CAMBRIDGESHIRE & PETERBOROUGH
COMBINED AUTHORITY

Audit and Governance Committee	Agenda Item
17 November 2023	**7**

Title:	23/24 Treasury Management Mid Year Review
Report of:	Ian Pantling
Public Report:	Yes
Key Decision:	*No*
Voting Arrangements:	N/A

Recommendations:	
A	Review and note the in-year performance against the adopted prudential and treasury indicators.

Strategic Objective(s):	
The proposals within this report fit under the following strategic objective(s):	
X	Delivering Best Value and High Performance
Adhering to best practice guidance is a key element to demonstrate that the Combined Authority is performing well, CIPFA treasury management guidance requires that treasury management performance is regularly reported and reviewed.	

1. Purpose	
1.1	The purpose of the report is for the Audit and Governance Committee to review the in year against the prudential indicators included within the Treasury Management and Capital Strategies.

2. Proposal	
2.1	In-line with the Audit and Governance Committee's terms of reference they are asked to review and note the performance of the Combined Authority's treasury management functions against the performance indicators set in the approved Treasury and Capital strategies

3. Background	
3.1	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".
3.2	The Treasury Management in the Public Services: Code of Practice 2021 recommends

	that Members receive regular reports on the authority's treasury management policies, practices and activities, including a mid-year review progress report.
3.3	Appendix 1 to the report details our performance against the indicators agreed in the 23-24 strategies with areas of exception highlighted in the body of the report.
3.4	There have been no breaches of the indicators in 2023-24
3.5	Appendix 2 shows the current treasury management investments compared to the position as at 31st March 2023.
3.6	Appendix 3 presents the Combined Authority's treasury management investment position benchmarked against other Local Authorities
3.7	As return on investment is only considered after liquidity and security when making treasury management investments, the adopted performance indicators do not include any which report directly on the amount of interest received by the Authority. However the significantly increased interest rates seen over the last 12 months, along with slower than forecast spend on the capital programme, has resulted in the most recent budget monitoring report to the Combined Authority Board reflecting a forecast £6.8m income from treasury investments this year, £6m more than was forecast when the budget was approved in January.
3.8	The Combined Authority Board has been regularly updated on the performance of the Treasury Management portfolio and has received recommendations from Officers as to options to achieve best value in the use of these funds. These recommendations have focussed on one-off opportunities as it would not be prudent to underpin recurrent service budgets on such income as it is expected to drop in future years as interest rates are forecast to decrease from their current levels, and our cash balances are lower over the medium-term.

4. Appendices

4.1	Appendix 1 – 23/24 Mid Year performance against Treasury Management and Capital Indicators and Limits
4.2	Appendix 2 – Current Treasury Management Investments
4.3	Appendix 3 - Benchmarking of the Combined Authority's treasury investment portfolio

5. Implications

Financial Implications	
5.1	The financial implications are contained within the body of the report
Legal Implications	
6.1	The CPCA is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management, and the approval of types of investment vehicle are governed by legislation and various regulations. The CPCA is obliged to comply with these The CPCA will have regard to the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of the capital expenditure plans of Local Authorities and in setting its Prudential Indicators (PIs). The CPCA will also have regard to the Department of Levelling Up, Housing and Communities (DLUHC) guidance.

Public Health Implications	
7.1	There are no direct public health implications
Environmental & Climate Change Implications	
8.1	There are no direct climate change implications although the Treasury team are monitoring emerging investment opportunities with ESG credentials to see if any can be utilised within the approved treasury strategies.
Other Significant Implications	
9.1	There are no other significant implications
Background Papers	
10.1	23/24 Treasury Management Strategy 23/24 Capital Strategy

Appendix 1: 23/24 Mid Year 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.

Sector	Counterparty limit	Sector limit	Maximum balance held in 2023/24 financial year per Counter Party / Sector	Complied?
The UK Government	Unlimited	n/a	£100m	Yes
Local authorities & other government entities	£25m	Unlimited	£20m/£170m	Yes
Secured investments	£25m	Unlimited	£0	Yes
Banks (unsecured) (excluding operational bank account)	£15m	Unlimited	£0	Yes
Banks (unsecured, operational account)	£25	Unlimited	£5m	Yes
Building societies (unsecured)	£15m	£25m	£0	Yes
Registered providers (unsecured)	£15m	£50m	£0	Yes
Money market funds	£25m	Unlimited	£10m / £30m	Yes
Strategic pooled funds	£25m	£100m	£0	Yes
Real estate investment trusts	£25m	£50m	£0	Yes
Other investments	£15m	£25m	£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.

