

# Cambridgeshire and Peterborough Combined Authority

## Capital Strategy Report ~~2023/24~~2024/25

### 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~~2024/25, the Authority is planning capital expenditure of £~~401.59m~~162.40m as summarised below.

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

	<del>2021/22</del> <u>2022/23</u> actual	<del>2022/23</del> <u>2023/24</u> forecast	<del>2023/24</del> <u>2024/25</u> budget	<del>2024/25</del> <u>2025/26</u> budget
Capital investments	<del>117.07</del> <u>104.53</u>	<del>125.43</del> <u>161.45</u>	<del>401.59</del> <u>162.40</u>	<del>48.95</del> <u>63.37</u>
<b>TOTAL</b>	<del>117.07</del> <u>104.53</u>	<del>125.43</del> <u>161.45</u>	<del>401.59</del> <u>162.40</u>	<del>48.95</del> <u>63.37</u>

The figures for ~~2022/23~~, 2023/24, 2024/25 and ~~2024/25~~2025/26 are taken from the Approved Capital Expenditure Programme as set out and described in the draft Medium Term Financial Plan approved for consultation by the Combined Authority Board at its ~~January~~November meeting.

### **Governance:**

The Combined ~~Authority's~~Authority has a suite of key governance and policy documents with the Single Assurance Framework sets out providing the primary governance document in relation to investment processes including:

~~(a) How the seven principles of public life shape~~(a) How the Combined Authority adheres to the requirements of the English Devolution Accountability Framework and Nolan principals shaping 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 including a code of conduct for both Members and Officers.

(b) Alongside the Combined Authority's constitution, sets out the respective roles and responsibilities ~~of across~~ the Combined Authority, including the Mayor, the Board, Investment Committee, Business Board (the Local Enterprise Partnership), Thematic and statutory Committees, 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

	<del>2021/22</del> <u>2022/23</u>	<del>2022/23</del> <u>2023/24</u>	<del>2023/24</del> <u>2024/25</u>	<del>2024/25</del> <u>2025/26</u>
	actual	forecast	budget	budget
Grant Funding	<del>402.14</del> <u>87.83</u>	<del>401.17</del> <u>143.41</u>	<del>88.92</del> <u>155.19</u>	<del>44.68</del> <u>58.96</u>
Usable Capital Receipts	<del>14.93</del> <u>16.70</u>	<del>24.26</del> <u>18.04</u>	<del>12.67</del> <u>7.21</u>	<del>4.27</del> <u>41</u>
Debt	0	0	0	0
<b>TOTAL</b>	<del>117.07</del> <u>104.53</u>	<del>124.43</del> <u>161.45</u>	<del>101.59</del> <u>162.40</u>	<del>48.95</del> <u>63.37</u>

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 is considering the case for Franchising the sustainability and Public Transport agendas is still in development and bus network. The investments to support the franchised network may be financed by debt may form part of but the Combined Authority would likely apply internal borrowing for this role rather than external debt. 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 31<sup>st</sup> March ~~2023~~2024 and in line with the DLUHC Guidance expects to charge no MRP in ~~2023/24~~2024/25.

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 ~~January~~December 2023, the Authority had no borrowing and £~~495.3m~~196.7m treasury investments at an average rate of ~~2.93~~5.03%

**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. <del>2022</del> <u>2023</u> actual	31.3. <del>2023</del> <u>2024</u> forecast	31.3. <del>2024</del> <u>2025</u> budget	31.3. <del>2025</del> <u>2026</u> 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. <del>2022</del> <u>2023</u> actual	31.3. <del>2023</del> <u>2024</u> forecast	31.3. <del>2024</del> <u>2025</u> budget	31.3. <del>2025</del> <u>2026</u> budget

<b>OutstandingForecast</b> borrowing	0	0	0	0
Liability (Asset) benchmark	( <del>298.3</del> <u>192.4</u> )	( <del>125.6</del> <u>137.8</u> )	( <del>5493.6</del> )	( <del>3329.8</del> )

**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*

	<del>2022/23</del> <u>2023/24</u> limit	<del>2023/24</del> <u>2024/25</u> limit	<del>2024/25</del> <u>2025/26</u> 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 its 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 project expenditure and ~~purchases and~~ will therefore ~~also be approved as part of~~ follow the capital programme business case approval route appropriate for their value set out within the Single Assurance Framework. 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.

### Other Liabilities

The Authority is committed to making future payments to cover its pension fund deficit (~~valued as~~ at £31/3.87m/23 this was a surplus of £0.92m). There are currently no commitments to make future payments in relation to debt or other major liabilities.

The Authority is also at risk of having to pay for costs related to issues on a construction project but has not put aside any money because current estimates anticipate the costs will be within the existing project budget. There is currently no requirement to cover risks of other provisions, financial guarantees or major contingent liabilities.

**Governance:** Decisions on incurring new discretionary liabilities are taken by Executive 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 both the Audit relevant thematic committee and Governance the investment 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

	<u>2021/22</u> <u>2022/23</u> actual	<u>2022/23</u> <u>2023/24</u> forecast	<u>2023/24</u> <u>2024/25</u> budget	<u>2024/25</u> <u>2025/26</u> 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.