CAMBRIDGESHIRE
& PETERBOROUGH
COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 7
2 OCTOBER 2020	PUBLIC REPORT

ANNUAL TREASURY REPORT

1.0 PURPOSE

1.1. The purpose of the report is for the Audit and Governance Committee to review the actual performance to 31 March 2020 and current position as at 31 August 2020 against the prudential indicators included within the Treasury Management and Capital Strategies.

DECISION REQUIRED	
Lead Officer:	**Jon Alsop – Head of Finance (S73)**
The Audit and Governance Committee is recommended to: • Review the actual performance for the year to 31 March 2020 and current position as at 31 August 2020, against the adopted prudential and treasury indicators.	

2.0 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.

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.

Investment Activity

2.5. 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).

2.6. The table below shows the investments held with Approved Investments in accordance with the Treasury Management Strategy as at 31 March 2020 and 31 August 2020.

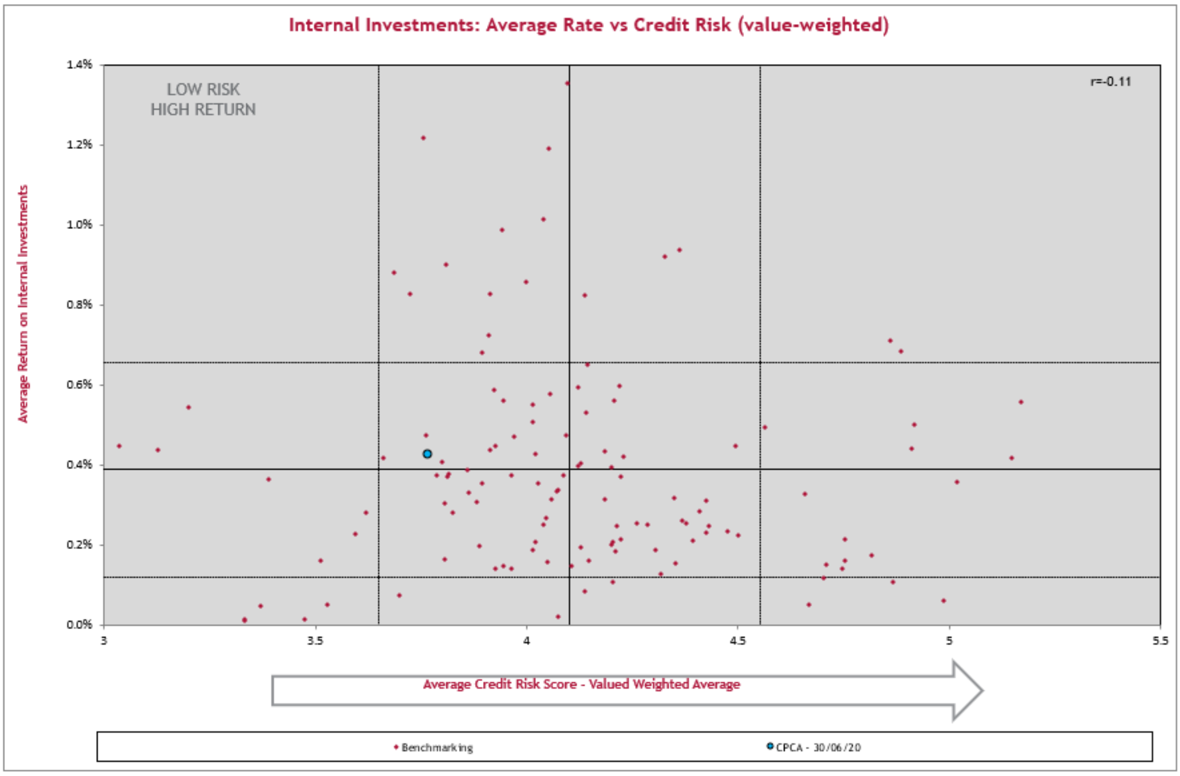
Principal outstanding	As at 31.03.2020		As at 31.08.2020	
	£k	Av. Rate	£k	Av. Rate
Fixed Term Deposits:				
Local Authority:				
less than 3 months	69,000	0.88%	40,000	0.85%
4-6 months	40,000	0.84%	50,000	0.50%
7-9 months	25,000	0.84%	15,000	0.78%
10-12 months	15,000	0.97%	20,000	0.44%
Total Local Authority	**149,000**	**0.87%**	**125,000**	**0.64%**
DMO less than 3 months	0	-	46,720	0.01%
Access:				
Call Account	921	0.00%	14,888	0.00%
Money Market Funds	10,000	0.47%	30,000	0.13%
Total Investments	**159,921**	**0.84%**	**216,608**	**0.39%**