	Target	As at 30.09.2023	Complied?
Portfolio average credit score (lower is better)	6 (A)	4.72 (A+)	Yes

This indicator is provided as at 30.09.23 as it is calculated by our Treasury Management advisors as part of our quarterly benchmarking. The credit rating of investments as at 31.10.2023 is not materially different from the position as at 30.09.2023

3. **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**	**As at 31.10.2023**	**Complied?**
Total cash available within 3 months	£15m	£99.3m	Yes

4. **Interest Rate Exposures** This indicator is set to control the Authority's exposure to interest rate risk.

Interest rate risk indicator	**Limit**	**As at 31.10.2023**	**Complied?**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.5m	£1.2m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.5m	(£1.2m)	Yes

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 sums invested to final maturities beyond the period end were:

Price risk indicator	**2023/24**	**2024/25**	**2025/26**
Limit on long-term principal invested beyond year end	£50m	£30m	£20m
Actual long-term principal invested beyond year end	£30m	£15m	£0m
Complied?	Yes	Yes	Yes

Capital Strategy Indicators

6. **Capital Expenditure in £ millions.** . The table shows the Combined Authority's capital expenditure for 2023/24, and the following two financial years based on the 22/23 budget outturn report. This will be updated to show three future years from the draft, and final, MTFP once approved in Nov and Jan respectively draft

	2023/24 budget as at 31.07.23	**2023/24 forecast**	**2024/25 budget**	**2025/26 budget**
Capital investments	£192m	£183m	£42m	£32m
TOTAL	£192m	£183m	£42m	£32m

7. **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:

	2023/24 Budget as at 31.07.23	2023/24 forecast
Grant Funding	158.86	156.48
Usable Capital Receipts	33.28	26.10
Debt	0	0
TOTAL	**192.14**	**182.58**

8. **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 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, leases are shown below, compared with the capital financing requirement.

	31.3.2024 budget	31.3.2024 forecast
Debt (incl. PFI & leases)	0	0
Capital Financing Requirement	0	0

9. **Borrowing and the Liability (asset) 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, the liability benchmark is replaced with an asset benchmark so that the Committee can see how closely our forecasts of it's assets match to the actuals.

	31.3.2024 budget	31.3.2024 forecast
Outstanding borrowing	0	0
Liability (asset) benchmark	(54.6)	(55.0)

10. **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.

	2023/24 limit	**2023/24 forecast**
Authorised limit – total external debt	84.61	0
Operational boundary – total external debt	74.61	0

11. **Proportion of financing costs to net revenue stream** Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. 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**.**

	2023/24 budget	**2023/24 forecast**
Financing costs (£m)	0	0
Proportion of net revenue stream	0%	0%

Appendix 2: Current Treasury Management Investments

The table below shows the current treasury management investments alongside the investments in place at the end of the previous financial year.
There has been a small increase in the total investment balance since the start of the financial year. This is due to large portion of the Combined Authority's funding being received towards the start of the financial year and balances are expected to fall significantly over the remainder of the financial year - £154m of the £209m is available before 31st March 2024.
The average rate for investments maturing in 10-12 months as at 31/3/23 is impacted by one historic long term deal taken out before interest rates started to rise. This falls in the less than 3 months bracket as at 31.10.23 and has a smaller impact on average rate due the higher value of investments maturing at this point.

