estimate of (CFR) 31 March	<b>205,307</b>	<b>287,924</b>	<b>360,501</b>	<b>482,964</b>
<b>Calculated Operational Boundary</b>	<b>174,000</b>	<b>173,830</b>	<b>187,706</b>	<b>261,915</b>
Safety factor	297,238	352,003	366,487	312,000
<b>Forecast Authorised Limit</b>	<b>471,238</b>	<b>526,000</b>	<b>554,000</b>	<b>574,000</b>

Maturity of Loan Structure	Minimum	Maximum	CA General Fund	Projected 31/03/2023	Police Fund	Projected 31/03/2023
Loans up to 1 year	0%	30%	0	0%	0	0%
Loans between 12 and 24 months	0%	20%	0	0%	0	0%
Loans between 24 months and 5yrs	0%	50%	0	0%	0	0%
Loans between 5 and 10 years	0%	75%	0	0%	4,860,687	7%
Loans between 10 and 20 years			0	0%	0	0%
Loans between 20 and 30 years			0	0%	51,900,000	70%
Loans between 30 and 40 years	25%	100%	50,000,000	67%	0	0%
Loans between 40 and 50 years			15,000,000	20%	17,000,000	23%
Loans 50 years +			10,000,000	13%	0	0%
			75,000,000	100%	73,760,687	100%

The Police Fund CFR excludes other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, these types of scheme include a borrowing facility and so it is not required to separately borrow for these schemes.

## 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 2022/23 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.

<b>Reserves Policy</b>	<b>Budget 2022-23 £m</b>	<b>Reserves 2022-23 £m</b>
<b>Risk on Concessions</b>	53.80	
5% contingency for volatility of payments and bus operator landscape risks		2.69
<b>Risk on Subsidised Bus services (gross)</b>	25.87	
10% contingency due to inflationary and market conditions due to COVID-19		2.59
<b>Risk (general) on other areas of spend</b>		
Passenger & Bus Station Services (net)	8.83	
Trade and Inward Investment	1.37	
Policy, Strategy and Communications	6.53	
Financing (net)	5.82	
Corporate Services	<u>7.77</u>	
	30.32	
Risk of inflation increases/capacity demands etc at 5% (previously 3%)		1.52
<b>Other Risks 2022/23 (Covid19, operational matters)</b>		1.00
<b>Risk on income</b>		
Risks arising due to lack of certainty on future funding		1.00
Risk that budgeted income falls short of expectations due to COVID-19)		1.50
<b>Total reserves required</b>		<u><b>10.29</b></u>