



Agenda

Governance and Audit Committee

Date: **Monday 22nd September 2025**

Time: **2.00 pm**

Place: **Ergo, Bridgehead Business Park, Hessle**

Membership

Councillor Calvin Neal	(Chair)
Councillor Margaret Corless	
Councillor Haroldo Herrera-Richmond	
Councillor Paul Hopton	
Councillor Tim Kemp	
Councillor Michael Lee	
Councillor Deborah Matthews	
Councillor Tim Norman	

For any further information relating to committee, agenda, reports, apologies and substitutions please contact the Democratic Services Officer, Paul Rawcliffe at Paul.Rawcliffe@hullcc.gov.uk or call democratic services on 01482 615016.

Item
1. APOLOGIES To note the apologies for absence received in advance of the meeting. <i>(Please notify Democratic Services before the meeting)</i>
2. DECLARATIONS OF INTEREST To receive declarations of interest in respect of agenda items.
3. APPOINTMENT OF CHAIR AND DEPUTY CHAIR To note the appointment of the Chair and to elect a Deputy Chair. <i>(Please notify Democratic Services of any nominations in advance of the meeting).</i>
4. NAMED SUBSTITUTES To note the details of any named substitute (councillor) to attend the meeting in place of a member of the committee. <i>(Please notify Democratic Services in advance of the meeting).</i>
5. TERMS OF REFERENCE AND FORWARD WORK PLAN To receive the report of the Interim Monitoring Officer.
6. INTERNAL AUDIT STRATEGIC PLAN AND CHARTER 2025-26 To receive the report of the Interim S.73 Officer.
7. FINANCE AND TREASURY MANAGEMENT UPDATE To receive the report of the Interim S.73 Officer.
8. Date of the next meeting: 10th December 2025

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- Attend all public combined authority meetings unless the business to be transacted would disclose 'confidential' or 'exempt' information.
- Inspect agenda and public reports before the date of the meeting.
- Access agenda and reports (relating to items to be considered in public) as well as membership of Overview and Scrutiny, Audit and Executive Board and any other relevant public combined authority committees, these are available at <https://www.hullandeastyorkshire.gov.uk/>

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Report to: Governance & Audit Committee

Date: 22 September 2025

Governance & Audit Committee Workplan 2025-26

**Report of the Strategic Director of Legal & Governance and Monitoring Officer
(Interim)**

1. Purpose of the Report and Summary

- 1.1. To present an outline workplan for the Governance & Audit Committee for 2025-26 (Appendix 1) which sets out report/project scheduling to cover areas of responsibility as set out in the Committee Terms of Reference (Appendix 2).
- 1.2. It is intended that the workplan will be more fully considered and developed at the scheduled away day in October during which appropriate linkages can be made with the wider governance structure. It is important that in the early stages of the Combined Authority that the Governance & Audit Committee workplan remains flexible and is regularly reviewed.

2. Recommendations

- 2.1. That the Governance & Audit Committee receives the outline workplan for 2025-26 as a baseline for further consideration and regular review.

3. Legal Implications

- 3.1. Governance matters to be considered by the Governance & Audit Committee are included in the workplan.

4. Financial Implications

- 4.1. Financial matters to be considered by the Governance & Audit Committee are included in the workplan.

5. Appendices

Appendix 1: Governance & Audit Committee Draft Workplan 2025/26

Appendix 2: Governance & Audit Committee Terms of Reference

Jayne La Grua
Strategic Director of Legal & Governance and Monitoring Officer (Interim)

Appendix 1



Governance & Audit Committee Workplan 2025-26 (v1)

	22 Sept 2025	10 Dec 2025	18 Mar 2026	xx July 2026
Governance				
Assurance Framework		✓		
Constitution		✓		
Policy Framework		✓		
Code of Conduct			✓	
Partnership Governance			✓	
Information Governance			✓	
Business Continuity				✓
Whistleblowing Policy		✓		
Financial				
Annual Accounts				✓
Annual Governance Statement				✓
Key Financial Updates	✓		✓	
Financial & Contract Procedure Rules		✓		
Treasury Management	✓	✓		✓
Internal Audit				
Internal Audit Plan & Charter	✓			
Internal Audit Progress Reports		✓	✓	
Annual Report & Opinion				✓
External Audit				
External Audit Plan & Strategy		✓		
External Audit Progress Reports			✓	✓
External Audit Annual Report				
Counter Fraud				
Counter Fraud Policies		✓		
Counter Fraud Updates (Proactive)		✓	✓	✓
Counter Fraud Updates (Reactive)		✓	✓	✓
Risk Management				
Risk Management Policy		✓		
Risk Update Reports		✓	✓	✓

Appendix 2

**Governance and Audit Committee Terms of Reference**

The Governance and Audit Committee is authorised:

1. To review and scrutinise the Combined Authority's financial affairs.
2. To review and assess the Combined Authority's risk management, internal control and corporate governance arrangements.
3. To make reports and recommendations to the Combined Authority in relation to reviews conducted under paragraphs 1 and 2 above.
4. To consider the findings of a review of the effectiveness of the system of internal control and approve the annual governance statement.
5. To consider and approve the statement of accounts.
6. To consider and approve the annual audit plan.
7. To consider external audit arrangements and reports and consider any audit letter from the local auditor following an audit.
8. To receive and consider an annual report from the External Auditor.
9. To promote and maintain high standards of conduct by members and co-opted members of the Combined Authority.
10. To advise the Combined Authority in relation to:
 - adopting, revising or replacing its Members' Code of Conduct;
 - appointing at least one independent person; and
 - arrangements for investigating and making decisions about allegations of failing to comply with the Members' Code of Conduct.
11. To consider and determine any allegation of failing to comply with the Members' Code of Conduct.



Report to: Governance & Audit Committee

Date: 22 September 2025

Internal Audit Strategic Plan and Charter 2025-26

Report of the interim Director of Finance (Section 73 Officer)

1. Purpose of the Report and Summary

- 1.1. This Internal Audit Strategic Plan represents a summary of the coverage that the SWAP Internal Audit team aims to deliver under the agreed SLA.
- 1.2. To develop an appropriate risk-based programme of work, SWAP have consulted with key officers and reviewed available documentation. As HEYCA develops, the Strategic Plan will be flexed accordingly in consultation with stakeholders.

2. Recommendations

- 2.1. It is recommended the Governance & Audit Committee agrees the Internal Audit Strategic Plan 2025-26 and Internal Audit Charter (& Mandate).

3. Background

- 3.1. Prior to the start of each financial year, the Chief Audit Executive, in conjunction with senior management, puts together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.
- 3.2. The Internal Audit Charter & Mandate defines the nature, role, responsibility, status and authority of internal auditing within HEYCA and outlines the scope of work, thereby providing context for consideration of the proposed Internal Audit Strategic Plan (Appendix 1 refers). This document has been reviewed in accordance with the new Global Internal Audit Standards (GIAS) effective from April 2025.

4. Legal Implications

- 4.1. The legal implications are set out in the attached Charter & Mandate.

5. Financial Implications

- 5.1. The financial implications are set out in the body of the attached report.

Julian Neilson
Interim Director of Finance (Section 73 Officer)

Contact Officers:

Julian Neilson, Interim Director of Finance (Section S73 Officer)
Benita Boyes, Chief Audit Executive (SWAP)

Background Papers:

None

Hull and East Yorkshire Combined Authority

Internal Audit Strategic Plan & Charter

September 2025

Internal Audit Strategic Plan

This Internal Audit Strategic Plan represents a summary of the coverage and approach that the SWAP Internal Audit team aims to deliver under the agreed SLA for HEYCA.

During 2025/26 an appropriate risk-based programme of work across the short and medium term will be developed by SWAP in consultation with key officers.

As HEYCA develops, the agreed Internal Audit plan will align and flex.

2025-26 Key Deliverables (Table 1 refers):

Assurance Mapping
Risk Management Maturity
Decision Making
Ethical Health
Combined Financial Systems
Procurement, Contracts, Partnerships
Strategic Themes



Internal Audit Strategy

Internal Audit provides an independent and objective opinion on the effectiveness of the organisation's risk management, governance and control environment. Delivering a programme of work comprising sufficient and appropriate coverage will enable us to offer a well-informed annual opinion.

Due to the evolving status of HEYCA it is difficult at this stage to precisely scope key organisational risks and associated assurance and advisory requirements. As such this strategy 'place-marks' potential key areas of coverage. This will be underpinned by more detailed planning during 2025/26 to ensure we are reviewing the right areas, with the correct scope, at the right time ensuring alignment with the changing risk profile of the organisation's operations, systems and controls and with regard to sector risks. The initial and regular input of senior managers and review of key documentation and risks will be considered in this process and reference made to other assurances across the '3 lines' through an assurance mapping approach.

In order to obtain a fuller understanding of HEYCA's strategies, key business objectives, associated risks, and risk management processes, a number of review areas have been identified to enable delivery of an annual opinion for 2025-26. A key focus of this initial activity is also to establish a baseline for integrated, risk-based and data driven assurance arrangements going forward.

The deal reached to create HEYCA comprises a £400 million pound investment fund to support various projects relate to transport, regeneration, employment, house building, and flooding and coastal erosion programmes. **The Combined Authority (via the Audit & Governance Committee) must ensure that coverage contained within the proposed Internal Audit Plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation and in the context of other assurances.**



Internal Audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. Internal Audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.

Internal Audit Indicative Programme

Each identified assurance theme would receive some aspect of coverage each year and this would be determined alongside key stakeholders at the point of review scoping.

Work around assurance mapping, risk management and decision making will be undertaken initially and will influence the breadth and scope of other assurance and advisory activity.



Table 1

Assurance Theme	Areas of coverage	Yr1	Yr2	Yr3
Governance	Assurance Mapping	✓		
	Risk (& Opportunity) Management	✓		✓
	Decision Making (Compliance with Constitution & policy framework)	✓		✓
	Ethical Health (Counter Fraud, Environment, Social Value)	✓	✓	✓
	Data Quality & Management Information		✓	
	Business Continuity & Disaster Recovery		✓	
	Information Governance & Security		✓	✓
Financial Resilience	Financial Control - Combined financial systems (incl workforce)	✓	✓	✓
	Financial Planning Management and Investment (incl capital)		✓	
	Value for Money Arrangements			✓
Contracts, procurement, Projects & Partnerships	Procurement & Contract Management	✓		✓
	Stakeholder Management/Partnership Governance	✓		
	Project Management		✓	✓
Strategic Themes	ASF		✓	✓
	SPF	✓		✓
	Transport	✓		✓
	Other		✓	

The required level and scope of assurances agreed by the Audit & Governance Committee will determine the resource input to deliver the Internal Audit Plan. This is expected to be in the range of 75 to 100 days in Year 1.

Internal Audit Service

SWAP Internal Audit Services is a public sector not-for-profit partnership.

SWAP already delivers Internal Audit services to both Hull City Council and East Riding of Yorkshire Council. As such, it is beneficial for SWAP to also deliver Internal Audit services to HEYCA.



Your Internal Audit Service

Conformance with Internal Audit Standards

SWAP's framework and methods comply with the International Professional Practices Framework of the Institute of Internal Auditors. At least every five years, SWAP is subject to an External Quality Assessment (EQA) of Internal Audit Activity. The last of these was carried out in **December 2024** which confirmed general conformance with the Public Sector Internal Audit Standards. From April 2025 (covering the 2025-26 Internal Audit Plan) the Global Internal Audit Standards (GIAS) will apply.

Conflicts of Interest

We are not aware of any conflicts of interest within HEYCA that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, & Competency.

Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy assignments, based on the potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted will contribute to our annual opinion and will be included in our plan of work.

Approach to Fraud

Internal Audit will assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who, through their own organisational structures and arrangements, should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

Internal Audit Charter & Mandate

The nature, role, responsibility, status and authority of internal auditing within HEYCA and an outline of the scope of Internal Audit work is provided in the attached Charter and Mandate.

Nature, role, responsibility, status and authority of Internal Audit within East Riding of Yorkshire Council and outline scope of work

Purpose of Internal Audit

Internal Audit (provided by SWAP) creates, protects, and sustains value by providing independent, risk-based, and objective assurance, advice, insight, and foresight, that meets rigorous professional standards. It helps HEYCA accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The internal audit function is most effective when it is:

- performed by competent professionals in conformance with the Global Internal Audit Standards in the UK Public Sector which are set in the public interest;
- independently positioned with direct access and freedom to report senior management and to the Audit and Governance Committee; and
- free from undue influence and committed to making objective assessments.

Commitment to Adherence to the Global Internal Audit Standards

The Internal Audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards (GIAS) and Topical Requirements subject to the Application Note for UK Public Sector Internal Audit. The Chief Audit Executive will report to the HEYCA Audit Committee. Conformance with GIAS will be assessed through a quality assurance and improvement program, managed and monitored by SWAP's Executive Leadership Team and Board.

Mandate

The Accounts and Audit (England) Regulations state that: *"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."*

HEYCA's Constitution grants the Internal Audit function the mandate to provide senior management and Audit & Governance Committee with objective assurance, advice, insight, and foresight and to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques and issue communications to accomplish objectives
- Obtain assistance, as necessary, from HEYCA personnel, partners or agents and other (internal/external) specialised services to support/complete activity

Independence, Organisational Position and Reporting

The Chief Audit Executive will be positioned at a level in the organisation that enables Internal Audit activities and responsibilities to be performed without interference from management, thereby establishing independence. The Chief Audit Executive will report functionally to the Audit & Governance Committee and administratively (for example, day-to-day operations) to the Chief Financial Officer (s73 Officer) . This positioning provides authority and status to bring matters directly to senior management and escalation to the Audit & Governance Committee, when necessary, without interference and supports the Internal Auditors' ability to maintain objectivity.

