



Cambridge City Council  
**Strategy and Resources Scrutiny Committee**

**Date:** Monday, 3 February 2020

**Time:** 5.00 pm

**Venue:** Committee Room 1 & 2, The Guildhall, Market Square, Cambridge, CB2 3QJ

**Contact:** [democratic.services@cambridge.gov.uk](mailto:democratic.services@cambridge.gov.uk), tel:01223 457000

**Second Circulation Agenda**

**Decisions for the Executive Councillor for Strategy and External Partnerships**

6 Combined Authority Update (Pages 3 - 18)

**Decisions for the Executive Councillor for Finance and Resources**

7 Capital Strategy (Pages 19 - 52)

8 Treasury Management Strategy Statement Report  
2020/21 to 2022/23 (Pages 53 - 76)

**Strategy and Resources Scrutiny Committee Members:** Davey (Chair), Todd-Jones (Vice-Chair), Bick, Dalzell and Green

**Alternates:** Cantrill, Davies and O'Reilly

**Executive Councillors:** Herbert (Executive Councillor for Strategy and External Partnerships) and Robertson (Executive Councillor for Finance and Resources)

## Information for the public

The public may record (e.g. film, audio, tweet, blog) meetings which are open to the public. For details go to:

[www.cambridge.gov.uk/have-your-say-at-committee-meetings](http://www.cambridge.gov.uk/have-your-say-at-committee-meetings)

For full information about committee meetings, committee reports, councillors and the democratic process:

- Website: <http://democracy.cambridge.gov.uk>
- Email: [democratic.services@cambridge.gov.uk](mailto:democratic.services@cambridge.gov.uk)
- Phone: 01223 457000



Item

## Cambridgeshire and Peterborough Combined Authority - Update

**To:**

Councillor Lewis Herbert, Leader and Executive Councillor for Strategy and External Partnerships

Strategy & Resources Scrutiny Committee 3 February 2020

**Report by:**

Antoinette Jackson, Chief Executive

Tel: 01223 457001 Email: antoinette.jackson@cambridge.gov.uk

**Wards affected:**

Abbey, Arbury, Castle, Cherry Hinton, Coleridge, East Chesterton, King's Hedges, Market, Newnham, Petersfield, Queen Edith's, Romsey, Trumpington, West Chesterton

### Not a Key Decision

#### 1. Executive Summary

- 1.1 This report provides an update on the activities of the Cambridgeshire and Peterborough Combined Authority (CPCA) since the 7 October 2019 meeting of Strategy & Resources Scrutiny Committee.

#### 2. Recommendations

- 2.1 The Executive Councillor is recommended:

To provide an update on issues considered at the meetings of the Combined Authority held on 30 October and 27 November 2019 and 29 January 2020.

### **3. Background**

- 3.1 Meetings of the Cambridgeshire and Peterborough Combined Authority were held on 30 October and 27 November 2019 and 29 January 2020. The decision sheets from the first two meetings are attached as Appendix A and B for the committee's consideration. If the decision sheet from the meeting on 29 January 2020 is available in time, it will be tabled for the committee.
- 3.2 At its meeting held on 30 October 2019, the CPCA appointed members to its committees. The full list is included as Appendix C.

### **4. Implications**

- (a) **Financial Implications**
- (b) **Staffing Implications**
- (c) **Environmental Implications**
- (d) **Procurement**
- (e) **Community Safety**

There are no implications from this update report in relation to any of the categories listed above

- (f) **Equality and Poverty Implications**

An EqlA has not been produced as there are no direct equality and poverty implications from this update report.

- (g) **Consultation and communication**

The Combined Authority will continue to issue communications about its activities and consult on its work.

### **5. Background papers**

- 5.1 The background papers used in the preparation of this report are listed in the appendices below.

### **6. Appendices**

Appendix A Decision sheet for CPCA meeting 30.10.19

Appendix B Decision sheet for CPCA meeting 27.11.19

Appendix C Appointments to Executive Committees and Appointment of Chairs and Lead Members

### **8. Inspection of papers**

To inspect the background papers or if you have a query on the report, please contact Antoinette Jackson, Chief Executive. Tel: 01223 457001, email: antoinette.jackson@cambridge.gov.uk.



**CAMBRIDGESHIRE  
& PETERBOROUGH**  
COMBINED AUTHORITY

# CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

## Decision Statement

**Meeting: Wednesday 30 October 2019**

**Published: Monday 4 November 2019**

**Decision review deadline: Monday 14 November 2019**

Each decision set out below will come into force, and may then be implemented at 5.00pm on the fifth full working day after the publication date, unless it is subject of a decision review. [see note on call in below].

Item	Topic	Decision
<b>Part 1 – Governance Items</b>		
1.1	Announcements, Apologies and Declarations of Interest	<b>Apologies were received from Councillor G Bull (substituted by Councillor R Fuller) and Councillor L Herbert.</b>  <b>No declarations of interest were made.</b>
1.2	Minutes – 25 September 2019	<b>The minutes of the meeting on 25 September 2019 were confirmed as an accurate record and signed by the Mayor.</b>
1.3	Petitions	None received.

1.4	Public Questions	None received.
1.5	Forward Plan – September 2019	<b>It was resolved to note and approve the Forward Plan.</b>
1.6	Designation of Scrutiny Officer	It was resolved to:  Designate Katarina O’Dell as the Combined Authority’s Interim Scrutiny Officer for the remainder of the maternity leave of the Scrutiny Officer.
1.7	Appointments to Executive Committees and Appointment of Chairs and Lead Members	It was resolved to:  a) Note and agree the nominations for membership of the Executive Committees, Chairs and Lead Members for the remainder of the 2019/20 municipal year, as set out in Appendix 1.  b) Approve the Monitoring Officer to accept any consequential changes to membership and confirm that on receipt such changes would be immediately in effect.
<b>Part 2 – Finance</b>		
2.1	Budget Monitor Update	It was resolved to:  Note the updated financial position of the Combined Authority for the year.
<b>Part 3 - Combined Authority Matters</b>		
3.1	£100k Homes and Community Land Trusts	It was resolved to:  a) Delegate to the Chief Executive, in consultation with the Chair of the Housing and Communities Committee, authority to draw down the £250,000 allocated from the non-transport feasibility budget for the creation of community land trusts and for the operational costs of delivering the £100k Housing project, subject to the phasing set out in the Medium Term Financial Plan (MTFP); and

		<p>b) Confirm that the monitoring of spend on the development of the business cases for Community Land Trusts and £100k Homes will be reported to the Housing &amp; Communities Committee; and</p> <p>c) Confirm that the business cases for Community Land Trusts and £100k Homes will be reported to the Combined Authority Board for approval in due course, subject to consultation with the Housing &amp; Communities Committee.</p>
--	--	---

**Notes:**

- (a) Statements in bold type indicate additional resolutions made at the meeting.
- (b) Five Members of the Overview and Scrutiny Committee may call-in a key decision of the Mayor, the Combined Authority Board or an Officer for scrutiny by notifying the Monitoring Officer.