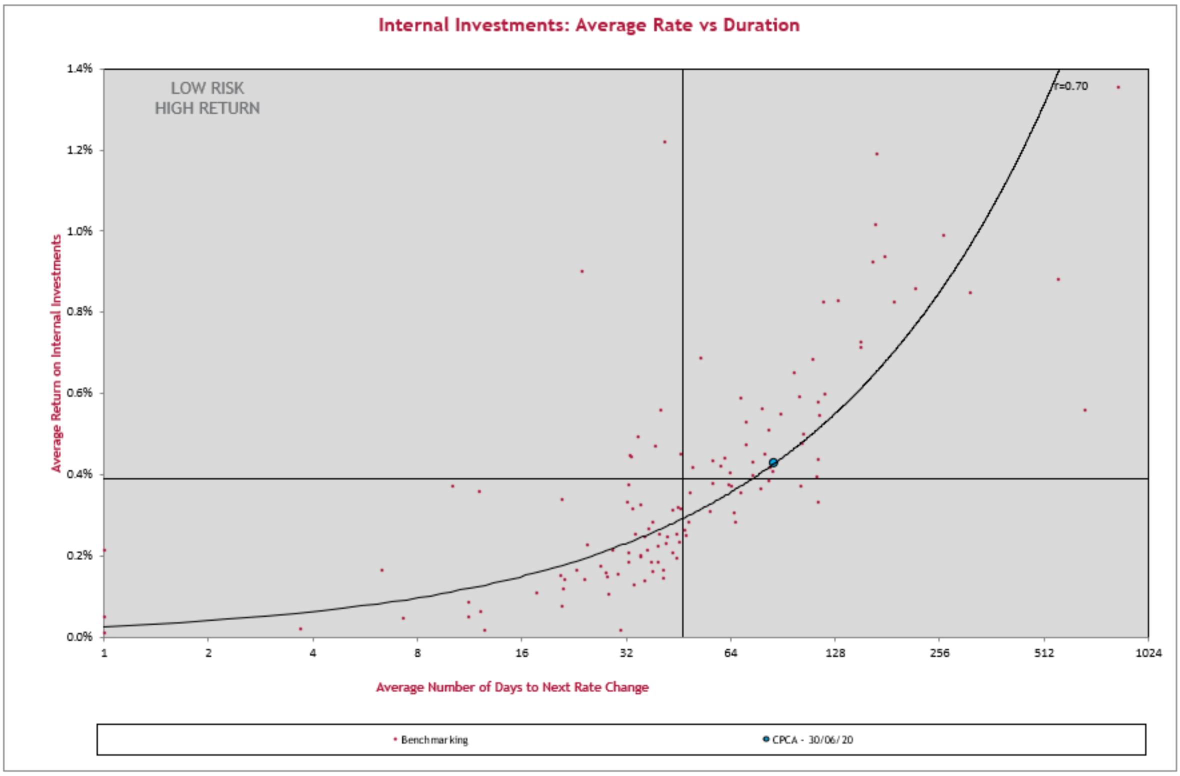
DMO (formally the Debt Management Account Deposit Facility) is a government department which offers risk-free deposits for Local Authorities.

2.7. 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.

2.8. 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.
As deals mature they are likely to be replaced at lower rates so even if the rates stabilise, the average rate of the portfolio will continue to fall. For example, a 9 month loan with another local authority at 0.9% matured in September 2020 and was replaced with a 12 month loan to the same authority at 0.45%.

2.9. The investment portfolio compares favourable against benchmarking data provided by our treasury management advisors, Arlingclose. The first graph 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 close to one standard deviation below the average, whilst enjoying slightly above average returns. 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 duration, sits on the trendline.





2.10. Since the adoption of the new Treasury Management Strategy for 2020-21 there have been four breaches of the £15m maximum limit on unsecured deposits with a single bank. This was due to funding being received after the daily cut off for same-day deposits with the Debt Management Account Deposit Facility and, in each case, was rectified the following working day.

3.0 FINANCIAL IMPLICATIONS

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

4.0 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.

