Report to:	Governance and Audit Committee
Date:	22 March 2023
Subject:	**Treasury Management**
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1 Purpose of this report

1.1 To provide members with an update on Treasury Management activities since the last meeting held in January 2023.

2 Information

2.1. The regular governance meetings continue to be held with both Treasury partners (separate arrangements are in place for the Police Fund) to consider and review the transactions relating to investments and treasury management. No areas of concern were raised at the last meeting held on 16th January 2023, with Leeds City Council, nor at the meeting with Wakefield Council on 9th March 2023 in relation to the Police Fund. The high level of cash balances and the challenges with regard to placing funds with approved counterparties, is unchanged as previously reported.

2.2. It remains the intention to bring together all the treasury management arrangements such that they will be administered by a single partner authority and this is a key outcome in the Finance Plan on a Page for 2023/24.

2.3. The Combined Authority capital programme wholly relates to investment in Transport infrastructure and Economic regeneration projects. The Police Fund capital programme covers police related schemes such as vehicles, police stations and investment in new information and communications technology. The capital programme for the Police Fund is recorded separately in accordance with legislation and is therefore excluded from the above figures.

2.4. The Treasury Management Statement and Strategy was approved by the Combined Authority at their meeting held on 2nd February 2023 following approval by Governance and Audit Committee in January 2023.

Implementation of the CIPFA Codes of Practice 2021 – key update

2.5. Work remains ongoing in the implementation of CIPFA's revised Codes of Practice for Capital and Treasury Management from 1 April 2023. The Treasury Strategy Statement 2023/24 has incorporated those requirements and a new reporting pack for GAC will be developed for the next meeting.

2.6 An indication of the new reporting pack has been provided in this paper at Appendix 1 which shows the summary of the Prudential Indicators and comparison to those presented at the meeting to the Combined Authority in February 2023. Appendix B shows the current 10 year liability benchmark graph. As you would expect there has been little change since the budget and all indicators remain positive with no issues of concern.

2.7 Although the Capital Financing Requirement (CFR)is predicted to increase over the forecast period external borrowing is not expected to increase as the strategy is to internalise available cash balances. This strategy has the added advantage of reducing counterparty risk in the cash investment portfolio. The CFR is a balance sheet view of how much the Authority needs to borrow to finance its capital programme which is not funded by other means (e.g. grant)

2.8 At the year-end 2022/23 external investment and cash are now expected to be in the region of £670m up from the reported position of £621m mainly due to DLUHC grants received in February and lower operational spend than anticipated.

2.9 Appendix 2 shows the 10-year liability benchmark graph and emphasises the expected and significant turnaround in the Authority's cash and investment position. This is projected on the utilisation of the significant cash grants that have been received and the capital programme spend particularly for those programmes that result in a borrowing requirement. The purpose of the graph is to highlight the gap between the liability benchmark (expected need to borrow externally – the red dotted line) and comparing that to the stock of external borrowing anticipated (the stacked bars on the graph). The gap between the two elements highlights the exposure to external borrowing interest rate risk. This is not a significant factor until 2027/28 based on current projections.

Economic Outlook

2.10 At its meetings on 2nd February the Monetary Policy Committee (MPC) of the bank of England Raised interest rates from 3.50% to 4.00% as widely expected. The next meeting is scheduled for 23rd March where a further increase of 0.25% is expected by markets. Leeds City Council's Treasury management advisors are forecasting a peak of 4.50% by the summer with a first cut in base rate forecast for early 2024 (See table 1 below)

2.11 Inflation has fallen from its peak of 11.1% recorded in October 2022 to a current level of 10.1% in January. Further falls over the coming months are expected as the significant increases seen in early 2022 due to most notably supply side issues and the invasion of Ukraine begin to fall out of the calculation. The MPC sets base rate to target a 2% inflation rate and as inflation falls base rate is expected to fall likewise.

2.12 As with any forecast the above is subject to change and revision as market and economic conditions evolve.

3 Tackling the Climate Emergency Implications

3.1 There are no climate emergency implications directly arising from this report.

4. Inclusive Growth Implications

4.1 There are no inclusive growth implications directly arising from this report.

5. Equality and Diversity Implications

5.1 There are no equality and diversity implications directly arising from this report.

6. Financial Implications

6.1 The treasury management strategy will inform and shape future financial decision making.

7 Legal Implications

7.1 There are no legal implications directly arising from this report.

8 Staffing Implications

8.1 There are no staffing implications directly arising from this report.

9 External Consultees

9.1 No external consultations have been undertaken.

10 Recommendations

10.1 That the Committee notes the report.

11 Background Documents

None.

12 Appendices

Appendix 1 – Summary of Prudential Indicators
Appendix 2 – Liability Benchmark Graph