The Chief Audit Executive will confirm to the Audit & Governance Committee, at least annually, the organisational independence of the Internal Audit function and, if necessary, document the characteristics of the governance structure limiting independence and any safeguards employed. The Chief Audit Executive will disclose to the Audit & Governance Committee any interference Internal Audit encounters related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on Internal Audit's effectiveness and ability to fulfil its Mandate.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and Assistant Director (Chief Audit Executive) have the unreserved right to report directly to the Mayor, Chair of the Audit & Governance Committee, Chief Executive Officer and External Audit Manager. The Chief Executive of SWAP is responsible to SWAP's Board of Directors and Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Changes to the Charter and Mandate

Circumstances may justify a follow-up discussion between the Chief Audit Executive, senior management and Audit & Governance Committee, and on the Internal Audit mandate or other aspects of the Internal Audit charter. Such circumstances may include but are not limited to significant changes to:

- Global Internal Audit Standards in the UK Public Sector
- Acquisition or re-organisation within the organisation
- Chief Audit Executive, Audit Committee, Senior management
- Organisation strategies, objectives, risk profile, or environment in which the Council operates
- Laws or regulations that may affect the nature and/or scope of Internal Audit services

Audit & Governance Committee Oversight

To establish, maintain, and ensure that the Internal Audit function has sufficient authority to fulfill its duties, the Audit & Governance Committee will:

- Discuss with the Chief Audit Executive and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the Internal Audit function
- Annually review and approve the Internal Audit Charter (which includes the Internal Audit mandate) and the scope and types of internal audit activity with the Chief Audit Executive to consider changes in the type, severity, and interdependencies of risks to the organisation
- Approve the risk-based rolling internal audit plan and receive communications from the Chief Audit Executive on performance relative to the plan.
- Ensure the Chief Audit Executive has unrestricted access to, communicates, and interacts directly with the Audit Committee, including (as required) in private meetings without senior management present
- Ensure the application of a protocol agreed with HEYCA to notify the Chief Audit Executive of all suspected or detected fraud, corruption, or impropriety
- Participate in discussions with the Chief Audit Executive and senior management about the "essential conditions," described in the Global Internal Audit Standards in the UK Public Sector, which establish the foundation that enables an effective Internal Audit function
- Collaborate with senior management and the SWAP Members Board to confirm the budgets, qualifications, and competencies the organisation expects in a Chief Audit Executive, as described in the Global Internal Audit Standards in the UK Public Sector, and the internal audit function

- Ensure a quality assurance and improvement programme is in place and review the results annually including arrangements to review the Chief Audit Executive's performance
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether any scope or resource limitations are inappropriate

Chief Audit Executive Roles and Responsibilities

The Chief Audit Executive will ensure that Internal Audit:

- Conforms with Global Internal Audit Standards, including principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of HEYCA and be able to recognise conduct contrary to those expectations
- Encourage and promote an ethics-based culture
- Report organisational behaviour inconsistent with the its ethical expectations, as described in applicable policies and procedures

Objectivity

The Chief Audit Executive will ensure the Internal Audit function remains free from conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the Chief Audit Executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality and do not subordinate their judgement on audit matters to others, either in fact or appearance. Internal Auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgement, including:

- Assessing specific operations for which they had responsibility within the previous year
- Performing operational duties for HEYCA or its affiliates
- Initiating or approving transactions external to the Internal Audit function
- Directing activities of HEYCA employees not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to Internal Audit teams or to assist/collaborate with Internal Auditors

Internal Auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties
- Exhibit professional objectivity in gathering, evaluating, and communicating information
- Make balanced assessments of all available and relevant facts and circumstances
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence

Managing the Internal Audit Function



SWAP Internal Audit Work is completed to comply with Global Internal Audit Standards and all other guidance recognised by the UK Public Sector's Relevant Internal Audit Standards Setters

The Chief Audit Executive has the responsibility to:

- At least annually, submit a risk-based internal audit plan to senior management and Audit & Governance Committee for review
- Communicate the impact of resource limitations on the Internal Audit plan to senior management and Audit Committee
- Review and adjust the Internal Audit plan, as necessary, in response to changes to HEYCA's business, risks, operations, programs, systems, and controls
- Communicate with senior management and Audit Committee if there are significant changes to the Internal Audit plan
- Ensure Internal Audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards
- Follow up engagement findings and confirm implementation of action plans
- Communicate overall results of Internal Audit activities to senior management and Audit Committee and for each engagement, as appropriate
- Ensure the Internal Audit function collectively possesses or obtains the knowledge, skills and other competencies needed to meet the requirements of the Global Internal Audit Standards in the UK Public Sector and fulfil the Internal Audit Mandate
- Identify and consider trends, successful practices and emerging issues that could impact HEYCA and communicate to senior management the Audit Committee, as appropriate
- Establish and ensure appropriate adherence to methodologies designed to guide the Internal Audit function
- Ensure adherence to HEYCA's relevant policies and procedures unless these conflict with the Internal Audit Charter or the Global Internal Audit Standards in the UK Public Sector. Any such conflicts will be resolved or documented and communicated, as appropriate, to senior management and Audit Committee
- Co-ordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation. If the Chief Audit Executive cannot achieve an appropriate level of co-ordination the issue will be communicated/escalated

Communication with Senior Management and Audit Committee

The Chief Audit Executive will report periodically to senior management and Audit Committee regarding:

- The Internal Audit function's Mandate
- The Internal Audit plan and progress updates including results of assurance and advisory services, significant revisions to work areas and performance
- Potential impairments to independence, including relevant disclosures
- Results from quality assurance and improvement program, which includes conformance with the Global Internal Audit Standards in the UK Public Sector and action plans to address any deficiencies and opportunities for improvement
- Significant risk exposures and control issues, including fraud risks, governance issues and other areas of focus
- Management's responses to risk that Internal Audit determines may be unacceptable

Quality Assurance and Improvement

SWAP's Executive Leadership Team in collaboration with the Chief Audit Executive will develop, implement and maintain a quality assurance and improvement program that covers all aspects of the internal audit function including external and internal assessments of conformance with Global Internal Audit Standards in the UK Public

Sector, as well as performance measurement to assess the function's progress against its objectives and promotion of continuous improvement. The programme will also assess, if applicable, compliance with laws and/or regulations relevant to internal auditing and include plans to address deficiencies and develop opportunities for improvement. Annually, the Chief Audit Executive will communicate with senior management and Audit Committee the results of internal assessments (ongoing monitoring and periodic self-assessments) and external reviews (which must be completed at least once every five years by a qualified, independent assessor or assessment team from outside both SWAP and HEYCA).

Scope and Types of Internal Audit Activities

The scope of Internal Audit activity covers the breadth of HEYCA activities, assets, and workforce and encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory services to the senior management and Audit & Governance Committee on the adequacy and effectiveness of governance, risk management, and control processes. Internal Audit engagements may include evaluating whether:

- Risks relating to the achievement of the Authority's strategic objectives are appropriately identified and managed
- The actions of the HEYCA officers, directors, management, employee, and contractors comply with policies, procedures, and applicable laws, regulations, and governance standards
- The results of operations and programmes are consistent with established goals and objectives and are being carried out effectively and efficiently
- Established processes and systems enable compliance with policies, procedures, laws, and regulations that could significantly impact the Authority
- The integrity of information and the means used to identify, measure, analyse, classify, and report such information is reliable
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately

The nature and scope of advisory services may be agreed with requesting parties, providing Internal Audit does not assume management responsibility. Opportunities for improving governance, risk management and controls may be identified during advisory engagements and communicated to appropriate management.

September 2025



Report to: Governance & Audit Committee

Date: 22 September 2025

Finance and Treasury Management Update

Report of the interim Director of Finance (Section 73 Officer)

1. Purpose of the Report and Summary

- 1.1. To present an update and provide assurance on the authority's budget, spending and funding position for 2024-25 and 2025-26, alongside treasury management arrangements.
- 1.2. To facilitate this, reports to the Executive Board are attached as appendices, as follows:
 - Appendix A: Combined Authority Budget 2024/25 and 2025/26 (5 March 2025)
 - Appendix B: Financial Position Statement 2024-25 and Budget Outlook 2025-26 (26 September 2025)

2. Recommendations

- 2.1. That the Committee notes this update, and endorses the treasury management policy, treasury management strategy and minimum revenue provision (MRP) policy approved by the Executive Board.

3. Legal Implications

- 3.1. Legal implications are provided in the relevant sections of Appendices A and B.

4. Financial Implications

- 3.1. Financial implications are provided in the relevant sections of Appendices A and B.

Julian Neilson
Interim Director of Finance (Section 73 Officer)

Contact Officers:

Julian Neilson, Interim Director of Finance (Section 73 Officer)
Georgina Bristow, Deputy Section 73 Officer

Background Papers:

None



Report to: Hull & East Yorkshire Combined Authority

Date: 5 March 2025

Combined Authority Budget 2024/25 and 2025/26

Report of the interim Director of Finance (Section 73 Officer)

1. Purpose of the Report

- 1.1. To approve the initial budget for the Hull and East Yorkshire Mayoral Combined Authority (HEYMCA) covering the period from February 2025 through to March 2026.

2. Recommendations

- 2.1 It is recommended that the Combined Authority:
- i) approves the proposed budget for 2024-25 and 2025-26 set out in paragraph 5.6;
 - ii) delegates authority to the Chief Executive, the Monitoring Officer and the Director of Finance, including officers standing in those 'interim' positions, to enter into Service Level Agreements with the constituent authorities on behalf of the Combined Authority for the provision of support services.
 - iii) adopts East Riding of Yorkshire Council's treasury management policy, treasury management strategy and MRP policy as an interim measure.

3. Reason for recommendation

- 3.1 To ensure that the Hull and East Yorkshire Combined Authority has a balanced budget and has access to the support services required to establish and operate the organisation, and to provide a defined framework within which the Director of Finance can operate treasury management arrangements with HEYMCA's approval.

4. Background

- 4.1 Representatives from the constituent authorities met regularly with Government Officials to consider the Order that would create the legal and legislative basis for the Combined Authority. All the relevant work was completed with Government and the necessary debates held in Parliament in January 2025.

- 4.2 On 4 February 2025, the Secretary of State for Housing, Communities and Local Government signed the Devolution Deal, with Hull and East Yorkshire to benefit from £400 million of new Government investment over 30 years to spend on local priorities for economic growth, together with a range of devolved powers covering services including economic development, transport, housing, and skills.
- 4.3 The election for the mayor of Hull and East Yorkshire is due to take place on 1 May 2025, with the term of office beginning 6 May 2025.
- 4.4 The proposed budget includes the confirmed government funding available to HEYMCA in the 2024-25 and 2025-26 financial years. Other options available to HEYMCA to raise funding include:
- applications to the government for specific funding schemes. Those identified in the Hull & East Yorkshire Devolution Deal, and are not included in the proposed budget, are identified in paragraph 5.7.
 - the power to issue a precept on local council tax bills to help pay for the Mayor's work. This precept can only be raised for mayoral functions.
 - the power to introduce a supplement on business rates for expenditure on a project or projects that will promote economic development in the area, subject to a ballot of affected businesses.
 - the power to issue a levy to the constituent authorities for costs reasonably attributable to the exercise of HEYMCA's functions relating to transport.
 - the flexibility to secure private and public sector leverage. As per local government guidance, HEYMCA will also be able to use capital receipts from asset sales as revenue funding for public service transformational initiatives.
 - the power to borrow for its new functions, which will allow it to invest in economically productive infrastructure, subject to an agreed cap with HM Treasury.
- 4.5 In addition, the Hull and East Yorkshire Combined Authority Order 2025 states that the constituent councils must meet the costs of the expenditure reasonably incurred by the Mayor in, or in connection with, the exercise of the HEYMCA's functions, to the extent that the Mayor has not decided to meet these costs from other resources available to the Combined Authority.
- 4.6 In practice, the options in paragraphs 4.4 and 4.5 (with the exception of funding applications to the government) would require the agreement of the constituent authorities as part of HEYMCA's budget process.
- 4.7 As the Combined Authority does not yet have a Business Plan, which would usually determine and direct how resources are prioritised over the medium term, the budget set out in this report does not include details of the MCA's investment programme but does identify the total available for investment and a forecast of its operational costs. The budget covers the period from February 2025 through to March 2026, split by financial years. Once the MCA

has a Business Plan, work will begin to develop a Medium Term Financial Strategy that will allow for more detailed budget planning over a 4 year period.

5. Proposed Budget 2024-25 and 2025-26

- 5.1 The draft budget set out in this report is based on a number of assumptions in relation to current understanding of the costs and income streams of a Combined Authority. It includes forecasts of all known running costs along with a contingency of £250k for any risks and issues that may arise during the first year of operation.
- 5.2 The budget includes the cost of the Mayoral elections in May 2025 and future years' budgets will need to include a contribution to an election reserve to build up funds to meet the costs of future elections. A reasonable assumption has been included on the forecast interest from the cash balances that will be held by the Combined Authority.
- 5.3 At this stage, to support the establishment of the organisation, all support services for HEYMCA will be provided by Hull City Council and East Riding of Yorkshire Council through a series of Service Level Agreements (SLAs). This will ensure continuity of service and safe and legal operation from day one. It is therefore recommended that authority is delegated to the Chief Executive, the Monitoring Officer and the Director of Finance to enter into Service Level Agreements with the constituent authorities on behalf of the Combined Authority for the provision of these support services. As the organisation progresses, it will be able to review these arrangements in a planned, structured way to ensure value for money as well as ensuring that arrangements are fit for purpose in the longer term as the organisation develops and matures.
- 5.4 Any budget must always make proper provision for reserves and good practice is that reserves are based on a proper risk assessment. At this early stage, it has not been possible to carry out a review that properly considers all risks and therefore the contingency of £250k included in the budget is proposed as an interim measure pending a more thorough review.
- 5.5 The budget makes proper provision for all known and anticipated costs, along with a contingency sum for any unforeseen matters. Should the contingency be required, approval for this will be sought from HEYMCA. In my opinion, as the interim Section 73 Officer, the budget outlined in this report is robust. Although the organisation has no reserves at inception, the budget makes adequate provision for unforeseen costs.
- 5.6 The following table sets out a proposed interim budget for the two applicable months of the 2024-25 financial year, and an initial budget proposal for the 2025-26 financial year.

