CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Agenda Item No: 8

2020/21 Treasury Management Outturn Report

To:	Audit and Governance Committee
Meeting Date:	25th June 2021
Public report:	Yes
From:	Robert Emery, Chief Accountant and Deputy S73 Officer
Key decision:	Not a key decision
Forward Plan ref:	
Recommendations:	The Audit and Governance Committee is recommended to:

a) Review the actual performance for the year to 31st March 2021 against the adopted prudential and treasury indicators.

1. Purpose

1.1. The purpose of the report is for the Audit and Governance Committee to review the actual performance to 31st March 2021 against the prudential indicators included within the Treasury Management and Capital Strategies.

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, including an Annual Treasury Report, which is a review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This report represents the Annual Treasury Report.

Treasury Management Strategy Prudential Indicators

2.3. The Prudential Code underpins the system of capital finance. Prudential indicators are developed to ensure that:

(a) Capital investment plans are affordable;
(b) All external borrowing and other long-term liabilities are within prudent and sustainable levels; and
(c) Treasury management decisions are taken in accordance with professional good advice.

2.4. The Annual performance against the adopted Prudential Indicators is shown at appendix 1.

2.5. The Chief Accountant reports that there were two areas of non-compliance with the Authority's approved Treasury Management Strategy in 2020-21 for the following reasons:

- <u>Principal Sums Invested For Longer than a Year – 2020/21</u>.
  This indicator shows the value of all treasury management investments as at the end of the 20-21 financial year and was based on the forecast end-of-year cash balance when the 2020-21 Treasury Management Strategy was approved. During the year, the CPCA was awarded £79m in Green Homes grants to be spent in 2021-22 which has increased the balance of cash invested at the end of the year beyond what was anticipated.
  As can be seen with the indicators for 2021-22 and 2022-23 being within the parameters, this is a short-term issue and does not represent a significant risk to the CPCA.

- <u>Interest Rate Risk Exposure</u>
  This breach was previously reported in the update to the Audit and Governance Committee in January 2021 and is due to higher levels of liquid funds being held to meet operational needs in the next 12 months. This has been reflected in the increase of the indicator to

£1.5m in the 2021-22 Treasury Management Strategy that the Committee recommended to the Board in January.

Investment Activity

2.6. Surplus cash balances are held in accordance with the principles set out in the Treasury Management Strategy in order to support strategic investment decisions, the Capital Programme, and the Medium-Term Financial Plan (MTFP).

2.7. In 2020-21 the Combined Authority received a total return of £794k against an original, pre-pandemic, budget of £1,020k – this is better than was predicted halfway through the year due to a number of multi-year deals which were made at a rate of interest significantly higher than that available for shorter term investments. Deals which had already been entered into at the end of March 2021 mean that the CPCA has secured returns in excess of the budget for 2021-22 without compromising on security or liquidity.

2.8. Table 1 below shows the treasury management position at 31st March 2021 and the change during the year. The CPCA has undertaken no borrowing in 2020-21 so there is no corresponding summary for debt.

Table 1: Treasury Management Summary

	As at 31.3.2020		**As at 31.3.2021**	
	Balance (£m)	**Average Rate**	**Balance (£m)**	**Average Rate**
Fixed Term Deposits				
Local Authority, time to maturity:				
Less than 3 months	69	0.88%	40	0.33%
3-6 months	40	0.84%	45	0.32%
7-9 months	25	0.84%	43	0.26%
10-12 months	15	0.97%	50	0.20%
Longer than 12 months	0	-	10	0.61%
Total Local Authority	**149**	**0.87%**	**188**	**0.29%**
DMO* less than 3 months	0	-	0	-
Immediate Access				
Call Account	1	0.00%	11	0.00
Money Market Funds	10	0.47%	32	0.01%
Total investments	**160.0**	**0.84%**	**231**	**0.24%**

**DMO (formally the Debt Management Account Deposit Facility) is a government department which offers risk-free deposits for Local Authorities.*

