CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

Date:Friday, 28 January 2022

Democratic Services

Robert Parkin Dip. LG.
Chief Legal Officer and Monitoring Officer

72 Market Street
Ely
Cambridgeshire
CB7 4LS

<u>10:00 AM</u>

Sand Martin House, Peterborough
[Venue Address]

AGENDA

Open to Public and Press

1 Apologies for Absence & Declaration of Interests

At this point Members must declare whether they have a disclosable pecuniary interest, or other interest, in any of the items on the agenda, unless it is already entered in the register of members' interests.

2 Chair Announcements

3 Minutes of the Previous Meeting

To approve the minutes of the meeting held on17th December 2021

AG Draft Minutes 171221 **4 - 9**

4	**Combined Authority Update**	
5	**Internal Audit Progress Report Jan 2022**	**10 - 22**
6	**Review of Governance and Ways of Working**	**23 - 26**
7	**Financial Strategies Report**	**27 - 81**
8	**Trading Companies Report**	**82 - 85**
9	**Work Programming Report**	**86 - 91**
10	**Date of next meeting:** Friday 11th March 11am at Sand Martin House, Peterborough	

The Audit and Governance Committee comprises the following members:

For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact

<u>The Audit and Governance Committee Role.</u>

- To review and scrutinize the authority's financial affairs
- To review and assess the authority's risk management, internal control and corporate governance arrangements
- To review and assess the economy, efficiency and effectiveness of the authority's use of resources
- To make reports and recommendations to the CA on these reviews
- To ensure high standards of conduct amongst Members

The Combined Authority is committed to open government and members of the public are welcome to attend Committee meetings. It supports the principle of transparency and encourages filming, recording and taking photographs at meetings that are open to the public. It also welcomes the use of social networking and micro-blogging websites (such as Twitter and Facebook) to communicate with people about what is happening, as it happens.

Councillor David Brown

John Pye

Councillor Ian Benney

Councillor Graham Bull

Councillor Tony Mason

Councillor Shaz Nawaz

Councillor Mike Sargeant

Councillor Graham Wilson

Clerk Name:	Anne Gardiner
Clerk Telephone:	
Clerk Email:	anne.gardiner@cambridgeshirepeterborough-ca.gov.uk

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY –

DRAFT MINUTES

AUDIT AND GOVERNANCE COMMITTEE: MINUTES

Date: 17 December 2021

Time: 10:00

Location: Sand Martin House, Peterborough

Present:

Mr John Pye	Chairman
Cllr Ian Benney	Fenland District Council
Cllr Mike Sargeant	Cambridge City Council
Cllr Graham Wilson	Cambridgeshire County Council
Cllr Mohammed Haseeb	Peterborough City Council
Cllr David Brown	East Cambridgeshire District Council

Officers:

Robert Parkin	Monitoring Officer
Robert Emery	Deputy Chief Finance Officer (remote attendance)
Mark Hodgson	External Auditors, Ernst & Young (remote attendance)
Robert Fox	Governance Officer

1. Apologies for Absence and Declarations of Interest

1.1 Apologies were received from Cllr Shaz Nawaz, Peterborough County Council who was substituted by Cllr Mohammed Haseeb. Apologies were also received from Cllr's Graham Bull and Mac Maguire, Huntingdonshire District Council; and Cllr Tony Mason, South Cambridgeshire District Council whose substitute Cllr Peter Fane joined the meeting remotely.

1.2 No disclosable interests were declared.

2. Chair's Announcements

2.1 Given this meeting was rearranged from the scheduled date on 26 November due to issues of quoracy the Chair encouraged members to have a dialogue with their named substitutes to avoid the risk of future meetings being inquorate and having to be abandoned.

2.2 The Chair informed the Committee of the latest public health guidelines encouraging business at meetings to be reduced and to only consider items which require a timely decision. To that end the Chair proposed to reduce the agenda for the meeting and suggested deferring items 4, 6, 10, 12 and 13 on the agenda to the next meeting of the Committee. This was agreed.

2.3 The development session on the role of the Audit & Governance Committee and projects would be rescheduled to 2022.

2.4 The Chair informed the Committee that an Independent Person for the Authority's complaints procedure has been appointed and the decisions had been ratified by the Combined Authority Board. David Pearl had been appointed with the reserve Independent Person being Gillian Holmes.

3. Minutes of the last Meeting

3.1 The minutes from the meeting held on 24 September 2021 were agreed as a correct record.

3.2 The Actions from the previous meeting were noted.

4. Combined Authority Board Update

4.1 This item was deferred.

5. Corporate Risk Register

5.1 The Chair stated the Committee should focus on the recommendations it might wish to make to the Combined Authority Board in relation to the register.

5.2 The Chair invited Robert Parkin to introduce the report. Robert informed the Committee that there was work being undertaken with the Authority internal auditors, acting as advisors on risk management and risk-setting. One of the likely outputs of this work would be to place the Committee in a better position to advise on risk. There were likely to be changes to how the risk register was presented to the Committee in the future.

5.3 Robert informed the Committee that its recommendation to the Combined Authority Board on the residual risk score for climate change was agreed, and that the Board shared the Committee's concerns about the score being too low. The risk level had subsequently been raised.

5.4 The Committee questioned whether risks 21 and 32, related to housing, should be increased and have the same scores, which is currently not the case. This Committee's concerns would be raised with the Director of Housing.

5.5 Following a question on the risk associated with the future strategy of the Combined Authority Robert Parkin confirmed that mitigation steps were being undertaken currently by officers with Leaders. The Chair supported the inclusion of this risk and requested future assurances on actions to ameliorate the risk were being put in place.

5.6 The Committee noted the risk register.

6. Internal Audit

6.1 This item was deferred.

7. External Audit

7.1 The Chair welcomed Robert Emery and Mark Hodgson, Ernst & Young to the Committee. Robert informed the Committee that they were being requested to approve the management letter of representation.

7.2 Mark gave the Committee the same assurances as stated in July and that he intended to issue and unqualified audit opinion.

7.3 Mark also informed the Committee that a value for money assessment for 2021 had been completed and there was no significant risk and no matters to report by exception. There were no new risks to take into account.

7.4 The Chair asked the Committee to approve the management representation letter. Cllr Brown moved to approve the letter, and this was seconded by Cllr Wilson.

7.5 The Committee AGREED:

a) The management letter of representation for the external audit opinion.

8. Annual Accounts and Annual Governance Statement

8.1 The Chair invited Robert Emery to introduce the report. The Committee was informed there were no changes to the draft accounts, previously received. Robert highlighted a revision on the line for the Peterborough HE Company Limited of £139,000 which was below the reporting threshold to change the accounts. The external auditors had had full sight of the amendment and sought opinion from the subsidiary company auditors. The balance sheet of the subsidiary company does not alter the Combined Authority accounts.

8.2 Robert highlighted the two amendments to the Annual Governance Statement, the first of which was in response to a challenge from this Committee and been agreed by the Authority’s internal and external auditors The second amendment was requested by the Chief Executive of the Combined Authority.

8.3 The Committee AGREED:

a) to approve the annual accounts;
b) to approve the Annual Governance Statement.

9. Re-tendering Process

9.1 The Committee were requested to consider a recommendation to opt into the national scheme for auditor appointments for the period 2023/24 to 2027/28. The Combined Authority Board would be considering this at their January 2022 meeting.

9.2 The Chair asked the Committee if they were content with the recommendation to opt into the national scheme and make a recommendation to the Combined Authority Board on that basis. The Chair moved to support the recommendation, and this was seconded by Cllr Brown.

9.2 The Committee AGREED:

a) to support opting into the national scheme for auditor appointments for the period 2023/24 to 2027/28;
b) to make a recommendation to the Combined Authority Board on this basis.

10. Climate Change

10.1 This item was deferred.

11. Combined Authority Constitution Review

11.1 The Chair informed the Committee that they were asked to review the amendments to the Combined Authority Constitution following the annual review and invited Robert Parkin to introduce the report.

11.2 Robert Parkin informed the Committee that the review had incorporated legal updates, corrected any errors and had been edited for clarity. The Committee had had a Workshop session in October to consider and suggest amendments and these had also been incorporated in the review and the accompanying report provided a table of the amendments made. The Chair commended this approach, and it was agreed that this format be undertaken in future iterations of the Constitution following annual reviews.

11.3 It was raised that pages 26 and 88 of the revised Constitution had conflicting information around appointment of a Vice-Chair for the Combined Authority Executive Committees. Robert Parkin said that the Combined Authority Board would be asked whether or not it wished to appoint Vice-Chairs.

11.4 The Committee AGREED to:

a) Approve the revisions following the annual review of the Constitution, subject to the amendment suggested in 11.3 above;
b) Recommend the revisions to the Combined Authority Board.

12. Treasury Management Strategy

12.1 This item was deferred.

13. Trading Companies

13.1 This item was deferred.

14. Work Programme

14.1 The work programme was noted.

14.2 With regard to the deferred item on Trading Companies, there was a request for further information and background on the Combined Authority Board oversight of the subsidiaries as well as a list of the Board members for each Company.