For more information contact: Richenda Greenhill at [Richenda.Greenhill@cambridgeshire.gov.uk](mailto:Richenda.Greenhill@cambridgeshire.gov.uk) or on 01223 699171.

This page is intentionally left blank





# CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY

## Decision Statement

**Meeting: Wednesday 27 November 2019**

**Published: Monday 2 December 2019**

**Decision review deadline: Monday 9 December 2019**

Each decision set out below will come into force, and may then be implemented at 5.00pm on the fifth full working day after the publication date, unless it is subject of a decision review. [see note on call in below].

Item	Topic	Decision
<b>Part 1 – Governance Items</b>		
1.1	Announcements, Apologies and Declarations of Interest	<b>Apologies were received from Councillor G Bull (substituted by Councillor R Fuller)</b>  <b>No declarations of interest were made.</b>
1.2	Minutes – 30 October 2019	<b>The minutes of the meeting on 30 October 2019 were confirmed as an accurate record and signed by the Mayor.</b>
1.3	Petitions	None received.

1.4	Public Questions	None received.
1.5	Forward Plan	<b>It was resolved to approve the Forward Plan.</b>
1.6	Performance Report	It was resolved to:  Note and approve proposed changes to the Performance Reporting process.
1.7	Assurance Framework	It was resolved to:  a) Agree the adoption of the single Assurance Framework as amended to meet the requirements of the Ministry of Housing, Communities & Local Government (the amended Assurance Framework forms the Appendix to this report - amendments are highlighted in bold) <b>with an additional amendment to paragraph 3.3.33 of the Assurance Framework to replace the word “nine” with the word “fourteen” and the word “seven” with the word “twelve” and to delegate authority to the Monitoring Officer to amend the Constitution accordingly.</b>
<b>Part 2 – Finance</b>		
2.1	Draft Budget 2020-21 and Medium Term Financial Plan 2020-2024	It was resolved to:  a) Approve the Draft Budget for 2020/21 and the Medium Term Financial Plan 2020/21 to 2023/24 for consultation purposes.  b) Approve the timetable for consultation and those to be consulted.
<b>Part 3 - Combined Authority Decisions</b>		
3.1	£100m Affordable Housing Programmes Scheme Approvals (Non-Grant) November 2019 – Linton Road, Great Abington	It was resolved to:  a) Approve the provision of a loan facility of £5.78m to Linton Road (Great Abington) LLP for a scheme of no less than 13 units based on the heads of terms detailed in

		<p>the exempt Appendix 1.</p> <p>b) Authorise the Director of Housing and Development, in consultation with the Interim Legal Counsel and the Lead Member for Investment and Finance, to conclude any necessary legal documentation to secure the loan, to include taking a charge upon the land</p>
3.2	Appointment of the Chair of Angle Holdings Ltd and Angle Developments (East) Ltd	<p>It was resolved to:</p> <p>Approve the appointment of <b>Brian Stewart OBE</b> as the Chairman of both Angle Holdings Limited and Angle Developments (East) Limited.</p>
3.3	Climate Change	<p>It was resolved to:</p> <p>a) Approve the establishment of an Independent Commission on Climate Change with a mandate to report within the next 12 months;</p> <p>b) Agree the proposed terms of reference of the Commission set out in the Annex to this paper;</p> <p>c) Authorise the chief executive, in consultation with the Mayor, to appoint a chairman and members of the Commission; and</p> <p>d) Approve a revenue budget of £125,000 to support the commission's work</p>
By Recommendation to the Combined Authority		
<b>Part 4 – Business Board recommendations to the Combined Authority</b>		
4.1	For approval as Accountable Body – Local Growth Fund Project Proposals November 2019	<p>It was resolved to:</p> <p>a) Approve projects number 3 and 6 in the table at paragraph 2.8;</p> <p>b) Approve funding for the projects numbered 5, 7 and 8 in the table at paragraph 2.8;</p> <p>c) <b>Agree that the Director of Business and Skills be granted delegation to approve the application numbered 1 in the table at paragraph 2.8 in the report</b></p>

		<b>subject to legal advice to confirm that approval would be lawful in the context of the Bus Review</b>
4.2	For approval as Accountable Body – Local Growth Fund Update November 2019	<p>It was resolved to:</p> <ul style="list-style-type: none"> <li>a) Delegate authority to the Director of Business and Skills, in consultation with the Chair of Business Board, to approve grants to SMEs under the Small Business Capital Grant Programme.</li> <li>b) Approve the allocation of £100,000 from the Small Business Capital Growth Grant Programme to a new Entrepreneurs’ Accelerator Fund to be ring-fenced for Thomas Cook employees or affected supply chain companies’ employees who have been made redundant and are exploring starting up a business.</li> <li>c) Approve delegated authority to the Director of Business and Skills, in consultation with the Chair of the Business Board, to adopt appropriate application evaluation criteria and award processes for the Entrepreneurs’ Accelerator Fund.</li> </ul>
4.3	Local Industrial Strategy Delivery Plan – Business Growth Service Outline Business Case	<p>It was resolved to:</p> <ul style="list-style-type: none"> <li>a) Endorse the Outline Business Case and agree to establish a Growth Service Management Company initially to be a wholly owned subsidiary of Angle Holdings Limited as set out in Section 4 below.</li> <li>b) Approve the making of a bid for Local Growth Fund monies as set out in paragraph 4.3 below:</li> <li>c) Approve the making of a bid for European Regional Development Fund (ERDF) and European Social Fund (ESF) monies as set out in paragraph 4.4 below:</li> <li>d) On condition that recommendation (a) above is accepted and the bids referred to at recommendations (b) and (c) above are successful, agree to allocate £2.185m funding from a combination of Enterprise Zone receipts and funding within the Medium Term Financial Plan and from Enterprise Zone receipts, as set out in paragraph 4.5 of the report, to the Growth Service Management Company to part fund the procurement of the Business Growth Service.</li> </ul>

