



Financial Strategies 2021-22

- To: Cambridgeshire and Peterborough Combined Authority Board
- Meeting Date: 24 March 2021
- Public Report: Yes
- Lead Member: Mayor James Palmer
- From: Jon Alsop, Chief Finance Officer
- Key Decision: No
- Forward Plan ref: n/a
- Recommendations: The Combined Authority Board is recommended to:
- a) Approve the following Financial Strategies:
 - i. The Capital Strategy 2021-22
 - ii. The Investment Strategy 2021-22
 - iii. The Treasury Management Strategy 2021-22
 - b) Approve the Minimum Revenue Provision Statement for 2021-22
- Voting arrangements: A simple majority of all Members

1. Purpose

- 1.1 The purpose of the report is for the Combined Authority Board to review and approve the proposed Financial Strategies for 2021/22.

2. Background

- 2.1 Under the Combined Authority's Constitution the Combined Authority Board is responsible for the adoption of, and any amendments to, the Financial Strategies.
- 2.2 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".
- 2.3 The Audit and Governance Committee have reviewed the draft strategies for 2021-22 at their January and March meetings and their views are reflected in the proposed documents.

3. 2021-22 Financial Strategies

- 3.1. The following strategies have been updated for 2021/22 and are attached as Appendix 1.

(a) Capital Strategy: To provide a high-level overview for elected members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

(b) Treasury Management Strategy: Being the management of the Authority's cash flows, borrowing and investments and the associated risks.

(c) Investment Strategy: To meet the requirements of statutory guidance in which the Authority would support local public services by lending to or buying shares in other organisations, or to earn investment income.

(d) Minimum Revenue Provision (MRP) Statement: An MHCLG requirement to approve an MRP Statement each year to ensure that capital expenditure is financed over a reasonable period

- 3.2. The Board is asked to review the suite of strategies for adoption from the 1st April 2021.

4. Changes from the 2020-21 Strategies

- 4.1. Across all the strategies various limits on investments and forecast funding levels have been updated to reflect the capital programme approved by the Board in its January Meeting in terms of forecast equity, loan levels and new projects such as the University of Peterborough Phase 2. There have been no significant changes to the MRP policy and the Authority's MRP is still forecast to be zero.

The Capital Strategy

- 4.2. Beyond the routine changes addressed in 4.1 the Capital Strategy has been amended to recognise that CPCA based public sector borrowing is a possible source of financing for the CAM programme. This has not been recognised in the figures and limits within the strategies as the timing and quantum of any borrowing is as-yet unknown; however, it is likely that the scale of this borrowing would be far beyond the Combined Authority's current borrowing cap and thus the financial strategies would have to be fundamentally revised to reflect this.

The Investment Strategy

- 4.3. The Investment Strategy covers the investments the Authority makes for service purposes, such as housing loans. One significant change has been made to this strategy, which also impacts on the Treasury Management Strategy, which is the change in the funding source for the proposed housing 'top-up' fund.
- 4.4. In the 2020-21 strategies it was envisioned that this top-up fund could be funded by utilising cash balances held by the Authority ahead of their need to pay for the rest of the capital programme, such as taking advantage of the delay between the Authority's receipt of funding from Government and its use of the funds to deliver projects.
- 4.5. As time has progressed, the Authority has continued to ramp up its ambitious delivery programme which has led to a reduction in the expected cash balances held over the next 3-4 years to the point at which loans offered based on these balances would need to be repaid in timescales significantly shorter than are likely to be of use to housing developers.
- 4.6. This possibility was foreseen and both the current, and proposed, strategies allow for the Combined Authority to borrow to fund a housing top-up fund. As state aid regulations, rather than any cost of borrowing, dictate our minimum lending rates there is unlikely to be any change to the rates the Authority can offer to developers, only more flexibility in repayment periods.

The Treasury Management Strategy

- 4.7. There are two changes to the Treasury Management Strategy beyond the annual update of figures:
1. The counterparty limits (Table 2) has been reformatted to simplify it for clarity, there are no underlying changes to the actual counterparty limits beyond the change to the total Money Market Fund limit approved by the Combined Authority Board in January.
 2. The interest rate risk indicator has been increased from £1m to £1.5m.
- 4.8. The interest rate risk indicator is a measure of the amount the Authority could lose, or gain, by a 1% overnight change in interest rate. As such it is very dependent on liquid funds. Due to the level of expenditure planned over the next 6 months the level of liquid funds the Authority requires is expected to increase putting it at risk of breaching the £1m limit in normal operation.

- 4.9. The level of this indicator is an absolute upper limit, which is unlikely ever to occur for two reasons: First, it assumes no spend as funds mature i.e. it's the loss that would occur if all our maturing funds were re-invested rather than spent. Second the downside risk would require the bank of England base rate to drop to -0.9% which is significantly worse than the current central forecast which has it holding steady at 0.1% for the next 3 years.

Significant Implications

5. Financial Implications

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

6. Legal Implications

- 6.1. 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.

7. Other Significant Implications

- 7.1. None

8. Appendices

- 8.1. Appendix 1a – Capital Strategy 2021/22
- 8.2. Appendix 1b - Treasury Management Strategy 2021/22
- 8.3. Appendix 1c - Investment Strategy 2021/22
- 8.4. Appendix 1d - MRP Statement
- 8.5. Appendix 2a - Capital Strategy 2021/22 (with tracked changes)
- 8.6. Appendix 2b - Treasury Management Strategy 2021/22 (with tracked changes)
- 8.7. Appendix 2c - Investment Strategy 2021/22 (with tracked changes)
- 8.8. Appendix 2d - MRP Statement 2021/22 (with tracked changes)

9. Background Papers

- 9.1. [Cambridgeshire and Peterborough Combined Authority Treasury Management Strategy 2020-21](#)
- 9.2. [Cambridgeshire and Peterborough Combined Authority Capital Strategy 2020-21](#)