



**CAMBRIDGESHIRE
& PETERBOROUGH**
COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 4
30 NOVEMBER 2018	PUBLIC REPORT

TREASURY MANAGEMENT UPDATE

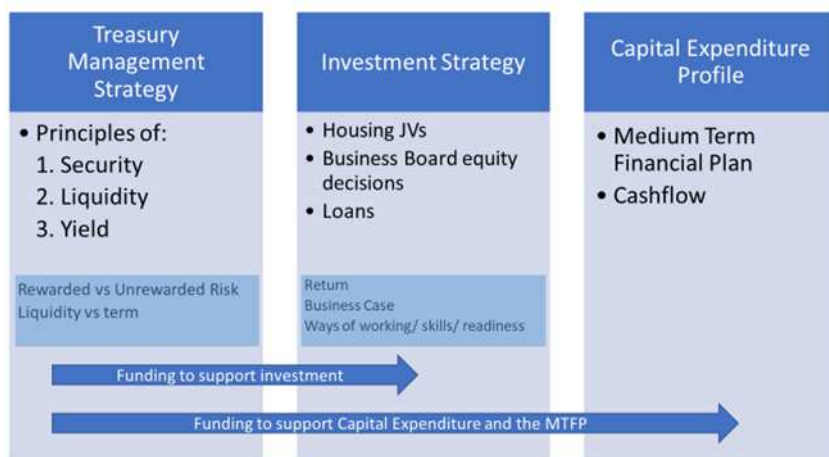
1.0 PURPOSE

- 1.1. The purpose of this report is to provide the Audit and Governance Committee with an update on the Combined Authority (CPCA)'s Treasury Management.

Lead Officer:	Jon Alsop – Head of Finance
<ul style="list-style-type: none">• The Audit and Governance Committee is recommended to review and comment on the Combined Authority's Treasury Management.	

2.0 BACKGROUND

- 2.1. At its September meeting, the Audit and Governance Committee received a mid-year update to the Treasury Management Strategy.
- 2.2. The mid-year update highlighted three categories of investment. The three categories and the relationships between them are set out in the table below.



- 2.3. **Capital Expenditure:** This includes expenditure on Projects and Programmes identified by the Combined Authority to deliver its Corporate objectives as set out in the Four Year Plan and as quantified in the Medium Term Financial Plan (MTFP).
- 2.4. The Four Year Plan and the draft MTFP were approved by the Board in May 2018. The MTFP has since been refreshed and a revised version will be presented to the 28th November Board meeting along with the draft 2019/20 budget. The draft budget is subject to a consultation process and will be presented to a dedicated meeting of the Board in February for final approval.
- 2.5. The ambition of the CPCA stretches beyond the existing funding envelope. Whilst the budget and MTFP set out how resources will be used to develop the major infrastructure programmes, there will also be a focus of effort on developing and securing new funding sources to deliver those ambitions.

Development of the Capital Programme

- 2.6. The Combined Authority's capital programme sets out how capital funding will be used to deliver projects that meet its ambitions. It has developed over the course of the past two years and has been shaped by the needs of the area's geography primarily through the devolution deal and the prioritisation of schemes brought forward by the constituent authorities. There is a significant emphasis on housing, transport and infrastructure schemes.
- 2.7. The Combined Authority has a number of sources of funding available to deliver capital schemes. The capital programme has been broken down into four categories according to the funding sources currently available. The categories, as set out below, are based upon the level of control that the Authority has over the funding source and the projects that can be financed:
- (a) Directly Controlled Expenditure
The projects in this category are funded by Gainshare Capital and Transforming Cities Grants. These funds have few restrictions placed

on their use and thus the Board has a large degree of discretion over which projects to finance in this category. Projects include those approved by previous Board allocations and identified priority schemes.

(b) Potential Future Schemes

This category identifies indicative costs of potential future schemes. The detailed businesses cases, when completed, will determine the exact call on funding. The CPCA and Mayor have an ambitious strategic plan for Cambridgeshire and Peterborough, as set out in the 2030 Vision. This vision will require capital investment far in excess of the funds currently available to the Authority. In order to finance these strategic schemes, the Authority is looking at innovative funding mechanisms including Tax Increment Financing and Land Value Capture as well as leveraging both private and Government investment.

(c) Passported Expenditure

This category includes capital highways maintenance funding, the National Priorities Infrastructure Funding and the two Housing Infrastructure Funds. These funding sources are ringfenced for particular uses and thus the Board has less control over the projects in this category. The highways maintenance funding has controls imposed by the devolution agreement until March 2021.