15. Date and Time of Next Meeting

15.1 The Committee would next meet on Friday, 28 January 2022 at 10:00 at Sand Martin House, Peterborough. This was a change of venue from East Cambridgeshire District Council, Ely.

15.2 With no further business the Chair wished all a happy and safe festive season.

Meeting Closed: 11:00

Audit and Governance Committee Action Log

CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Purpose: The action log records actions recorded in the minutes of Audit and Governance Committee meetings and provides an update on officer responses.

Minutes of the meeting 17th December 2021 (Rescheduled 26th November Meeting)

Minute	Report title	Lead officer	Action	Response	Status
2.3	Chair's Announcements	Anne Gardiner	The development session on the role of the Audit & Governance Committee and projects would be rescheduled to 2022.	Development Session rescheduled and moved online to the 27th January 2022	CLOSED
5.4	Corporate Risk Register	Robert Parkin	The Committee questioned whether risks 21 and 32, related to housing, should be increased and have the same scores, which is currently not the case. This Committee's concerns would be raised with the Director of Housing.	Verbal Update to be provided at the meeting	Open
11.3	Constitution Review	Robert Parkin	Combined Authority Board would be asked whether or not it wished to appoint Vice-Chairs on Executive Committee's.	This point will be taken to the Board members for a view.	Open
14.2	Work Programme	Robert Fox	Further information and background on the Combined Authority Board oversight of the subsidiaries as well as a list of the Board members for	Information included in report coming to January meeting.	CLOSED

			each Company be included in the report.		

Minutes of the meeting 24th September 2021

Minute	Report title	Lead officer	Action	Response	Status
6.8		Jon Alsop/Dan Harris	That Internal Audit be approached to discuss their involvement with the trading companies and to provide an insight into where this should begin.		OPEN

Minutes of the meeting 25th June 2021

Minute	Report title	Lead officer	Action	Response	Status
8.7	Treasury Outturn Report	Rob Emery	Breakdown summary of slippage requests to be provided to the committee.	Apologies to the committee, this will be provided ahead of the meeting.	Open

CAMBRIDGESHIRE
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Agenda Item No: 5

Internal Audit Report

To:	Audit and Governance Committee
Meeting Date:	28th January 2022
From:	Jon Alsop, Head of Finance and S73 Officer
Key decision:	Not a key decision
Forward Plan ref:	n/a
Recommendations:	The Audit and Governance Committee is recommended to:

a) Receive and note the internal audit progress report for 2021/22 as provided by the Combined Authority's internal auditors, RSM Risk Assurance Services LLP (RSM).

Voting arrangements: Note only item, no vote required.

1. Purpose

1.1. The purpose of the report is for the Audit and Governance Committee to:

(a) Receive and note progress being made against the internal audit plan for 2021/22.

2. Background

Internal Audit Plan 2021/22

2.1. RSM presented the internal audit plan for 2021/22 to the Audit and Governance Committee in April 2021.

2.2. The attached report provides an update to the Audit and Governance Committee against the internal audit plan for the year to date.

3. Financial Implications

3.1. Internal audit fees are within those agreed as part of the internal audit service contract.

4. Legal Implications

4.1. No legal implications have been identified.

5. Other Significant Implications

5.1. No other significant implications have been identified.

6. Appendices

Appendix 1 – Internal Audit update report 2021/22 (RSM)

7. Background Papers

Internal Audit Plan – A&G Committee April 2021

Internal Audit Plan A&GC April 2021

CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY

Internal Audit Progress Report

28 January 2022

RSM

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1 Key messages

The internal audit plan for 2021/22 was approved at the April 2021 meeting. This report provides an update on progress against that plan, the changes to the plan and summarises the results of our work to date.

As the developments around Covid-19 will continue to impact on all areas of the organisation's risk profile, we will continue to work closely with management to deliver an internal audit programme which remains flexible and 'agile' to ensure it meets your needs in the current circumstances.

2021/22 Internal Audit Delivery – Completed

We have undertaken a follow up to review the progress made to implement the previously agreed management actions from the IT Control Framework Review (5.20.21).

We have also completed an audit on the effectiveness of controls in place to support and manage the delivery of the Adult Education Budget Strategy. This review has resulted in a **reasonable assurance** opinion.

The progress of these reviews has been included in section two of this report.

[To note]

2021/22 Internal Audit Delivery – In Progress

We have commenced our fieldwork for three reviews, two of which were not initially included in the Internal Audit Plan for 2021/22. The progress of each of these has been summarised below:

Fraud and Bribery Risk Assessment

We have commenced fieldwork in relation to the fraud and bribery risk assessment. We are currently liaising with the Chief Finance Officer in order to obtain relevant documents in order to carry out the review. On conclusion of fieldwork, we will provide the organisation with a fraud and bribery risk register that will include an assessment of the likelihood of occurrence and the financial, reputational and operational implications. The risks will be scored both inherently and residually, having regard for controls and assurances in place.

One CAM – Governance and Decision Making (Additional review)

The Committee requested an audit of One CAM governance and decision-making. The fieldwork has finished, a draft report has been issued however, further debriefs are being arranged with key stakeholders following issue of the draft report. The final report will be presented to the next meeting.

Payroll (Additional review)

We have commenced the fieldwork in relation to an additional request for a payroll audit, this was delayed due to CPCA staff sickness. We are currently liaising with the HR Business Partner and the Assistant HR Director in order to obtain relevant documents in order to carry out our review. **[To note]**

Responses to questions asked at previous meeting in September 2021

Action recorded at the 24 September 2021 Audit and Governance Committee Meeting: The Committee requested feedback on how the Internal Auditors could become involved in the development of policies and project management at the CPCA be provided within the next Internal Audit update:

Development of policies – An effective way to use an Internal Audit (IA) team is to consult with the auditors when policies are being developed to ensure that good practice points have been considered. The IA team could therefore provide a 'critical friend' review of such polices, where appropriate, at the development stage. Please note that it is managements responsibility to propose / approve (as appropriate) the final policy and ensure they are adhered to.

Project Management – We have been working with Officers on a joint working protocol which streamlines the approach for planning, delivery and reporting of internal audit work. As part of this, it was agreed that IA may be requested to participate in continuous/ongoing assurance activities and this could for example include a Project. The IA team could also be requested to sit in on project management meetings (for live projects) and provide ongoing advice / a critical friend review in relation to different aspects of the project (governance, risks, issues etc). Clearly the IA team could also be requested to undertake assurance or advisory reviews of projects, including lessons learnt reviews. We have agreed with Officers that any such work in relation to projects will be discussed and agreed on a case by case basis, with updates provided to the Committee via our progress reports.

Independence and objectivity will remain a core consideration during the delivery of any additional work, and should any concerns arise, these will be reported to the Audit and Governance Committee, and the Chief Executive and Chief Finance Officer. **[To note]**

Other Matters

Changes to planned delivery 2021/22 – We have summarised the changes to delivery of the current internal audit plan that have been made since the committee in September 2021 in Appendix B of this report.

Grant Funding reviews – We have summarised the grant funding reviews undertaken by RSM. We have completed reviews on seven grants since the last audit committee and these have been summarised in Appendix B of this report. A further grant funding review is in progress.

Sector Updates - We have also included some sector updates in Appendix B which highlights some of the current issues being faced in the sector and the areas that the Combined Authority may wish to consider. **[To note]**

2 Reports

Summary of final reports being presented to this committee

This section summarises the reports that have been finalised since the last meeting.

Assignment	Opinion issued	Actions agreed		
		L	M	H
2021/22 Internal Audit Plan				
Follow Up of the IT Control Framework Review (5.20.21) We have undertaken follow up to review the progress made to implement the previously agreed management actions from the IT Control Framework Review (5.20.21). This report identified ten management actions, comprising of six **High priority** management actions, and four **Medium priority** management actions. **Management actions due for implementation as at 31 October 2021** Four management actions were due for implementation at the time of the review. For three of these four management actions we obtained evidence to confirm they had been implemented, for the final action, we noted the action was not implemented at the time of review. The action that has not been implemented is in relation to the CPCA maintaining sufficient IT specialism/expertise amongst its workforce, or alternatively, considering the use of a shared staff member with IT expertise from another Local Authority. This is being considered as part of the analysis of operating models to determine the future of the Combined Authority's ICT provision. **Management actions not yet due for implementation as at 31 October 2021** We have also captured the progress made by Socitm Advisory and CPCA against the six actions which were marked for implementation by 31 December 2021 and have noted the progress of these in section three below. In summary, five actions are in the process of being implemented of which two demonstrated sufficient progress to allow us to deprioritise the management action rating. One action is not yet implemented however, all six of these actions are due for implementation by 31 December 2021.	**Final report issued**	1	1	1
Adult Education Budget (3.21/22) Our review confirmed that controls in relation to Adult Education Budget were primarily well designed and complied with, for example in relation to the use of a Commissioning Strategy and Local Economic Recovery Strategy, maintenance of funding rules, approval of due diligence, setting agreements with providers and the content of them, monitoring performance quality and reconciling independent training provider data. However, we noted weaknesses in relation to the completion of all aspects of due diligence and independent review of occupancy reconciliations for grant funded providers.		3	2	0