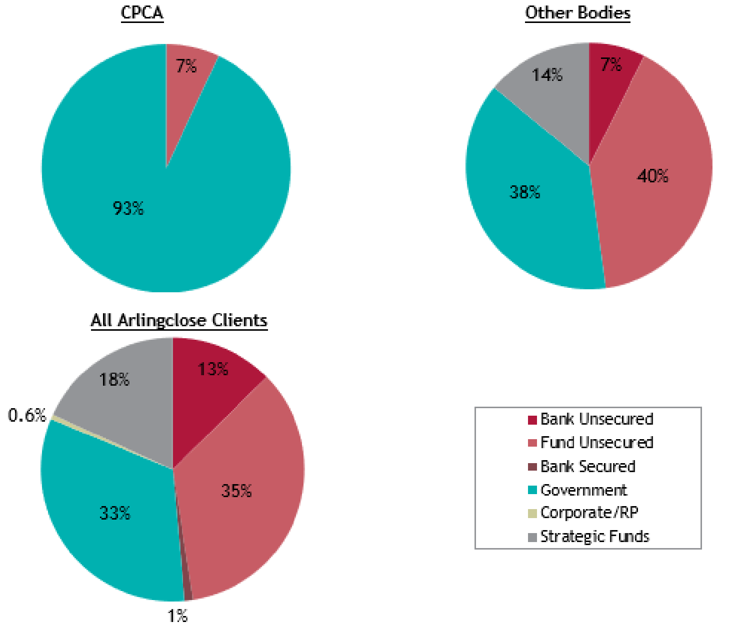
Principal outstanding		As at 31.03.2023		As at 31.10.2023	
		£k	Av. Rate	£k	Av. Rate
Fixed Term Deposits:					
Local Authority:					
	less than 3 months	57,000	3.76%	70,000	4.32%
	4-6 months	35,000	3.97%	45,000	5.13%
	7-9 months	35,000	4.22%	10,000	5.83%
	10-12 months	20,000	2.48%	10,000	5.78%
	More than 12 months	15,000	4.05%	25,000	4.39%
	Total Local Authority	**162,000**	**3.77%**	**160,000**	**4.77%**
DMO	less than 3 months	26,250	4.05%	24,700	5.19%
Access:					
Call Account		102	1.60%	428	2.00%
Money Market Funds		14,000	4.11%	24,200	5.32%
Total Investments		**202,352**	**3.83%**	**209,328**	**4.86%**

Appendix 2: Benchmarking of the Combined Authority’s treasury investment portfolio

Benchmarking summary as at 30th September 2023

Investment Benchmarking
31 March 2023

	CPCA	5 Other Bodies Average	122 LAs Average
Internal Investments	£202.4m	£128.9m	£66.5m
Cash Plus & Short Bond Funds	£0.0m	£0.0m	£2.2m
Strategic Pooled Funds	£0.0m	£0.9m	£12.1m
TOTAL INVESTMENTS	**£202.4m**	**£129.8m**	**£80.8m**
Security			
Average Credit Score	4.94	4.92	4.71
Average Credit Rating	A+	A+	A+
Average Credit Score (time-weighted)	5.12	4.90	4.56
Average Credit Rating (time-weighted)	A+	A+	A+
Number of Counterparties / Funds	25	17	12
Proportion Exposed to Bail-in	7%	58%	59%
Liquidity			
Proportion Available within 7 days	20%	50%	49%
Proportion Available within 100 days	48%	68%	70%
Average Days to Maturity	155	58	12
Market Risks			
Average Days to Next Rate Reset	158	76	44
Strategic Fund Volatility	-	1.4%	7.3%
Yield			
Internal Investment Return	3.83%	3.59%	3.67%
Cash Plus Funds - Income Return	-	-	1.37%
Strategic Funds - Income Return	-	3.69%	3.93%
Total Investments - Income Return	**3.83%**	**3.59%**	**3.66%**
Cash Plus Funds - Capital Gain/Loss	-	-	-0.06%
Strategic Funds - Capital Gain/Loss	-	-13.81%	-11.85%
Total Investments - Total Return	**3.83%**	**1.65%**	**1.59%**



Notes

• Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.

• Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.

• Credit scores are calculated as AAA = 1, AA+ = 2, etc.

