CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

Date:Friday, 02 December 2022

Democratic Services

Edwina Adefehinti
Chief Officer Legal and Governance
Monitoring Officer

72 Market Street
Ely
Cambridgeshire
CB7 4LS

10:00 AM

Civic Suite, Pathfinder House, St Mary's Street, Huntingdon PE29 3TN
[Venue Address]

AGENDA

Open to Public and Press

1 **Apologies for Absence and Declarations of Interest**

At this point Members must declare whether they have a disclosable pecuniary interest, or other interest, in any of the items on the agenda, unless it is already entered in the register of members' interests.

2 **Chair's Announcements**

3 **Minutes of the Previous Meeting**

To approve the minutes of the meeting held on 30 September 2022 and to note the Action Log.

The Audit and Governance Committee comprises the following members:

For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact

<u>The Audit and Governance Committee Role.</u>

- To review and scrutinize the authority's financial affairs
- To review and assess the authority's risk management, internal control and corporate governance arrangements
- To review and assess the economy, efficiency and effectiveness of the authority's use of resources
- To make reports and recommendations to the CA on these reviews
- To ensure high standards of conduct amongst Members

The Combined Authority is committed to open government and members of the public are welcome to attend Committee meetings. It supports the principle of transparency and encourages filming, recording and taking photographs at meetings that are open to the public. It also welcomes the use of social networking and micro-blogging websites (such as Twitter and Facebook) to communicate with people about what is happening, as it happens.

Councillor David Brown

John Pye

Cllr Imtiaz Ali

Councillor Ian Benney

Councillor Stephen Corney

Cllr Geoff Harvey

Cllr Simon Smith

Councillor Graham Wilson

Clerk Name:	Anne Gardiner
Clerk Telephone:	
Clerk Email:	anne.gardiner@cambridgeshirepeterborough-ca.gov.uk

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE: DRAFT MINUTES

Date: **30 September 2022**

Time: 10:00

Location: Pathfinder House, Huntingdon

Committee:

Mr John Pye	Independent Chair
Cllr Graham Wilson	Cambridgeshire County Council
Cllr Imtiaz Ali	Peterborough City Council
Cllr Ian Benney	Fenland District Council
Cllr Stephen Corney	Huntingdonshire District Council
Cllr Simon Smith	Cambridge City Council
Cllr David Brown	East Cambridgeshire District Council
Cllr Geoff Harvey	South Cambridgeshire District Council

Officers:

Gordon Mitchell*	Interim Chief Executive Officer
Angela Probert	Interim Programme Director - Transformation
Jon Alsop	Head of Finance
Jodie Townsend	Interim Head of Governance
Edwina Adefehinti*	Monitoring Officer
Chris Bolton*	Head of Programme Management Office
Anna O'Keefe	Internal Auditor (RSM)
Adam Lickorish	Internal Auditor (RSM)
Anne Gardiner	Governance Manager
Joanna Morley	Interim Governance Officer

*denotes remote attendance

1. Apologies for Absence and Declarations of Interest

1.1 There were no apologies.

1.2 No disclosable interests were declared.

2. Chair's Announcements

2.1 The Chair had had an online meeting with representatives from DLUHC and would report further on it during the discussion of the Improvement Framework, agenda item 4.

3. Minutes of the previous meeting and Action Log

3.1 The minutes and the action log of the meeting held on 29 July 2022 were discussed.

3.2 Outstanding items on the Action Log led to a discussion on what should be included on the Committee's work programme. The following points were noted:

a. There was an outstanding action to update the Committee on the progress of the externally commissioned work being carried out on HR policies and this would be followed up in time for the next meeting.
b. As part of the Improvement journey, the Committee needed to assess its role and make sure that the right support was in place to enable the Committee to carry out that role.
c. There was scope for the Committee to be involved in developing the approach to risk management and performance management and how the Committee could interact with it.
d. It was suggested that a survey be sent to Members for them to assess the Committee's performance against the requirements of an effective audit committee. This could then be analysed alongside the terms of reference for the Committee and allow officers to submit a report on areas they felt the Committee needed to strengthen.
e. Members were also asked to complete a form detailing their skills set and experience so that appropriate training sessions could be provided.
f. Members were in favour of both a financial management and a project management session being scheduled and requested that the project management session focus on what the Committee's role was in relation to auditing projects.

RESOLVED:

i. That the minutes of the meeting of 29 July 2022 be approved.

ii. That the current Action Log be noted and that the following actions be added:

- Members to be sent a survey to complete which would help in assessing the performance of the Committee
- Members to submit details of their relevant experience and past training.
- Having received the results of the survey, Officers to submit a report for the next meeting outlining where they felt the Committee had weaknesses with proposals for addressing these.
- Officers to organise online development sessions on financial and project management.

4. Improvement Framework Including Review of Governance

4.1 Gordon Mitchell, Interim Chief Executive introduced this agenda item and outlined how, since the last meeting in July, time had been spent putting the actions set out in the Framework into process and beginning work on an overarching strategy. The cancellation of the Board meeting in September, due to the official mourning period for her Majesty the Queen, had allowed for more informal discussions with Board members who hopefully would be reassured by the robustness of the improvement work and the next steps set out in the proposed report to the CPCA Board at their meeting being held on 19 October 2022.

Angela Probert, Interim Programme Director for Transformation and Jodie Townsend, Interim Head of Governance then gave a presentation (included in the agenda pack) that covered the key elements of the Board report as well as the role the Audit & Governance Committee could play in some of the improvement workstreams.

During discussion the following points were noted:

a. In a meeting with the Chair, officers from DLUHC had said they were not yet able to give a view on the Improvement Plan but drew his attention to Government guidance on recent interventions. Officers confirmed that they had considered this guidance and other reports from the Department for Business, Energy and Industrial Strategy (BEIS) and the Local Government Association (LGA), when developing the improvement framework.
b. It was expected that after the CA Board meeting officers would draw together a comprehensive update to the issues raised in the External Auditor's letter.
c. The External Auditor reserved his opinion on the Plan, saying that although he could see that the necessary building blocks were in place, he was waiting to see the outcome of the implementation of the Plan.
d. There was a need to seek consensus from Board members and speak with one voice to Whitehall. The common theme from other Combined Authorities that were seen to be doing well, was that they focused on the gain for their areas and messages that could be agreed upon.
e. A timescale for developing the Plan would be appended to the Board report, along with an update on progress so far. Key actions with owners and delivery dates would be given to ensure that an assessment of progress could be made.
f. Officers would ensure that the six indicators of poor culture and weak governance set out in the DLUHC guidance note were fully reflected within the 'five points for success' headline and would map them throughout the report to show that they were being addressed.
g. The Chief Executives of the constituent Councils had stepped up to work with the Combined Authority on the Plan and each had attached themselves to one of the six priority areas of focus.
h. The Plan was not just about improving delivery in certain areas but about making sure the connections between the different areas of policy and delivery were made and that there was a move away from being quite such a siloed organisation.
i. The Committee was to be clear about its focus and needed a direct relationship with the Improvement Board so that progress and any issues with the Improvement Plan could be reported directly to it.
j. It was set out very clearly in the terms of reference for the Independent Improvement Board (IIB) that they would provide regular advice, challenge and support to the Combined Authority on the full range of identified improvement activities and in particular on the delivery of the recommendations set out in the External Auditor's letter of 1 June 2022 and the Review of Governance. The IIB Board would be accountable to the Audit and Governance and Overview and Scrutiny Committees and would ensure that they received regular updates on the improvement activity.
k. Audit & Governance Committee members could request to observe meetings of the IIB, and in turn the IIB could request the attendance of Members.
l. One of the actions detailed in the Improvement Plan was that the Committee receive a 'fit for purpose' document giving an overview of the internal efficiencies of the organisation from the Performance and Risk Committee (PaRC)

<u>RESOLVED:</u>

1. That the Committee notes the presentation and welcomes the approach and proposed next steps.
2. That a report from the IIB be delivered at the next meeting on 2 December and that the Committee then take a view on frequency of reporting and whether it would be helpful to observe a future IIB meeting.
3. That the workplan agenda item be moved up the agenda for the next meeting and that discussion be had on the strength and weaknesses of the Committee, the findings of the Governance review, and proposals be given for a revised workplan regarding the Improvement Framework.

5. **Internal Audit Progress Report**

Anna O'Keeffe, Senior Manager RSM, introduced the report which asked the Committee to note progress being made against the internal audit plans for 2021/22 and 2022/23.

5.1 During discussion the following points were noted:

a. The Auditor was happy with the progress of audits except for the IT audit which had been pushed back to Q4, the next calendar year.
b. Following a discussion at the last meeting about the scope of the proposed Affordable Housing Programme it had recently been concluded that Audit could focus on the grant application process and the monitoring of it through the development programme and that this would not overlap with the work of the Overview and Scrutiny Committee review.

RESOLVED:

That the Internal Audit progress report be noted.

6. **Subsidiary Governance Report**

6.1 Anna O'Keeffe introduced the internal audit report from RSM on Subsidiary Governance and Jon Alsop, Head of Finance, then reported on the proposed management actions and timescales to address the identified weaknesses as set out in the report.

During discussion the following points were noted:

a. In its Terms of Reference, the Committee has responsibility for the monitoring and scrutinising the management of subsidiary companies but at the time the audit was undertaken, neither the Committee nor the Board had received any reports regarding this. The Auditors had noted that the Committee was aware of its responsibilities but needed to know how to discharge them.
b. Minimal assurances were not unheard of but were quite rare.
c. The Monitoring Officer, in response to a query as to why business plans for the subsidiary companies would not be in place until February 2023, reported that there were several steps to be taken that had to be approved at Board and therefore needed to fit in with their meeting cycle; this included the appointment of new directors. The deadline also afforded officers time to carefully consider the legal repercussions of any actions taken. Regular progress updates would be provided to the Committee during this period.
d. The challenge was to set up a structure for scrutiny. If this was outlined as soon as possible it would help with the recruitment of directors as their roles and responsibilities would be clearly defined.
e. It was clarified that the subsidiary companies carried out regular financial reporting and fulfilled their statutory requirements and that the audit was about the visibility and oversight that the Combined Authority, as the parent company, had.
f. Members queried whether the scope of the governance architecture and work being done was proportionate to the scale of the companies' activities.
g. There were six subsidiary companies: one was OneCam which was being closed, two others were effectively dormant, and of the three remaining, two were separate joint venture companies with different shareholding partners, which meant that all three could not be merged into one.
h. The current situation with the subsidiary companies needed to be addressed as it could lead to financial and reputational risks for the Authority. This tied in with the work of the Improvement Plan to improve the efficiency and effectiveness of the organisation.

RESOLVED:

That the Committee:

Note the report but express their disappointment that a minimal assurance had been given by the Internal Auditors despite the issue being debated on several occasions over the past year.

ACTIONS:

1. A full management update to be brought to the next meeting of the Committee on 2 Dec which would report on:
   - How the authority was now managing the subsidiary companies and what the current arrangements were
   - What the key concerns were and a timeline for them to be addressed
   - How the authority was responding to the recommendations of the internal audit.
   - A view on the added value of the companies to the Authority's activity.

2. Officers to report to the CA Board that a minimal assurance opinion on the governance of subsidiary companies had been issued by Internal Audit and that the Audit and Governance Committee had requested a full management report be presented at their next meeting.

7. Review of Corporate Risk Register and Risk Register Improvements

7.1 Chris Bolton, Head of Programme Management Office, introduced the report which asked the Committee to note improvements to the Corporate Risk Register and the role of the Performance and Risk Committee (PaRC). Adam Lickorish, Internal Auditor from RSM, was also in attendance to answer Members' questions.

7.2 During discussion the following points were noted:

a. Any risks that arose were escalated via the Executive Team meetings or the PaRC meetings.
b. The risk scores attributed came about following conversations with the risk owner and an estimation of the risk. Discussions were then had on what the residual score would be once mitigating measures were put in place but some risks, even with actions taken, could still remain 'red'. The Committee was reassured however that the risk register was a live document and risks were reassessed each month to affect improvement over time.
c. Actions were designed to reduce the risk score towards the target but the target score could be influenced by the organisations' appetite for risk. Auditors would work with the leadership team and the Committee over the next eight to ten weeks to assess risk scores and how practically targets could be achieved given the risk appetite. Not all risk could be eliminated or reduced to a negligible level.
d. The auditor felt that the risk register was moving in the right direction in terms of the way the types of risk were captured and assessed.
e. When risks were assessed it was done on an impact and likelihood basis with risk looked at on a worst-case scenario basis in case the way the risk was managed failed. This meant that the Committee would be aware of possible impacts and could make sure that the way in which risks were managed was prudent.
f. The organisation's core funding was £20 million per year, but with inflation £20 million would buy a lot less in 25 years' time when the devolution deal came to an end. The organisation had a balanced budget and a MTFP for the next four or five years but over the long term it would need additional funds and had therefore been looking at a number of different options.

g. The Chair queried why the governance of subsidiary companies had not been included in the risk register given that at a minimum, it posed a reputational risk to the organisation.
h. Risk management now sat with the Programme Management Office (PMO) where there was much more risk management experience. Training was also being offered to the wider organisation to improve their knowledge and, as part of the Improvement Plan, the organisation was looking to get corporate accreditation for programme management including risk.

RESOLVED:

That the Committee note the improvements to the Corporate Risk Register.

ACTIONS:

1. A risk management and risk appetite training session to be held before the next meeting of the Committee.
2. The Committee to receive the full risk register and include in the accompanying narrative the top five risks and a summary of the movement of risks over time.

8. Work Programme

8.1 The work programme would be discussed at the next meeting of the Committee. It had been resolved earlier in the meeting, under the Improvement Plan item, that for the next meeting the workplan agenda item would be moved up the agenda so that a comprehensive discussion could be had.

8.2 The social media protocol would be presented to the Committee as part of the six monthly review report into the Code of Conduct and member/officer protocol due in January.

RESOLVED

That discussion of the Committee's work programme be postponed until the next meeting.

9. Date and Time of Next Meeting

9.1 The Committee would next meet on Friday, 2 December 2022 at 10:00am at Pathfinder House, Huntingdon

Meeting Closed: 12.56pm

Audit and Governance Committee Action Log

Purpose: The action log records actions recorded in the minutes of Audit and Governance Committee meetings and provides an update on officer responses.

Minutes of the meeting 30 September 2022

Minute	Report title	Lead officer	Action	Response	Status
Item 3	Minutes of the last meeting and Action Log	John Pye, Chair	• Members to be sent a survey to complete which would help in assessing the performance of the Committee • Members to submit details of their relevant experience and past training. • Having received the results of the survey, Officers to submit a report for the next meeting outlining where they felt the Committee had weaknesses with proposals for addressing these. • Officers to organise online development sessions on financial and project management.	Survey and Skills Audit sent to Members This to be deferred until the January meeting. Added to the Committee development programme for the new year	Closed Open Open Closed
Item 4	Improvement Framework including Review of Governance	Gordon Mitchell/ Jodie Townsend	• That a report from the IIB be delivered at the next meeting on 2 December and that the Committee then take a view on frequency of reporting and whether it would be helpful to observe a future IIB meeting. • That the workplan agenda item be moved up the agenda for the next meeting and that discussion be had on the strength and weaknesses of the Committee, the findings of the Governance review, and proposals be given for a revised workplan regarding the Improvement Framework.	The IIB have yet to meet so a report from them will not be forthcoming until the new year. An Improvement Plan update report scheduled for the December meeting. The workplan agenda item has been scheduled as the first substantive item on the agenda for the meeting on 2 December.	Open
Item 6	Subsidiary Companies Governance Report	Jon Alsop/ Edwina Adfehinti	1. A full management update to be brought to the next meeting of the Committee on 2 Dec which would report on:	Scheduled	Closed

			• How the authority was now managing the subsidiary companies and what the current arrangements were • What the key concerns were and a timeline for them to be addressed • How the authority was responding to the recommendations of the internal audit. • A view on the added value of the companies to the Authority's activity. 2. Officers to report to the CA Board that a minimal assurance opinion on the governance of subsidiary companies had been issued by Internal Audit and that the Audit and Governance Committee had requested a full management report be presented at their next meeting. . .	The Monitoring Officer reported the minimal assurance rating to the Board at their meeting on 19 November 2022	Closed
Item 7	Review of Corporate Risk Register & Risk Register Improvements	Chris Bolton	1. A risk management and risk appetite training session to be held before the next meeting of the Committee. 2. The Committee to receive the full risk register and include in the accompanying narrative the top five risks and a summary of the movement of risks over time. .	Scheduled for 21.11.22 Item on the agenda for the meeting on 02.12.22	Closed Closed
Item 8	Work Programme	Anne Gardiner	the workplan agenda item would be moved up the agenda so that a comprehensive discussion could be had.(see item 4)	See above	Closed

<u>Minutes of the meeting 29 July 2022</u>

Minute	Report title	Lead officer	Action	Response	Status
Item 4	Improvement Framework Including Review of Governance	John Pye, Chair	The Committee to reflect on its role and seek improvements on how information is received and how the behaviour of members is overseen as part of a	This has been added to the workplan as an agenda item for the meeting in January.	Open

			'lessons learned' agenda item for the December meeting.		
Item 7	Internal Audit Annual Report	Daniel Harris	That a comment regarding the incidence and significance of a negative opinion in the sector be included in the auditors' final report. .	Scheduled for the December meeting	Open

Minutes of the meeting 30 June 2022

Minute	Report title	Lead officer	Action	Response	Status
Item 5 Action 2	As above	Jon Alsop/ Anne Gardiner	An item on 'lessons learned' from the External Auditor's intervention be added to the Committee's work plan for consideration in early 2023.	Scheduled for January	Closed
Item 6 Action 1	Member Officer Protocol	Jodie Townsend	The Committee would review the Member Officer Protocol in six months' time and annually thereafter.	Scheduled for January	Closed

Minutes of the meeting 11 March 2022

Minute	Report Title	Lead Officer	Action	Response	Status
6.9	Internal Audit Progress Report	Edwina Adefehinti / Mark Parkinson	The Monitoring Officer to update the Committee on the progress of the externally commissioned work being carried out on HR Policies	At present we have 18 policies that need formal ratification by the Authority. These are presently being quality assured by specialist external resources before being submitted to the Employment Committee for agreement. A final summary report will then be provided to the CA Board.	Closed
11.7	Terms of Reference – Climate Change Working Group	Adrian Cannard /Anne Gardiner	That a further update report be scheduled for six months' time.	Scheduled for December	Closed

12.7	Financial Strategies	Robert Emery / Anne Gardiner	That a development session on Financial Strategies be arranged for the Committee at the beginning of the next municipal year.	Scheduled for January	Closed
14.5	Draft Annual Report	Anne Gardiner	That the Committee reviews its work in six months' time to reflect on its integration with the CPCA.	Scheduled for March	Closed

Minutes of the meeting 28th January 2022

Minute	Report title	Lead officer	Action	Response	Status
2.2	Chair's Announcements	Chris Bolton/Anne Gardiner	Committee requested that they receive a further development session on project management which would report on value for money, provide hard numbers and qualitative aspects for the members to consider.	Added to the Committee's development programme for the new year	Closed

CAMBRIDGESHIRE
& PETERBOROUGH
COMBINED AUTHORITY

Agenda Item No: 4

Work Programme

To:	Audit & Governance Committee
Meeting Date:	2 December 2022
Public report:	Yes
Lead Member:	Deputy Mayor Councillor Anna Smith
From:	Jodie Townsend Governance Improvement Lead
Key decision:	No
Forward Plan ref:	N/A
Recommendations:	The Audit & Governance Committee is recommended to:

a) **Consider the report and proposed changes to the Committee's 2022/23 work programme**

b) **Adopt the proposed work programme for the Audit and Governance Committee for the 2022/23 municipal year attached at Appendix A**

Voting arrangements: A simple majority of all Members present and voting

1. Purpose

1.1 The purpose of the agenda item is to provide the Audit & Governance Committee with an opportunity to discuss and adopt a work programme for the remainder of the 2022/23 year that inputs to the Improvement journey and responds to the endorsed review of governance.

2. Background

2.1 At the previous Audit & Governance Committee meeting on 30 September 2022 the Governance Improvement Lead undertook to provide the Audit & Governance Committee with a work programme proposal for the remainder of 2022/23 that would allow the Committee to focus on specific elements relating to improvement that fall within the remit of this Committee.

2.2 In accordance with the Constitution, the Audit and Governance Committee must perform certain statutory duties including the approval of accounts, governance arrangements, financial reporting and code of conduct.

3. The Work Programme

3.1 The Audit & Governance Committee discussed the Review of Governance at its meeting on 29 July 2022; the review included conclusions around the Committee's ways of working and recommendations for the Committee to respond to.

3.2 The review revealed a lack of clarity on where the Committee fitted into the overall operation of the Combined Authority and to what extent the Committee should seek to access information such as performance data.

3.3 Specifically the review concluded that the Committee was less sure of what the role of the Committee was in relation to:

- ☐ how to add value with oversight on Risk Management Strategy
- ☐ oversight role in relation to the Assurance Framework in ensuring that it is being complied with and being developed
- ☐ performance management oversight role and what data should be provided

3.4 The review made 4 recommendations specific to the Audit & Governance Committee, they were as follows:

- ☐ Support for Audit & Governance Committee be enhanced to ensure clear links exist between the role and information provided to PARC and the Committee
- ☐ The role of Audit & Governance Committee be clarified in regard to performance management and what information it requires to undertake this role
- ☐ The role of the Audit & Governance Committee be enhanced as it applies to the Assurance Framework to ensure that it includes oversight of compliance with the Assurance Framework and best practice development.
- ☐ Audit & Governance Committee be provided with training on its financial management role, key associated skills and how these fits into the Combined Authority context

3.5 At its meeting on 30 September 2022 the Committee received a presentation on the developing Improvement Plan and the role of the Audit & Governance Committee in relation to improvement moving forward.

3.6 That presentation set out the role of the Committee in relation to the improvement journey as follows:

- ☐ to assure itself (and the Board) that improvement framework will satisfy DLUHC and the External Auditors concerns.

- to assure itself (and the Board) that improvement is on track

3.7 To support this role it was agreed that an Improvement Highlight report be presented to Committee that sets out high level view on performance, risk and issues. A supporting cover report to include commentary on actions taken and next steps to address significant concerns raised by External Auditor.

3.8 The presentation to the Committee also set out several improvement workstreams from within the improvement plan where officers would seek to engage the Committee for input at the appropriate point, these include improvements to corporate governance arrangements such as:

- performance management
- risk management
- financial management
- corporate governance escalation processes

3.9 There is also a constitution workstream that will seek to rewrite the Constitution to address matters raised within the review of governance and reflect the numerous constitutional changes required from the improvement framework. The constitution work will also seek to create a best practice document. This work will be led by a small officer group in consultation with the Lead Member for Governance in order to allow quick progression. It will however require proposals to be considered and approved by the Committee for recommendation onto Board.

3.10 The outcome of the discussion on 30 September 2022 was a request by the Committee for a new work programme proposal to be developed for consideration by the Committee that took on board those matters discussed in relation to the improvement journey and also providing the Committee with an opportunity to respond to the recommendations within the review of governance.

4. Work Programme Proposal

4.1 Attached at Appendix A is a proposed work programme for the Committee to consider adopting for the remainder of the 2022/23 municipal year.

4.2 The proposed work programme attempts to separate out key responsibilities of the Committee under the following headings:

- Internal Control Items (such as financial management and risk)
- Audit (both internal and external)
- Standards and conduct (code of conduct, member behaviour).

4.3 It also includes an improvement heading to take account of the improvement responsibilities of the Committee and to provide a response to the review of governance.

4.4 The 4 areas from the Review of Governance are picked up in the work programme proposal with the exception of Recommendation 35 - Support for Audit & Governance Committee be enhanced to ensure clear links exist between the role and information provided to PARC and the Committee.

4.5 Recommendation 35 has not been included in the work programme proposal at this stage as PARC is still in its infancy and needs to be developed before it is capable of actively supporting the Audit & Governance Committee. It is proposed to develop PARC internally and then to engage the Committee at the appropriate point to discuss responding to this particular review of governance recommendation.

Significant Implications

5. Financial Implications

5.1 None

6. Legal Implications

6.1 None

7. Appendices

7.1 Appendix A – Proposed Work Programme

8. Background Papers

- Current Work Programme

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME 2022/23

2 December 2022 @ Huntingdonshire District Council

Item:	Title:	Purpose:	Lead:
Standard Items:			
	☐ Minutes ☐ Chair's Announcements ☐ Work Programme		
Improvement Items:			
	Improvement Plan Report: - to include		
a)	Improvement Plan Highlight Report	Review and challenge to seek assurance of improvement progress	Angela Probert
b)	Performance Management Framework	Improvement Outcome E2 – Review of framework proposals	Chris Bolton/ Jodie Townsend
c)	Governance Framework	Improvement Outcomes B1, B2, B3, B4, B5, C2 – Progress review	Jodie Townsend/ Edwina Adefehinti
Internal Control Items:			
	Corporate Risk Register	Review of register	Chris Bolton
	Draft Financial Strategies	To review the annual finance strategies, including the Capital Strategy, Investment Strategy, Treasury Management Strategy and MRP Statement	Jon Alsop
	Subsidiary Companies	More detailed management response to Internal Audit of subsidiary companies	Edwina Adefehinti
	Draft Accounts – Draft Annual Governance Statement	To receive the draft CPCA financial statements for 2021/22 and the draft Annual Governance Statement	Jon Alsop
Audit Items:			
	Internal Audit Progress Report		RSM
Standards and Conduct Items:			
	None scheduled for this meeting		
Other:			
	Climate Change Working Group	At the meeting in March the Committee requested that a further update be brought in six months' time outlining progress against the Plan with a focus on the Governance process and how it was operating.	

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME 2022/23

13 January 2023 @ Huntingdonshire District Council – Additional Meeting

Item:	Title:	Purpose:	Lead:
Special Meeting Content			
	This meeting will have only two agenda items; *Revisions to the Constitution* and the *Procurement Policy.* These need to be reviewed by the Committee before the reports go to the CA Board meeting on 25 January.		

27 January 2023 @ Huntingdonshire District Council

Item:	Title:	Purpose:	Lead:
Standard Items:			
	☐ Minutes ☐ Chair's Announcements ☐ Work Programme		
Improvement Items:			
	Improvement Plan Highlight Report	Review and challenge to seek assurance of improvement progress	Angela Probert
	Constitution Development Update	Update on Constitution development, links to improvement plan and next steps	Jodie Townsend/ Edwina Adefehinti
	Risk Management Process	Improvement Outcome E3 – Progress review and challenge	Chris Bolton
Internal Control Items:			
	Procurement Policy Review	Review of policy and its implementation	Edwina Adefehinti
	Corporate Risk Register	Review of register	Chris Bolton
Audit Items:			
	External Audit	To receive an update on the annual external audit from EY	Jon Alsop
	Internal Audit Progress Report		RSM
Standards and Conduct Items:			
	Code of Conduct	Review of proposals to enhance the Code of Conduct, including integrating the Member-Officer Protocol and developing a Social Media Protocol	Jodie Townsend/ Edwina Adefehinti
	Member Behaviour – Lessons Learned Review	The Committee to reflect on its role and seek improvements on how information is received and how the behaviour of members is overseen as part of a 'lessons learned' agenda item	Edwina Adefehinti

Other:			
	Climate Change Working Group	The Committee requested that a further update be brought in six months' time outlining progress against the Plan with a focus on the Governance process and how it was operating.	Adrian Cannard

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME 2022/23

31 March 2023 @ Huntingdonshire District Council

Item:	Title:	Purpose:	Lead:
Standard Items:			
	☐ Minutes ☐ Chair's Announcements ☐ Work Programme		
Improvement Items:			
	Improvement Plan Highlight Report	Review and challenge to seek assurance of improvement progress	Angela Probert
	Assurance Framework	Receive new Assurance Framework document designed to deliver requirements set out in Improvement Plan	Jodie Townsend
Internal Control Items:			
	Corporate Risk Register	Review of register	Chris Bolton
	Information Governance	Update on CA approach and improvements	Edwina Adefehinti
	Annual Governance Statement	To receive and approve the final 2021/22 Annual Governance Statement	Jon Alsop/ Edwina Adefehinti
Audit Items:			
	Internal Audit Progress Report		
	External Audit Annual Report & Letter	To receive and approve the final 2022/23 statement of accounts and audit opinion from the external auditors	Jon Alsop
Standards and Conduct Items:			
	Whistleblowing Arrangements	Review of lessons learned from 2021/22 & 22/23 events and examination of current process to see if it is fit for purpose	Edwina Adefehinti
Other:			
	Review of Committee – How to develop Committee moving forward (including skills audit)		Anne Gardiner
	Annual Report of the Audit Committee		Anne Gardiner

AUDIT & GOVERNANCE COMMITTEE DEVELOPMENT PROGRAMME 2022/23

Date:	Item:	Provider:	Purpose:	Lead:
21st November 2022	Risk Management Training	Internal Audit	To provide an overview on Risk Management to Members	Adam Lickorish, RSM
tbc	Financial Management and Role of the Committee	Arling Close (CPCA's treasury advisors)	To set out the role of the Committee in regard to financial management and provide training on key elements of role	Jon Alsop
Dec 2022	Hearing Panel Training	Edwina Adefehinti	To set out Hearings Panel purpose and operating procedures	Edwina Adefehinti
tbc	Project Management Training	Chris Bolton		Chris Bolton
tbc	Risk Appetite Training	Internal Audit		Adam Lickorish, RSM

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Agenda Item No: 5

Improvement Framework

To:	Audit & Governance Committee
Meeting Date:	2 December 2022
Public report:	Yes
Lead Member:	Deputy Mayor Councillor Anna Smith
From:	Angela Probert, Interim Director of Transformation Programme
Key decision:	No
Forward Plan ref:	N/A
Recommendations:	The Audit & Governance Committee is recommended to:
	Consider the Improvement Framework report going to the Combined Authority Board on 30 November 2022.
Voting arrangements:	A simple majority of all Members present and voting

1. Purpose

1.1 The purpose of the agenda item is to provide the Audit & Governance Committee with an opportunity to review the Improvement Framework report going to Combined Authority Board on the 30 November 2022.

1.2 The purpose of the improvement report going to the Board is to provide an update on the progress made against identified actions set out in the Improvement Plan agreed by Board in October 2022.

1.3 The report to Board will also update Board on the development of arrangements for the Independent Improvement Board agreed in October 2022.

2. Background

2.1 The Board in October agreed the Improvement Plan to address the Chief Executive's diagnosis assessment of the Cambridgeshire and Peterborough Combined Authority.

2.2 The assessment set out key deliverables over a three month period and what might be different as a result of the proposed activity.

2.3 The Audit & Governance Committee received an update on the developing Improvement Plan at its meeting held on 30 September 2022.At that meeting the Committee discussed the potential role of Audit & Governance in the improvement journey.

3. 2 December – Audit & Governance Committee meeting

3.1 The Audit & Governance Committee has an opportunity to review the Improvement Framework report considered by the Board on 30 November.

3.2 At its last meeting the Committee discussed its role in the context of the Improvement Journey, noting its role to be:

- to assure itself (and the Board) that improvement framework will satisfy DLUHC and the External Auditors concerns
- to assure itself (and the Board) that improvement is on track

3.3 In order to undertake the role identified above an Improvement Highlight report will be presented to the Committee that sets out high level view on performance, risk and issues. The accompanying Cover report was requested to include commentary on actions taken and next steps to address significant concerns raised by External Auditor.

3.4 The Improvement Framework report to Board was published on the 22 November, it is accessible via this link: CMIS > Meetings

3.5 The report to Board includes the Improvement Highlight Report referred to above, Committee Members are asked to review this in undertaking their Committee role.

3.6 The Committee will have an opportunity to question the Improvement Programme Lead on the Improvement Framework report at its meeting on 2 December 2022.

Improvement Highlight Report

3.7 The Committee is asked to provide specific comment on the Improvement Highlight Report in order to ensure that it is fit for purpose. Key lines of enquiry such as those below would provide useful feedback to the Improvement Group:

- does it provide the required programme level oversight of performance?
- does it provide the required programme level oversight of key risks?
- does it provide the required programme level oversight of next steps?

3.8 The Committee is asked to provide feedback on whether the Highlight Report provides the required information to enable the Committee to undertake its role effectively.

Responding to External Auditor

3.9 The Committee previously made it clear that it required narrative on actions being taken to address the significant concerns raised in the External Auditor letter to the Committee dated 1 June 2022.

3.10 The External Auditors gave notice that work undertaken to date had identified a significant weakness in Cambridgeshire & Peterborough Combined Authority's governance arrangements. As a result of these weaknesses, the External Auditors expressed concern that the Authority has insufficient capacity, capability and an inappropriate culture to support the effective governance and operation of the organisation and how it discharges its statutory services.

3.11 The specific reasons for this concern were set out as follows:

- Investigations into key individuals in the Mayor's office following a whistleblower notification;
- Increased number of employment related claims against the Authority;
- Current vacancies in the Authority's senior management team, particularly at Chief Executive level, and the prospect that this could increase further from July 2022;
- Weaknesses we have observed in how the extraordinary meeting of the Authority Board makes informed decisions; and
- That the nature of the whistleblower allegations and initial findings of independent investigation reports raises significant questions on the culture, behaviour and integrity of key individuals in the Mayor's office.

3.12 A number of actions have been taken to address these concerns to date, supported by the Improvement Plan, these are set out below.

<u>Response to Insufficient Capacity concern</u>

3.13 Vacancy rates now stand at 3%; down from 30% in June 2022. Two further interim directors were appointed in August along with other experienced interim officers at Head of Service / Assistant Director level to bring corporate and transformation capacity and experience. In addition, a director is seconded two days a week to the CA from Cambridgeshire County Council to ensure good alignment between the CPCA and its relevant partners in relation to spatial planning, transport policy and climate change. The Section 73 Officer remains in post, and we recruited an experienced Monitoring Officer as a long-term interim.

<u>Response to Insufficient Capability concern</u>

3.14 There is sufficient capacity in the senior management team as set out above to discharge its statutory services and to drive forward the improvements needed – and we are already seeing the benefits of improvement actions successfully delivered.

Additionally, board have approved a new senior structure and we are finalising arrangements for recruitment to these roles shortly.

<u>Response to Inappropriate Culture concern</u>

3.15 A staff survey was undertaken in September 2022 which identified the culture staff want to have in place going forward. A staff conference is to be held on 8 December to develop further values and behaviours arising from the staff survey and follow on team discussions. Sessions with members will follow this, with the intention that the values and behaviours identified will cover both officers and members. this will be present to board in January and following this will be embedded in all CA activities and HR policies.

4. Improvement Plan Specifics

4.1 In order to provide additional focus to specific elements of the Improvement Plan it is proposed that additional narrative/ detail is provided to the Committee on improvement workstreams of particular relevance to the Audit & Governance Committee.

4.2 Such an approach is intended to provide additional narrative on top of that within the Programme Highlight Report to enable the Committee to ask more detailed questions and assure itself of the approach being taken and position regarding performance.

4.3 If the Committee supports this it is proposed that the following elements of the Improvement Plan are included with additional narrative/ detail as follows for the remainder of the 22/23 work programme:

- 27 January 2023 – Performance Management Framework (Outcome E2)
- 27 January 2023 – Risk Management Framework (E3)
- 31 March 2023 – Assurance Framework Development

4.4 To start this process additional narrative has been provided below on 2 areas of relevance to the Committee, the Governance Framework and the Performance Management Framework.

<u>The Governance Framework</u>

4.5 The Review of Governance provided conclusions and recommendations designed to reshape the governance framework at the Combined Authority. The Improvement Plan that followed and endorsed by Board on 19 October incorporates the majority of those recommendations and builds upon them.

4.6 The Improvement Plan requires

- Outcome B1 – New ways of working for Board (including strategic role and terms of reference)
- Outcome B2 – New ways of working for Executive Committees (including thematic lead roles and terms of reference)
- Outcome B3 – New Committee structure to take us to the end of the current Mayoral term
- Outcome B4 – Policy Space for Board Members (potentially through a reenvisaged LSM)
- Outcome B5 – Informal governance arrangements to support the Committee structure (that engage Constituent Authorities appropriately)

4.7 These improvement outcomes have a clear interdependency upon Workstream A of the Improvement Plan, particularly developing a Strategic Plan (with deliverables) to take the Combined Authority to the end of current Mayoral Term alongside identified Mayoral priorities. The Governance Framework must reflect the Strategic Framework in that it should provide the platform for effective decision-making, strategy development and implementation etc in line with the Strategic Objectives of the Combined Authority.

4.8 Progress made on Workstream A and the close working between Workstreams A and B have allowed significant progress to be made in developing proposals for Outcomes B1 to B5.