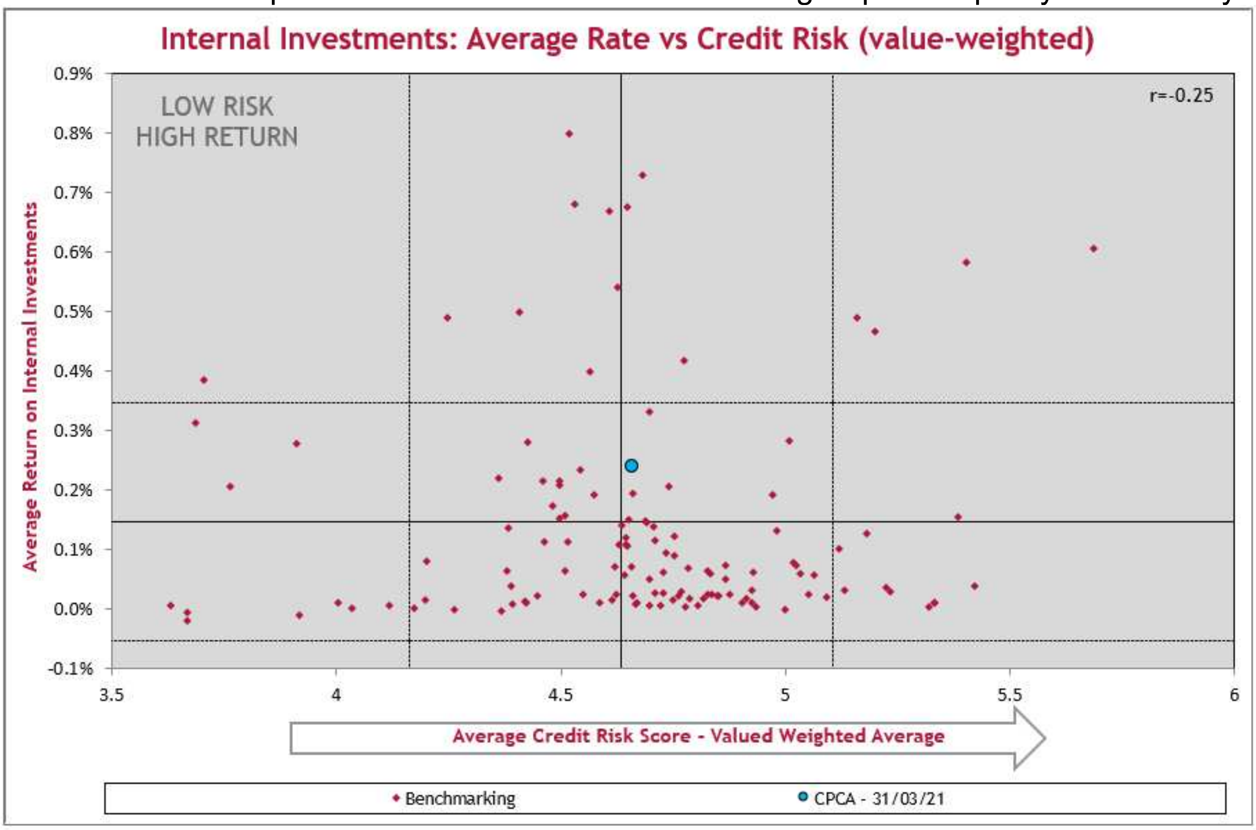
2.9. In response to the global economic recession due to COVID the Bank of England, in line with many national and international institutions has reduced the cost of borrowing (the base rate) to historically low levels. The cost of debt from the Bank has a knock-on effect on lending rates across the country.

