Appendix Two

Combined Authority Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2024/25

Introduction

CIPFA published the revised Treasury Management Code and Prudential Code on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. The Combined Authority, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to the Combined Authority for approval.

1. Background

1.1 The Combined Authority is required to operate a balanced budget which broadly means that expenditure incurred during the year will be met through cash raised during the year. Part of the treasury management operation is to ensure that cash flow is adequately planned, with cash available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially, before considering investment return.

1.2 The second main function of the Combined Authority's treasury management activities is the funding of its capital plans. The capital plans provide a guide to the borrowing need of the Combined Authority, essentially the longer-term cash flow planning to ensure that the Combined Authority can meet its capital spend obligations. The management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. On occasions, when it is prudent and economic, any debt previously drawn may be restructured to meet cost or risk objectives.

1.3 The contribution the treasury management function makes to the Combined Authority is critical as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest cost of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested as a loss of principal will in effect result in a loss to General Fund Balance.

1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activity, arising usually from capital expenditure, and are separate from the day-to-day treasury management activities.

CIPFA defines treasury management as:

"The management of the Combined Authority's borrowing, 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."

Reporting Requirements

1.5 The CIPFA 2021 Prudential and Treasury Management Codes detail the reporting requirements for the Combined Authority. From a treasury perspective, the Combined Authority is required to receive and approve as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These can be summarised as:

- An annual treasury management strategy and prudential and treasury indicators - the capital plans, (including prudential indicators).
  - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
  - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
  - an investment strategy, (the parameters on how investments are to be managed).
- A mid-year treasury management report providing an update on progress of the capital position and amending treasury and prudential indicators if required; and
- An outturn treasury report detailing the outturn position and comparing performance against estimates included within the strategy.

1.6 In accordance with the code, in order to improve transparency and scrutiny, there is a requirement to report quarterly which will be incorporated into the Authority's reporting arrangements.

1.7 In addition to the treasury reporting requirements, the CIPFA 2021 Prudential and Treasury Management Codes require all Authorities to prepare a capital strategy report which will cover the following:

- a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

The aim of the capital strategy is to ensure that all Members of the Combined Authority fully understand the overall long term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.8 The capital strategy is reported separately from the Treasury Management

Statement, with non-treasury investments being reported through the former. The rationale for the separate reporting is to ensure there is a separation of the core treasury function with the focus on security, liquidity and yield principles and the non-treasury investments which are driven by expenditure on an investment with the intended purpose of generating a return. The capital strategy will show:

- The corporate governance arrangements in place for non-treasury investments.
- Any service objectives relating to these types of activities.
- The expected income, costs and resulting contributions.
- The debt related to the activity and the associated interest costs.
- The payback period (MRP Policy).
- For non-loan type investments, the cost against the current market value; and
- The risks associated with each activity.

Treasury Management Strategy for 2024/25

1.9 The Treasury Management Strategy for 2024/25 covers two main areas:

- **Capital issues.**
  - the capital expenditure plans and the associated prudential indicators;
  - the minimum revenue provision (MRP) policy.

- **Treasury management issues**
  - the current treasury position;
  - treasury indicators which limit the treasury risk and activities of the Combined Authority;
  - prospects for interest rates;
  - the borrowing strategy;
  - policy on borrowing in advance of need;
  - debt rescheduling;
  - the investment strategy;
  - creditworthiness policy; and
  - the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

1.10 **Training**

The CIPFA Treasury Management 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.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisation’s should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/ members.
- Require treasury management officers and board/members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed.

A formal record of the treasury management/capital finance training received by training received by officers central to the Treasury function and others, will be maintained within Finance.

1.11 The Combined Authority uses Link Group, Treasury solutions as its external treasury management advisors. The Combined Authority recognises that responsibility for treasury management decisions remains with the organisation and seeks to ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors. The Combined Authority recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Combined Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subjected to regular review.

2. THE CAPITAL PRUDENTIAL INDICATORS 2024/25-2027/28

The Combined Authority's capital expenditure plans are a key driver of its treasury management activity, and the output of these plans are reflected in the Prudential Indicators. The prudential indicators are designed to assist members' overview and confirm capital expenditure plans.