4.9 As well as ensuring the developing proposals for B1 to B5 are best placed to drive delivery of the developing strategic plan there are a number of other drivers that these workstream outcomes have taken on board, they are as follows:

Review of Governance

4.10 There are a number of key drivers that the governance framework must address from the review of governance, primarily these key drivers are as follows:

- Create a more strategic role and remit for the CA Board, allowing it to focus on economic growth, big tickets items and wider strategic considerations. To do this the burden of business needs to be removed from Board along with the current almost monthly cycle of Board meetings
- To support a strategically focused Board the Executive Committees could undertake thematic decisions making with wider delegations to be considered
- Consider the future role of the Business Board, the Levelling Up White Paper and any implications for the Business Board
- Mayoral priorities may need support through Mayoral Advisory Groups (MAGs)
- Sustainability and sustainable growth have no specific home in the existing governance framework
- Create steering committee/ advisory groups to drive constituent engagement

Additional Drivers

4.11 There are other additional drivers that need to be taken on board in developing the governance framework, primarily these are as follows:

- Investment Committee proposals discussed at November LSM, options required to address matters raised
- New CPCA Directorate structure (Resources & Performance – Place & Connectivity – Economy & Growth – CEX Unit)
- Concerns regarding quorum levels for Committees
- Housing Committee role needs to change given changes in Housing role/ funding at the CA
- Devolution Deal includes requirement for establishment of an Education Committee. Para 35 states – *To ensure continued collaboration the Combined Authority will establish an Education Committee with the Regional Schools Commissioner and other key local education stakeholders. The Regional Schools Commissioner will work with the committee to provide strategic direction on education across the Combined Authority area*. Should this be addressed?
- Deliver appropriate governance for Net Zero and Sustainable Warmth programmes
- Respond to the Internal Audit of Subsidiary Companies which highlighted the lack of Shareholder Board arrangements within the governance framework

4.12 Any proposals also need to deliver generic key principles for Mayoral Combined Authority governance structures and in line with the CAs constitution, that being:

- Board agrees vision, strategic plan and annual delivery plans
- Board is decision-maker, it is Board that decides if it delegates decision-making
- Committees develop key strategy/ policy proposals through engagement for Board to consider and approve
- Committees oversee implementation and delivery of approved key strategy/ policy

4.13 These key drivers and considerations are all being taken on board in proposals being developed for workstreams B1 to B5 that cover:

- Strategic remit for Board
- Delegations to Thematic Committees
- Clarity on strategy/ subject matter/ performance responsibilities at Thematic Committees
- Shareholder Committee
- Informal governance arrangements to drive constituent council engagement
- Governance support for Mayoral ambitions
- Proposals for an investment/ project management type Committee
- Wider engagement of constituent council Councillors
- Additional support for Council Leaders
- New approach to Lead Member roles

4.14 Proposals have been discussed with Mayor, Deputy Mayor and Lead Member for Governance and will be discussed further with the Chief Executives Group on 29 November. Leaders will be engaged further by their Chief Executives and also at the December meeting of LSM.

4.14 If engagement does not result in requirement for significant change to proposals it is intended to take detailed proposals to the January 2023 Board meeting for consideration.

4.15 A offer is made to the Committee to take it through proposals relating to B1 to B5 via a workshop or at the Committees additional meeting scheduled for 13 January that the Committee has arranged to discuss constitutional matters (given that such proposals will have significant constitutional impact).

<u>The Performance Management Framework</u>

4.16 Unlike the developing governance framework being driven by Workstream B the Performance Management Framework requirement set out in Workstream E has not yet progressed as far in its development.

4.17 The Performance Management Framework has a significant interdependency with Workstream A1 (strategic plan), A1 will set out the strategic objectives and associated performance measures of success. Base line measures are being developed so that we can set KPIs and targets (for identified outcomes) and therefore measure (and report) progress against these over the next two years.

4.18 A scoping document for a performance management framework is in the process of being drawn up by an external consultant, it is anticipated this will be completed by the end of November. The Workstream Lead will review the scoping document once complete to ensure it takes account of required governance framework considerations.

4.19 Post January there is a need to plan to build the agreed vision and priorities into divisional work plans, resources, skills development and also performance reporting so they all link back to the agreed vision (golden thread). Whilst this might not be part of the vision and priorities document it needs to be in place to drive the day to day activity across the CA (what needs to stop, start, change etc – and how we need to work with constituent authorities and other key stakeholders).

4.20 It is suggested that a comprehensive plan for development of the Performance Management Framework comes to the Committee on 27 January 2023.

Significant Implications

5. Financial Implications

5.1 At the Combined Authority Board in July £750,000 was approved to support the scope, development and delivery of work relating to improvement activity.

6. Legal Implications

6.1 There is a legal requirement to have a fully functioning Audit and Governance Committee within the CA framework.

7. Public Health implications

7.1 No Public Health implications are directly identified within this report at this stage.

8. Environmental and Climate Change Implications

8.1 No Environmental and Climate Change implications are identified within this report at this stage.

9. Other Significant Implications

9.1 The External Auditor and DLUHC have set out clearly the expected focus for improvement. It is important that the CA can demonstrate its commitment to improve and also the progress it is making on this journey so more formal interventions are not put in place; the unfreezing of future funding is dependent on this.

10. Appendices

10.1 Appendix A – Report to Combined Authority Board: CMIS > Meetings
10.2 Appendix 1 – Letter to EY

11. Background Papers

- October CA Board Report – Improvement Framework
- July CA Board Report - Improvement Assessment
- Governance review
- External Auditors letter

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Mark Hodgson
Associate Partner
Ernst & Young LLP (Local Auditor)

23 November 2022

By email only: MHodgson@uk.ey.com

Dear Mark,

Cambridgeshire and Peterborough Combined Authority Progress of Addressing Areas of Concern

When we spoke some weeks ago, I was able to offer a verbal update on progress and we agreed it would be helpful if I summarised those issues in writing after the meeting of the Combined Authority which was to consider the substantive report on improvement.

That was the meeting that had been scheduled for late September but was postponed in response to the guidance related to the death of the monarch and the mourning period. It took place on the 19 October.

I am writing to you today to set out the progress made by the Combined Authority in addressing some of the early concerns raised in your letter dated 1 June to the Chair of the Audit and Governance Committee.

The Combined Authority has undertaken some significant work since June to self-assess and agree a number of areas for improvement, informed by but not limited to the concerns raised by EY. During this time, I have also appointed some permanent and interim staff to bring appropriate experience and capacity to the organisation. I understand that the board were briefed in June that the vacancy rate was approximately 30%. This has been an area of very significant effort and I was able to report to the last board that our vacancy rate is just 3%. Of course, this will vary but this week it is very low at 1.8%.

I am leading the overall improvement work with regular updates to the Combined Authority Board, the Overview and Scrutiny Committee and the Audit and Governance Committee. The CPCA board at its meeting on 19 October approved the full report. The report included an assessment of the governance and operational arrangements, the apparent barriers to improvement and the prospects for improvement. The report also proposed an Improvement Framework, and arrangements to establish an Independent Improvement Board to provide challenge, assurance, and support.

The Improvement Framework was unanimously approved by Board and a programme has been underway, at some pace, to deliver the actions identified. Pleasingly we have established an independent Improvement Board chaired by Lord Bob Kerslake to oversee this Improvement Plan.

The Authority already had a Governance Review underway at the time of the EY letter and the full detail of the review was unanimously approved by Audit and Governance, and Overview and Scrutiny Committees and the Combined Authority Board on 27 July Document.ashx (cmis.uk.com). The actions for the review now form a workstream within the Improvement Plan to ensure pace of delivery and consistency with overall direction.

As part of the development of the organisation and the actions identified, I have also seen a series of informal and formal meetings take place over recent months that seem to reflect better prospects for improvement, but there remains much to be done. The most recent example of a new effort towards partnership and developing the role of the CPCA in promoting the interests of the area was the visit on 2 November by the National Infrastructure Commission and the collaborative roundtable discussions that continued during site visits across our region.

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Please see the progress for each concern raised in your letter:

- ***Investigations into key individuals in the Mayor's office following a whistleblower notification***:
  The Investigation was led by an external and impartial organisation. The matter concluded in February 2022. The individual at the centre of the allegation is no longer an employee of the Combined Authority and careful consideration has been given to supporting staff across the organisation to build and embed appropriate values and behaviours.

- ***Increased number of employment related claims against the Authority***:
  Three claims have been considered and resolved by the CA Board. As you know the settlement with the previous CEX was resolved in June, and the two other senior staff claims resolved at the board at the end of August. A further claim relating to a more junior administrative role has also been settled this week. That is the extent of the matter, and no further claims are expected.

- ***Current vacancies in the Authority's senior management team, particularly at Chief Executive level, and the prospect that this could increase further from July 2022***
  I joined the Authority on 4 July as Interim Chief Executive and have been able to undertake a swift yet detailed assessment of the organisation and reflected areas of improvement as mentioned above. Very early in my tenure I recognised the need for additional capacity and appointed two further interim directors in August and other experienced interim officers at Head of Service / Assistant Director level to bring corporate and transformation capacity and experience. In addition, we have a director who is seconded two days a week to the CA from Cambridgeshire County Council to ensure good alignment between the CPCA and its relevant partners in relation to spatial planning, transport policy and climate change. Our Section 73 Officer remains in post, and we recruited an experienced Monitoring Officer as a long-term interim.

  There is sufficient capacity in the senior management team to discharge its statutory services and to drive forward the improvements needed – I am already seeing the benefits of improvement actions successfully delivered.

  Additionally, board have approved a new senior structure and we are finalising arrangements for recruitment to these roles shortly.

- ***Weaknesses we have observed in how the extraordinary meeting of the Authority Board makes informed decisions***
  This observation refers to one extraordinary meeting, behind closed doors which was observed in May 2022. Clear action has been taken through the approval of the Governance Review and my own relationship building with Leaders and Chief Executives across the area. The most recent Board meetings show clearly that the Board has moved on in how the meetings are held and the decision-making frameworks and governance. Forward agenda plans and pre and post informal consultation are some of the simple steps robustly put into place alongside the Governance Review actions. Inevitably the recent track record of good debate and decision-making at board needs to continue and become the norm.

- ***That the nature of the whistleblower allegations and initial findings of independent investigation reports raises significant questions on the culture, behaviour and integrity of key individuals in the Mayor's office***
  The senior advisor who was at the centre of the investigation left the employment of the CA at the end of February 2022 and there are no individuals who remain employed in the Mayor's office, except for newly appointed administrative support.

  We have therefore taken the opportunity to review appropriate support to both the Chief Executive and the Mayor and are establishing a Chief Executive's Office function. This function will lead on Policy and Strategy; Communications, Engagement and Public Affairs; and the provide Executive Administrative support. All posts will report via the management hierarchy into the Head of Paid

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Service and all posts are politically restricted. Much work has been undertaken not only to redevelop job roles and scope but also to work with individuals via informal consultation to set the tone and behaviours for this function. The skilled staff in the function will provide clear and experienced advice to the Mayor and to the organisation that is consistent, similar to that of a typical business partner arrangement. Both myself and the Mayor are happy with the progress of the establishment of this revised function. We have held all the interviews and are now just finalising pre-employment checks. All but the most junior role are external appointments, and they will be taking up the new roles over the next few months.

You will know that a Code of Conduct investigation has been underway concerning issues related to the Mayor. Independent investigators have been undertaking this work. It had been hoped that this could be brought to a conclusion in the next 2 months. This is still proceeding, but if there is a point at which the Mayor has the right to respond it may be that the process pauses at that point. As you know the Mayor has very recently had major surgery and is expected to be absent for approximately 3 months.

In the wider organisation we have also undertaken staff surveys and engagement sessions, agreeing and delivering on actions and ensuring regular updates. The staff have responded very well to this and are well engaged. We have agreed to carry out further surveys at three monthly intervals for the first year to note, log and action progress.

A report on arrangements for programme management of the improvement plan, the establishment of the Independent Improvement Board and highlight reports of progress on the 6 improvement workstreams is being presented to the meeting of the CA board next week. The structured improvement plan features 6 strands each with a project group and each has a sponsor CEX from one of the constituent councils. CMIS > Meetings

I trust you can see that the Authority has acted quickly to address the concerns raised in the letter and more so, have set upon a voluntary improvement journey. At this stage I believe the risks identified due to perceived weakness in governance are being successfully mitigated. Improvement is evident, and the close involvement of the council CEXs is now strong and very supportive in pursuing the changes needed.

Of course, from a personal perspective it is a work in progress, but good progress has been made and my assessment is that the prospects for continued improvement are good.

I look forward to talking through some of this in more detail at our meeting on 2 December.

Yours sincerely

Gordon S. Mitchell

Gordon Mitchell
Interim Chief Executive

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CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Agenda Item No: 6

Report title: Review of Corporate Risk Register & Risk Register Improvements

To:	Audit and Governance Committee
Meeting Date:	02 Dec 2022
From:	Chris Bolton Head of Programme Management Office
Key decision:	No
Recommendations:	The Audit and Governance Committee is recommended to: a) Note the Risk Management training undertaken and planned Risk Appetite training b) Note the full Risk Register and accompanying narrative.
Voting arrangements:	A simple majority of all Members present and voting

1. Purpose

1.1 The purpose of this paper is to provide a progress update on the provision of risk management and risk appetite training sessions for members of the Audit and Governance Committee.

1.2 The Committee has received the full risk register for review that includes details on the top five risks and a summary of the movement of risks over time.

2. Background

2.1 The Corporate Risk Register is populated by reference to individual project risk assessments and over-arching corporate risks and is reviewed by the Executive Team of the Combined Authority at the Performance and Risk Committee. Any risks which arise, or which become more significant between their meetings are escalated to the next Executive Team or Performance and Risk Committee meeting. (PaRC).

2.2 Risks are reviewed monthly at PaRC where the performance and risks of all projects across the CPCA and its subsidiary companies are reviewed. Monthly highlight reports are reviewed at the meeting with performance dashboards being available at corporate and directorate levels. Actions now have recognised owners and dates for implementation, the proximity of risks are now noted, as well as an associated narrative including direction of travel. Mitigations for each risk are in place.

3. Risk Management and Risk Appetite

3.1 Risk Management training for members of the Audit and Governance Committee took place on the 21st November 2022. Further training for Programme and Project Managers in the CA and Subsidiary companies are to be scheduled in early December 2022.

3.2 Risk Appetite training is scheduled to take place for members of the Audit and Governance Committee in January 2023

4. Risk Register Top 5 risks

4.1 It is noted that the top 5 risks in the register are as follows:

- Future Funding
- Strategy Gap
- Future Viability of the CA
- Governance - VfM risk relating to governance
- Inflation

4.2. Most of the risks are related to the Governance issue highlighted by the EY Audit letter and value for money risks.

4.3 <u>Future Funding</u>

4.3.1 A lack of guaranteed future funding streams especially with existing streams coming to an end such as Transforming Cities Fund, housing investment funds and Local Growth Funding could affect the financial stability of schemes impacting on delivery on the devolution deal. Additionally, the pause on some DLUHC funding because of concerns raised by CPCA's auditors (EY) in a letter to the Chair of the A&G Committee could impact on the ability of the CPCA to make a balanced budget for 2023/24.

4.3.2 In mitigation, the CA will look to share risk with partners, liaise with government, Department for Levelling Up Housing and Communities, and M10 on potential opportunities for future funding and reconsider the use of CA financial freedom powers.

4.4 <u>Strategy Gap</u>

4.4.1 An insufficient focus on priorities and their alignment to resources has led to the risk that there will be a lack of strategic agreement and fitting of resources against new strategies. This potentially could lead to not meeting strategic objectives as per devolution deal and any associated performance measures.

4.4.2 As such, mitigations will be pursued including governance review - including informal policy pipeline work as noted in the CA Improvement plan Workstream B, Governance, Ways of Working.

4.5 Future Viability of the CA

4.5.1 Poor governance practice as identified by external auditor, DLUHC and BEIS and poor delivery in some areas of the Combined Authority work has been noted. This has led to loss of confidence from our regulatory stakeholders, the withholding of funding in two areas, (The Mayoral Capacity Fund and LEP core fund), and the risk that further funding could be withheld.

4.5.2 To mitigate the risk to the future viability of the CA an improvement plan has been developed to build confidence with central government. Integral to the Improvement plan is a move to more networked decision making and delivery with increased stakeholder involvement and improved communications between partners.

4.6 Governance - VfM risk relating to governance

4.6.1 The external auditor identified that there were weaknesses in the Authority's governance arrangements. As a result of these weaknesses, there was a risk that the Authority would have insufficient capacity, capability, and an inappropriate culture to support the effective governance and operation of the organisation and how it discharges its statutory services.Both the A&G and O&S Committees have been briefed on the issues and have made their own recommendations to the board and will work to support the CPCA in resolving the issues raised by EY.

4.6.2 It is to be noted that an interim CEO and Senior Management Team have been appointed to directly address these issues and an improvement plan has been developed to address the points raised in the EY letter.

4.7 Inflation

4.7.1 The risk that RPI Inflation is to rise to 10% in the short term, with staffing inflation is likely to be circa 4% was registered. The real value of the Combined Authority's core funding of £20m per year will be eroded over time due to inflation. Inflation could impact on programme delivery with our buying power decreasing over time with the ability to deliver strategic objectives impacted. It is noted that inflation is a live issue for our delivery partners, thus they may be less likely to take on the inflation risks in fixed contracts.

4.7.2 To mitigate this risk several actions are being pursued including lobbying government to highlight our position and what will happen without a more sustainable funding solution and a reconsideration of the use of CA powers to use financial freedoms. All these issues will be built into the development of the 2023/24 budget, improvement plan and MTFP including a line-by-line review of MTFP to understand inflationary risk against each type of budgetary expenditure.

4.8 As noted above 4 of the 5 top risks are related to the EY Audit letter and subsequent actions associated with the Improvement Plan. As such the trend for these actions has stayed level until the actions associated with the respective risks can be fully implemented. The risk of inflation has increased as the RPI level has increased recently. The inflation risk is also noted as a live issue and mitigations noted above have been enacted.

4.9 The full Risk Register is available in Appendix 1.

5. Financial Implications

5.1 There are no financial implications.

6. Legal Implications

6.1 There are no legal implications.

7. Appendices

7.1 Appendix 1: Updated Risk Register November 2022

	Risk Title											Cause & Effect		Inherent Score	Risk Control		Residual Score	Action required					Risk cost		Target Score
Risk Ref	Risk Title	Date Identified	Risk type	Proximity	Risk Status	Risk Owner	Risk Lead	Last Updated	Latest Review Date	Last Reviewed By	Last Review Comments	Cause	Effect	Inherent Risk Score	Control (mitigation action)	Control Owner	Residual Risk Score	Action required	Person responsible	Trend	Date to be implemented by	Date action closed (if applicable)	Cost of risk control (£k)	Escalation Required?	Target Risk Score
2	Future funding	07/03/2022	Financial	Close	Open	JA	CFO	02/11/2022	02/11/2022	PMO/CFO		a) Lack of guaranteed future funding streams especially with existing streams coming to an end such as Transforming Cities Fund, housing investment funds and Local Growth Funding. b) Lack of 'local funding' to support bids. c) Wider financial pressures on Local Government impacting the ability of the area to deliver new projects d) Lower than anticipated allocation of UK SPF to the area e) Reduction in Business Board funding.	Effect financial stability of schemes. Impact on delivery on the devolution deal. Pause on core funding could impact on the ability of the CPCA to make a balanced budget 2023/24. Lack of future funding may impact on the CAs ability to prepare accounts on a going concern basis.	25	a) Sharing risk with partners (how will we share risk with partners) (b) Workshops with partners to work out alternative funding sources c). Liaison with government and M10 on potential opportunities d). Reconsideration of the use of CA financial freedom powers as per Workstream D Improvement Plan actions. e) Effective programme management to take into account funding deadlines. f) manage stakeholder expectations regarding CA resources available to deliver strategic objectives	Section 73 officer in liaison with Improvement Plan workstream D lead - Tim Bellamy	22	Discuss with DLUHC or central government opportunities for future funding and a second Devolution Deal. Development of action plan for approval by the Independent Improvment Board.	Interim CEO	→	End of Dec 2022				13
5	Strategy gap	07/03/2022	Strategic	Imminent	Open	MP	Director of C	22/11/2022	22/11/2022	Director of Corporate Services		Insufficient focus on priorities and their alignment to resources; - Lack of strategic agreement - Fitting resources against new strategies.	Not meeting strategic objectives as per devolution deal and associated performance measures.	25	a) agreement SGAS - agreed including Communication strategy b) agreement Business Plan - c) agreement performance metrics - agreed d) governance review - including informal policy pipeline work as noted in the CA Improvement plan e) potential CPIER refresh requires further board discussion f) CA Board Business Board workshops - one already held, next due in Sept g) Board member away days - two already held	Wider strategy team	18	Business plan agreed at June Board. Further Business Board away day planned. (6th July) Communication strategy discussed by ET, needs to be refined and implemented. New CEX Group has had an initial meeting. CEX Group will meet monthly. Improvement Plan Workstream A Political (Strategy and Ambition) work	Director of Corporate Services	→	End of Dec 2022				3
7	Future viability of the CA	07/03/2022	Strategic	Imminent	Open	GM	CEO	20/09/2022	20/09/2022	CEO/Director of Corporate Services		Poor governance practice identified by external auditor, DLUHC and BEIS. Poor delivery in some areas of the Combined Authority. Equivocal support from local stakeholders and limited understanding of the CPCA agenda.	Loss of confidence from our regulatory stakeholders. Withholding funding Limiting our effectiveness in tackling major local issues including fuel poverty, homelessness, demand for housing, emergence from Covid, cost of living crisis etc.	25	Developing an improvement plan in order to build confidence with central government. Move to more networked decision making and delivery with stakeholder involvement. Improved communications between partners	CEO	17	Under the leadership of the interim CEO an improvement plan is being developed.	Interim Director of Transformation - Angela Probert	→	End of Dec 2022		£750,000.00		8
15	Governance - VfM risk relating to governance	15/06/2022	Strategic	Imminent	Open	GM	CEO	06/07/2022	16/08/2022	CFO/PMO		The external auditor has identified that there are: - Weaknesses in the Authority's governance arrangements. As a result of these weaknesses, we are concerned that the Authority has insufficient capacity, capability and an inappropriate culture to support the effective governance and operation of the organisation and how it discharges its statutory services. 1st July 2022, received notification from DLUHC that they have paused Mayoral Capacity Fund and LEP core funding for 2022/23. These and other funds may be at risk until such time as the CPCA has an improvement plan in place addressing concerns raised by EY to the satisfaction of DLUHC.	Risk to delivering Value for Money based on the external auditors concerns which are as follows: • Investigations into key individuals in the Mayor's office following a whistle-blower notification; • Increased number of employment related claims against the Authority; • Current vacancies in the Authority's senior management team, particularly at Chief Executive level, and the prospect that this could increase further from July 2022; • Weaknesses we have observed in how the extraordinary meeting of the Authority Board makes informed decisions; • That the nature of the whistle-blower allegations and initial findings of independent investigation reports raises significant questions on the culture, behaviour and integrity of key individuals in the Mayor's office	25	Both the A&G and O&S Committees have been briefed on the issues and are making their own recommendations to the board and will work to support the CPCA in resolving the issues raised by EY. It is to be noted that an interim CEO has been appointed to directly address these issues. Regular engagement with external auditors, DLUHC and BEIS. Board to action a plan to satify EY concerns leading to DLUHC to release funds.	CEO	17	Under the leadership of the interim CEO an improvement plan is being developed to address the points raised in the EY letter. Under the leadership of the interim CEO an improvement plan is being developed in a response to DLUHC concerns so that they will release paused funding.	Interim Director of transformation - Angela Probert	→	End of Dec 22				5
1	Inflation	07/03/2022	Financial	Imminent	Open	JA	CFO	02/11/2022	02/11/2022	CFO		RPI Inflation may rise to 10% in the short term, staffing inflation is likely to be circa 4%.	Potential to split risk a) inflation core running costs, approx £8m staffing costs will be exceeded over time due to inflation. b) inflation impact on programme delivery. delivery of strategic objectives. Our buying power decreases over time due to inflation, the ability to deliver strategic objectives impacted. c) need to review all areas of the budget to reflect on individual project/programme exposure to inflation, and impact on ringfenced funding programmes. d) we currently have a balanced and affordable budget for the period of the MTFP e) inflation is a live issue for our delivery partners, thus they may be less likely to take on the inflation risks in fixed contracts.	23	a) Lobby government to highlight our position and what will happen without a more sustainable funding solution b) Project delivery - enter into fixed price contracts, i.e. transferring inflationary risk to contractors. c) Project delivery delays mitigated by active project management to minimise slippage. d) Reconsideration of the use of CA powers to use financial freedoms. All of these issues will be built into the development of the 2023/24 budget, improvement plan and MTFP	Chief Finance Officer	20	To go through each line of MTFP to understand inflationary risk against each type of budgetary expenditure - form part of development of budget and MTFP	CFO	↑	End of Jan '23				12
16	Culture	14/09/2022	Reputation	Imminent	Open	CEO	CEO	14/09/2022	14/09/2022	CEO/Director of Corporate Services		The A&G Committee have asked that Member behaviour is to be included on the corporate risk register.	Impact on delivery of decisions, demotivation of officers.	22	Governance review underway as part of Improvement Plan.	CEO	18	Ongoing engagement with Members and Officers to display appropriate behaviours.	CEO	→	End of Dec 22				
12	Transforming Cities Fund (TCF)	04/04/2022	Financial	Imminent	Open	TB	Interim Head of Transport	02/11/2022	02/11/2022	Interim Head of Transport	TCF framework paper being submitted to Oct 22 TIC meeting and approval of capital replacement schemes to November round of TIC and Board.	Delays to specific projects not meeting the timeframe for TCF funding which is March 2023.	Not spending full allocation of TCF and therefore may have a reputational impact.	21	Assessing the TCF funding programme around deliverability and cost. Where schemes will no longer be delivered and there will be a funding gap we will promote alternative schemes to use the funding which hit the Sustainable Growth Ambition Strategy, TCF and Local Transport & Connectivity Plan. Met with DfT to clarify spend by dates	Interim Head of Transport	13	a) CCC and PCC to assess their TCF programme b) Identify funding gaps (complete) c) Suggest alternative schemes for delivery - assessment required d) Paper to be written for consideration by TIC and subsequently by the Board on the	TB	→					9
17	Subsidiary Companies	30/09.2022	Financial	Close	Open	CFO	CFO	14/10/2022	14/10/2022	CFO/PMO		Currently there is no member oversight of the operational and direction of the subsidiary companies as highlighted in the recent RSM internal audit of subsidiary companies which gave a minimal assurance.	Failure of subsidiary companies can have material financial and reputational damage to the CA. This could result in the strategic objectives that the companies have been set up to deliver, not being met	21	Action plan to address the intenal audit recommendations have been developed. Early actions are being addressed.	Director of Corporate Services	13			→					
9	Public Health	07/03/2022	Strategic	Imminent	Open	MJ	HR	02/11/2022	02/11/2022	HR		Covid and possible future strains	Impact on project delivery timescales / resourcing. Staff absence in health, education and other parts of public service is rising and causing capacity issues.	20	Business continuity plan.	HR	16	To be kept on register, given annual cycle, including booster jab. Next potential peak period coming up Winter 2022.	MJ	↓	31/12/2022				11
11	University of Peterborough project	07/03/2022	Financial	Approaching	Open	RT	Director of Housing	02/11/2022	02/11/2022	Director of Housing	Long term strategic review of CPCA involvement beyond phase 3 leading to the creation of an multi assetted campus is under review.	Concern over the route to create and deliver the wider university campus and sustainability of the wider ARU Peterborough project.	Hampers the deliverability of the university vision and subsequent corporate reputational impact.	20	The wider CA finances are insulated from the performance of Prop Co 1 and Prop Co 2 by no future expenditure being reliant on financial returns from Prop Co 1 or Prop Co 2. A review of the future campus business case is to be undertaken.	Housing Director	18	Paper in Forward plan to Board in November 2022 and Jan 23. Report on the review on the future campus business case.	RT	→	31/03/2023		TBC	No	13
14	University of Peterborough project	14/06/2022	Reputational	Approaching	Open	Business & Skills	Director of Housing	26/09/2022	26/09/2022		**Review of original business case objectives and targets against current numbers**	Risks regarding programme delivery of all 3 phases to original targets.	Phase 1: Impact on student enrolments Phase 2 (R&D Building): finding tenants completing fitting out and receiving rental income. Phase 3: £20m of funding, needed to be expended by March 2024. Procurement complications, earliest completion now October 2024.	20	Phase 1: Continued promotion of the new University and its courses (in-year enrolments likley) Phase 2: Marketing underway to seek to identify tenants. Review of original BC underway with a view to relax the requirements regarding tenants, noting that this will likely result in Photocentric withdrawing their	Housing Director	18	**Continued on-going support for existing phases through the Development Management Agreement and Governance Arrangements in place**		→					13
	University of Peterborough project	26/06/2022	Reputation	Close	Open	RT	Director of Housing	02/11/2022	02/11/2022	Director of Housing		Phase 2 Shareholder and Anchor Tenant is looking to change their committments under the shareholder agreement and agreement for lease.	This may result in reputational impact and require a readjustment of the strategy to generate interest from future tenants for the building.	20	Early engagement with shareholder and anchor tenant to identify potential impacts and strategy for their replacement. With a view to minimising reputational impact and any risk of a negative financial impact to the company. Leadership steering group formed to review the issues.	Prop Co 2 Board	18	Review of original business case with a view to relax the requirements regarding tenants so new anchor tenant can be identified	RH	→	Ongoing		TBC	Yes	13
20	Net Zero Hubs	22/09/2022	Reputation	Approaching	Open	RH	Director of Corporate Services	31/10/2022	31/10/2022	PMO/RH		Further underperformance of project against newly agreed forecasts for delivery, whereby the scheme does not deliver at least 50% of the forecast target for September, October and Novemebr (combined £18m target)	Further claw-back of funds before scheme end will be requested by BEIS	18	Project Team monitoring and steering delivery through the Local Authorities and the contracted delivery partners.	Director of Corporate Services	13	Monitor the September outturn and work with suppliers on forecast for October and November Review the September and October performance in early November. Continue dialogue with BEIS on performance and present transparent reports on delivery.	Director of Corporate Services	→	Early Dec 22				8
3	Workforce/HR	07/03/2022	Financial	Approaching	Open	MJ	HR	02/11/2022	02/11/2022	MJ		Current funding ending – temporary in nature	Impact of workforce potential job losses and redundancy costs	17	a) Workforce planning - redeployment of staff / temporary contracts	HR	13	Recruitment register being discussed fortnightly at ET and is extended to include planned leavers to enable us to take a more strategic view on vacancies. Develop workforce strategy/plan to align with Business Plan (this needs to be reviewed in context of improvement work), including specific approval for fixed term contracts linked to funding and effects of inflation. Keep close to ET members in the context of potential changes to funding streams as a result of the EY letter. And update recruitment tracker accordingly. Financial implications of funding stream coming to an end, for example, exit payments	HR	↓	31/12/2023				8

18	**Net Zero Hubs**	**22/09/2022**	**Reputation**	**Approaching**	**Open**	**RH**	Director of Corporate Services	31/10/2022	31/10/2022	PMO/RH		Project Controls for delivery are not fully in place for Sustainable Warmth delivery and there is a lack of alignment between GSE NZH currently implemented MoU with BEIS, the newly drafted MoU from BEIS, and the ownership/sponsorship of the Hub from within CPCA	Lack of senior CPCA representation at Net Zero Hub Strategic deicsions for GSE NZH and CPCA are not aligned Approach to future schemes (bidding and delivery) are not agreed Delegations are not clear or in place.	**17**	Design and implement new governance arrangements for the project in line with CPCA improvement plan	Director of Corporate Services	**13**	Governance review underway and new governance arrangements proposed. Sign-off from relevant Directors and lead Member. Implementation of governance changes Monitoring and support of new governance arrangements	Director of Corporate Services	→	End of Dec 22				**9**
8	**Climate change**	**07/03/2022**	**Strategic**	**Approaching**	**Open**	**AC**	Director of Corporate Services	19/08/2022	19/08/2022	Strategic Planning Manager	Although recent extreme weather events have highlighted the expected consequences of the changing climate, there are no new policy changes to respond to.	Changing national policy or new evidence requires compromises the deliverability of current projects or of the devolution deal objectives Change in government carbon calculations.	Government guidance changes leading to changes to project scopes and subsequent budget/programme increases.	**13**	Keeping Climate action plan up to date, keeping evidence base current. Maintaining independent climate change commission to provide advice. Maitaining effective networks and national and regional level to enable horizon scanning.	Director of Delivery & Strat	**8**	Climate Working Group to meet in autumn to review progress.	Strategic Planning Manager	↓	End of Nov 22			**No**	**4**
19	**Net Zero Hubs**	**22/09/2022**	**Reputation**	**Approaching**	**Open**	**RH**	Director of Corporate Services	31/10/2022	31/10/2022	PMO/RH		Lack of strategy linking CPCA activity for Energy Efficiency projects to GSE NZH activity.	No clarity on whether CPCA consituent Local Authorities should bid for HUG phase 2 funding through GSE NZH. Creates a disconnect between accountability for funding and delivery responsibilities, making governance and deicison-making complex	**12**	CPCA to develop a position on the use of the GSENZH as a vehicle for delivery in line with the proposed MoU from BEIS.	Director of Corporate Services	**18**	CPCA to decide on the requirement to bid and monitor through GSENZH for funding streams related to Net Zero from BEIS. This may be a pass through mechanism for self-delivery or accepting delivery via GSENZH capabilities.	Director of Corporate Services	↑	End of Dec 22				**14**

Risk Matrix

Impact				
	5	Critical	15	19
	4	Major	10	14
	3	Moderate	6	9
	2	Minor	3	5
	1	Negligible	1	2
			1	2
			Rare	Unlikely

Impact:	Safety	Reputation
5. Critical	Potential to cause one or a number of fatalities. H&S breech causing serious fine, investigation, legal fees and possible stop notice	Stakeholders / Third parties suffer major loss or cost
4. Major	Serious risk or injury possibly leading to loss of life. H&S investigation resulting in investigation and loss of revenue.	Significant disruption and or Cost to Stakeholders / third parties
3. Moderate	High risk of injury, possibly serious. H&S standards insufficient / poor training	A number of Stakeholders are aware and impacted by problems.

2. Minor	Small risk of minor injury. H&S policy not regularly reviewed.	Some external Stakeholders aware of the problem, but impact on is minimal.
1. Insignificant	No risk of injury. H&S compliant	External Stakeholders not impacted or aware of

Risk Likelihood Criteria / D

Likelihood:	Description:
5. Almost certain	• A history of it happening across the • The event is expected to occur • 80% - 100% probability
4. Likely	• Has happened across the organisat • The event will probably occur in m • 60% -80% probability
3. Possible	• Happened across the organisation • The event should occur at some tir • 40% - 60% probability
2. Unlikely	• May have happened across the org • The event could occur at some tim • 20% - 40% probability
1. Rare	• History of it happening across the • The event may occur only in excep • < 20% probability

Risk guidance

22	24	25
18	21	23
13	17	20
8	12	16
4	7	11
3	4	5
Possible	Likely	Almost Certain

Likelihood

Risk Impact Criteria / Definitions

Media Attitude	Legal	Direct Loss	Strategic	Political
Governmental or comparable political repercussions. Loss of confidence by public.	Action brought against Combined Authority.	Over £300,000	Project will no longer align with the Combined Authority strategic objectives.	Impact on relationships with political partners/stakeholders or government leading to possible funding, legal or reputational impacts. Or Loss of confidence from CPCA Board in ability to deliver project sucessfully.
Story in multiple media outlets and/or national TV main news over more than one day		Between £50,000 and £300,000	Project will need changes to align with Combined Authority straegic objectives.	May not be supported if taken to Board. Lack of political unanimity for scope and objectives
Critical article in Press or TV. Public criticism.		Between £10,000 and £50,000	Project aligns with majority of strategic objectives but change is required to fit with one specific objective.	More than one political stakeholder/partner does not support

Negative general article of which Combined Authority is mentioned		Between £1,000 and £10,000	Minor impact on strategic objectives	One political stakeholder/partner does not support
No adverse media or trade press reporting.	No threat of legal action	Between £0 and £1,000	Project continue to align to objectives	No threat of political issues

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Planning or environmental
Unlikely to receive planning permission, or will cause environmental harm.