	Interim 2024-25 Budget			2025-26 Budget		
	Capital £	Revenue £	Total £	Capital £	Revenue £	Total £
Income						
Government Grants:						
Capacity Fund	-	- 115,490	- 115,490	-	- 1,884,510	- 1,884,510
Investment Fund	-	-	-	- 4,690,000	- 8,710,000	- 13,400,000
UK Shared Prosperity Fund	-	-	-	- 2,876,694	- 6,533,788	- 9,410,481
Consolidated Active Travel Fund	-	-	-	- 1,344,030	- 448,774	- 1,792,804
Investment income	-	-	-	-	- 496,646	- 496,646
TOTAL INCOME	-	- 115,490	- 115,490	- 8,910,724	- 18,073,718	- 26,984,441
Expenditure						
Staffing:						
Staff salaries	-	-	-	-	454,537	454,537
Agency staff	-	67,500	67,500	-	195,000	195,000
Total Staffing	-	67,500	67,500	-	649,537	649,537
Operational Costs:						
Members allowances	-	-	-	-	191,000	191,000
Travel & subsistence	-	1,000	1,000	-	10,000	10,000
Communications	-	-	-	-	100,000	100,000
Corporate Services via SLA	-	40,000	40,000	-	240,000	240,000
Mayoral election costs	-	-	-	-	1,250,000	1,250,000
Supplies and services	-	5,000	5,000	-	20,000	20,000
Overheads	-	1,990	1,990	-	285,000	285,000
Contingency	-	-	-	-	250,000	250,000
Total Operational Costs	-	47,990	47,990	-	2,346,000	2,346,000
Indicative Investment Programme	-	-	-	8,910,724	15,078,181	23,988,904
TOTAL EXPENDITURE	-	115,490	115,490	8,910,724	18,073,718	26,984,441
NET (SURPLUS) / DEFICIT	-	-	-	-	-	-

5.7 Key points to note are as follows:

- Budgeted government grants over the period include the £2m Capacity Fund and £13.4m Investment Fund confirmed in the Hull & East Yorkshire Devolution Deal, and the Consolidated Active Travel Fund allocations to the constituent authorities for 2025-26 which are intended to be paid HEYMCA. Other funding streams to HEYMCA included in the Deal which have not been budgeted for at this stage, because they are subject to business case, HEYMCA's allocation is yet to be announced and/or they are expected to be received beyond 2025-26, include:
 - £15m in the current Spending Review period to support transport, flood and coastal erosion programmes across the area, a brownfield employment programme in Hull, and a coastal regeneration programme in the East Riding of Yorkshire. This investment is subject to agreement of the relevant business cases.
 - Devolution of the Adult Education Budget to Hull and East Yorkshire from academic year 2026/27, subject to readiness conditions and Parliamentary approval of the required secondary legislation conferring the appropriate functions. Current estimates are that this budget will be circa £16m.
 - £1 million (subject to approval of the business case) towards the Howden link road scheme to support housing development in the area.

- HEYMCA will receive a proportion of the £2.5 billion announced as part of Network North to transform local transport in areas in the North outside of the big city regions.
 - HEYMCA will receive a proportion of the £770 million of funding for Bus Service Improvement Plans in the North.
 - HEYMCA will receive a proportion of the £3.3 billion funding to fix potholes in the North.
 - The local transport settlement for HEYMCA. The quantum of funding and the number/remit of individual funding lines will be agreed through the next Spending Review Process.
 - Up to £5 million of capital funding in the current Spending Review period to further support Hull and East Yorkshire's economic growth priorities for Offshore Wind, including any potential future expansion of the Siemens Gamesa Offshore Wind Facility, subject to a full business case and clear value for money.
 - Access to £36 million available nationally for the coastal transition accelerator programme (CTAP) to address the effects of climate change on the coast.
 - Any successful application made to the government's Local EV Infrastructure Fund to improve public electric vehicle charging infrastructure.
- Although £0.5m of the Capacity Fund will be paid in 2024-25, it is not anticipated that this funding will be fully spent in 2024-25 and therefore the funding amount budgeted reflects the applicable forecast expenditure. The remaining funding is carried forward and added to the £1.5m Capacity Fund grant which will be paid to HEYMCA in 2025-26.
 - To determine a forecast for investment income, it has been assumed that HEYMCA will hold a cash balance representing 50% of the funding receivable averaged over the duration of the financial year and an applicable rate of investment return has been applied to represent the low risk strategy which will be deployed to safeguard the HEYMCA's funding. In accordance with statutory guidance, security and liquidity will be prioritised over yield.
 - As the organisation is in the process of becoming established and fully operational, expenditure budgets are indicative of broad estimates at this stage and will be subject to refinement and revision at future meetings of the HEYMCA as more certainty is gained over operational costs.
 - It is assumed that service level agreements (SLAs) for provision of corporate services to support the operation of HEYMCA will be agreed with the constituent authorities at an estimate of £10,000 per month chargeable by each authority. However, a fully costed proposal has yet to be produced by each authority and so this figure is highly speculative at this time and should not be used to pre-determine the content and cost of such SLAs.
 - The staffing budget represents the part-year effect of a minimal staffing structure in 2025-26 at this stage. It does not include any staff employed by the constituent authorities undertaking functions which could be integrated into HEYMCA.

- The mayoral election is forecast to cost £1.250m in 2025-26. Although this is a one-off initial cost, budget provision will need to be made in future years to reserve funds to pay for the costs of future mayoral elections due to take place every four years.
- Overheads consist of forecast amounts payable for insurance, internal audit services, and external audit.
- Due to the uncertainty of costs at the current time and the high likelihood that further costs will emerge as the organisation becomes operational, a contingency budget of £250,000 has been included in the 2025-26 budget proposal.
- To reach a balanced budget proposal for 2025-26, it has been assumed that all remaining funding will be allocated to the HEYMCA's investment programme. It should be noted that the operational revenue budget for 2025-26, outside of the investment programme, is £3.0m including the mayoral election cost. This exceeds the Capacity Fund grant available by £1.0m and therefore requires an allocation of £0.5m from the Investment Fund to balance the operational revenue budget after taking account of forecast investment income of £0.5m. Following this allocation, a budget of £24.0m is available for investment in agreed priorities across the region.

6. Treasury Management Provision

- 3.1 East Riding of Yorkshire Council is in the process of establishing HEYMCA's banking arrangements and, as stated in the proposed Constitution elsewhere on the agenda, all arrangements with the Combined Authority's bankers shall be made by the Director of Finance who shall be authorised to operate such banking accounts, as they consider necessary.
- 3.2 To enable the immediate financial capability of the HEYMCA, the interim Director of Finance is utilising his team at East Riding of Yorkshire Council to operate these treasury management arrangements. It is intended that this arrangement will be confirmed within a SLA between HEYMCA.
- 3.3 HEYMCA has the power to borrow to raise funding for its functions. When local authorities undertake borrowing, there is a statutory requirement to set aside an amount from the revenue budget for the repayment of debt, known as Minimum Revenue Provision (MRP). Regulations require the authority to annually determine a principle by which MRP will be determined, and MHCLG guidance requires that, before the start of each financial year, a local authority ratifies a statement of its policy on making MRP in respect of that year. Although there are no current plans for HEYMCA to undertake borrowing in 2025-26, it seems prudent to ensure that a policy is in place.
- 3.4 In summary, HEYMCA should identify a treasury management policy, treasury management strategy and MRP policy as part of its budget setting process. It is recommended that HEYMCA adopts East Riding of Yorkshire Council's treasury management policy, treasury management strategy and MRP policy as an interim measure, until it has the capacity and capability to develop its own. This will provide a defined framework within which the Director of Finance can operate treasury management arrangements with HEYMCA's approval. East Riding of Yorkshire Council's treasury

management policy is included as Appendix 1 and the treasury management strategy, including the MRP policy, is included at Appendix 2.

7. Equalities Implications

- 7.1 It is not expected that the budget outlined in this report will have any adverse impacts on people with protected characteristics. Future investment decisions will be underpinned by an Equality Impact Assessment.

8. Legal Implications

- 8.1 The Combined Authority is required to agree a balanced budget annually and to monitor that budget throughout the year. In addition, there is a fiduciary duty not to waste public resources, to secure value for money and ensure that good financial governance arrangements are in place.

9. Financial Implications

- 9.1 The financial implications are set out in the body of the report. A balanced budget is required to enable the establishment of the Hull and East Yorkshire Combined Authority which will attract £400 million of new Government investment to spend on local priorities in Hull and the East Riding over the next 30 years.

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Background Papers:

[The Hull and East Yorkshire Combined Authority Order 2025](#)



TREASURY MANAGEMENT POLICY

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1. Introduction

- 1.1 This Treasury Management Policy has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities and Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) under section 15(1) of the Local Government Act 2003.
- 1.2 Under the guidance, certain policy matters are expanded or determined as part of the annual Treasury Management Strategy which is approved by Council.
- 1.3 The Code has particular significance to local authorities in England and Wales. Adoption of its recommendations, by an individual local authority as part of standing orders or financial regulations, gives it the status of "...a code of practice made or approved by or under any enactment", and hence proper practice.
- 1.4 The Local Government Act 2003 sets the framework for a borrowing system relying on the prudential code produced by CIPFA. The prudential code recommends that the local authority have regard to the CIPFA treasury management code.
- 1.5 The Council's Constitution requires that Treasury Management decisions and transactions are carried out in accordance with the code. It also designates Section 151 (Chief Finance Officer) responsibilities to the Director of Finance.
- 1.6 The Treasury Management Policy comprises four main sections –
 - Clauses formally adopted by the Council
 - Treasury Management Policy Statement
 - Treasury Management Practices
 - Management Practices for Non-Treasury Investments

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2. Key Principles

2.1 The Code identifies three key principles

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities
- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.
- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

3. Clauses Formally Adopted

3.1 CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial procedure rules, or other formal policy documents appropriate to their circumstances, the following four clauses –

- I This organisation will create and maintain, as the cornerstones for effective treasury management –
 - a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
 - investment management practices (IMPs) for investments that are not for treasury management purposes

The content of the policy statement TMPs and IMPs will follow the recommendations contained in sections 6, 7 and 8 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key recommendations.

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- II This organisation (i.e. full board/council) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs and IMPs.
- III This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to (note 1), and for the execution and administration of treasury management decisions to (note 2), who will act in accordance with the Council's policy statement and TMPs and IMPs, if he/she is a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury Management*.
- IV This organisation nominates (note 3) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Note 1: name of responsible body (for example, committee, board or council) or nominated group of individuals or relevant committee such as cabinet or executive. Where a capital strategy is produced by a local authority this may include the setting of detailed treasury management policies, while being clear that overall responsibility remains with full council.

Note 2: title of responsible officer (for the purposes of this Code, the term 'responsible officer' has been used, although it is recognised that, in practice, many different terms exist). For example, in higher education, the vice-chancellor/principal or equivalent is the 'designated officer' who will ensure that the governing body complies with all terms and conditions of funding provided by the funding body. However, it is usual for day-to-day financial management to be delegated to a director of finance who will take professional responsibility for such areas of an institution's work and this is the officer who is referred to here.

Note 3: name of responsible body (for example, committee, board or council) or nominated group of individuals or relevant committee such as audit committee or relevant scrutiny committee.

For the purposes of notes 1 and 3, the Council has delegated responsibility to its Audit Committee to review the Treasury Management Policy and Strategy and gain assurance that the controls and procedures in place within the Treasury Management function are effective. In order to fulfil this responsibility, the Audit Committee receives regular monitoring reports on Treasury Management activities and it reviews Treasury Management Policy and Strategy ahead of approval by full Council.

For the purposes of note 2, the constitution identifies the Chief Finance Officer to be responsible for the execution of Treasury Management decisions.

4. Treasury Management Policy Statement

4.1 The following paragraphs define the policies and objectives of the Council's treasury management activities –

- I East Riding of Yorkshire Council defines its treasury management activities as:

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The management of the council'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.

- II East Riding of Yorkshire Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- III East Riding of Yorkshire Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- IV The Council's prime objective is capital security and ensuring the required level of portfolio liquidity when investing treasury management funds, recognising that public money should not be put at risk, but returns cannot be overlooked.

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5. Treasury Management Practices

5.1 Local authorities are permitted to use a wide range of borrowing instruments. In respect of the investment of surplus cash, guidance has been issued by the Government pursuant to the Local Government Act 2003 allowing significant freedom in the use of investment instruments.

5.2 Good practice requires parameters to be set within which the treasury management function can be operated. The following Treasury Management Practices (TMP) comprise the Council's treasury management systems framework, defining the operation and highlighting specific details of systems, routines employed and records kept –

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

5.3 Each TMP is followed by a schedule containing additional detail regarding working practices adopted by the Council.

6. East Riding Pension Fund

6.1 East Riding of Yorkshire Council is also responsible for the management of the East Riding Pension Fund. Whilst the basic principles are similar, the investment powers of the Pension Fund are governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, as amended. The East Riding Pension Fund has adopted the East Riding of Yorkshire Council's pre-existing Treasury Management Policy which is subject to approval by the Pensions Committee.

7. Management Practices for Non-Treasury Investments

7.1 The guidance expands its definition of 'investments' to cover all of the financial assets a local authority may hold as well as other non-financial assets which are held primarily or partially for financial returns e.g. investment property portfolios. The final section of this policy provides an overview of the management practices for these service-led investments and directs the reader to the Council's Capital Strategy which provides more detail.