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 13</p>		<p>e) Note that the Skills Committee has resolved, subject to all the remaining public funding set out at paragraph 4.5 below being secured, to approve the allocation of £50,000 per annum for three years starting in 2020/21 from the £150,000 per annum Skills Strategy Implementation Budget set out in the Combined Authority's Medium Term Financial Plan, for the part funding of the Skills Brokerage element of the proposed new Business Growth Service</p> <p>f) Subject to all the remaining public funding set out at paragraph [4.5] being secured, to delegate to the Director for Business and Skills authority to manage the procurement process, to bring forward a Full Business Case in March 2020 and to contract with the successful bidder(s), subject to confirmation of award of the funding components from the Local Growth Fund, European Regional Development Fund and European Social Fund</p> <p>g) Delegate to the Director of Business and Skills authority to task the Business Growth Service with the administration of the Small Business Capital Growth Investment Fund, as set out at paragraph 5.4 below.</p>
4	Enterprise Zones	<p>It was resolved to:</p> <p>a) Note the progress being made with delivery on each of the area's Enterprise Zone sites, and the associated Enterprise Zone National Non-Domestic Rates income profile for the Combined Authority as per table 1.</p> <p>b) Note the existing financial commitments and allocations from the Combined Authority share of Enterprise Zone National Non-Domestic Rates income in supporting core Local Enterprise Partnership services as set out in table 2.</p>
<b>Part 5 – Transport and Infrastructure Committee recommendations to the Combined Authority</b>		
5.1	A605 Alwalton to Lynchwood	<p>It was resolved to:</p> <p style="text-align: center;">Approve the additional £795,000 of funding required to progress with construction</p>

**Notes:**

- (a) Statements in bold type indicate additional resolutions made at the meeting.
- (b) Five Members of the Overview and Scrutiny Committee may call-in a key decision of the Mayor, the Combined Authority Board or an Officer for scrutiny by notifying the Monitoring Officer.

For more information contact: Richenda Greenhill at [Richenda.Greenhill@cambridgeshire.gov.uk](mailto:Richenda.Greenhill@cambridgeshire.gov.uk) or on 01223 699171.

**Agenda Item No: 1.7 – Appendix 1****Lead Member Responsibilities and Committee Membership****Lead Member Responsibilities**

<b>Lead Member Responsibilities</b>	<b>Board Member</b>
Mayor, Chair of the Combined Authority Lead Member for Policy Lead Member for Governance	James Palmer, Mayor
Lead Member for Economic Growth	Cllr John Holdich, Deputy Mayor
Lead Member for Spatial Planning Chair of Land Commission	Cllr Chris Boden
Lead Member for Skills Chair of Skills Committee	Cllr John Holdich, Deputy Mayor
Lead Member for Investment & Finance	Cllr Steve Count
Lead Member for Housing Chair of Housing and Communities Committee	Cllr Graham Bull
Lead Member for Transport Chair of Transport Committee	James Palmer, Mayor

## Committee Allocation

### Transport Committee (8 seats)

		<b>Lead Member Responsibilities/Member</b>	<b>Board Member</b>	<b>Substitute</b>
1	Chair	Lead Member for Transport	James Palmer, Mayor	
2	Member	Member for Cambridge City Council	Cllr Nicky Massey	Cllr Mike Sargeant
3	Member	Member for Cambridgeshire County Council	Cllr Ian Bates	Cllr Roger Hickford
4	Member	Member for East Cambridgeshire District Council	Cllr Joshua Schumann	Cllr David Brown
5	Member	Member for Fenland District Council	Cllr Chris Seaton	Cllr Chris Boden
6	Member	Member for Huntingdonshire District Council	Cllr Ryan Fuller	Cllr Graham Bull
7	Member	Member for Peterborough City Council	Cllr Peter Hiller	Cllr Graham Casey
8	Member	Member for South Cambridgeshire District Council	Cllr Dr. Aidan Van de Weyer	Cllr Neil Gough

### Skills Committee (7 seats)

		<b>Lead Member Responsibilities/Member</b>	<b>Board Member</b>	<b>Substitute</b>
1	Chair	Lead Member for Skills	Cllr John Holdich	Cllr Lynne Ayres
2	Member	Member for Cambridge City Council	Cllr Mike Davey	Cllr Mike Sargeant
3	Member	Member for Cambridgeshire County Council	Cllr David Ambrose-Smith	Cllr Roger Hickford
4	Member	Member for East Cambridgeshire District Council	Cllr Lis Every	Cllr Josh Schumann
5	Member	Member for Fenland District Council	Cllr Chris Seaton	Cllr David Mason



6	Member	Member for Huntingdonshire District Council	Cllr Jon Neish	Cllr Ryan Fuller
7	Member	Member for South Cambridgeshire District Council	Cllr Eileen Wilson	Cllr Neil Gough

### Housing and Communities Committee (7 seats)

		<b>Lead Member Responsibilities/Member</b>	<b>Board Member</b>	<b>Substitute</b>
1	Chair	Lead Member for Housing	Cllr Graham Bull	Cllr Ryan Fuller
2	Member	Member for Cambridge City Council	Cllr Mike Sargeant	Cllr Mike Davey
3	Member	Member for Cambridgeshire County Council	Cllr Roger Hickford	Cllr Ian Bates
4	Member	Member for East Cambridgeshire District Council	Cllr David Ambrose -Smith	Cllr Anna Bailey
5	Member	Member for Fenland District Council	Cllr Dee Laws	Cllr Samantha Hoy
6	Member	Member for Peterborough City Council	Cllr Irene Walsh	Cllr Steve Allen
7	Member	Member for South Cambridgeshire District Council	Cllr Bridget Smith	Cllr Hazel Smith

### Notes

(a) Lead Member should also be Chair

(b) Vice Chair to be agreed by committee as and when required

This page is intentionally left blank

## Item

### Strategy & Resources 3 February 2020 - Finance and Resources Portfolio: Capital strategy 2020/21

**To:**

Councillor Richard Robertson, Executive Councillor for Finance and Resources Portfolio