Permissions likely to be received and no environmental harm

Issue Management - Project / Programme				
Issue ID	**Issue type**	**Date raised**	**Raised by**	**Issue Report Author**
1	Financial	07-Mar-22	JA	JA

10	Strategic	07-Mar-22	AD	RH
12	Financial	04/05/2022	TB	TB

15	Governance	15/06/2022	CEO	CEO
16	Strategic	07-Mar-22	MP	RH
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				

Issue description	Severity (drop down)	Priority (drop down)	Status	Closure date (if applicable)
Inflation Potential to split risk a) inflation core running costs, approx £8m staffing costs will be exceeded over time due to inflation. b) inflation impact on programme delivery. delivery of strategic objectives. Our buying power decreases over time due to inflation, the ability to deliver strategic objectives impacted. c) need to review all areas of the budget to reflect on individual project/programme exposure to inflation, and impact on ringfenced funding programmes. d) we currently have a balanced and affordable budget for the period of the MTFP e) inflation is a live issue for our delivery partners, thus they may be less likely to take on the inflation risks in fixed contracts.	High	High	Open	

LAD2 - Unspent budget. Issues with supply chain capacity following delays to programme have meant that the Energy Hub is unable to fully deliver the retrofit budget within the funding period to 30th June. On 9th June 2022 BEIS have informed the CPCA the delivery end date is 30th September 2022. BEIS have requested an early call back of funds.	High	High	Closed	
Delays to specific projects not meeting the timeframe for TCF funding which is March 2023.	High	High	Open	

EY Audit letter The external auditor has identified that there are - Weaknesses in the Authority's governance arrangements. As a result of these weaknesses, we are concerned that the Authority has insufficient capacity, capability and an inappropriate culture to support the effective governance and operation of the organisation and how it discharges its statutory services. 1st July 2022, received notification from DLUHC that they have paused Mayoral Capacity Fund and LEP core funding for 2022/23. These and other funds may be at risk until such time as the CPCA has an improvement plan in place addressing concerns raised by EY to the satisfaction of DLUHC.	Critical	Critical	Open	
Susatainable Warmth - Unspent budget. Delays to start-up of delivery based on Issues with supply chain capacity in LAD2 have meant that the Energy Hub is unable to fully deliver the retrofit budget within the funding period to 31st March 2023. BEIS have requested an early call back of funds as part of the Mid-point review process in August 2022.	High	High	Closed	

Response Action Plan	Action owner
To go through each line of MTFP to understand inflationary risk against each type of budgetary expenditure - form part of development of budget and MTFP. End of Oct 22.	JA

Continued discussion with BEIS with regards to supply chain development. 11 installers on supply chain, 2nd mini competition underway. By end of April there will be additional capacity to deliver measures until the end of June. BEIS have notified the CPCA of an agree extension to 30th September 2022 Alan Downton and Maxine Narburgh have appraised the Mayor on 13th June and going to Leaders on 22nd June 2022. A LAD 2 (GHG) board paper is going to the CA Board at end of June 2022. Sustainable Warmth Programme - there is a high level of confidence in the delivery of between £47,000£50m. In light of the LAD 2 (GHG) programme being extended, this programme is being reassessed and will be presented to Leaders and BEIS on 08th July 2022 and CA Board on 27th July 2022 A working group has been set up internally, involving the Business Board. The first workshop has taken place on 17th May and Nitin Patel from the Business Board is chairing the meeting. They are scheduled every 6 weeks. The purpose of the workshop is to look at opportunities to mitigate the issues and constraints that are currently faced. For e.g. supply chain capacity / capability. Outturn of scheme reforecasted to a range of £16-£24m. Scheme being closely managed by the operational team. Early clawback of £33m additional funds to BEIS approved at CA Board Aug 2022. Funding returned to BEIS by agreement of CA Board. Scheme delivery completed 30th September 2022. Now reconciling final outturn (likely to be c. £19.5m as of 17/10/22) Remaining unspent funds to be returned to BEIS 14/11/2022	MP
a) CCC and PCC to assess their TCF programme b) Identify funding gaps (complete) c) Suggest alternative schemes for delivery - assesment required d) Paper to be written for consideration by TIC and subsequently by the Board on the requirement to approve spend by end of the financial year (including comparison with other M10 authorities).	TB

Under the leadership of the interim CEO an improvement plan is being developed to address the points raised in the EY letter. Under the leadership of the interim CEO an improvement plan is being developed in a response to DLUHC concerns so that they will release paused funding.	AP
Continued discussion with BEIS with regards to supply chain development. Outturn of scheme reforecasted to a range of £25m-£55.7m. Scheme being closely managed by the operational. Early clawback of £62.6m additional funds to BEIS approved at CA Board Aug 2022. Additional condition attached to MPR to clawback further funding early if at least 50% of September, October and November forecast has not been delivered.	MP

Agenda Item No: 7

Financial Strategies

To:	Audit and Governance Committee
Meeting Date:	02 December 2022
From:	Robert Emery Deputy Chief Finance Officer
Recommendations:	The Audit and Governance Committee is recommended to: a) Review and comment upon the Capital, Investment and Treasury Management Strategies for 2023-24 and the 2023-24 Minimum Revenue Provision (MRP) statement.
Voting arrangements:	A simple majority of members present and voting.

1. Purpose

1.1 The purpose of the report is for the Audit and Governance Committee to review the proposed Capital, Investment and Treasury Management Strategies and MRP Statement for 2023/24.

2. Background

2.1. According to its Terms of Reference, the Audit and Governance Committee shall "ensure there is effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice".

2.2. The Treasury Management in the Public Services: Code of Practice 2017 recommends that Members receive regular reports on the authority's treasury management policies, practices, and activities.

2.3. The figures used in the strategies reflect the draft Budget and Medium Term Financial Plan (MTFP) being proposed to the Combined Authority Board at its November meeting. These figures will be updated to reflect the approved budget following the final decision in January, and any other relevant budgetary decisions made at that meeting before the final versions are presented for approval to the Combined Authority Board in March.

3. 2023-24 Strategies

3.1. The following strategies have been updated for 2023/24 and are attached as Appendix 1 with changes since the 2022/23 equivalents marked.

a) **Capital Strategy**: To provide a high-level overview for elected members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.
b) **Investment Strategy**: To meet the requirements of statutory guidance in which the Authority would support local public services by lending to or buying shares in other organisations, or to earn investment income
c) **Treasury Management Strategy**: Being the management of the Authority's cash flows, borrowing and investments and the associated risks.
d) **Minimum Revenue Provision Statement**: An DLUHC requirement to approve an MRP Statement each year to ensure that capital expenditure is financed over a reasonable period

3.2. The Committee is asked to review the suite of strategies ahead of being taken to the Board for approval in March.

4. Changes since the 2022/23 Strategies

Minimum Revenue Provision Statement

4.1. There are no significant changes to the MRP statement.

Capital Strategy

4.2. The inclusion of the liability benchmark is now a requirement of the Treasury Management Code and the calculation of this benchmark has been updated to reflect the required methodology.

4.3. Other changes made are updates to the amounts to bring them in line with the updated capital programme and some additional explanation of risk management approaches.

Investment Strategy

4.4. A number of limits in the investment strategy have been updated to reflect updated capital programme. This reflects the planned repayment of the affordable housing loans by May 2023 and the investments made into subsidiary companies.

Treasury Management Strategy

4.5. The economic context section of the strategy has been updated to reflect the current national and international situation and a section had been added on the Liability Benchmark which is now a requirement of the Treasury Management code.

4.6. The Treasury Investment Strategy section has been updated to reflect current market conditions, including removal of the section on negative interest rates and a commitment has been added to consider environmental, social and governance (ESG) issues when investing.

4.7. The liquidity risk indicator of total cash available within 3 months has been reduced from £25m to £15m to reflect reduced forecast balances due to the conclusion of the energy retrofit programme. Beyond this there have been no major changes to the adopted indicators for 2023/24 compared to 2022/23

Significant Implications

5. Financial Implications

5.1. None other than those highlighted in the main body of the report.

6. Legal Implications

6.1. Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

7. Other Significant Implications

7.1. None

8. Appendices

8.1. Appendix 1 – Cambridgeshire and Peterborough Combined Authority Draft Strategies 2023-24

8.2. Appendix 2 – Cambridgeshire and Peterborough Combined Authority Draft Strategies 2023-24 (with track changes)

9. Background Papers

9.1. Cambridgeshire and Peterborough Combined Authority Capital Strategy 2022-23

9.2. Cambridgeshire and Peterborough Combined Authority Investment Strategy 2022-23

9.3. Cambridgeshire and Peterborough Combined Authority Treasury Management Strategy 2022-23

Cambridgeshire and Peterborough Combined Authority

Capital Strategy Report 2023/24

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where an Authority spends money on assets, such as property, shares in companies or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2023/24, the Authority is planning capital expenditure of £65.52m as summarised below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget
Capital investments	117.07	155.51	65.52	48.95
TOTAL	117.07	155.51	65.52	48.95

The budget figures for 2022/23 and 2023/24 are taken from the Approved Capital Expenditure Programme as set out and described in the Medium Term Financial Plan being proposed to the Combined Authority Board at its November meeting.

Governance:

The Combined Authority's Assurance Framework sets out:

(a) How the seven principles of public life shape the culture within the Combined Authority in undertaking its roles and responsibilities in relation to the use and administration of the Cambridgeshire and Peterborough Investment, incorporating the Single Pot funding. This culture is developed and underpinned by processes, practices and procedures.

(b) Alongside the Combined Authority's constitution, sets out the respective roles and responsibilities of the Combined Authority, the Business Board (the Local Enterprise Partnership) and statutory officers.

(c) The key processes for ensuring accountability, including public engagement, probity, transparency, legal compliance and value for money.

(d) How potential investments to be funded through the Cambridgeshire and Peterborough Medium Term Financial Plan, incorporating the Single Pot, will be appraised, prioritised, approved, signed off and delivered.

(e) The processes for oversight of projects, programmes and portfolios and how the progress and impacts of these investments will be monitored and evaluated.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget
Grant Funding	102.14	139.67	58.26	44.68
Usable Capital Receipts	14.93	15.84	7.26	4.27
Debt	0	0	0	0
TOTAL	**117.07**	**155.51**	**65.52**	**48.95**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

The Combined Authority currently does not have any debt, but has the ability to borrow to facilitate delivery should it be needed. While there are no current projects within the MTFP which fund delivery via borrowing, the role of the Combined Authority in the sustainability and Public Transport agendas is still in development and debt may form part of this role. The Combined Authority has no allowance built into it's MTFP to service debt, it is anticipated that any future borrowing would have to be supported by future receipts from the project delivery it funded.

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The Authority currently has no debt and therefore no CFR.

The Authority expects that its capital financing requirement will be nil on 31st March 2023 and in line with the DLUHC Guidance expects to charge no MRP in 2023/24.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

Where loans are made from grant funds, there will be no Capital Finance Requirement and therefore no MRP. Where loans are debt funded, where creditworthiness of the borrower decreases or the asset value drops below the loan value, MRP will be charged on the shortfall.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

Treasury Management

Treasury management is concerned with keeping sufficient, but not excessive, cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as grant income is received before it is spent.

As at 31 October 2022, the Authority had no borrowing and £214.6m treasury investments at an average rate of 1.43%

Borrowing strategy: The Authority's main objectives when borrowing would be to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority would therefore seek to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.

The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

Projected levels of the Authority's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see above).

Table 3: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget
Debt (incl. PFI & leases)	0	0	0	0
Capital Financing Requirement	0	0	0	0

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Authority expects to comply with this in the medium term.

Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark is calculated showing the lowest risk level of borrowing. This is a requirement of the Treasury Management Code. Given that there are no current plans to borrow, this calculation shows an asset benchmark for comparing against investment levels, but will be kept under review.

Table 4: Borrowing and the Liability Benchmark in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget
Outstanding borrowing	0	0	0	0
Liability (Asset) benchmark	(394.3)	(210.5)	(100.2)	(78.3)

Affordable borrowing limit: The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 5: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2022/23 limit	2023/24 limit	2024/25 limit
Authorised limit – total external debt	84.61	84.61	84.61
Operational boundary – total external debt	74.61	74.61	74.61

Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms can be invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by the Board. Regular reports on treasury management activity are presented to the Audit and Governance Committee who are responsible for ensuring effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice.

Investments for Service Purposes

The Authority makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Authority's subsidiaries that provide services. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for service loans to at least break even after all costs.

The Combined Authority will assume no future financial returns on any equity investments within its Medium-Term Financial Plan (MTFP). This is, financially, the worst-case scenario with equity investments; by not assuming any future returns the Combined Authority is exposed to only up-side risk and the future financial stability of the organisation is not reliant on the performance of the investments i.e. there is no risk that the Combined Authority will be unable to proceed with it's plans due to poorer than anticipated financial performance of the companies.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Chief Finance Officer and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases and will therefore also be approved as part of the capital programme. The Chief Officer for the relevant service is responsible for ensuring that adequate due diligence is carried out before investment is made.

Commercial Activities

The Combined Authority currently does not hold any commercial investments.

Liabilities

The Authority is committed to making future payments to cover its pension fund deficit (valued at £3.87m). There are currently no commitments to make future payments in relation to debt or other major liabilities. There is currently no requirement to cover risks of other provisions, financial guarantees or major contingent liabilities.

Governance: Decisions on incurring new discretional liabilities are taken by Directors in consultation with the Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by the Finance team and reported to the Audit and Governance committee. New liabilities/loans are reported to the Board for approval/notification as appropriate.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from general government grants. There are no current plans to borrow, and therefore no budget financing costs.

Table 6: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget
Financing costs (£m)	0	0	0	0
Proportion of net revenue stream	0%	0%	0%	0%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable as demonstrated in the Medium-Term Financial Plan.

Knowledge and Skills

The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant with over 25 years post qualification experience. The Authority pays for staff to study towards relevant professional qualifications and for all qualified staff to keep up to date with relevant ‘continuing professional development’.

Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Cambridgeshire and Peterborough Combined Authority
Investment Strategy Report 2023/24

Introduction

The Authority may invest its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services, skills or economic growth by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from grants before it pays for its expenditure in cash (e.g. through payroll, invoices and grants). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £100m and £211m during the 2023/24 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its subsidiaries and local businesses to support local public services, to support the provision of affordable housing and to stimulate local economic growth and skills development.

Revolving Housing Fund

In September 2018, the Combined Authority Board approved the creation of a £40m revolving fund from the £100m fund receivable from central government to bring forward 2,000 affordable homes by March 2022. No new loans are being made from the fund as the returned funds are now being used to fund affordable housing grants. Of the five loans made under the scheme two have been fully repaid and the other three are due to be repaid by the end of May 2023.

Recycled Growth Fund Loans

The Combined Authority offers capital loans to local companies, and other Local Authorities, on the advice of the Business Board, where the projects are considered to achieve value for money and fit with the strategic direction set out in the Local Industrial Strategy. As the majority of Growth Funds was awarded prior to March 2022 the extent of new loans that will be available in 2023-24 is likely to be quite small.

Security of Service Loans

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2022 actual			2023/24
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0.000	0.000	0.000	10.000
Local businesses	41.656	0.344	41.312	20.000
TOTAL	**41.656**	**0.344**	**41.312**	**30.000**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority would assess the risk of loss before entering into and whilst holding service loans. All future loans would be subject to the following risk assessment and mitigating actions:

1) An appropriate level of due diligence, to include the use of external advisors where appropriate.
2) An appropriate loan period and timing of repayments
3) The calculation of an interest rate that would represent 'value for money', be of 'no detriment' to the Combined Authority, and to minimise the risk of Subsidy Control challenge
4) Approval being subject to a business case, due diligence, and loan agreement to the satisfaction of the Chief Executive, Monitoring Officer and Chief Finance Officer.
5) The business case would be reviewed to include focus on:
    a. Impact of existing loans and charges on assets
    b. Accuracy and reasonableness of Cashflow and profit forecasts
    c. Ambition of future sales targets and income to repay loan
    d. Provisions/allowances for contingency, inflation
    e. Review of credit worthiness of business and collateralisation of loan
6) For housing development loans, first legal charge over land and assets
7) Regular review and valuation of the assets
8) Drawdown subject to a gateway process
9) Consideration of options of parent company guarantees
10) Consideration of obligations of S106 agreements

All loans are subject to approval by the Combined Authority Board.

Service Investments: Shares

The Combined Authority invests in the shares primarily for the delivery of service outcomes rather than for financial return. It invests in equities of both subsidiaries and local businesses to support local public services and stimulate local economic growth. These investments are an intrinsic part of the delivery of the Combined Authority's programmes they are subject to the Combined Authority's Monitoring and Evaluation framework (published here) which has been reviewed by the Department for Business, Energy and Industrial Strategy including quarterly reporting on the service outcomes being delivered. As such this strategy only refers to monitoring of the company from a financial investor's perspective beyond what is done in line with the Monitoring and Evaluation framework. The Combined Authority has approved a number of material service equity investments as part of the University of Peterborough and Business and Skills agendas summarised below however, in consideration of the relative risk of equity investments over grants and loan funding, there are two overarching principals which the Combined Authority follows with all it's equity investments to ensure that it does not expose itself to undue financial risk:

1) The Combined Authority will only invest in limited companies – this limits the liability that the Combined Authority faces to the equity invested in the company, ensuring that the wider Combined Authority finances are insulated from movement in the values of the companies.

2) The Combined Authority will assume no future financial returns on any equity investments within its Medium-Term Financial Plan (MTFP). This is, financially, the worst-case scenario with equity investments; by not assuming any future returns the Combined Authority is exposed to only up-side risk and the future financial stability of the organisation is not reliant on the performance of the investments i.e. there is no risk that the Combined Authority will be unable to proceed with it's plans due to poorer than anticipated financial performance of the companies.

All existing material equity investments have been made following a recommendation of the Business Board as all involve an element of Local Growth Fund investment. As such all equity investments will have followed the robust due diligence and scoring process which all potential investments must complete prior to being considered by the Business Board – this involves an independent external evaluation of the applicant's business case, financial statements, credit searches, management capability and experience, project key risks, and strategic fit. This results in a report on these areas, a score, and recommendations on what controls and risk mitigations should be put in place if the investment is entered into.

Alongside this, for investments of £500k or more, the applicant will also be required to present their proposal to an Entrepreneurs' Assessment Panel (EAP) made up of Members of the Business Board and external experts in the field who also score the projects.

The Business Board, who's voting membership is made up of experienced CEOs, will then consider the application, appraiser's report and EAP scoring and they can request further information, recommend investments to the Combined Authority for ratification, or reject the project.

The equity investments fall into three groups, in this strategy referred to as: subsidiaries, silent partner service investments, and other equity investments.

Subsidiaries

Equity holdings in this group are in companies in which the Combined Authority has an active role in day-to-day management of the company. It is either a major, or sole, shareholder and appoints Directors to the company's boards as well as providing support services to the company across a range of areas including payroll, bank administration, management and legal support. These are the most closely monitored investments as Combined Authority staff actively manage and run the companies including production of monthly management updates and reports.

Peterborough HE Property Company Ltd - University of Peterborough Phases 1 & 3

Equity investment into a Joint Venture along with Peterborough City Council (PCC) and Anglia Ruskin University (ARU) with a total Combined Authority investment of £27m against a £22m investment from PCC mostly funded from the Levelling Up Fund and an £8m share from ARU. This company will deliver two teaching buildings, which will form the basis for the Anglia Ruskin University – Peterborough. ARU-Peterborough opened its doors to students in September 2022 and is delivering accredited university courses.

Peterborough R&D Property Company Ltd – University of Peterborough Phase 2

Equity investment into a Joint Venture with Photocentric to deliver a Research and Development centre on the University of Peterborough Campus, primarily funded by the Getting Building Fund grant provided specifically for the purpose from the Department of Business, Energy and Industrial Strategy. This company is constructing a 3-story building within the overall Peterborough University Quarter site with the intention to lease space to companies working on research and development with Photocentric operating as an anchor tenant occupying one of the 3 floors.

Cambridgeshire and Peterborough Business Growth Company Limited

This company was set up, with £5.4m of Local Growth Fund as equity, extended to £5.8m following the Combined Authority's decision to expand the inward investment service , as a pilot to deliver support to local businesses and improve the skills offering in the Combined Authority area over 3 years, with a planned winding down in December 2023.

Via subcontracting with a consortia it delivers services on behalf of the Combined Authority including growth coaching for businesses, inward investment, and skills capacity building. The Combined Authority's equity investment is supported with other income streams including the Growth Hub grant, Community Renewal Funds (Start & Grow and Turning Point), EU funding, and the Careers and Enterprise Company contracts. It also manages the Capital Growth Scheme as discussed later.

CAM Special Purpose Vehicle

In 2020-21 the Combined Authority Board approved the creation of a special purpose vehicle company as the preferred option for carrying forward the CAM project. In light of this £4.0m of Combined Authority funds have been invested to set up the company. In May 2021 the Mayor was elected under a clear commitment to no longer support the CAM and the company is now in the process of being wound up and the remaining funds have been returned to the Authority

Silent partner service investments

These investments are joint ventures with a partner organisation where the partner has significant expertise in the area in which the company will operate, with the Combined Authority providing financial support. In recognition of the knowledge and experience of the other member of the joint ventures the Combined Authority does not operate significant control over the company regardless of the share ownership position, however it does have the right to appoint a director to each of the companies' Boards.

The Combined Authority receives all papers prepared for the company's boards and annually reviews the companies' financial position as part of the construction of the Combined Authority's group accounts.

Other Equity Investments

Illumina Accelerator Programme

On the recommendation of the Business Board the Combined Authority awarded up to £3m to provide investments of £100k to start-up companies which are accepted onto the accelerator programme to support them to complete the accelerator programme run by Illumina. The accelerator programme offers high growth potential companies 6-months of coaching and access to Illumina's lab space to facilitate their growth and development of their concepts. The outputs for this service investment are new companies establishing in the area, and creating jobs, after completion of the accelerator.

While the overall Illumina programme was subject to the Business Board's due diligence processes, the investments within the programme are made directly into the companies by the Combined Authority. Illumina are not regulated investment advisors and thus do not recommend the companies to the Combined Authority as such the Combined Authority is making its own decision to invest in each company. While there is no recommendation from Illumina, the Combined Authority considers it appropriate to take assurance from a company's acceptance onto the Illumina Accelerator programme taking into consideration the following factors:

i) By the nature of the accelerator programme the companies being accepted would be very early-stage start-ups which would likely not have a financial history from which to draw conclusions on their operations.

ii) Illumina conduct a multi-phase assessment of applicants, including a questionnaire on the company's technology and business plans, interviews, and a 3rd party background check. Acceptance onto the programme therefore indicates Illumina's opinion that the company has a high chance of success, and Illumina invest in each of the companies accepted onto their accelerator programme. Given Illumina's experience and expertise in the sector, as demonstrated by the survival rate of graduates from the established Silicon Valley accelerator, it is reasonable to take assurance from this.

iii) No potential future return on the amounts invested would be included in the Combined Authority's medium term financial plan or capital programme – as such the Combined Authority's financial resilience is independent of the performance of the investments, even in the worst-case scenario of nil returns.

As the value of the investment in each company is low (£100k) and represents a small minority of each company's capital the Combined Authority has very little control over these entities. On this basis their financial accounts are only considered on an annual basis to assess materiality for inclusion in the Combined Authority's group accounts.

The intended outcome of these investments is to enable the company to survive its early development stage to the point at which it can attract further capital investment, not profit from capital growth. Reflecting this the Combined Authority seeks to sell it's shares once the company has achieved further funding however the companies are not publicly traded so achieving a sale and exit is uncertain and could take a number of years.

Start Codon Fund

On the recommendation of the Business Board the Combined Authority agreed a £3m investment into a £15m fund to provide pre-seed equity funding of £250k-£500k to early-stage start-up healthcare and life-science research and development businesses. The fund provides annual performance reports to all it's investors beyond the service reporting required by the Monitoring and Evaluation framework.

Companies are identified by Start Codon, who's team is made up of local experts in the Bio-Pharma life sciences innovation sector, for acceptance onto the accelerator programme; the fund is managed, and investment decisions taken, by the Kin Group Ltd which specialises in venture capital investment.

The fund has a structured plan to sell its investments 10 years after the fund is fully invested, although this is subject to a possible 4-year extension if there is majority investor consent. At this point the fund's position will be liquidated and funding returned to the investors in the proportions in which they originally invested.

Capital Growth Scheme Investments

The Cambridgeshire and Peterborough Business Growth Co Ltd is tasked with the delivery of a £5.5m fund for small-scale equity investments into SMEs. This programme provides working capital awards of up to £250k to fund growth projects which unlock growth in jobs or scale a company to secure more income generation and jobs at a level where private sector equity finance is lacking due to its focus on high-tech, Intellectual Property (IP) based start-ups and much higher growth rates, which typically favour much higher value equity investments of at least £250k up to £2m and higher.

The Cambridgeshire and Peterborough Business Growth Co Ltd will hold these investments, so they are not included in the limits in this strategy, however they are mentioned as the Cambridgeshire and Peterborough Business Growth Co Ltd is wholly owned by the Combined Authority.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	**31.3.2022 actual**			**2023/24**
	Amounts invested	**Gains or losses**	**Value in accounts**	**Approved Limit**
Subsidiaries	49.975	6.665	43.310	60.000
Local businesses	2.721	1.608	1.113	10.000
TOTAL	**52.696**	**8.273**	**44.423**	**70.000**

Risk assessment: The Authority would assess the risk of loss before entering into, and whilst holding, share agreements. The approach followed would be to consider:

1) an assessment of the market that the Authority would be competing in, the nature and level of competition, how market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements;
2) whether to use external advisors;
3) risk assessment based on credit ratings and the use of credit rating agencies;
4) the monitoring of risk in accordance with the Combined Authority's risk management policy.

Liquidity: Investments will be subject to the drawdown requirements of the Capital programme as set out in the Medium-Term Financial Plan and as monitored in the monthly cashflow forecast.

Non-specified Investments: Shares (defined as equity and equity like instruments) are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

The Authority currently does not invest in property with the intention of making a profit that will be spent on local public services and has no immediate plans to do so. In the event that commercial property investments would be held in future, the Authority would consider the following:

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Risk assessment: The Authority would assess the risk of loss before entering into and whilst holding property investments. The approach followed would be to consider:

1) A full due diligence exercise covering an assessment of: the property business plan, including sensitivity and scenario analysis; the credit quality of incumbent tenants (if any); the local property market, including demand, availability and voids in current similar commercial stock; the area's economic outlook and potential; how market/customer needs will evolve over time; barriers to entry and exit and any ongoing investment requirements;

2) Where in-house expertise does not cover the relevant investment opportunity, we will use external advisors for all/part of the due diligence and any other specialist areas;
3) External advice will be monitored by relevant officers, including adherence to deadlines, regular advisory meetings and adherence to project objectives;
4) The risk assessment will include credit ratings as part of the overall in-depth credit assessment of tenants. The creditworthiness of tenants will be monitored on a regular basis, using external expertise where necessary to give a credit view and an early warning of possible issues. As landlord, the Authority will maintain open dialogue with tenants, including discussion of financial stress;
5) The Authority will monitor the performance of the property asset against business plans throughout the life of the asset, assessing its performance and contribution of continued investment against the probable returns from sale.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. Each potential investment would be considered to ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and were the Authority to enter into any, a process in line with that taken for service loans, as set out above, would be followed, including a calculation of a loss allowance where appropriate.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down.

Table 3: Total investment exposure in £millions

Total investment exposure	**31.03.2022 Actual**	**31.03.2023 Forecast**	**31.03.2024 Forecast**
Treasury management investments	278.181	60.486	31.746
Service investments: Loans	41.312	15.000	7.000
Service investments: Shares	52.696	55.000	58.000
TOTAL INVESTMENTS	372.189	130.486	96.746
Commitments to lend	9.913	0.000	0.000
TOTAL EXPOSURE	382.102	130.486	96.746

How investments are funded:

To date, all investments are funded by the Authority's useable reserves and income received in advance of expenditure. There are no immediate plans to borrow.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 4: Investment rate of return

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	0.170%	0.856%	2.770%
Service investments - Loans	3.287%	3.082%	2.899%
ALL INVESTMENTS	0.569%	0.911%	1.430%

Cambridgeshire and Peterborough Combined Authority

Minimum Revenue Provision Statement 2023/24

Annual Minimum Revenue Provision Statement 2023/24

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed 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 Revenue Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

- The Authority expects that its capital financing requirement will be nil on 31st March 2023 and in line with the MHCLG Guidance it expects to charge no MRP in 2023/24.
- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.
- Where loans are made from grant funds, there will be no Capital Finance Requirement and therefore no MRP.
- Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- The table below summarises the MRP Policy.

Capital Expenditure Incurred	MRP Policy
Expenditure funded by unsupported borrowing	Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project.
Finance Leases	MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
Secured Loans to third parties repaid in bullet form.	No MRP will be charged as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount, the Authority will recognise the associated impairment and will charge MRP on the outstanding balance.

Cambridgeshire and Peterborough Combined Authority

Treasury Management Strategy Statement 2023/24

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

Economic background: The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7 2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

Credit outlook:

Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast:

The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Table 1 Arlingclose Interest Rate Forecast – November 2022

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Local Context

On 31st October 2022 the Authority held £nil borrowing and £214.6m of treasury investments.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall from current levels (end of Oct 2022) of £215m to £60m (end Mar 2026) as capital funding is used to finance capital expenditure and reserves are used to finance the revenue budget as set out in the Capital programme and the Medium-Term Financial Plan.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

The Authority expects that its capital financing requirement will be nil on 31st March 2023 and in line with the MHCLG Guidance it expects to charge no MRP in 2023/24. The Combined Authority has no current requirement to borrow over the lifetime of the Medium Term Financial Plan and so the forecast CFR until 2027 is £nil.

Liability benchmark: To compare the Authoity's actual borrowing against an alternative strategy, the Authority is required to calculate a liability benchmark showing the lowest risk level of borrowing.

The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.22 Actual £m	**31.3.23 Estimate £m**	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**
Loans CFR	0	0	0	0	0
Less: Balance sheet resources	(384.3)	(200.5)	(90.2)	(68.3)	(60.1)
Net loans requirement	(384.3)	(200.5)	(90.2)	(68.3)	(60.1)
Plus: Liquidity allowance	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Liability (Asset) benchmark	(394.3)	(210.5)	(100.2)	(78.3)	(70.1)

As there are no current plans to borrow, the medium-term forecasts in table 2 above shows an asset benchmark for comparing against investment levels but will be kept under review.

Borrowing Strategy

The Authority is not currently in receipt of any loans. The balance sheet forecast shows that the Authority does not expect to need to borrow in 2023/24. However, the Authority may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £84.61 million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: The Authority's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of any future debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority expects to borrow any long-term loans from the PWLB or the UKIB, but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- The UK Infrastructure Bank
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Combined Authority's Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Board.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this in the future and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £231m and £345m, and levels are expected to be subject to the drawdown of funds to support the delivery of the Combined Authority's priorities and objectives as set out in the Business Plan and the Medium-Term Financial Plan.

Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and when making investments with private entities will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Authority expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services. Due to current liquidity requirements, an increasing proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, and money market funds.

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£25m	Unlimited
Secured investments *	25 years	£25m	Unlimited
Banks (unsecured) *	13 months	£15m	Unlimited
Building societies (unsecured) *	13 months	£15m	£25m
Registered providers (unsecured) *	5 years	£15m	£50m
Money market funds *	n/a	£25m	Unlimited
Strategic pooled funds	n/a	£25m	£100m
Real estate investment trusts	n/a	£25m	£50m
Other investments *	5 years	£15m	£25m

This table must be read in conjunction with the notes below

Minimum Credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £25m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: In order to minimise the risk of a single default against available reserves, the maximum that will be lent to any one organisation (other than the UK Government) will be £25m. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £25m in operational bank accounts would be taken account of against the relevant investment limits when making treasury management investments, but the limits in this strategy do not apply to service investments.

Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any group of pooled funds under the same management	£50m per manager
Negotiable instruments held in a broker’s nominee account	£50m per broker
Foreign countries	£25m per country

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium-term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Prudential Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	6 (A)

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£15m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.5m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Principal sums invested for periods longer than a year (excluding loans): The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£50m	£30m	£20m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 113A of the Local Democracy, Economic Development and Construction Act 2009 removes much of the uncertainty over combined authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2023/24 is £0.74 million, based on the expected investment portfolio. There is no budget for debt interest paid in 2023/24.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then consideration will be given to transferring a portion of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Existing Investment & Debt Portfolio Position

	31 Oct 2022 **Actual Portfolio £m**	**Average Rate %**
External borrowing:		
Public Works Loan Board	**0**	
Local authorities	**0**	
LOBO loans from banks	**0**	
Other loans	**0**	
Total external borrowing	**0**	
Total gross external debt	0	
Treasury investments:		
Banks & building societies (unsecured)	0.1	0.01
Government (incl. local authorities)	184.5	1.31
Money Market Funds	30.0	2.16
Total treasury investments	214.6	1.43
Net debt	(214.6)	

Cambridgeshire and Peterborough Combined Authority

Capital Strategy Report 2023/24

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where an Authority spends money on assets, such as property, shares in companies or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2023/24, the Authority is planning capital expenditure of £65.52m as summarised below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget
Capital investments	117.07	155.51	65.52	48.95
TOTAL	117.07	155.51	65.52	48.95

The budget figures for 2022/23 and 2023/24 are taken from the Approved Capital Expenditure Programme as set out and described in the Medium Term Financial Plan being proposed to the Combined Authority Board at its November meeting.

Governance:

The Combined Authority's Assurance Framework sets out:

(a) How the seven principles of public life shape the culture within the Combined Authority in undertaking its roles and responsibilities in relation to the use and administration of the Cambridgeshire and Peterborough Investment, incorporating the Single Pot funding. This culture is developed and underpinned by processes, practices and procedures.

(b) Alongside the Combined Authority's constitution, sets out the respective roles and responsibilities of the Combined Authority, the Business Board (the Local Enterprise Partnership) and statutory officers.

(c) The key processes for ensuring accountability, including public engagement, probity, transparency, legal compliance and value for money.

(d) How potential investments to be funded through the Cambridgeshire and Peterborough Medium Term Financial Plan, incorporating the Single Pot, will be appraised, prioritised, approved, signed off and delivered.

(e) The processes for oversight of projects, programmes and portfolios and how the progress and impacts of these investments will be monitored and evaluated.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2021/22 actual	**2022/23 forecast**	**2023/24 budget**	**2024/25 budget**
Grant Funding	102.14	139.67	58.26	44.68
Usable Capital Receipts	14.93	15.84	7.26	4.27
Debt	0	0	0	0
TOTAL	**117.07**	**155.51**	**65.52**	**48.95**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

The Combined Authority currently does not have any debt, but has the ability to borrow to facilitate delivery should it be needed. While there are no current projects within the MTFP which fund delivery via borrowing, the role of the Combined Authority in the sustainability and Public Transport agendas is still in development and debt may form part of this role. The Combined Authority has no allowance built into it's MTFP to service debt, it is anticipated that any future borrowing would have to be supported by future receipts from the project delivery it funded.

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The Authority currently has no debt and therefore no CFR.

The Authority expects that its capital financing requirement will be nil on 31st March 2023 and in line with the DLUHC Guidance expects to charge no MRP in 2023/24.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

Where loans are made from grant funds, there will be no Capital Finance Requirement and therefore no MRP. Where loans are debt funded, where creditworthiness of the borrower decreases or the asset value drops below the loan value, MRP will be charged on the shortfall.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

Treasury Management

Treasury management is concerned with keeping sufficient, but not excessive, cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as grant income is received before it is spent.

As at 31 October 2022, the Authority had no borrowing and £214.6m treasury investments at an average rate of 1.43%

Borrowing strategy: The Authority's main objectives when borrowing would be to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority would therefore seek to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.

The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

Projected levels of the Authority's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see above).

Table 3: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget
Debt (incl. PFI & leases)	0	0	0	0
Capital Financing Requirement	0	0	0	0

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Authority expects to comply with this in the medium term.

Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark is calculated showing the lowest risk level of borrowing. This is a requirement of the Treasury Management Code. Given that there are no current plans to borrow, this calculation shows an asset benchmark for comparing against investment levels, but will be kept under review.

Table 4: Borrowing and the Liability Benchmark in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget
Outstanding borrowing	0	0	0	0
Liability (Asset) benchmark	(394.3)	(210.5)	(100.2)	(78.3)

Affordable borrowing limit: The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 5: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2022/23 limit	2023/24 limit	2024/25 limit
Authorised limit – total external debt	84.61	84.61	84.61
Operational boundary – total external debt	74.61	74.61	74.61

Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority’s policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms can be invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Risk management: The effective management and control of risk are prime objectives of the Authority’s treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by the Board. Regular reports on treasury management activity are presented to the Audit and Governance Committee who are responsible for ensuring effective scrutiny of the treasury management strategy and policies in accordance with CIPFA’s Code of Practice.

Investments for Service Purposes

The Authority makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Authority’s subsidiaries that provide services. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for service loans to at least break even after all costs.

The Combined Authority will assume no future financial returns on any equity investments within its Medium-Term Financial Plan (MTFP). This is, financially, the worst-case scenario with equity investments; by not assuming any future returns the Combined Authority is exposed to only up-side risk and the future financial stability of the organisation is not reliant on the performance of the investments i.e. there is no risk that the Combined Authority will be unable to proceed with it’s plans due to poorer than anticipated financial performance of the companies.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Chief Finance Officer and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases and will therefore also be approved as part of the capital programme. The Chief Officer for the relevant service is responsible for ensuring that adequate due diligence is carried out before investment is made.

Commercial Activities

The Combined Authority currently does not hold any commercial investments.

Liabilities

The Authority is committed to making future payments to cover its pension fund deficit (valued at £3.87m). There are currently no commitments to make future payments in relation to debt or other major liabilities. There is currently no requirement to cover risks of other provisions, financial guarantees or major contingent liabilities.

Governance: Decisions on incurring new discretional liabilities are taken by Directors in consultation with the Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by the Finance team and reported to the Audit and Governance committee. New liabilities/loans are reported to the Board for approval/notification as appropriate.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from general government grants. There are no current plans to borrow, and therefore no budget financing costs.

Table 6: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget
Financing costs (£m)	0	0	0	0
Proportion of net revenue stream	0%	0%	0%	0%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable as demonstrated in the Medium-Term Financial Plan.

Knowledge and Skills

The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant with over 25 years post qualification experience. The Authority pays for staff to study towards relevant professional qualifications and for all qualified staff to keep up to date with relevant ‘continuing professional development’.

Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Cambridgeshire and Peterborough Combined Authority

Investment Strategy Report 2023/24

Introduction

The Authority may invest its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services, skills or economic growth by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from grants before it pays for its expenditure in cash (e.g. through payroll, invoices and grants). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £100m and £211m during the 2023/24 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its subsidiaries and local businesses to support local public services, to support the provision of affordable housing and to stimulate local economic growth and skills development.

Revolving Housing Fund

In September 2018, the Combined Authority Board approved the creation of a £40m revolving fund from the £100m fund receivable from central government to bring forward 2,000 affordable homes by March 2022. No new loans are being made from the fund as the returned funds are now being used to fund affordable housing grants. Of the five loans made under the scheme two have been fully repaid and the other three are due to be repaid by the end of May 2023.