Appendix A – Progress against the internal audit plan 2021/22

Assignment	Timing / Status / Opinion issued	Actions agreed			Target Audit Committee (as per previous audit committee)	Actual Audit Committee
		L	M	H		
Additional follow up: IT Control Framework	**Final report issued**	**1**	**1**	**1**	**N/A**	**November 2021**
Adult Education Budget		**3**	**2**	**0**	**January 2022**	**January 2022**
Fraud Risk Assessment	Fieldwork in progress	0	0	0	Was January 2022, now April 2022	
Additional audit: One CAM - Governance and Decision Making	Draft report issued	0	0	0	Was January 2022, now April 2022	
Additional audit: Payroll	Fieldwork in progress	0	0	0	Was January 2022, now April 2022	
Key Financial Controls	January 2022	0	0	0	April 2022	
Risk Management	February 2022	0	0	0	April 2022	
Follow Up	March 2022	0	0	0	April 2022	
HR Policies	TBC – Deferred to 22/23 plan	0	0	0	**Was January 2022, now TBC**	
Subsidiary Governance	April 2022	0	0	0	July 2022	
Removed: Use of Data	N/A				N/A	N/A

Appendix B – Other matters

Changes to the audit plan

There have been the following changes to the Audit Plan since the previous meeting:

Audit/Area	Change Proposed
Remove: Use of Data	Following discussions with senior management, we have been asked to remove a review Use of Data as this is no longer a priority area for the Combined Authority as the function has now been brought in house. **The Audit Committee are asked to note the amendment of the timing of this audit.**
Delay: HR Policies	Following discussions with senior management, we have been asked to delay a review of HR Policies due to the delay in planned externally commissioned work within this area and ensuring the scopes of these piece of work compliment work being completed by parties. **The Audit Committee are asked to note the amendment of the timing of this audit.**

Changes reported to previous meetings

Audit/Area	Change Proposed
Addition: Payroll	Following discussions with senior management, we have been asked to undertake a review of Payroll following some recent concerns identified. This review will be undertaken in collaboration with subject matter experts, RSM Employer Services Limited. **The Audit Committee are asked to note the addition of this audit to 2021/22 internal audit delivery plan.**

Grant Funding work undertaken by RSM

Audit/Area	Work Undertaken by RSM
Grant Funding	We have completed seven reviews on grant funding received by the Combined Authority since the last audit committee, these specifically relate to the grant funding noted below, two of which is pass-through funding (Local Transport Capital Block Funding) whereby expenditure is incurred by constituent councils and therefore they provide their own assurance however we are required to confirm that the CPCA have paid the constituent councils in line with the decisions made by the Mayor and other grants where expenditure is incurred by the Combined Authority. We have summarised the grants below: • Peer Network Funding to Local Enterprise Partnerships (LEPS) in 2020- 2021 • 2020-2021 EU Transition Business Readiness Growth Hub Grant Funding to Local Enterprise Partnerships (LEPS)

- Growth Hub Funding to Local Enterprise Partnerships (LEPS) in 2020-2021
- Supplemental Growth Hub Funding to Local Enterprise Partnerships (LEPS) in 2020-2021
- Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance) No.31/5036
- Local Transport Capital Block Funding (Pothole and Challenge Fund) No.31/5072
- Additional Dedicated Home to School and College Transport grant

Annual Opinion 2021/22

The Audit and Governance Committee should note that the assurances given in our audit assignments are included within our Annual Assurance report. In particular the Audit and Governance Committee should note that any negative assurance opinions will need to be noted in the annual report and may result in a qualified or negative annual opinion. We have only finalised one IT Control Framework Follow Up report to date, and we will continue to provide further updates as the year progresses.

Information briefings and Sector updates

Councils' role supporting the digital skills pipeline

The Local Government Association's (LGA) online resource, alongside its 'LG Inform forecasts for digital employment', outlines the key roles councils play in supporting local skills progression and highlights a number of successful interventions undertaken to date.

Local auditor reporting on local government

The Public Accounts Committee (PAC) has published a report on local government in England, in which it warns that 'without urgent action from government, the audit system for local authorities may soon reach breaking point.' The PAC report follows a National Audit Office report published in March on the timeliness of local auditor reporting, which identified that 55 per cent of local authority 2019-20 audit opinions missed the extended statutory deadline of 30 November 2020.

The PAC report makes a series of recommendations for the Ministry of Housing, Communities and Local Government (MHCLG) including that it:

- works with the Financial Reporting Council and accounting institutions to implement quicker training and accreditation to increase the number of suitably qualified auditors;
- ensures that the Public Sector Audit Appointments' (PSAA) next procurement brings fees into line with the cost of the audit work; and
- writes to the committee by September 2021 setting out its plans to get local audit back on timetable, its contingencies should more audit firms leave the market and how will it address the need for strong system leadership now.

Boosting value for money in the council finance system

The MHCLG has announced plans to strengthen council finances, reduce risk to public funds and ensure councils are delivering value for money for the taxpayer. Changes to the capital finance system will see improvements in the way that risks are monitored and will drive effective decision-making and ensure council funds are spent effectively.

The MHCLG has launched a consultation on its proposals for how the new regulator, the Audit Reporting and Governance Authority (ARGA) (which replaces the Financial Reporting Council (FRC)), should act as the system leader for local audit within a new, simplified local audit framework. Alongside this consultation, the government has published two responses to previous local audit consultations – allocating £15m to local bodies to help with the costs of audit, and changes to regulations that will help to provide greater flexibility in payments for audits.

Local Authority Capital Finance Framework

The MHCLG has published a policy paper setting out its proposals for local authority capital finance and provides an update on the government's work so far. It clarifies objectives, what the MHCLG will do to meet them and what is expected from local authorities.

This document sets out the government's plans for strengthening the current system while protecting the principles of local decision making. It sets out plans for both improving the MHCLG's role as steward of the local government financial system, by ensuring that it has the data to effectively monitor risks in a timely way, and to strengthen the current capital system so that it remains effective in driving good decision making and preventing excessive risk.

Appendix C - Key performance indicators (KPIs) for 2021/22 delivery

Delivery				Quality			
	Target	Actual	Notes (ref)		Target	Actual	Notes (ref)
Audits commenced in line with original timescales following scoping	Yes	100%		Conformance with PSIAS and IIA Standards	Yes	Yes	
Draft reports issued within 15 days of debrief meeting	100%	100%		Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	Yes	
Management responses received within 15 days of draft report	100%	100%		Response time for all general enquiries for assistance	2 working days	100%	
Final report issued within 3 days of management response	100%	100%		Response for emergencies and potential fraud	1 working days	N/A	
Notes							
This takes into account changes agreed by management and the Audit Committee during the year.							

FOR MORE INFORMATION CONTACT

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CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Agenda Item No: 6

Report title: Review of Governance and ways of working at the Combined Authority – Update on progress

To:	Audit & Governance Committee
Meeting Date:	28th January 2022
Public report:	Public Report
From:	Interim Head of Governance
Recommendations:	The Committee is recommended to:

a) Note the purpose of the review and comment on the progress made to date

Voting arrangements: Note only item, no vote required.

1. Purpose

1.1 This report provides the Committee with an overview of the purpose of the review of governance and ways of working at the Combined Authority and the evidence being gathered to inform the review

2. Background

2.1 Following the Mayoral election and the appointment of a new Chief Executive now is a good time to review the existing governance arrangements in order to identify how to deliver more effective decision-making and ways of working within the Combined Authority. Additionally concerns have already been raised regarding certain elements of governance at the Combined Authority, in particular the burden of business at the Combined Authority Board and the effective use of Executive Boards.

2.2 As a result the Interim Head of Governance has been commissioned to undertake a review of governance and ways of working at the Combined Authority. The purpose of the review is to identify how to deliver more effective decision-making and ways of working at the Combined Authority.

Review Scope

2.3 The scope for the review was developed in consultation with the Executive Team in October 2021, initially it was agree that the review would have 3 objectives:

- ❑ Review of formal decision-making and consultative bodies
- ❑ Identification of key barriers to deliver effective decision-making
- ❑ Review and refresh the process of report drafting, preparation and effective engagement within Combined Authority processes

2.4 Subsequent engagement took place with the Chair of Audit & Governance and the Chair of Overview & Scrutiny to ensure they were aware of the review, able to ask any questions around its objectives and provide advice and guidance where appropriate.

