CAMBRIDGESHIRE & PETERBOROUGH
COMBINED AUTHORITY

Audit and Governance Committee

18 July 2024

Title:	Treasury Management Outturn Report 2023/24
Report of:	Janice Gotts, Executive Director - Resources Ian Pantling, Senior Technical Accountant
Public Report:	Yes
Key Decision:	*No*
Voting Arrangements:	N/A

Recommendations:	
A	Review and note the actual performance for the year to 31st March 2024 against the adopted prudential and treasury indicators.

Strategic Objective(s):

The proposals within this report fit under the following strategic objective(s):

X	Delivering Best Value and High Performance

Adhering to best practice guidance is a key element to demonstrate that the Combined Authority is performing well, CIPFA treasury management guidance requires that treasury management performance is regularly reported and reviewed.

1. Purpose

1.1	The purpose of the report is to review the outturn position for 2023/24 against the prudential indicators included within the Treasury Management and Capital Strategies.

2. Proposal

2.1	In-line with the Audit and Governance Committee's terms of reference the Committe is asked to review and note the performance of the Combined Authority's treasury management functions against the performance indicators set out in the approved Treasury and Capital strategies

3. Background

3.1	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".
3.2	The Treasury Management in the Public Services: Code of Practice 2021 recommends that Members receive regular reports on the authority's treasury management policies, practices and activities,

	including an Annual Treasury Report, which is a review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This report represents the Annual Treasury Report.
3.3	Appendix 1 to the report details our performance against the indicators agreed in the 2023-24 strategies. There were no breaches of the agreed indicators during 2023/24.
3.4	The use of grant income to fund capital expenditure for Indicator 7, Capital Financing, was significantly below expected as a result of lower than forecast capital expenditure. This also led to the actual asset benchmark as at 31.03.2024 being higher than forecast. Further detail is available in the 2023/24 Outturn Budget Report presented to Combined Authority Board on 5 June 2024.
3.5	The original treasury management income budget for 2023/24 was £0.7m. Due to a combination of higher interest rates and lower than forecast expenditure, this was revised upwards during the year to £10.0m and the final outturn was £10.0m. The budget for 2024/25 was set at £4.5m in the MTFP and this is forecast to be exceeded by at least £2m.
3.6	Appendix 2 presents the Combined Authority's treasury management investment position benchmarked against other Local Authorities.

4. Appendices

4.1	Appendix 1 – Performance against Treasury Management and Capital Indicators and Limits 2023/24
4.2	Appendix 2 - Benchmarking of the Combined Authority's treasury investment portfolio

5. Implications

Financial Implications	
5.1	There are no direct financial implications arising from this report.
Legal Implications	
6.1	There are no direct legal implications.
Public Health Implications	
7.1	There are no direct public health implications
Environmental & Climate Change Implications	
8.1	There are no direct climate change implications although the Treasury team are monitoring emerging investment opportunities with ESG credentials to see if any can be utilised within the approved treasury strategies.
Other Significant Implications	
9.1	There are no other significant implications
Background Papers	
10.1	Outturn Budget Report presented to the Combined Authority Board in June 2024

Appendix 1: Performance against Treasury Management and Capital Indicators and Limits 2023/24

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators, compliance has been indicated for each:

1. **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 banks under the same ownership will be treated as a single organisation for limit purposes.

Sector	Counterparty limit	Sector limit	Maximum balance held in 2023/24 financial year per Counter Party / Sector	Complied?
The UK Government	Unlimited	n/a	£121m	Yes
Local authorities & other government entities	£25m	Unlimited	£25m/£195m	Yes
Secured investments	£25m	Unlimited	£0	Yes
Banks (unsecured) (excluding operational bank account)	£15m	Unlimited	£0	Yes
Banks (unsecured, operational account)	£25	Unlimited	£15m	Yes
Building societies (unsecured)	£15m	£25m	£0	Yes
Registered providers (unsecured)	£15m	£50m	£0	Yes
Money market funds	£25m	Unlimited	£10m / £30m	Yes
Strategic pooled funds	£25m	£100m	£0	Yes
Real estate investment trusts	£25m	£50m	£0	Yes
Other investments	£15m	£25m	£0	Yes

2. **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.