Recycled Growth Fund Loans

The Combined Authority offers capital loans to local companies, and other Local Authorities, on the advice of the Business Board, where the projects are considered to achieve value for money and fit with the strategic direction set out in the Local Industrial Strategy. As the majority of Growth Funds was awarded prior to March 2022 the extent of new loans that will be available in 2023-24 is likely to be quite small.

Security of Service Loans

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	**31.3.2022 actual**			**2023/24**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Subsidiaries	0.000	0.000	0.000	10.000
Local businesses	41.656	0.344	41.312	20.000
TOTAL	**41.656**	**0.344**	**41.312**	**30.000**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority would assess the risk of loss before entering into and whilst holding service loans. All future loans would be subject to the following risk assessment and mitigating actions:

1) An appropriate level of due diligence, to include the use of external advisors where appropriate.
2) An appropriate loan period and timing of repayments
3) The calculation of an interest rate that would represent 'value for money', be of 'no detriment' to the Combined Authority, and to minimise the risk of Subsidy Control challenge
4) Approval being subject to a business case, due diligence, and loan agreement to the satisfaction of the Chief Executive, Monitoring Officer and Chief Finance Officer.
5) The business case would be reviewed to include focus on:
    a. Impact of existing loans and charges on assets
    b. Accuracy and reasonableness of Cashflow and profit forecasts
    c. Ambition of future sales targets and income to repay loan
    d. Provisions/allowances for contingency, inflation
    e. Review of credit worthiness of business and collateralisation of loan
6) For housing development loans, first legal charge over land and assets
7) Regular review and valuation of the assets
8) Drawdown subject to a gateway process
9) Consideration of options of parent company guarantees
10) Consideration of obligations of S106 agreements

All loans are subject to approval by the Combined Authority Board.

Service Investments: Shares

The Combined Authority invests in the shares primarily for the delivery of service outcomes rather than for financial return. It invests in equities of both subsidiaries and local businesses to support local public services and stimulate local economic growth. These investments are an intrinsic part of the delivery of the Combined Authority's programmes they are subject to the Combined Authority's Monitoring and Evaluation framework (published here) which has been reviewed by the Department for Business, Energy and Industrial Strategy including quarterly reporting on the service outcomes being delivered. As such this strategy only refers to monitoring of the company from a financial investor's perspective beyond what is done in line with the Monitoring and Evaluation framework. The Combined Authority has approved a number of material service equity investments as part of the University of Peterborough and Business and Skills agendas summarised below however, in consideration of the relative risk of equity investments over grants and loan funding, there are two overarching principals which the Combined Authority follows with all it's equity investments to ensure that it does not expose itself to undue financial risk:

1) The Combined Authority will only invest in limited companies – this limits the liability that the Combined Authority faces to the equity invested in the company, ensuring that the wider Combined Authority finances are insulated from movement in the values of the companies.

2) The Combined Authority will assume no future financial returns on any equity investments within its Medium-Term Financial Plan (MTFP). This is, financially, the worst-case scenario with equity investments; by not assuming any future returns the Combined Authority is exposed to only up-side risk and the future financial stability of the organisation is not reliant on the performance of the investments i.e. there is no risk that the Combined Authority will be unable to proceed with it's plans due to poorer than anticipated financial performance of the companies.

All existing material equity investments have been made following a recommendation of the Business Board as all involve an element of Local Growth Fund investment. As such all equity investments will have followed the robust due diligence and scoring process which all potential investments must complete prior to being considered by the Business Board – this involves an independent external evaluation of the applicant's business case, financial statements, credit searches, management capability and experience, project key risks, and strategic fit. This results in a report on these areas, a score, and recommendations on what controls and risk mitigations should be put in place if the investment is entered into.

Alongside this, for investments of £500k or more, the applicant will also be required to present their proposal to an Entrepreneurs' Assessment Panel (EAP) made up of Members of the Business Board and external experts in the field who also score the projects.

The Business Board, who's voting membership is made up of experienced CEOs, will then consider the application, appraiser's report and EAP scoring and they can request further information, recommend investments to the Combined Authority for ratification, or reject the project.

The equity investments fall into three groups, in this strategy referred to as: subsidiaries, silent partner service investments, and other equity investments.

Subsidiaries

Equity holdings in this group are in companies in which the Combined Authority has an active role in day-to-day management of the company. It is either a major, or sole, shareholder and appoints Directors to the company's boards as well as providing support services to the company across a range of areas including payroll, bank administration, management and legal support. These are the most closely monitored investments as Combined Authority staff actively manage and run the companies including production of monthly management updates and reports.

Peterborough HE Property Company Ltd - University of Peterborough Phases 1 & 3

Equity investment into a Joint Venture along with Peterborough City Council (PCC) and Anglia Ruskin University (ARU) with a total Combined Authority investment of £27m against a £22m investment from PCC mostly funded from the Levelling Up Fund and an £8m share from ARU. This company will deliver two teaching buildings, which will form the basis for the Anglia Ruskin University – Peterborough. ARU-Peterborough opened its doors to students in September 2022 and is delivering accredited university courses.

Peterborough R&D Property Company Ltd – University of Peterborough Phase 2

Equity investment into a Joint Venture with Photocentric to deliver a Research and Development centre on the University of Peterborough Campus, primarily funded by the Getting Building Fund grant provided specifically for the purpose from the Department of Business, Energy and Industrial Strategy. This company is constructing a 3-story building within the overall Peterborough University Quarter site with the intention to lease space to companies working on research and development with Photocentric operating as an anchor tenant occupying one of the 3 floors.

Cambridgeshire and Peterborough Business Growth Company Limited

This company was set up, with £5.4m of Local Growth Fund as equity, extended to £5.8m following the Combined Authority's decision to expand the inward investment service , as a pilot to deliver support to local businesses and improve the skills offering in the Combined Authority area over 3 years, with a planned winding down in December 2023.

Via subcontracting with a consortia it delivers services on behalf of the Combined Authority including growth coaching for businesses, inward investment, and skills capacity building. The Combined Authority's equity investment is supported with other income streams including the Growth Hub grant, Community Renewal Funds (Start & Grow and Turning Point), EU funding, and the Careers and Enterprise Company contracts. It also manages the Capital Growth Scheme as discussed later.

CAM Special Purpose Vehicle

In 2020-21 the Combined Authority Board approved the creation of a special purpose vehicle company as the preferred option for carrying forward the CAM project. In light of this £4.0m of Combined Authority funds have been invested to set up the company. In May 2021 the Mayor was elected under a clear commitment to no longer support the CAM and the company is now in the process of being wound up and the remaining funds have been returned to the Authority

Silent partner service investments

These investments are joint ventures with a partner organisation where the partner has significant expertise in the area in which the company will operate, with the Combined Authority providing financial support. In recognition of the knowledge and experience of the other member of the joint ventures the Combined Authority does not operate significant control over the company regardless of the share ownership position, however it does have the right to appoint a director to each of the companies' Boards.

The Combined Authority receives all papers prepared for the company's boards and annually reviews the companies' financial position as part of the construction of the Combined Authority's group accounts.

Other Equity Investments

Illumina Accelerator Programme

On the recommendation of the Business Board the Combined Authority awarded up to £3m to provide investments of £100k to start-up companies which are accepted onto the accelerator programme to support them to complete the accelerator programme run by Illumina. The accelerator programme offers high growth potential companies 6-months of coaching and access to Illumina's lab space to facilitate their growth and development of their concepts. The outputs for this service investment are new companies establishing in the area, and creating jobs, after completion of the accelerator.

While the overall Illumina programme was subject to the Business Board's due diligence processes, the investments within the programme are made directly into the companies by the Combined Authority. Illumina are not regulated investment advisors and thus do not recommend the companies to the Combined Authority as such the Combined Authority is making its own decision to invest in each company. While there is no recommendation from Illumina, the Combined Authority considers it appropriate to take assurance from a company's acceptance onto the Illumina Accelerator programme taking into consideration the following factors:

i) By the nature of the accelerator programme the companies being accepted would be very early-stage start-ups which would likely not have a financial history from which to draw conclusions on their operations.

ii) Illumina conduct a multi-phase assessment of applicants, including a questionnaire on the company's technology and business plans, interviews, and a 3rd party background check. Acceptance onto the programme therefore indicates Illumina's opinion that the company has a high chance of success, and Illumina invest in each of the companies accepted onto their accelerator programme. Given Illumina's experience and expertise in the sector, as demonstrated by the survival rate of graduates from the established Silicon Valley accelerator, it is reasonable to take assurance from this.

iii) No potential future return on the amounts invested would be included in the Combined Authority's medium term financial plan or capital programme – as such the Combined Authority's financial resilience is independent of the performance of the investments, even in the worst-case scenario of nil returns.

As the value of the investment in each company is low (£100k) and represents a small minority of each company's capital the Combined Authority has very little control over these entities. On this basis their financial accounts are only considered on an annual basis to assess materiality for inclusion in the Combined Authority's group accounts.

The intended outcome of these investments is to enable the company to survive its early development stage to the point at which it can attract further capital investment, not profit from capital growth. Reflecting this the Combined Authority seeks to sell it's shares once the company has achieved further funding however the companies are not publicly traded so achieving a sale and exit is uncertain and could take a number of years.

Start Codon Fund

On the recommendation of the Business Board the Combined Authority agreed a £3m investment into a £15m fund to provide pre-seed equity funding of £250k-£500k to early-stage start-up healthcare and life-science research and development businesses. The fund provides annual performance reports to all it's investors beyond the service reporting required by the Monitoring and Evaluation framework.

Companies are identified by Start Codon, who's team is made up of local experts in the Bio-Pharma life sciences innovation sector, for acceptance onto the accelerator programme; the fund is managed, and investment decisions taken, by the Kin Group Ltd which specialises in venture capital investment.

The fund has a structured plan to sell its investments 10 years after the fund is fully invested, although this is subject to a possible 4-year extension if there is majority investor consent. At this point the fund's position will be liquidated and funding returned to the investors in the proportions in which they originally invested.

Capital Growth Scheme Investments

The Cambridgeshire and Peterborough Business Growth Co Ltd is tasked with the delivery of a £5.5m fund for small-scale equity investments into SMEs. This programme provides working capital awards of up to £250k to fund growth projects which unlock growth in jobs or scale a company to secure more income generation and jobs at a level where private sector equity finance is lacking due to its focus on high-tech, Intellectual Property (IP) based start-ups and much higher growth rates, which typically favour much higher value equity investments of at least £250k up to £2m and higher.

The Cambridgeshire and Peterborough Business Growth Co Ltd will hold these investments, so they are not included in the limits in this strategy, however they are mentioned as the Cambridgeshire and Peterborough Business Growth Co Ltd is wholly owned by the Combined Authority.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	**31.3.2022 actual**			**2023/24**
	Amounts invested	**Gains or losses**	**Value in accounts**	**Approved Limit**
Subsidiaries	49.975	6.665	43.310	60.000
Local businesses	2.721	1.608	1.113	10.000
TOTAL	**52.696**	**8.273**	**44.423**	**70.000**

Risk assessment: The Authority would assess the risk of loss before entering into, and whilst holding, share agreements. The approach followed would be to consider:

1) an assessment of the market that the Authority would be competing in, the nature and level of competition, how market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements;
2) whether to use external advisors;
3) risk assessment based on credit ratings and the use of credit rating agencies;
4) the monitoring of risk in accordance with the Combined Authority's risk management policy.

Liquidity: Investments will be subject to the drawdown requirements of the Capital programme as set out in the Medium-Term Financial Plan and as monitored in the monthly cashflow forecast.

Non-specified Investments: Shares (defined as equity and equity like instruments) are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

The Authority currently does not invest in property with the intention of making a profit that will be spent on local public services and has no immediate plans to do so. In the event that commercial property investments would be held in future, the Authority would consider the following:

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Risk assessment: The Authority would assess the risk of loss before entering into and whilst holding property investments. The approach followed would be to consider:

1) A full due diligence exercise covering an assessment of: the property business plan, including sensitivity and scenario analysis; the credit quality of incumbent tenants (if any); the local property market, including demand, availability and voids in current similar commercial stock; the area's economic outlook and potential; how market/customer needs will evolve over time; barriers to entry and exit and any ongoing investment requirements;

2) Where in-house expertise does not cover the relevant investment opportunity, we will use external advisors for all/part of the due diligence and any other specialist areas;
3) External advice will be monitored by relevant officers, including adherence to deadlines, regular advisory meetings and adherence to project objectives;
4) The risk assessment will include credit ratings as part of the overall in-depth credit assessment of tenants. The creditworthiness of tenants will be monitored on a regular basis, using external expertise where necessary to give a credit view and an early warning of possible issues. As landlord, the Authority will maintain open dialogue with tenants, including discussion of financial stress;
5) The Authority will monitor the performance of the property asset against business plans throughout the life of the asset, assessing its performance and contribution of continued investment against the probable returns from sale.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. Each potential investment would be considered to ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and were the Authority to enter into any, a process in line with that taken for service loans, as set out above, would be followed, including a calculation of a loss allowance where appropriate.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down.

Table 3: Total investment exposure in £millions

Total investment exposure	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Treasury management investments	278.181	60.486	31.746
Service investments: Loans	41.312	15.000	7.000
Service investments: Shares	52.696	55.000	58.000
TOTAL INVESTMENTS	372.189	130.486	96.746
Commitments to lend	9.913	0.000	0.000
TOTAL EXPOSURE	382.102	130.486	96.746

How investments are funded:

To date, all investments are funded by the Authority's useable reserves and income received in advance of expenditure. There are no immediate plans to borrow.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 4: Investment rate of return

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	0.170%	0.856%	2.770%
Service investments - Loans	3.287%	3.082%	2.899%
ALL INVESTMENTS	0.569%	0.911%	1.430%

Cambridgeshire and Peterborough Combined Authority

Minimum Revenue Provision Statement 2023/24

Annual Minimum Revenue Provision Statement 2023/24

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed 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 Revenue Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

- The Authority expects that its capital financing requirement will be nil on 31st March 2023 and in line with the MHCLG Guidance it expects to charge no MRP in 2023/24.
- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.
- Where loans are made from grant funds, there will be no Capital Finance Requirement and therefore no MRP.
- Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- The table below summarises the MRP Policy.

Capital Expenditure Incurred	MRP Policy
Expenditure funded by unsupported borrowing	Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project.
Finance Leases	MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
Secured Loans to third parties repaid in bullet form.	No MRP will be charged as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount, the Authority will recognise the associated impairment and will charge MRP on the outstanding balance.

Cambridgeshire and Peterborough Combined Authority

Treasury Management Strategy Statement 2023/24

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

Economic background: The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7 2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

Credit outlook:

Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast:

The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Table 1 Arlingclose Interest Rate Forecast – November 2022

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Local Context

On 31st October 2022 the Authority held £nil borrowing and £214.6m of treasury investments.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall from current levels (end of Oct 2022) of £215m to £60m (end Mar 2026) as capital funding is used to finance capital expenditure and reserves are used to finance the revenue budget as set out in the Capital programme and the Medium-Term Financial Plan.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

The Authority expects that its capital financing requirement will be nil on 31st March 2023 and in line with the MHCLG Guidance it expects to charge no MRP in 2023/24. The Combined Authority has no current requirement to borrow over the lifetime of the Medium Term Financial Plan and so the forecast CFR until 2027 is £nil.

Liability benchmark: To compare the Authoity's actual borrowing against an alternative strategy, the Authority is required to calculate a liability benchmark showing the lowest risk level of borrowing.

The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loans CFR	0	0	0	0	0
Less: Balance sheet resources	(384.3)	(200.5)	(90.2)	(68.3)	(60.1)
Net loans requirement	(384.3)	(200.5)	(90.2)	(68.3)	(60.1)
Plus: Liquidity allowance	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Liability (Asset) benchmark	(394.3)	(210.5)	(100.2)	(78.3)	(70.1)

As there are no current plans to borrow, the medium-term forecasts in table 2 above shows an asset benchmark for comparing against investment levels but will be kept under review.

Borrowing Strategy

The Authority is not currently in receipt of any loans. The balance sheet forecast shows that the Authority does not expect to need to borrow in 2023/24. However, the Authority may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £84.61 million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: The Authority's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of any future debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority expects to borrow any long-term loans from the PWLB or the UKIB, but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- The UK Infrastructure Bank
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Combined Authority's Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Board.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this in the future and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £231m and £345m, and levels are expected to be subject to the drawdown of funds to support the delivery of the Combined Authority's priorities and objectives as set out in the Business Plan and the Medium-Term Financial Plan.

Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and when making investments with private entities will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Authority expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services. Due to current liquidity requirements, an increasing proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, and money market funds.

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£25m	Unlimited
Secured investments *	25 years	£25m	Unlimited
Banks (unsecured) *	13 months	£15m	Unlimited
Building societies (unsecured) *	13 months	£15m	£25m
Registered providers (unsecured) *	5 years	£15m	£50m
Money market funds *	n/a	£25m	Unlimited
Strategic pooled funds	n/a	£25m	£100m
Real estate investment trusts	n/a	£25m	£50m
Other investments *	5 years	£15m	£25m

This table must be read in conjunction with the notes below

Minimum Credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £25m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: In order to minimise the risk of a single default against available reserves, the maximum that will be lent to any one organisation (other than the UK Government) will be £25m. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £25m in operational bank accounts would be taken account of against the relevant investment limits when making treasury management investments, but the limits in this strategy do not apply to service investments.

Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any group of pooled funds under the same management	£50m per manager
Negotiable instruments held in a broker’s nominee account	£50m per broker
Foreign countries	£25m per country

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium-term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Prudential Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	6 (A)

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£15m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.5m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Principal sums invested for periods longer than a year (excluding loans): The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£50m	£30m	£20m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 113A of the Local Democracy, Economic Development and Construction Act 2009 removes much of the uncertainty over combined authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2023/24 is £0.74 million, based on the expected investment portfolio. There is no budget for debt interest paid in 2023/24.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then consideration will be given to transferring a portion of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater

Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Existing Investment & Debt Portfolio Position

	31 Oct 2022 **Actual Portfolio £m**	**Average Rate %**
External borrowing:		
Public Works Loan Board	**0**	
Local authorities	**0**	
LOBO loans from banks	**0**	
Other loans	**0**	
Total external borrowing	**0**	
Total gross external debt	0	
Treasury investments:		
Banks & building societies (unsecured)	0.1	0.01
Government (incl. local authorities)	184.5	1.31
Money Market Funds	30.0	2.16
Total treasury investments	214.6	1.43
Net debt	(214.6)	

CAMBRIDGESHIRE
& PETERBOROUGH
COMBINED AUTHORITY

Agenda Item:9

Subsidiary Company Governance

To:	Audit and Governance Committee
Meeting Date:	5th December 2022
Public report:	Yes
From	Edwina Adefehinti, Interim Monitoring Officer.
Key decision:	No
Forward Plan ref:	N/A
Recommendations:	The Audit and Governance Committee is recommended to: a) Note the progress made against the proposed management actions and timescales to address the identified weaknesses as set out in the RSM report.
Voting arrangements:	None. This is a paper for noting

1. Purpose

1.1 The purpose of the report is for the Audit and Governance Committee to:

a) Update the committee on the progress made against the agreed actions.

b) Provide information requested about CPCA's companies as requested by this committee.

BACKGROUND

2. Introduction

2.1 RSM presented the risk-based Internal Audit Plan for 2021/22 to the Audit and Governance Committee in April 2021, this included the planned review of 'Subsidiary Company Governance' which related to RSM's identified corporate risk of a 'lack of structural resilience/Insufficient internal resources'

2.2 The report identified a number of weaknesses which resulted in two high and three medium priority management actions.

2.3 These actions included:

i. Ensuring Shareholders Agreements are signed and kept in a readily accessible central location. (Medium)
ii. A Programme Management Committee will be established for the Business Growth Company, which will meet monthly to support the work of the company Board, as required by the Shareholder Agreement. (Medium)
iii. CPCA will ensure that business plans are in place for each of its subsidiary companies and ensure that these business plans (and business cases where relevant) are being reviewed and updated periodically, in line with each company's Shareholder Agreement. (High)
iv. CPCA will ensure that risk registers are in place for all current and future operational subsidiary companies and will establish a standard approach to risk management. (Medium)
v. CPCA will establish a clear governance, reporting and oversight structure for its existing subsidiary companies. As part of this structure, the methods by which the Overview and Scrutiny Committee and the Audit and Governance Committee will fulfil their responsibilities in relation to these subsidiary companies will be established and implemented. (High)

3. Updates

i. The Shareholders agreements have been reviewed by officers and an update was provided to the Committee and can be found here- Document.ashx (cmis.uk.com). The Officers Shareholders Agreements are yet to be signed and kept in a readily accessible central location because the Board is being asked to establish a shareholder board to deal with this. This report can be found here- Document.ashx (cmis.uk.com)

ii. There is a deadline date of end of November for the second agreed action, however this has not taken place, but once the shareholder board is established GrowthCo will be challenged by the shareholder board.

iii. There is a deadline date of end of February for the third agreed action.

iv. There is a deadline date of end of November for the second agreed action.

The programme office is working with Business Growth Co and Prop Co1/Prop Co2 to review current risk register provision. Business Growth have a risk register that is currently being updated. This has yet to be confirmed with Prop Co1/2.

The CPCA are establishing a corporate standardised approach to risk management with risk management training currently underway.

All A&G members, programme and project managers for the CA and subsidiary companies will be trained in risk management best practice by the end of December 2022.

v. CPCA Board is expected to establish a clear governance, reporting and oversight structure for its existing subsidiary companies, this would be the Shareholder board, draft terms of the board can be found here- Document.ashx (cmis.uk.com) The Board will note that this chair of this committee can attend its meetings as an observer and the board is expected to make reports to and consult this committee.

4 The Companies

4.1 The Combined Authority currently has six trading companies registered with Companies House. These are:

Angle Holdings Limited
Incorporated in September 2019, Angle Holdings was originally set up to be a holding company for all CPCA companies. It is, however, the holding company for Angle Developments (East) Limited only; and currently has a single share in the Cambridgeshire and Peterborough Business Growth Service; however, this will shortly be disposed of.

Angle Developments (East) Limited
Angle Developments (East) Limited is a housing development company incorporated in September 2019 and is owned in the main by Angle Holdings. It was incorporated with the intention of delivering affordable housing schemes and forming joint ventures with local developers in order to contribute to the housing element of the 2017 devolution deal for Cambridgeshire and Peterborough.

Cambridgeshire & Peterborough Business Growth Service Limited
Incorporated in August 2020 the Cambridgeshire & Peterborough Business Growth Company to act as a fund management and contracting vehicle to procure the private sector to deliver growth coaching, skills brokering and inward investment promotion. The company was also established to enable the management of an allocated amount of Local Growth Fund finance to be used as grant or equity investment in businesses in the area. The company has three major services reflecting the initial aims. These are:

The Business Growth Service: targeting places and companies that will have the most impact on our goal to shift to a more inclusive growth dynamic across sub-economies;

The Inward Investment Service: for a new all-economy foreign direct investment and capital investment promotion service for the promotion of employment space and employment property development opportunities to investors and companies from the UK and overseas; and,

The Skills Service: a digital and physical service connecting business with skills providers and talent, including targeted support to double the number of apprenticeships over five years.

The majority shareholder in the Business Growth Service is with the Combined Authority, with Angle Holdings owning a single share.

One CAM Limited
One CAM Limited was incorporated in September 2020 and was established as a special purpose vehicle (SPV), as a necessary and best-practice step for delivering the infrastructure intended as part of the CAM.

This company was placed into dormancy, following its final Board meeting in December 2021, and will be formally struck-off the register at Companies House shortly.

Peterborough HE Property Company Limited
Incorporated in June 2020 the Peterborough HE Property Company Limited (Propco1) is a special purpose vehicle to deliver the new University on the embankment site in Peterborough. The Propco1 is the SPV for phase 1 of the programme and comprise of the Combined Authority, Peterborough City Council and the academic delivery partner, Anglia Ruskin University.

Peterborough R&D Property Company Limited
Incorporated In November 2020 for the construction of a Research & Development building which will deliver an Advanced Manufacturing Innovation Eco-System for Peterborough. The company is a joint venture between the CPCA and Photocentric Limited.

5. Timescales and Next Steps

5.1 Form the Shareholder Board.

5.2 Bring back a report to this committee following the first meeting of the shareholder board.

Significant Implications

6. Financial Implications

6.1 There are no direct financial implications at this stage.

7. Legal Implications

7.1 It is good governance to update the Audit and Governance committee on all matters relating to governance in Local Authority.

8. Public Health Implications

8.1 None.

9. Environmental and Climate Change Implications

9.1 None.

10. Other Significant Implications

10.1 None

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Agenda Item No: 10

Draft Statement of Accounts and AGS 2021/22

To:	Audit and Governance Committee
Meeting Date:	2nd December 2022
Public report:	Yes
From:	Jon Alsop, Head of Finance and S73 Officer
Key decision:	Not a key decision
Recommendations:	The Audit and Governance Committee is recommended to: a) Note the draft Statement of Accounts 2021/22 b) Note the draft Annual Governance Statement 2021/22.
Voting arrangements:	No vote, item for noting.

1. Purpose

1.1. The purpose of the report is for the Audit and Governance Committee to:

(a) Note the draft Statement of Accounts 2021/22
(b) Note the draft Annual Governance Statement 2021/22
(c) Provide comment to inform the drafting of the final versions of these documents.

2. Background

2.1. The draft Statement of Accounts, together with the draft Narrative Report and draft Annual Governance Statement are required to be signed by the Chief Finance Officer and published in draft form on the Combined Authority's website together with the notice of the exercise of public rights by 30th November 2022.

Amendments to the Audit timetable for 2022

2.2. In March 2021, DLUHC announced that, following consultation, the Government laid regulations to amend the draft and final accounting deadlines for principal local authorities. The Accounts and Audit (amendment) Regulations 2021 (SI no 2021/263) – see link below, came into force on 31 March 2021.

2.3. DLUHC announced that this was the first action to be completed in implementing the recommendations of the independent Redmond Review into the effectiveness of external audit and transparency of financial reporting in local authorities.

2.4. The deadlines for publishing accounts were further amended in June 2022 as set out in the Accounts and Audit (Amendment) Regulations 2022 (link below) that accounts for the year ending 31 March 2022 should be published by 30 November 2022.

2.5. We have been advised by EY that due to their phased approach to delivering the 2021/22 they will not be able to give their opinion on our financial statements by 30 November 2022. We should however still publish the accounts by 30 November, without the audit report. EY have suggested wording to be used to meet the requirements of the regulations to explain why the accounts would not be audited as at that date.

Update to the preparation of the CPCA financial statements 2021/22

2.6. As reported at the July meeting, due to the illness of a critical member of staff, CPCA were not in a position to publish draft 2021/22 financial statements by the required publication date of 1 August 2022. In accordance with the stated regulations, a notice was published on the Combined Authority's website giving reason for the delay.

2.7. The draft 2021/22 accounts have now been completed and are presented here for noting by Members along with the draft Annual Governance Statement 2021/22 (AGS).

2.8. The draft Statement of Accounts and draft AGS will be published as draft on the Combined Authority's website alongside the notice of the exercise of public rights. These state that the documents are unaudited and subject to change and sets out the rights of members of the public and local government electors in the audit process.

2.9. Any person may inspect and take copies of the accounts and certain related documents during a 30 working day inspection period. During this period, the Cambridgeshire and Peterborough Combined Authority electors will be able to ask the external auditor questions on the accounts and are able to object to the accounts.

2.10. Ernst & Young LLP (EY) will then audit the draft Statement of Accounts in accordance with a timetable to be set out in their audit plan, which is to be presented to a future Audit and Governance Committee meeting.

2.11. Member comments on these draft documents will be considered in the drafting of the final versions of the statement of accounts and Annual Governance Statement.

Significant Implications

3. Financial Implications

3.1. The scale fee for the planned audit code work for 2021/22 is expected to be £26,950 (2020/21 - £26,950). EY have indicated that scale fee variations are expected to be an additional £41,408 with the cost of additional work relating to the specific value for money risk estimated at a further £50,000. The total audit fee for 2021/22 is therefore likely to be of the order of £118,358.

3.2. All additional code work fees are subject to agreement with the S73 Officer and the Public Sector Audit Appointments Ltd.

4. Legal Implications

4.1. None

5. Other Significant Implications

5.1. None

6. Appendices

6.1. Appendix 1: Draft Statement of Accounts 2021/22 and Annual Governance Statement 2021/22

7. Background Papers

7.1 The Accounts and Audit (Amendment) Regulations 2021 (legislation.gov.uk)

7.2 The Accounts and Audit (Amendment) Regulations 2022 (legislation.gov.uk)

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Draft Statement of Accounts 2021/22

The 2021/22 Pre-Audit Statement of Accounts was certified as presenting a true and fair view of the financial position of Cambridgeshire and Peterborough Combined Authority by the Chief Financial Officer on XX 2022.

This document is part of the Combined Authority's policy of providing full information about the Authority's affairs. In addition, interested members of the public have a statutory right to inspect the accounts before the Appointed Auditor completes the annual audit. The availability of the accounts for inspection is advertised on the Authority's web site.

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Narrative Report:

1. Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom requires a Narrative Report to be published by local authorities in England, Northern Ireland and Wales with their financial statements. The purpose of the narrative report is to provide information on Cambridgeshire & Peterborough Combined Authority, its main objectives and strategies, to provide a commentary on how the Combined Authority has used its resources to achieve its desired outcomes, and to demonstrate how it is equipped to deal with the challenges ahead.

This report provides the narrative to Cambridgeshire & Peterborough Combined Authority's financial statements for the year ended 31 March 2022.

2. Organisational Overview and External Environment

The Combined Authority is made up of eight founding members across Cambridgeshire and Peterborough. Each of the following Constituent Authorities is represented by their nominated representative or substitute at Combined Authority meetings.

Cambridge City Council
Cambridgeshire County Council
East Cambridgeshire District Council
Fenland District Council
Huntingdonshire District Council
Peterborough City Council
South Cambridgeshire District Council

The eighth founding member of the Combined Authority was the Greater Cambridge Greater Peterborough Local Enterprise Partnership now represented by the Business Board. By virtue of their office, the Chair of the Business Board is the voting representative on the Combined Authority and the Deputy Chair is the substitute representative.

The following bodies have co-opted member status:
The Police and Crime Commissioner for Cambridgeshire
Cambridgeshire and Peterborough Fire Authority
Clinical Commissioning Group

The Business Board was constituted as a non-statutory body to be the Local Enterprise Partnership (LEP) for the region. It is independent of the Combined Authority operating as a private-public sector partnership, focusing on the key business sectors to provide strategic leadership and drive growth in the area.

The Business Board builds upon the strengths of established LEP services to create a stronger new model and focuses on:

- Local Industrial Strategy – strategy development, implementation oversight, and monitoring of key objectives
- Place-based growth plans – including oversight of implementation of the Growth Fund programme, making investment recommendations, strategically managing business growth zones (including Enterprise Zones)
- Key sectors – determining our priority sectors, agreeing plans for their growth, overseeing the products and services that directly stimulate sector growth
- International trade and exports – import and export strategies, fostering key places in the world for trade accords, with particular focus on post-Brexit trade and export planning
- Skills – strategy and delivery plans to achieve a pipeline of people with skills required by business.
- Major investment opportunities – maintaining an overview and management of the pipeline of the single most direct investment opportunities facing the area.
- Devolution – employment improvement and increased exporting impacting on GVA.

The Business Board gives commerce a stronger voice in developing the Combined Authority's plans and decision making and is committed to advising the Combined Authority on achieving its Sustainable Growth Ambition. It ensures that a clear business perspective is brought forward as the Combined Authority seeks to be at the frontier of accelerating delivery and securing new investment models, with and across Government, the private sector and the local area.

The Combined Authority Board decides the strategic direction of the Combined Authority but delegates many of its decision-making powers for operational matters to the three Executive Committees, the Transport & Infrastructure Committee, the Skills Committee and the Housing & Communities Committee.

The Combined Authority has six subsidiary companies which have been set up to deliver specific objectives of the Combined Authority. The six companies are as follows:
Angle Holdings limited,
Angle Developments East limited,
One CAM limited,
Cambridgeshire and Peterborough Business Growth Company limited,
Peterborough HE Property Company ltd, and
Peterborough R&D Property Company ltd

3. Governance

Cambridgeshire & Peterborough Combined Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Combined Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

In discharging this overall responsibility, the Combined Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions including arrangements for the management of risk.

The Business Board and Combined Authority Board work to a single Assurance Framework which has been approved by the Department for Levelling Up, Housing and Communities (DLUHC). It provides a robust, singular framework that brings cohesion to the work of the single officer team, ensuring clarity, transparency and openness for Government, partners and members of the public around governance and compliance processes, and a singular approach to the recommendation and decision-making processes of both Boards.

In June 2022, our auditors, EY, highlighted a significant weakness in the Combined Authority's governance arrangements. These weaknesses and the authority's plans to address them are covered in the Annual Governance Statement.

4. Operational Model

The Devolution Deal for Cambridgeshire and Peterborough set out key ambitions for the Combined Authority to make our area a leading place in the world to live, learn and work. These include:

- Doubling the size of the local economy
- Accelerating house building rates to meet local and UK need
- Delivering outstanding and much needed connectivity in terms of transport and digital links
- Providing the UK's most technically skilled workforce
- Transforming public service delivery to be much more seamless and responsive to local need
- Growing international recognition for our knowledge-based economy
- Improving the quality of life by tackling areas suffering from deprivation

A significant element of the devolution deal was the award of a single pot investment fund. This single pot for Cambridgeshire & Peterborough Combined Authority initially comprised of a devolved, multi-year transport settlement and an additional long-term investment fund grant, worth up to £600 million over 30 year and has, since then the Combined Authority has also received a devolved adult education budget of c. £12m per year.

The Combined Authority has committed to refreshing its overarching strategy for the remainder of the current mayoral term during 22-23. The refresh will clearly set out the vision, strategic priorities and the overall approach of the Combined Authority to enable our ambitions to be realised.

5. Risks and Opportunities

COVID-19

On 25 March 2020, the Combined Authority set out its response to COVID-19 to support recovery and formulated an approach covering an immediate, short term and medium-term response.

The Combined Authority conducted a review of all priorities to focus on those which would support economic recovery following the impact of the pandemic.

The Combined Authority Board approved the budget for 2021/22 and MTFP for the four-year period to 2024/25 in January 2021. The MTFP set out assumed future funding streams and a full capital programme of investments for the period. The whole of the MTFP was reviewed to consider risks to delivery and to focus on priorities which will support economic recovery.

The MTFP confirmed that the programmes and projects which were contained within the Business plan were affordable within the expected funding envelope across the lifetime of the MTFP, whilst maintaining a £1m Contingency Reserve.

Inflation

The impact of a worsening economic environment including rising inflation has created significant budgetary pressures for the Combined Authority. Whilst the impact on the 2021/22 financial year was limited, the impact of inflation will require the Board to carefully consider service delivery and funding options in going forward.

Vision and Purpose

We want to make sure that everything we do makes life better, healthier and fairer for all. If rising prosperity does not make life better, healthier or exhausts the resources our children will need for the future, our approach is flawed. It is now recognised that we don’t just need growth: we need good growth. Our aim is not simply to increase our income, but to increase our area’s wealth, in a way that is driven by our values and supports levelling up.

Values

The Combined Authority and our constituent council partners have continued to shape our approach for our region and endorsed the development of a core set of operational values; the following were suggested with a view to being reviewed in the planned strategy refresh:

- Collective Leadership
- Co-production
- Subsidiarity
- Additionality
- Devolution

At the Combined Authority we are also committed to enabling our mayoral values of leading with compassion, working cooperatively, and serving our community.

Sustainable Growth Ambition

The adoption by the Combined Authority of a Sustainable Growth Ambition statement shifts to a broader thinking, underpinned by a strategic assessment framework based largely on the six capitals approach called 'Six Keys'. Using the Six Keys enables decision making to be informed not just by one measure but a range of measures that taken together demonstrate that the area is growing sustainably towards its growth target; these measures are grouped around six key considerations for sustainable growth. These are:

Climate and Nature: restoring the area's depleted natural capital and addressing the impact of climate change on our low-lying area's special vulnerabilities and encouraging businesses to come up with solutions.

People: building human capital - the health and skills of the population - to raise both productivity and the quality of life so that that people in our region are healthy and able to pursue the jobs and lives they want.

Innovation: building on our reputation for new thinking, new technology and new ideas in Cambridgeshire and Peterborough to ensure this area can continue to be one of the most dynamic.

Reducing inequalities: investing in the community and building social capital to complement improved skills and connectivity as part of the effort to narrow the big gaps in life expectancy and people's income between places.

Infrastructure: from digital and public transport connectivity to water and energy, building out the networks needed to support a successful future.

Financial and systems: improving the institutional capital – the ways we work, organise, and fund ourselves - which supports decision-making and delivery.

6. Strategy and Resource allocation

Cambridgeshire and Peterborough Combined Authority was established as a Mayoral Combined Authority in 2017 to make life better, healthier and fairer for all. As the authority revises its focus to 2025, much of the original purpose and ambition remains with increased attention to address post-pandemic areas of deficit and more recent impact of climate, energy and cost of living crises. The overall strategy for the Combined Authority will aim to further enable a prosperous Cambridgeshire and Peterborough region; one that is more equitable, more environmentally sustainable, and securing good growth for its residents and businesses.