(d) Growth Funds Expenditure

As the Accountable Body for The Business Board (TBB), the region's Local Enterprise Partnership, the Authority holds, and is accountable to Government for, the Growth Fund allocated to TBB by Government. Prioritisation and financing of projects using these funds is decided by the Business Board and reviewed by the CPCA Board.

Summary of the Capital Programme

2.8. The table below sets out a high-level summary of the CPCA's capital programme and how the expenditure will be funded.

Capital Category	Earmarked Reserves	Expenditure (£m)			Future Years
		19-20	20-21	21-22	
<i>Directly Controlled Expenditure</i>					
Committed Schemes		23.74	13.56	21.57	
<i>Funded By</i>					
Capital Gain Share		(12.00)	(12.00)	(12.00)	
Transforming Cities		(17.00)	(22.00)	(30.00)	(21.00)
Available in-year funding		(5.01)	(20.94)	(19.98)	(21.00)
Costed but not yet committed schemes		10.40	29.34	25.00	
Movement on reserves if schemes approved	(25.19)	5.13	8.90	5.57	
Potential Future Schemes			44.00	250.03	5,778.15
Passported Expenditure		90.26	86.52	40.10	23.21
<i>Funded By</i>					
DfT Capital Funding		(23.08)	(23.08)	(23.08)	(23.08)
Housing - Cambridge City	(17.98)	(17.00)	(15.00)		
Housing Infrastructure Fund	(23.99)	(9.00)	(18.00)		
Housing Loan Repayment+		(1.18)	(5.33)		
National Priorities Investment Fund	(2.00)				
Housing Investment Fund	(22.00)	(6.00)	(12.00)		
Growth Funds Expenditure		33.52	42.95	0.50	
<i>Funded By</i>					
Growth Fund Income	(25.32)	(15.88)	(35.74)		

2.9. **Investment Strategy:** This will include potential future Joint Ventures, equity investments and loans.

2.10. Key principles of investments will be as follows:

- Drawn down in accordance with agreed Investment Strategy as equity or loans
- Development will assist in one or more of CPCA's ambitions
- Scheme is viable and provides adequate contribution to economic strategy per £ invested
- Subject to risk, business case assessment and due diligence in accordance with standard market practice
- Must be State Aid compliant
- Surplus profits as well as initial funding are recycled into future projects.

2.11. Debt and Equity Investments

Debt – Typically focussed towards tactical investments in the region, debt investments are carried out as follows:

- CPCA acts as lender to the property owner, deal or sponsor.
- Loan is secured against the real estate and underwritten in a commercial loan agreement.
- CPCA receives a fixed rate of return determined by the security on the loan, how much is invested and the credit worthiness of the borrowing organisation.
- Loan is repaid in accordance with the terms of loan agreement, typically at practical completion or when scheme is partially or fully sold/let.
- Typically development loans are for a term of 2-3 years depending on the scale of the project.

Equity – Typically associated with strategic investments in the region, equity investments are carried out as follows:

- CPCA enters into project level Joint Venture (JV) partnership.
- CPCA commits equity to project(s) in accordance with Participation Agreement.
- CPCA receives a fixed rate of return (coupon) and/or profit share determined by how much invested and wider role in the project.
- Returns could be generated through land value uplift, onward sale of serviced sites, or a contractual relationship with a JV partner.
- Equity is repaid at the point of exit or when the scheme is refinanced.
- Typically the investment horizon for an equity investment is likely to be longer than that of a loan.

Treasury Management Strategy

2.12. As set out in the Treasury Management Strategy, the role of treasury management is to ensure cash flow is adequately planned to ensure that funds are available when they are needed.

2.13. Where it is necessary for investments to be undertaken in order to manage the Combined Authority's cash flows, the Combined Authority's primary principle is for the security of its investments. To support this principle, the Combined Authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed.