	Target	As at 31.3.2024	Complied?
Portfolio average credit score (lower is better)	6 (A)	5.38 (A+)	Yes

3. **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. This is a minimum balance to be held, in practice this is routinely exceeded to meet forecast cashflow's as was the case at 31.3.2024.

Liquidity risk indicator	Target	As at 31.3.2024	Complied?
Total cash available within 3 months	£15m	£55.2m	Yes

4. **Interest Rate Exposures** This indicator is set to control the Authority's exposure to interest rate risk.

Interest rate risk indicator	Limit	As at 31.3.2024	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.5m	£0.9m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1.5m	(£0.9m)	Yes

5. **Principal sums invested for periods longer than a year:** 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 sums invested to final maturities beyond the period end were:

Price risk indicator	2023/24	2024/25	2025/26
Limit on long-term principal invested beyond year end	£50m	£30m	£20m
Actual long-term principal invested beyond year end	£35m	£20m	£0m
Complied?	Yes	Yes	Yes

Capital Strategy Indicators

6. **Capital Expenditure (£m)**. The table below shows the Combined Authority's capital expenditure for 2023/24, and the following three financial years based on the medium-term financial plan. Slippage requested reflects the amount of budget originally programmed for 2023/24 which has not been spent and is now anticipated in 2024/25 which would create a corresponding increase in the 2024/25 budget.

	2023/24 budget as at 31.03.24	2023/24 outturn	Slippage approved	2024/25 budget	2025/26 budget	2026/27 budget
Capital investments	£170m	£110m	£70m*	£203m	£93m	£41m
TOTAL	£170m	£110m	£70m	£203m	£93m	£41m

*Note approved slippage is higher than the underspend as the underspend is a net figure which includes some overspends funded by unbudgeted grant income – if these are discounted then the slippage is less than the underspend.

7. **Capital Financing (£m).** 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 financing of the above expenditure is as follows:

	2023/24 budget as at 31.03.24	2023/24 outturn
Grant Funding	151.81	92.99
Usable Capital Receipts	18.29	18.68
Debt	0	0
TOTAL	**170.10**	**111.67**

8. **Gross Debt and the Capital Financing Requirement (£m).** The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The Authority currently has no debt and therefore no CFR. Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement.

	31.3.2024 forecast	31.3.2024 actual
Debt (incl. PFI & leases)	0	0
Capital Financing Requirement	0	0

9. **Borrowing and the Liability Benchmark (£m).** 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 was set at a level to allow a small level of borrowing to facilitate delivery should it be needed. As the Combined Authority continues to have no planned borrowing, the 2023/24 Capital strategy replaces this with an asset benchmark so that the Committee can see how closely the Authority's forecast of its assets matches to the actuals.

	31.3.2024 forecast	31.3.2024 actual	31.3.2025 budget
Outstanding borrowing	0	0	0
Liability (asset) benchmark	(135.0)	(185.2)	(78.0)

10. **Authorised limit and operational boundary for external debt (£m).** 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.

	2023/24 limit	2023/24 actual	2024/25 limit

Authorised limit – total external debt	84.61	0	84.61
Operational boundary – total external debt	74.61	0	74.61

11. **Proportion of financing costs to net revenue stream** Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from general government grants**.** As the Combined Authority has no current or forecast borrowing there are corresponding nil financing costs.

