Cambridgeshire and Peterborough Combined Authority

Investment Strategy Report 2022/23

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 £44m and £272m during the 2022/23 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 2022/23 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 one has been fully repaid and the other four are due to be repaid by the end of March 2023.

Recycled Growth Fund Loans

The CPCA 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 2022-23 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	31.3.2021 actual			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0.000	0.000	0.000	20.000
Local businesses	45.491	0.779	44.712	60.000
TOTAL	**45.491**	**0.779**	**44.712**	**80.000**

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

Contribution: The Authority invests in the shares of its subsidiaries and local businesses to support local public services and stimulate local economic growth.
The CPCA has approved a number of service equity investments as part of both the University of Peterborough and the Business and Skills agenda summarised below.

University of Peterborough Phase 1

Equity investment into a Joint Venture along with Peterborough City Council and Anglia Ruskin University with a total CPCA investment of £23.5m.

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, funded by the Getting Building Fund.

University of Peterborough Phase 3

Equity Investment of £2m expected to be made last quarter of 21/22 into same company that is delivering Phase 1. Along with further funding from Anglia Ruskin University and Levelling up Funding secured by Peterborough City Council this will deliver a second teaching building and living lab.

The Business Growth Service

Approved by CPCA and involves equity investment of £5.4m of LGF funding to deliver support to local businesses and improve the skills offering in the Combined Authority area.

Other Growth Fund equity investments

There are a number of smaller equity investments made within the Growth Fund programme, these total £2.8m currently awarded with a further pipeline of up to £1.8m.

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 CPCA 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 remaining funds returned to the Authority

Capital Growth Scheme Investments

The Cambridgeshire and Peterborough Business Growth Co Ltd is tasked with the delivery of a £11m fund for a combination of grants and small scale equity investments into SMEs. This programme is to provide working capital 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 CPCA.

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	31.3.2021 actual			2022/23
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	32.202	3.813	28.389	35.000
Local businesses	2.421	0.686	1.735	10.000
TOTAL	**34.623**	**4.499**	**30.124**	**45.000**

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	**31.03.2021 Actual**	**31.03.2022 Forecast**	**31.03.2023 Forecast**
Treasury management investments	231.000	238.000	30.000
Service investments: Loans	44.712	37.000	8.000
Service investments: Shares	30.124	47.000	48.000
TOTAL INVESTMENTS	305.836	322.000	86.000
Commitments to lend	3.880	1.226	0.000
TOTAL EXPOSURE	309.716	323.226	86.000

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	**2020/21 Actual**	**2021/22 Forecast**	**2022/23 Forecast**
Treasury management investments	0.382%	0.156%	0.467%
Service investments - Loans	1.725%	2.599%	2.792%
ALL INVESTMENTS	0.598%	0.481%	0.516%