Climate and Nature

The Combined Authority has established the Independent Commission on Climate to provide independent evidence and advice on climate issues. The Commission has made 58 recommendations for action toward a pathway to reach Net Zero by 2050 (or before). The Commission found that transport and the heating of buildings provided the most emissions and are priorities for action. Emissions from soils are also a particular issue for the area, as they add a third to overall emissions. We will take action on climate recommendations where we have direct influence and will convene and support organisations in addressing the other climate recommendations. For the natural environment the Combined Authority Board has endorsed the “Doubling Nature” ambition. This will seek to double the amount of rich wildlife and natural green space. Our transport strategy has also evolved and business cases will include increased emphasis on climate impact. Improving public transport connectivity is at the heart of our climate strategy to combat the high levels of transport emissions in the region with a high reliance on private car use. We have developed a vision for buses that has committed to encourage sustainable growth and protect and enhance our environment. We intend to build on our strong active travel credentials building on our success as we have the highest UK cycling rates in Cambridge.

Employment and Skills

Our Employment and Skills Strategy sets out what our ambition means for each of the groups interacting with the skills system:

People experience fulfilment and good physical and mental health with productive, quality working lives. They drive their own learning and can access support and learning to meet their personal and work ambitions.

Employers are providing good quality jobs; have the skills they need in their staff and can recruit the right person for the right job.

Providers work collaboratively in an integrated education and skills system to deliver learning, qualifications, careers education and support to enable people to enter the labour market in the ways that suit individual's needs and ambitions.

Place leaders secure outcomes for the whole place, convening and supporting collaboration between employers and the integrated skills system.

Innovation

Our Local Industrial Strategy (LIS) proposes that the area's economic growth is supported by harnessing innovation. A key priority in the LIS is to replicate and extend the infrastructure and networks that have enabled Cambridge to become a global leader in innovative growth, creating a business support and innovation eco-system to promote inclusive growth to replicate the "Cambridge Phenomenon". Research is fundamental to achieving this replication, as it produces the new ideas and technologies that enable entrepreneurs to start up, existing businesses to scale-up and for new tech-firms to spin-out of academic and research institutions. It requires the generation of free-flowing exchange of ideas and insights that ensure research is informed by local business' needs. To achieve this, we will bring together leading entrepreneurs, innovators, mentors and coaches with growing firms to strengthen linkages across the area. We will also support businesses, universities and other partners to collaborate to maximise public and private investment, including Research & Development funding, and improving funding to support the growth of local businesses into global markets. Peterborough and Fenland require level 5, 6, 7 & 8 skills in advanced manufacturing and technologies that support the drive to net-zero. This will require the development of an innovation and business support eco-system to grow indigenous high-value firms and attract new ones to Peterborough and Fenland. The creation of new launchpads will be the focal points for this innovation cluster development, focusing on product development to support key growth sectors such as Agri-tech, artificial intelligence and advanced manufacturing innovation.

Reducing Inequalities

Levelling-Up is important to our region. Peterborough and Fenland are ranked as Priority One and Two retrospectively by the Government for levelling-up funding. Both have skills and quality of employment deficits that leads to deprivation, including:

- Education deprivation – just 32.1% of the population gain a National Vocational Qualification 4 or above qualification compared to 43% nationally.
- Social and health deprivation – healthy life expectancy is below retirement age in parts of Fenland.
- Child poverty – 25% of people in Peterborough are living in poverty, compared to 17% nationally.
- Poor social mobility – Peterborough is ranked 191st and Fenland as 319th out of 324 local authority districts putting it in the bottom 2% of places nationally

The major contributing factors are low aspirations, poor access to higher education and high-quality employment. Our Independent Economic Review (CPIER), which was designed to identify the economic performance and potential of Cambridgeshire and Peterborough, identified a new higher education institution in Peterborough as the only viable solution to the Higher Education Cold-Spot.

The Local Industrial Strategy (LIS) also identifies the northward expansion of the innovation clusters and networks from Cambridge, as the primary route to improving the knowledge intensity and quality of employment for Peterborough and the Fens. An inclusive growth strategy and improving absolute standards of living is vital for the long-term economic sustainability of our economy. Local political, education and business leaders are working together to achieve this, across place, sectors and political affiliations and we are keen to work with Ministers, to re-envision what Place Based innovation means and how it can be delivered to drive levelling-up. Improving transport connectivity will also aim to connect cut off communities, to create a far-reaching and affordable public transport network.

Infrastructure

Our infrastructure strategy is set out in the statutory Local Transport Plan and Digital Infrastructure Strategy. A new Local Transport and Connectivity Plan (LTCP) will be published in 2023. This document is a refresh to the first Local Transport Plan for Cambridgeshire and Peterborough published in 2020. The LTCP will describe how transport interventions can be used to address current and future challenges and opportunities for Cambridgeshire and Peterborough. It will set out the policies and strategies needed to secure growth, address the climate crisis and ensure that transport enables opportunity for all, with people able to access key services that will improve their quality of life, in a sustainable way.

The LTCP has six objectives:

Productivity – Giving both employers and people the means to fulfil their potential, making them more efficient and more innovative to create more prosperity.

Connectivity – People and communities are bought closer together, giving more opportunities for work, education, leisure, and pleasure.

Climate – Successfully and fairly reducing emissions to Net Zero by 2050.

Environment – Protecting and improving our green spaces and improving nature with a well-planned and good quality transport network.

Health – Improved health and wellbeing enabled through better connectivity, greater access to healthier journeys and lifestyles and delivering stronger, fairer and more resilient communities.

Safety – To prevent all harm by reducing risk and enabling people to use the transport system with confidence

Finance and Systems

We commit to a continued review of the funding we receive to ensure we can meet the ambitions set out in our strategies. We will therefore continue to lobby for funding to invest in interventions that will provide sustainable and healthy places in which to live and work. In 2021 we have been successful on bids from central government totalling over £40m, and in 2022 amongst other things we will play a lead role in administering the UK Shared Prosperity Fund allocation and be looking at opportunities to bid for Transport Levelling Up funding. We will also continue to build public and private partnerships where to date we have leveraged over £150 million from the private sector through our Business Board alone. We will continue to look at innovative ways to invest in the region and our businesses including through Recycled Growth Funds. Recycled Growth Funds are made up of repayments from previous Growth Fund investments, based on recommendations from the Business Board. As these investments repay the funds these can be reinvested in new projects delivering jobs and skills in the area. The interest payments on these investments give the Business Board revenue funds as well.

7. Performance

Our Key Achievements in 2021/22

Funding

In 2021 we have been successful on bids from Government totalling over £40m, this includes £20m of Levelling Up funding, £13.8m of Getting Building Funding, £4.3m for 30 Zebra buses, £3.4m of Community Renewal Funding and £2.9m of active travel funding.

Promotion

We have received funding confirmation that following the completion of a successful Cambridge South Station business case by the Combined Authority, Government have announced within the Budget that this project is funded, subject to planning to proceed for completion in 2025.

Delivery

Construction began on Manea and March stations to provide better station and platform facilities as well as improved parking and bus connectivity points. Over the course of 2021 a set of Quick Win schemes in March have also been delivered with only two remaining, these include zebra crossings, signage, footways, and link roads to improve safety and connectivity.

In 2021 we rolled out E-bikes and E-scooters into Cambridge and Peterborough. The scheme so far has tracked more than 224,000 trips in Cambridge alone that have travelled over 1million kilometres (equivalent to 25 times around the equator). The trial has been used by more than 36,000 active users. In the first 10 months of the Cambridge trial, it is estimated that 73,000 fewer car journeys have taken place which equates to a 66-tonne reduction in Carbon Dioxide emissions.

For the Digital Connectivity programme in 2021 we hit our full fibre target of 20% a year early and we are now at 35%. The public access CambWifi network has been extended to market towns in Huntingdonshire and East Cambridgeshire and is live in Peterborough city centre, with planning underway for deployment in March and Whittlesey.

In 2021 we rolled out a trial of Demand Responsive Transport in West Huntingdonshire named 'Ting', it is too early to make conclusions about its success, but the numbers are promising with an estimated 500 individual passenger trips a week prior to Christmas.

In partnership with Cambridgeshire County Council, we have begun construction on King's Dyke which is a £32 million infrastructure project. The bridge is now in position over the railway line and the two new roundabouts are taking shape.

The University of Peterborough Phase 1 begun construction and opened in September 2022, and funding has been approved for phases 2 and 3.

We have also continued creating jobs through the Local Growth Funds with 4,863 created over the course of the fund, and have continued to create jobs, apprenticeships and attract inward investment through our innovative Business Growth Service.

For housing, by the end of the programme we expect to have delivered 1,457 additional affordable houses

8. Outlook

Despite the potential impact of COVID-19 on local authority financial sustainability, the Combined Authority is able to maintain a balanced and affordable budget and to continue to operate for the foreseeable future. The Combined Authority has undertaken cash flow modelling which demonstrates the Combined Authority does not have any liquidity concerns over the next 12 months. It is therefore appropriate to prepare the financial statements on a going concern basis.

Basis of Preparation and Presentation

This Statement of Accounts has been prepared in accordance with statutory requirements, detailed in the Local Government Act 2003, the Accounts and Audit Regulations 2015 and The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

The Statement of Accounts brings together the major financial statements for the Combined Authority for the financial year 2021/22. The financial statements, along with the notes that accompany them, aim to give a full and clear picture of the financial position of Cambridgeshire and Peterborough Combined Authority. The key contents of the various sections are as follows:

- Statement of Responsibilities – sets out the responsibilities of the Combined Authority and the Chief Finance Officer in respect of the Statement of Accounts

- Comprehensive Income and Expenditure Statement – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices
- Movement in Reserves Statement – this statement shows the movement in the year on the reserves held by the Combined Authority
- Balance Sheet – shows the value of the assets and liabilities recognised by the Combined Authority as at 31 March 2022
- Cash Flow Statement – summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties
- Notes to the Financial Accounts - the various statements are supported by technical notes and by the Statement of Accounting Policies
- Annual Governance Statement – sets out how the Combined Authority's governance arrangements comply with the principles of the Local Code of Governance

Jon Alsop
Chief Finance Officer (S73)
Date:

John Pye
Chair of the Audit Committee:
Date:

Independent Auditors' Report to the Members of Cambridgeshire and Peterborough Combined Authority (TBC)

Statement of Responsibilities for the Statement of Accounts

The Combined Authority's Responsibilities

The Combined Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Combined Authority, that officer is the Chief Finance Officer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Section 73 Officer's Responsibilities

The Section 73 Officer is responsible for the preparation of the Combined Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Section 73 Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Section 73 Officer's Certificate

I certify that the accounts set out on pages 13 to 68 present a true and fair view of the financial position of the Combined Authority at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

Jon Alsop
Chief Finance Officer and
Section 73 Officer:

Approval of the Statement of Accounts

I confirm that these accounts were approved by the Audit and Governance Committee at the meeting held on the **th ****** 2022

John Pye
Chair of the Audit Committee:

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Combined Authority has the ability to levy a council tax precept, but this power has not been utilised in 2021-22.

CPCA 2020/21			Comprehensive Income and Expenditure Statement	Note	CPCA 2021/22		
Expenditure £'000	Income £'000	Net Expenditure £'000			Expenditure £'000	Income £'000	Net Expenditure £'000
4,134	-	4,134	Chief Executive, Inc.Staffing		5,595	-	5,595
319	(2)	317	Externally Commissioned Support Services		477	(1)	477
631	-	631	Corporate Overheads		499	-	499
49	-	49	Governance Costs		42	-	42
458	-	458	Mayor´s Office		402	-	402
254	(38)	216	Other Corporate Budgets		186	(52)	135
47,454	(47,042)	412	Business and Skills		965	-	965
			Election		40,634	(29,776)	10,858
74,883	(64,754)	10,130	Strategy and Delivery		70,966	(56,879)	14,087
23,502	(453)	23,048	Housing		19,859	(2,340)	17,519
151,684	**(112,289)**	**39,396**	**Net Cost of Services**		**139,626**	**(89,047)**	**50,578**
		94	Other Operating Income & Expenditure	8			-
		3,621	Financing and Investment Income and Expenditure	9			2,959
		(26,187)	Taxation and Non-Specific Grant Income	10			(36,131)
		16,923	**(Surplus) / Deficit on Provision of Services**				**17,406**
		57	Loss from investments in equity instruments designated at FVOCI				-
		1,542	Actuarial (Gains) / Losses on Pension Assets / Liabilities	21			(1,278)
		1,599	**Other Comprehensive Income and Expenditure**				**(1,278)**
		18,522	**Total Comprehensive Income and Expenditure**				**16,128**

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end of the year on reserves held by the Combined Authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure) and other ‘unusable reserves’. The Statement shows how the movements in year of the Combined Authority’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

CPCA - Movement in Reserves Statement	Note	General Fund Balance	Earmarked General Fund Reserves	Capital Grants Unapplied Account	Usable Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Combined Authority Reserves
Balance at 1 April 2020		**(13,936)**	**(3,101)**	**(104,892)**	**(11,008)**	**(132,937)**	**(37,776)**	**(170,713)**
Total Comprehensive Income & Expenditure		16,923	-	-	-	16,599	1,599	18,522
Adjustments between accounting basis & funding basis under regulations	14	(14,136)	-	45,967	1,787	33,618	(33,618)	-
Net Increase before Transfers to Earmarked Reserves		**2,787**	**-**	**45,967**	**1,787**	**50,541**	**(32,019)**	**18,522**
Transfers to / (from) Reserves		**3,347**	**(3,347)**	**-**	**-**	**-**	**-**	**-**
(Increase) / Decrease in 2020/21		**6,134**	**(3,347)**	**45,967**	**1,787**	**50,541**	**(32,019)**	**18,522**
Balance at 31 March 2021 Carried Forward		(7,802)	(6,448)	(58,925)	(9,221)	(82,396)	(69,795)	(152,191)
Balance at 1 April 2021		**(7,802)**	**(6,448)**	**(58,925)**	**(9,221)**	**(82,396)**	**(69,795)**	**(152,191)**
Total Comprehensive Income & Expenditure		17,406	-	-	-	17,406	(1,278)	16,128
Adjustments between accounting basis & funding basis under regulations	14	(20,769)	-	30,460	47	9,738	(9,738)	-
Net Increase before Transfers to Earmarked Reserves		**(3,362)**	**-**	**30,460**	**47**	**27,145**	**(11,016)**	**16,128**
Transfers to / (from) Reserves		1,548	(1,548)	-	-	-	-	-
(Increase) / Decrease)in 2021/22		(1,814)	(1,548)	30,460	47	27,145	(11,016)	16,128
Balance at 31 March 2022 Carried Forward		**(9,616)**	**(7,996)**	**(28,465)**	**(9,174)**	**(55,252)**	**(80,812)**	**(136,064)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Combined Authority. The net assets of the Combined Authority (assets less liabilities) are matched by the reserves held by the Combined Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Combined Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is that which the Combined Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

CPCA 31/03/2021 £'000		**Note**	**CPCA 31/03/2022 £'000**
80	Property, Plant & Equipment	22	72
41,059	Long Term Investments	25,26	56,411
22,469	Long Term Debtors	25,26,28	3,819
63,608	**Total Long-Term Assets**		**60,301**
138,100	Short Term Investments	25,26	155,115
39,011	Short Term Debtors	25,26,28	51,864
83,697	Cash and Cash Equivalents	25,26,33	149,886
260,808	**Current Assets**		**356,865**
(60,272)	Short Term Creditors	25,26,29	(57,223)
(226)	Short Term Provisions	30	(546)
(60,498)	**Current Liabilities**		**(57,770)**
(3,644)	Long Term Creditors	7	(3,870)
(108,083)	Capital Grants Receipts in Advance	31	(219,462)
(111,727)	**Long Term Liabilities**		**(223,332)**
152,191	**Net Assets**		**136,064**
(82,396)	Usable Reserves	14	(55,252)
(69,795)	Unusable Reserves	14	(80,812)
(152,191)	**Total Reserves**		(136,064)

Jon Alsop
Chief Finance Officer and Section 73
Date: **/**/2022

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Combined Authority during the reporting period. The statement shows how the Combined Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Combined Authority are funded by way of taxation and grant income or from the recipients of services provided by the Combined Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Combined Authority's future service delivery.

2020/21 £'000	Cash Flow Statement	Notes	2021/22 CPCA £'000
16,923	Net (Surplus) or Deficit on the Provision of Services		17,406
(121,201)	Adjustments to Net (Surplus) or Deficit on the provision of Services for Non-Cash Movements	31	(119,976)
(104,278)	**Net cash flows from Operating Activities**		(102,570)
101,146	Investing Activities	31	36,381
-	Financing Activities		
(3,132)	**Net (Increase) or Decrease in Cash and Cash Equivalents**		**(66,189)**
80,565	Cash & Cash Equivalent at the beginning of the Reporting Period		83,697
3,132	Increase / (Decrease) in Cash and Cash Equivalents		66,189
83,697	**Cash & Cash Equivalents at the end of the Reporting Period**	32	**149,886**

The adjustment of net (surplus) deficit on the provision of Services for non-cash movements contains £111,380k for the movement in creditors which largely relates to Capital Grants Received in Advance, see note 32 for further details .

Notes to the Accounts

1. Accounting Policies

Basis of Identification of Group Boundary and Group Accounts Preparation.
Where the Combined Authority has the authority has interests in subsidiaries, associates and/or joint ventures, subject to consideration of materiality, group accounts must be prepared. The Combined Authority has considered its group relationship as follows:

Company	Interest (voting rights if different)	Category	In group accounts	Turnover 20/21	Profit / (Loss) 20/21	Net Assets 20/21	Turnover 21/22	Profit / (Loss) 21/22	Net Assets 21/22
				£'000	£'000	£'000	£'000	£'000	£'000
Peterborough HE Property Company Limited	93% (50%)	Associate	Yes - equity	-	(164)	8,067	-	(240)	25,696
Cambridgeshire and Peterborough Business Growth Company Limited	100%	Subsidiary	Yes – line by line	143	(1,981)	3,426	1,473	(304)	3,122
One Cam Limited	100%	Subsidiary	Yes – line by line	-	(1,540)	455	-	(1,570)	885
Peterborough R&D Property Company Limited	100%	Subsidiary	Yes – line by line	-	(154)	(154)	-	(273)	7,789
Angle Holdings Limited	100%	Subsidiary	Not material	-	(2)	(4)		(4)	(8)
Angle Developments (East) Limited	100%	Subsidiary	Not material	-	(14)	(21)		(15)	(36)
Smart Manufacturing	100% (50%)	Joint Venture	Not material	-	(45)	670		(216)	454
Ascendal	100% (50%)	Joint Venture	Not material	-	(313)	652		(585)	67
MedTech Accelerator Ltd	20%	Associate	Not material	-	(191)	377*		(23)	301

*MedTech Accelerator Ltd accounts are prepared to 30 June, 21/22 figures are year to 31 March 22.

Peterborough HE Property Company Limited was set up in partnership with Peterborough City Council and Anglia Ruskin University to build and run the site for Peterborough University.

Cambridgeshire and Peterborough Business Growth Company Limited is a wholly owned subsidiary set up to deliver key services in the region covering Inward Investment, Skills Brokerage and provide support and resources to SMEs.

One Cam Limited is a wholly owned subsidiary set up to develop the Cambridgeshire Autonomous Metro.

Peterborough R&D Property Company Limited has been set up in partnership with Photocentric Limited to build a commercial Research and Development facility linked to the new Peterborough University.

Angle Holdings Limited and its subsidiary Angle Developments Limited were set up to develop housing projects in accordance with the Combined Authority's Housing Strategy. To date no projects have been progressed through the companies. The Combined Authority Board has agreed to provide loan finance to the companies to cover running costs until such time as profitable projects are developed.

Smart Manufacturing is a joint venture with Opportunity Peterborough to establish a membership organisation supporting businesses to adapt to new technologies, business models by facilitating networking, and providing benchmarking, training and learning programmes to its members.

Ascendal Accelerator Ltd is a joint venture with Ascendal Innovation Ltd to support the development of SMEs and new technology in the public transport sector.

MedTech Accelerator Ltd. is a joint venture with Health Enterprise East, NHS Innovations East and New Anglia LEP which provides early-stage investment funding and support to organisations which have achieved proof of concept with innovations in the healthcare sector to enable these organisations to take the next step towards commercialisation.

Through the Illumina Accelerator programme the Combined Authority holds six future equity agreements which will, upon maturity, become minor shareholdings in start-up companies. As these investments will not result in the Combined Authority holding a significant proportion of shares, nor having any form of control beyond its minor shareholding, these will be immaterial to the Authority's accounts.

General Principles

The Statement of Accounts summarises the Combined Authority's transactions for the 2021/22 financial year and its position at the year-end 31 March 2022. The Combined Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015.

The Statement of Accounts must be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.
The same accounting policies are applied to the Combined Authority and Group accounts, with the exception of statutory adjustments between the accounting and funding basis (see note □) which only apply to the Combined Authority accounts.

1.1. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not when cash is paid or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected

1.2. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the reporting date and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Combined Authority's cash management.

1.3. Charges to Revenue for Non-current Assets

Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service

- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service

Depreciation, revaluation and impairment losses and amortisation are not charges to the Combined Authority's General Fund. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Combined Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by Minimum Revenue Provision (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.4. Employee Benefits

1.4.1 Benefits Payable During Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

1.4.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

1.4.2 Post-employment Benefits

Employees of the authority can become members of the Local Government Pensions Scheme, administered by Cambridgeshire County Council in partnership with Northamptonshire County Council (until 31 March 2021)

The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the authority.

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of based on the indicative rate of return on high quality corporate bonds

The assets of the pension fund attributable to the Authority are included in the balance sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.
-

The change in the net pensions liability is analysed into the following components.

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the comprehensive income and expenditure statement to the Combined Authority Staffing Costs line
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited in the comprehensive income and expenditure statement to the Combined Authority Staffing Costs line
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as other comprehensive income and expenditure
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are transfers to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.5. Events after the Reporting Period

These are events that occur between the end of the accounting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- If events provide new evidence of conditions that existed at the balance sheet date the Statement of Accounts is adjusted
- Other events are only indicative of conditions that arose after the balance sheet date. The Statement of Accounts is not adjusted, but where such a category of events would have a material effect, disclosure is made in the notes. The note sets out of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.6. Financial Instruments

1.6.1 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Combined Authority is contractually committed to a financial instrument. They are initially measured at fair value. They are carried at their amortised cost.

The amount charged to revenue is based on the effective interest rate. The effective interest rate discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

The carrying value for most loans is outstanding principal repayable plus accrued interest. Interest charged to the CIES is the amount payable under the agreement.
Annual charges for these loans are made to the Financing and Investment Income and Expenditure line in the CIES. The charge is the carrying amount of the liability multiplied by the effective rate of interest.
For these loans, the difference between the annual charge and the cash paid is reversed out in the MIRS.

1.6.2 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

1.6.2.1 Financial Asset Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

When soft loans (loans below market rate) are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.
Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the borrower, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

1.6.2.2 Financial Asset Measured at Fair Value through Other Income and Expenditure (FVOCI)
Where the authority has eligible assets, it may elect to account for them at Fair Value through Other Income and Expenditure This means that any gains or losses in Fair Value are charged to Other Income and Expenditure and reversed out through the MIRS to the Financial Instrument Revaluation Reserve.

1.6.2.3 Financial Assets Measured at Fair Value through Profit or Loss (FVPL)
Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Combined Authority can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.6.3 Expected Credit Loss Model

The Combined Authority recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Combined Authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

1.7. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Combined Authority when there is reasonable assurance that:

- the Combined Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the Combined Authority are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the MIRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account.

Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.8. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.8.1 The Authority as Lessee

1.8.1.1 Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

1.9. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Intangible Assets - Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Authority (e.g. software licences) is capitalised when it will bring benefits to the Authority for more than one financial year.

1.9.1 Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

1.9.2 Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

In 2021/22, in addition to Vehicle, plant, furniture & equipment, there have been some expenditure classified as Assets Under Construction in the group accounts. measured at the same basis as above incurred for the University of Peterborough project.

Assets included in the Balance Sheet are held at current value.

1.9.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

1.9.4 Depreciation and Amortisation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e., freehold land and certain community assets) and assets that are not yet available for use (i.e., assets under construction).

Deprecation is calculated on the following bases:

- Vehicle, plant, furniture and equipment – Depreciation is calculated from the year of acquisition, on a straight line basis, over a period of five years
- Assets Under construction – Assets in the course of construction are not depreciated until they are brought into use

The useful lives of assets are reviewed regularly. Where necessary, the life of an asset is revised and the carrying amount of the asset is then depreciated over the remaining useful life.

Intangible assets - amortised on a straight line basis over the economic life of the asset to reflect the pattern of consumption of benefits. All software is given a finite useful life, based on an assessment of the period that the software is expected to be of use to the Authority - usually five years

1.9.5 Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e., netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The receipts remain within the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the authority’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the General Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

1.10. Programme Management of Delegated Funds

Some funds are delegated to CPCA that HM Government require it to distribute and manage to achieve the desired outcomes. Government subsequently require officers of CPCA to monitor activity and report thereon regularly. Such funds require specific project management and this sets out the methodology for funds under management in 2021/22.

1.10.1 Local Growth Fund

This programme was inherited from the former GCGP LEP. Funding is allocated by the Business Board based upon the 2014/15 funding agreement to deliver increased Gross Value Added (GVA) in the area. Programme management costs are allowed by the funding agency, the Department for Business, Energy and Industrial Strategy (BEIS) as determined by the Accountable Body. Previously 4% was agreed but this was reviewed and, since it became the CPCA’s responsibility in 2018/19, reduced to 2% of the funds received in year.

The final tranche of funding was received in 2020-21; however, the responsibility for monitoring and evaluation of the funded projects continues and will be funded from the reserve built up via the programme management element of the funds.

1.10.2 Housing Investment Fund

HM Government devolved funds to the CPCA to deliver affordable homes, and the CPCA has sought out opportunities and delivered utilising a combination of grants and loans. This funding was reviewed at the end of 2021-22 with Ministry of Housing, Communities and Local Government (MHCLG) to establish future funding provision and programme objectives. Repaid capital from the issued housing loans are ringfenced to programme pipeline of opportunities, and discussions are ongoing with

MHCLG to agree further funding to support and deliver the pipeline on a project by project basis. These discussions are based on the costs of running the programme continuing to be charged to these funds.

1.11. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Combined Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Combined Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Combined Authority has a payment obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g., from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Combined Authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Combined Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts. There are no Contingent Liabilities disclosed in the 2021/22 accounts.

1.12. Reserves

The Combined Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year. It is included in the Surplus or Deficit on the Provision of Services in the CIES.

The reserve is then transferred back into the General Fund Balance in the Movement in Reserves Statement.
Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits. These reserves are not usable resources for the Combined Authority and are explained within the relevant policies.

1.13. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the General Fund Balance.

The Combined Authority receives many capital funds from H.M. Government to achieve outcomes in the area. Such funds include Gainshare (Capital), Transforming Cities Fund, Housing Investment Fund and Local Growth Fund. While the CPCA delivers some functions and services directly, predominantly passenger transport functions, it is primarily a commissioning organisation and seeks to deliver the outcomes through third parties such as constituent authorities by giving capital grants to deliver these capital projects. Under the CIPFA prudential code such expenditure is treated as REFCUS.

1.14. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.15. Going Concern

Despite the potential impact of COVID-19 on local authority financial sustainability, the Combined Authority is able to maintain a balanced and affordable budget and to continue to operate for the foreseeable future. The Combined Authority has undertaken cash flow modelling which, taking account of the cash balances of £210.6 million at 24 November 2022 and forecast cash balances of

£130.3 million at 24 November 2023, demonstrates the Combined Authority does not have any liquidity concerns over the next 12 months from date of authorisation. It is therefore appropriate to prepare the financial statements on a going concern basis.

2. Accounting Standards that have been Issued but have Not Yet Been Adopted

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The above changes in accounting requirements which have been introduced by the 2021/22 code are not anticipated to have a material impact on the authority's financial performance or financial position.

3. Critical Judgement in Applying Accounting Policies

In applying the accounting policies set out above, the Combined Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

The Combined Authority has received a number of capital grants. A judgement has been required for each one, and although some of the grants have been ring fenced for specific purposes, not all of these have conditions in place that satisfy the requirements of the Code to treat the unspent elements of the grants as Capital Grant Receipts in Advance. Unspent capital grant funding in relation to these grants has been accounted for in the CIES and transferred to the Capital Grants Unapplied Reserve.

4. External Audit Costs

The Combined Authority has incurred the following cost in relation to the audit of the Statement of Accounts provided by the Combined Authority's external auditors, Ernst & Young LLP (EY).

2020/21 £'000	Fees Payable	2021/22 £'000
45	Fees payable with regard to external audit services carried out by the appointed auditor	118
-	PSAA audit refund	-
45		**118**

*Estimate replaced with actual costs following completion of audit.

5. Mayor's and Members' Allowances

The Mayor is the only Member of the CPCA Board who receives an allowance from the Combined Authority in relation to their position on the Combined Authority Board. The Chair of the Business Board receives an allowance for that role, and the Leaders of the constituent authorities are remunerated by their own authorities.

	Allowances		Expenses		Total	
Role	2020/21	**2021/22**	2020/21	**2021/22**	2020/21	**2021/22**
Mayor	75,000	**80,742**	1,410	**567**	76,410	81,309
Chair of the Business Board	24,000	**24,000**	**-**		24,000	24,000
Chair of Audit and Governance Committee	1,534	**1,534**	**-**		1,534	1,534

6. Officers' Remuneration

The Accounts and Audit Regulations 2015 require the disclosure of certain details relating to employees whose remuneration was £50,000 or more. Additional disclosures are required relating to the organisation's Senior Employees.

These requirements only apply to directly employed staff.

Senior Employees

Senior employees whose salary is £50,000 or more, but less than £150,000, are required to be listed individually by way of job title. Employees whose salary is £150,000 or more must also be identified by name. In this context, a senior employee is identified as follows:

- the designated head of paid service, a statutory chief officer or a non-statutory chief officer of a relevant body, as defined under the Local Government and Housing Act 1989
- any person having responsibility for the management of the relevant body, to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other

Total Remuneration including Employer Pension Contributions £000 2021/22		Pay	Pension	3rd Party Payments4	Total
Post	**Name(s) of post holders**	**£000**	**£000**	**£000**	**£000**
Chief Executive	Eileen Milner	103	19	-	**122**
Co-Chief Executive	John Hill	-	-	44	**44**
Co-Chief Executive1*	Kim Sawyer	44	8	-	**52**
Director of Corporate Resources	Kim Sawyer	67	12	-	**79**
Monitoring Officer	Robert Parkin	97	18	-	**115**
Chief Finance Officer	Jon Alsop	108	20	-	**128**
Director of Business and Skills	John T Hill	137	-	-	**137**
Director of Business and Skills	Alan Downton	9	2	-	**11**
Director of Delivery and Strategy	Paul Raynes	140	26	-	**166**
Director of Housing	Roger Thompson	140	26	-	**166**
	Total remuneration in 2021/22	**845**	**131**	**44**	**1,020**
2020/21					
Co-Chief Executive	John Hill	133	-	-	**133**
Co-Chief Executive 1*	Kim Sawyer	85	17	-	**102**
Director of Corporate Resources	Kim Sawyer	85	17	-	**102**
Monitoring Officer	Robert Parkin	87	16	-	**103**
Chief Finance Officer	Jon Alsop	100	18	-	**118**
Director of Business and Skills	John T Hill	152	-	-	**152**
Director of Delivery and Strategy	Paul Raynes	138	25	-	**163**
Director of Housing	Roger Thompson	138	25	-	**163**
	Total remuneration in 2020/21	**918**	**118**	-	**1,036**

1 -Kim Sawyer covers both the role of Director of Corporate Resources and Co-Chief Executive thus the costs are split across both budgets

Where these posts were covered by non-employees (consultants) these costs are shown here. The services of John Hill are provided under a shared services agreement with East Cambridgeshire District Council

Employee remuneration above £50,000

Including individuals shown in the senior officers table on the previous page, the number of Combined Authority staff with remuneration (comprising salary, fees, expenses, allowances and any exit package) above £50,000 is as follows:

Where these posts were covered by non-employees (consultants) these costs are shown here. The services of John Hill are provided under a shared services agreement with East Cambridgeshire District Council.

Remuneration Band *	Number of employees 2020/21	Number of employees 2021/22
£50,000-£54,999	5	5
£55,000-£59,999	3	5
£60,000-£64,999	0	3
£65,000-£69,999	4	0
£70,000-£74,999	3	3
£75,000-£79,999	2	2
£80,000-£84,999	4	3
£85,000-£89,999	1	3
£95,000-£99,999	0	1
£100,000-£104,999	1	1
£105,000-£109,999	1	1
£110,000-£114,999	0	1
£120,000-£124,999	0	1
£135,000-£139,999	2	1
£140,000-£144,999	0	2
£150,000-£154,999	1	0
£170,000-£174,999	1	0
Total	28	**32**

Exit Packages

The number of exit packages in terms of compulsory and other departures is set out in the table below, total amount paid per banding is excluded as it would allow individual packages to be identified and includes pension strain payments where applicable.

2021/22

	Number of compulsory redundancies	Number of other departures with exit packages	Total number of exit packages
£0 - £25,000	1	-	1
£50,000- £75,000	2		2
>£100,000	1	-	1
Total	**4**	**-**	**4**

2020/21

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
£0-£20,000	3	-	3
Total	**3**	**-**	**3**

Pay Multiple

The pay multiple is defined as the ratio between the highest paid taxable earnings for a given year (including base salary, variable pay, bonuses, allowances and the cash value of any benefits-in-kind) and the median earnings figure of the whole of the authority's workforce.

For 2021-22 the Combined Authority's pay ratio was 4.76 (20/21 3.58).

7. Defined Benefit Pension Scheme

Following the transfer of employment contracts held by Peterborough City Council on 1 May 2019, the Authority became an admitted body to the Local Government Pension Scheme, administered locally by Cambridgeshire County Council. The scheme assets and liabilities related to these staff transferred to the Authority on a fully funded basis. For reasons of comparability between funds the Code prescribes the use of specific rates for discounting the scheme liabilities, which are different from the locally determined ones used in the calculation of the funding position and contribution rates. Therefore, under the actuarial calculations used for the accounts the Authority's share of the scheme showed an opening net liability of £3,644k which has increased to £3,887k as at 31 March 2022. This is not a real cost to the General Fund and is not likely to be reflect the actual cost of providing benefits which will be estimated in the next funding valuation.

As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The authority participates in the Local Government Pension Scheme, administered locally by Cambridgeshire County Council – this is a funded defined benefit scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Cambridgeshire County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Fund Committee of Cambridgeshire County Council. Policy is determined in accordance with the Pensions Fund Regulations. The Fund invests the contributions in accordance with the Investment Strategy Statement which manages risks with diversification of asset classes, geography and asset managers. (https://pensions.cambridgeshire.gov.uk/governance/key-documents/cambridgeshire /Investment Strategy Statement - Word).

Other principal risks to the authority of the scheme are the demographic risks, statutory changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the general fund the amounts required by statute as described in the accounting policies note.

Transactions relating to post-employment benefits

The cost of retirement benefits in the reported cost of services is recognised when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge that is required to be made against the General Fund is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the general fund via the movement in reserves statement.

The following transactions have been made in the comprehensive income and expenditure statement and the general fund balance via the movement in reserves statement during the year.

2020/21 £'000	Comprehensive Income and Expenditure Statement	2021/22 £'000
	Cost of service	
1,175	Current service costs	2,235
-	Past service costs	-
-	(Gain) Loss from Settlements	-
	Financing and Investment Income & Expenditure	
118	Interest costs	196
(77)	Interest income on plan assets	(107)
1,216	**Total Post Employment Benefit Charged to the Surplus or Deficit on the provision of Services**	**2,324**
	Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement	
-	Recognition of net Defined Benefit Liability on transfer on IAS19 basis	-
(700)	Return on Plan Assets (excluding amounts included in net interest)	(312)
106	Actuarial (Gains)/Losses Arising on Changes in Demographic Assumptions	(51)
2,186	Actuarial (Gains)/Losses Arising on Changes in Financial Assumptions	(940)
4	Difference between actual employers' contributions and estimate in Actuary’s report	-
(54)	Other	25
2,758	**Total Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement**	**1,046**
	Movement in Reserves Statement	
(2,758)	Reversal of net changes made to the Surplus or Deficit for the provision of Services for post-employment benefits in accordance with the Code	(1,046)
	Actual amount charged against the General Fund and HRA Balance for pensions in the year	
668	Employer's contributions payable to the scheme	820
(2,090)	**Retirement benefits payable to pensioners**	(226)

Pension assets and liabilities recognised in the balance sheet

The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

2020/21 £'000	Pension Assets & Liabilities Recognised in the Balance Sheet	2021/22 £'000
(8,251)	Present value of the defined benefit obligation	(10,093)
4,607	Fair Value of Plan Assets	6,223
(3,644)	**Closing fair value of scheme assets**	**(3,870)**

Reconciliation of the movements in the fair value of scheme (plan) assets

2020/21 £'000	Reconciliation of the Movements in the Fair Value of the Scheme (plan) Assets	2021/22 £'000
2,850	Opening Fair Value of Scheme Assets	4,607
77	Interest Income	107
	Remeasurement Gain/(Loss)	
700	Return on Plan Assets, excluding amounts included in the net interest expense	312
668	Contributions from employer	820
(4)	Difference between actual employers' contributions and estimate in Actuary's report	-
318	Contributions from employees into the scheme	380
(2)	Benefits Paid	(3)
4,607	**Closing fair value of scheme assets**	**6,223**

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

2020/21 £'000	Reconciliation of Present Value of the Scheme Liabilities (defined benefit obligation)	2021/22 £'000
4,404	Opening balance	8,251
1,175	Current Service Cost	2,235
118	Interest Cost	196
318	Contributions from Scheme Participants	380
	Remeasurement (Gains) & Losses	-
106	Actuarial (Gains)/Losses Arising from Changes in Demographic Assumptions	(51)
2,186	Actuarial (Gains)/Losses Arising from Changes in Financial Assumptions	(940)
(54)	Other	25
-	Past Service Cost	-
(2)	Benefits Paid	(3)
8,251	**Net Pension Liability**	**10,093**

Local Government Pension Scheme assets comprised

Period Ended 31 March 2021					Period Ended 31 March 2022			
Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total	Percent of Total Assets	Asset Category	Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total	Percent of Total Assets
£'000	£'000	£'000	%		£'000	£'000	£'000	%
				Debt Securities				
-	206	206	4.0%	UK Government	-	305	305	5.0%
				Private Equity				
-	347	347	8.0%	All	-	664	664	11.0%
				Real Estate				
-	283	283	6.0%	UK Property	-	437	437	7.0%
			0.0%	**Overseas Property**				0.0%
				Investment Funds & Unit Trusts				
-	2,767	2,767	60.0%	Equities	-	3,588	3,588	58.0%
-	535	535	12.0%	**Bonds**	-	662	662	11.0%
-	417	417	9.0%	Infrastructure	-	495	495	8.0%
-	3,719	3,719	81.0%	**Total Investment Funds & Unit Trusts**	-	4,745	4,745	77.0%
				Derivatives				
-	(19)	(19)	0.0%	**Other**	-	13	13	0.0%
				Cash & Cash Equivalents				
71	-	71	2.0%	All	60	-	60	0.0%
					-	-	-	0.0%
71	**4,536**	**4,607**	**100%**	**Totals**	**60**	**6,163**	**6,223**	**100%**

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The Local Government Pension Scheme liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries, estimates for the county council fund being based on the latest full valuation of the scheme as at 31 March 2019.