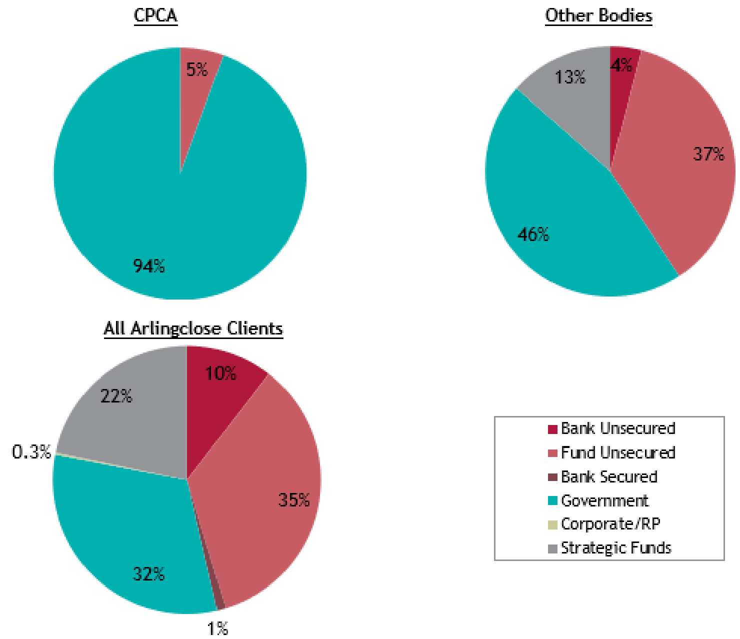
	2023/24 budget	2023/24 outturn	2024/25 budget
Financing costs (£m)	0	0	0
Proportion of net revenue stream	0%	0%	0%

Appendix 2: Benchmarking of the Combined Authority's treasury investment portfolio

Benchmarking summary as at 31st March 2024

Investment Benchmarking 31 March 2024

	CPCA	5 Other Bodies Average	125 LAs Average
Internal Investments	£195.2m	£133.0m	£51.1m
Cash Plus & Short Bond Funds	£0.0m	£0.0m	£0.5m
Strategic Pooled Funds	£0.0m	£0.8m	£11.2m
TOTAL INVESTMENTS	**£195.2m**	**£133.8m**	**£62.8m**
Security			
Average Credit Score	5.38	4.96	4.82
Average Credit Rating	A+	A+	A+
Average Credit Score (time-weighted)	5.52	4.95	4.70
Average Credit Rating (time-weighted)	A	A+	A+
Number of Counterparties / Funds	33	18	11
Proportion Exposed to Bail-in	6%	46%	61%
Liquidity			
Proportion Available within 7 days	10%	44%	50%
Proportion Available within 100 days	28%	65%	66%
Average Days to Maturity	210	67	9
Market Risks			
Average Days to Next Rate Reset	212	83	44
Strategic Fund Volatility	-	0.3%	3.3%
Yield			
Internal Investment Return	5.60%	5.34%	5.17%
Cash Plus Funds - Income Return	-	-	4.23%
Strategic Funds - Income Return	-	4.90%	5.07%
Total Investments - Income Return	**5.60%**	**5.32%**	**5.10%**
Cash Plus Funds - Capital Gain/Loss	-	-	1.40%
Strategic Funds - Capital Gain/Loss	-	-2.39%	-1.27%
Total Investments - Total Return	**5.60%**	**5.00%**	**5.03%**