**Report by:**

Caroline Ryba, Head of Finance

Tel: 01223 - 458134 Email: [caroline.ryba@cambridge.gov.uk](mailto:caroline.ryba@cambridge.gov.uk)

**Wards affected:**

(All) Abbey, Arbury, Castle, Cherry Hinton, Coleridge, East Chesterton, King's Hedges, Market, Newnham, Petersfield, Queen Edith's, Romsey, Trumpington, West Chesterton

## Key Decision

### 1. Executive Summary

- 1.1 The council continues to develop and expand well-established, long term capital planning.
- 1.2 This report presents the capital strategy of the council together with a summary capital programme for the General Fund (GF) and Housing Revenue Account (HRA). The previous capital strategy was approved by the council on 21 February 2019. The strategy is focused on providing a framework for delivery of capital expenditure plans over a 10-30 year period. These plans cover spending on operational assets to support service delivery and on investments which provide an income for the council alongside meeting the council's objectives in relation to economic development and place-making, regeneration and climate change mitigation. Governance arrangements are also outlined in order to ensure the capital programme continues to deliver value for money.

- 1.3 The council has a substantial capital programme which is mainly guided by and supports the strategic aims of the council as outlined in the *One Cambridge – Fair for All* vision and defined in the *Annual Statement* as published on the council website.
- 1.4 The strategy has been updated to reflect recommendations from Stage 2 of the property review and the council's plans to redevelop the multi-storey car park on Park Street to include an aparthotel which will form a significant part of the council's commercial property investment portfolio.

## **2 Section 151 officer report**

- 2.1 The council's section 151 officer is required to report explicitly on the affordability and risk associated with the capital strategy.
- 2.2 As highlighted in the strategy the council ensures that capital projects and schemes are accompanied by detailed funding proposals. Where projects are to be funded from borrowing – either internally from cash balances or externally, a prudent Minimum Revenue Provision charge is made. The council has not borrowed externally to fund capital expenditure in the recent past, the current external borrowing representing debt incurred on the transition from the old housing subsidy system to HRA self-financing.
- 2.3 Where the council has expanded its commercial activities by purchasing additional commercial properties or making loans to subsidiaries and joint ventures to facilitate the provision of intermediate housing or the development of sites for market and affordable housing it ensures that the risks taken are proportionate to the size and scale of the authority. Legal advice is taken alongside the completion of appropriate due diligence and any loans are secured where appropriate. On projects undertaken by joint ventures the council monitors the expected repayment of loans and expected future surpluses carefully. The council has not borrowed externally to fund the increase in commercial activity.

2.4 External debt will be used, however, to fund the redevelopment of the Park Street multi-storey car park and future housing developments within the HRA. The council is aware of the risks associated with borrowing for these purposes and will seek appropriate external advice.

### **3 Recommendations**

3.1 The Executive Councillor is asked to:

- Recommend the capital strategy to Council; and
- Note the summary capital programme

## **4. Implications**

### **(a) Financial Implications**

The capital strategy underpins the Medium Term Financial Strategies (MTFSs) and Budget Setting Reports (BSRs) for the General Fund (GF) and Housing Revenue Account (HRA). The financial implications of the strategy are included within those documents. The treasury management implications of the strategy are summarised within the treasury management strategy statement.

### **(b) Staffing Implications**

The capital strategy is considered to be deliverable within current staff resources. However, this will be kept under review by management through the relevant programme boards.

### **(c) Equality and Poverty Implications**

Decisions around individual items of capital expenditure, properties and investments will consider the equality and poverty implications as and when specific proposals are made.

### **(d) Environmental Implications**

Decisions around individual items of capital expenditure, properties and

investments will consider the environmental implications as and when specific proposals are made.

### **(e) Procurement Implications**

There are no direct procurement implications arising from this report. Any subsequent actions will be undertaken in accordance with procurement regulations, contract procedure rules and any other related legislation.

### **(f) Community Safety Implications**

None.

## **5. Consultation and communication considerations**

Individual proposals arising from this strategy will be consulted on as appropriate.

## **6. Background papers**

These background papers were used in the preparation of this report:

- General Fund Property Review – Report and minutes – Strategy and Resources Scrutiny Committee 1/7/19.
- GF and HRA Budget Setting Reports 2020/21
- Treasury Management Strategy Statement 2020/21

## **7. Appendices**

The following item is included in this report:

- Capital Strategy 2020/21

## **8. Inspection of papers**

To inspect the background papers or if you have a query on the report please contact:

Author's Name: Caroline Ryba, Head of Finance  
Author's Phone Number: 01223 - 458134  
Author's Email: [caroline.ryba@cambridge.gov.uk](mailto:caroline.ryba@cambridge.gov.uk)



This page is intentionally left blank



# Cambridge City Council Capital Strategy 2020/21

## Contents

Section	Title	Page
1	Introduction	1
2	Objectives	2
3	Scope	2
4	Council priorities and external influences	3
5	Capital expenditure	7
6	Debt, borrowing and treasury management	13
7	Commercial activity	16
8	Other long-term liabilities	24
9	Knowledge and skills	24
Appendix 1	Estimated capital programme and Capital Financing Requirement – 2019 - 2029	27
Appendix 2	Capital Financing Requirement and estimate borrowing profile – 2019 to 2029	28

## Introduction

- 1.1 The CIPFA Prudential Code requires that councils have a capital strategy that demonstrates that the council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The strategy should set out the long-term context in which capital expenditure and investment decisions are made and give due consideration to both risk and reward and the impact on outcomes.
- 1.2 As local authorities become increasingly complex and diverse it is important that those charged with governance understand the long- term context in which investment decisions are made and the financial risks to which the council is exposed.
- 1.3 The strategy maintains a strong and current link to the council's priorities and to other key strategy documents including the Treasury Management Strategy, General Fund and Housing

Revenue Account Medium Term Financial Strategies and the Council's Vision and Annual Statement.

## **2 Objectives**

- 2.1 The objective of the capital strategy is to ensure that the overall strategy, governance procedures and risk appetite are clear to members, officers and readers in general. The strategy outlines how stewardship, value for money, prudence, sustainability and affordability will be secured.

## **3 Scope**

- 3.1 The capital strategy specifically focusses on the key areas of:
- Capital expenditure;
  - Debt, borrowing and treasury management; and
  - Commercial activity.

It also considers:

- Other long-term liabilities; and
- Knowledge and skills.