- 2.14. A Cashflow forecast has been developed based on the draft MTFP, with assumptions made on anticipated funding receipts and the drawdown of funds required to service future Revenue and Capital expenditure.
- 2.15. The cashflow indicates when funds will be needed to support Strategic Investment Decisions and the Capital expenditure Programme, with surplus cash balances being held in accordance with the Treasury Management Strategy and Prudential principles of security, liquidity and yield.
- 2.16. The Quarterly Cashflow Forecast, based on the budgetary outturn forecast for 2018/19 and the MTFP to March 20122 is shown at Appendix A.
- 2.17. The 'Live Investments' held by the Combined Authority as at 31 October 2018 were as follows:

Investment Type	Average Interest rate on balances held 31 Oct 2018	Balances as at 31 Oct 2018 (£m)	Range of IR	TMS Collective limit (£m)	TMS Individual limit (£m)
Debt Management Agency Deposit Facility	n/a	0.0	n/a	n/a	150.0
Term deposits with UK Government and Local Authorities	0.75%	157.5	0.5% to 1.1%	200.0	20.0
Term deposits & Certificates of Deposit with Banks	0.40%	0.1	0.40%	100.0	15.0
Money Market Funds	0.71%	10.0	0.71%	50.0	10.0
Total		167.6		350.0	

Term deposits with UK Government and Local Authorities were as follows:

Start Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
23/04/18	18/04/19	Lancashire County Council	1.00%	5,000,000
23/04/18	18/04/19	Dundee City Council	1.00%	5,000,000
20/04/18	21/01/19	Barnsley Metropolitan Borough Council	0.79%	5,000,000
04/06/18	04/12/18	Surrey Heath Borough Council	0.65%	12,000,000
01/08/18	08/04/19	Suffolk County Council	0.62%	10,000,000
19/06/18	25/03/19	South Ayresshire Council	0.65%	5,000,000
19/06/18	28/05/19	Stockport Metropolitan Borough Council	0.60%	5,000,000
25/06/18	25/03/19	Derbyshire County Council	0.60%	10,000,000
25/06/18	26/11/18	Kingston upon Hull City Council	0.50%	10,000,000
25/06/18	28/05/19	Stockport Metropolitan Borough Council	0.60%	10,000,000
25/06/18	26/11/18	Telford and Wrekin Borough Council	0.55%	5,000,000
25/06/18	21/01/19	West Dunbartonshire Council	0.50%	5,000,000
25/06/18	21/01/19	Dundee City Council	0.50%	5,000,000
19/06/18	21/01/19	King's Lynn and West Norfolk Borough Council	0.50%	5,000,000
17/07/18	15/03/19	Highland Council	0.61%	5,000,000
09/07/18	08/07/19	Doncaster Metropolitan Borough Council	0.77%	5,500,000
31/08/18	30/08/19	London Borough of Croydon	1.05%	10,000,000
10/09/18	12/08/19	Highland Council	0.95%	5,000,000
10/09/18	10/06/19	Cambridgeshire County Council	0.95%	5,000,000
20/09/18	20/02/19	North Lanarkshire Council	0.87%	5,000,000
01/10/18	01/02/19	Birmingham City Council	0.80%	5,000,000
05/10/18	07/05/19	London Borough of Haringey	0.90%	5,000,000
23/10/18	23/07/19	Lancashire County Council	1.10%	5,000,000
27/09/18	26/09/19	Birmingham City Council	1.05%	5,000,000
05/10/18	05/09/19	Plymouth City Council	1.00%	5,000,000
				157,500,000

- 2.18. The majority of the investments held at 31 October 2018 were with other Local Authorities which are considered to be very low risk. Interest rates receivable on these balances are dependent on market factors existing at the time the

loan was provided, the amount of the loan itself and the duration of the loan. Interest rates range from 0.5% for a £5m loan provided in June 2018 for a duration of 5 months, to 1.1% for a £5m loan provided in October 2018 for 9 months.

- 2.19. In order to provide liquidity whilst there is uncertainty in the exact timing of cash funding required for capital and other investments, loans are staggered in order to provide the Combined Authority with a regular stream of Treasury investments returning on a monthly basis. The 'investments returning', as shown on the cashflow, would then be available to fund capital expenditure requirements, or to be reinvested as part of the 'Total available for investments' sum. As the capital programme develops over time, existing reserve balances will be used to fund these programmes. There will therefore be fewer funds available for long term investment and the liquidity of those funds will become increasingly important.
- 2.20. Whilst interest rates are still 'low' (from a historical perspective), and whilst there is uncertainty about future interest rates, keeping treasury investments short term (i.e. <365 days) will enable the Combined Authority to take advantage of interest rate increases should they occur.
- 2.21. There are opportunities to earn increased rates of interest on balances, but there is a trade-off between return and risk.
- 2.22. In March 2018, the Combined Authority approved a loan, subject to due diligence, to support the Affordable Housing Programme without the need to incur external borrowing. In order to comply with State Aid requirements, the interest rate applied was based on EU competition 'Base rates' (November 2018 = 1%), plus a margin based on the rating of the undertaking concerned and the collateral offered on the loan. For a 'Good' undertaking risk, with a 'Normal' level of collateral on the loan, this adds a margin of 1% point on the base rate providing an overall interest rate of 2%, which is in excess of current treasury rates.
- 2.23. The Treasury Management Strategy allows for the Combined Authority to investigate the appropriateness of offerings to the market in light of the Combined Authority's risk appetite and on the advice of independent advisors. Any potential investment identified would be subject to a full due diligence review.
- 2.24. The Forecast Cash Balance line on the cashflow demonstrates that the Combined Authority will maintain a positive cash balance, with appropriate buffer, for the period to March 2022.