2.1.1 **Capital Expenditure and Financing**

2.1.1 This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously and those forming part of the budget cycle. It should be noted that for Treasury Management purposes the capital forecasts assume that the expected slippage from the 2023/24 capital programme is deferred until 2024/25, even though this slippage has not yet formally been approved, with a value of c£128.9m (offset by appropriate slippage in grant and other funding). This is to ensure the Authority considers the most likely Treasury management scenarios. Hence the tables will not directly match those in the capital schedules across 2023/24 and 2024/25 but do so on a cumulative basis.

On this basis Members are asked to approve the capital expenditure forecasts:

	2023/24 Forecast	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
	£m	**£m**	**£m**	**£m**	**£m**
Combined Authority Group Capital Spend	312,864	361,708	163,123	200,862	77,910

(1) A breakdown of the Merseytravel and Combined Authority capital spend is shown in the main body of the budget report subject to the 23/24 slippage point as noted.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources can result in a funding borrowing need if liquid funds are not available at that point in time. The funding schedules in the capital programme assume that borrowing is required, but this will not always be the case over the short term.

Financing of capital expenditure (£m)	**2023/24 Forecast**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
Capital receipts	0	0	0	0	0
Capital grants	256,311	278,923	144,001	190,999	70,150
Capital Reserves	6,590	2,000	0	0	0
Revenue	8,277	44,657	11,961	9,863	7,760
Net financing need for the year	**41,686**	**36,129**	**7,161**	**0**	**0**

2.1.2 To the extent that the overall quantum of the programme detailed above increases and cannot be funded through other grants or reserves, this would result in an increase to the overall requirement to borrow.

2.1.3 In line with the Combined Authority's SIF strategy, funding can be provided to sponsors in a variety of formats: be that grant, loan or equity. To date, the Combined Authority has approved 9 separate repayable instruments on a mixture of commercial and sub commercial rates. Each project has been subject to a detailed viability assessment and modelling. Current proposals for non-financial investments are such that for the period through to 2024, all activity will be funded by the Combined Authority's devolution funding and borrowing. There is therefore a risk that the Combined Authority will not recover the full value of its investment which would reduce the value of recyclable funds available for reinvestment. In accordance with accounting standards these loans will be subject to an expected credit loss assessment, and to the extent that there is an impairment, this will be reported and accounted for accordingly.

2.2 The Combined Authority's Borrowing Need (Capital Financing Requirement)

2.2.1 The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR represents the historic outstanding capital expenditure that has not yet been paid for either through revenue or capital resources and therefore a measure of the Authority's indebtedness and underlying need to borrow.

2.2.2 To the extent that the Combined Authority undertakes capital expenditure for which there are no immediately available capital or revenue resources, this will increase the CFR. The CFR does not, however, increase indefinitely as the MRP is a statutory annual charge which broadly reduces indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

2.2.3 The Combined Authority is asked to approve the CFR projections below.

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Opening CFR	**603,756**	**634,036**	**653,115**	**642,193**	**623,829**
Net financing need for the year (above)	41,686	36,129	7,161	0	0
Less MRP and other financing movements	-11,405	-17,050	-18,083	-18,364	-18,364
Movement in CFR	**30,281**	**19,079**	**-10,922**	**-18,364**	**-18,364**
Closing CFR	**634,036**	**653,115**	**642,193**	**623,829**	**605,464**

2.3 Liability Benchmark

2.3.1 A third prudential indicator for 2024/25 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years as a minimum.

There are four components to the LB:

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flow forecast.
4. **Liability Benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

Liability Benchmark	**2023/24 Forecast**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
Existing Loan Debt Outstanding	292,395	276,903	261,334	248,376	236,359
Loans CFR	634,036	653,115	642,193	623,829	605,464
Net Loans Requirement	92,997	112,075	101,154	82,789	64,425
Liability Benchmark (or gross loans requirement)	127,997	147,075	136,154	117,789	99,425

2.4 Minimum Revenue Provision (MRP) Policy Statement

2.4.1 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).

2.4.2 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 (2018) gives four ready- made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

2.4.3 The Department of Levelling Up, Housing and Communities (DLUHC) regulations require the Authority to approve an MRP statement in advance of each financial year.

