Appendix 1

York and North Yorkshire Combined Authority

Treasury Management Strategy 2024/25 and Prudential Indicators

Purpose

1. In accordance with statutory guidance this report presents the 2024/25 position for the proposed Treasury Management Strategy.

Background

2. Treasury management is defined as ‘the management of the authority’s investments and cash flows, 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’.

3. The Authority operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure incurred. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, with the main aims of providing sufficient liquidity and security, with the achievement of the best possible investment returns ranking as less important.

4. The second main function of the treasury management service will be to arrange the funding of any future capital programme, which would provide a guide to the borrowing need of the Authority along with the requirement for longer term cash flow planning to ensure capital spending requirements can be met. The management of longer-term cash may involve arranging long or short-term loans, utilising longer term cash flow surpluses and, occasionally, debt restructuring to meet the Authority’s risk or cost objectives. The York and North Yorkshire Combined Authority (‘The Authority’) will have powers to borrow for activities subject to the negotiation of a debt cap with His Majesty’s Treasury.

5. The Authority adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of the Authority’s capital expenditure plans and its Prudential Indicators (PIs). This requires that Members agree the following reports, as a minimum:
   i. An annual Treasury Management Strategy in advance of the year (this report);
   ii. A mid-year Treasury Management Review;
   iii. An annual review following the end of the year describing the activity compared to the strategy.

6. The 2021 Prudential Code introduced a requirement for the monitoring and reporting of treasury management performance against forward looking indicators at least quarterly, and this information will be reported as part of the Combined Authority’s revenue and capital monitoring.

7. This strategy provides a summary of the following for 2024/25:
   - the borrowing strategy;
   - policy on borrowing in advance of need;

- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers
- the Minimum Revenue Provision (MRP) policy.

8. This covers the requirements of the various statutory requirements, codes and guidance that cover the Treasury Management activity, including the Local Government Act 2003, the CIPFA Prudential Code, Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and Communities and Local Government Investment Guidance.

Treasury Management Consultants

9. The Authority has a Service Level Agreement with North Yorkshire Council for Treasury Management Services. North Yorkshire Council use Link Group, as their external treasury management advisors.

10. The Authority recognises that responsibility for treasury management decisions remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

Training

11. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and training will be arranged as required. There is a further requirement that the training needs of treasury management officers are periodically reviewed.

Borrowing Strategy

12. The following sources of long-term and short-term borrowing have been identified for approval:

    - Public Works Loan Board (PWLB);
    - UK local authorities;
    - UK public/private sector pension funds;
    - European Investment Bank; and
    - Local authority special purpose vehicles created to enable local authority bond issues (for example the Municipal Bonds Agency)

13. At this stage, there are no capital expenditure plans for the Authority and it has no external debt. Before any borrowing is undertaken, the Treasury Management Strategy will be considered and appropriate limits to borrowing activity will be set in accordance with the regulations.

14. In order to align with the revised 2021 Treasury Management Code, the Authority will consider the need for borrowing against short term investments, the cash flow forecast and the liquidity requirements of the Authority. Where the investment portfolio can sufficiently provide an appropriate level of liquidity without exposing the Authority to undue liquidity risk then a policy of avoiding/delaying new borrowing will be deployed.

15. This will run down cash balances and avoid the 'cost of carry' – any borrowing undertaken that results in a temporary increase in investments will usually incur a revenue loss between borrowing costs and investment returns. However, liquidity forecasts need to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

16. To comply with the revised Treasury Management Code, liquidity risk management is considered where 'This organisation will not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the organisation'

17. Any decisions will be reported to the Combined Authority and Audit Committee at the next available opportunity.

Policy on Borrowing in Advance of Need

18. The Authority will not borrow more than, or in advance of, its needs, purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be made within approved Capital Financing Requirement (CFR) estimates and following careful consideration, in order to demonstrate value for money and ensure the security of such funds.

19. Any risks associated with activity to borrow in advance will be subject to prior appraisal and will be subsequently accounted for in the Treasury Management report that follows.

Minimum Revenue Provision (MRP) policy statement

20. 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, known as Minimum Revenue provision (MRP). The Authority is also allowed to undertake additional voluntary payments, the Voluntary Revenue provision (VRP), if required.

21. 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 MRP Guidance gives four ready-made options for calculating MRP, however the Authority can use any other reasonable basis that it can justify as prudent.