### Capital Expenditure

- 3.2 Capital expenditure in the City Council takes a number of forms:
- The council runs a majority of services in house and has a significant operational asset base to run and sustain those services - including council houses, community centres, car parks, a crematorium and vehicle fleet. This asset base must be maintained and assets replaced or upgraded as they age. This often reflects an enhancement, e.g. providing better energy efficiency.

- The council may purchase or develop new assets, for example community centres in new areas of the city, or purchase or enhance existing investment properties to generate additional income to support council services.
- The council may make grants, loans or investments which are treated as capital expenditure under statute.

### Debt, Borrowing and Treasury Management

- 3.3 The council has both external borrowing with the Public Works Loan Board (PWLB) and ‘internal’ borrowing from cash balances. This borrowing is managed alongside the investment of cash balances (currently over £100m per annum) as part of the council’s treasury management function.

### Commercial Activity

- 3.4 There has been an emerging commercialisation agenda in local government in the last few years as councils look to become more financially self-sufficient. The City Council has focused on loans to council joint ventures and companies wholly owned by the council and the purchase of further investment properties. The council is also considering investment in renewable energy generation and associated areas.

## **4 Council priorities and external Influences**

- 4.1 The Council has an overall Vision statement – ‘One Cambridge – Fair for All, in which economic dynamism and prosperity are combined with social justice and equality. The vision can be viewed at [www.cambridge.gov.uk/our-vision](http://www.cambridge.gov.uk/our-vision)
- 4.2 The Council’s annual statement, published at [www.cambridge.gov.uk/annual-statement](http://www.cambridge.gov.uk/annual-statement) outlines how it will achieve the vision giving more detail on the Council’s priorities and specific projects.

- 4.3 The Corporate Plan sets out five strategic objectives from the Annual Statement, with actions, initiatives and strategies to achieve those objectives. The Corporate Plan can be accessed at <https://www.cambridge.gov.uk/corporate-plan>.

#### Local Plan and North East Cambridge (NEC)

- 4.4 The Cambridge Local Plan was adopted in October 2018. The council will now use the local plan to guide development in the city in the coming years, with 14,000 additional homes and 22,000 additional jobs set to be created by 2031. Consultation on a new Local Plan, to be developed with South Cambridgeshire District Council, begins in January 2020.
- 4.5 Among the areas designated in the plan for potential future development is the NEC area around Cambridge North Station. The council, working with partners has secured £227m in national funding to support the relocation of Anglian Water's Cambridge Water Recycling Centre. Once the relocation has been achieved, 5,200 homes are planned for the core site, together with around 1m square feet of commercial space (7,000 jobs) and a mix of retail, community and leisure space. The redevelopment of the adjacent sites covering the wider NEC area, if enabled by the relocation of the water recycling centre, has the potential to deliver an additional estimated 2,400 homes and around 40,000 new jobs, supported by amenities and community facilities. This scale of development would make a significant contribution to the additional homes and jobs likely to be required by the new Local Plan.
- 4.6 As a significant land owner in the area the project to develop NEC will be important in the council's future capital plans. This is both in terms of capital expenditure and as a source of funding in the form of capital or other receipts.

### Delivery of new council homes

- 4.7 The council has secured £70m of devolution grant towards the provision of 500 new council houses in Cambridge. This funding is to be used alongside right to buy receipts and other HRA resources to deliver 546 additional, and some replacement, homes.
- 4.8 The council has formed a number of 50:50 joint venture partnerships with Hill Residential under the umbrella of the Cambridge Investment Partnership (CIP). CIP is undertaking the redevelopment of the council's former depot at Mill Road which will provide an equal number of market and council homes.
- 4.9 The council has purchased a former builders merchant's site at Cromwell Road which it is currently redeveloping with CIP to provide 295 units, 40% of which will be new council homes. CIP has also purchased a further site, L2 on Orchard Park for development for homes, 40% of which will be new council homes.
- 4.10 The council is also exploring opportunities with CIP on a number of other sites including the possible redevelopment of existing community centres to reprovide the existing use alongside new council homes.
- 4.11 The council has a stated ambition to build a further 1,000 new council homes over the course of the decade following the end of the current housebuilding programme.

### Other capital priorities

- 4.12 In addition to the major developments above for the delivery of new homes and businesses in Cambridge, the council is also planning and implementing a number of significant enabling investments to drive digital delivery and service improvement. This includes investment in new IT equipment to promote flexible and collaborative working under the umbrella of 'Council

Anywhere' and the replacement of a number of key systems including the housing management system.

- 4.13 The council uses condition surveys and asset management planning for both the Housing Revenue Account (HRA), covering the council's 7,000 council houses, and the General Fund (GF) to inform priorities for capital expenditure.
- 4.14 The council undertakes energy efficiency and carbon reduction work on council buildings with funding allocated from the Climate Change Fund. The council will continue to bring forward projects, including those targeted on energy saving and generation, within the council's property estate.

#### Working with external partners

- 4.15 The council works closely with external partners and this extends to decisions around capital.
- 4.16 The council has worked closely with the Cambridgeshire and Peterborough Combined Authority on the project to develop NEC, which was prioritised by the Combined Authority as its only submission in the round of funding bids for the Housing Infrastructure Fund.
- 4.17 The Combined Authority is also responsible for the allocation of the 500 council homes devolution grant to the City Council.
- 4.18 The council is involved in a number of shared services with Huntingdonshire District Council and South Cambridgeshire District Council under the 3Cs Shared Services name. Further services are shared with either South Cambridgeshire alone or Huntingdonshire alone. Where these services require capital investment, the councils work closely together.

## 5 Capital expenditure

### Governance

- 5.1 Capital projects put forward for funding through the Medium Term Financial Strategy (MTFS) or Budget Setting Report (BSR) must:
- Be linked to the council's vision and address other strategic considerations, including impact on the climate;
  - maintain or enhance service delivery;
  - be properly planned and developed and appropriate risks considered;
  - be affordable and provide value for money; and
  - be ready to be implemented, subject to any procurement requirements.
- 5.2 The council has a process for the review of new capital projects or programmes prior to approval by members. These arrangements are coordinated by the council's Corporate Programme Office (CPO). The objectives of the process include ensuring that the council has the capacity to deliver projects which are approved for inclusion on the capital plan. Review of capital proposals also ensures that the sensitivity of costs to both internal and external risks is considered.
- 5.3 Under the process one of the programme boards (Business Transformation, Place, Digital, Housing, and Corporate Transformation) will review and make recommendations for the political approval that is required and funding approval in the BSR or MTFS. The CPO and a virtual Quality Assurance Group (QAG) reviews projects prior to presentation to the relevant board.
- 5.4 Boards have responsibility for monitoring the delivery of projects and ensure 'lessons learned' reviews take place to identify both good practice and areas for improvement. These reviews are shared to inform decision making on future projects.