2.4.4 The regulations allow for an Authority to review and revise its MRP statement at any stage, providing that the overriding requirement that the resulting approach is prudent. Based on the regulations, the Authority revised the MRP Policy in

2022/23. No changes are proposed to the approach approved in 2022/23, therefore the Authority is recommended to approve the following MRP statement for application in 2024/25: -

- For historic capital expenditure (i.e. that incurred before 2008), MRP is calculated on the Reducing Balance Method (Option 2). MRP will be based on the estimated life of the assets, in accordance with the regulations. It is proposed to apply a period of 48 years as the period which is proxy for the underlying asset's remaining life.

- For new (unsupported) borrowing, the Authority intends to take a more nuanced, principle-based approach to the calculation of MRP. The approach to the calculation will be guided by whether the borrowing relation is related to the creation or enhancement of an asset or whether the borrowing is to support the provision of a loan or other form of investment within another organisation.

  Where the borrowing underpins the acquisition and enhancement of assets funded through borrowing is that an Asset Life Method is used to calculate MRP (Option 3 under the MHCLG guidance). Under the guidance there are two approaches that can be applied for calculating MRP under the Asset Life Method: Equal Instalments or the Annuity Method. The Authority will make the decision as to the specific approach to be adopted on a case-by-case basis determining what is most appropriate and prudent based on the underlying asset.

  For capital expenditure that is classified as such under Regulation 25(1) of the Local Government Act 2003, the rebuttable presumption will be that a revenue provision will be made and that MRP will be calculated in accordance with Option 3 (Asset Life Method) applying the maximum life value detailed in the statutory guidance.

This presumption will be challenged on a case-by-case basis and to the extent that the Authority is seeking to make a loan to a third party, the approach to making a prudent provision will be made giving due consideration to a variety of factors including the following:

- Whether the loan is being made on commercial or sub commercial rates;
- The duration of the loan;
- The financial standing of the borrower;
- The degree of perceived risk to the underlying capital sums invested;
- The strength or existence of covenants that underpin any loans; and
- The structure of the loan and subsequent repayments.
- Where loans are made to support policy objectives or there is a degree of risk that the capital will not be repaid either in full or in part, then a revenue provision will be made using Option 3 as detailed above.

Where loans are made where there is a higher degree of confidence in repayment and the regular repayment over the life of the agreement, then the Authority will seek to set aside capital receipts arising from the repayment of the loan to reduce the CFR as opposed to making an annual provision for MRP.

Where loans are made where there is a high degree of confidence in repayment but where repayment is irregular or is on expiration of the loan, then the Authority will make a revenue provision in accordance with Option 3 using an asset life as determined through this method. To the extent that the loan is repaid over a shorter timescale, capital receipts from repayment would be used to write down any remaining CFR liability relating to the loan.

2.5 Borrowing

2.5.1 The capital expenditure plans set out in Section 2.1 provide details of the service activity of the Combined Authority. The treasury management function ensures that the Combined Authority's cash is organised in accordance with professional codes, so that sufficient cash is available to meet the service activity and its capital strategy. This will involve organising cash flows and appropriate borrowing facilities as necessary.

Current Portfolio Position

The overall treasury management portfolio as at 31 March 2023 and for the estimated position as at 31 March 2024 are shown below for both borrowing and investments.

TREASURY PORTFOLIO						
	actual 31.3.23 £000	actual 31.3.23 %	current 31.01.24 £000	current 31.01.24 %	Estimate 31.03.24 £000	Estimate 31.03.24 %
Treasury Investments						
Banks	119,493	35%	149,949	42%	80,130	33%
Local Authorities	86,521	25%	91,000	25%	65,000	27%
Certificates of Deposit	112,209	33%	110,030	30%	100,027	41%
Treasury Bills	23,002	7%	10,000	3%	0	0%
Total treasury investments	**341,225**	**100%**	**360,979**	**100%**	**245,157**	**100%**
Treasury External Borrowing						
PWLB	132,759	43%	129,315	43%	125,854	43%
European Investment Bank	168,197	55%	165,082	55%	161,967	55%
Transferred Debt	6,864	2%	5,720	2%	4,576	2%
Total External Borrowing	**307,820**	**100%**	**300,117**	**100%**	**292,397**	**100%**
Net Treasury Investments / (Borrowing)	**33,405**		**60,862**		**(47,240)**	

2.5.2 The table below provides an analysis of the Combined Authority's outstanding debt as at 31 March 2024.

Outstanding Debt as at 31 March 2024	Principal £m	Average Rate %
Public Works Loan Board (PWLB) EIP Loans	30.066	4.92
PWLB Annuity Loans	42.477	6.9
PWLB Maturity Loans	53.311	4.51
European Investment Bank	161.967	1.51
Transferred Debt	4.576	4.83
Total	**292.397**	

2.5.3 The Combined Authority's forward projections for borrowing are summarised below showing actual external debt against the underlying capital borrowing need (the CFR) highlighting any under or over borrowing.