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TMP1

RISK MANAGEMENT

- 1.1 East Riding of Yorkshire Council regards the prime objective of its treasury management activities to be the security of the principle sums it invests. Accordingly, it will ensure robust due diligence procedures cover all external investment.
- 1.2 The Section 151 officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually to the Audit Committee and the Cabinet on the adequacy or suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. In respect of each of the following risks, the arrangements that seek to ensure compliance with these objectives are set out in the schedule to this document.

Credit and Counterparty Risk Management

- 1.3 East Riding of Yorkshire Council regards the prime objective of its treasury management activities to be the security of the principal sum it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Liquidity Risk Management

- 1.4 East Riding of Yorkshire Council will ensure that it has adequate though not excessive cash resources; borrowing arrangements; overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business and service objectives.
- 1.5 The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the approved capital programme or to finance future debt maturities, as permitted by the guidance.

Interest Rate Risk Management

- 1.6 East Riding of Yorkshire Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP 6 Reporting requirements and management information arrangements*.
- 1.7 The Council will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility

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to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

- 1.8 The Council will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

Exchange Rate Risk Management

- 1.9 East Riding of Yorkshire Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income and expenditure levels.

Inflation Risk Management

- 1.10 East Riding of Yorkshire Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisations inflation exposures.

Refinancing Risk Management

- 1.11 East Riding of Yorkshire Council will ensure that its borrowing, private finance and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.
- 1.12 It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

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Legal and Regulatory Risk Management

- 1.13 East Riding of Yorkshire Council will ensure that all of its treasury activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 *Credit and Counterparty Risk Management* (1.2 above), it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.
- 1.14 The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Fraud, Error and Corruption, and Contingency Management

- 1.15 East Riding of Yorkshire Council will ensure that it has identified the circumstances that may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Price Risk Management

- 1.16 East Riding of Yorkshire Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

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SCHEDULE TO TMP1

RISK MANAGEMENT

- 1.1 The Council is a local authority as defined by The Local Government Act 1972, and primarily provides statutory services to its population on a not-for-profit basis. As such, few financial instruments are used by way of commercial business. However, the funding mechanism means that, during the year, the Council may hold substantial assets and liabilities. The Council uses financial instruments to manage the risks arising from holding assets and liabilities; it does not undertake financial instruments for trading or speculative purposes.
- 1.2 Instruments commonly used to hedge financial and treasury type risks include derivative securities, such as an option, future or swap, of which the criteria and value are determined by those of an underlying asset. Any use of derivative financial instruments will be subject to a separate business case and approved by the Section 151 officer.
- 1.3 The Council has adopted the CIPFA Code of Practice for Treasury Management in Public Services. It maintains and operates a Treasury Management Policy comprising an overview of the principles and practices to which the activity will comply. Alongside this policy, the Ministry of Housing Communities and Local Government has issued guidance, under section 15(1)(a) of the Local Government Act 2003, to which local authorities must have regard. Annually, the Council approves a Treasury Management Strategy and a Capital Strategy for the forthcoming year. Taken together, these documents form the structure for managing risk.
- 1.4 The main financial risks arising from the Council's activities are credit risk, liquidity risk and interest rate risk. Other risks include insurance risk, price risk and foreign exchange risk, although the Council has little or no exposure to those instruments. The way these risks are managed is summarised below.
- 1.5 In respect of each of the risks detailed in TMP1, the arrangements, which seek to manage risk to a reasonable level rather than to eliminate all risk of failure, are set out below.

Credit and Counterparty Risk Management

- 1.6 *Definition:* The risk of failure by a third party to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or revenue resources.
- 1.7 In line with the Prudential Code, the Ministry for Housing Communities and Local Government guidance provides for each authority to determine its own controls within the given framework.
- 1.8 The guidance defines three types of financial investment – loans, specified and non-specified. Loans are those investments made to wholly owned

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companies or associates, a joint venture, or to a third party as part of a wider strategy for local economic growth. Specified investments are those investments denominated in sterling, which are due or may be required to be repaid within 12 months of the date the transaction was made and the organisation or scheme with which the investment is made is *of high credit quality*. Non-specified investments are all other investments.

- 1.9 The guidance leaves it to each local authority to determine what it considers high credit quality. East Riding of Yorkshire Council demands security of capital as a prime objective. It is considered that those institutions and instruments with a long-term rating of A- or higher and a short-term rating of A2 or higher are commensurate with a low level of risk. These levels constitute the top three (of four) investment grade categories.
- 1.10 Credit ratings alone are not enough. In addition to and complementing credit ratings, the use of other relevant data such as Bloomberg and quality financial press is used to gain further market intelligence and determine those organisations of high credit quality.
- 1.11 Unlike specified investments, where the existence of high credit quality would automatically permit the council to treat the organisation as a counterparty, non-specified investments and loans are risk-assessed at the time an investment is made. Non-specified instruments include investments with a remaining duration greater than one year and institutions and instruments rated below A-.
- 1.12 Diversification is also important in managing credit risk. By setting limits appropriate to all counterparties, investments will be spread across a number of different institutions.
- 1.13 It is not appropriate to limit the value of any investment with the UK Government since default is unlikely to occur. Therefore, deposits with the UK Debt Management Office and investment in UK sovereign debt are unlimited.
- 1.14 Nat West, which is the Council's bank has a higher maximum limit in this Policy than the other specified investments, although an operational limit of £20 million will be applied. The higher Policy limit of £30 million is to allow for unexpected cash inflows, which occasionally occur, and would otherwise lead to a breach of the counterparty limit.
- 1.15 For specified investments, an institution or instrument must be rated by at least two of the three reference agencies and, if these are different, the lowest rating will apply.
- 1.16 Credit ratings are 'live' and therefore subject to change. New ratings may be issued and existing ratings may go up or down. As such, it is not appropriate to include in this statement a list of counterparties meeting the above criteria since it would only be valid at a point in time, although in practice a list is maintained.
- 1.17 Similarly, non-specified investments will be assessed on their merits at the time of investment, having regard to the counterparty, size and duration of the investment, which will not typically exceed five years. The aggregate of non-specified investments is limited to £30 million at any one time.

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- 1.18 Loans will also be assessed on their merits at the time of investment, having regard to the counterparty, size, security or guarantee offered and duration of the investment and how it will contribute to achieving the Council's strategic aims. The term of a loan will not exceed 20 years. The aggregate of loans is limited to £20m at any one time.
- 1.19 The counterparty limits will apply to the Council and the Pension Fund separately.
- 1.20 See also TMP4 *Approved instruments, methods and techniques*.
- 1.21 Applying the principles detailed above provides the following framework, within which counterparties and investment transactions will be made.

	Maximum Limit
1. Specified Investments (limit per counterparty) ¹	
UK Government	Unlimited
Nat West	£30.0m
Local Authorities	£20.0m
Money Market Funds with a minimum rating AAA ²	£20.0m
Banks and Building Societies with a minimum rating of A-/A2 ²	£20.0m
2. Non-specified Investments (limit per counterparty)	
All non-specified investments	£10.0m
3. Loans (limit per counterparty)	
Other Public Bodies and educational establishments	£5.0m
Wholly owned companies or associates	£10.0m
Partnership Arrangements	£10.0m
Charities	£0.5m
4. Other Limits (on day of investment)	
Aggregate value of Non-specified Investments	£30.0m
Aggregate value of Loans	£20.0m

Notes: ¹ Ratings and limits are for guidance only, other information will also be taken into account in determining whether to use a counterparty.

- 1.22 Counterparty creditworthiness does not apply to organisations from which it borrows – the risk is with the lender. However, where borrowing *facilities* need to be in place and failure of those facilities might jeopardise a project, the Council will use credit judgements including, where appropriate, reference agencies in order to be satisfied as to the counterparty's creditworthiness and therefore the future availability of those facilities.
- 1.23 With regard to leasing, advice will be taken from the broker, who will make recommendations concerning financial and non-financial matters. However, as leases are usually arranged for each drawdown there is minimal risk that the Council will lose the facility.

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Liquidity Risk Management

- 1.24 *Definition:* The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business or service objectives will be thereby compromised.
- 1.25 East Riding of Yorkshire Council maintains a cash flow calculation to establish precise cash requirements and ensures its loan portfolio closely matches that requirement. Together with fixed duration investments, cash is placed on deposit in accounts and in saleable instruments that can be accessed immediately.
- 1.26 Where deficits arise, liquidity may be obtained through the money market. Emergency arrangements are available in the form of an agreed overdraft facility with the Council's bankers.
- 1.27 The prudential code requires, as a specific treasury management indicator, upper and lower limits for the maturity structure of the authority's debt. This essentially is normal commercial practice and ensures that no single year will cause refinancing problems.
- 1.28 Borrowing more than or in advance of an authority's needs purely in order to profit from the investment of the extra sums borrowed is prohibited by both the prudential code and MHCLG guidance. East Riding of Yorkshire Council will not borrow in advance of need for this purpose.

Interest Rate Risk Management

- 1.29 *Definition:* The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.
- 1.30 The prudential code requires local authorities to explain their approach to managing interest rate risks. East Riding of Yorkshire Council has set a local treasury management prudential indicator that places limits on its fixed and variable interest rate exposure.
- 1.31 The Council principally uses fixed rate loan instruments and as such locks into known interest rates, thus protecting against fluctuations. Where floating rate instruments are used, these are continuously monitored against expected and actual market rates.

Exchange Rate Risk Management

- 1.32 *Definition:* The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.
- 1.33 Local authorities are statutorily barred from holding foreign currency or transacting loans other than in sterling.

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TREASURY MANAGEMENT POLICY

Inflation Risk Management

- 1.34 *Definition:* The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Council's finances, against which the organisation has failed to protect itself adequately.
- 1.35 East Riding of Yorkshire Council actively monitors actual and expected inflation levels. The Bank of England's Monetary Policy Committee is statutorily obliged to target the consumer prices index measure of inflation (CPI) at 2% (plus or minus 1%), thus expectations are that inflation will be stable.

Refinancing Risk Management

- 1.36 *Definition:* The risk that maturing borrowings, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the organisation for that refinancing, both capital and revenue, and / or that the terms are inconsistent with prevailing market conditions at the time.
- 1.37 East Riding of Yorkshire Council aims to ensure that, over the medium term, no single year is subject to an excessive repayment of debt. This could be achieved by applying a limit on debt to be repaid in the year, but this is not considered necessary. The profile of the Council's debt portfolio means that around 4% of non-housing debt outstanding is repaid annually.
- 1.38 Following housing finance reform, the Housing Revenue Account business plan drives housing-specific debt repayment. It is planned that this debt will be repaid at 5-yearly intervals with amounts between 5% and 25% of the portfolio in line with cash flow.
- 1.39 The prudential code requires, as a specific treasury management indicator, upper and lower limits for the maturity structure of the authority's debt. This essentially is normal commercial practice and ensures that no single year will cause refinancing problems.

Legal and Regulatory Risk Management

- 1.40 *Definition:* The risk that the organisation itself, or a third party with whom it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.
- 1.41 Sections 1 and 12 of the Local Government Act 2003 empower local authorities to undertake treasury management. The Chief Finance Officer is responsible for this function as set out in the Council's Constitution under section 11, subsection 5 and in section 2.6 of the Council's Financial Procedure Rules.
- 1.42 By using known counterparties and limited instruments the Council can be assured that legal powers and regulatory requirements are met.

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Fraud, Error and Corruption, and Contingency Management

- 1.43 *Definition:* The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.
- 1.44 East Riding of Yorkshire Council operates robust systems in all its treasury management activities. Audit review is conducted, by both internal and external audit, on systems and procedures within the operation. Internal control and internal check are exercised through a segregation of duties involving a restricted number of senior finance staff. The risk of fraud is actively considered as part of the Finance service's operational risk register.
- 1.45 Business continuity and disaster recovery is dealt with in the Finance Business Continuity Plan.

Market Risk Management

- 1.46 *Definition:* The risk that, through adverse market fluctuations in the value of the principal sums an organisation invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.
- 1.47 Permitted instruments include loans, time deposits, money market funds, Certificates of Deposit, Floating Rate Notes, Treasury bills, gilt edged securities, supranational, sub-sovereign and corporate bonds, commercial paper and repurchase agreements as the buyer, provided the collateral is UK government debt.
- 1.48 With the exception of loans, time deposits and repurchase agreements, the instruments are all saleable on the open market and, therefore, subject to fluctuations in capital value. All such assets are purchased with the intention to hold to maturity, thus eliminating market fluctuations. However, premature disposal will be considered where opportunities for capital gain materialise or when there are indications that a counterparty's credit quality has deteriorated.

Risk Management and Review

- 1.49 This Treasury Management Policy and TMPs allow for *normal* market and economic conditions and represents the maximum latitude permitted under delegation to the Section 151 officer.
- 1.50 It is for the Section 151 officer to determine tighter controls or limits in light of unusual market conditions. This may include such things as reduced counterparty limits, duration limits or excluding counterparties or countries/regions.
- 1.51 Such decisions will be agreed and suitably minuted by the Operational Treasury Management Board at its regular meeting.

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- 1.52 Any temporary changes or restrictions will be reported to Council, The Cabinet or the Audit Committee in accordance with TMP6 *Reporting Requirements and Management Information Arrangements*.

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TMP2

PERFORMANCE MEASUREMENT

- 2.1 East Riding of Yorkshire Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.
- 2.2 Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.
- 2.3 The Council recognises however that performance is subordinate to the security of capital and effective control of risk.