The significant assumptions used by the actuary have been:

31-Mar-21	Basis for Estimating Assets & Liabilities	31-Mar-22
	Mortality Assumptions:	
	Longevity at 65 for current pensioners:	
22.2 years	Men	22 years
24.4 years	Women	24.2 years
	Longevity at 65 for future pensioners:	
23.2 years	Men	22.9 years
26.2 years	Women	26 years
	Financial Assumptions	
2.80%	Rate of inflation	3.15%
3.30%	Rate of increase in salaries	3.65%
2.80%	Rate of increase in pensions	3.15%
2%	Rate for discounting scheme liabilities	3%
25%	Take-up of option to convert annual pension into retirement lump sum for Pre-April 2008 service	25%
64%	Take-up of option to convert annual pension into retirement lump sum for Post-April 2008 service	64%

The liabilities include an estimated allowance with respect to the McCloud judgement which relates to transitional protection given to some scheme members with respect to changes in the scheme which the Court of Appeal ruled was unlawful discrimination.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method.

Change in assumptions at year ended 31 March 2022	Approximate % increase to Employer Liability	Approximate monetary amount increase (£'000)
0.1% decrease in Real Discount Rate	3%	256
1 Year Increase in member life expectancy	4%	404
0.1% increase in salary increase rate	0%	25
0.1% increase in pension increase rate (CPI)	2%	229

Impact on the authority's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The county council has agreed a strategy with the scheme's actuary to achieve a 70% likelihood of a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2022.

The authority anticipated to pay £819k expected contributions to the scheme in 2022/23 (£664k 21/22).

8. Other Operating Income and Expenditure

2020/21 £'000		2021/22 £'000
94	(Gains)/losses on the disposal of non-current assets	-
94	**Total**	**-**

9. Financing and Investment Income and Expenditure

2020/21 £'000	Financing and Investment Income	2021/22 CPCA £'000
(809)	Interest Receivable	(486)
41	IAS 19 - Pension Interest & Return on Assets	89
4,388	Loss in Fair Value of Investments held at Fair Value Profit and Loss	3,356
-	Share of Loss of Prop Co 1	
3,620	**Total**	**2,959**

10. Non Specific Grant Income

2020/21 £'000		2021/22 £'000
	Grants, Contributions credited to Taxation and Non Specific Grant Income	
	Non -Specific Government Grants	
(8,000)	Gain Share - Revenue	(8,000)
(1,559)	Other - Non -Specific Government Grants	(3,496)
(9,559)	Total Non-Specific Grants	(11,496)
	Capital Grants & Contributions	
(11,979)	Gain Share - Capital	(13,041)
(4,535)	Growth Deal	(11,595)
(114)	Other - Capital Grants & Contributions	-
(16,628)	Total Capital Grants & Contributions	(24,636)
(26,187)	**Total Taxation and Non Specific Grant Income**	**(36,131)**

11. Related Parties

The Combined Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Combined Authority or to be controlled or influenced by the Combined Authority.

Central Government

The UK Central Government has significant influence over the general operations of the Combined Authority, it is responsible for providing the statutory framework, within which the Combined Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Combined Authority has with other parties.

The funds received from the Central Government in year were as follows;

2020/21 £'000		2021/22 £'000
(9,040)	DLUHC - revenue grants	(9,000)
(12,000)	DLUHC - capital grants	(12,000)
(61,691)	DfT - capital grants	(30,144)
(2,030)	DfT - revenue grants	(1,612)
(1,266)	BEIS - revenue grants	(7,110)
(122,388)	BEIS - capital grants	(118,389)
-	DWP - career and pay progression	(213)
(13,283)	DfE revenue grants	(365)
(221,698)	**Total Income**	**(178,832)**

Cambridgeshire and Peterborough Constituent Councils

The Leaders of the district councils, county council and unitary authority also serve as members of the Combined Authority.

The period's transactions, and period end balances were as follows;

2020/21 £'000		2021/22 £'000
	Expenditure	
	Expenditure with councils	
4,133	Cambridgeshire City Council	9,855
37,451	Cambridgeshire County Council	42,581
290	East Cambridgeshire District Council	1,529
1,499	Fenland District Council	2,784
185	Huntingdonshire District Council	1,740
14,254	Peterborough City Council	9,652
(226)	South Cambridgeshire District Council	-
57,586	**Total**	**68,142**
	Creditors	
	General Creditors with councils	
(9,100)	Cambridgeshire City Council	-
(4,053)	Cambridgeshire County Council	(1,663)
(18)	East Cambridgeshire District Council	(183)
878	Fenland District Council	(1,557)
(51)	Huntingdonshire District Council	(634)
(216)	Peterborough City Council	(589)
-	South Cambridgeshire District Council	(1,267)
(12,560)	**Total**	**(5,893)**

Group Companies

During the year the Combined Authority incurred spend on behalf of group companies and recharged them for services. The Combined Authority paid Cambridgeshire and Peterborough Business Growth Company Limited for services provided on its behalf. All amounts below were outstanding at 31 March 2022.

	Due from CPCA 2021/22 £'000	Due to CPCA 2021/22 £'000
Peterborough HE Property Company Limited	(6,072)	108
Cambridgeshire and Peterborough Business Growth Company Limited	(3,402)	1,928
One Cam Limited	-	-
Peterborough R&D Property Company Limited	(8,423)	738
Angle Developments Limited	-	28
Angle Holdings	-	3

Members

The Members of the Combined Authority have direct control over the Combined Authority's financial and operating policies.

The following companies related to Combined Authority Board and Business Board members have received grants, payments for services or investment (Start Codon) during 2021/22.

2020/21 £'000	Company	Reason for Funding	Related Party	2021/22 £'000
1,470	Cross Keys Homes	Grants for affordable housing	Cllr Holdich / Cllr Fitzgerald	(2,028)
2,281	City College Peterborough	Adult Education provision and the Health and Social Care Work Academy project	Cllr Holdich	-
181	Stainless Metalcraft	Local Growth Fund project – Advanced Manufacturing Centre	Austen Adams	(2,391)
3,358	NIAB	Local Growth Fund projects – Agri-Tech Start-up Incubator and Agri-gate Hasse Fen extension Eastern Agri-tech programme project	Tina Barsby	(313)
3,000	University of Cambridge	Local Growth Fund project – West Cambs Innovation Park	Professor Andy Neely	-
115	Cambridgeshire Chambers of Commerce	Payment for support services in administering grant programmes	Faye Holland	-
1,230	TWI Ltd	Local Growth Fund project – Ecosystem Innovation Centre	Aamir Khalid	-
890	Start Codon Ltd	Local Growth Fund project – Life Sciences Accelerator	Jason Mellad	(635)

Officers

The senior officers of the Combined Authority may have direct control over the Combined Authority's financial and operating policies.

John Hill is a director of East Cambs Trading Company Limited which the Combined Authority has provided loans to, see note 28.

12. Expenditure and Income Analysed by Nature

2020/21 £'000	Expenditure and Income Analysed by Nature	2021/22 £'000
	Expenditure	
6,708	Employee Expenses - Contracts held by CPCA	8,805
109,943	Capital Grants made treated as REFCUS	86,400
37	Depreciation	38
39,880	Other Service Expenses	47,829
156,568	**Total Expenditure**	**143,072**
	Income	
(1,447)	Interest & Investment Income	(1,853)
(130,062)	Government Grants & Contributions	(117,161)
(8,136)	Other Income	(6,652)
(139,645)	**Total Income**	**(125,665)**
16,923	**Surplus/Deficit on the Provision of Services**	**17,406**

13. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (e.g., government grants) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Combined Authority's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

2020/21				2021/22		
Exp Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net exp in the CIES		Exp Chargeable to the General Fund	Adjustments between accounting basis & funding basis under regulations	Net exp in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
3,539	595	4,134	Combined Authority Staffing Costs	4,263	1,332	5,595
317	-	317	Externally Commissioned Support Services	477	-	477
500	131	631	Corporate Overheads	476	23	499
49	-	49	Governance Costs	42	-	42
421	37	458	Mayor´s Office	375	27	402
216	-	216	Other Corporate Budgets	135	-	135
411	1	412	Business and Skills	965	-	965
				478	10,381	10,858
8,386	1,744	10,130	Strategy and Delivery	13,168	920	14,087
539	22,510	23,049	Housing	(685)	18,204	17,519
14,378	**25,018**	**39,396**	**Net Cost of Services**	**19,691**	**30,887**	**50,578**
(11,591)	(10,882)	(22,473)	Other Operational Expenditure	-	-	-
-	-	-	Financing & Investment Income and Expenditure	(486)	3,445	2,959
-	-	-	Taxation and Non-Specific Grant Income	(22,568)	(13,564)	(36,131)
2,787	**14,136**	**16,923**	**(Surplus) / Deficit on Provision of Services**	**(3,362)**	**20,769**	**17,406**
		(17,037)	**Opening General Fund balance**	**(14,250)**		
		2,787	Less/plus (surplus) or deficit on HRA	(3,362)		
		(14,250)	**Closing General Fund**	**(17,612)**		

Adjustments between funding and accounting basis:

2020/21 Adjustments for Capital Purposes1 £'000	2020/21 Net Change for Pensions Adjustments2 £'000	2020/21 Other Differences3 £'000	2020/21 Total Adjustments £'000		2021/22 Adjustments for Capital Purposes1 £'000	2021/22 Net Change for Pensions Adjustments2 £'000	2021/22 Other Differences3 £'000	2021/22 Total Adjustments £'000
-	483	112	595	Combined Authority Staffing Costs	-	(1,376)	44	(1,332)
-	-	-	-	Externally Commissioned Support Services	-	-	-	-
131	-	-	131	Corporate Overheads	(38)	-	14	(23)
-	-	-	-	Governance Costs	-	-	-	-
-	24	13	37	Mayor´s Office	-	(40)	13	(27)
-	-	-	-	Other Corporate Budgets	-	-	-	-
1	-	-	1	Business and Skills	(10,395)	-	14	(10,381)
1,744	-	-	1,744	Strategy and Delivery	(1,085)	-	166	(920)
22,510	-	-	22,510	Housing	(18,509)	-	305	(18,204)
24,386	**507**	**125**	**25,018**	**Net Cost of Services**	**(30,027)**	**(1,416)**	**556**	**(30,887)**
(10,908)	41	(15)	(10,882)	Other Operational Expenditure	-	-	-	-
-	-	-	-	Financing & Investment Income and Expenditure	(3,356)	(89)	-	(3,445)
-	-	-	-	Taxation and Non-Specific Grant Income	13,564	-	-	13,564
13,478	**548**	**110**	**14,136**	**Difference between general fund surplus or deficit and CIES surplus or deficit on the provision of services**	**(19,819)**	**(1,505)**	**556**	**(20,769)**

1. Adjustments for Capital Purposes:

- for service lines this column adds in depreciation, Revenue Expenditure Funded by Capital Under Statute and associated grant funding and the expected credit losses on capital loans
- the other income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year and adjusted for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets

2. Net change for the pension adjustments:

- for service lines this represents the removal of the employer pension contributions made by the Combined authority as allowed by statute and the replacement with current service costs and past service costs
- for other income and expenditure – the net interest on the defined benefit liability is charged to the CIES

3 Other Statutory adjustments:

- for service lines this represent the removal of short term accumulated absences
- for other income and expenditure this column recognises adjustments to the general fund for the timing differences for premiums and discounts

14. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement (CIES) recognised by the Combined Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Combined Authority to meet future capital and revenue expenditure.

General Fund Balance - is the statutory fund into which all the receipts of the Combined Authority are required to be paid, and out of which all liabilities of the Combined Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Combined Authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Combined Authority is required to recover) at the end of the financial year.

Capital Receipts Reserve – holds the proceeds from the disposal of land or other assets and repayment of loans and continues to be restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure.

Capital Grants Unapplied Account – holds the grants and contributions received towards capital projects for which the Combined Authority has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is not restricted by grant terms as to the capital expenditure against which it can be applied and / or the financial year in which this can take place.

Usable Reserves are those reserves that can be applied to fund expenditure. The Capital Grants Unapplied Account can only be used to finance the Capital Programme and the General Fund is used by the Combined Authority to maintain a prudent level of reserves.

Unusable Reserves are those reserves that absorb the timing differences arising from different accounting arrangements

2021/22 Adjustments between Accounting Basis and Funding Basis Under regulations	General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves
	Usable Reserves				
	£000	**£000**	**£000**	**£000**	**£000**
Depreciation & impairment of non-current assets	(38)			**(38)**	**38**
Capital grants and contributions	67,905			**67,905**	**(67,905)**
Reversal of Expected credit loss on capital loans	485			**485**	**(485)**
Revenue expenditure funded from capital under statute	(88,702)			**(88,702)**	**88,702**
Loss for Interest foregone on capital loan	76			**76**	**(76)**
Loss in Fair Value of capital investments	(3,356)			**(3,356)**	**3,356**
Reversal of asset derecognition	-			**-**	**-**
Reversal of proceeds from asset disposal	-			**-**	**-**
Adjustments involving the Capital Grants Unapplied Account (CGU)					
Capital grants & contributions unapplied from the CIES	4,295		(4,295)	**-**	**-**
Application of grants to capital financing transferred to the Capital Adjustment Account	-		34,755	**34,755**	**(34,755)**
Adjustments involving the Capital Receipts Reserve (CRR):					
Redemption of Financial Assets (Loans)	-	(14,887)		**(14,887)**	**14,887**
Application of capital receipts to capital financing transferred to the Capital Adjustment Account	-	14,934		**14,934**	**(14,934)**
Adjustments involving the Pension Reserve					
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement	(1,505)			**(1,505)**	**1,505**
Adjustments involving the Accumulated Absences Adjustment Account					
Adjustments for Short term absences	56			**56**	**(56)**
Adjustments involving the Financial Instruments Adjustment Account:					
Amounts by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements.	14			**14**	**(14)**
TOTAL ADJUSTMENTS	(20,769)	47	30,460	9,738	(9,738)

2020/21 Adjustments between Accounting Basis and Funding Basis Under regulations	General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves
	Usable Reserves				
	£000	£000	£000	£000	£000
Depreciation & impairment of non-current assets	(37)			**(37)**	**37**
Capital grants and contributions	89,400			**89,400**	**(89,400)**
Reversal of Expected credit loss on capital loans	18			**18**	**(18)**
Revenue expenditure funded from capital under statute	(109,943)			**(109,943)**	**109,943**
Loss for Interest foregone on capital loan	(76)			**(76)**	**76**
Loss in Fair Value of capital investments	(4,342)			**(4,342)**	**4,342**
Reversal of asset derecognition	(455)			**(455)**	**455**
Reversal of proceeds from asset disposal	361			**361**	**(361)**
Adjustments involving the Capital Grants Unapplied Account (CGU)					
Capital grants & contributions unapplied from the CIES	11,596		(11,596)	**-**	**-**
Application of grants to capital financing transferred to the Capital Adjustment Account			57,563	**57,563**	**(57,563)**
Adjustments involving the Capital Receipts Reserve (CRR):					
Redemption of Financial Assets (Loans)		(3,171)		**(3,171)**	**3,171**
Application of capital receipts to capital financing transferred to the Capital Adjustment Account		4,958		**4,958**	**(4,958)**
Adjustments involving the Pension Reserve					
Reversal of items relating to retirement benefits debited or credited to the CI&E Statement (see also note 7)	(548)			**(548)**	**548**
Adjustments involving the Accumulated Absences Adjustment Account					
Adjustments for Short term absences	(125)			**(125)**	**125**
Adjustments involving the Financial Instruments Adjustment Account:					
Amounts by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements.	15			**15**	**(15)**
TOTAL ADJUSTMENTS	(14,136)	1,787	45,967	33,618	(33,618)

Summary of Usable and Unusable Reserves

The table below shows the movement on each reserve to give total balances as at 31 March for usable and unusable reserves.

01-Apr-20	Movement	31-Mar-21		01-Apr-21	Movement	31-Mar-22
£'000	**£'000**	**£'000**		£'000	**£'000**	**£'000**
(13,936)	6,134	(7,802)	General Fund Balance	(7,802)	(1,815)	(9,617)
(3,101)	(3,347)	(6,448)	Earmarked General Fund Reserves	(6,448)	(1,548)	(7,996)
(11,008)	1,787	(9,221)	Usable Capital Receipts Reserve	(9,221)	47	(9,174)
(104,892)	45,967	(58,925)	Capital Grants Unapplied Account	(58,925)	30,460	(28,465)
(132,937)	**50,541**	**(82,396)**	**Total Usable Reserves**	**(82,396)**	**27,144**	**(55,252)**
(39,582)	(34,276)	(73,858)	Capital Adjustment Account	(73,858)	(11,172)	(85,030)
44	(15)	29	Financial Instruments Adjustment Account	29	(14)	15
208	57	265	Financial Instruments Revaluation Reserve	265	-	265
-	125	125	Accumulated Absences Account	125	(56)	69
1,554	2,090	3,644	Pensions Fund Reserve	3,644	226	3,870
(37,776)	**(32,019)**	**(69,795)**	**Total Unusable Reserves**	**(69,795)**	**(11,017)**	**(80,812)**
(170,713)	**18,522**	**(152,191)**	**Total Usable and Unusable Reserves**	**(152,191)**	**16,127**	**(136,064)**

15. Earmarked Reserves

This note sets out the amounts set aside from the General Fund Balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

Earmarked Reserve:	01-Apr-2021	Transfer Out	Transfer In	31-Mar-2022	Movement	Purpose of the Earmarked Reserve
	£'000	£'000	£'000	£'000	£'000	
Revenue Reserve	1,000			**1,000**	**-**	This reserve provides a working balance to cover risks to the revenue budget.
Elections Costs Reserve	780	(780)		**-**	**(780)**	This reserve smooths the impact on the revenue budget of the Mayoral elections which take place every four years.
AEB Reserve	1,848		759	**2,607**	**759**	This reserve holds the balance of adult education budget funding to maintain a locally determined ringfence between financial years.
Business Board Strategic Revenue Reserves	728		588	**1,316**	**588**	This reserve holds un-ringfenced revenue funds which are received by the Combined Authority as the Accountable Body for the Business Board.
Departmental Reserves	2,092	(434)	1,415	**3,073**	**981**	These represent unspent grant funding and other income which does not require repayment, but is earmarked for projects in future years.
Total Earmarked Reserves	**6,448**	**(1,214)**	**2,762**	**7,996**	**1,548**	

16. Capital Grants Unapplied Reserve

Capital Grants Unapplied Reserve	01-Apr-2021	Transfer Out	Transfer In	31-Mar-2022
	£'000	£'000	£'000	£'000
Gain Share - Capital	-			**-**
Housing Grant - General	55,296	(31,126)	4,295	**28,465**
Housing Grant - Cambridge	3,629	(3,629)		**-**
Local Growth Fund	-			**-**
Total Earmarked Reserves	**58,925**	**(34,755)**	**4,295**	**28,465**

In March 2022 the Secretary of State for the Ministry of Housing, Communities and Local Government transferred responsibility for delivering the Affordable Housing programme within Cambridge City to Cambridge City Council, as such the remaining balance of the "Housing Grant -Cambridge" was paid across to the City Council to support their delivery.

17. Capital Adjustment Account

2020/21 £'000	Capital Adjustment Account	2021/22 £'000
(39,582)	**Balance as at 1 April**	(73,858)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement	
(89,400)	Capital Grants & Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to Capital Financing	(67,905)
109,943	Revenue Expenditure Funded from Capital under Statute	88,702
3,171	Redemption of financial assets (loans)	14,887
(4,958)	transfer from usable capital receipts	(14,934)
37	charges for depreciation	38
455	Asset derecognition	-
(361)	Proceeds from asset disposal	-
76	Loss for Interest foregone on capital loan	(76)
4,342	Loss in Fair Value of capital investments	3,356
(18)	charges for expected credit loss relating to capital loans	(485)
(4,267)	Application of grants to finance capital loans from the Capital Grants Unapplied Accounts	(10,264)
(53,296)	Application of Grants to Capital Financing from the Capital Grants Unapplied Account	(24,491)
(73,858)	**Balance as at 31 March**	**(85,031)**

18. Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

2020/21 £'000		2021/22 £'000
44	**Balance as at 1 April**	**29**
(15)	Amounts arising from timing differences associated with certain financial instruments	(14)
29	**Balance as at 31 March**	**15**

19. Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains and losses made by the Combined Authority arising from changes in the value of its investments that are measured at fair value through other comprehensive income.

2020/21 £'000		2021/22 £'000
208	**Balance as at 1 April**	**265**
57	Amounts arising from timing differences associated with certain financial instruments	-
265	**Balance as at 31 March**	**265**

20. Accumulated Absences Account

The accumulated absences account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year, e.g., annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the account.

2020/21 £'000		2021/22 £'000
-	**Balance as at 1 April**	**125**
125	Amounts Accrued at the end of the current year	(56)
125	**Balance as at 31 March**	**69**

21. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Combined Authority accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Combined Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Combined Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2020/21 £'000		2021/22 £'000
1,554	**Balance as at 1 April**	**3,644**
-	Recognition of net Defined Benefit Liability on transfer in IAS19 basis	
1,542	Remeasurements of the net defined benefit liability	(1,278)
1,216	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement	2,324
(668)	Employer's pensions contributions and direct payments to pensioners payable in the year	(820)
3,644	**Balance as at 31 March**	**3,870**

22. Property, Plant and Equipment

Movement in 2021/22	CPCA Vehicle, Plant, furniture & equipment	CPCA Assets under construction	CPCA Total Property, Plant & Equipment
Cost or Valuation	£'000	£'000	£'000
At 1 April 2021	**159**	**-**	**159**
Additions	30		30
Disposals			-
At 31 March 2022	**189**	**-**	**189**
Accumulated Depreciation & Impairment			
At 1 April 2021	**(79)**	**-**	**(79)**
Depreciation Charge	(38)		(38)
Disposals			-
At 31 March 2022	**(117)**	**-**	**(117)**
Net Book Value			
At 31 March 2022	**72**	**-**	**72**
At 1 April 2021	**80**	**-**	**80**

23. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table, together with the resources that have been used to finance the expenditure.

2020/21 £'000		2021/22 £'000
-	**Opening Capital Financing Requirement**	**-**
	Capital Investment	
109,943	Revenue Expenditure Funded from Capital Under Statute	88,701
28	Property Plant and Equipment	30
34,282	Equity Instruments	18,073
8,029	Capital loans	10,265
	Sources of Finance	
(5,319)	Usable Capital receipts	(14,934)
(57,563)	Capital grants unapplied	(54,658)
(89,400)	Capital Grants & Contributions	(47,478)
-	**Closing Capital Financing Requirement**	**-**

24. Combined Authority Leasing Arrangements

Combined Authority as Lessee - Operating Leases

The Combined Authority's only material operating lease was for the office in Alconbury. The lease was surrendered during 2020/21.

25. Financial Instruments

Under IFRS 9 the financial assets on the Balance Sheet are now classified by one of the following categories in the table below:

- Amortised Cost
- Fair Value through the Income and Expenditure (FVOCI)
- Fair Value through the Profit and Loss (FVPL)

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2020/21 £000		2021/22 £000
(794)	Interest Income - Treasury Management	(472)
(803)	Interest Income - Service Loans	(1,382)
150	Reduction in carrying amount of Service Loans due to interest foregone	-
(18)	movement in expected credit loss allowances	(485)
4,389	loss from changes in Fair Value (FVPL assets)	-
2,924	**Net impact on surplus/deficit on provision of services**	**(2,338)**
57	loss from changes in Fair Value (FVOCI assets)	-
57	**Impact on Other Comprehensive income**	**-**
2,981	**Net (gain)/loss for the year**	**(2,338)**

The following categories of financial instrument are carried in the Balance Sheet:

31-Mar-21			31-Mar-22	
Long Assets £000	**Current Assets £000**		**Long Term Assets £000**	**Current Assets £000**
		Assets at Amortised Cost:		
10,000	**138,100**	Investments - Amortised Cost	**10,000**	**155,115**
-	83,697	Cash & Cash Equivalents	-	149,886
22,469	**21,308**	Debtors - Service Loans	**3,819**	**35,974**
-	**10,760**	Debtors - Other	**-**	**9,278**
		Assets at Fair Value:	-	-
30,984	-	Investments at Fair Value Profit and Loss	46,351	-
75	**-**	Medtech Shares - Designated FVOCI	**60**	**-**
63,528	**253,865**	**Total Financial Assets**	**60,229**	**350,254**
		Liabilities at Amortised Cost:		
-	**(52,398)**	Creditors	**-**	**(45,292)**
-	**(52,398)**	**Total Financial Liabilities**	**-**	**(45,292)**

26. Fair Value of Financial Assets and Financial Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost.

Their fair value has been assessed by calculating the net present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- The fair values of other long-term investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March
- Service loans have been discounted using a rate with an equivalent margin over current base rate to that at the time the loan was agreed
- no early repayment is recognised
- where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.
- For equity and equity type investments, the fair value has been assumed as the Combined Authority’s share of shareholders funds as at 31 March 2022, except for investments in Start Codon where the fund valuation has been used and Illumina investments where an estimate has been made of the value to be received under the agreements.

With the introduction of IFRS 9 the authority has designated the Medtech shares at 31 March 2020 as fair value through other comprehensive income. This is because the shares are not held for trading or income generation, rather a longer-term policy initiative.

The Fair Values calculated are as follows:

31-Mar-21			31-Mar-22		
Carrying Amount	Fair Value		Fair Value Level	Carrying Amount	Fair Value
£000	£000			£000	£000
		Assets at Amortised Cost:			
10,000	**10,053**	LT Investments - Amortised Cost	**2**	**10,000**	**10,107**
43,777	**43,965**	Debtors - Service Loans	**2**	**39,792**	**40,917**
		Assets at Fair Value:			
30,984	**30,984**	Investments at Fair Value Profit and Loss	**3**	**46,351**	**46,351**
75	**75**	Medtech Shares - Designated FVOCI	**3**	**60**	**60**
84,836	**85,077**	**Total**		**96,203**	**97,435**
		Assets for which Fair Value is not disclosed:			
138,100	-	ST Investments - Amortised Cost		155,115	-
83,697	-	Cash & Cash Equivalents		149,886	-
10,760	**-**	Debtors - Other		**9,278**	**-**
317,393		**Total Financial Assets**		**314,280**	**-**
		Liabilities for which Fair Value is not disclosed:			
(52,398)	**(52,398)**	Creditors		**(45,292)**	**(45,292)**
(52,398)	**(52,398)**	**Total Financial Liabilities**		**(45,292)**	**(45,292)**

27. Nature and Extent of Risks Arising from Financial Instruments

The Combined Authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Combined Authority
- Liquidity risk – the possibility that the Combined Authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the Combined Authority as a result of changes in such measures as interest rates and money market movements

The Combined Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Finance team, under policies approved annually by the Combined Authority in the Treasury Management Strategy. The Combined Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

The Combined Authority manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice.

A limit of £25m of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £15m applies. The Combined Authority also sets limits on investments in certain sectors.

Combined Authority had a total of £308.1m deposited with the Debt Management Office (DMO), other local authorities, UK banks and MMFs at 31 March 2022. As the DMO is within the scope of HM Treasury this reduces the overall credit risk. There is a specific risk attached to amounts deposited with the individual institutions based on their ability to make interest payments and repay the principal outstanding, it is however more difficult to assess the risk in general terms. Recent experience has shown that it is rare for such entities to not meet their commitments. Whilst there is a risk of recoverability with regard to these deposits, there was no evidence that this was likely at 31 March 2022 and no Expected Credit Loss allowances have been made on treasury investments. We are in constant communication with our treasury advisors to update our position in accordance with their advice on managing emerging risks.

Liquidity Risk

The Combined Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. In the unlikely event that unexpected movements happen, the Combined Authority has ready access to borrowings from the Public Works Loans Board (PWLB), other local authorities at favourable rates and the money market generally. There is no significant risk that it will be unable to raise finance to meet its commitments.

Market risks:

Interest rate risk

The Combined Authority is exposed to risk in terms of its exposure to interest rate movements on its and investments. Movements in interest rates have a complex impact on the Combined Authority. For instance, a rise in interest rates would have the following effects:

- investments at fixed rates – the fair value of the assets will fall
- investments at variable rates – the interest income credited to the (Surplus) / Deficit on the Provision of Services will rise

The Finance Team assesses interest rate exposure which feeds into the setting of the annual budget and is used to update the forecasts during the period. This allows any adverse changes to be accommodated.

Price Risk

The Combined Authority holds shares in several companies for service delivery purposes, which are not publicly traded. For most of these companies, the value in the accounts is based on the shareholder funds held on the 31st March 2022, rather than a market share value, as such for these companies, we do not consider there to be exposure to losses arising from movements in the traded price of shares. During 20/21 the Combined Authority invested Local Growth Funds in the Start Codon and Illumina projects which provide funding and support to local start-up companies across the Biomedical, healthcare technology and life sciences sectors. The value of the funds invested are exposed to the changes in the companies' values, however this risk is acceptably tolerated as no reliance has been placed on these funds for future service delivery, thus any losses would not have an effect on the wider financial sustainability of the Combined Authority.

Foreign Exchange Risk

The Combined Authority has no liabilities denominated in foreign currencies and thus there is no material risk arising from movements in exchange rates.

28. Debtors

31-Mar-21 CPCA £'000	Short Term Debtors	31-Mar-22 CPCA £'000
1,620	Central government bodies	2,187
993	Other local authorities	4,264
21,772	Other entities and individuals	35,995
7,635	Group Companies	2,806
6,991	Prepayments	6,612
39,011	**Total Short-Term Debtors**	**51,864**

31-Mar-21 CPCA £'000	Long Term Debtors	31-Mar-22 CPCA £'000
21,868	Other entities and individuals	3,819
601	Other local authorities	-
22,469	**Total**	**3,819**

Other entities and individuals include loans of £20.3m to East Cambs Trading Company, £13.4m to other housing developers, and £5.8m Growth Fund loans which are split across both short- and long-term debtors (20/201 £24m ECTC, £14m other housing and £5.8m of Growth Fund Loans).

29. Creditors

31-Mar-21 £'000	Short Term Creditors	31-Mar-22 CPCA £'000
	Creditors:	
(9,327)	Central government bodies	(12,737)
(19,625)	Other local authorities	(7,320)
(8,335)	Other entities and individuals	(19,270)
(22,985)	Group Companies	(17,896)
(60,272)	**Total Short-Term Creditors**	(57,223)

30. Provisions

The Combined Authority has an outstanding matter in relation to pension obligations relating to the transfer of ex-GCGP LEP staff to the Combined Authority in April 2018. The Combined Authority is working with the pension fund providers to confirm the nature and timing of the obligation and of the quantum of any liability attached to this obligation. The total potential liability is estimated at £226k. Exit cost provision for the FY 2021/22 is £319k.

31. Capital Grants Receipts in Advance

The Combined Authority has received a number of capital grants that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the funding body if not met. The balances at the year-end are as follows:

31-Mar-21 £'000	Capital Grants Receipts in Advance	31-Mar-22 £'000
(25,772)	Transforming Cities Fund	(39,641)
-	Local Transport Grant	(5,849)
(3,075)	Pothole and Flood Resistance	-
(79,236)	Green Homes LAD 2 Energy Grant	(53,684)
	DfT A10 Dualling and Junctions Grant	(1,993)
	BEIS Sustainable Warmth LAD3 Grant	(118,296)
(108,083)	**Total Capital Grants Received in Advance**	**(219,463)**

32. Cash Flow Statement – Investing Activities

Short Term Investments are sums invested with a maturity of greater than three months but less than 12 months at the balance sheet date. Sums invested with a maturity of less than three months at the balance sheet date are classified as Cash and Cash Equivalents, see note 32

Operating Activities

2020/21 £'000	Adjustments to Net Surplus or Deficit on the provision of services for Non-Cash Movements	2021/22 £'000
(37)	Depreciation of Non-Current Assets	(37)
(455)	Assets de-recognised during year	-
12,577	Increase/(Decrease) in debtors	(9,782)
(38,865)	(Increase)/Decrease in creditors	3,048
(226)	(Increase)/Decrease in provisions	(320)
(548)	Pension Fund costs adjustment	(1,504)
(93,705)	Capital Grants Received in Advance	(111,379)
58	Other Non-cash items	-
(121,201)	**Net cash (inflow)/outflow from operating activities**	**(119,974)**

Investing Activities

2020/21 £'000	Cash Flow Statement – Investing Activities	2021/22 £'000
98,327	Purchase of Short & Long-Term Investments	32,367
27	Purchase of Property, Plant & Equipment	30
	Cash advanced for capital loans	
2,792	Proceeds from loan repayments	3,984
101,146	**Net cash flows from investing activities**	**36,381**

33. Cash Flow Statement – Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is shown in the following table.

2020/21 £'000	Cash and Cash Equivalents	2021/22 £'000
83,131	Short Term Cash Investments	143,141
566	Bank Accounts	6,745
83,697	**Total Cash & Cash Equivalents**	**149,886**

Group Accounts

Introduction

In order to provide a full picture of the economic and financial activities of the Authority and its exposure to risk the accounting statement of a material subsidiary are consolidated with the Authority's accounts. They include the core accounting statements (movement in reserves statement. comprehensive income and expenditure statement, balance sheet and cash flow statement) presented in a similar manner to the Authority's accounts. Further explanatory notes are given and these should be read in conjunction with the Authority's (single entity) accounts.

Group accounts has been prepared under the requirement of the Code of Practice on Local Authority Accounting, consolidating and material subsidiary, associate or joint venture entities which the Authority exercises control or influence (See also Note 1 –Accounting Policies).

Accounting Policies

The Authority has reviewed the accounting policies applied to subsidiaries companies and has concluded that there are no material adjustments required to align accounting policies of both entities. As a subsidiary, the accounts have been consolidated with those of the Authority on a line by line basis and any balances and/or transactions between the parties have been eliminated in full in both the Comprehensive Income and Expenditure account and Balance sheet.