External Debt	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
External and Transferred Debt 1 April	307.82	292.40	276.90	261.33
Forecast Change in Debt	(15.42)	(15.50)	(15.57)	(17.05)
Gross Debt 31 March	292.40	276.90	261.33	248.38
Capital Financing Requirement	(634.04)	(659.80)	(648.69)	(630.13)
(Under)/ Over Borrowing	**(341.64)**	**(382.90)**	**(387.36)**	**(381.75)**

2.5.4 Within the range of prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

2.5.5 The Executive Director of Corporate Services reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals contained within the budget report.

Treasury Indicators: Limits to Borrowing Activity

2.5.6 **The Operational Boundary** is the limit beyond which external debt is not normally expected to exceed. Ordinarily this would be a figure commensurate with the CFR however this may be lower or higher depending on the Authority's levels of actual debt and its ability to fund under borrowing by other cash resources. The table below summarises estimated operational boundary for the current and subsequent three years.

Operational Boundary	**2023/24 Forecast**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Debt	531,544	540,251	527,936	511,193
Other Long Term Liabilities	5,400	5,100	4,800	4,500
Total	**536,944**	**545,351**	**532,736**	**515,693**

2.5.7 **The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents the legal limit beyond which external debt is prohibited. The limit for this key prudential indicator is set by the Authority and therefore any changes to this limit must be agreed by the Authority also. The Authorised Limit reflects the level of external debt which, whilst not desirable or sustainable over the longer term, could be afforded in the short term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities plans, or those of a specific Authority, although this power has not yet been exercised.
2. The Authority is asked to approve the following Authorised Limit below:

Authorised Limit	**2023/24 Forecast**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Debt	634,036	653,115	642,193	623,829
Other Long-Term Liabilities	5,400	5,100	4,800	4,500
Total	**639,436**	**658,215**	**646,993**	**628,329**

2.5.8 The Combined Authority has appointed Link Asset Services as its treasury advisors and part of their service is to assist the Combined Authority to formulate a view on interest rates. The table below provides an overview of Link Group's view of interest rates. Link provided the following forecasts on 8th January 2024. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 08.01.24	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

2.5.9 The above forecast table reflects a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least June 2024.

2.5.10 Rate cuts are expected to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness. Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

2.5.11 In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

2.5.12 On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

2.5.13 For the PWLB the yield curve movements have broadened since previous updates. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is c70 basis points difference between the 5- and 50-year parts of the curve.

Borrowing Strategy

2.5.14 The Authority is currently maintaining an under borrowed position, which means that the CFR, the underlying need to borrow, has not been fully funded by loan debt as cash supporting the Authority's balances and reserves have been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. Given the quantum of the capital programme in relation to rolling stock, there may be an absolute need to borrow additional funds at some point. With the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Executive Director of Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

2.5.15 Whilst investment returns remain subdued and a relative dearth of high-quality counterparties remains an issue, the strategy of utilising cash balances is considered prudent. Against this background, the Director of Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances and satisfying the need to borrow, seeking to identify the options that are available and provide value for money for the Combined Authority.

- If it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or risks of deflation), the borrowing will be postponed.
- If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Policy on Borrowing in Advance of Need

2.5.16 The Authority will not borrow more than or in advance of need purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be forward approved within the Capital Financing Requirement estimates and will be considered carefully to ensure value for money can be demonstrated and security of funds evidenced. Risks associated with borrowing in advance of need will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

2.5.17 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates. If rescheduling is to be undertaken, it will be reported to the Authority, at the earliest meeting following its action.

2.6 New financial institutions as a source of borrowing and types of borrowing

2.6.1 The main source of borrowing for the Authority is PWLB which currently has its Certainty Rates set at gilts + 80 basis points. However, consideration will also be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks)

2.7 Approved Sources of Long- and Short-term Borrowing

2.7.1 Whilst in practice the Combined Authority will tend to draw its substantive borrowing requirement through the PWLB, it also has access to a number of other sources of fixed and variable funding as detailed below.