2.5 The aim to deliver the 3 objectives in 2.3 required the review to focus on a number of key elements. These elements are set out below alongside key questions and areas for review within each element that will direct the review:

Governance Review Element	Key Review Areas & Questions
Governance Framework	❑ Review of committee structure/ purpose/ outputs ❑ Executive Committee operation and delegations ❑ How can the CA deliver more effective decision-making? ❑ What liaison meetings are in place between Mayor and Leaders and what business do they discuss? ❑ How can the CA deliver more engaged decision-making? ❑ Is the current structure fit for purpose? ❑ What are the key issues regarding supporting processes for governance framework?
Governance Mapping Exercise	❑ Mapping exercise to cover: ▪ Formal governance ▪ Political requirements ▪ Portfolio and Directorate level ▪ Investment Funds ▪ Stakeholder engagement ❑ What does the mapping exercise tell us?
Purpose and Functionality of the Combined Authority	❑ 2017 Order ❑ Strategic Priorities/ Mayoral Manifesto – how does this feed down organisation as golden thread? ❑ What are the core roles of the CA? ❑ How are core roles and strategic priorities translated into and supported by governance framework?
Policy Space	❑ What policy space exists for politicians and how is it utilised and facilitated? ❑ What opportunity for engaging government exists through policy space? ❑ How do Politicians at CA currently debate and discuss key issues, differences and ways forward? ❑ Impact on operation and view of CA Board activity
Portfolio Model	❑ Role and expectations associated with Lead Members

	❑ How are leads engaged within portfolios and policy development ❑ Impact on one organisational approach/ silo working ❑ Ability of Leaders to lead a Portfolio
Constituent Engagement	❑ What are Constituent requirements? ❑ Do individual constituent conversations take place? ❑ What is Exec. Team offer?
Portfolio Engagement	❑ How to ensure that the CA isn't working in Silos ❑ How to avoid surprises ❑ How to improve cross portfolio engagement ❑ What are they key engagement issues?
Relationships	❑ How best to support positive development of Mayor/ Leader relationships
Forward Plan	❑ Is it currently fit for purpose? ❑ How is it utilised? ❑ Explore developments such as extended periods
Reporting	❑ How does current approach to reporting assist/ prevent effective decision-making? ❑ Explore development of Member-Friendly reports ❑ Quality/ Quality Assurance/ Cycle requirements ❑ Guidance and support

<u>Methodology</u>

2.6 Initial methodology for the review is based around engagement and identification of key concerns/ areas to address which will lead to the identification of a number of key themes.

2.7 The review began in December through a number of interview sessions between the Interim Head of Governance and the following:

- ❑ Mayor
- ❑ Leader and Chief Executive of each Constituent Council
- ❑ Executive Team

2.8 As stated above the purpose of these sessions was to identify the key themes that would need to be addressed by the review in relation to governance and ways of working. Those key themes will be tested, questioned and examined throughout the review in order to develop proposals for improvement.

2.9 In addition the review will:

- ❑ Undertake a governance mapping exercise to identify a full picture of formal ad informal boards, committees, bodies
- ❑ Engage the Business Board
- ❑ Undertake a comparison/ best practice review with all other Combined Authorities
- ❑ Engage Cambridgeshire County Council (Democratic Services Provider)
- ❑ Engage the Combined Authority Governance Team

2.10 A review of existing documentation will be undertaken to support the review, this involves examination of elements of the Combined Authority Constitution, Assurance Framework, Annual Governance Statements, Board and Committee terms of reference and Strategic Plan/ Mayoral Manifesto.

Review Progress

2.11 Interviews with Constituent Councils and the Mayor are complete and a number of key themes have emerged that will shape the direction of the remainder of the review. Proposals to address each key theme will be developed and then tested with the Mayor and Constituent Councils through a second round of discussions.

2.12 Benchmarking with other Combined Authorities has been undertaken and continues as the review develops.

2.13 Amendments have been made to the Mayoral Decision Notice and Officer Decision Notice process and an amended approach to the development and approval of the Forward Plan is currently being trialled as part of the review.

Next Steps

2.14 The next steps for the review are as follows:

- Executive Team engagement on key themes
- Business Board engagement
- Second round of Mayor and Constituent interviews
- Draft final report for consideration at March/ April Leaders Strategy Meeting
- Final report for consideration to CA Board

3. Financial Implications

3.1 No immediate financial implications. Changes to the proposed ways of working which will arise out of the completed review may lead to financial implications, which will be better understood at that time.

4. Legal Implications

4.1 Changes to the ways of working or governance structures of the Combined Authority may call for changes in the constitution to be implemented. Should that be the case these will be proposed in full detail to the Audit and Governance Committee.

5. Other Significant Implications

5.1 None.

Agenda Item No: 7

Financial Strategies

To: Audit and Governance Committee

Meeting Date: 28 January 2022

From: Robert Emery
Deputy Chief Finance Officer

Recommendations: The Audit and Governance Committee is recommended to:

a) Review and comment upon the Capital, Investment and Treasury Management Strategies for 2022-23 and the 2022-23 Minimum Revenue Provision (MRP) statement.

Voting arrangements: A simple majority of members present and voting.

1. Purpose

1.1 The purpose of the report is for the Audit and Governance Committee to review the proposed Capital, Investment and Treasury Management Strategies and MRP Statement for 2022/23.

2. 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.

2.3. The figures used in the strategies reflect the Budget and Medium Term Financial Plan (MTFP) being proposed to the Combined Authority Board at it's January meeting. These figures will be updated to reflect the approved budget, and any other relevant budgetary decisions made at that meeting before the final versions are presented for approval to the Combined Authority Board in March.

3. 2022-23 Strategies

3.1. The following strategies have been updated for 2022/23 and are attached as Appendix 1 with changes since the 2021/22 equivalents marked.

(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) 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
(c). **Treasury Management Strategy**: Being the management of the Authority's cash flows, borrowing and investments and the associated risks.
(d) Minimum Revenue Provision Statement: An DLUHC requirement to approve an MRP Statement each year to ensure that capital expenditure is financed over a reasonable period

3.2. The Committee is asked to review the suite of strategies ahead of being taken to the Board for approval in March.

4. Changes since the 2021/22 Strategies

<u>Minimum Revenue Provision Statement</u>

4.1. The MRP statement has been updated to reflect the change to accounting standards relating to leases (International Financial Reporting Standard 16) which comes into force for Local Authorities on the 1st April 2022. The only material lease the Combined Authority holds is for the office space in Ely on a short-term contract, but we are anticipating starting a lease on a new office for the Combined Authority within the year.

4.2. This change in accounting standards is aimed to recognise leased assets, and liabilities, onto an organisation's balance sheet as it was possible for entities to 'hide' their real financial position under the previous rules. As the Combined Authority has no 'off balance sheet' assets or liabilities no material effect to our accounts is expected.

Capital Strategy

4.3. There are no significant changes to this year's Capital Strategy. The changes made are updates to the amounts to bring them in line with the newly approved capital programme and a wording change to reflect the current considerations of where debt financing may be applied within the Combined Authority's.

Investment Strategy

4.4. As the Combined Authority is not issuing any new housing loans, because the capital repayments from existing loans are being directed into grants for affordable housing, the section on the Investment Strategy relating to the conditions for housing loans has been reduced.

4.5. A number of limits in the investment strategy have been updated to reflect reduced expected investment into subsidiary companies over the next 12 months. This is in light of the Cambridgeshire Autonomous Metro (CAM) programme ceasing, and the Levelling Up Fund grant being awarded to Peterborough City Council rather than the Combined Authority and thus shares purchased with it not being held on the Combined Authority's balance sheet.

Treasury Management Strategy

4.6. The economic context section of the strategy has been updated to reflect the current national and international situation, beyond this there have been no major changes to the adopted indicators for 2022/23 compared to 2021/22

4.7. Minor changes include specifying the new UK Infrastructure Bank as a potential source of loan finance, committing to spreading the Authority's liquid assets across more providers to reduce our risk of expose to any single entity, reducing the liquidity risk indicator to reflect lower anticipated balances by the end of the year and updating the year one 'Price risk indicator' due to a change in how it is calculated.

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 1 – Cambridgeshire and Peterborough Combined Authority Draft Strategies 2022-23

8.2. Appendix 2 – Cambridgeshire and Peterborough Combined Authority Draft Strategies 2022-23 (with track changes)

9. Background Papers

9.1. Cambridgeshire and Peterborough Combined Authority Capital Strategy 2021-22

9.2. Cambridgeshire and Peterborough Combined Authority Investment Strategy 2021-22

9.3. Cambridgeshire and Peterborough Combined Authority Treasury Management Strategy 2021-22

Cambridgeshire and Peterborough Combined Authority

Capital Strategy Report 2022/23

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where an Authority spends money on assets, such as property, shares in companies or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2022/23, the Authority is planning capital expenditure of £105.39m as summarised below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2020/21 actual	**2021/22 forecast**	**2022/23 budget**	**2023/24 budget**
Capital investments	152.28	176.96	105.39	58.45
TOTAL	152.28	176.96	105.39	58.45

The budget figures for 2022/23 and 2023/24 are taken from the Approved Capital Expenditure Programme as set out and described in the Medium Term Financial Plan approved by the Board in January 2022.

Governance:

The Combined Authority's Assurance Framework sets out:

(a) How the seven principles of public life shape the culture within the Combined Authority in undertaking its roles and responsibilities in relation to the use and administration of the Cambridgeshire and Peterborough Investment, incorporating the Single Pot funding. This culture is developed and underpinned by processes, practices and procedures.