- 5.5 The council's accounting policies have a de minimis of £15,000 (£2,000 for vehicles) for capital assets which are reflected in the processes above.
- 5.6 Where projects are to be funded by S106 contributions they are allocated S106 funding via the S106 priority-setting process by the Executive Councillor in the appropriate scrutiny committee.
- 5.7 The HRA capital programme is scrutinised by the Housing Futures (Senior Management) Team and Housing Committee prior to decisions being taken as part of the Housing BSR and MTFS.

#### Financing of capital expenditure

- 5.8 Consideration of the financing of capital projects is integral to the governance procedures outlined above.
- 5.9 In general, the council will finance capital expenditure from existing resources including in-year revenue funding, reserves and capital receipts or from specific grant funding sources. This ensures that capital expenditure is both affordable and prudent.
- 5.10 Available resources will be allocated to capital proposals based on the following hierarchy of objectives:
- Maintenance of service delivery capacity and capability;
  - Income generation to support the delivery of council objectives; and then
  - The delivery of wider policy objectives, including those related to climate change and biodiversity.
- 5.11 Work with Heads of Service on forecasting possible GF capital expenditure requirements over the next 10 years has identified a core of around £2.0m per annum of expenditure to update or replace assets reaching the end of their useful lives. This forecast will however be dependent on future decisions relating to service delivery, so will be kept under annual review. This expenditure



would normally be funded from revenue resource. However, funding reductions are likely to make this approach increasingly unsustainable, so capital receipts, where available, will also be used.

5.12 In the HRA the council is required to make a contribution from revenue resources to the Major Repairs Reserve each year – this is equal to the assessed depreciation on HRA assets. This funding will be used mainly to ensure that the existing stock meets decent homes standards and to build new homes. The HRA will also use direct revenue funding from its revenue resources and an element of borrowing to support reprovision of existing units (which cannot be funded from right to buy receipts) and wider investment on housing estates.

5.13 Where the council identifies that GF capital expenditure is to be supported by borrowing, either externally or internally from cash, a prudent Minimum Revenue Provision (MRP) charge will be made to revenue to fund the expenditure. This will ensure that the council makes appropriate provision to fund the repayment of external debt or ‘repay’ cash balances internally borrowed. There will be circumstances in which MRP is not judged to be required. If so the reasons will be specifically outlined in the MRP Policy. The MRP policy is published each year as part of the Treasury Management Strategy.

#### Asset management planning

5.14 The council’s GF asset management plan was approved in July 2019, following an independent review of the council’s property portfolio covering both operational and commercial properties. It will be reviewed every five years.

5.15 The asset management plan outlines how the council will manage its property. It sets out:

- The guiding principles of efficient management and the components and tools available to deliver results

- How the council's objectives are supported, both in respect of property and its wider corporate objectives
- The objectives of the commercial property portfolio and the regular reviews to be undertaken to assess how the portfolio meets these objectives
- Property management including KPIs, the objectives, principles and process of acquisition, property reviews, asset management, development and disposals
- Portfolio-wide matters such as repair and maintenance, health and safety, carbon management and sustainability and property data management.

5.16 The HRA asset management plan for housing stock has also been reviewed and updated in 2019. The plan aims to return to a partial investment standard model rather than the basic decent homes standard, ensuring that the council invests in the current housing stock at the appropriate time and in the long term to reduce the level of spend in revenue repairs and maintenance.

5.17 The updated HRA asset management plan increases focus on improving the energy efficiency of the stock and compliance with relevant regulations, including fire safety. As this is a developing area following the Grenfell fire, the plan will be reviewed and updated within 2020 to ensure that it reflects changes in regulation and any other compliance requirements.

5.18 The council will reviews the condition of its existing assets on a regular basis, using specialist advisors where appropriate. This includes reviews of the maintenance requirements of operational property, investment properties and council housing stock.

5.19 Maintenance costs of existing assets will be considered carefully alongside replacement or upgrade decisions. For example, the council has its own fleet garage located in Waterbeach which is responsible for the maintenance of vehicles and keeps detailed records against each asset. Annual budgets will include provision for the maintenance of assets and service managers have the

opportunity to make bids and offer savings in maintenance funding as part of the annual budget-setting round.

- 5.20 With the exception of the £214m loans taken out on the inception of self-financing of the HRA at the end of the previous subsidy system, the council currently has no external debt. It therefore does not need to consider the impact of past borrowing on asset management plans.

#### Forecasts

- 5.21 Forecasts of capital expenditure and the underlying need to borrow, also known as the Capital Financing Requirement (CFR), are included at Appendix 1.

#### Disposals

- 5.22 Disposal of assets will be subject to scrutiny by relevant committees and Executive Councillor approval. Detailed cases will be prepared for any asset disposals and appropriate independent advice taken to ensure that best value is achieved on disposals, taking into account any strategic objectives. The council is also obliged to sell council properties to qualifying tenants under the Right to Buy legislation.
- 5.23 The council's current plans for disposal include the sale of its interest in Hobson House, formerly used as a council office, and various commercial properties as indicated by the property portfolio review.

#### Funding and borrowing restrictions

- 5.24 There are a number of restrictions around borrowing and funding of capital expenditure and these will be taken into account in the development and monitoring of the capital plan.
- 5.25 Under the Prudential Code the council has discretion to undertake borrowing which is prudent, affordable and sustainable.