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
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	●	●

2.8 Annual Investment Strategy

2.8.1 In conducting its investment activity, the Combined Authority will have regard to the DLUHC's Guidance on Local Government Investments and the 2021 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Combined Authority's overriding investment priorities are the security of capital and liquidity of investments.

2.8.2 Whilst DLUHC and CIFPA have extended the meaning of investments to include both financial and non-financial investments, the Annual Investment Strategy as detailed below deals solely with the financial (treasury) investments. Non-financial investments, essentially the purchase of income yielding assets, are covered within the Capital Strategy.

2.8.3 The Authority will seek to obtain the optimum return on its investments commensurate with the desired level of security and liquidity. Risk appetite is low with investment decisions giving priority to security of investments. The Authority does not borrow purely to invest or on-lend to make a return.

2.8.4 The Authority has a clearly stipulated minimum acceptable level of credit quality of Counterparties which feeds into its Counterparty lending list. The creditworthiness methodology used to create the Authority's list takes account of the ratings provided by FITCH and/ or Moody's, two of the three main ratings agencies. All investments made during 2024/25 will be made in accordance with the Annual Investment Strategy detailed in Annex Two.

Appendices: -
Annex One – Outlook for Interest Rates
Annex Two – Annual Investment Strategy 2024/25
Annex Three – Treasury Management Limits and Prudential Indicators
Annex Four – Treasury Management Scheme of Delegation
Annex Five – The Treasury Management Role of the Section 151/ 73 Officer

ANNEX ONE

OUTLOOK FOR INTEREST RATES

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

PWLB forecasts are based on PWLB certainty rates.

ANNEX TWO

ANNUAL INVESTMENT STRATEGY 2024/25

The purpose of this Strategy is to outline, for approval by the Combined Authority:

- The Combined Authority's overriding investment objectives;
- The investments the Combined Authority will use for the prudent management of surplus funds during the financial year 2024/25 and the management of risk.
- The procedures for determining the use of each asset class;
- The maximum periods for which funds may be prudently committed in each class;
- The upper limits to be invested in each class;
- The extent to which prior professional advice needs to be sought from the Combined Authority's Treasury Advisors prior to use; and
- The minimum amount to be held in short term investments.

Investment Objectives

The Combined Authority's investment decisions are governed by the need to ensure that all decisions are prudent and ensure the security of capital and liquidity of investments are paramount.

The Combined Authority will seek to ensure an optimum return on the investment of all surplus funds commensurate with the required levels of liquidity and security, having properly assessed the inherent risk associated with different investment options.

The Combined Authority will not engage in treasury borrowing activity solely for the purpose of investment or on-lending to make a return.

Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC – this was formerly the Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report, Annex Two deals solely with treasury (financial) investments, as managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, Appendix Two.

The Combined Authority's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")

- CIPFA Treasury Management Guidance Notes 2021

The Combined Authority's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Combined Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Combined Authority's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Combined Authority will also consider the value available in periods up to 12 months with high credit rated financial institutions.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. **Credit Criteria**
   A minimum acceptable credit criteria is applied in order to generate a list of highly creditworthy counterparties. This enables diversification and thus avoidance of concentration of risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information**
   Ratings will not be the sole determinant of the quality of an institution, it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Combined Authority will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the ratings.

3. **Other information sources**
   The Combined Authority will pay consideration to other information sources such as the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. **Types of investment instruments**
   The Combined Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Annex 2.1 under the categories of 'specified' and 'non-specified' investments.
   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.
   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year and/or are more complex

instruments which require greater consideration by members and officers before being authorised for use.

The table attached as Annex 2.1 provides further guidance on Specified and Non-Specified Investments.

5. **Non-specified and loan investments limits**. The Combined Authority has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 40%.

6. **Lending limits,** amounts and maturity, for each counterparty will be set through applying the matrix table in Annex 2.2.

7. **Transaction limits** are set for each type of investment in Annex 2.2.

8. **Sovereign ratings** investments will only be placed with counterparties from the UK (sovereign rating not applicable) and countries with a specified minimum sovereign rating.

9. The Combined Authority will set a limit for the amount of investments which are invested **for longer than 365 days.**

10. **External Consultants** The Combined Authority has engaged external consultants to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling.**

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, the Combined Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the MHCLG (now DLUHC), concluded a consultation for a temporary override to allow English authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31st March 2023. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.