(b) Alongside the Combined Authority's constitution, sets out the respective roles and responsibilities of the Combined Authority, the Business Board (the Local Enterprise Partnership) and statutory officers.

(c) The key processes for ensuring accountability, including public engagement, probity, transparency, legal compliance and value for money.

(d) How potential investments to be funded through the Cambridgeshire and Peterborough Medium Term Financial Plan, incorporating the Single Pot, will be appraised, prioritised, approved, signed off and delivered.

(e) The processes for oversight of projects, programmes and portfolios and how the progress and impacts of these investments will be monitored and evaluated.

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:

Table 2: Capital financing in £ millions

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget
Grant Funding	146.96	155.09	77.49	48.02
Usable Capital Receipts	5.32	21.87	27.90	10.43
Debt	0	0	0	0
TOTAL	**152.28**	**176.96**	**105.39**	**58.45**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

The Combined Authority currently does not have any debt, but has the ability to borrow to facilitate delivery should it be needed. While there are no current projects within the MTFP which fund delivery via borrowing, the role of the Combined Authority in future affordable housing and the sustainability agenda is still in development and debt may form part of this role. While the Combined Authority has an allowance built into it's MTFP to service a small amount of debt, it is anticipated that any future borrowing would have to be supported by future receipts from the project delivery it funded.

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.

The Authority expects that its capital financing requirement will be nil on 31st March 2022 and in line with the DLUHC Guidance expects to charge no MRP in 2022/23.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

Where loans are made from grant funds, there will be no Capital Finance Requirement and therefore no MRP. Where loans are debt funded, where creditworthiness of the borrower decreases or the asset value drops below the loan value, MRP will be charged on the shortfall.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

<u>Treasury Management</u>

Treasury management is concerned with keeping sufficient, but not excessive, cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as grant income is received before it is spent.

As at 31 December 2021, the Authority had no borrowing and £345.6m treasury investments at an average rate of 0.12%

Borrowing strategy: The Authority's main objectives when borrowing would be to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority would therefore seek to strike a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.5 to 2.5%).

Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above).

Table 3: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget
Debt (incl. PFI & leases)	0	0	0	0
Capital Financing Requirement	0	0	0	0

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Authority expects to comply with this in the medium term.

Liability benchmark: 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 level to allow a small level of borrowing to facilitate delivery should it be needed, but will be kept under review.

Table 4: Borrowing and the Liability Benchmark in £ millions

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget
Outstanding borrowing	0	0	0	0
Liability benchmark	0	0	8.50	8.50

Affordable borrowing limit: 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.

Table 5: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 limit	2022/23 limit	2023/24 limit
Authorised limit – total external debt	84.61	84.61	84.61
Operational boundary – total external debt	74.61	74.61	74.61

Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms can be invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by the Board. Regular reports on treasury management activity are presented to the Audit and Governance Committee who are responsible for ensuring effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice.

Investments for Service Purposes

The Authority makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Authority's subsidiaries that provide services. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for service loans to at least break even after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Chief Finance Officer and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases and will therefore also be approved as part of the capital programme.

Commercial Activities

The Combined Authority currently does not hold any commercial investments.

Liabilities

The Authority is committed to making future payments to cover its pension fund deficit (valued at £3.64m). There are currently no commitments to make future payments in relation to debt or other major liabilities. There is currently no requirement to cover risks of other provisions, financial guarantees or major contingent liabilities.

Governance: Decisions on incurring new discretional liabilities are taken by Directors in consultation with the Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by the Finance team and reported to the Audit and Governance committee. New liabilities/loans are reported to the Board for approval/notification as appropriate.

Revenue Budget Implications

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.

Table 6: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget
Financing costs (£m)	0	0	£0.43m	£0.49m
Proportion of net revenue stream	0%	0%	2.7%	3.3%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable as demonstrated in the Medium-Term Financial Plan.

Knowledge and Skills

The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant with over 25 years post qualification experience. The Authority pays for staff to study towards relevant professional qualifications and for all qualified staff to keep up to date with relevant ‘continuing professional development’.

Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Cambridgeshire and Peterborough Combined Authority

Investment Strategy Report 2022/23

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 £44m and £272m during the 2022/23 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 2022/23 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 one has been fully repaid and the other four are due to be repaid by the end of March 2023.

Recycled Growth Fund Loans

The CPCA 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 2022-23 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	31.3.2021 actual			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0.000	0.000	0.000	20.000
Local businesses	45.491	0.779	44.712	60.000
TOTAL	**45.491**	**0.779**	**44.712**	**80.000**

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

Contribution: The Authority invests in the shares of its subsidiaries and local businesses to support local public services and stimulate local economic growth.
The CPCA has approved a number of service equity investments as part of both the University of Peterborough and the Business and Skills agenda summarised below.

University of Peterborough Phase 1

Equity investment into a Joint Venture along with Peterborough City Council and Anglia Ruskin University with a total CPCA investment of £23.5m.

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, funded by the Getting Building Fund.

University of Peterborough Phase 3

Equity Investment of £2m expected to be made last quarter of 21/22 into same company that is delivering Phase 1. Along with further funding from Anglia Ruskin University and Levelling up Funding secured by Peterborough City Council this will deliver a second teaching building and living lab.

The Business Growth Service

Approved by CPCA and involves equity investment of £5.4m of LGF funding to deliver support to local businesses and improve the skills offering in the Combined Authority area.

Other Growth Fund equity investments

There are a number of smaller equity investments made within the Growth Fund programme, these total £2.8m currently awarded with a further pipeline of up to £1.8m.

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 CPCA 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 remaining funds returned to the Authority

Capital Growth Scheme Investments

The Cambridgeshire and Peterborough Business Growth Co Ltd is tasked with the delivery of a £11m fund for a combination of grants and small scale equity investments into SMEs. This programme is to provide working capital 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 CPCA.

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	31.3.2021 actual			2022/23
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	32.202	3.813	28.389	35.000
Local businesses	2.421	0.686	1.735	10.000
TOTAL	**34.623**	**4.499**	**30.124**	**45.000**

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.

Commercial Investments: Property

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	**31.03.2021 Actual**	**31.03.2022 Forecast**	**31.03.2023 Forecast**
Treasury management investments	231.000	238.000	30.000
Service investments: Loans	44.712	37.000	8.000
Service investments: Shares	30.124	47.000	48.000
TOTAL INVESTMENTS	305.836	322.000	86.000
Commitments to lend	3.880	1.226	0.000
TOTAL EXPOSURE	309.716	323.226	86.000

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	**2020/21 Actual**	**2021/22 Forecast**	**2022/23 Forecast**
Treasury management investments	0.382%	0.156%	0.467%
Service investments - Loans	1.725%	2.599%	2.792%
ALL INVESTMENTS	0.598%	0.481%	0.516%

Cambridgeshire and Peterborough Combined Authority

Treasury Management Strategy Statement 2022/23

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

Economic background: The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

Credit outlook: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Table 1 Arlingclose Interest Rate Forecast – December 2021

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Local Context

On 31st December 2021 the Authority held £nil borrowing and £345.6m of treasury investments.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall from current levels (end of Dec 2021) of £346m to £18m (end Mar 2026) as capital funding is used to finance capital expenditure as set out in the Capital programme and the Medium-Term Financial Plan.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

The Authority expects that its capital financing requirement will be nil on 31st March 2022 and in line with the MHCLG Guidance it expects to charge no MRP in 2022/23. The Combined Authority has no current requirement to borrow over the lifetime of the Medium Term Financial Plan and so the forecast CFR until 2026 is £nil.

Borrowing Strategy

The Authority is not currently in receipt of any loans. The balance sheet forecast shows that the Authority does not expect to need to borrow in 2022/23. However, the Authority may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £84.61 million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: The Authority's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of any future debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority expects to borrow any long-term loans from the PWLB or the UKIB, but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- The UK Infrastructure Bank
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Combined Authority's Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Board.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this in the future and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £167m and £346m, and levels are expected to be subject to the drawdown of funds to support the delivery of the Combined Authority's priorities and objectives as set out in the Business Plan and the Medium-Term Financial Plan.

Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority will continue to diversify into more secure and/or higher yielding asset classes during 2022/23. Due to current liquidity requirements, an increasing proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, and money market funds.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£25m	Unlimited
Secured investments *	25 years	£25m	Unlimited
Banks (unsecured) *	13 months	£15m	Unlimited
Building societies (unsecured) *	13 months	£15m	£25m
Registered providers (unsecured) *	5 years	£15m	£50m
Money market funds *	n/a	£25m	Unlimited
Strategic pooled funds	n/a	£25m	£100m
Real estate investment trusts	n/a	£25m	£50m
Other investments *	5 years	£15m	£25m

This table must be read in conjunction with the notes below

Minimum Credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £25m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”)”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

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 entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £25m in operational bank accounts would be taken account of against the relevant investment limits when making treasury management investments, but the limits in this strategy do not apply to service investments.

Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any group of pooled funds under the same management	£50m per manager
Negotiable instruments held in a broker’s nominee account	£50m per broker
Foreign countries	£25m per country

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium-term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

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.