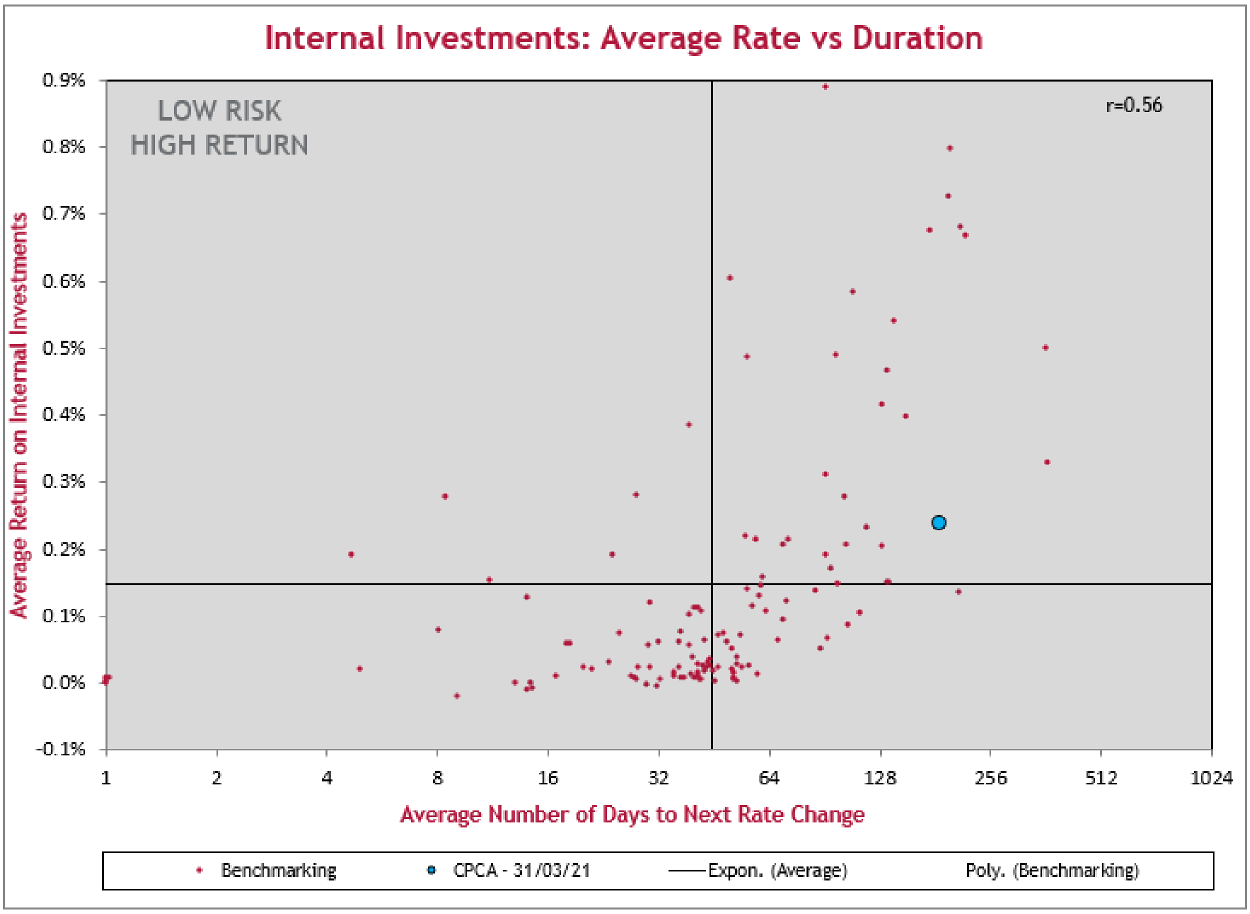
2.10. While some early signs of increased inflation have been seen in recent months, particularly in the US markets, this has not yet fed through into state-set interest rate increases with the Bank of England voting unanimously to maintain the base rate at 0.1% in May 2021.

2.11. As we predominantly lend to other Local Authorities this reduction in the cost of debt is further exacerbated as Government has made substantial cash injections into the sector and projects have been put on hold, reducing the demand for borrowing and thus the rates achievable.
At the previous update we highlighted that this meant current deals were being replaced with lower rate deals as they mature. Since then, the majority of our treasury management deals have matured so, barring unforeseen further developments, the average rate is unlikely to fall further due to the direct impacts of COVID.

2.12. The investment portfolio compares favourably against benchmarking data provided by our treasury management advisors, Arlingclose. The first graph (below) shows value weighted average credit risk of the portfolio against the average return. The expectation would be that as credit risk increases, returns increase. The Authority's portfolio has a credit risk almost exactly average for the sector, whilst enjoying slightly above average returns.

2.13. The maturity of a portfolio will impact on this metric as more established portfolios with investments taken out longer ago will benefit from the higher rates on offer at the time. The second graph shows average rate against the average remaining duration of investments. The Authority's portfolio is slightly above average rate and significantly above average duration; this was a conscious decision to, where possible, take longer term deals in order to achieve an improved rate of return while maintaining required liquidity and security.





Significant Implications

3. Financial Implications

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

4. Legal Implications

4.1. 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.

5. Other Significant Implications

5.1. There are no significant implications not discussed above.

6. Appendices

6.1. Appendix 1: 2021 Performance against Treasury Management and Capital Indicators and Limits

7. Background Papers

7.1. CPCA Treasury Management Strategy: 25 March 2020 Combined Authority Board Item 2.2 App 2

Appendix 1 – 2021 Performance against Treasury Management and Capital Indicators and Limits

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators, compliance has been indicated for each:

1. **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 banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors 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.