The Combined Authority will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in the risk management policy from last year

The above criteria are unchanged from last year.

Creditworthiness Policy and Liquidity

The Combined Authority relies on credit ratings published by FITCH or Moody's two independent rating agencies to establish the credit quality of Counterparties. Credit ratings are reviewed on an ongoing basis to ensure that prompt action can be taken to remove institutions whose ratings fall below the minimum threshold applied by the Combined Authority. When setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK. The proposed Counterparty criteria is appended to this report at Annex 2.2.

Within the framework detailed in Annex 2, the Combined Authority seeks to maintain at least £30m of investments in liquid instant access/ call accounts to ensure that there is adequate liquidity maintained to deal with unforeseen eventualities. On occasion balances will be higher than this threshold whilst seeking appropriate investment opportunities.

Investment Strategy

In-house funds. 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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow 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.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Currently the Combined Authority does not engage any external Fund Managers to invest monies on its behalf, however this position will be periodically reviewed to establish whether this option provides any opportunities for diversification. Any such consideration will be made in conjunction with the Combined Authority's treasury advisors and subject approval by the Director of Corporate Services.

Investment returns expectations

The current forecast shown in paragraph 2.4.8 of the report, includes a forecast for Bank Rate to have peaked at 5.25% in Q4 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, are as follows:

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts and short-dated deposits, in order to benefit from the compounding of interest.

Policy on the use of External Service Providers

The Authority uses Link Group Treasury Services as its external treasury management advisors. Whilst the responsibility for treasury management decisions remains with the Combined Authority, the value in employing an external treasury provider is recognised as means by which it can acquire access to specialist skills and resources. Notwithstanding this the Combined Authority will ensure that there is no undue reliance on an external service provider.

Reporting Arrangements

The Authority will receive reports on Treasury Management activity: a forward-looking strategy will be submitted for approval, a mid- year Strategy review, and a year- end report which will consider outturn performance in light of the strategy set at the start of the year.

In accordance with the code, in order to improve transparency and scrutiny, there is a requirement to report quarterly which will be incorporated into the Authority's reporting arrangements.

ANNEX 2.1

SPECIFIED AND NON-SPECIFIED INVESTMENTS

Table 1 Specified Investments

Investments	Minimum Credit Rating	Use
Term deposits UK banks and building societies	See Annex 2.2	In house
Term deposits – UK Government or Local Authorities	High security although few local authorities are credit rated	In house
Call Account Facilities	See Annex 2.2	In house
Notice Account Facilities	See Annex 2.2	In house
Term Deposits – non-UK banks and building societies	See Annex 2.2	In house
Debt Management Agency Deposit Facility	UK Government backed	In house
Certificates of Deposit	See Annex 2.2	In house
Treasury Bills	UK Government backed	In house
Money Market Funds	AAA	In house

All Specified Investments must be sterling denominated and have maturities of up to 1 year.

Table 2 Non-Specified Investments

Investments	Minimum Credit Rating	Use	Maximum Duration
Term deposits - UK banks and building societies (exceeding 365 days)	See Annex 2.2	In house	2 years
Term deposits – UK Government or Local Authorities (exceeding 365 days)	High security although few local authorities are credit rated	In house	2 years
Term Deposits – non-UK banks and building societies (exceeding 365 days)	See Annex 2.2	In house	2 years
Certificates of Deposits	See Annex 2.2	In house – after consultation with Treasury Advisors	2 years
Callable Deposits	See Annex 2.2	In house – after consultation with Treasury Advisors	2 years
Structured Deposits	See Annex 2.2	In house – after consultation with Treasury Advisors	2 years
Forward Deposits	See Annex 2.2	In house – after consultation with Treasury Advisors	2 years in total