Credit risk indicator	Target
Portfolio average credit rating	6 (A)

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
Total cash available within 3 months	£25m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.5m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

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 on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£50m	£30m	£20m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 113A of the Local Democracy, Economic Development and Construction Act 2009 removes much of the uncertainty over combined authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2022/23 is £0.07 million, based on the expected investment portfolio. There is budget of £0.50 million for debt interest paid in 2022/23.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then consideration will be given to transferring a portion of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater

Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Existing Investment & Debt Portfolio Position

	31 De 2021 **Actual Portfolio £m**	**Average Rate %**
External borrowing:		
Public Works Loan Board	**0**	
Local authorities	**0**	
LOBO loans from banks	**0**	
Other loans	**0**	
Total external borrowing	**0**	
Total gross external debt	0	
Treasury investments:		
Banks & building societies (unsecured)	0.1	0.01
Government (incl. local authorities)	290.5	0.14
Money Market Funds	55.0	0.05
Total treasury investments	345.6	0.12
Net debt	(345.6)	

Cambridgeshire and Peterborough Combined Authority

Minimum Revenue Provision Statement 2022/23

Annual Minimum Revenue Provision Statement 2022/23

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

- The Authority expects that its capital financing requirement will be nil on 31st March 2022 and in line with the MHCLG Guidance it expects to charge no MRP in 2022/23.

- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

- Where loans are made from grant funds, there will be no Capital Finance Requirement and therefore no MRP.

- Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- The table below summarises the MRP Policy.

Capital Expenditure Incurred	MRP Policy
Expenditure funded by unsupported borrowing	Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project.
Finance Leases	MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
Secured Loans to third parties repaid in bullet form.	No MRP will be charged as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount, the Authority will recognise the associated impairment and will charge MRP on the outstanding balance.

Cambridgeshire and Peterborough Combined Authority

Capital Strategy Report 2022/23

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where an Authority spends money on assets, such as property, shares in companies or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2022/23, the Authority is planning capital expenditure of £105.39m as summarised below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget
Capital investments	152.28	176.96	105.39	58.45
TOTAL	152.28	176.96	105.39	58.45

The budget figures for 2022/23 and 2023/24 are taken from the Approved Capital Expenditure Programme as set out and described in the Medium Term Financial Plan approved by the Board in January 2022.

Governance:

The Combined Authority's Assurance Framework sets out:

(a) How the seven principles of public life shape the culture within the Combined Authority in undertaking its roles and responsibilities in relation to the use and administration of the Cambridgeshire and Peterborough Investment, incorporating the Single Pot funding. This culture is developed and underpinned by processes, practices and procedures.

(b) Alongside the Combined Authority's constitution, sets out the respective roles and responsibilities of the Combined Authority, the Business Board (the Local Enterprise Partnership) and statutory officers.

(c) The key processes for ensuring accountability, including public engagement, probity, transparency, legal compliance and value for money.

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(d) How potential investments to be funded through the Cambridgeshire and Peterborough Medium Term Financial Plan, incorporating the Single Pot, will be appraised, prioritised, approved, signed off and delivered.

(e) The processes for oversight of projects, programmes and portfolios and how the progress and impacts of these investments will be monitored and evaluated.

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:

Table 2: Capital financing in £ millions

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget
Grant Funding	146.96	155.09	77.49	48.02
Usable Capital Receipts	5.32	21.87	27.90	10.43
Debt	0	0	0	0
TOTAL	**152.28**	**176.96**	**105.39**	**58.45**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

The Combined Authority currently does not have any debt, but has the ability to borrow to facilitate delivery should it be needed. While there are no current projects within the MTFP which fund delivery via borrowing, the role of the Combined Authority in future affordable housing and the sustainability agenda is still in development and debt may form part of this role. While the Combined Authority has an allowance built into it's MTFP to service a small amount of debt, it is anticipated that any future borrowing would have to be supported by future receipts from the project delivery it funded.

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.

The Authority expects that its capital financing requirement will be nil on 31st March 2022 and in line with the DLUHC Guidance expects to charge no MRP in 2022/23.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

Where loans are made from grant funds, there will be no Capital Finance Requirement and therefore no MRP. Where loans are debt funded, where creditworthiness of the borrower decreases or the asset value drops below the loan value, MRP will be charged on the shortfall.

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Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

Treasury Management

Treasury management is concerned with keeping sufficient, but not excessive, cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as grant income is received before it is spent.

As at 31 December 2021, the Authority had no borrowing and £345.6m treasury investments at an average rate of 0.12%

Borrowing strategy: The Authority's main objectives when borrowing would be to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority would therefore seek to strike a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.5 to 2.5%).

Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above).

Table 3: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget
Debt (incl. PFI & leases)	0	0	0	0
Capital Financing Requirement	0	0	0	0

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Authority expects to comply with this in the medium term.

Liability benchmark: 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 level to allow a small level of borrowing to facilitate delivery should it be needed, but will be kept under review.

Table 4: Borrowing and the Liability Benchmark in £ millions

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget
Outstanding borrowing	0	0	0	0
Liability benchmark	0	0	8.50	8.50

Affordable borrowing limit: 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.

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Table 5: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 limit	2022/23 limit	2023/24 limit
Authorised limit – total external debt	84.61	84.61	84.61
Operational boundary – total external debt	74.61	74.61	74.61

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Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms can be invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

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Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by the Board. Regular reports on treasury management activity are presented to the Audit and Governance Committee who are responsible for ensuring effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice.

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Investments for Service Purposes

The Authority makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Authority's subsidiaries that provide services. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for service loans to at least break even after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Chief Finance Officer and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases and will therefore also be approved as part of the capital programme.

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Commercial Activities

The Combined Authority currently does not hold any commercial investments.

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Liabilities

The Authority is committed to making future payments to cover its pension fund deficit (valued at £3.64m). There are currently no commitments to make future payments in relation to debt or other major liabilities. There is currently no requirement to cover risks of other provisions, financial guarantees or major contingent liabilities.

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Governance: Decisions on incurring new discretional liabilities are taken by Directors in consultation with the Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by the Finance team and reported to the Audit and Governance committee. New liabilities/loans are reported to the Board for approval/notification as appropriate.

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Revenue Budget Implications

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.

Table 6: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget
Financing costs (£m)	0	0	£0.43m	£0.49m
Proportion of net revenue stream	0%	0%	2.7%	3.3%

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Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable as demonstrated in the Medium-Term Financial Plan.

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Knowledge and Skills

The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant with over 25 years post qualification experience. The Authority pays for staff to study towards relevant professional qualifications and for all qualified staff to keep up to date with relevant 'continuing professional development'.

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Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Cambridgeshire and Peterborough Combined Authority

Investment Strategy Report 2022/23

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 £44m and £272m during the 2022/23 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 2022/23 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 one has been fully repaid and the other four are due to be repaid by the end of March 2023.

Recycled Growth Fund Loans

The CPCA 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

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Key objectives and principles in the service investments within the Housing Strategy include the following:¶
To accelerate housing delivery to support Economic Growth.¶
To create Prosperous Places where people want to live.¶
To expand housing choices and opportunity through promotion of steps to promote home ownership using alternative tenure structures, potential starter homes and more shared ownership schemes.¶
Promoting all Housing (not just affordable) that is in addition to the existing development pipeline and encourage accelerated delivery within adopted local plans.¶
Be creative, in using a range of financial delivery mechanisms that have not traditionally been a method through which public sector organisations have supported and delivered housing. This aims to create a revolving fund that will outlast the £170m programme that will help to meet the longer term target of an additional 100,000 homes by 2037.¶
An ambition to deliver 40,000 affordable homes within the same time period, to help address the affordability of housing, particularly for key workers, first time buyers and those in low and medium paid employment who cannot easily access the home ownership market without family or other third party support. This will support more sustainable communities.¶
To support the spread of Community Land Trusts (CLT's) which support their local communities. ¶
Ensuring that housing supports the most vulnerable by offering increased choice and affordability for those requiring specialist care.¶
Supporting infrastructure to enable new housing schemes through a co-ordinated approach, particularly regarding transport by making strong links across strategies and projects within the Combined Authority.
Encouraging best use of all property assets, bringing homes that are currently excluded from the market back into market use and supporting the creation of new homes from existing built assets not currently in residential use.¶
To consider using the combined authorities borrowing powers to help to accelerate schemes using financial mechanisms, where it aligns to the overall Combined Authority Investment strategy.¶
¶
Housing 'Top Up' Fund¶
The Combined Authority can borrow to deliver capital programmes if this borrowing is in line with the prudential framework. While the Combined Authority has not borrowed to date, there is an opportunity to borrow to on-loan to housing developers which would ...

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 2022-23 is likely to be quite small.

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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	31.3.2021 actual			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0.000	0.000	0.000	20.000
Local businesses	45.491	0.779	44.712	60.000
TOTAL	**45.491**	**0.779**	**44.712**	**80.000**

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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

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All loans are subject to approval by the Combined Authority Board.

Service Investments: Shares

Contribution: The Authority invests in the shares of its subsidiaries and local businesses to support local public services and stimulate local economic growth.
The CPCA has approved a number of service equity investments as part of both the University of Peterborough and the Business and Skills agenda summarised below.