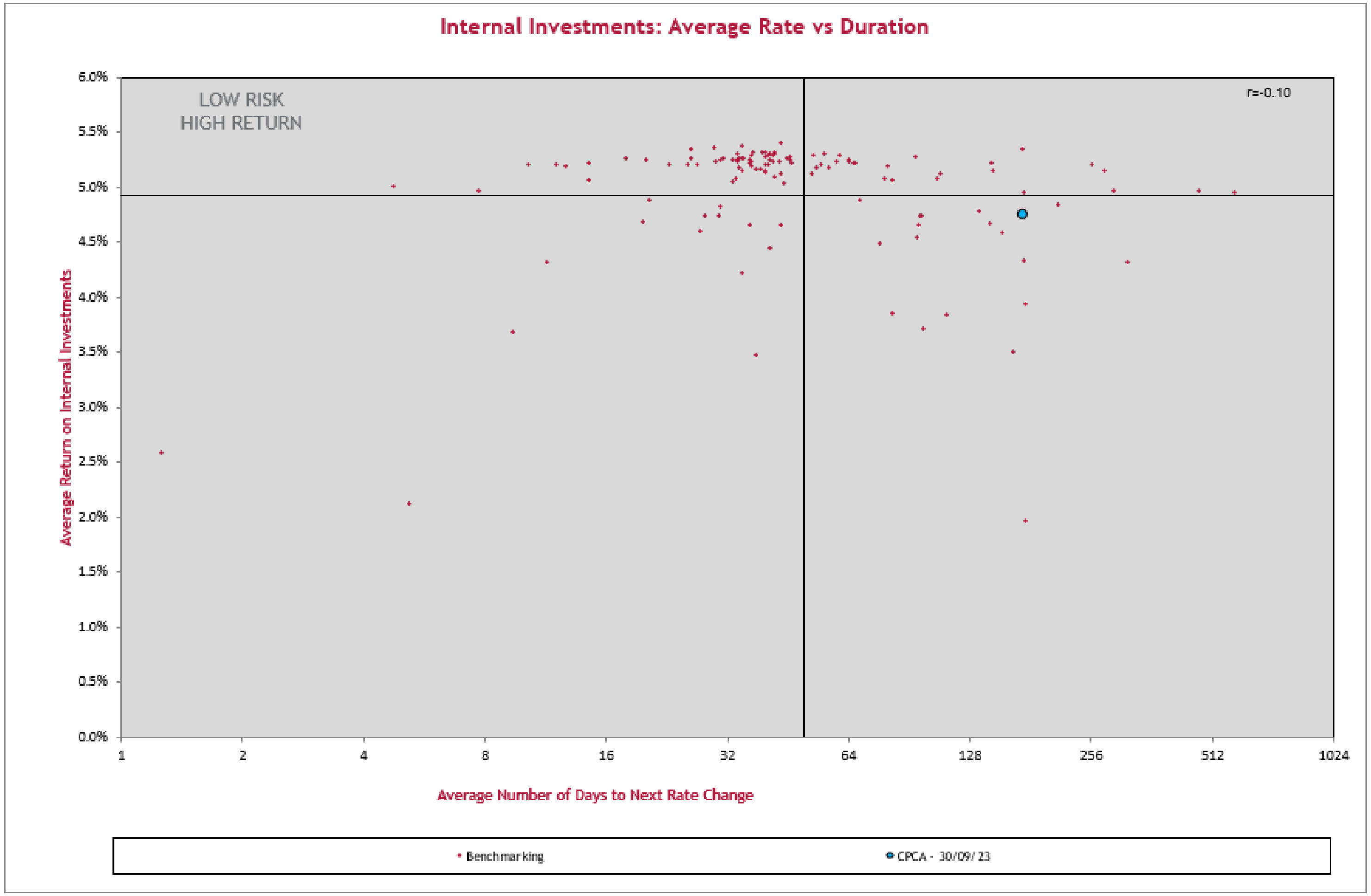
• Volatility is the standard deviation of weekly total returns, annualised.

This dashboard compares the Combined Authority’s treasury investment portfolio with 5 similar entities identified by our treasury advisors, Arling Close, and with 125 other Local Authorities.

While the Combined Authority has more counterparties, and less exposure to bail-in risk (both positives), it has no ‘strategic funds’ – these are longer term investments where capital can be at risk (as seen in the c.9% losses at the bottom of the table).

Over the long-term strategic funds are expected to out-perform simple loans however taking money out at an inopportune time could lead to significant losses. As such, due to the rapidly changing nature of the Combined Authority’s funding, investment in those funds has not been considered appropriate at this stage.