ANNEX 2.2

COUNTERPARTY CRITERIA

Counterparty Category	Minimum Credit Rating			Maximum Investment (£m)	Maximum Duration
	Sovereign	**Long Term**	**Short Term**		
United Kingdom	**N/A**				
Treasury Bills	AAA rated and Government backed			£10m per investment (£80m in total)	2 years
Local Authorities, other Public Sector Bodies incl DMO	AAA rated and Government backed			£10m per LA, £50m per LA within the LCRCA (£150m total)	2 years
Part Nationalised Banks**	Government backed			£70m	2 years
Money Market Funds	AAA Rated			£10m per fund (£40m in total)	On call
Combined Authority Main Banker		A	F1/P1	Up to a maximum of £200m	On call
Banks		A+	F1/P1	£20m* per investment (£80m total per institution or up to £100m for CA Main Banker)	2 years
		A	F1/P1	£10m* per investment (£40m total per institution)	12 months
Building Societies		A	F1/P1	£10m per investment (£40m in total)	12 months
		A -	F1/P1	£5m per investment (£20m in total)	12 months
Non-UK Sovereign	**AA- and above**				
Banks		A+	F1/P1	£20m* per investment (£80m total per institution or up to £100m for CA Main Banker)	2 years
		A	F1/P1	£10m* per investment (£40m total per institution)	12 months

* In the case of CD purchases, the maximum limit per investment is applied to the nominal value - an additional coupon will be added not exceeding the value of £10,000 per deal.

** Although the individual rating for the part nationalised banks falls below the criteria outlined above, due to the fact that they are part nationalised, as such these institutions take on the credit rating of the UK Government itself as deposits are essentially being made with the UK Government itself.

ANNEX THREE

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2027/28

Indicator	Description	23/24 Forecast	24/25 Forward Estimate	25/26 Forward Estimate	26/27 Forward Estimate	27/28 Forward Estimat
Capital Spend (£m)	Proposed capital spend to which the Authority plans to commit	312.86	361.71	163.12	200.86	77.91
In year Requirement	Additional borrowing requirement for capital expenditure	41.69	36.13	7.16	0.00	0.00
Capital Financing Requirement (£m)	This is the aggregation of historic and cumulative capital expenditure which has yet to be paid for through either capital or revenue resources	634.04	653.12	642.19	623.83	605.46
Ratio Financing Cost to Income Stream	Identified the impact and trend of revenue costs of capital financing decisions on the revenue budget	3.77%	12.61%	14.74%	14.39%	13.84%
Net Borrowing Requirement (£m)	Represents the net investments or borrowing requirement based on the debt and investments held	47.24	176.90	161.33	148.38	136.36
Authorised Limit for Borrowing (£m)	Represents the absolute limit of borrowing that could be raised and afforded in the short term however this is likely to be unsustainable in the long term	639.44	658.22	646.99	628.33	609.66
Operational Limit for Borrowing (£m)	Represents the level beyond which debt is not normally expected to exceed	536.94	545.35	532.74	515.69	498.93
Upper Limit for Fixed Interest Rate Exposure	These limits seek to ensure that the Authority does not expose itself to an inappropriate level of interest rate risk	100.00%	100.00%	100.00%	100.00%	100.00%
Upper Limit for Variable Interest Rate Exposure	These limits seek to ensure that the Authority does not expose itself to an inappropriate level of interest rate risk	30.00%	30.00%	30.00%	30.00%	30.00%
Gross Debt and the CFR (£m)	This indicator can highlight where an authority may be borrowing in advance of need	341.64	376.21	380.86	375.45	369.11
Liability Benchmark	This equals net loans requirement plus short-term liquidity allowance	128.00	147.08	136.15	117.79	99.42

ANNEX FOUR

TREASURY MANAGEMENT SCHEME OF DELEGATION

The Combined Authority

- Approves the annual Treasury Management Strategy Statement;
- Receives a mid-year report and an outturn report on Treasury Management activity.

The Executive Director of Corporate Services

- Draft and submit to the Authority the Treasury Management Strategy Statement prior to the start of the financial year;
- Implement and monitor these documents,
- Draft and submit mid-year and outturn reports to the Authority for approval;
- Maintain suitable Treasury Management Practices (TMP's) setting out the manner in which the Authority will seek to achieve its objectives. The TMP's will prescribe how the treasury activities will be managed and controlled;
- Be responsible for the execution and administration of treasury management decisions; and
- Act in accordance with the Authority's Policy Statement and Treasury Management Practices, and also in accordance with CIPFA's Standard of Professional Practice on Treasury Management

ANNEX FIVE

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151/ 73 OFFICER

The S151/73 (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 budget 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, including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management, including methodology and criteria for assessing the performance and success of non-treasury investments.*
    - *Decision making, governance and organisation, 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 including where and how often monitoring reports are taken.*
- *Training and qualifications, including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*