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SCHEDULE TO TMP2

PERFORMANCE MEASUREMENT

- 2.1 Performance measurement techniques are kept under regular review.
- 2.2 Where necessary, third party contracts such as banking, leasing brokerage and lessors are tendered, either for a contracted period or for a single contract. For example, the bank contract is awarded by open tender complying with European Union (EU) rules, the leasing broker is renewed annually by informal review on the basis of cost and number of market participants and lessors are appointed by tender for specific drawdowns.
- 2.3 East Riding of Yorkshire Council uses of a variety of information sources in its pursuit of optimum performance, such as Bloomberg, broker research, government and sector benchmarking data, financial newspapers etc.
- 2.4 In the context of best value, the Council strives to meet its obligations by –
- complying with this Code, which has been widely consulted throughout government, industry, local government and other interested users
 - making use of brokers, as well as dealing direct, in order to ensure maximum competition in the marketplace
 - regularly challenging the instruments and counterparties used and considering whether to extend or consolidate arrangements
 - comparing performance, both against others by analysing sector specific statistical information and internally against targets agreed within the service plan.
- 2.5 Performance is measured against agreed targets within the context of the policy statement – performance is subordinate to security of capital and the effective control of risk – and other local authorities by means of statistical data. The treasury management activity **is not a profit centre**.
- 2.6 Internally, investment performance is measured against average Bank Rate, whilst bank balances are expected to be within +£150,000 & –£100,000 on 80% of occasions throughout the year. Debt performance is measured against budgeted expenditure
- 2.7 Whilst not a performance measure, the prudential code requires a specific indicator of “Capital financing costs as a percentage of Net Revenue Stream.” This indicator demonstrates the proportion of the Council’s budget being used to finance debt as opposed to service delivery.

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TMP3

DECISION-MAKING AND ANALYSIS

- 3.1 East Riding of Yorkshire Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

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SCHEDULE TO TMP3

DECISION-MAKING AND ANALYSIS

- 3.1 The Operational Treasury Management Board meets bi-monthly to consider risk, current events and current investment criteria. Its meetings are fully minuted.
- 3.2 For investment, a daily record is kept of prevailing interest rates, cash requirements and subsequent action. More generally, a cash flow is maintained to indicate likely demand over time. For loans and non-specified investments, decisions are considered on an individual basis with reasons clearly recorded.
- 3.3 Borrowing decisions are considered on an individual basis, with reasons for the decision clearly recorded, including details of capital financing requirement and other funding matters.
- 3.4 Leasing of assets is subjected to competition, on the Council's behalf, by the leasing broker who submits a detailed report that compares bids and recommends a lessor. The recommendation is made after considering return conditions, knowledge of the lessor and whole of life costs in addition to headline price. A full option appraisal is carried out to determine whether leasing (operating or finance) or borrowing is the appropriate method of acquisition.
- 3.5 Investment and borrowing decisions will only be made by suitably trained and experienced individuals (TMP10).

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TMP4

APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

- 4.1 East Riding of Yorkshire Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk Management*.
- 4.2 Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.
- 4.3 East Riding of Yorkshire Council has reviewed its classification with financial institutions under the Markets in Financial Instruments Directive II (MiFID II) and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client. However, the list can be changed by the Section 151 officer at any time.

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SCHEDULE TO TMP4

APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

- 4.1 The prime objective of capital security recognises that public money should not be put at risk but returns should not be overlooked. The Council's treasury management strategy for investments seeks to maintain both capital security and financial flexibility (liquidity). Within these constraints the strategy aims to maximise returns.
- 4.2 Ministry for Housing, Communities and Local Government issued guidance, under section 15(1)(a) of the 2003 Act, to which local authorities must have regard. In line with the prudential code, the guidance merely provides for each authority to determine its own controls within the given framework.
- 4.3 The prudential code and guidance make wide-ranging instruments and techniques available to the Council in its treasury management activities. Except for speculative type investments (e.g. equities), local authorities are free to invest money widely. The guidance provides three definitions for investments – loans, specified and non-specified investments.
- 4.4 Loans are those made to investments made to wholly owned companies or associates, a joint venture, or to a third party as part of a wider strategy for local economic growth. Specified investments are those investments denominated in sterling, which are due or may be required to be repaid within 12 months of the date the transaction was made and the organisation or scheme with which the investment is made is *of high credit quality*. Non-specified investments are all other investments.
- 4.5 Permitted instruments include time deposits or loans, money market funds, reverse repurchase agreements with UK Government debt as collateral (REPO), certificates of deposit, Floating Rate Notes, Treasury bills, gilt edged securities, supranational, sub-sovereign and corporate bonds and commercial paper. Investments must be in sterling.
- 4.6 With the exception of cash deposits, loans and REPO, the instruments are all saleable on the open market and, therefore, subject to fluctuations in capital value. All such assets are purchased with the intention to hold to maturity, thus eliminating market fluctuations. However premature disposal will be considered where opportunities for capital gain materialise.
- 4.7 When making loan investments the Council has restricted the type of counterparties to the following categories of borrower: as per the counterparty framework defined in TMP1.
- Other Public Bodies and Educational Establishments
 - Wholly Owned Companies or Associates
 - Partnership Arrangements
 - Charities
- 4.8 Derivative instruments used for hedging purposes will only be used subject to a business case and approval of the Section 151 officer. Forward rate agreements may be used providing that the duration of any such investment commences on the date of agreement, not date of settlement, and such

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duration complies with the limits above. Where market convention is for one or three day settlement (T+1 or T+3) duration is calculated from date of settlement.

- 4.9 The Council does not invest in non-financial assets for treasury management purposes.
- 4.10 Local Authorities were reclassified as retail investors following the introduction of Markets in Financial Instruments Directive II (MiFID II) on 3 January 2018. Prior to this date, financial counterparties had classified the Council as a professional investor and following the change a number of money market funds, brokers and large international banks confirmed they would not provide their services to retail investors and would terminate their relationship with the Council.
- 4.11 The regulation provides an option for a Council with a large treasury management function to request re-classification as an elective professional investor, subject to demonstrating it has significant experience and knowledge. The Operational Treasury Management Board agreed that it was appropriate and necessary for the Council to request re-classification as an elective professional investor, should a financial counterparty require this, to ensure the effective functioning of its treasury management activities.
- 4.12 The organisations with which the Council has registered as a professional client is listed below. However, the list can be changed by the Section 151 officer at any time
- Commonwealth Bank of Australia
 - National Australia Bank Limited
 - Bank of Montreal
 - National Bank of Canada
 - Toronto Dominion
 - Rabobank London
 - Coventry Building Society
 - Blackrock Asset Management (Ireland) Ltd
 - Standard Life Investments
 - JPMorgan Liquidity Fund
 - Morgan Stanley Liquidity Funds
 - Federated Investors (UK) LLP
 - State Street Global Advisors Limited
 - King & Shaxson Limited
 - Tullett Prebon ICAP
 - BGC Brokers LP
 - Tradition (UK) Ltd
 - Institutional Cash Distributors Ltd
- 4.13 Sources of borrowing are unrestricted except that it must be in sterling. Bank loans, including any with a lender's or borrower's option (LOBO) and stock issues are examples of types of borrowing. The Council's main source of borrowing is the Public Works Loan Board. This organisation is part of the Debt Management Office; an executive agency of Her Majesty's Treasury

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tasked with offering loans to public bodies at a cost marginally above government funding rates. These funds are normally always accessible. All borrowing decisions will be reviewed and approved by the Section 151 Officer

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TMP5

**ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND
DEALING ARRANGEMENTS**

- 5.1 East Riding of Yorkshire Council considers it essential, for the purposes of effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.
- 5.2 The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.
- 5.3 If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 officer will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.
- 5.4 The Section 151 officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.
- 5.5 The Section 151 officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.
- 5.6 The delegations to the Section 151 officer in respect of treasury management are set out in the schedule to this document. The Section 151 officer will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

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SCHEDULE TO TMP5

**ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND
DEALING ARRANGEMENTS**

- 5.1 The Council is responsible for approving and amending policies, including the Treasury Management Policy, in accordance with its constitution. The Council is also responsible for budget consideration and approval. The Cabinet receives and reviews reports on treasury management policies, practices and activities and makes recommendations to Council as it considers necessary. The Audit Committee is charged with scrutiny and review of the Treasury Management Policy, procedures and management of risk.
- 5.2 Section 11 of the constitution, together with the financial procedure rules, provide the necessary delegations to the Section 151 officer, who is required to ensure effective arrangements for treasury management.
- 5.3 The following summarises the organisation of treasury activities –

Council/The Cabinet

- Approval of Treasury Policy Statement
- Approval of annual Treasury Management Strategy
- Receiving and reviewing reports on treasury management policies, practices and activities

Audit Committee

- Review and scrutiny of Treasury Management Policy
- Review and scrutiny of treasury activity

Section 151 officer

- Executive responsibility for treasury activities
- Monitoring compliance with the Treasury Management Policy
- Management of risk within the boundaries of the Treasury Management Policy
- Report to those charged with governance on treasury policy and activity

Operational Treasury Management Board (OTMB)

- Consider operational treasury matters
- Monitor risk and set or ease additional restrictions within the boundaries of the Treasury Management Policy
- An OTMB member must authorise the daily investment & borrowing transactions confirming they are within the approved policy framework.

Treasury Manager/Officer

- Execution of transactions within approved framework
- Management of counterparties
- Monitoring risk and opportunity and reporting to Section 151 officer and OTMB

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Back Office Support

- Administrative assistance to provide internal check on documentation used to support executed transactions

5.4 Treasury management procedures are maintained, providing detailed working arrangements and practices employed on a day-to-day basis.

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TMP6

**REPORTING REQUIREMENTS AND
MANAGEMENT INFORMATION ARRANGEMENTS**

- 6.1 East Riding of Yorkshire Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.
- 6.2 As a minimum, the Council will receive:
- an annual report on the strategy and plan to be pursued in the coming year
 - a mid-year review
 - an annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's Treasury Management Policy and TMPs.
- 6.3 The Audit Committee will receive regular monitoring reports on treasury management activities and risks.
- 6.4 The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.
- 6.5 Treasury management indicators will be reported in a suitable manner to the Council.
- 6.6 The present arrangements and the form of these reports are detailed in the schedule to this document.

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SCHEDULE TO TMP6

**REPORTING REQUIREMENTS AND
MANAGEMENT INFORMATION ARRANGEMENTS**

- 6.1 The Council has delegated to The Cabinet all matters within policy. As a minimum, The Cabinet will receive a report –
- On or before the first working day of the financial year to set a strategy for treasury management activities for that financial year
 - A mid-year review detailing treasury management activities undertaken during the current financial year
 - Before 30 September, The Cabinet will receive an annual report detailing the treasury management activities undertaken during the preceding financial year.
- 6.2 The Council receives a report detailing prudential indicators alongside the review of its capital programme at least twice a year.
- 6.3 The Cabinet will receive a report at any time during the year concerning matters that may arise of an urgent nature or fall outside the Treasury Management Policy or strategy for treasury management.
- 6.4 The Audit Committee will receive regular reports at its meetings on treasury management activities and compliance with the Treasury Management Policy and Strategy during the preceding period
- 6.5 Executive decisions regarding treasury management are delegated to the Section 151 officer. A report covering the activity of the treasury management function is submitted weekly to the officers involved in the treasury management function. The report consists of a note of loans outstanding, daily transactions, bank account balances and a summarised cash flow for the previous week, together with explanations for unusual or unexpected results. The report also provides a forecast of investments at the end of the following week, an overview of money market fund exposures and a brief note of market issues affecting treasury management.
- 6.6 As necessary, reports will be prepared for the Operational Treasury Management Board, an executive group chaired by the Section 151 officer. The Board considers matters concerning risk.

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TMP7

BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

- 7.1 The Section 151 officer will prepare, and Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with the associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The Section 151 officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.
- 7.2 East Riding of Yorkshire Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

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SCHEDULE TO TMP7

BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

- 7.1 The treasury management activity **is not a profit centre**. The Service Reporting Code of Practice defines Corporate Management to include “the costs of treasury management and bank charges...” The products of treasury management – investment income, interest costs and leasing rentals – are accounted for in accordance with CIPFA’s Code of Practice on Local Authority Accounting in the Council’s annual statement of accounts.
- 7.2 Internal audit carry out procedures on an annual basis to provide management with the assurance of controls operating within the activity under review and the exposure to risks that control weaknesses may cause.. .
- 7.3 External audit review a sample of treasury management transactions and balances in the course of the statutory audit of statement of accounts on an annual basis.

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TMP8

CASH AND CASH FLOW MANAGEMENT

- 8.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of East Riding of Yorkshire Council will be under the control of the Section 151 officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *liquidity risk management, and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate)*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

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SCHEDULE TO TMP8

CASH AND CASH FLOW MANAGEMENT

- 8.1 The council's cash flow is relatively consistent throughout the year. Two cash flow forecasts are maintained: a three-year forecast at a high level and a more detailed, short-term cash flow.
- 8.2 Of its £1.1 billion income, some £450 million is received from Government (received on a fortnightly, monthly or quarterly basis). A further £345 million is collected from council tax and business rates, mostly by monthly direct debit. Of the remaining £355 million, the majority is received on a daily basis.
- 8.3 On the expenditure side, significant payments include salaries of £250 million, Tax, National Insurance and pension contributions of £49 million, and fire and police precepts totalling £49 million per annum, paid on a monthly basis. Debt and interest payments of £7 million are made half yearly. The remainder is paid out on a regular, daily basis with no significant peaks or troughs.
- 8.4 A short cash flow forecast, highlighting the significant numbers referred to above, is kept by the dealer. This provides a quick reference guide to specific cash needs. A nominal sum is retained in a call account (iceberg) or money market fund to meet uncovered demands for funds, although there is no defined minimum or maximum.
- 8.5 The Section 151 officer and other officers involved in the treasury management function receive, as part of the weekly information report, a summarised cash flow for the preceding week together with a brief forecast of the coming week.