University of Peterborough Phase 1

Equity investment into a Joint Venture along with Peterborough City Council and Anglia Ruskin University with a total CPCA investment of £23.5m.

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, funded by the Getting Building Fund.

University of Peterborough Phase 3

Equity Investment of £2m expected to be made last quarter of 21/22 into same company that is delivering Phase 1. Along with further funding from Anglia Ruskin University and Levelling up Funding secured by Peterborough City Council this will deliver a second teaching building and living lab.

The Business Growth Service

Approved by CPCA and involves equity investment of £5.4m of LGF funding to deliver support to local businesses and improve the skills offering in the Combined Authority area.

Other Growth Fund equity investments

There are a number of smaller equity investments made within the Growth Fund programme, these total £2.8m currently awarded with a further pipeline of up to £1.8m.

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 CPCA 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 remaining funds returned to the Authority

Capital Growth Scheme Investments

The Cambridgeshire and Peterborough Business Growth Co Ltd is tasked with the delivery of a £11m fund for a combination of grants and small scale equity investments into SMEs. This programme is to provide working capital 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 CPCA.

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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	31.3.2021 actual			2022/23
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	32.202	3.813	28.389	35.000
Local businesses	2.421	0.686	1.735	10.000
TOTAL	**34.623**	**4.499**	**30.124**	**45.000**

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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.

Commercial Investments: Property

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	**31.03.2021 Actual**	**31.03.2022 Forecast**	**31.03.2023 Forecast**
Treasury management investments	231.000	238.000	30.000
Service investments: Loans	44.712	37.000	8.000
Service investments: Shares	30.124	47.000	48.000
TOTAL INVESTMENTS	305.836	322.000	86.000
Commitments to lend	3.880	1.226	0.000
TOTAL EXPOSURE	309.716	323.226	86.000

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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	2020/21 Actual	2021/22 Forecast	2022/23 Forecast
Treasury management investments	0.382%	0.156%	0.467%
Service investments - Loans	1.725%	2.599%	2.792%
ALL INVESTMENTS	0.598%	0.481%	0.516%

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Cambridgeshire and Peterborough Combined Authority

Treasury Management Strategy Statement 2022/23

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

Economic background: The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the

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Deleted: (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks
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quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

Credit outlook: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Table 1 Arlingclose Interest Rate Forecast – December 2021

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	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

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	Mar-21	Jun-21	Sep-21	Dec-21
Official Bank Rate				
Upside risk	0.00	0.00	0.15	0.15
Arlingclose Central Case	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50
3-month money market r				
Upside risk	0.05	0.05	0.10	0.10
Arlingclose Central Case	0.10	0.10	0.15	0.15
Downside risk	0.30	0.40	0.50	0.50
1yr money market rate				
Upside risk	0.05	0.05	0.10	0.10
Arlingclose Central Case	0.15	0.15	0.25	0.25
Downside risk	0.15	0.15	0.15	0.15
5yr gilt yield				
Upside risk	0.40	0.40	0.45	0.45
Arlingclose Central Case	0.00	0.00	0.05	0.10
Downside risk	0.40	0.45	0.50	0.55
10yr gilt yield				
Upside risk	0.30	0.35	0.40	0.45
Arlingclose Central Case	0.25	0.30	0.35	0.35
Downside risk	0.50	0.50	0.55	0.55
20yr gilt yield				
Upside risk	0.40	0.40	0.45	0.45
Arlingclose Central Case	0.70	0.70	0.75	0.75
Downside risk	0.30	0.30	0.35	0.35
50yr gilt yield				
Upside risk	0.40	0.40	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.65	0.65
Downside risk	0.30	0.30	0.35	0.35

PWLB Certainty Rate (Maturity Loans) = Gilt yie
PWLB Infrastructure Rate (Maturity Loans) = Gi

Local Context

On 31st December 2021 the Authority held £nil borrowing and £345.6m of treasury investments.

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The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall from current levels (end of Dec 2021) of £346m to £18m (end Mar 2026) as capital funding is used to finance capital expenditure as set out in the Capital programme and the Medium-Term Financial Plan.

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CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

The Authority expects that its capital financing requirement will be nil on 31st March 2022 and in line with the MHCLG Guidance it expects to charge no MRP in 2022/23. The Combined Authority has no current requirement to borrow over the lifetime of the Medium Term Financial Plan and so the forecast CFR until 2026 is £nil.

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Borrowing Strategy

The Authority is not currently in receipt of any loans. The balance sheet forecast shows that the Authority does not expect to need to borrow in 2022/23. However, the Authority may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £84.61 million.

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Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for

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which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: The Authority's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of any future debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

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The Authority expects to borrow any long-term loans from the PWLB or the UKIB, but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

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Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- The UK Infrastructure Bank
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Combined Authority's Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Board.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this in the future and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £167m and £346m, and levels are expected to be subject to the drawdown of funds to support the delivery of the Combined Authority's priorities and objectives as set out in the Business Plan and the Medium-Term Financial Plan.

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Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority will continue to diversify into more secure and/or higher yielding asset classes during 2022/23. Due to current liquidity requirements, an increasing proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, and money market funds.

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Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£25m	Unlimited
Secured investments *	25 years	£25m	Unlimited
Banks (unsecured) *	13 months	£15m	Unlimited
Building societies (unsecured) *	13 months	£15m	£25m
Registered providers (unsecured) *	5 years	£15m	£50m
Money market funds *	n/a	£25m	Unlimited
Strategic pooled funds	n/a	£25m	£100m
Real estate investment trusts	n/a	£25m	£50m
Other investments *	5 years	£15m	£25m

This table must be read in conjunction with the notes below

Minimum Credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

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For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times

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Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £25m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch")") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

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 entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £25m in operational bank accounts would be taken account of against the relevant investment limits when making treasury management investments, but the limits in this strategy do not apply to service investments.

Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

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Table 4: Investment limits

	Cash limit
Any group of pooled funds under the same management	£50m per manager
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries	£25m per country

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

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.

Credit risk indicator	Target
Portfolio average credit rating	6 (A)

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
Total cash available within 3 months	£25m

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Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.5m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

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 on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£50m	£30m	£20m

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Related Matters

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The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 113A of the Local Democracy, Economic Development and Construction Act 2009 removes much of the uncertainty over combined authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2022/23 is £0.07 million, based on the expected investment portfolio. There is budget of £0.50 million for debt interest paid in 2022/23.

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Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then consideration will be given to transferring a portion of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater

Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A - Existing Investment & Debt Portfolio Position

	31 Dec 2021 **Actual Portfolio** **£m**	**Average Rate** **%**
External borrowing:		
Public Works Loan Board	**0**	
Local authorities	**0**	
LOBO loans from banks	**0**	
Other loans	**0**	
Total external borrowing	**0**	
Total gross external debt	0	
Treasury investments:		
Banks & building societies (unsecured)	0.1	0.01
Government (incl. local authorities)	290.5	0.14
Money Market Funds	55.0	0.05
Total treasury investments	345.6	0.12
Net debt	(345.6)	

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Cambridgeshire and Peterborough Combined Authority

Minimum Revenue Provision Statement 2022/23

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Annual Minimum Revenue Provision Statement 2022/23

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Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

- The Authority expects that its capital financing requirement will be nil on 31st March 2022 and in line with the MHCLG Guidance it expects to charge no MRP in 2022/23.

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- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

- Where loans are made from grant funds, there will be no Capital Finance Requirement and therefore no MRP.

- Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- The table below summarises the MRP Policy.

Capital Expenditure Incurred	MRP Policy
Expenditure funded by unsupported borrowing	Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project.
Finance Leases	MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
Secured Loans to third parties repaid in bullet form.	No MRP will be charged as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount, the Authority will recognise the associated impairment and will charge MRP on the outstanding balance.

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CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

Agenda Item No: 8

Report title: Combined Authority Trading Companies

To:	Audit and Governance Committee
Meeting Date:	28th January 2022
From:	Robert Parkin Monitoring Officer
Key decision:	No
Recommendations:	The Audit and Governance Committee is recommended to: a) Comment upon, recommend any changes, and agree the terms of reference of the Committee in relation to the Combined Authority trading companies Voting arrangements: a simple majority of all Members.

1. Purpose

1.1 This report provides the Committee with an update to the draft terms of reference in relation to the review and assessment of the Combined Authority's trading companies in line with the statutory powers invested in the Committee.

2. Background

2.1 The Audit and Governance Committee's terms of reference describe its role as to:

- Review and scrutinise the authority's financial affairs
- Review and assess the authority's risk management, internal control and corporate governance arrangements
- Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; and
  a) make reports and recommendations to the Combined Authority in relation to reviews; and
  b) implement the obligation to ensure high standards of conduct amongst

Members.

2.2 At the meeting of the Committee on 24 September 2021 it considered a paper with draft terms of reference in relation to the review and assessment of the Combined Authority's trading companies and resolved not to accept them as presented. The Committee requested officers seek the experiences of other combined authorities and councils in relation to trading companies and present an updated terms of reference for consideration at this meeting.