5.0 SIGNIFICANT IMPLICATIONS

5.1. None.

6.0 APPENDICES

- Appendix 1 – Prudential Indicators

Source Documents	**Location**
Cambridgeshire and Peterborough Combined Authority (CPCA) Treasury Management Strategy 2020/21.	25 March 2020 Combined Authority Board Item 2.2 App 2
Cambridgeshire and Peterborough Combined Authority (CPCA) Capital Strategy 2020/21	25 March 2020 Combined Authority Board Item 2.2 App 1

Appendix 1: Treasury Management Report 2020/21

Prudential Indicators

1. The Code requires the Combined Authority to set a range of Prudential Indicators. The information provided below sets out the 2019/20 outturn performance and current performance as at 31 August 2020 against the Indicators adopted by the Combined Authority as set out in the Treasury Management Strategy.

2. **Indicator 1 - Capital Expenditure in £ millions.** The table shows the Combined Authority's capital expenditure for 2019/20 and the following two financial years. Estimates for future years are taken from the Medium Term Financial Plan, the 20/21 forecast is taken from the July Budgetary Control Report which includes slippage from 19/20 and reflects the revised budget approved at June Board meeting.

	2019/20 forecast	2019/20 budget as at 31.03.2020	2019/20 outturn	2020/21 budget	2020/21 Forecast	2021/22 budget
Capital investments	92.35	122.11	86.39	173.53	194.56	122.70
TOTAL	92.35	122.11	86.39	173.53	194.56	122.70

3. **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 planned financing of the above expenditure is as follows

	2019/20 forecast	2019/20 budget as at 31.03.2020	2019/20 outturn	2020/21 budget	2020/21 Forecast	2021/22 budget
Grant Funding	91.17	119.77	86.01	170.34	191.37	110.51
Usable Capital Receipts	1.18	2.34	0.38	3.19	3.19	12.19
Debt	0	0	0	0	0	0
TOTAL	**92.35**	**122.11**	**86.39**	**173.53**	**194.56**	**122.70**

4. **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 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.

	31.3.2020 forecast	31.3.2020 actual	31.3.2021 budget	31.3.2021 forecast	31.3.2022 budget
Debt (incl. PFI & leases)	0	0	0	0	0
Capital Financing Requirement	0	0	0	0	0

5. **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.

	31.3.2020 forecast	31.3.2020 actual	31.3.2021 budget	31.3.2021 forecast	31.3.2022 budget
Outstanding borrowing	0	0	0	0	0
Liability benchmark	0	0	84.81	84.81	84.61

6. **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.

	2019/20 limit	2019/20 actual	2020/21 limit	2020/21 forecast	2021/22 limit
Authorised limit – total external debt	84.61	0	84.61	0	84.61
Operational boundary – total external debt	74.61	0	74.61	0	74.61

7. **Indicator 7 - 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**.**

	2019/20 forecast	2019/20 outturn	2020/21 budget	2020/21 Forecast	2021/22 budget
Financing costs (£m)	0	0	£2.56m	0	£2.56m
Proportion of net revenue stream	0%	0%	15.1%	0%	17.6%

8. **Indicator 8 – Credit Risk Indicator.** 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. (low is good)

Credit risk indicator	Target	As at 31.3.2020	As at 30.6.2020
Portfolio average credit rating	6 (A)	3.96 (AA-)	3.77 (AA-)

This indicator is provided as at 30.6.20 as it is calculated by our Treasury Management advisors as part of our quarterly benchmarking. The credit rating of investments as at 31.08.2020 is not materially different from the position as at 30.06.2020.

9. **Indicator 9 – Liquidity Risk Indicator.** 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. Note the definition of this indicator has been reworded for clarity following discussion with the Authority's treasury advisors, Arlingclose.

Liquidity risk indicator	Target	As at 31.3.2020	As at 31.8.2020
Total cash available within 3 months	£50m	£182.7m	£86.8m

10. **Indicator 10 – Interest Rate Risk Indicator.** This indicator is set to control the Authority's exposure to interest rate risk.

Interest rate risk indicator	Limit	As at 31.3.2020	As at 31.8.2020
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1m	£0.1m	£0.4m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£1m	(£0.1m)	(£0.4m)

The figure for 1% fall assumes negative rates on bank and MMF deposits.

11. **Indicator 11 - Principal sums invested for periods longer than a year (excluding loans).** 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 set and performance against them are as follows:

Price risk indicator	2020/21 limit	As at 31.3.2020	As at 31.8.2020	2021/22 limit	2022/23 limit
Limit on principal invested beyond year end	£160m	£0m	£40m	£50m	£50m