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.

<u>**Commercial Investments: Property**</u>

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%