2.3 Since the last meeting of the Committee the Combined Authority Overview & Scrutiny Committee has considered terms of reference in relation to that body's statutory powers in relation to trading companies and agreed the following:

a) Advise the Combined Authority Board and hold it to account, where necessary, in relation to the trading companies;
b) Review any matter within the Committee's power, pertaining to the Combined Authority's trading companies and any future activities of those trading companies.

2.4 The Combined Authority currently has six trading companies registered with Companies House. These are:

Angle Holdings Limited
Incorporated in September 2019, Angle Holdings was originally set up to be a holding company for all CPCA companies. It is, however, the holding company for Angle Developments (East) Limited only; and has a single share in the Cambridgeshire and Peterborough Business Growth Service.

Angle Developments (East) Limited

Angle Developments (East) Limited is a housing development company incorporated in September 2019 and is owned in the main by Angle Holdings. It was incorporated with the intention of delivering affordable housing schemes and forming joint ventures with local developers in order to contribute to the housing element of the 2017 devolution deal for Cambridgeshire and Peterborough.

Cambridgeshire & Peterborough Business Growth Service Limited
Incorporated in August 2020 the Cambridgeshire & Peterborough Business Growth Company consists of three major services. These are:

The Business Growth Service: targeting places and companies that will have the most impact on our goal to shift to a more inclusive growth dynamic across sub-economies;

The Inward Investment Service: for a new all-economy foreign direct investment and capital investment promotion service for the promotion of employment space and employment property development opportunities to investors and companies from the UK and overseas; and, The Skills Service: a digital and physical service connecting business with skills providers and talent, including targeted support to double the number of apprenticeships over five years.

The majority shareholder in the Business Growth Service is with the Combined Authority, with Angle Holdings owning a single share.

One CAM Limited
One CAM Limited was incorporated in September 2020 and was established as a special purpose vehicle (SPV), as a necessary and best-practice step for delivering the infrastructure intended as part of the CAM.

This company is now being placed into dormancy, following its final Board meeting in December 2021, and will be struck-off the register at Companies House.

Peterborough HE Property Company Limited
Incorporated in June 2020 the Peterborough HE Property Company Limited (Propco1) is a special purpose vehicle to deliver the new University on the embankment site in Peterborough. The Propco1 is the SPV for phase 1 of the programme and comprise of the Combined Authority, Peterborough City Council and the academic delivery partner, Anglia Ruskin University.

Peterborough R&D Property Company Limited
Incorporated In November 2020 for the construction of a Research & Development building which will deliver an Advanced Manufacturing Innovation Eco-System for Peterborough. The company is a joint venture between the CPCA and Photocentric Limited.

3. Terms of Reference

3.1 Decisions relating to the Combined Authority trading companies go to the Combined Authority Board, and the Combined Authority Board acts as shareholder. In this role, it carries out a range of roles around oversight, and review. Arrangements are in place in all shareholder agreements for reserved matters to be considered by the Combined Authority Board. Given this process of decision-making and as decisions relating to the companies go to the Combined Authority Board, the Audit & Governance Committee is invited to consider the proposed terms of reference, below, which are aimed at ensuring effective governance by way of bringing a robust and independent approach to the trading companies.

3.4 The proposed terms of reference, below, have been considered by the authority's internal auditors who have made comment and suggested amendment, where appropriate. It should be noted the individual trading companies are not directly accountable to the Committee:

Terms of Reference for the Cambridgeshire & Peterborough Combined Authority Audit and Governance Committee in Relation to the Review and Assessment of the Authority's Trading Companies

a) Assist the Combined Authority in fulfilling its oversight responsibilities in relation to reviewing and monitoring activity of the trading companies;
b) Advise the Combined Authority Board on any matters within the Committee's powers pertaining to the trading companies;
c) Provide appropriate review and challenge of the Combined Authority's governance arrangements of its trading companies and its appointments to the boards of the companies;
d) Provide appropriate review and challenge on the financial information provided to the Combined Authority by the trading companies;
e) Commission, where appropriate, the Combined Authority's internal audit function to undertake discrete activity relating to the Authority's governance of its trading companies

4. Financial Implications

4.1 There are no significant financial implications to this activity.

5. Legal Implications

5.1 There are no significant legal implications, beyond those referred to in the body of the report.

CAMBRIDGESHIRE
& PETERBOROUGH
COMBINED AUTHORITY

Agenda Item No: 9

Audit and Governance Committee - Work Programming Report

To:	Audit and Governance Committee
Meeting Date:	28th January 2022
Public report:	Public Report
From:	Robert Parkin Chief Legal Officer and Monitoring Officer
Recommendations:	The Audit and Governance Committee is recommended to: a) Note the current work programme for the Audit and Governance Committee for the 2021/22 municipal year attached at Appendix 1 Voting arrangements: A simple majority of all Members

1. Purpose

1.1 The report provides the Committee with the draft work programme for Audit and Governance Committee to note at Appendix 1.

1.2 At their meeting on the 30 July 2021 the Committee agreed they would like their work programme report to include the Top Five Risks from the Corporate Risk Register. This report outlines these risks for consideration.

2. Background

2.1 The Committee have requested that the top five risks from the Corporate Risk Register were included in the work programme report. This is to enable the Committee to consider whether these needed any further review.

Top Five Risks – CPCA

Risk ID	Cause	Effect	Likelihood	Impact	Residual Score
32	DLUHC confirming no future funding for a bespoke CPCA Housing Programme	Uncertainty about the future role of the housing team and associated resourcing requirements beyond seeing out the completion over the next 24 months of the affordable housing programme to March 2022. for which officer resources are required.	5	4	20
1	External delivery partners unable to deliver on agreed commitments to CPCA projects	Projects are not delivered on time, budget, or to the required standard.	3	4	12
14	Covid-19 Pandemic (A)	Potential absence of significant numbers of Combined Authority staff undermining the ability to transact the operational business of the Combined Authority	3	4	12
16	Covid-19 Pandemic (B)	Economic impact of lockdown in response to Covid-19, may have implications for future government funding and for economic activity within the Combined Authority area in the short term.	3	4	12
19	Covid -19 Pandemic (C)	Economic impact of lockdown in response to Covid-19, may have implications for future government funding and for economic activity within the Combined Authority area in the long term.	5	2	10

2.2 The current work programme is attached at Appendix 1 for members to note.

3. Financial Implications

3.1 None

4. Legal Implications

4.1 None

5. Appendices

5.1 Appendix 1 – A&G Work programme

6. Background Papers

6.1 None

AUDIT AND GOVERNANCE COMMITTEE
WORK PROGRAMME 2021/22

Meeting Date 2020/21	Item	COMMENTS
27th January 2022 Via Zoom	DEVELOPMENT SESSION: ROLE OF AUDIT ON MAJOR PROJECTS	
28th January 2022 Venue: Sand Martin House		
	Internal Audit – Progress Report	Report from the Internal Auditors to provide an update on the progress of the current internal audits.
	Governance Review	
	Combined Authority Board Update	
	Minutes of the previous meeting	
	Work Programme	
	Trading Companies Terms of Reference - Update	
	Financial Strategies	
Meeting Date	**Item**	**Comment**

DEVELOPMENT SESSION: A&G COMMITTEE SELF ASSESSMENT		
11th March 2022		
Sand Martin House	**Combined Authority Board Update**	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Terms of Reference for the Climate Change Working group	Terms of reference for the Climate Change Working group to be brought to the committee for consideration and to request that the working group advise how flooding considerations
	Guidance on Accounts	Report to come to Committee with an update on what guidance had been received from government on how to simplify accounts.
	Constitutional Amendments - Role of the Business Board	
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Work Programme	Standing item for the committee to consider their upcoming work programme.
	External Audit – Audit Plan	The Committee receive and approve the final audit plan prepared by the external auditors

	Internal Audit Plan:	Details of audit activity for the following year.
	Treasury Management Strategy Summary	The Committee receive the report asks for comments comment on the draft Treasury Management Strategy.
	Assurance Framework	The Assurance Framework is a set of systems, processes and protocols, which along with standing orders, financial regulations, departmental procedures, and codes of practice is linked in a hierarchy of management and financial control procedures, which clearly define the responsibilities of members and the duties of the CPCA's officers, consultants and partners. – Approved annually.
	Information Governance Update	Bi annual update on governance issues including FOI, Complaints, incidents of fraud and whistleblowing.
Meeting Date	**Item**	**Comment**
10th June 2022 **Sand Martin House**	**Combined Authority Board Update**	Standing item on the agenda when a chief officer or by agreement once a year the Mayor for the Combined Authority provides an update on the activities for the authority.
	Minutes of the previous meeting	Standing item on the agenda for the committee to agree the minutes from the last meeting.
	Corporate Risk Register	Standing item by request of the committee to be considered at each meeting.
	Procurement Policy	

	Work Programme	Standing item for the committee to consider their upcoming work programme.
	Occurred Meetings – Work Programmes	
Meeting Date 2020/21	**Item**	**COMMENTS**