Notes

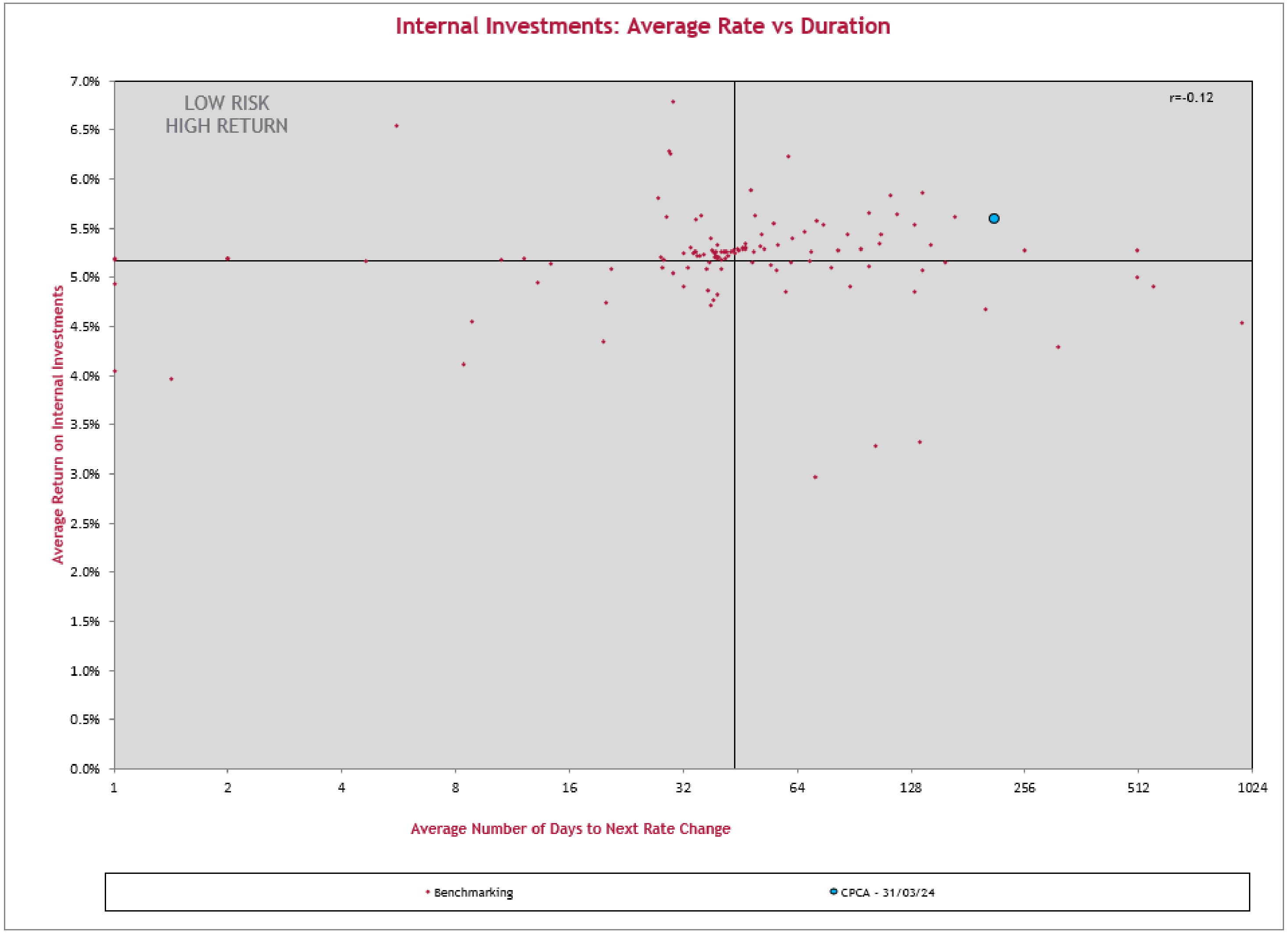
- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Pooled fund returns are 1-year to the end of the quarter.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.

This dashboard compares the Combined Authority's treasury investment portfolio with 5 similar entities identified by our treasury advisors, Arling Close, and with 125 other Local Authorities.

While the Combined Authority has more counterparties, and less exposure to bail-in risk (both positives), it has no 'strategic funds' – these are longer term investments where capital can be at risk (as seen in the losses at the bottom of the table).

Over the long-term strategic funds are expected to out-perform simple loans however taking money out at an inopportune time could lead to significant losses. As such, due to the rapidly changing nature of the Combined Authority's funding, investment in those funds has not been considered appropriate.