22. At this stage, no borrowing is expected during the year however the MRP policy statement has been included for approval for completeness and to ensure the Authority has covered all the requirements of the Prudential Code. The MRP policy statement requires Combined Authority approval in advance of each financial year. The Combined Authority is recommended to approve the following MRP Statement:

a) For all unsupported borrowing the MRP policy will be;

Asset life method (option 3 of the statutory guidance) – MRP will be based on the estimated life of the assets using equal instalments of principal. In accordance with the regulations this option must also be applied for any expenditure capitalised under a Capitalisation Direction.

The asset life method provides for a reduction in the borrowing need over the asset's life.

b) For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made each year (and the loan can be classified as service expenditure) the Authority will not make MRP unless an actual or expected credit loss is recognised on any capital loan and then the MRP charge in the year will not be less than the loss amount. Where a shortfall is expected the S73 Officer will make an individual assessment on a prudent level of MRP to be made.

c) For capital expenditure on investment / development properties, under the current Government proposed amendments, where loan repayments are received in year those capital receipts will be used to reduce the CFR in that year. However, where no capital receipt is received, or where no future capital receipts are anticipated, a prudent level of MRP will be charged based on the asset life method using equal instalments of principal

Investment Strategy

23. The Authority will potentially hold significant cash balances from funds received before related expenditure is incurred. A strategy for the investment of these funds is required.

24. The revised 2021 Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes:
   (a) Treasury Management – arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use.
   (b) Service Delivery – investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".
   (c) Commercial return – investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e. that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

25. The Combined Authority's investments primarily relate to category a) and it holds no investments primarily for commercial return (category c). This strategy relates to the category a) Treasury Management investments.

26. The Authority's cash investment policy is governed by Department for Levelling Up, Housing and Communities (DLUHC) guidance. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security, liquidity and rate of return, or yield, of its investments. Of these three criteria the first two, security and liquidity, are most important, ahead of achieving the highest yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

27. In accordance with the guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Authority will apply minimum acceptable credit criteria in order to generate a list of creditworthy counterparties, with investment limits set so that investments are diversified. Credit ratings agencies will be used but will not be the sole determinant of investment quality and the assessments will also take account of other information that reflects the opinion of the markets. To this end the Authority will engage with its advisers to maintain a monitor on market pricing (e.g. "credit default swaps") and overlay that information on top of the credit ratings. Information in the financial press, share price and other banking sector information will also be used as appropriate.

28. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Accordingly, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

29. For its cash flow generated balances (cash required for liquidity purposes), the Authority will use instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days) to benefit from the compounding of interest.

30. **SPECIFIED INVESTMENTS**: All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

31. **NON-SPECIFIED INVESTMENTS**: These are any investments which do not meet the specified investment criteria. A maximum of 20% will be held in aggregate in non-specified investment.

32. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

33. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

    SPECIFIED INVESTMENTS:
    (All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

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	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies **	Colour Band Green	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use
UK part nationalised banks	Colour Band Blue	In-house

Other specified investments

	Minimum 'High' Credit Criteria	Use
UK Government Gilts	UK sovereign rating	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	AA or Government backed	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is explicitly guaranteed by the UK Government e.g., National Rail	AA or Government backed	In-house buy and hold and Fund Managers
Treasury Bills	UK sovereign rating	In house and Fund Managers

Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs): -

	Minimum 'High' Credit Criteria	Use
1a. Money Market Funds (CNAV)	Funds must be AAA rated (MMF rating)	In-house and Fund Managers
1b. Money Market Funds (LVNAV)	Funds must be AAA rated (MMF rating)	In-house and Fund Managers
1c. Money Market Funds (VNAV)	Funds must be AAA rated (MMF rating)	In-house and Fund Managers

34. **Accounting treatment of investments -** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

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NON-SPECIFIED INVESTMENTS: A maximum of £15m will be held in aggregate in non-specified investment