Average duration of investment vs rate of return



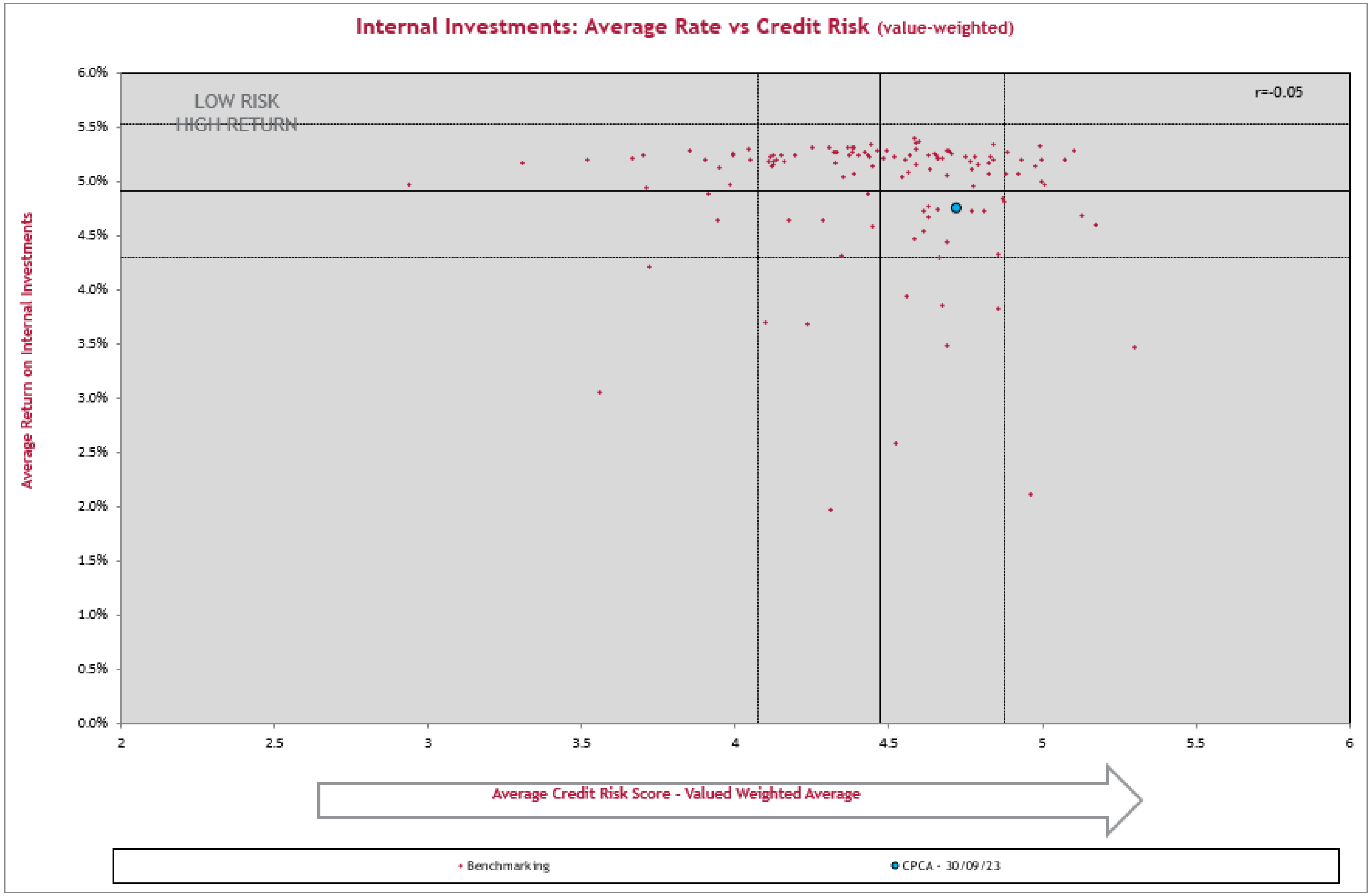
'Normal' behaviour in markets is that longer term investments offer higher returns, as the borrower places a premium on the certainty which would be seen in a trend with data points clustered in a rough line from bottom left of the graph to top right, and a positive r-value close to 1.

This behaviour is not seen in treasury markets at the end of September due to the current high inflation rates although now falling, are doing so at a much more slowly that they rose.

As such short-term rates are as good, or better, than long term rates as longer term deals (1+ years) are setting their rates on the expectation that overall interest rates will be lower.

The Combined Authority sits to the right of the majority of local authorities in this graph, showing that we have a longer average length of loan while achieving slightly below above average returns (the horizontal line).
Moving forward, as some final historic loans repay the average return on investment should increase to over 5% as new loans are achieving higher rates, before starting to fall again as expectation of longer term rate cuts impact further on future investments made.

Average rate vs Credit Risk



Credit risk scores are an indicator of how much trust the market has in the entity's ability to repay those funds, with lower numbers being better. For context, the UK Government's score is 3.7.

The risk here is the average of the entities the Combined Authority has lent to, not the Combined Authority's rating.

While the Combined Authority's average score is higher than most Local Authorities it is still well within the acceptable average score of 6 – which could allow capacity for the Authority to explore ESG accredited funds which may have a slightly lower rating in the future.