Average duration of investment vs rate of return



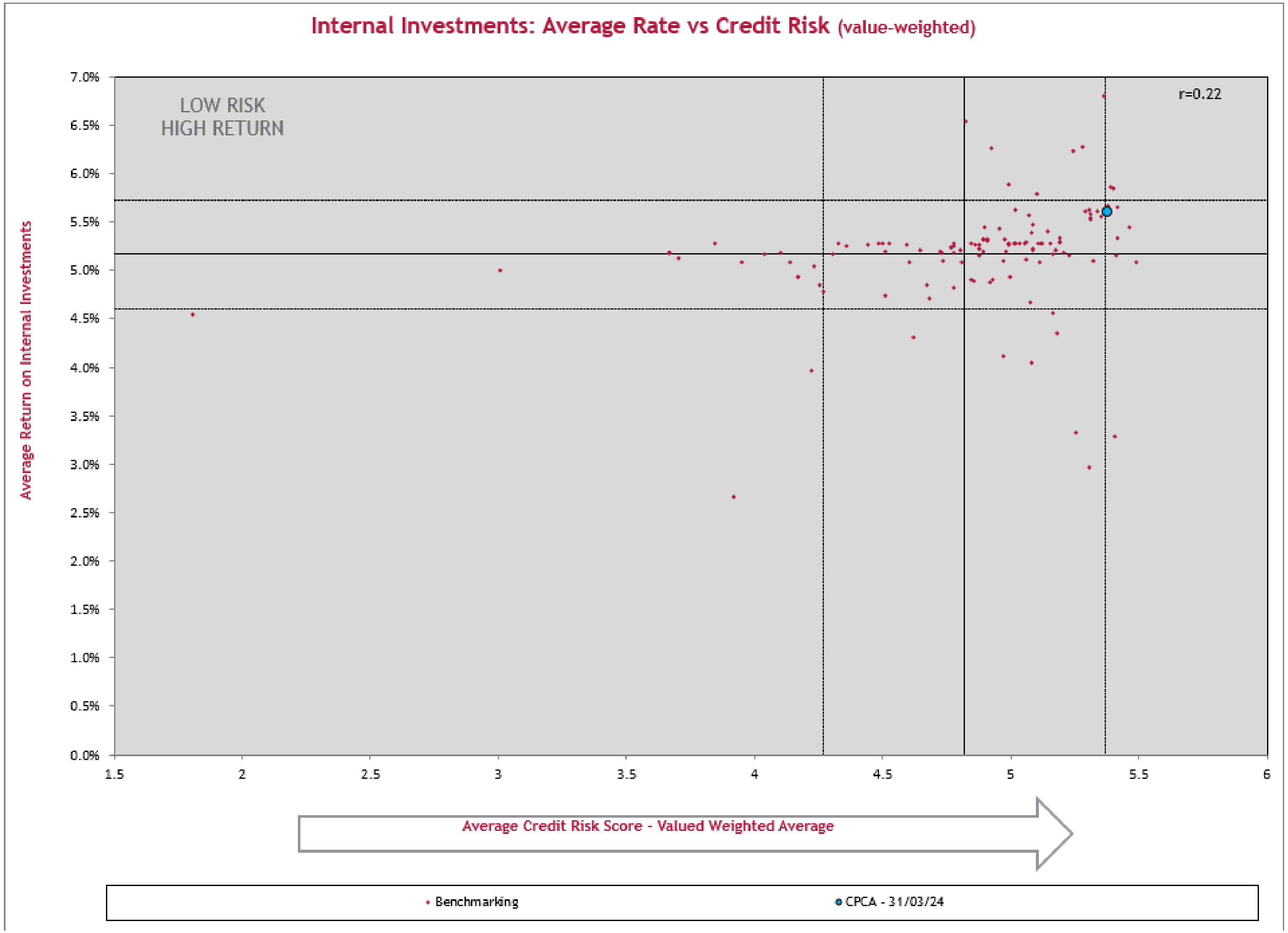
'Normal' behaviour in markets is that longer term investments offer higher returns, as the borrower places a premium on the certainty which would be seen in a trend with data points clustered in a rough line from bottom left of the graph to top right, and a positive r-value close to 1.

This behaviour is not seen in treasury markets at the end of March due to the market anticipation of several interest rate cuts during 2024/25.

As such short-term rates are as better than long term rates as longer term deals (1+ years) are setting their rates on the expectation that overall interest rates will be lower.

The Combined Authority sits to the right of the majority of local authorities in this graph, showing that we have a longer average length of loan while still achieving above average returns (the horizontal line).
Moving forward, the average rate is expected to decrease as new loans will be placed at lower interest rates than the deals they are replacing.

Average rate vs Credit Risk



Credit risk scores are an indicator of how much trust the market has in the entity's ability to repay those funds, with lower numbers being better.
For context, the UK Government's score is 3.7.

The risk here is the average of the entities the Combined Authority has lent to, not the Combined Authority's rating.

While the Combined Authority's average score is higher than most Local Authorities it is still well within the acceptable average score of 6. This is due to having a higher proportion of funds invested with other Local Authorities, rather than the Governments DMADF and is reflected in higher than average returns.