- 5.26 With the removal of the HRA debt 'cap' in October 2018, the HRA is now able to borrow to fund its capital plans, subject to the normal provision that any borrowing is affordable.
- 5.27 The majority of the receipts from asset disposal come from the sale of council homes under the Right to Buy. The council remains subject to the agreement with the Ministry of Housing, Communities and Local Government (MHCLG) that allows the retention of right to buy receipts, subject to a set of specific conditions. These conditions include a requirement that such receipts are spent on housing.
- 5.28 The receipts assumed in the HRA Self-Financing Settlement continue to be shared with MHCLG in the statutorily agreed proportions, with a proportion of the receipts from any subsequent sales kept by the authority in recognition of the debt that the authority holds in respect of the asset. The balance of capital receipts is ring-fenced for one-for-one (1-4-1) investment.
- 5.29 Currently, 1-4-1 receipts must be spent within a three-year timeframe to fund the delivery of new social housing. A maximum of 30% of the cost can be met from this funding stream with the balance funded from the council's own resources or borrowing. MHCLG has consulted on allowing authorities longer to use existing receipts but the outcome of the consultation is still awaited.
- 5.30 Where receipts are not used within the three-year timeframe, receipts have to be repaid to central government with interest at 4% above the base rate.
- 5.31 The council aims to be around 12 months ahead of the profile for return of monies but this is critically dependent on the progress of housing developments that may be affected by factors outside the council's control. If the council is unable to use receipts within the three-year timeframe, it will either acquire existing properties on the open market or look to pass receipts on to a registered

provider to deliver affordable housing in the city. All efforts will be made to ensure that no receipts are paid back to central government.

- 5.32 The council must also ensure that it observes the ring-fence between GF and HRA resources.

#### Capital receipt flexibilities

- 5.33 Under a direction issued by central government in February 2018 authorities can choose to use capital receipts received in the 6 years commencing from 1 April 2016 to fund the revenue costs of transformation projects. Qualifying expenditure must 'generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that will reduce costs or demand for services in future years for any of the public sector delivery partners.'

- 5.34 The council has no plans to use this flexibility.

## **6 Debt, borrowing and treasury management**

### Summary

- 6.1 Appendix 2 shows a summary of the council's total underlying need to borrow – the Capital Financing Requirement (CFR), together with the estimated levels of external debt, internal borrowing from cash balances and the level of protection provided by reserves.
- 6.2 The Prudential Code requires that the council set and publish an authorised limit and operational boundary for external debt. These can be found in the annual treasury management strategy.

### External debt

- 6.3 At present the only external debt held by the authority relates to the twenty loans from the PWLB for self-financing the HRA taken out in 2012 totalling £213,572,000.
- 6.4 These loans have maturities from 2038 to 2057 and interest rates between 3.46% and 3.53%.
- 6.5 Although the council is not required to make MRP payments on this debt, the HRA has a 30-year business plan which demonstrates its ability to meet the on-going financing costs of this debt and considers the options for repayment or refinancing.
- 6.6 The council will borrow to support capital expenditure where prudent to do so. At present there are plans to fund the redevelopment of the Park Street multi-storey car park (see 7.10) and some residential development within the HRA by external debt. These schemes will increase the council's external debt by around £100m over the next five years.

### Internal borrowing

- 6.7 Where the council borrows from internal cash balances it must also ensure that it makes a prudent MRP charge. The MRP policy is included each year as part of the treasury management strategy.

### Treasury management

- 6.8 The council manages its deposits in-house and uses Link (formerly Capita) as its independent treasury adviser. The council recognises that responsibility for treasury management activities remains with the organisation. The council will ensure that the terms of Link's appointment are properly agreed, documented and reviewed annually.
- 6.9 The council's deposit priorities are (and in this order):-
- The security of capital;

- The liquidity of deposits; and;
- The yield or return on its deposits.

6.10 The council takes a cautious approach within its treasury management strategy. However, in order to ensure that the council invests its funds in the most appropriate way, the strategy will be reviewed at least annually taking into account the information available from Link and wider developments.

6.11 The council will use the creditworthiness service provided by Link which is updated daily for the authority to use. The service uses a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. However, the council does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:-

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings i.e. akin to an insurance policy whereby counterparties enter into a contractual agreement; and;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

6.12 The council will not place an investment contrary to Link's credit methodology criteria which includes a maximum duration period (except for 'smaller' building societies).

6.13 In addition to considering the creditworthiness of counterparties the council will also consider the duration of deposits to ensure the appropriate liquidity of funds.

6.14 Treasury management activity will be delegated to officers in the council's finance team in line with the defined treasury management practices.

6.15 The current investment position will be reported to the Senior Management Team as part of the council's quarterly budget monitoring process. Investment performance will be formally reported to Strategy and Resources Scrutiny Committee and Council at the mid-year and outturn.

## 7 Commercial activity

7.1 Where the council invests in non-financial assets, it will consider security, liquidity and yield, as it does for financial assets.

7.2 Specifically, in relation to non-financial assets:

- **Security** – the council recognises that it will normally have an asset that can be used to recoup capital invested. Therefore, it will ensure through regular valuations at fair value, that there is sufficient value in assets and the portfolio as a whole to protect the funds invested.
- **Liquidity** – the council has a large diversified portfolio of non-financial assets and will therefore be able to look at potential disposals across it to access funds, without having to rely on the disposal of a key asset for liquidity. The council will also maintain significant financial investments to meet its liquidity needs.
- **Yield** – Return for non-financial assets is represented by rental income less direct costs and will reviewed on a regular basis. Yield will be maximised, within any constraints imposed by policy decisions, after satisfying the requirements for security and liquidity.

7.3 The council considers commercial activity to include:

- The provision of income-generating services, such as car parking and bereavement services, which utilise significant



assets, classified as operational assets for management purposes.

- Investment in commercial properties
- Investment in other income-generating assets that support council objectives, such as housing and renewable energy generation facilities
- Loans to group undertakings

#### Investment in commercial properties

7.4 The council has historically owned a significant investment property portfolio, including retail, office and industrial properties. The GF asset management plan identifies the following objectives for the commercial property portfolio:

- Securing a financial return from the net rental income
- Diversification to mitigate stock specific risk
- Meeting wider corporate objectives such as improving environmental performance and sustainability by providing high performing property
- Delivery of services to the citizens in accordance with objectives
- Opportunity to influence through wider land ownership
- Providing opportunities for entrepreneurs which are not generally available through the private sector
- Ensuring appropriate standards of property management are maintained including but not limited to environmental and health and safety standards and legislation
- Improving the quality of the public realm.

7.5 The GF asset management plan sets out criteria and procedures for property acquisitions. Where new acquisitions are to be made, agents will be appointed to advise on and acquire suitable commercial property investments.

