Treasury Management Strategy Statement

1. This statement sets out the Treasury Management Strategy for 2023/24 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, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low risk appetite in this regard, providing adequate liquidity initially before considering investment return.

3. The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This means that the Combined Authority 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.

4. CIPFA defines treasury management as:
"The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5. 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 15.

6. 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.

7. 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 is intended will be used at the appropriate time 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 is underway to determine the extent to which future years' gainshare will be utilised to support a future capital programme and the extent of any borrowing required. The forecasts will be updated as these plans are crystallised. 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

8. The overall treasury management portfolio as at 30 November 2022 and for the projected position as at 31 March 2023 are shown below for both borrowing and investments.

Total Loans outstanding at 01/4/2022	**£m**
Fixed term loans - CA General Fund	75.0
Fixed term loans- Police Fund	74.4
Activity during 2022/23:	
Loan repayment - CA General Fund	0.0
Loan repayment - Police Fund	(0.6)
Anticipated loan outstanding at 31/03/2023:	**148.8**
Activity expected during 2023/2024:	
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)
Anticipated loans outstanding at 31/3/2024	**148.2**
Total Investments	
Investment - CA General Fund at 1 April 2022	498.5
Investment - Police Fund at 1 April 2022	84.0
Net of new Investment in year - CA General Fund	117.5
Net of new Investment in year - Police Fund	35.0
Anticipated CA General Fund investment placed at 31/03/2023	**616.0**
Anticipated Police Fund investment placed at 31/03/2023	**119.0**

9. Since the start of 2022/23 the interest rate environment has been driven by global supply bottlenecks, the implications following the Russian invasion of Ukraine and domestic policy changes following the change of Prime Ministerial leadership. The previous low interest rate environment has evaporated quickly particularly over the last couple of months with base rate now at 3.5% and forecast to rise further, possibly past 4%. Opportunities to refinance loans remain limited.

10. 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. No such opportunities have arisen so far in 2022/23. 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.

11. 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.

12. 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. This 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 2023/24 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 City Region Sustainable Transport Settlement, Brownfield Housing, Adult Education Budget, and other capital funding initiatives under the Mayoral Combined Authority in 2023/24, including the £38 million annual gainshare payment.

13. 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.

14. The Combined Authority has strict rules on investment criteria which are set out in paragraphs 15 to 18 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

15. 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) 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".

16. 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 (for CA general funds) and Wakefield Council (for the Police Fund) and it is expected that these services will continue to be provided by one of the local authority partners.

17. 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: -

17.1. The Chief Finance Officer (Director, Finance and Commercial Services) shall determine the amounts and periods.

17.2. The procedural documents as approved for their Treasury Management Division by Leeds City Council and Wakefield 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.

17.3. 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 (for each of the CA general fund and police fund portfolios) will mature in each of 2023/24, 2024/25 and 2025/26.

17.4. Investments with Leeds City Council will not exceed £15 million, the interest rate for such deposits being agreed between the Chief Finance

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.

17.5. Investments with any one counterparty should not exceed £15 million (for each of the CA fund and police fund portfolios).

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

18. 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.

THE PRUDENTIAL INDICATORS

19. 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.

20. 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. Agreement made with the government on limit on the Authority's total long-term external debt for 2022/23 is £304.1 million, and indicatively as £381.6m for 2023/24 and £477.4m for 2024/25. 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.

21. The projection of external debt figures outlined in this report falls well within the year end ceilings incorporated into the debt deal.

22. 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.

23. 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.

24. 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 being reviewed and updated, and will be reviewed alongside the West Yorkshire Investment Strategy in the first part of this year.

25. 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 known income streams, including through its levy on the Districts, gainshare funding or through precept/Home Office funding for borrowing on delivering policing services.

26. 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.

27. 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.

28. 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.

29. When the Combined Authority last reviewed the borrowing limits in the light of market rates, it was determined that the limit was 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.

30. The Annex initially creates limits set at the required level of borrowing for 2023/24 and 2024/25. 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.

31. The attached (**Annex 1**) shows the calculation of the following prudential indicators separately for the CA general fund portfolio and the ring fenced police fund portfolio:

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

31.2. 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, and the level of precept for the police fund (as referred to above).

31.3. 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.

31.4. 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.

31.5. The limit on non-Treasury Investment should not exceed £20m. It also includes a ratio of estimated return on investment against revenue stream and net income from investments as a proportion of usable reserves.

31.6. 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.

32. The Liability Benchmark (or gross loans requirement as **Annex 2**) looks at a net management of the treasury position. It aims to minimise/reduce refinancing, interest rate and credit risks by profiling the borrowing portfolio against a benchmark. Liability bencharks are broken down between the CA general fund and the ringfenced Police Fund in accordance with CIPFA guidance. There is

no mismatch between the actual loan debt outstanding and the liability benchmark based on the current forecast.

33. 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.

Minimum Revenue Provision (MRP) Policy Statement

34. Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

35. The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The recommended MRP statement is as follows:

    a) For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be 4% reducing balance

    b) From 1 April 2008 for all unsupported borrowing the MRP policy will be Asset life method (annuity) – MRP will be based on the estimated life of the assets such as land and buildings.

36. Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational. The Combined Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

37. The CA’s policy is to finance shorter lived assets from capital receipts, grants and contributions where possible, with borrowing generally reserved for long term assets generated such as land and buildings.

Annex 1 - Treasury Management Strategy Statement Performance Indicators

DM10e		Current year 2022.23 Forecast	Year+1 2023.24 Estimate	Year+2 2024.25 Estimate	Year+3 2025.26 Estimate
PRUDENTIAL CODE INDICATORS					
CAPITAL EXPENDITURE					
Estimate of Capital Expenditure					
WYCA - General	£k	224,437	325,565	412,274	360,494
WYCA - Police Fund	£k	34,498	49,004	40,312	16,431
Total	£k	258,935	374,569	452,586	376,925
Capital Financing Requirement					
Borrowing					
WYCA - General	£k	100,188	116,280	152,756	218,016
WYCA - Police Fund	£k	113,983	144,493	166,448	168,101
Sub Total Borrowing	£k	214,171	260,773	319,204	386,117
Other Long Term Libilities					
WYCA - General	£k	0	0	0	0
WYCA - Police Fund PFI	£k	81,883	79,327	76,101	72,599
Sub Total Other Long Term Liabilities	£k	81,883	79,327	76,101	72,599
Total Capital Financing Requirement	£k	296,054	340,100	395,305	458,716
EXTERNAL DEBT					
Operational Boundary					
WYCA - General	£k	100,000	100,000	100,000	100,000
WYCA - Police Fund (incl. Other LTL PFI)	£k	200,000	233,000	253,000	253,000
Total		300,000	333,000	353,000	353,000
Authorised Limit					
WYCA - General	£k	229,000	282,000	345,000	318,000
WYCA - Police Fund (incl. Other LTL PFI)	£k	263,000	266,000	263,000	260,000
Total	£k	492,000	548,000	608,000	578,000
Actual External Debt (year end Forecast)					
WYCA - General					
PWLB	£k	50,000	50,000	50,000	50,000
Market (Inc LOBO)	£k	25,000	25,000	25,000	25,000
Short term (Actual)	£k	0	0	0	0
Total Gross External Debt	£k	75,000	75,000	75,000	75,000
Other Long Term Liabilities	£k	0	0	0	0
Total Including OLTL	£k	75,000	75,000	75,000	75,000
WYCA - PCC					
PWLB	£k	64,776	64,146	63,516	62,886
Market (Inc Fixed Rate)	£k	9,000	9,000	9,000	9,000
Short term (Actual)	£k	0	0	0	0
Total Gross External Debt	£k	73,776	73,146	72,516	71,886
Other Long Term Liabilities	£k	0	0	0	0
Total Including OLTL	£k	73,776	73,146	72,516	71,886
AFFORDABILITY					
Estimate of Financing Cost to Net revenue Stream					
WYCA - General					
Financing Cost	£k	7,045	7,134	6,798	6,993
Net Revenue Stream	£k	98,375	103,533	102,269	101,127
Ratio	%	7.16%	6.89%	6.65%	6.92%
WYCA - PCC					
Financing Cost	£k	11,966	12,010	11,878	12,054
Net Revenue Stream	£k	147,863	159,533	167,947	173,070
Ratio	%	8.09%	7.53%	7.07%	6.96%
INVESTMENTS - WYCA General Only					
Limit on non-Treasury Investments		20,000	20,000	20,000	20,000
Estimate of Net Income from Investments for Commercial and Service Purposes					
Income	£k	108	108	75	57
Ratio of Income from Commerical and Service Puposes to Net revenue Stream	%	0.11%	0.10%	0.07%	0.06%
Net Income from Investments for Commercial and Service Purposes as a Proportion of usable Reserves					
Useable Reserves	£k	346,053	430,000	300,000	210,000
Ratio of Income from Commerical and Service Puposes to Usable reserves	%	0.03%	0.03%	0.03%	0.03%

TREASURY MANAGEMENT CODE INDICATORS

Liability Benchmark for Borrowing — See Annex 2

Liability Benchmark for Investments — Not Applicable

			CA General Fund		Police Fund	
Maturity Structure of Borrowing 2023/24	Lower	Upper	*Projected £m* 31/03/2023	%	*Projected £m* 31/03/2023	%
under 12 mths	**0%**	**30%**	-	0%	-	0%
12 mths and within 24 mths	**0%**	**20%**	-	0%	-	0%
24 mths and within 5 years	**0%**	**50%**	-	0%	-	0%
5 years and within 10 years	**0%**	**75%**	-	0%	5	7%
10 years and within 20 years			-		-	
20 years and within 30 years			9		52	
30 years and within 40 years	**25%**	**100%**	41	100%	-	93%
40 years and within 50 years			15		17	
50 years and above			10		-	
			75	100%	74	100%

Upper limit for long term Teasury Investments to mature in following years		
Year +1	20,000	20,000
Year +2	20,000	20,000
Year +3	20,000	20,000

Annex 2 – Liability Benchmark