3.0 FINANCIAL IMPLICATIONS

- 3.1. There are no further financial implications other than those discussed in the main body of the report.

4.0 LEGAL IMPLICATIONS

4.1. There are no legal implications arising from this report

5.0 SIGNIFICANT IMPLICATIONS

5.1. None.

6.0 APPENDICES

- Appendix A: Quarterly Cashflow Forecast

<u>Source Documents</u>	<u>Location</u>
<i>None</i>	

Appendix A: Quarterly Cashflow Forecast

CPCA Quarterly Cashflow

	<u>Oct-18</u>	<u>Dec-18</u>	<u>Mar-19</u>	<u>Jun-19</u>	<u>Sep-19</u>	<u>Dec-19</u>	<u>Mar-20</u>	<u>Jun-20</u>	<u>Sep-20</u>	<u>Dec-20</u>	<u>Mar-21</u>	<u>Jun-21</u>	<u>Sep-21</u>	<u>Dec-21</u>	<u>Mar-22</u>
Balance B/fwd /£k		193	5,724	53,157	112,671	112,626	75,206	36,723	129,348	85,346	41,344	21,281	61,775	39,413	17,051
Funding Receivable		247	16,705	122,935	62	62	0	159,765	62	62	0	87,034	62	62	0
Expenditure			0	0	0	0	0	0	0	0	0	0	0	0	0
Current Commitments		-10,007	-5,003	-25,739	0	0	0	0	0	0	0	0	0	0	0
Operational Costs		-1,106	-1,688	-1,912	-1,912	-1,912	-1,912	-2,211	-2,211	-2,211	-2,211	-3,309	-2,269	-2,269	-2,269
Revenue Programme Costs		-387	-580	-1,131	-1,131	-4,008	-4,008	-4,653	-4,653	-4,653	-4,653	-3,820	-3,820	-3,820	-3,820
Capital Programme Costs		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Direct Control		-970	-1,456	-5,996	-5,996	-5,996	-5,996	-3,265	-3,265	-3,265	-3,265	-5,455	-5,455	-5,455	-5,455
Schemes Previously Identified and Costed		-569	-853	-2,599	-2,599	-2,599	-2,599	-7,335	-7,335	-7,335	-7,335	-6,499	-6,499	-6,499	-6,499
Passported		-6,961	-8,618	-38,665	-15,588	-15,588	-15,588	-38,938	-15,861	-15,861	-15,861	-27,333	-4,256	-4,256	-4,256
Growth Fund		-716	-1,074	-8,380	-8,380	-8,380	-8,380	-10,738	-10,738	-10,738	-10,738	-125	-125	-125	-125
Total Expenditure		0	-20,715	-19,272	-84,422	-35,606	-38,482	-67,140	-44,063	-44,063	-44,063	-46,540	-22,423	-22,423	-22,423
Investments returning		0	27,000	50,000	45,000	35,500	1,000	0	0	0	24,000	0	0	0	10,000
Total available for investments		0	6,724	53,157	136,671	112,626	36,723	129,348	85,346	41,344	21,281	61,775	39,413	17,051	4,628
New investments		0	-1,000	0	-24,000	0	0	0	0	0	0	0	0	0	0
Forecast Cash Balance		193	5,724	53,157	112,671	112,626	75,206	36,723	129,348	85,346	41,344	21,281	61,775	39,413	4,628
Live investments	167,600	141,600	91,600	70,600	35,100	34,100	34,100	34,100	34,100	34,100	10,100	10,100	10,100	10,100	100
Total Funds	167,793	147,324	144,757	183,271	147,726	109,306	70,823	163,448	119,446	75,444	31,381	71,875	49,513	27,151	4,728