Group - Comprehensive Income and Expenditure Statement

Group 2020/21 Expenditure £'000	Group 2020/21 Income £'000	Group 2020/21 Net Expenditure £'000	Comprehensive Income and Expenditure Statement	Note	Group 2021/22 Expenditure £'000	Group 2021/22 Income £'000	Group 2021/22 Net Expenditure £'000
4,134	-	4,134	Chief Executive		5,595	-	5,595
319	(2)	317	Externally Commissioned Support Services		477	(1)	477
631	-	631	Corporate Overheads		499	-	499
49	-	49	Governance Costs		42	-	42
458	-	458	Mayor´s Office		402	-	402
254	(38)	216	Other Corporate Budgets		186	(52)	135
-	-	-	Election		965	-	965
46,618	(44,072)	2,547	Business and Skills		43,357	(30,351)	13,006
75,121	(63,452)	11,670	Strategy and Delivery		70,966	(56,879)	14,087
23,502	(453)	23,049	Housing		19,859	(2,340)	17,519
151,086	**(108,016)**	**43,071**	**Net Cost of Services**		**142,348**	**(89,622)**	**52,726**
		94	Other Operating Income & Expenditure				-
		99	Financing and Investment Income and Expenditure				1,002
		(26,187)	Taxation and Non-Specific Grant Income				(36,131)
		17,077	**(Surplus) / Deficit on Provision of Services**				**17,596**
		57	Loss from investments in equity instruments designated at FVOCI				
		1,542	Actuarial (Gains) / Losses on Pension Assets / Liabilities				(1,278)
		1,599	**Other Comprehensive Income and Expenditure**				**(1,278)**
		18,676	**Total Comprehensive Income and Expenditure**				**16,318**

Group - Movement in Reserves Statement

Combined Authority Group Movement in Reserves Statement	Combined Authority Usable Reserves £'000	Cambridgeshire and Peterborough Business Growth Company Limited Usable Reserves £'000	One Cam Limited Usable Reserves £'000	Peterborough R&D Property Company Limited Usable Reserves £'000	Peterborough HE Property Company Limited Usable Reserves £'000	Total Usable Reserves £'000	Combined Authority Unusable Reserves1 £'000	Total Group Reserves £'001
Balance at 1 April 2020	**(132,937)**	**-**	**-**	**-**	**-**	**(132,937)**	**(37,776)**	**(170,713)**
Total Comprehensive Income & Expenditure	16,923	1,981	1,540	154	292	20,890	1,599	22,489
Adjustments between group accounts and authority accounts2	(385)	(1,973)	(1,302)	(154)	-	(3,813)	-	(3,813)
Net Increase/decrease before transfers	**16,538**	**9**	**238**	**-**	**292**	**17,077**	**1,599**	**18,676**
Adjustments between accounting basis & funding basis under regulations	**37,431**	**-**	**-**	**-**	**-**	**37,431**	**(37,431)**	**-**
(Increase) / Decrease in 2020/21	**53,969**	**9**	**238**	**-**	**292**	**54,508**	**(35,832)**	**18,676**
Balance at 31 March 2021 Carried Forward	(78,968)	9	238	-	292	(78,429)	(73,608)	(152,037)
Balance at 1 April 2021	**(78,968)**	**9**	**238**	**-**	**292**	**(78,429)**	**(73,608)**	**(152,037)**
Total Comprehensive Income & Expenditure	17,406	304	1,570	273	-	19,553	(1,278)	18,275
Adjustments between group accounts and authority accounts2	(2,256)	1,957	(1,385)	(273)		(1,957)		(1,957)
Adjustments between accounting basis & funding basis under regulations	11,695				-	11,695	(11,695)	-
Net Increase before Transfers to Earmarked Reserves	**26,846**	**2,261**	**185**	**-**	**-**	**29,292**	**(12,976)**	**16,318**
(Increase) / Decrease in 2021/22	26,846	2,261	185	-	-	29,292	(12,976)	16,318
Balance at 31 March 2022 Carried Forward	**(52,122)**	**2,270**	**423**	**-**	**292**	**(49,137)**	**(86,584)**	**(135,719)**

Group Balance Sheet

Group 31/03/2021 £'000		Note	Group 31/03/2022 £'000
782	Property, Plant & Equipment	2	6,610
37,178	Long Term Investments		40,544
22,469	Long Term Debtors		3,819
60,429	**Total Long-Term Assets**		**50,973**
138,100	Short Term Investments		155,115
34,738	Short Term Debtors	3	48,574
86,696	Cash and Cash Equivalents		154,315
259,534	**Current Assets**		**358,005**
(55,973)	Short Term Creditors	4	(49,378)
(226)	Short Term Provisions		(546)
(56,199)	**Current Liabilities**		**(49,925)**
(3,644)	Long Term Creditors		(3,870)
(108,083)	Capital Grants Receipts in Advance		(219,464)
(111,727)	**Long Term Liabilities**		**(223,334)**
152,037	**Net Assets**		**135,719**
(78,429)	Usable Reserves		(49,137)
(73,608)	Unusable Reserves		(86,582)
(152,037)	**Total Reserves**		(135,719)

Group - Cash Flow Statement

2020/21 Group £'000	Cash Flow Statement	Notes	2021/22 Group £'000
17,077	Net (Surplus) or Deficit on the Provision of Services		17,596
(104,081)	Adjustments to Net (Surplus) or Deficit on the provision of Services for Non-Cash Movements		(115,447)
(87,004)	**Net cash flows from Operating Activities**		(97,851)
80,873	Investing Activities		30,232
-	Financing Activities		
(6,131)	**Net (Increase) or Decrease in Cash and Cash Equivalents**		**(67,619)**
80,565	Cash & Cash Equivalent at the beginning of the Reporting Period		86,696
6,131	Increase / (Decrease) in Cash and Cash Equivalents		67,619
86,696	**Cash & Cash Equivalents at the end of the Reporting Period**		**154,315**

Notes to the Group Accounts

1. Accounting Policies

The Accounting policies of the group are the same as those applied to the Authority's single entity accounts.

2. Property, Plant and Equipment

Movement in 2021/22	Group Vehicle, Plant, furniture & equipment	Group Assets under construction	Group Total Property, Plant & Equipment
Cost or Valuation	£'000	£'000	£'000
At 1 April 2021	**159**	**702**	**861**
Additions		5,836	5,836
Disposals			-
At 31 March 2022	**159**	**6,538**	**6,697**
Accumulated Depreciation & Impairment			
At 1 April 2021	**(79)**	**-**	**(79)**
Depreciation Charge	(8)		(8)
Disposals			-
At 31 March 2022	**(87)**	**-**	**(87)**
Net Book Value			
At 31 March 2022	**72**	**6,538**	**6,610**
At 1 April 2021	**80**	**702**	**782**

3. Debtors

31-Mar-21 Group £'000	Short Term Debtors	31-Mar-22 Group £'000
1,620	Central government bodies	2,187
993	Other local authorities	4,264
25,134	Other entities and individuals	35,511
6,991	Prepayments	6,612
34,738	**Total Short-Term Debtors**	**48,574**

4. Creditors

31-Mar-21 Group £'000	Short Term Creditors	31-Mar-22 Group £'000
	Creditors:	
(9,565)	Central government bodies	(12,737)
(19,625)	Other local authorities	(7,320)
(26,783)	Other entities and individuals	(29,321)
(55,973)	**Total Short-Term Creditors**	(49,378)

Glossary

Accounting Period - 1 April to 31 March is the local authority accounting period. It is also termed the financial year.

Accruals - Revenue and capital income and expenditure are recognised as they are earned or incurred, not as money is received or paid. Transactions are accrued with income and expenditure due but unpaid at 31 March brought into the accounts.

Annual Governance Statement – Identifies the systems that the Combined Authority has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded.

Balance Sheet – This statement is fundamental to the understanding of the Combined Authority's financial position at the year-end. It shows the balances and reserves at the Combined Authority's disposal and its long term indebtedness. It also shows the long term and net current assets employed in its operations.

Balances – The non-earmarked reserves of the Combined Authority. These are made up of the accumulated surplus of income over expenditure. This is known as the General Fund Balance. Adequate revenue balances are needed to meet unexpected expenditure or a shortfall in income. The Combined Authority may decide to use its revenue balances to reduce its budget and thus its call on the Collection Fund.

Budget - A statement of an Combined Authority's plans for net revenue and capital expenditure.

Capital Expenditure - Expenditure on the acquisition or development of major assets which will be of use or benefit to a Authority in providing its services beyond the year of account.

Capital Grant - A grant received towards the capital expenditure incurred on a particular service or project. Capital grants can be made by an Authority.

Cash Equivalent – An investment that is liquid and matures within three months. There is no significant risk to the value on redemption.

Code of Practice on Local Authority Accounting – The statutory accounting code published by CIPFA.

Comprehensive Income and Expenditure Statement or CIES - Reports the income and expenditure for all the Combined Authority's services. The CIES demonstrates how services have been financed from general government grants and income from taxpayers.

Creditor - An amount owed by the Combined Authority for work done, goods received or services rendered to the Combined Authority within the accounting period but for which payment has not been made.

Current Asset - An asset which can be expected to be consumed or realised during the next accounting period.

Current Liability - An amount which will become payable or could be called in within the next accounting period.

Debtor - An amount owed to the Combined Authority within the accounting period, but not received at the Balance Sheet date.

Effective Rate of Interest – The rate of interest that is consistent with estimated cash flows over the life of a financial instrument and its initial value in the balance sheet. It is calculated using discounted cash flow.

Fair Value – Fair value is an important in setting the value for various assets in the balance sheet. It is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Asset – A right to future economic benefits controlled by the Combined Authority. Examples include bank deposits, investments made and loans receivable by the Combined Authority.

Financial Instrument – This is an important definition in understanding the accounts. It includes both financial assets and liabilities. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Liability – An obligation to transfer economic benefits controlled by the Combined Authority. Examples include borrowings, financial guarantees and amounts owed to trade creditors.

General Fund - The main fund of the Combined Authority that meets the cost of most services provided by the Combined Authority. The services are paid for from Council Tax, business rates, government grant and other income.

Government Grants and Subsidies - Grants towards either the revenue or capital cost of Combined Authority services. These may be either in respect of particular services or purposes, (specific and supplementary grants), or in aid of local services generally such as Revenue Support Grant.

Movement in Reserves Statement or MIRS – This statement shows the movement in the year on the different reserves held by the Combined Authority, analysed into 'usable reserves' and unusable reserves.

Non-current asset - An asset which has value beyond one financial year.

Non-Domestic Rates (NDR) or business rates - The rates payable by businesses on their properties are calculated by applying a nationally determined multiplier to the rateable value of the property. There is a lower multiplier for small businesses.

Precept – The Combined Authority is not empowered to bill council tax payers directly. Instead it may raise a precept on the billing authorities that are its members.

Reserves - Amounts set aside for purposes falling outside the strict definition of provisions are considered as reserves. Reserves include earmarked reserves set aside for specific projects or service areas, or expected future commitments.

Revenue Expenditure - The day-to-day running costs the Combined Authority incurs in providing services (as opposed to capital expenditure).

Usable Reserves – Those reserves that can be applied by the Combined Authority to fund expenditure or reduce local taxation.

Unusable Reserves – Those reserves that absorb the timing differences arising from different accounting arrangements. Unusable reserves are not available to fund expenditure or reduce local taxation.

Annual Governance Statement

For the year ended 31 March 2022

Annual Governance Statement – 2021/22
Cambridgeshire and Peterborough Combined Authority

Scope of Responsibility

The Cambridgeshire and Peterborough Combined Authority ("the Authority") is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently, and effectively. The Authority is also the accountable body for the Local Enterprise Partnership (known as the Business Board) and Greater South East Net Zero Hub.

The Combined Authority also has a duty under the Local Government Act 1999 to arrange to secure continuous improvement in the way in which its functions are exercised.

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions including arrangements for the management of risk.

The Authority was formally established on 3 March 2017 and continues to develop and refine its governance arrangements through regular review of its key documents. Latest copies of its constitution, assurance framework and monitoring and evaluation framework are available on its website.

The governance arrangements will comply with the principles of the Local Code of Governance, which is consistent with the principles of the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government 2016 and the National Local Growth Assurance Framework (January 2019).*

This statement explains how the Combined Authority has complied with the Code and meets the requirements of the Accounts and Audit Regulations 2015 Regulation 6.1 (b) in relation to the publication of an Annual Governance Statement.

The Authority acknowledges that good governance arrangements will enable it to establish effective policies and to deliver ambitious programmes to communities in the combined authority area. The arrangements put in place must be both robust and adaptable to deliver its objectives in a dynamic and strategic environment.

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the Authority is directed and controlled and how it engages with and leads the community in those activities for which it is accountable. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them effectively.

The Governance Framework

Context

The Cambridgeshire and Peterborough Combined Authority Order 2017 was made on 2 March 2017 and came into force on 3 March 2017.

The Cities and Local Government Devolution Act 2016 came into force on 28 March 2016, making Cambridgeshire and Peterborough local authorities amongst the first to establish a combined authority for its area under these new provisions. Following the making of the Order, the Authority's first directly elected Mayor was elected on 4 May 2017 for a four-year term of office. The Authority's second mayor was elected in May 2021.

The powers which were devolved from Central Government to the Combined Authority include:

- Control of a £20 million a year funding allocation, over 30 years, to be invested in the Cambridgeshire and Peterborough Single Investment Fund, to boost growth
- Funding to deliver new homes over a five-year period in Cambridgeshire and Peterborough which included affordable, rented and shared ownership housing
- Responsibility for chairing an area-based review of 16+ skills provision
- Responsibility to develop a more effective joint working with the Department for International Trade to boost trade and investment through agreement of a Joint Export Plan

Powers devolved to the Mayor as part of the devolution plan include:

- Responsibility for a multi-year, consolidated and devolved transport budget
- Responsibility for an identified Key Route Network of local authority roads

- Powers over strategic planning and the responsibility to create a non-statutory spatial framework for Cambridgeshire and Peterborough and to develop with Government a Land Commission

Further secondary legislation has since come into force to increase its powers. This includes:

- Mayoral powers to levy a business rate supplement to raise money for projects that will promote economic development.
- Devolved powers for the Adult Education Budget and associated powers to deliver an adult education service that supports wider economic and social priorities.
- Housing regulations enabling the Combined Authority to fund homes for Affordable Rent.

The Combined Authority is small in size and while it has been strategic in nature, it is also an operational delivery body for functions including the provision of bus services and adult education. It is also the local transport authority for the area of Cambridgeshire and Peterborough. The Authority has mainly delivered through a commissioning model with delivery being undertaken by those best qualified to do so across the public and private sector. It has increased staff numbers and increasingly delivers through the internal expertise of its employed officers across a range of disciplines.

Delivery through Subsidiary Undertakings

The Combined Authority currently has 6 subsidiary companies over which it has a significant level of control. Material trading activity of the subsidiaries only started in 2020-21 and, as such, the governance arrangements of these companies has become increasingly important. This is an area of significant interest across the Local Authority sector given recent high-profile issues that have come to light. CIPFA have now published new guidance on governance of Local Authority Trading Companies (LATC) and the Combined Authority will review its own governance arrangements considering this guidance, to ensure they are appropriate and effective.

Officers are working with the Audit and Governance and Overview and Scrutiny committees to develop and deliver appropriate oversight arrangements in respect of the companies.

Cambridgeshire and Peterborough Combined Authority Structure

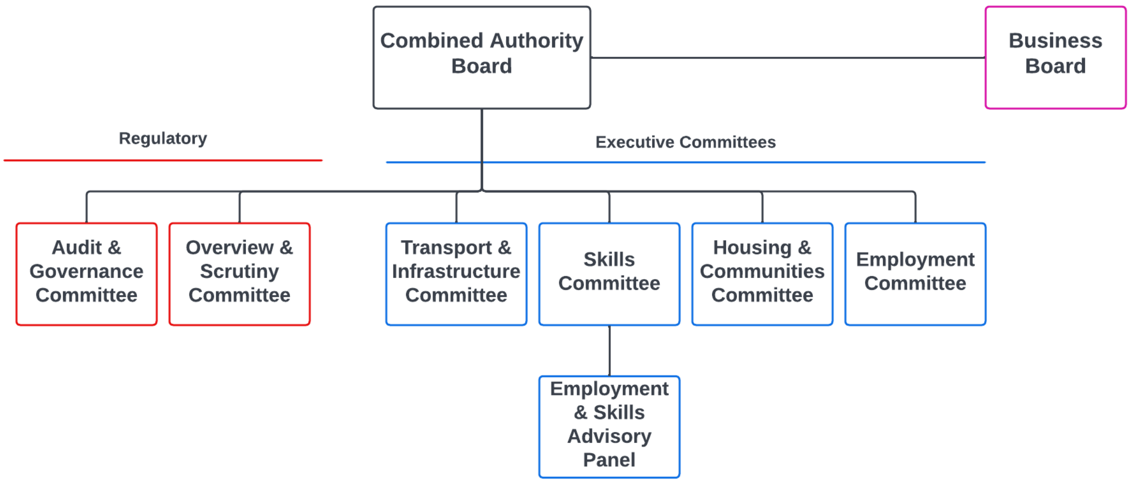
The Authority is made up of a directly elected Mayor and the following seven local authorities (referred to as the Constituent Councils) and the Local Enterprise Partnership known as the Business Board:

- Cambridge City Council
- Cambridgeshire County Council
- East Cambridgeshire District Council
- Fenland District Council

- Huntingdonshire District Council
- Peterborough City Council
- South Cambridgeshire District Council

In addition, the Authority co-opts the Police and Crime Commissioner, a representative of the Clinical Commissioning Group (CCG), and a representative from the fire authority.

The Constitution for the Authority sets out the Authority's governance arrangements. It sets out the powers and functions of the Combined Authority, including matters reserved to the Mayor and Board, financial procedures, contract standing orders, Member Codes of Conduct, the scheme of delegation to officers and arrangements for the operation of executive committees, an overview and scrutiny committee, and an audit and governance committee function.



The Scheme of Delegation provides for the day-to-day management and oversight of the Authority including the responsibilities of the Head of Paid Service, the Chief Finance Officer and the Monitoring Officer.

The key elements of the governance framework, its systems and processes, are outlined below.

Combined Authority Board

Each of the Constituent Councils appoints a nominated representative to be a Member of the Combined Authority and another Member to act in his or her absence. The Business Board (LEP) also nominates one of its members, normally the Chair and a substitute member, to be its representative. The Business Board representative has full voting rights on the Combined Authority Board.

The Board's role and powers are set out in the constitution. The Board provides strategic leadership for the Combined Authority area, approving strategies, policies and budget allocation to ensure that the required outcomes are delivered.

The Combined Authority Board has invited the following organisations with direct responsibility for functions relevant to the Combined Authority objectives to become co-opted Members to attend the Combined Authority Board and may take part in the debate.

(a) The Police and Crime Commissioner for Cambridgeshire;
(b) Cambridgeshire and Peterborough Fire Authority representative;
(c) Cambridgeshire and Peterborough Clinical Commissioning Group representative.

Mayor

Certain functions are reserved to the Mayor as set down in the Order and the Constitution. The Mayor has an overall leadership role and chairs the Board meetings. Both the Mayor and the Combined Authority have a general power of competence.

The functions of the Combined Authority are grouped into portfolios. In accordance with the Combined Authority's Constitution, the Mayor and the Combined Authority Board agree portfolio responsibilities in respect of those functions. The Mayor nominates Lead Members from amongst the Members of the seven constituent councils who are formally approved by the Board. Each Lead Member leads on his/her allocated portfolio functions and is accountable for his/her allocated area. Lead Members do not have delegated powers.

Executive Committees

In September 2018, the Board set up three executive committees; the Transport and Infrastructure Committees, the Skills Committee and the Housing and Communities Committee. By placing responsibility for three of the largest portfolios into a committee system, it enabled the Combined Authority to meet challenges of resilience and volume. The Chair of each committee leads the portfolio responsibilities of that committee and can distribute responsibility for delivering discreet areas of the portfolio amongst the members of the committee. By creating a division of the portfolio workload across the committee members, the Combined Authority ensures a measure of continuity in the delivery of its key projects. A committee system also allows member oversight of the delivery of its programme of works against the Combined Authority's Assurance Framework and Monitoring and Evaluation Framework.

In September 2019 the Combined Authority Board agreed amendment to the Authority's constitution to strengthen the role of the Executive Committees by delegating to them decision-making powers previously exercised by the Combined Authority Board. The membership of the Executive Committee was expanded to include representatives of all the constituent councils on each committee.

The advantages of these arrangements include:

- Creating more realistic workloads for the members of the Combined Authority Board
- Allowing members of the Combined Authority Board to have a strategic focus
- Increasing the profile of the Authority amongst the constituent councils
- Increasing the understanding of the Authority amongst constituent councils
- Sharing of knowledge and regional issues
- Improving cross-boundary co-operation
- Bringing in additional member expertise to the Authority in key areas, and
- Decreasing the frequency of Combined Authority Board meetings

The effectiveness of these governance arrangements is kept under review by the Authority's Audit & Governance Committee. The most recent review is nearing completion will report findings and recommendations to the Board in the Summer of 2022.

Overview and Scrutiny Committee

The Combined Authority has established an overview and scrutiny committee to comply with the requirements of the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017. The Committee comprises 14 elected councillors, two from each of the seven constituent councils, and reflects the political balance across the combined authority area. Its primary role is to review and scrutinise decisions of the combined authority and the Business Board. They monitor the Forward Plan of forthcoming key decisions and may call-in any of these decisions where members consider that further scrutiny and challenge is required.

The committee undertakes other roles including pre-decision scrutiny where they can act as a "critical friend" to highlight key issues, and challenge policies at the developmental stage. The Mayor and Chief Executive attend meetings at least quarterly to update the committee and to answer any questions.

A review of the working arrangements was recently conducted by The Centre for Governance and Scrutiny (CfGS) to support the future work of the Overview and Scrutiny Committee and to develop its role. The review included an examination of:

- **Culture:** The mindset and mentality underpinning the operation of the overview and scrutiny process
- **Information**: How information is prepared, shared, accessed and used in the service of the scrutiny function, and
- **Impact**: Ways to ensure that scrutiny is effective, that it makes a tangible difference to the lives of local people.

Audit and Governance Committee

The Board has established an Audit and Governance Committee in accordance with the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017. It comprises 7 elected members reflecting the political balance across the area and an independent person who chairs the meetings.

The Chair of the Audit and Governance Committee presented his annual report to the Combined Authority Board at its Annual General Meeting in June 2022. The annual report highlights the work of the Committee for the Municipal Year and details the following:

- Background to the Committee, its roles, responsibilities and membership
- An overview and coverage of its remit including Internal Audit, Accounts and Financial Management, External Audit, Risk Management, Control Assurance, Corporate Governance, and Fraud and Irregularities
- Training provided to ensure that suitable challenge and scrutiny is adopted
- Records of complaints, Freedom of Information requests and attendance levels for the committee to consider

The Audit and Governance Committee has an independent chair, who was re-appointed for a second period of four years in 2021.

Business Board (Local Enterprise Partnership)

On 1 April 2018, the Greater Cambridge Greater Peterborough Local Enterprise Partnership was dissolved, and a new Local Enterprise Partnership was formally created in September 2018 and is known as the Business Board. The Business Board is a voluntary partnership between constituent councils and non-constituent local authorities and the business community, playing a key role in determining local economic priorities and growth. The Partnership is a key interface with Central Government and the region and offers policy advice and strategic direction aligned to the Authority's objectives.

The current membership comprises fourteen members, which includes two public sector members and up to twelve business representatives from amongst the key sectors across the Cambridgeshire and Peterborough area. The majority members on the Board are from the private sector. Membership of the Business Board reflects two key priorities:

1) that the Business Board should be predominantly private sector led to provide the best possible platform for businesses within the area and that
2) the Board ought to be comprised of representatives of those key sectors which are driving economic growth in the area

The Mayor and the Lead Member for Economic Growth are members of the Business Board recognising the importance of its role and of the private sector in any growth strategies for delivery in the Authority's area.

The Business Board is closely aligned to the Authority through a unified assurance framework and has a single staffing structure under the Authority's Chief Executive. The Combined Authority is the accountable body for the Business Board.

The Business Board's constitutional arrangements comply with the National Local Growth Assurance Framework and with the joint Local Assurance Framework for the Authority and the Business Board.

Strategic Direction

The **Combined Authority's Sustainable Growth Ambition Strategy** sets out the area's responsibility in pursuing economic growth to ensure that rising prosperity makes life better, healthier and fairer, and does not exhaust the resources our children will need for the future. More and more people are recognising that we don't just need growth: we need good growth. Our aim is not simply to increase our income, but to increase our area's wealth, in a way that is driven by our values.

The values the Mayor wishes to be the hallmark of his term in office are

- Compassion
- Cooperation
- Community

These frame how we will pursue the devolution deal's overall aim of achieving sustainable growth.

The Sustainable Growth Ambition Strategy (SGAS) aims to build up the capital stock of Cambridgeshire and Peterborough across the six keys of

- Health and Skills: building human capital to raise both productivity and the quality of life
- Climate and Nature: restoring the area's depleted natural capital and addressing the impact of climate change on our low-lying area's special vulnerabilities
- Infrastructure: from digital and public transport connectivity, to water and energy, building out the networks needed to support a successful future
- Innovation: ensuring this area can continue to be one of the most dynamic and dense knowledge economies in Europe;
- Reducing inequalities: investing in the community and building social capital to complement improved skills and connectivity as part of the effort to narrow the gaps in life expectancy and income between places
- Financial and systems: improving the institutional capital which supports decision-making and delivery

The **Cambridgeshire and Peterborough Combined Authority Business Plan** sets out the authority's investment priorities. It is updated annually and presented to the Board for approval each January, alongside the Authority's budget and Medium-Term Financial Plan.

The Medium-Term Financial Plan forms the investment plan for the Combined Authority and allocates resources to deliver the next stages of these priority programmes.

This Business Plan and the Medium-Term Financial Plan sets out at a high level the transformational investments that the Cambridgeshire and Peterborough Combined Authority will commit resources to, subject to the detailed consideration and appraisal of project business cases. Some are project ideas at an early stage whilst others are in-progress construction projects. The Business Plan and the Medium-Term Financial Plan are not intended to be an exhaustive list of activity as new opportunities will arise during the financial year, but it identifies the key activities that will need investment during the plan period to unlock the opportunities they could bring. Prioritisation has been undertaken to ensure that our investment goes into projects that will have a significant impact on growing the whole Cambridgeshire and Peterborough economy in accordance with the six keys of the SGAS.

The Business Plan aligns with the approach to performance management reporting to enable members to monitor performance against the Business Plan priorities

The Combined Authority has progressed key investment decisions in a range of transport and infrastructure, skills, housing and economic development initiatives.

Assurance Framework

The Assurance Framework complies with the National Local Growth Assurance Framework and was approved by the Board in March 2021 following feedback and sign off from CLGU (Cities and Local Growth Unit). The Assurance Framework sets out:

(a) How the seven principles of public life shape the culture within the Combined Authority in undertaking its roles and responsibilities in relation to the use and administration of the Cambridgeshire and Peterborough Investment, incorporating the Single Pot funding
(b) The respective roles and responsibilities of the Combined Authority, the Business Board and officers, in decision-making and ways of working
(c) The key processes for ensuring accountability, including public engagement, probity, transparency, legal compliance and value for money
(d) How potential investments to be funded through the Cambridgeshire and Peterborough Medium Term Financial Plan incorporating the Single Pot, will be appraised, prioritised, approved, signed off and delivered
(e) The processes for oversight of projects, programmes and portfolios and how the progress and impacts of these investments will be monitored and evaluated

Project Delivery

The monitoring and evaluation framework provides assurance to the Combined Authority Board and to Central Government through robust monitoring and evaluation arrangements for each of the commissioned projects. Monitoring and evaluation (M&E) is a critical component of an effective performance management regime. Monitoring supports the effective tracking of a scheme or series of policy interventions ensuring that intended outputs are being achieved. Evaluation quantifies and assesses outcomes, including how schemes were delivered and whether the investment generated had the intended impact and ultimately delivered value for money

The Monitoring & Evaluation Framework incorporates the Local Growth Fund monitoring and evaluation plan. Being able to show the efficacy and impact of the Business Board's investments enables a positive case to be made to Government in discussions regarding the allocation and responsibility for future funding streams

Decision Making

All agendas and reports produced for meetings of the Combined Authority, its associated Committees and the Business Board are issued to members and published on the Authority's website in accordance with access to information requirements in the 2017 Order. All Combined Authority Board and Executive Committee meetings are held in public.

A Forward Plan identifying strategic decisions that will be made by the Board over a four-month period is updated and presented to the Combined Authority Board at each meeting. It will also include all forthcoming key decisions which require at least 28 days' notice.

Notice of decisions are also published no more than two days after the meeting and are not implemented until five days after they are published to enable the Overview & Scrutiny Committee to exercise its right to call-in decisions.

Financial Management

A key responsibility of the Combined Authority is determining, agreeing and monitoring appropriate budgets for it to be able to fulfil strategic objectives.

A budget framework has been agreed for setting the budget in future years which takes account of the process laid down in the Combined Authorities (Finance) Order 2017

In summary, the draft Budget shall be submitted to the Combined Authority Board for consideration and approval for consultation purposes before the end of December. The Board will agree the timetable for consultation and those to be consulted. The consultation period shall not be less than four weeks, and the consultees shall include Constituent Authorities, the Business Board (LEP) and the Overview and Scrutiny Committee.

Before 1st February, having considered the draft Budget, the consultation responses, and any other relevant factors, the proposed budget for the following financial year, including the Mayor's budget, will be submitted to the Board for final approval. There is also a process for agreeing the Mayor's budget where no agreement can be reached.

Budget update reports are presented bi-monthly at Combined Authority Board meetings to provide information on income and expenditure for the year to date, and the forecast outturn position against the approved budget and provides analysis of material variances for both Revenue Funds and the Capital Programme.

The Combined Authority is required to adhere to the CIPFA Financial Management Code. The following key actions were identified in the 2020-21 Annual Governance Statement and a summary of actions taken to address them is included below:

- A formal timeline for the creation of the Annual Governance Statement will be established.- To be included in the next review of the CPCA Financial Regulations

- Regular budget holder and project manager training will be implemented to reinforce the responsibilities associated with those roles The Combined Authority is rolling out new functionality of it's core financial system and formal budget holder training is being developed as part of this transformation
- The Authority will carry out a financial resilience assessment – The Combined Authority has considered its arrangements and position against the four pillars of financial resilience identified by CIPFA: routine, benchmarking, having clear plans and reserves to establish whether actions are required to further promote financial resilience
- Regular financial reporting to Executive Team (previously Corporate Management Team), Committees and Boards will include key balance sheet items – regular financial reporting is in place for the Executive team (via the Performance and Risk Committee), Committees and Boards

Developing Capacity

The Combined Authority's external auditors have highlighted a concern that "the Authority has insufficient capacity, capability and an inappropriate culture to support the effective governance and operation of the organisation." The staffing structure will be reviewed in 2022 as part of the Combined Authority's Improvement plan to address these concerns.

Internal Audit

RSM Assurance Limited provide the Chief Internal Auditor function for the Combined Authority and presented the audit plan for approval to the Audit & Governance Committee April 2021 and has provided the Committee with regular updates since then.

External Audit

On 1 June 2022, the Combined Authority's auditors, EY, wrote to the Chair of the Audit and Governance Committee in accordance with their responsibilities under the National Audit Office (NAO) 2020 Code of Audit Practice. The NAO Code sets out how auditors are expected to approach their work on Value for Money arrangements. The Code requires that where the auditor has concluded that there is a significant weakness in a body's arrangements, it should be reported to this body as soon as practicable, supported with recommendations for improvement. The EY letter identified a significant weakness in the Combined Authority's Governance arrangements – How the Authority ensures that it makes informed decisions and properly manages its risks. To address the significant governance weakness, "the Authority needs to urgently ensure that it has sufficient appropriate leadership capacity to be able to deliver its objectives and statutory responsibilities. In order to do so, we (EY) believe more formal intervention is required, and expeditious discussions with the Authority's sponsoring department to this end are time critical".

Improvement Framework

In July 2022, the Interim Chief Executive took a paper to the CPCA Board to seek approval for an Improvement Framework to address the weaknesses highlighted in the EY letter. The Board was recommended to:

- Note the recommendations of the Audit and Governance Committee and provide a response as requested
- Delegate authority to the Interim Chief Executive for the recruitment and appointment of additional resources, including interim Chief Officers and Statutory Officers,
- Delegate authority to the Interim Chief Executive to finalise the senior management structure of the Authority
- Acknowledge the scope and scale of the intended self-assessment exercise and recognition of the scale of the current issues facing the Combined Authority.
- Support the self-assessment exercise
- Note the review of governance and ways of working

Request that the Board, and the Chairs of Audit & Governance Committee and the Overview & Scrutiny Committee, receive regular updates on all improvement action

In October 2022, the Board agreed an improvement plan to address issues raised across six key themes:

A. Establish clarity on the scale of political ambition and develop an overarching strategy for the remainder of this mayoral term and to chart the next steps on that journey. This needs to include defining the purpose and role of the CPCA and in particular where the CPCA can add value
B. Implement a comprehensive reset of ways of working and align the policy development and pre-Board processes to support this
C. Prioritise work to establish a long-term strategy for transport, an urgent development of a bus strategy and review the role and functioning of the Business Board
D. Undertake a strategic review of income projections, including options, to secure sustainability and the possibility of taking a more strategic approach to the application of funds for identified priorities
E. Design and implement an organisation for today's performance, and with the agility to act on emerging demands and opportunities
F. Map the approach, capacity and arrangements needed to build effective public relations and influencing delivery operation

The Improvement plan set out a number of key deliverables over a three-month period and agreed the establishment of an Independent Improvement Board to be chaired by Lord Kerslake.

Regular updates are being taken to the Board, the Overview and scrutiny Committee and the Audit and Governance Committee to highlight progress being made against the Improvement plan.

Risk Management

The Authority's Audit and Governance Committee is responsible for overseeing the Authority's risk management strategy and corporate risk register.

Corporate and project risks are identified, recorded and monitored by the Performance and Risk Committee, a group made up of Combined Authority Officers and the Audit & Governance Committee. Significant risks are escalated to the Combined Authority Board where necessary.

Managing Performance

Given the level of investment undertaken by the combined authority, it is vital that it follows robust programme management processes for its programmes and for collective consideration of outputs and outcomes. Alongside the monitoring and evaluation framework, a Performance Management process has also been developed, to monitor and report on programme delivery (time, quality, cost) and the outcomes and impact of projects/programmes. Regular papers are taken to Board meetings which report on the performance of the Combined Authority's projects. The analysis includes a 'delivery dashboard' which provides metrics showing progress being made against devolution deal commitments to deliver Prosperity (measured by Gross Value Added (GVA)), Housing and Jobs.

Review of Effectiveness

The Authority has responsibility for conducting an annual review of the effectiveness of its governance framework. This includes consideration of systems of internal control and arrangements for internal audit and assurance statement from key officers. This has focused on where we are now and where we want to be in the year ahead against the Good Governance Principles.

The Combined Authority currently has 6 subsidiary companies over which it has a significant level of control but is in the process of winding up 3 of these as they have either ceased, or never traded. The Combined Authority will review its governance arrangements for its remaining subsidiary companies in light of recommendations expected from the relevant RSM internal audit review and the guidance published recently by CIPFA.

The Chief Internal Auditor of a Local Authority is required annually to provide their opinion on the overall systems of internal control and their effectiveness.

The Annual Internal Audit Opinion

The annual internal audit opinion is based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.

For the 12 months ended 31 March 2022, the head of internal audit opinion for Cambridgeshire and Peterborough Combined Authority is as follows:

"There are weaknesses in the framework of governance, risk management and control such that it could become, inadequate and ineffective".

"Factors and Findings which have informed our opinion"

Risk Management

We have not undertaken a specific risk management review in 2021/22. An audit of risk management was originally included within the 2021/22 plan following the partial (negative) assurance opinion issued in 2020/21. Management advised that whilst some progress had been made, there were still a number of areas arising from the partial assurance opinion that still needed to be addressed. Due to the limited progress of implementing these actions, the risk management audit was replaced with another review.

Governance

Our governance coverage in 2021/22 was focussed on Subsidiary Governance. We carried out an audit designed to allow the Authority to take assurance that appropriate governance arrangements were in place to monitor, manage and support its subsidiary companies, including the reporting and escalation of matters to the CPCA for oversight and scrutiny. This concluded with a negative opinion, minimal assurance.

Our review identified significant issues requiring management attention, including a lack of operational and financial performance reporting from the subsidiary companies to the CPCA, and a lack of oversight from the CPCA regarding the operations of its subsidiaries. In addition, evidence was not provided during the audit to confirm that the business plans of subsidiary companies were being subject to regular review by the CPCA in line with Shareholder Agreements, whilst for one subsidiary, evidence of an initial business plan was not provided. Furthermore we identified issues with the risk registers for the CPCA's operational subsidiary companies, including a lack of separation between planned actions and implemented controls, and a lack of specific and measurable actions. We were also unable to confirm that a Programme Management Committee had been established for the

Business Growth Company, as required by its Shareholders Agreement. We did identify also some well designed and complied with controls.

We have also been advised post year end of a governance review commissioned by the Authority and conducted by Governance First Limited which has highlighted a wide range of improvement actions required in the area of governance. Following this review we have also been advised of a subsequent letter from EY, the authority's external auditors and the potential impact that the findings from the governance review may have on their value for money conclusion. These post year end events have also been taken into account when forming our opinion.

Internal Control

In addition to the Subsidiary Governance audit, we undertook four further assurance assignments during 2021/22, from all four of which the Authority could take positive (reasonable) assurance:

Adult Education Budget
Key Financial Controls – financial reporting and general ledger
Capital Programme – monitoring and reporting
Payroll

Our Follow Up review, conducted on a sample of the previously agreed management actions across five previous audits concluded that the Authority had made reasonable progress in implementing the actions.

We also undertook two additional follow-up reviews relating to the IT Control Framework. These reviews followed on from the minimal (negative) assurance audit undertaken in 2020/21. The first of these reviews found that of the four actions that had become due for implementation, three had been implemented, but one high priority action had not been implemented. The second review followed up that high priority action plus the six remaining actions which were all due for implementation. Whilst we found that three actions had been implemented, two medium priority actions had only been partly implemented (one downgraded to low priority), and one medium priority action and the same high priority action, which related to ensuring sufficient IT specialism/expertise is maintained amongst the authority's workforce, had not been implemented.

Advisory Reviews

As part of the internal audit plan, our specialist colleagues undertook an advisory Fraud Risk Assessment, which identified seven areas for suggested improvement, but did not identify any significant areas of weakness. In addition to the audits of the original 2021/22 audit plan, we were also commissioned to undertake three additional advisory reviews: OneCAM – Governance and Decision-making, Community Land Trust Advisory review (10 management actions agreed), and an Analysis of Government Procurement Card expenditure and Expenses – Deep dive. The deep dive report has been issued (with seven high, two medium and one low priority actions).