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TMP9

MONEY LAUNDERING

- 9.1 East Riding of Yorkshire Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

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SCHEDULE TO TMP9

MONEY LAUNDERING

- 9.1 The Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering & Terrorist Financing and Transfer of Funds Regulations 2017 and amendment in 2019 together impose a duty on regulated business and its employees to report suspicions of money laundering and criminal sanctions can be brought against individuals for failure to do so. Whilst the Council is not a regulated business for the purpose of the regulations it needs to ensure that it takes steps to comply with the spirit of the legislation which imposes criminal penalties upon individuals who are involved in money laundering activities and who fail to report their suspicions of dishonesty.
- 9.2 Disclosures are made to the National Crime Agency (NCA) which evaluates them, filtering out bogus, spurious and unhelpful disclosures, then passing on valid useful disclosures to the appropriate police force or Her Majesty's Revenue and Customs. Each police force has its own financial intelligence section to deal with referrals.
- 9.3 The money laundering guidelines are incorporated into the Council's Counter Fraud Policy. Any suspicion of money laundering is required to be reported to the Council's Money Laundering Reporting Officer (MLRO), the Audit and Technical Manager.
- 9.4 To ensure, as far as possible, that the individuals involved in treasury management can be satisfied as to the authenticity of the lender or borrower, the Council will only deal with known counterparties whose credentials can be verified independently. In practice, this will mean dealing with organisations authorised under banking or financial services legislation or who are listed on the London Stock Exchange and whose bona fides can be confirmed by, inter alia, reference to Bloomberg or credit reference agencies.

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TREASURY MANAGEMENT POLICY

TMP10

TRAINING AND QUALIFICATIONS

- 10.1 East Riding of Yorkshire Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 officer will recommend and implement the necessary arrangements.
- 10.2 The Section 151 officer will ensure that Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.
- 10.3 Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.
- 10.4 The present arrangements are detailed in the schedule to this document.

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TREASURY MANAGEMENT POLICY

SCHEDULE TO TMP10

TRAINING AND QUALIFICATIONS

- 10.1 East Riding of Yorkshire Council is committed to employing appropriately qualified and experienced staff.
- 10.2 Those involved in day-to-day treasury management operations will be expected to hold, as a minimum, Association of Accounting Technicians qualification or be part qualified members of one of the main Consultative Committee Of Accountancy Bodies (CCAB). Treasury management specific qualifications, such as those issued by the Association of Corporate Treasurers are also acceptable.
- 10.3 Suitable resources are made available to enable staff to fully understand the operation. This may include appropriate external training courses where necessary. On-going skills and experience updates will include seminars or other market-sponsored events.
- 10.4 The Section 151 officer will ensure that those charged with governance have access to the skills and knowledge they require to carry out their role effectively with regard to treasury management. Suitable seminars will be provided as part of the regular training provided to Members.

OFFICIAL
TREASURY MANAGEMENT POLICY

TMP11

USE OF EXTERNAL SERVICE PROVIDERS

- 11.1 East Riding of Yorkshire Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons that will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed.

The monitoring of such arrangements rests with the Section 151 officer and details of the current arrangements are set out in the schedule to this document.

OFFICIAL
TREASURY MANAGEMENT POLICY

SCHEDULE TO TMP11

USE OF EXTERNAL SERVICE PROVIDERS

- 11.1 A number of services to aid the treasury management function are available to the Council and include banking, brokerage, consultancy and advisory.
- 11.2 The Council's main banker is appointed by open tender.
- 11.3 To promote competition and as far as possible ensure the best available terms, the Council uses a number of money market brokers whose role is to match bids and offers.
- 11.4 External advisors are available to provide advice on such things as treasury policy, strategy and counterparty risk, together with debt restructuring opportunities. Where such appointments are made they will be by open tender. Where advisers are used, it is recognised that responsibility for decisions rests with the Council. Any external advice commissioned will therefore be additional information to aid that decision making. Other sources of information are available and are regularly used by the Council.
- 11.5 External managers may be appointed to manage such part of the Council's surplus monies as may be agreed by Council from time to time. Where such appointments are made, the managers must act within this Treasury Management Policy and in accordance with a lending list approved by the Section 151 officer.
- 11.6 Leasing is a complex area. Whilst the process can be managed in-house, the detailed knowledge of a broker means that the ultimate lessor is likely to be known in terms of past performance and non-financial competitiveness.

OFFICIAL
TREASURY MANAGEMENT POLICY

TMP12

CORPORATE GOVERNANCE

- 12.1 East Riding of Yorkshire Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- 12.2 East Riding of Yorkshire Council has adopted and has implemented the key principles of the CIPFA's Code of Practice on Treasury Management in the Public Services. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Section 151 officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

OFFICIAL
TREASURY MANAGEMENT POLICY

SCHEDULE TO TMP12

CORPORATE GOVERNANCE

- 13.1 The Council is committed to embracing the principles of corporate governance in its treasury management activities, notably openness and transparency. This Treasury Management Policy, together with the adoption of the Treasury Management in the Public Services Code of Practice, provides a clear framework for demonstrating the integrity of the operation.
- 13.2 Reports to The Cabinet and the Audit Committee are public documents. The robust treasury management organisational structure together with its well-defined responsibilities and separation of duties and arrangements for audit enhance the accountability of the activity.
- 13.3 The Council's code of corporate governance deals with the fundamental principles that underpin good corporate governance and is applicable to all Council activity, including treasury management.

INVESTMENT MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS

- 14.1 East Riding of Yorkshire Council recognises that investment in other financial assets and property for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios. The Section 151 officer must be consulted and approve all non-treasury management investments.
- 14.2 East Riding of Yorkshire Council will ensure that all the Council's investments are covered in the Treasury Management Strategy for treasury management investments or the Capital Strategy, for non-treasury investments, and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for non-treasury investments (referred to as investment management practices (IMPs) in CIPFA's Treasury Management code). It will be recognised that the risk appetite for non-treasury investments may differ from that for treasury management investments.
- 14.3 East Riding of Yorkshire Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure.
- 14.4 The Council's Capital Strategy will set out the detailed approach towards non-treasury investments held fully or partially for financial return, along with the summary of investments referred to above and the prudential and other quantitative indicators.

EAST RIDING OF YORKSHIRE COUNCIL

Report to: The Council
6 February 2025

Wards: All

Treasury Management Strategy 2025-26

Report of the Executive Director of Corporate Resources

A. Executive Summary

This report sets out the Council's proposed Treasury Management Strategy for 2025-26. The strategy details the Council's overall approach to managing the risks associated with its investment and borrowing activities.

The prime objective of the Council's investment strategy is to maintain capital security whilst ensuring that there is the necessary liquidity to carry out its business. Within these constraints, the strategy aims to maximise returns.

The borrowing strategy aims to minimise both the revenue cost of debt and the potential volatility of these costs which can arise from changes to interest rates.

The interest rate environment has stabilised somewhat in the wake of the historic number of increases to the Bank of England base rate during 2022 & 2023. Since August 2023, the Bank of England's Monetary Policy Committee held the bank rate at 5.25%, reducing the rate to 5% in August 2024, then 4.75% in November 2024. The Bank of England and market implied forecasts are similar, with the rate expected to gradually fall further during 2025 by around 1%. However, recent uncertainty surrounding the outlook for inflation and the economy has increased market volatility and the Council will continue to explore opportunities to ensure there is sufficient diversification of risk in its investment portfolio, whilst optimising returns, and continue to seek to minimise the cost of its borrowing.

It is anticipated that it will be necessary to borrow during 2025-26 to fund the capital programme and replace internal cash balances that have been used to defer the borrowing required to fund past capital expenditure. This borrowing requirement is currently forecast to be £122m by the end of the current financial year. Economic market conditions and expectations will be closely monitored and a 'trigger point' of 4.5% will be used for active consideration to be given to taking borrowing if the 25-year Public Works Loan Board (PWLB) fixed rate falls below this level. Active consideration of borrowing may also take place if short-term forecasts of cash and cash equivalent balances fall to a level which sufficiently increases liquidity risk, i.e. risk to the level of funds available which are necessary for the achievement of the Council's business and service objectives. To take advantage of the expected falling interest rate environment, any new borrowing will be taken on a phased basis, driven by the actual level of cash balances.

Government statutory guidance requires that, before the start of each financial year, a local authority prepares a statement of its policy on making Minimum Revenue Provision (MRP) in respect of that year and submits it to the full Council for approval. This report includes the recommended MRP Policy which remains unchanged from previous years, with the exception of an exclusion from charging MRP on service-related capital loans and leases out to third parties.

The Treasury Management Strategy and MRP Policy were considered by the Audit Committee on 24 January and the Cabinet on 28 January 2025, both of which recommended that they be approved by full Council.

B. Corporate Priorities

Growing the Economy
Helping Children and Young People Achieve
Empowering and Supporting Communities
Protecting the Vulnerable
Valuing the Environment

C. Portfolio

Finance and Governance

D. Recommendation

It is recommended that the Council approves the Treasury Management Strategy and Minimum Revenue Provision Policy for 2025-26..

1. Background

1.1 The Council's Constitution requires the Director of Finance, as Chief Finance Officer, to:

- Apply discipline in financial management, including managing cash and banking, treasury management, debt and cash flow, with appropriate segregation of duties.
- Ensure the effective management of cash flows, borrowings and investments of the Authority's own funds and the pension and trust funds it manages on behalf of others; ensuring the effective management of associated risks; pursuing optimum performance or return consistent with those risks.

1.2 The CIPFA treasury management code requires a responsible body to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. The Council's nominated body to undertake this role is the Audit Committee.

1.3 The Treasury Management Strategy sets out the Council's overall approach to managing the risks associated with its investment and borrowing activities. The strategy should be considered in conjunction with the Treasury Management Policy, which sets out the approved principles and practices which set out the parameters within which the treasury function can be operated. It identifies the risks associated with the function and specifies how those risks will be managed operationally on a day to day basis.

2. Considerations including Options

- 2.1 This report details the Council's proposed Treasury Management Strategy for 2025-26. In accordance with its Terms of Reference set out in the Council's Constitution, the Audit Committee has reviewed the strategy.

3. Treasury Management Strategy

- 3.1 The prime objective of the Council's investment strategy is to maintain capital security whilst ensuring that there is the necessary liquidity to carry out its business. Within these constraints, the strategy aims to maximise returns.
- 3.2 The borrowing strategy aims to minimise both the revenue cost of debt and the potential volatility of these costs which can arise from changes to interest rates.
- 3.3 One revenue consequence of borrowing is the statutory requirement to set aside an amount for repayment of debt, known as Minimum Revenue Provision (MRP). Regulations require the Council to determine annually a principle by which MRP will be determined.
- 3.4 The Treasury Management Strategy aims to protect the Council from market-related risks by monitoring interest rates, economic indicators and UK and overseas government finances and reacting accordingly. A range of information sources are used to inform economic analysis and forecasts.
- 3.5 The following paragraphs represent the detailed strategy to be followed during 2025-26.

4. Investment

- 4.1 Except for speculative type investments (e.g. stock market), local authorities are free to invest money widely. The Ministry of Housing, Communities and Local Government (MHCLG) guidance defines three types of financial investment, these are loans, specified investments and non-specified investments.
- 4.2 Loans are those investments made to wholly owned companies or associates, joint ventures, or to third parties as part of a wider strategy for local economic growth. Specified investments are those investments denominated in sterling, which are due or may be required to be repaid within 12 months of the date the transaction was made and the organisation or scheme with which the investment is made is of "high credit quality". Non-specified investments are all other investments.
- 4.3 The guidance leaves it to each local authority to determine what it considers to be "high credit quality". East Riding of Yorkshire Council demands security of capital as a prime objective. It is considered that those institutions with a long-term rating of A- or higher combined with a short-term rating of A2 or higher are commensurate with a low level of risk. These levels constitute the top three (of four) credit ratings considered to be "investment grade". An investment grade credit rating indicates the risk of default is low and is considered a benchmark of quality for investment managers. The fourth level of investment grade is also referred to as "speculative grade" as the investment would be vulnerable to changing economic conditions. Below this level ratings are classified as "junk" indicating the investment could quickly run into difficulties.
- 4.4 In addition to and complementing credit ratings, real-time market data monitoring and quality financial press are used to gain further market intelligence and verify

organisations of high credit quality. Non-specified investments are risk-assessed at the time an investment is made.

- 4.5 Loans will also be assessed on their merits at the time of investment, having regard to the counterparty, size and duration of the investment and how it will contribute to achieving the Council's strategic aims.
- 4.6 Investment risk cannot be entirely eliminated but is managed through the credit and counterparty framework set out in the Treasury Management Policy. An extract from the Council's Treasury Management Policy is included at Appendix 1, which sets out the limits that apply to each counter party and the portfolio as a whole.
- 4.7 The Council's Operational Treasury Management Board (OTMB) also considers risks within treasury management operations. The OTMB is an officer group that meets on a bi-monthly basis and is chaired by the Director of Finance. It considers operational treasury matters, monitors treasury risks and market conditions, and formally reviews and amends investment criteria within the Treasury Management Policy as appropriate. An OTMB member must authorise the daily investment and borrowing transactions confirming they are within the approved policy framework. There are proposed changes to the policy framework for 2025-26 to segregate the shared policy for the Council and Pension Fund by making the limits within it apply separately to each fund. Since the previous policy was introduced, the Pension Fund has significantly increased the level of its overnight & short term investments. Returning to a position where separate policy limits are applied will ensure both funds have the same opportunity to access counterparties offering competitive returns.
- 4.8 The OTMB has continuously reviewed the treasury risk environment and its impact on the Council's investment returns. In light of the prime objective of capital security, the restriction to the investment criteria in the Treasury Management Policy preventing investment in banks domiciled in the Middle East remains in place, in view of the ongoing conflict and political instability in the region.
- 4.9 CIPFA's Code of Practice on Treasury Management in the Public Services requires the authority to set out its approach to non-financial and non-treasury investments. Non-financial investments are investments which are not held as a financial instrument, e.g. a property holding rather than a bond. Non-treasury investments are investments which are held for purposes other than treasury management, e.g. to generate a long-term return. The Council's treasury management function does not invest in non-financial assets. In accordance with guidance, any non-treasury investment decisions are subjected to a rigorous risk assessment process, including option appraisal and scenario analysis, and the reasons for these investment decisions are clearly explained. The Council does not currently hold any material non-treasury investments.
- 4.10 As with treasury investments, the Council will give priority to security and then liquidity over yield. The Council will ensure that the level of any related debt taken on and the aggregate risk is proportional to the size of the authority. It will also be clear about the contribution made from non-core investments towards core functions and disclose any dependence on commercial income to deliver statutory services. If the specialist expert knowledge required to evaluate and make the investment decision is not available within the Council, external advice and training will be sought. The Council's Capital Strategy sets out the approach to managing capital investment, including the governance and decision-making process.