	Cash limit per the 20-21 Treasury Management Strategy	Maximum balance held in 2020-21 financial year	Complied?
Any single organisation, except the UK Central Government	£25m each	£25m	Yes
UK Central Government	unlimited	£115m	Yes
Any group of organisations under the same ownership	£25m per group	£0	Yes
Any group of pooled funds under the same management	£50m per manager	£0	Yes
Negotiable instruments held in a broker's nominee account	£50m per broker	£0	Yes
Foreign countries	£25m per country	£0	Yes
Registered providers and registered social landlords	£50m in total	£0	Yes
Unsecured investments with building societies	£25m in total	£0	Yes
Loans to unrated corporates	£40m in total	£0	Yes
Money market funds	unlimited	£40m	Yes
Real estate investment trusts	£50m in total	£0	Yes

2. **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.

	31.3.21 Actual	**2020/21 Target**	**Complied?**
Portfolio average credit score (lower is better)	4.66 (A+)	6 (A)	Yes

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

	31.3.21 Actual	**2020/21 Target**	**Complied?**
Total cash available within 3 months	£73m	£50m	Yes

4. **Interest Rate Exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	**31.3.21 Actual**	**2020/21 Limit**	**Complied?**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.15m	£1m	No
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.15m	£1m	No

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

5. **Principal Sums Invested for Periods Longer than a year:** 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 were:

	2020/21	**2021/22**	**2022/23**
Actual principal invested beyond year end	£188m	£30m	£0m
Limit on principal invested beyond year end	£160m	£50m	£50m
Complied?	No	Yes	Yes

Capital Strategy Indicators

1. **Capital Expenditure in £ millions.** The table shows the Combined Authority's capital expenditure for 2020/21, and the following two financial years based on the medium-term financial plan. Slippage requested reflects the amount of budget originally programmed for 2020/21 which has not been spent and is now anticipated in 2021/22 which would create a corresponding increase in the 20201/22 budget.

	2020/21 forecast	2020/21 outturn	Slippage requested	2021/22 budget	2022/23 budget	2023/24 budget
Capital investments	173.53	153.31	27.77	132.37	114.86	44.87
TOTAL	**173.53**	**153.31**	**27.77**	**132.37**	**114.86**	**44.87**

2. **Indicator 2 – Capital Financing in £ millions.** 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 financing of the above expenditure is as follows:

	2020/21 forecast	2020/21 outturn
Gainshare Capital/TCF	55.39	9.62
Housing Capital	44.61	29.95
Highways Maintenance Grant	23.08	36.62
Local Growth Fund	50.45	66.92
Getting Building Fund[1]	0	7.30
Recycled Growth Funds[2]	0	1.75
NPIF[2]	0	1.11
Debt	0	0
TOTAL	**173.53**	**153.31**

[1] The getting building fund was awarded within 2020-21 and thus was not included in the forecast set at the start of the financial year
[2] These were include under 'Other' in the approved capital strategy.

3. **Indicator 3 – Gross Debt and the Capital Financing Requirement in £ millions.** 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 Minimum Revenue Provision (MRP) and capital receipts used to replace debt. The Authority currently has no debt and therefore no CFR. Projected levels of the Authority's

total outstanding debt which comprises borrowing, PFI liabilities and leases are shown below, compared with the capital financing requirement.

	31.3.2021 forecast	31.3.2021 actual
Debt (incl. PFI & leases)	0	0
Capital Financing Requirement	0	0

4. **Indicator 4 – Borrowing and the Liability Benchmark in £ millions.** To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark is calculated showing the lowest risk level of borrowing. Given that there are no current plans to borrow, this benchmark is currently set at the existing debt cap, but will be kept under review.

	31.3.2021 forecast	31.3.2021 actual	31.3.2022 budget
Outstanding borrowing	0	0	0
Liability benchmark	0	0	84.61

5. **Indicators 5 and 6 - Authorised limit and operational boundary for external debt in £ millions.** 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.

	2020/21 limit	2020/21 actual	2021/22 limit
Authorised limit – total external debt	84.61	0	84.61
Operational boundary – total external debt	74.61	0	74.61