Additional factors and findings informing our opinion

In addition to the minimal assurance (negative) opinion of the Subsidiary Governance audit, the limited progress implementing the actions from the 2020/21 risk management audit, the findings of the Government Procurement Card Expenditure and Expenses – Deep Dive and some of the actions still requiring work following the 2020/21 IT Control Framework (minimal assurance) review, in forming our annual opinion we have also taken into account some significant wider governance issues. Some of these came to our attention following the independent review of governance commissioned by the Authority and subsequent concerns raised by the external auditor and reported by them to the Department for Levelling Up, Housing and Communities (DLUHC). The independent governance review made some 47 recommendations.

We note the External Auditor's concerns and include an extract from the June 2022 Audit and Governance Committee papers:

The Chair of the Committee received a letter from EY, the Authority's external auditors, on 1 June which notified him of their judgement that a value for money risk exists in the form of significant weakness in Cambridgeshire & Peterborough Combined Authority's governance arrangements.

This judgement was based on the following reasons:

- "Investigations into key individuals in the Mayor's office following a whistle-blower notification
- Increased number of employment related claims against the Authority
- Current vacancies in the Authority's senior management team, particularly at Chief Executive level, and the prospect that this could increase further from July 2022
- Weaknesses we have observed in how the extraordinary meeting of the Authority Board makes informed decisions; and
- That the nature of the whistle-blower allegations and initial findings of independent investigation reports raises significant questions on the culture, behaviour and integrity of key individuals in the Mayor's office"

and leads the auditors to a concern "that the Authority has insufficient capacity, capability and an inappropriate culture to support the effective governance and operation of the organisation and how it discharges its statutory services".

Governance Arrangements

There is a dedicated Governance team to ensure the Combined Authority complies with its regulatory responsibilities and to advise members, employees and partner organisations. The team oversees several areas including supporting the Board and committees, transparent decision making, Declarations of Interest, Whistle-blowing and Freedom of Information request handling.

Freedom of Information and Environmental Information Regulation Requests

The Combined Authority is subject to the Freedom of information Act 2000 and the Environmental Information Regulations 2004, and the Governance team processes such requests. Over the last financial year, the Combined Authority has received and responded to several such requests for information.

Internal Audits have carried out an audit of the Information Governance function of the Authority and have identified areas of improvement which the Authority has promptly responded to by taking action. Some of the issues identified are being dealt with while other matters have dates in which the actions will be completed.

Review of Effectiveness

The Combined Authority is responsible for conducting, at least annually, a review of the effectiveness of its governance framework. The review of effectiveness is informed by the work of the officers within the Authority who have responsibility for the development and maintenance of the governance environment, assurance work undertaken by Internal Audit, and by comments made by the external auditors and other review agencies and inspectorates. Any areas for review will be overseen and coordinated by the Chief Executive, Chief Finance Officer and Monitoring Officer and any findings reported to the Audit and Governance Committee, as appropriate.

The Authority is aware and is planning for the coming year that:

1. Internal Audit undertake a review of the effectiveness of internal audit and of the systems of internal control
2. Senior officers sign the annual statements of responsibilities confirming that during the year they have:
    - Established arrangements for establishing directorate objectives and compliance with corporate priorities
    - Endeavoured to ensure compliance with the Authority’s governance arrangements (Constitution, Ethical Framework, and Policies & Regulations)
    - Made arrangements for sound budgetary controls
    - Effectively monitored and managed performance
    - Reported to the appropriate member committees and the Board

- Responded promptly to internal & external audits & inspections
- Continuously managed business risks and service continuity arrangements

3. Significant work is undertaken to successfully put risk management into the heart of decision making, strategic planning and performance processes so that the Authority is risk enabled and active management of risk is undertaken throughout the organisation.
4. A review of the Authority's corporate governance framework including the Code of Corporate governance.

Code of Conduct

All Combined Authority employees and members should be subject to a formal Code of Conduct. A member's code of conduct has recently been adopted by the Authority, which should form part of the Authority's Constitution.

Declaration of Interest.

The Authority will look into developing the register of Interests for members and officers which will be reviewed annually. In the interests of transparency, the declarations should be reviewed by both the Chief Executive and Monitoring Officer and published on the Authority's website.

Gifts and Hospitality

The Combined Authority will look to develop the register of offers of Gifts and Hospitality made to members and officers of the Combined Authority, even if these offers are declined.

Conclusion

The Combined Authority recognises its responsibilities for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively, alongside a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised.

As shown by the letter from our External Auditors "there are significant weaknesses in the Authority's governance arrangements". The Authority recognises this and has put in place a detailed and well resourced Improvement Framework to address the identified concerns. We are confident that the Authority is well on its way to emerging with a clear strategic direction, stronger and more effective governance arrangements, and the capability to deliver for the people of Cambridgeshire and Peterborough.

Certification

We have been advised on the implications of the results of the review of the effectiveness of the Combined Authority's governance framework, by the Audit and Governance Committee.

The Annual Governance Statement was approved by the Audit Committee on the XX XXXX 20XX.

Our overall assessment is that the Annual Governance Statement is a balanced reflection of the governance environment. The Combined Authority's auditors have identified a significant value for money risk relating to its governance arrangements. The Combined Authority is taking action to address these highlighted concerns through an Improvement Framework to ensure that the Authority has sufficient appropriate leadership capacity to be able to deliver its objectives and statutory responsibilities. The Improvement Framework will support the Authority in achieving value for money through appropriate governance arrangements and safeguard the future delivery of services.

Signed: ____________________ Signed: ____________________

Date: Date:

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Agenda Item No: 11

Internal Audit Progress Report

To:	Audit and Governance Committee
Meeting Date:	2 December 2022
From:	Jon Alsop, Head of Finance and S73 Officer
Key decision:	Not a key decision
Forward Plan ref:	n/a
Recommendations:	The Audit and Governance Committee is recommended to:

a) Receive and note the internal audit progress report against the audit plans for 2021/22 and 2022/23 as provided by the Combined Authority's internal auditors, RSM Risk Assurance Services LLP (RSM).

b) Receive and note the internal audit annual report for 2021/22 as provided by RSM.

Voting arrangements: Note only item, no vote required.

1. Purpose

1.1. The purpose of the report is for the Audit and Governance Committee to:

(a) Receive and note progress being made against the internal audit plans for 2021/22 and 2022/23.
(b) Receive and note the internal audit annual report for 2021/22.

2. Background

2.1. RSM presented the internal audit plan for 2021/22 to the Audit and Governance Committee in April 2021. The attached report provides an update to the Committee of the outstanding audits of the 2021/22 plan.

2.2 The Committee received a draft internal audit plan for 2022/23 at its meeting of 29th July 2022. Members approved the topics proposed in the plan but recommended that officers adopt a flexible approach to the commissioning of reviews to give priority to work that helps the improvement journey. The attached report also provides an update to activity against the 2022/23 internal audit plan.

3. Financial Implications

3.1. Internal audit fees are within those agreed as part of the internal audit service contract.

4. Legal Implications

4.1. No legal implications have been identified.

5. Other Significant Implications

5.1. No other significant implications have been identified.

6. Appendices

Appendix 1 – Internal Audit update report (RSM)

Appendix 2 – Internal Audit Annual Report 2021/22 (RSM)

7. Background Papers

Internal Audit Plan A&GC April 2021

Internal Audit Plan A&GC July 2022

Item 10

CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY

Internal Audit Progress Report

2 December 2022

RSM

CONTENTS

1 Key messages

The internal audit plan for 2022/23 was approved at the July 2022 meeting. This report provides an update on progress against that plan, the changes to the plan and summarises the results of our work to date (including the remaining audits from the 2021/22 internal audit plan).

2021/22 Internal Audit Delivery

Since the last meeting we have issued two further final reports from the 2021/22 internal audit plan:

- Payroll
- IT Control Framework (Part 2).

[To note]

Additional 2021/22 internal audit activity

As part of our work with you we are asked from time to time to undertake ad-hoc reviews. One of these reviews was around Community Land Trusts, for which we have also issued the final report since the last meeting.

We were also asked by Officers to undertake an Analysis of Government Procurement Card Expenditure and Expenses. The draft report has been issued and the final report will be issued once we have discussed the latest draft report with Officers and responses to the action plan are received. **[To note]**

2022/23 Internal Audit Delivery

Since the last meeting we have also issued one final report from the 2022/23 internal audit plan – Data Protection

We have also issued one further draft report from the 2022/23 internal audit plan (Risk Management) and are awaiting responses from management.

The fieldwork for the Affordable Housing Grant Programme and Net Zero Hub - Governance audits is in progress, and the final reports ire expected to be presented to the next Audit & Governance Committee (AGC) meeting.

Remaining audits are being scoped, however please note that since the last meeting we have been asked to postpone the Succession Planning audit until 2023/24 due to changes being made in that area as part of the Improvement Plan. We will discuss with management a replacement audit for the 2022/23 plan. **[To note]**

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2 Reports

Summary of final reports being presented to this committee

We have issued four final reports since the last meeting.

Assignment	Debrief Date	Opinion issued	Actions agreed		
			L	M	H
Payroll (12.21/22) Overall, the control framework operating within the CPCA in relation to Payroll was relatively well designed and largely complied with including core controls for new starters, leavers and amendments. Policies and procedures however needed be developed to document and clarify the payroll processes in place at the CPCA. Further improvements related to the management of the payroll provider through improving the contract of the outsourced payroll provider to match the size and complexity of the Authority's payroll as well as more clarity of the responsibilities of both parties. We also identified some lower priority improvement areas where controls design and operation could be strengthened, including access to the payroll portal, ensuring new starters forms are fully completed, the development of an overpayments log, the inclusion of duplicate bank detail checks as part of the monthly payroll and the completion of timely payroll account reconciliations. We also factored into our opinion key processes that had been improved since our initial feedback during the planning meeting for this review which took place in October 2021 and included implementation of key detective controls such as internal reviews of variance reporting. However, please note that these were implemented midway through the financial year and we did not test all of these.	14 April 2022, further evidence provided June and early July 2022.	Reasonable Assurance 	5	2	0
IT Control Framework Part 2 (7.21/22) We undertook a second follow up to review progress with the previously agreed management actions from the IT Control Framework Review 5.20/21 review, debriefed in May 2021, which originally resulted in a minimal assurance opinion. There were six high and four medium priority actions agreed during the initial audit. Specifically, we followed up those management actions that had not been fully implemented at the first follow up of the initial review (IT Control Framework Review - Follow Up 1.21.22).	5 April 2022	No overall opinion	1	2	1

Assignment	Debrief Date	Opinion issued	Actions agreed		
			L	M	H
The fieldwork for the first follow up was undertaken in November 2021, and we concluded that seven actions remained outstanding. These seven actions consisted of two high, four medium and one low priority management actions. In this second follow up review (fieldwork undertaken in March and April 2022), we found that: • Three actions had been fully implemented; • Two actions had been partly through not yet fully implemented; and • Two actions were not implemented. Revised dates for implementation were agreed for the five actions not fully implemented.					
Community Land Trusts (9.21.22) We confirmed that the CPCA had a pre-existing commitment to support CLT's within the CPCA area, entered into as part of its Devolution Deal (2017) with the UK Government. We also confirmed that the CPCA Board had approved the inclusion of support for CLT's within its Business Plan for 2019/20, and that funding had been allocated for this within the Board approved budget for 2019/20 and Medium-Term Financial Plan for 2019-2023. However, whilst we confirmed that the Board had delegated authority to the former Joint Chief Executive to incur expenditure to establish the Community Housing Team and provide support to CLT's, we identified several issues with regards to the governance and monitoring arrangements in place with respect to the work of the Community Housing Team to support CLT's. We also noted that the CPCA had not identified forms of technical support which required specific approval prior to being provided, or the approval requirements for such support. With regards to the Statement of Community Benefit for the Camps Field Development, we noted that the Statement did not include a limitation clarifying that the stated benefits were not being proposed by the CPCA itself, which had led to concern over whether the CPCA was endorsing the scheme and its benefits, further heightened by the inclusion of the CPCA letterhead. We also noted that, as the Statement was considered to be a form of core technical support, it had not been formally approved through a CPCA governance process.	23 May 2022	Advisory	11 Advisory actions		

Assignment	Debrief Date	Opinion issued	Actions agreed		
			L	M	H
We also noted that the CPCA did not have appropriate processes in place to monitor the work of CLT's within the CPCA area, to ensure that their schemes and decisions were being made in the interest of the local community, and that appropriate community engagement was being completed by CLT's.					
Data Protection – deep dive (1.22.23) A number of significant issues were identified as an outcome of this assignment, which required timely management attention to ensure that the necessary controls were in place to facilitate and govern the control framework in relation to GDPR, and to ensure that all the actions recommended by the ICO following the November 2021 data breach had been fully implemented. We agreed a total of 12 management actions to address these issues. All management actions were prioritised to inform internal planning, of which there were one high, nine medium and two low priority actions. One high priority area identified by the Information Commissioner, which resulted in a recommendation to hold a brainstorming session, aimed at understanding potential consequences for data subjects as a result of the data breach which occurred in November 2021, has not been actioned and Officers have decided to accept this risk.	20 July 2022	Advisory	2	9	1

Appendix A – Progress against the internal audit plan 2021/22 – remaining audits only

Assignment	Timing / Status / Opinion issued	Actions agreed			Target AGC	Actual AGC
		L	M	H		
Additional audit: Payroll	**FINAL – Reasonable Assurance**	**5**	**3**	**0**	**December 2022** **(September 2022)**	**December 2022**
Additional follow up: IT Control Framework Part 2	**FINAL (no overall opinion)**	**1**	**2**	**1**	**December 2022** **(September 2022)**	**December 2022**
Community Land Trusts	**FINAL - Advisory**	**11 advisory actions**			**December 2022** **(September 2022)**	**December 2022**
Analysis of Government Procurement Card Expenditure and Expenses	DRAFT report issued 16 December 2021 Revised DRAFT reports issued 12 May 2022 and 28 September 2022				TO BE CONFIRMED	

Appendix B – Progress against the internal audit plan 2022/23

Assignment	Timing / Status / Opinion issued	Actions agreed L	Actions agreed M	Actions agreed H	Target AGC	Actual AGC
Data Protection – deep dive	**FINAL - Advisory**	**2**	**9**	**1**	**January 2023** **(September 2022)**	**December 2022**
Risk management	DRAFT report issued 17/11/22				January 2023	
Affordable housing grant programme*	Fieldwork in progress				(January 2023) March 2023	
Net zero hub - governance	Fieldwork in progress				January 2023	
Core control framework	12 December 2022				March 2023 (January 2023)	
Subsidiary companies – deep dives	16 January 2023				March 2023	
IT Audit	6 February 2023*				June 2023 (January 2023)	
Follow up	20 March 2023				June 2023	
Governance	20 February 2023				June 2023	
Succession planning*	Delayed to 2023/24 plan at management request. Replacement audit TBC				N/A	

* please see explanation of change below

Appendix C – Other matters

Changes to the audit plan

Since the last meeting there have been the following changes to the 2022/23 internal audit plan:

Audit/Area	Change Proposed
Succession Planning	The Succession Planning audit was originally scheduled to take place in October 2022. We were initially requested by management to delay this until January 2023 due to ongoing work in this area, and we have now been asked to delay the audit to summer 2023, and it will therefore form part of the 2023/24 internal audit plan. We are discussing with management a replacement audit for the 2022/23 plan.

The following changes were previously reported:

Audit/Area	Change Proposed
Affordable Housing Programme	At the July Audit & Governance Committee, it was suggested that the proposed Affordable Housing Programme audit may overlap with other work being undertaken. We discussed with management the potential scope of the audit and whether it remained appropriate to be included within the plan, or whether it should be replaced with something else. We agreed that the audit should focus on the grant programme, and therefore there would be no overlap with the work being undertaken by the scrutiny committee.
IT Audit	A scoping meeting was held with the audit sponsor, at which we were asked to push the audit back due to the current transition period which includes IT changes. This audit will now take place in February 2023.

Grant Funding work undertaken by RSM to date

Audit/Area	Work Undertaken by RSM
Grant Funding	Work continues to be undertaken by our specialist team on grant funding received by the Combined Authority. This includes the following: These specifically relate to the grant funding noted below, one of which is pass-through funding (Local Transport Capital Block Funding) whereby expenditure is incurred by constituent councils and therefore they provide their own assurance however we are required to confirm that the CPCA have paid the constituent councils in line with the decisions made by the Mayor and other grants where expenditure is incurred by the Combined Authority. We have summarised the grants below: • Transforming Cities Fund – 2021/22 and Peer to peer Network grants claim 2021/22 • BSOG Devolved LTA Funding 2022/23 • Skills bootcamps Wave 3 • Local Transport Capital Block Fundings 2021/22 • Green Homes Grant (Local Authority Delivery Phase 2)

RSM External reviews of quality

One of the key measures of quality is an independent third-party assessment and, as a firm we are required to conform to the requirements of the International Professional Practices Framework (IPPF) published by the Global IIA. Under the Standards, internal audit services are required to have an external quality assessment (EQA) every five years. The RSM UK Risk Assurance service line commissioned an external independent review of our internal audit services in 2021, to provide assurance as to whether our approach continues to meet the requirements.

The external review concluded that RSM ‘generally conforms to the requirements of the IIA Standards’ and that ‘RSM IA also generally conforms with the other Professional Standards and the IIA Code of Ethics. There were no instances of non-conformance with any of the Professional Standards’. The rating of ‘generally conforms’ is the highest rating that can be achieved, in line with the IIA’s EQA assessment model.

Information briefings and Sector updates

Our latest Employment Matters newsletter issued on 28 October included the following:

HR: https://www.rsmuk.com/ideas-and-insights/human-resources/christmas-parties

Tax: https: //www.rsmuk.com/ideas-and-insights/employment-tax/staff-christmas-parties-reminder-for-employers

Global mobility: https://www.rsmuk.com/blog/how-hmrc-looking-at-unexpected-time-spent-in-uk-during-covid

Legal: https://www.rsmuk.com/ideas-and-insights/employment-matters/legal/top-people-issues-2023

Payroll: https://www.rsmuk.com/ideas-and-insights/payroll/payroll-processes-mini-budget-reversal

Employment Law bulletins:

https://www.rsmuk.com/employment-law-bulletin/settlement-agreements-cannot-settle-unspecific-future-claims

https://www.rsmuk.com/employment-law-bulletin/treating-whistleblowers-detrimentally-can-be-costly

https://www.rsmuk.com/employment-law-bulletin/employers-must-consult-employees-before-selection-for-redundancy

https://www.rsmuk.com/employment-law-bulletin/legal-advice-privilege-cannot-be-retrospectively-applied-to-documents

https://www.rsmuk.com/employment-law-bulletin/coronavirus-ill-health-may-not-become-a-disability

Appendix C - Key performance indicators (KPIs) for 2022/23 delivery

Delivery				Quality			
	Target	Actual	Notes (ref)		Target	Actual	Notes (ref)
Audits commenced in line with original timescales following scoping	Yes	80%	Succession planning audit has been delayed	Conformance with PSIAS and IIA Standards	Yes	Yes	
Draft reports issued within 15 days of debrief meeting	100%	0	Report required specialist review and was issued after 25 days	Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	Yes	
Management responses received within 15 days of draft report	100%	0		Response time for all general enquiries for assistance	2 working days	100%	
Final report issued within 3 days of management response	100%	100%		Response for emergencies and potential fraud	1 working days	N/A	

Notes
The above KPIs take into account changes agreed by management and the Audit & Governance Committee during the year.

FOR MORE INFORMATION CONTACT

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Item 10

CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY

Annual internal audit report 2021/22

Presented at the Audit and Governance Committee 2 December 2022

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

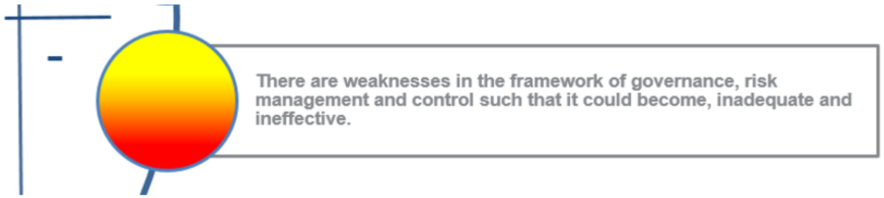
RSM

THE ANNUAL INTERNAL AUDIT OPINION

This report provides our annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation’s risk management, control and governance processes. The opinion should contribute to the organisation's annual governance reporting.

The opinion

For the 12 months ended 31 March 2022, the head of internal audit opinion for Cambridgeshire and Peterborough Combined Authority is as follows:



Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

It remains management’s responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be a substitute for management responsibility around the design and effective operation of these systems.

Scope and limitations of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the audit and governance committee, our opinion is subject to inherent limitations, as detailed below:

- internal audit has not reviewed all risks and assurances relating to the organisation;
- the opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. The assurance framework is one component that the board takes into account in making its annual governance statement (AGS);
- the opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management / lead individual;
- where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance;
- due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to our attention; and
- our internal audit work for 2021/22 has continued to be undertaken through the operational disruptions caused by the Covid-19 pandemic. In undertaking our audit work, we recognise that there has been some impact on both the operations of the organisation and its risk profile, and our annual opinion should be read in this context.

FACTORS AND FINDINGS WHICH HAVE INFORMED OUR OPINION

Risk management

We have not undertaken a specific risk management review in 2021/22. An audit of risk management was originally included within the 2021/22 plan following the partial (negative) assurance opinion issued in 2020/21. Management advised that whilst some progress had been made, there were still a number of areas arising from the partial assurance opinion that still needed to be addressed. Due to the limited progress of implementing these actions, the risk management audit was replaced with another review.

We were provided with an updated version of the Corporate Risk Register on 16 May 2022 to further inform our discussions on the internal audit coverage for 2022/23, but we have not carried out a detailed review of the new risk register or the actions previously agreed.

Governance

Our governance coverage in 2021/22 was focussed on Subsidiary Governance. We carried out an audit designed to allow the Authority take assurance that appropriate governance arrangements were in place to monitor, manage and support its subsidiary companies, including the reporting and escalation of matters to the CPCA for oversight and scrutiny. This concluded with a negative opinion, minimal assurance.

Our review identified significant issues requiring management attention, including a lack of operational and financial performance reporting from the subsidiary companies to the CPCA, and a lack of oversight from the CPCA regarding the operations of its subsidiaries. In addition, evidence was not provided during the audit to confirm that the business plans of subsidiary companies were being subject to regular review by the CPCA in line with Shareholder Agreements, whilst for one subsidiary, evidence of an initial business plan was not provided. Furthermore, we identified issues with the risk registers for the CPCA’s operational subsidiary companies, including a lack of separation between planned actions and implemented controls, and a lack of specific and measurable actions. We were also unable to confirm that a Programme Management Committee had been established for the Business Growth Company, as required by its Shareholders Agreement. We did identify also some well designed and complied with controls during the review.

We have also been advised post year end of a governance review commissioned by the Authority and conducted by Governance First Limited which has highlighted a wide range of improvement actions required in the area of governance. Following this review we have also been advised of a subsequent letter from EY, the authority’s external auditors and the potential impact that the findings from the governance review may have on their value for money conclusion. These post year end events have also been taken into account when forming our opinion.

Internal control

In addition to the Subsidiary Governance audit, we undertook four further assurance assignments during 2021/22, from all four of which the Authority could take positive (Reasonable) assurance:

- Adult Education Budget
- Key financial controls – financial reporting and general ledger
- Capital programme – monitoring and reporting
- Payroll

Our Follow Up review, conducted on a sample of the previously agreed management across five previous audits management actions concluded that the Authority had made reasonable progress in implementing the actions (see below).

We also undertook two additional follow up reviews specifically relating to the IT Control Framework. These reviews followed on from the minimal (negative) assurance audit undertaken in 2020/21. The first of the reviews found that of the four actions which had become due for implementation, three had been implemented, but one high priority action had not been implemented.

The second review followed up that high priority action plus the six remaining actions which were all due for implementation. Whilst we found that three actions had been implemented, two medium priority actions had only been partly implemented (one downgraded to low priority), and one medium priority action and the same high priority action, which related to ensuring sufficient IT specialism/expertise is maintained amongst the authorities workforce, had not been implemented.

Advisory reviews

As part of the internal audit plan, our specialist colleagues undertook an advisory Fraud Risk Assessment, which identified seven areas for suggested improvement, but did not identify any significant areas of weakness. In addition to the audits in the original 2021/22 internal audit plan, we were also commissioned to undertake three additional advisory reviews: One CAM – Governance and Decision-making, Community Land Trust Advisory Review (10 management actions agreed), and an Analysis of Government Procurement Card Expenditure and Expenses – Deep Dive.

The deep dive report has been issued (with seven high, two medium and one low priority actions).

Additional factors and findings informing our opinion

In addition to the minimal assurance (negative) opinion of the Subsidiary Governance audit, the limited progress implementing the actions from the 2020/21 risk management audit, the findings of the Government Procurement Card Expenditure and Expenses – Deep Dive and some of the actions still requiring work following the 2020/21 IT Control Framework (minimal assurance) review, in forming our annual opinion we have also taken into account some significant wider governance issues. Some of these came to our attention following the independent review of governance commissioned by the Authority and subsequent concerns raised by the external auditor and reported by them to the Department for Levelling Up, Housing and Communities (DLUHC). The independent governance review made some 47 recommendations.

We note the External Auditor’s concerns and include an extract from the June 2022 Audit and Governance Committee papers:

The Chair of the Committee received a letter from EY, the Authority’s external auditors, on 1 June 2022 which notified him of their judgement that a value for money risk exists in the form of significant weakness in Cambridgeshire & Peterborough Combined Authority’s governance arrangements. This judgement, was based on the following reasons:

- “Investigations into key individuals in the Mayor’s office following a whistle-blower notification.
- Increased number of employment related claims against the Authority.
- Current vacancies in the Authority’s senior management team, particularly at Chief Executive level, and the prospect that this could increase further from July 2022.
- Weaknesses we have observed in how the extraordinary meeting of the Authority Board makes informed decisions; and
- That the nature of the whistle-blower allegations and initial findings of independent investigation reports raises significant questions on the culture, behaviour and integrity of key individuals in the Mayor’s office”

and leads the auditors to a concern “that the Authority has insufficient capacity, capability and an inappropriate culture to support the effective governance and operation of the organisation and how it discharges its statutory services”.

We understand that the authority Board will be debating a report from the Interim Chief Executive that sets out the initial steps of an improvement journey and we have included some proposed coverage in the 2022/23 internal audit plan to provide some independent coverage in relation to the improvement plan / actions that are agreed.

Topics judged relevant for consideration as part of the annual governance statement (AGS)

The Combined Authority should consider including the findings from the following reviews in the AGS, together with the actions planned to improve the weaknesses identified from the following reviews:

- Subsidiary Governance – 2021/22 Minimal Assurance
- Risk Management – 2020/21 Partial Assurance
- IT Control Framework – follow up and outstanding actions
- Government Procurement Card Expenditure and Expenses – Deep Dive

The Combined Authority should also consider whether other significant issues should be included in the AGS, including the results of the independent governance review and concerns raised by external audit, that were reported to DLUHC.

THE BASIS OF OUR INTERNAL AUDIT OPINION

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As well as those headlines previously discussed, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

Acceptance of internal audit management actions

Management have agreed actions to address all of the findings reported by the internal audit service during 2021/22. Please note one report remains in draft.

Implementation of internal audit management actions

Our follow up of the actions agreed to address previous years' internal audit findings shows that the organisation had made **reasonable progress** in implementing the agreed actions.

We undertook one Follow Up review in April 2022 and confirmed that of the 10 actions followed up, one medium and four low priority actions had been fully implemented, one medium priority action had been partly implemented, one medium priority action had not yet been implemented, and three medium priority actions had been superseded. In one case, although the medium priority action had been implemented, we agreed a new low priority action due to a further issue being identified.

We also undertook two specific follow up reviews of the IT Control Framework review from 2020/21 and the results of this are shown in the section above.

Working with other assurance providers

In forming our opinion, we have not placed any direct reliance on other assurance providers. However, in forming our annual opinion we have also taken into account the significant wider governance issues which have come to our attention following the independent review of governance commissioned by the Authority and the concerns raised by the external auditor (EY) and reported by them to the DLUHC.

OUR PERFORMANCE

Wider value adding delivery

Area of work	How has this added value?
Sector Briefings	Issued briefings relating to the sector within our progress reports presented to the Audit and Governance Committee (AGC) to assist officers and committee members in being informed on the latest developments within the sector.
Webinar invitations	Various invitations have been sent to management to attend webinars to inform of any sector and wider sector updates. Examples include Procurement, Employment Matters, and VAT.
Coronavirus: Various briefings and webinars	RSM have delivered a number of webinars and client briefings in relation to Coronavirus (ranging from Government financial support for employers, fraud briefings, HR and Legal Support etc).
Audit and Governance Committee attendance	We have attended all AGC's and where appropriate contributed to the wider agenda.
Communication	We have held scheduled monthly calls with the deputy chief finance officer, and numerous ad hoc calls as required with the CFO and Monitoring Officer.
Best practice	Shared best practice across the sector through the management actions we have agreed as part of our work.
Specialist expertise	We have provided specialist support through the audit plan as required including the IT Control Framework follow up reviews, Fraud Risk Assessment, and Adult Education Budget review.
Sector experience	We have also made suggestions throughout our audit reports based on our knowledge and experience in the local government sector to provide areas for consideration.
Ad hoc reviews	We have responded to requests to undertake additional ad hoc reviews and allocated the appropriate level of skill or expertise to each assignment.

Conflicts of interest

During 2021/22 we have completed several reviews of grant funding received by the Combined Authority as part of the requirements of the Authority to confirm to funding providers that expenditure has been appropriate in line with the terms of the grants. We were also requested to undertake some risk management support (information gathering, analysis, interpret, check, challenge and conclude, development of road map).

All this work was undertaken via separate letters of engagements, led by independent engagement partners and delivered by specialist staff separate from the core Internal Audit Team. We have considered as part of all of these additional engagements the safeguards required to be in place and are satisfied that these have been met.

When asked to undertake any additional roles / responsibilities outside of the internal audit programme, the Head of Internal Audit has discussed these areas with the Chief Finance Officer and highlighted any potential or perceived impairment to our independence and objectivity. We have also reminded the CFO of the safeguards we have put in place to limit impairments to independence and objectivity and how these continue to be managed.

RSM has not therefore undertaken any work or activity during 2021/2022 that would lead us to declare any conflict of interest.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the International Standards for the Professional Practice of Internal Auditing, the wider International Professional Practices Framework (IPPF), and the Internal Audit Code of Practice as published by the Global Institute of Internal Auditors (IIA) and the Chartered IIA.

Under the Standards, internal audit services are required to have an external quality assessment (EQA) every five years. The RSM UK Risk Assurance service line commissioned an external independent review of our internal audit services in 2021, to provide assurance as to whether our approach continues to meet the requirements.

The external review concluded that RSM 'generally conforms* to the requirements of the IIA Standards' and that 'RSM IA also generally conforms with the other Professional Standards and the IIA Code of Ethics. There were no instances of non-conformance with any of the Professional Standards'.

* The rating of 'generally conforms' is the highest rating that can be achieved, in line with the IIA's EQA assessment model.

Quality assurance and continual improvement

To ensure that RSM remains compliant with the International Standards for the Professional Practice of Internal Auditing and the International Professional Practices Framework (IPPF) we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

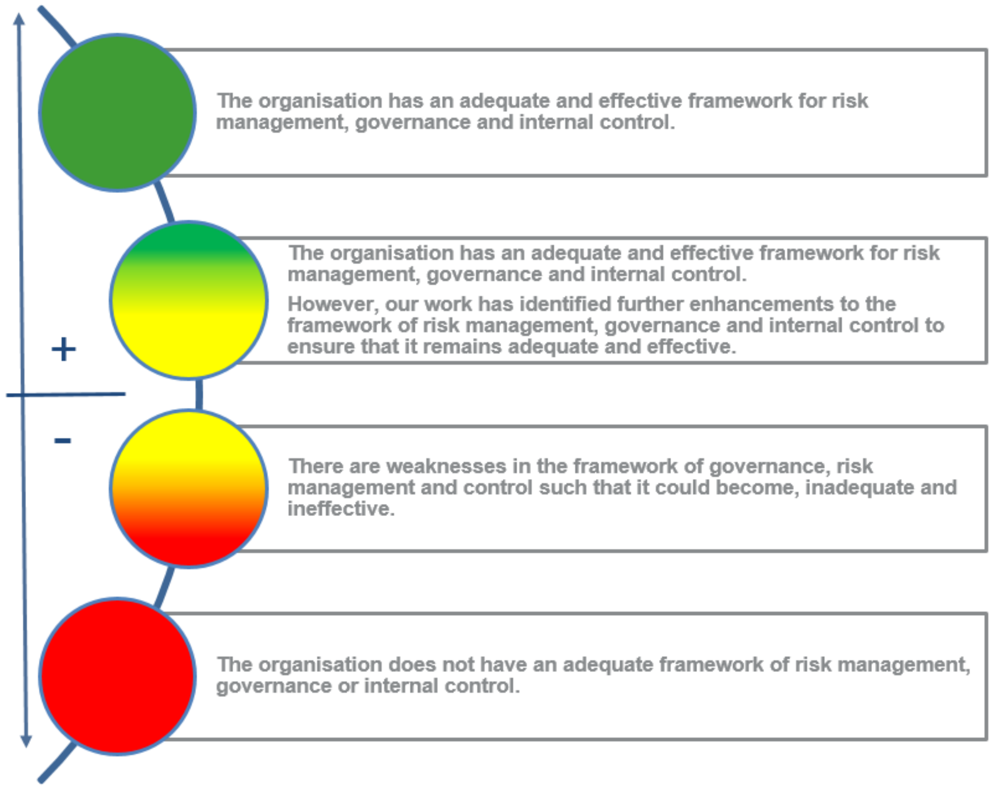
Resulting from the programme in 2021/22, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

In addition to this, any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments is also taken into consideration to continually improve the service we provide and inform any training requirements.

Item 10

APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

Annual opinions	Factors influencing our opinion
	See below

Factors influencing our opinion

The factors which are considered when influencing our opinion are:

- inherent risk in the area being audited;
- limitations in the individual audit assignments;
- the adequacy and effectiveness of the risk management and / or governance control framework;
- the impact of weakness identified;
- the level of risk exposure; and
- the response to management actions raised and timeliness of actions taken.

APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2021/22

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual assignment report.

Assignment	Executive lead	Assurance level	Actions agreed		
			L	M	H
Subsidiary Governance	Robert Parkin, Chief Legal Officer (Monitoring Officer)	Minimal Assurance [●]	0	3	2
Adult Education Budget	John T Hill – Director of Business and Skills	Reasonable Assurance [●]	3	2	0
Key Financial Controls – Financial Reporting and General Ledger	Jon Alsop – Chief Finance Officer Robert Emery – Deputy Chief Finance Officer	Reasonable Assurance [●]	5	2	0
Capital Programme – Monitoring and Reporting	Jon Alsop – Chief Finance Officer Robert Emery – Deputy Chief Finance Officer	Reasonable Assurance [●]	2	2	0
Payroll	Jon Alsop – Chief Finance Officer	Reasonable Assurance [●]	5	2	0
Follow Up	Jon Alsop – Chief Finance Officer Robert Emery – Deputy Chief Finance Officer	Reasonable Progress	1	2	0
Fraud Risk Assessment	Jon Alsop – Chief Finance Off icer	Advisory	7 areas for improvement		
One CAM - Governance and Decision Making	Robert Parkin, Chief Legal Officer (Monitoring Officer)	Advisory	2	1	0

Assignment	Executive lead	Assurance level	Actions agreed		
			L	M	H
IT Control Framework Review – Follow Up Part 1	Robert Parkin, Chief Legal Officer (Monitoring Officer)	No overall opinion	1	1	1
IT Control Framework Review – Follow Up Part 2	Robert Parkin, Chief Legal Officer (Monitoring Officer)	No overall opinion	1	2	1
Analysis of Government Procurement Card Expenditure and Expenses – Deep Dive (DRAFT)	Jon Alsop – Chief Finance Officer	No overall opinion but significant weaknesses	1	2	7
Community Land Trust – Advisory Review	Robert Parkin, Chief Legal Officer (Monitoring Officer)	Advisory	11 management actions		

APPENDIX C: OPINION CLASSIFICATION

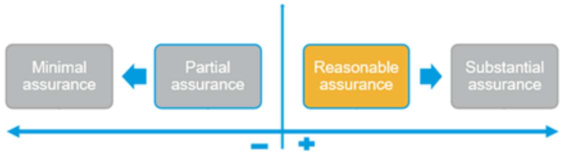
We use the following levels of opinion classification within our internal audit reports, reflecting the level of assurance the board can take:

Taking account of the issues identified, the board can take minimal assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Urgent action is needed to strengthen the control framework to manage the identified risk(s).

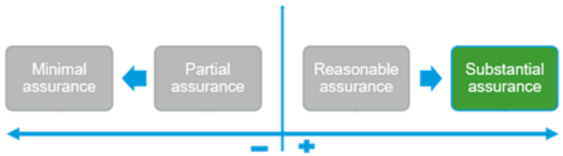
Taking account of the issues identified, the board can take partial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.

Action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).



Taking account of the issues identified, the board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

YOUR INTERNAL AUDIT TEAM

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