5. Borrowing

- 5.1 In general, the Council can borrow for one of two purposes – to finance cash flow in the short term or to fund capital investment over the longer term. It is anticipated that it will be necessary to borrow during 2025-26 to fund the capital investment plans for 2025-26 and replace internal cash balances that have been used to defer the borrowing required to fund past capital expenditure. This is currently projected to be up to £122m by the end of the current financial year. Economic market conditions and expectations will be closely monitored and a 'trigger point' of 4.5% will be used for active consideration to be given to taking borrowing if the 25-year Public Works Loan Board (PWLB) fixed rate falls below this level. Active consideration of borrowing may also take place if short-term forecasts of cash and cash equivalent balances fall to a level which sufficiently increases liquidity risk, i.e. risk to the level of funds available which are necessary for the achievement of the Council's business and service objectives. The OTMB will be consulted when determining the timing and amount of external borrowing required for 2025-26.
- 5.2 The Council is able to borrow from the Public Works Loan Board (PWLB), a lending facility for local authorities operated by the UK Debt Management Office on behalf of HM Treasury, and would expect to be able to meet its needs from that source. However, loans are also available from other sources and these will also be considered if the costs/terms of such loans are favourable. The PWLB will not lend to any local authority that plans to buy investment assets primarily for yield anywhere in their capital plans, regardless of whether the transaction would be financed from a source other than PWLB. The Section 151 Officer (Director of Finance) must confirm that there is no intention to buy investment assets primarily for yield at any time in the next 3 years and must submit a high-level description of the capital expenditure for this period.
- 5.3 The Prudential Code supports the current PWLB lending terms to reduce the risks taken by some local authorities in their investment activity. All investments and investment income must be attributed to a primary purpose of Treasury Management, Service Delivery or Commercial Return activity.
- 5.4 Local authority investments (including commercial property) may be categorised in accordance with the **primary purpose** of the investment, requiring Chief Finance Officers to make a judgement as to the primary purpose of investments.
- 5.5 The Code states that authorities "must not borrow to invest primarily for financial return". It also says that it is not prudent for them to make any investment or spending decision that could increase the need for borrowing, unless related to the functions of the authority and where financial returns are "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".
- 5.6 Authorities which have an expected need to borrow should review options for exiting their financial investments for commercial purposes, and summarise the review in their annual treasury management or investment strategies. The options should include using the sale proceeds to repay debt or reduce new borrowing requirements. The reviews should evaluate whether to meet planned borrowing needs by taking new borrowing or by repaying investments, based on a financial appraisal which takes account of financial implications and risk reduction benefits. To avoid confusion, CIPFA have clarified in the code that authorities with existing commercial investments (including property) are not required to sell those investments.

- 5.7 The Code does not impose any restrictions on councils' borrowing for purposes core to their core aims, such as for housing and regeneration projects, or for treasury management purposes. The Council holds investments under the treasury management category.
- 5.8 The Council's debt portfolio is managed to ensure that the maturity profile will not leave any one future year with a high level of repayments that could present difficulties in refinancing. In line with this, long term borrowing will generally be taken on the basis of equal instalment of principal or annuity, rather than maturity, thereby spreading repayments over future years. Fixed rate loans are usually taken to lock into known interest rates, thus protecting against fluctuations and providing certainty when managing and setting the budget.
- 5.9 The exception to this is borrowing in respect of the Housing Revenue Account (HRA). This is generally structured to match forecast cash flows within the HRA business plan.
- 5.10 Whilst the current interest rate structure means it is not currently cost effective to refinance, the Council will actively consider opportunities to refinance the borrowing portfolio should they arise.

6. Interest Rates

- 6.1 There are many influences that affect money market sentiment and consideration is given to both short-term and long-term interest rates, which move and react differently to a number of factors. The relevant treasury management decisions taken in respect of the strategy will be influenced by the prevailing interest rates and interest rate forecasts throughout the year.
- 6.2 The Bank of England's Monetary Policy Committee (MPC) is charged with setting monetary policy, including the UK official bank rate, in order to achieve a consumer price index (CPI) inflation target of 2% and in a way that helps sustain growth and employment.
- 6.3 Short term investment rates in money markets are normally guided by the bank rate, or more precisely the level, direction and timing of bank rate changes. In other words, money markets try to predict what the MPC will do in the future.
- 6.4 At the start of 2024 the Bank of England base rate was 5.25%, following the historic run of 14 consecutive increases that ended in August 2023. Since August 2023, the MPC held the bank rate at 5.25%, reducing the rate to 5% in August 2024, then 4.75% in November 2024. The Bank of England and market implied forecasts are similar, with the rate expected to gradually fall further during 2025 by around 1%.
- 6.5 Since falling from its peak of 11.1% in October 2022 to 4% at the end of 2023, inflation receded back to the 2% BoE target level in May 2024 due to the effects of higher interest rates and lower food and energy costs. However, it has since fluctuated around the target, dipping below to 1.7% in September 2024, before rebounding to 2.6% in November, which is the latest available figure. The latest quarterly (November 2024) Monetary Policy Report forecasts CPI inflation to increase to around 2.75% in the second half of 2025, returning to the 2% target a year or so later. Additional spending measures announced in the UK's October 2024 Budget, persistent services sector inflation and a further increase to the energy price cap in January 2025 are drivers of the increase. The potential impact of incoming US

President Trump's tariffs - should they trigger a global trade war, or disruption to oil supply in the event of further escalation in Middle Eastern conflict pose upside risks to the level of inflation during 2025 and disrupt or delay the anticipated gradual reduction of Bank Rate.

- 6.6 The UK's Gross Domestic Product (GDP), a measure of the size and health of the economy, rose by 0.1% in 2023. This followed increases of 4.3% in 2022 and 7.5% in 2021. Forecasts for 2024 are typically for an increase of around 1.1%. Forecasts for 2025 vary more widely, typically 1.5% to 2.0%. A recession is possible but, based on these numbers, does not seem likely.
- 6.7 Notwithstanding the Council's cash flow requirements, market expectations of interest rates will influence the duration structure of the Council's short term investment portfolio, i.e. a higher level of volatility and uncertainty in the financial markets may reduce the duration of new investments. This approach, combined with the investment strategy described in section 4 and the management of risk described in section 7, acts to maintain the security of the Council's investments whilst providing the necessary liquidity to meet the Council's operational cash requirements.
- 6.8 At the start of 2024-25, Public Works Loan Board (PWLB) interest rates were priced at an average rate of 5.22% (last year was 4.72%). There has been continued volatility during 2024-25, with twenty-five year rates moving between 4.90% and 5.69%, (50-year rates were 5.28% to 5.98%). Current rates are circa 5.40%. At the time of writing, PWLB borrowing rates are around 2% higher compared to the previous two decades at just below 5.50% for a fixed interest 25-year loan. Currently, projected levels of cash balances indicate that it will be necessary for the Council to borrow in 2025-26 as set out in paragraph 5.1.

7. Management of Risk

- 7.1 Credit and counterparty risk and market risk (the risks associated with the core principles of security, liquidity and yield) are managed within and monitored against the framework approved in the Treasury Management Policy.
- 7.2 Investment is mainly by cash deposits with financial institutions. However, in order to increase diversification, it is possible to purchase financial assets issued by banks, non-financial companies, sovereigns and sub-sovereign organisations. These assets, such as Certificates of Deposit and bonds, are bought with a view to accessing counterparties not normally available to the Council.
- 7.3 Investment may be made in pooled investment funds such as money market funds or other regulated UCITS (Undertakings for the Collective Investment in Transferable Securities) funds. These are professionally managed funds which can provide greater levels of diversification than are available to the Council as an individual investor. During 2025-26, the Council will be continuing to enhance the diversification and returns that are offered by such funds.
- 7.4 Limited use of derivatives to manage risk appears to be permitted by the Localism Act 2011 and the latest CIPFA Code of Practice on Treasury Management. However, Government has been silent on this matter and it is likely that it will be left for the courts to determine. Consequently, the use of derivatives will not be considered until the situation becomes clarified.
- 7.5 The OTMB continues to meet bi-monthly, chaired by the Director of Finance, to consider issues of best practice, market conditions and intelligence and formally review the restrictions in place over investment and borrowing within the limits set out in the Treasury Management Policy.
- 7.6 The Treasury Management Policy permits the Council to request re-classification as an elective professional investor under the Markets in Financial Instruments Directive II (MiFID II) directive, should a financial counterparty require this, to ensure the effective functioning of its treasury management activities. The Council has considerable experience and knowledge of the risks involved in investing in a range of financial instruments and as such is not exposed to unmanageable risk as a result of the non-application of regulatory protections offered to retail investors.

8. MRP Statement

- 8.1 A revenue consequence of borrowing is the statutory requirement to set aside an amount for the repayment of debt, known as Minimum Revenue Provision (MRP). Regulations require the authority to annually determine a principle by which MRP will be determined.
- 8.2 MHCLG guidance requires that before the start of each financial year a local authority prepares a statement of its policy on making MRP in respect of that year and submits it to the full Council.

Regulations require the amount of MRP charged to be a prudent amount. The broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government funding, reasonably commensurate with the period implicit in the determination of that funding.

8.3 MHCLG guidance states the maximum useful life of an asset should not normally exceed 50 years when calculating MRP using an asset life method. However, where a local authority has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years, it can use the life suggested by its professional advisor. For a lease or PFI asset, the length of the contract should be used.

8.4 It is recommended that the Council continues to apply the following policy to determine its MRP for 2025-26:

- The asset life method is to be used to calculate MRP for the remaining Capital Financing Requirement (CFR) relating to capital expenditure incurred before 1 April 2007. An average asset life of 51 years has been determined for the pre-2007-08 assets on the Balance Sheet.
- The asset life method is to be used to calculate MRP for all debt-financed General Fund capital expenditure incurred from 1 April 2007 reflected within the CFR, with the asset life determined from the outset and MRP charged in the year following the one in which the expenditure is incurred, with the exception of:
 - a) Where expenditure is incurred over more than one year, then the asset life and MRP shall commence in the year the asset becomes operational in accordance with proper accounting practice,
 - b) Deemed capital expenditure financed by borrowing which will have an asset life as prescribed in the guidance,
 - c) Finance leases and PFI assets which will have a life determined by the life of the financial instrument as a proxy for asset life. Use of the financial instrument life to determine MRP is similar to the prescribed life in respect of deemed capital and associates the charge to revenue with cash flows, and
 - d) In the case of non-commercial service-driven capital loans and leases-out financed by borrowing, where the third party is contractually obliged to repay in full and the arrangement has been assessed with no material expected credit losses identified, no MRP will be charged. In these instances, the annual repayment includes a capital receipt which will be used to reduce the CFR (repay the associated debt) in lieu of MRP.
- For HRA capital expenditure, it has been determined that a prudent MRP charge is nil due to the requirement to charge depreciation and then transfer it to the Major Repairs Reserve (MRR) as this serves a similar function to MRP. However, unlike MRP, MRR does not reduce the HRA CFR calculation and there is still a requirement to consider the debt associated with the HRA and ensure sufficient provision is made to repay debt. Consequently, the HRA will periodically set aside (voluntarily) an amount considered affordable within its business plan.

9. Conclusion

9.1 The interest rate environment has stabilised somewhat in the wake of the historic number of increases to the Bank of England base rate during 2022 & 2023. Since August 2023, the MPC held the bank rate at 5.25%, reducing the rate to 5% in August 2024, then 4.75% in November 2024. The Bank of England and market implied forecasts are similar, with the rate expected to gradually fall further during 2025 by around 1%. However, recent uncertainty surrounding the outlook for inflation and the economy has increased market volatility and the Council will continue to

explore opportunities to increase the diversification of risk in its investment portfolio, whilst optimising returns, and continue to seek to minimise the cost of its borrowing.

- 9.2 It is anticipated that it will be necessary to borrow during 2025-26 to fund the capital programme and replace internal cash balances that have been used to defer the borrowing required to fund past capital expenditure. This is currently projected to be up to £122m by the end of the current financial year. Economic market conditions and expectations will be closely monitored and a 'trigger point' of 4.5% will be used for active consideration to be given to taking borrowing if the 25-year Public Works Loan Board (PWLB) fixed rate falls below this level. Active consideration of borrowing may also take place if short-term forecasts of cash and cash equivalent balances fall to a level which sufficiently increases liquidity risk, i.e. risk to the level of funds available which are necessary for the achievement of the Council's business and service objectives. The OTMB will be consulted when determining the timing and amount of external borrowing required for 2025-26.
- 9.3 The determination of the MRP policy set out in section 8 complies with the regulation and offers the Council maximum flexibility in calculating a prudent charge to revenue.
- 9.4 The Council's Treasury Management Policy is regularly reviewed to ensure that it continues to reflect the Council's risk appetite and best practice.

Darren Stevens
Executive Director of Corporate Resources

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Background Papers	Treasury Management Policy MHCLG Investment Guidance MHCLG MRP Guidance CIPFA Prudential Code

EXTRACT FROM THE TREASURY MANAGEMENT POLICY

Credit and Counterparty Risk Management

For specified investments, an institution or instrument must be rated by at least two of three reference agencies and, if these are different, the lowest rating will apply.