	Minimum Credit Criteria	**Use**	**Maximum investments**	**Maximum maturity period**
Term deposits – local authorities with maturities greater than 1 year	--	In-house	£15m	5 yrs
Term deposits – banks and building societies with maturities greater than 1 year	Colour band Purple	In-house	£15m	5 yrs
Certificates of deposit issued by banks and building societies with maturities greater than 1 year	Colour band Purple	In-house	£15m	5 yrs
Certificates of deposit issued by banks and building societies with maturities greater than 1 year	Short-term F1, Long-term A- (Fitch or equivalent)	Fund Managers	£15m	5 yrs
Collateralised deposits	UK sovereign rating	In-house	£15m	5 yrs
UK Government Gilts with maturities greater than 1 year	UK sovereign rating	In-house and Fund Managers	£15m	5 yrs
Bonds issued by multilateral development banks with maturities greater than 1 year	AA or Government backed	In-house and Fund Managers	£15m	5 yrs
Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)				
Property Funds	Organisations assessed as having “high credit quality”	In-house after consultation with Treasury Management Advisor	£15m	10 yrs

APPROVED SOURCES OF LONG TERM AND SHORT TERM BORROWING

The approved sources and types of funding are shown below.

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

Creditworthiness Policy

35. The primary principle governing the Authority's investment criteria is the security of its investments; although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:

- it maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security and arrangements for monitoring their security; and
- it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

36. Through the Service Level Agreement with NYC, the Authority will apply the creditworthiness policy used by NYC.

37. Typically the minimum credit ratings criteria used by the Authority will be a short term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be

given to the whole range of ratings available or other topical market information to support their use.

38. All credit ratings will be monitored daily and if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

39. In addition to the use of credit ratings, the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Authority's lending list.

Non-Treasury Investments

40. Separately from treasury investments, the Authority may make loans and investments in support of service priorities and this may mean they generate a commercial return.

41. Where an authority invests in other financial assets and property with the main aim of generating a financial return, the Prudential Code guidance is that the investments should be proportionate to the authority's level of resources and the same robust procedures for the consideration of risk and return should be followed as for other investments.

42. The Authority recognises that investments such as these, taken for non-treasury management purposes, require careful investment management and that it is important that there are agreed processes to ensure there is effective due diligence and that the investments fit with the Authority's agreed risk profile. This type of investment will require greater consideration by members and officers before being authorised for use.

Treasury Management Indicators

43. Maturity Structure of Borrowing – these gross limits are set to reduce the Authority's exposure to large sums falling due for refinancing. The upper and lower limits on the maturity structure of fixed rate borrowing are:

	Lower Limit	**Upper Limit**
Under 12 months	0%	15%
12 months to 2 years	0%	15%
2 years to 5 years	0%	15%
5 years to 10 years	0%	25%
10 years to 20 years	0%	25%
20 years and above	0%	45%

44. Principal Sums Invested for Periods Longer than 365 days – the purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments:

	2024/25	2025/26	2026/27
Principal sums invested > 365 days	£15m	£15m	£15m

Prudential Indicators

45. The Local Government Act 2003 requires the Authority to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

46. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

47. Capital Expenditure – this indicator summarises the Combined Authority's capital expenditure plans for the current financial year and the three subsequent years, together with the proposed sources of financing.

48. Capital Financing Requirement (CFR) – the CFR is a measure of the Authority's underlying borrowing need for a capital purpose.

49. Operational Boundary and Authorised Limit – the Operational Boundary is the limit which external borrowing is not normally expected to exceed. Periods where the actual position is either below or above the boundary is acceptable subject to the authorised limit not being breached. The Authorised Limit represents a control on the maximum level of borrowing and is a statutory limit determined under section 3 (1) of the Local Government Act 2003. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

50. As the Combined Authority does not yet have a capital programme and does not have any debt, these indicators are not required at this time. As soon as there are any capital plans for the new Authority, this Strategy will updated to ensure appropriate indicators and controls are in place prior to any capital expenditure being approved.

Appendix 1

Appendix A

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody’s and S&P) and also, (except - at the time of writing - for Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- France

AA-

- Belgium
- U.K

Appendix 1

Appendix B

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Combined Authority

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy.
- approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.
- approving the selection of external service providers and agreeing terms of appointment.

(ii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

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Appendix C

THE TREASURY MANAGEMENT ROLE OF THE SECTION 73 OFFICER

The Authority delegates responsibility for the execution and administration of Treasury Management decisions to the Director of Resources, who will act in accordance with the Authority's TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management. In addition, the Authority delegates responsibility for the execution and administration of Treasury Management decisions to the Corporate Director - Resources, including any borrowing and debt rescheduling.

The S73 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budgets variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit and liaising with external audit.
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees

- ensuring that members are adequately informed and understand the risk exposures taken on by an authority

- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following*: -*
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.*

    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.*

    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.*

    - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken.*

    - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*