Credit ratings are 'live' and therefore subject to change. New ratings may be issued and existing ratings may go up or down. As such it is not appropriate to include in this statement a list of counterparties meeting the above criteria since it would only be valid at a point in time, although in practice a list is maintained.

Similarly, non-specified investments will be assessed on their merits at the time of investment, having regard to the counterparty, size and duration of the investment, which will not exceed five years. The aggregate of non-specified investments is limited to £30 million at any one time.

Loans will also be assessed on their merits at the time of investment, having regard to the counterparty, size and duration of the investment and how it will contribute to achieving the Council's strategic aims. The term of a loan will not exceed 20 years. The aggregate of loans is limited to £20m at any one time.

Applying the principles detailed above provides the following framework, within which counterparties and investment transactions will be made.

	Maximum Limit
1. Specified Investments <i>(limit per counterparty)</i>	
UK Government	Unlimited
Nat West	£30.0m
Local Authorities	£20.0m
Money Market Funds with a minimum rating AAA ²	£20.0m
Banks and Building Societies with a minimum rating of A-/A2 ²	£20.0m
2. Non-specified Investments <i>(limit per counterparty)</i>	
All non-specified investments	£10.0m
3. Loans <i>(limit per counterparty)</i>	
Other Public Bodies and educational establishments	£5.0m
Wholly owned companies or associates	£10.0m
Partnership Arrangements	£10.0m
Charities	£0.5m
4. Other Limits <i>(on day of investment)</i>	
Aggregate value of Non-specified Investments	£30.0m
Aggregate value of Loans	£20.0m

Notes: ¹Ratings and limits are for guidance only, other information will also be taken into account in determining whether to use a counterparty.



Report to: Hull & East Yorkshire Combined Authority

Date: 26 September 2025

Financial Position Statement 2024-25 and Budget Outlook 2025-26

Report of the interim Director of Finance (Section 73 Officer)

5. Purpose of the Report and Summary

5.1. The purpose of this report is to inform the Executive Board of the budget outturn position of the authority for 2024-25 and the forecast financial position for 2025-26.

5.2. In summary:

- the provisional outturn on the 2024-25 revenue budget is a surplus of £0.324m
- a balanced revenue budget is forecast for 2025-26, following revisions to the original budget
- the current capital budget for 2025-26 is £28.442m.

6. Recommendations

6.1. It is recommended that the Executive Board:

- i) notes the 2024-25 outturn position
- ii) approves the transfer of the 2024-25 surplus to the general reserve
- iii) notes the 2025-26 revised budget
- iv) approves a supplementary revenue budget of £1.450m for the Mayoral Renewables Fund
- v) approves a supplementary capital budget of £26.497m for Highways Maintenance Block grant from the Department for Transport.

7. Background

7.1. This report is the first comprehensive financial update report to the Executive Board since the provisional budgets for 2024-25 and 2025-26 were approved by the Board at its inaugural meeting on 5 March 2025.

7.2. The report provides the provisional outturn position for the 2024-25 financial year and a financial outlook for the 2025-26 financial year.

8. 2024-25 Provisional Outturn Position

8.1. The 2024-25 provisional outturn position against the original revenue budget is a surplus of £0.324m as detailed in the following table:

	Original Budget 2024-25	Outturn 2024-25	Variance to Budget 2024-25
	£m	£m	£m
<u>EXPENDITURE</u>			
Operational Costs			
Staffing	0.068	0.053	- 0.014
Travel & subsistence	0.001	0.001	0.000
Corporate Services via SLAs	0.040	0.116	0.076
Supplies and Services	0.005	0.005	0.000
Premises	0.002	-	- 0.002
TOTAL EXPENDITURE	0.115	0.176	0.060
<u>INCOME</u>			
Government Grants:			
Capacity Fund	- 0.115	- 0.500	- 0.385
TOTAL INCOME	- 0.115	- 0.500	- 0.385
NET (SURPLUS) / DEFICIT	-	- 0.324	- 0.324

- 8.2. The most significant item of expenditure for 2024-25 is the cost of service level agreements (SLAs) with the constituent councils for provision of corporate services. The amount of these costs had not been proposed or determined when the original budget was set. Agreement of these SLAs and the associated costs has not been finalised at the time of writing. The cost at outturn stated above is a provisional figure based on both invoiced and proposed costs.
- 8.3. The only funding paid to HEYCA in 2024-25 was £0.5m of Capacity Fund grant received from the Ministry of Housing, Communities & Local Government (MHCLG). The budgeted use of this grant was aligned with estimated expenditure when the budget was set. However, as the Capacity Fund is a general grant (i.e. not ring-fenced to specific expenditure) it is required to be fully accounted for in the 2024-25 financial year.
- 8.4. There is a £0.324m surplus of grant funding less expenditure incurred in 2024-25. This is a provisional outturn position as SLAs and the associated expenditure which should be accrued to 2024-25 have not been finalised at the time of writing. A final outturn position will be reported to the Executive Board once the costs of these SLAs have been agreed and settled.
- 8.5. It is recommended that the surplus on the 2024-25 revenue budget is transferred to a general reserve. The purpose of the general reserve is to manage the risk of any unplanned expenditure beyond the level of funding available to the authority within each financial year. In accordance with the Local Government Act 2003 (Part 2 Financial Administration) and HEYCA's constitution, a level of reserve must be maintained at the end of each financial year which is not less than the minimum

amount determined by the Section 73 Officer. As the Section 73 Officer, I regard the provisional surplus of £0.324m to be adequate for the establishment of a general reserve, based on HEYCA's current level of operational costs. This position will be reviewed on an annual basis and reported to the Executive Board when the revenue budget is proposed for each forthcoming financial year.

8.6. No capital expenditure or funding was accrued in 2024-25.

9. Revenue Budget 2025-26

9.1. The forecast outturn position for 2025-26 is a balanced budget, based on information available as at 31 July 2025. The following table details the original budget, revised budget, actuals to 31 July 2025, and the full year forecast (outturn).

2025-26

	Original Budget	Revised Budget	Actual to 31 July 2025	Full Year Forecast	Forecast Variance to Revised Budget
	£m	£m	£m	£m	£m
<u>EXPENDITURE</u>					
Operational Costs					
Employee Costs	0.650	2.198	0.441	2.198	-
Members allowances and expenses	0.191	0.191	0.021	0.191	-
Travel & subsistence	0.010	0.043	0.011	0.043	-
Communications	0.100	0.025	0.001	0.025	-
Corporate Services via SLAs	0.240	0.626	0.018	0.626	-
Mayoral Election Costs	1.250	1.352	1.352	1.352	-
Supplies and Services	0.020	0.279	0.126	0.279	-
Insurance	-	0.010	0.007	0.010	-
Premises	0.285	0.110	0.003	0.110	-
Contingency	0.250	-	-	-	-
Total Operational Costs	2.996	4.834	1.980	4.834	-
Investment Programme					
Investment Fund	8.096	7.233	-	7.233	-
UK Shared Prosperity Fund	6.534	6.534	-	6.534	-
Consolidated Active Travel Fund	0.449	0.449	-	0.449	-
Total Operational Costs	15.079	14.216	-	14.216	-
TOTAL EXPENDITURE	18.075	19.050	1.980	19.050	-
<u>INCOME</u>					
Government Grants					
Capacity Fund	- 1.885	- 2.000	- 2.000	- 2.000	-
Investment Fund	- 8.710	- 8.670	- 8.670	- 8.670	-
UK Shared Prosperity Fund	- 6.534	- 6.554	- 7.074	- 6.554	-
Consolidated Active Travel Fund	- 0.449	- 0.449	-	- 0.449	-
DfT - Local Transport Resource Funding	-	- 0.634	- 0.317	- 0.634	-
MHCLG - NI Contributions Grant	-	- 0.140	- 0.035	- 0.140	-
DWP - Get Britain Working	-	- 0.100	- 0.100	- 0.100	-
Investment income	- 0.497	- 0.503	- 0.136	- 0.503	-
TOTAL INCOME	- 18.075	- 19.050	- 18.332	- 19.050	-
NET (SURPLUS) / DEFICIT	-	-	- 16.352	-	-

- 9.2. The original revenue budget for 2025-26 as set at the inaugural meeting of the Executive Board on 5 March 2025. As this was at an early stage of HEYCA's existence, the original budget was always a provisional position based on limited financial information available at the time, particularly with regard to expenditure ahead of development of the organisation's operational model.
- 9.3. The original budget consists of £2.996m for operational costs and £15.079m for the investment programme. The revised budget consists of £4.834m for operational costs and £14.230m for the investment programme. The revisions to the budget include the following:

- Supplementary budgets for government grants announced since the original budget was set.
- Budget virements (i.e. amendments) approved by the Section 73 Officer under delegated authority within HEYCA's Constitution. These virements align the revised budget with current full year forecasts of operational costs and this has required a reduction to the Investment Fund budget of £0.863m. It is necessary to meet, in part, operational costs from the Investment Fund because the remaining balance of the £2m Capacity Fund, once mayoral election costs of £1.352m are accounted for, is insufficient to meet the operational costs of the authority for 2025-26.

9.4. Commentary on the most significant elements of HEYCA's operational costs is provided as follows:

- Employee costs reflect known costs and expected engagement periods of interim staff, and expected engagement costs of permanent staff towards the end of the financial year.
- Provision of corporate services via SLAs with the constituent councils reflects known proposed costs which, at the time of writing, are subject to finalisation and agreement. These services include finance, payroll and ICT services from East Riding of Yorkshire Council, and legal, procurement and information governance services from Hull City Council.
- Mayoral election costs have been finalised at £1.352m compared to the initial estimate of £1.250m.

9.5. It is forecast that the budgets for the Investment Programme will either be fully spent or otherwise carried forward for deployment in the next financial year, and therefore these show nil variance against the revised budget at this early stage of the financial year.

9.6. On income budgets, the following additional sources of funding have not been previously reported to the Executive Board and are worthy of note:

- The Capacity Fund grant receivable was originally expected to be £2.0m in total for 2024-25 and 2025-26. It has since been clarified that HEYCA the grant receivable is £0.5m for 2024-25 and £2.0m for 2025-26.
- A grant of £0.140m has been paid to HEYCA by MHCLG to compensate for the increase to the employers' national insurance rate from 13.8% to 15% from 1 April 2025.
- A grant of £0.100m has been paid to HEYCA by the Department for Work and Pensions for the development of local Get Britain Working plans.

9.7. In summary, it is forecast that HEYCA will contain its revenue costs within the funding resources available for 2025-26.

9.8. At its meeting on 28 May 2025, the Executive Board resolved to:

- delegate authority to the Monitoring Officer to enter into a Grant Funding Agreement with the Department of Energy Security and Net Zero (DESNZ) to accept up to £1,622,457 related to the Mayoral Renewables Fund.
- delegate authority to the Monitoring Officer to enter into a Grant Funding Agreement with HCC and ERYC to grant up to £872,457 and £750,000,

respectively, in alignment with and to deliver the outcome of the Mayoral Renewables Fund.

- 9.9. Since the meeting, proposals have been submitted to DESNZ and a final grant offer of £1.450m has been received in support of eligible project spend of £2.840m. The agreed projects are:
- Hull and East Yorkshire Solar Top-Up Scheme - £1.843m funded by £0.700m from the Mayoral Renewables Fund with match funding of £0.431m confirmed by Hull City Council and £0.712m confirmed by East Riding of Yorkshire Council. The Mayoral Renewables Fund contribution is split 50:50 between the Constituent Councils.
 - South Cliff Holiday Park Solar Expansion and Battery Addition - £0.997m funded by £0.750m from the Mayoral Renewables Fund with match funding of £0.247m confirmed by East Riding of Yorkshire Council.
- 9.10. It is therefore recommended to the Executive Board that it approves a supplementary revenue budget of £1.450m to disperse the Mayoral Renewables Fund to the Constituent Councils upon fulfilment of the grant conditions.

10. Capital Budget 2025-26

- 10.1. The current capital budget for 2025-26 is £28.442m and consists of the following capital grants receivable by HEYCA in 2025/26:
- Local Transport Grant – £15.631m
 - Integrated Transport Block – £3.900m
 - Shared Prosperity Fund – £2.877m
 - Investment Fund – £4.670m
- 10.2. Plans are in place to transfer the Local Transport Grant, the Integrated Transport Block and the Shared Prosperity Fund to the constituent councils, who are expected to fully deploy this funding by the end of the financial year. Currently, no plans have been made to deploy the capital element of the Investment Fund.
- 10.3. On 17 July 2025, a letter was received from the DfT identifying £26.497m of Highways Maintenance Block funding payable to HEYCA, which replaces the separate payments made in previous years to the constituent councils. The funding is for capital maintenance and renewal of assets including roads, footways, bridges, drainage, and lighting.
- 10.4. The letter identifies that £4.482m is payable to Hull City Council and £22.015m is payable to East Riding of Yorkshire Council. Allocations are calculated based on factors including the road lengths, bridges, and street lighting managed by each local authority.
- 10.5. It is therefore recommended that the Board approves a supplementary capital budget of £26.497m for distribution of this funding to the constituent councils.

11. Treasury Management

- 11.1. Treasury management is the management of the 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.

- 11.2. East Riding of Yorkshire Council's Finance team is undertaking treasury management for HEYCA with oversight by the Section 73 Officer and in accordance with the treasury management policy and strategy agreed by the Executive Board at its meeting on 5 March 2025.
- 11.3. The interest earned to date on cash balances invested on HEYCA's behalf is £0.136m with an average interest rate of 4.4%. The forecast investment income for the year is £0.503m.

12. Legal Implications

- 12.1. The Combined Authority is required to agree a balanced budget annually and to monitor that budget throughout the year. In addition, there is a fiduciary duty not to waste public resources, to secure value for money and ensure that good financial governance arrangements are in place.

13. Financial Implications

- 13.1. The financial implications are set out in the body of the report.

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Background Papers:

None