7.6 As there are many factors to consider, a weighted scored matrix will be used to assess potential acquisitions. Acquisitions should

generally meet the following requirements but exceptions may be made where an acquisition is strategically important in relation to the council's existing land ownership or portfolio balance:

- Location: investment in Cambridge but a good quality investment relatively close can be considered.
- Rate of return: at least 5% p.a. on capital value
- Risk: certainty of income, as reflected by tenant and lease structure and the credit ratings of tenants
- Management: net income close to gross income, property management requirements not intensive.
- Condition: in good condition, not requiring significant capital investment
- Accessibility: good
- Environmental performance: EPC rating of C or above.

7.7 Consideration will also be given to how the acquisition will fit within the council's existing portfolio. Specific portfolio key performance indicators (KPIs) are given in the monitoring portfolio performance section below.

7.8 The council will follow the approved process and governance arrangements for investment property acquisitions when funding is available for investment. These recognise that the local commercial property market is competitive and that success depends upon timely decisions in relation to investments. The council has therefore delegated authority to the Head of Property Services to approve acquisitions after consultation with the relevant Executive Councillor, Committee Chair, Opposition Spokesperson and Head of Finance. Subsequently, acquisitions will be reported to the relevant committee.

7.9 In order to achieve some geographical diversity, the council has and may continue to invest in properties which fall outside the city boundary. The council has taken appropriate legal advice from counsel that these out of area purchases do not contravene the relevant legislation and the powers given to the council under the Local Government Act 2003. The council also achieves some wider geographic diversification through its investments in pooled

property funds managed as part of its treasury activity, although this represents a relatively small percentage of its property investments.

- 7.10 The council has approved plans to redevelop an operational asset, the multi-storey car park it owns on Park Street in Cambridge. The car park will be replaced by a smaller underground car park, with an aparthotel above. Once complete, the aparthotel will form a significant part of the council's investment portfolio.
- 7.11 The council will also develop commercial land and property it already owns. A programme of nine projects has been identified to produce new or extended commercial property which is in short supply in the city. Some projects will include residential accommodation which will be sold to partially fund the developments. The programme is expected to span 10 years, cost £30m, generate capital receipts of £24m and increase annual rent income by £900,000. Further feasibility and development work will be required before individual projects within the programme can come forward for consideration and approval.

#### Monitoring portfolio performance

- 7.12 The portfolio will be reviewed annually as a whole by classification, lot size range, bandings and average, sector mix, geography, lease type and repairing obligations, net income return, average unexpired lease term, percentage void and compared with previous years. This will identify portfolio imbalances.
- 7.13 The following portfolio KPIs, as included within the GF asset management plan, will be used:

Measure	Target / Baseline	Comment	Frequency
Gross debt to net service expenditure	TBA		
Commercial income to net service expenditure	TBA		
Ration of Cambridge Investments to the resources of the council	TBA		
Ratio of borrowing to portfolio value	TBA		
% outside jurisdiction	<25%	To maintain Cambridge focus with economic benefits too but also diversity from local economy and achieve stronger yield	Annually
Net income return	>5% on current capital value	To maintain income levels	Annually
Average unexpired lease term	>5 years	Target is income security	Annually
% investment grade property	>80%	Generally lower expenditure	Annually
% void	<£100,000 income	To maintain income levels	Quarterly
Largest lot size	<10% of portfolio	Excluding Lion Yard. To reduce specific stock risk	Annually
Cashflow target (if set)	Meet target within 20%	To achieve the net investment level	Annually
Sector	No more than 50% in any sector, retail to trend downwards towards 30%	To diversify sector risk	Annually

7.14 The council's sizeable property portfolio includes equity stakes in two major shopping centres, a selection of small business units

aimed principally at small local and start-up companies and more than 80 shops in council estate locations which provide important local services for their communities.

7.15 The total value of investment properties at 31 March 2019 was £171m. The council considers that the investment property portfolio retains sufficient value (measured using the fair value model) to provide security of investment.

7.16 Based on the council's financial statements the fair value of investment properties, the yield achieved (rental income net of direct costs) and the gain or loss in fair value for properties held in the GF has been as follows:

	<b>2018/19</b>	<b>2017/18</b>	<b>2016/17</b>	<b>2015/16</b>
Rental income net of direct costs (£'000)	9,743	9,418	8,049	7,857
Fair Value at year end (£'000)	170,843	175,281	148,345	139,046
Yield	5.7%	5.4%	5.4%	5.6%
Gain / (loss) in fair value in year (£'000)	(4,438)	2,674	10,128	13,321

7.17 The loss in fair value in 2018/19 reflects market uncertainty in relation to the Brexit process and is considered to be temporary.

7.18 The investment property portfolio is managed as a whole, including those properties which the council has held for a number of years. However, it is estimated that the yield being achieved on properties purchased since 2015 is around 6.3% and is generating income of approximately £2.1m per annum.

#### Proportionality of commercial property holdings

7.19 Following significant activity in the commercial property market by local authorities, including district councils, concern has been expressed by MHCLG and CIPFA about the size of some property holdings. Particular concern has been raised about those councils which are externally borrowing to invest in property. To date,

Cambridge City has not used external borrowing to fund purchases but has instead used reserves or internal borrowing.

- 7.20 Investment Guidance and the Prudential Code were updated in early 2018. CIPFA have since released further guidance on prudential property investment. This considers the concept of 'proportionality' when considering the size and scale of new property investments, whether they are consistent with the authority's corporate and financial strategies and if they expose the authority to unacceptable levels of risk.
- 7.21 The council is aware of the range of risks associated with investment in commercial property and works to ensure appropriate due diligence and prudence. These risks include the reliance on income from commercial properties to fund council services.
- 7.22 The use of investment property income to support the council's activities has been established over many years and over a number of economic cycles. Reflecting this experience, the council considers 50% to be the prudent maximum level of this indicator.
- 7.23 The financial statements at 31 March 2019 show that the net cost of services (net of service-related income) chargeable to the GF was £24.7m. Net income from investment properties was 37.6% of this figure. This is consistent with the proportion for 2016/17 and 2017/18.
- 7.24 The HRA holds a small number of investment properties, mainly retail units linked to council housing, for example shops with flats above. These properties are valued at £5.5 million at 31 March 2019 and earn rental income of around £440k per annum.

#### Other income generating assets

- 7.25 The council is developing housing through the Cambridge Investment Partnership (CIP) – a joint venture and deadlock

partnership in which the council has a 50% stake. Affordable housing on these sites will be owned and managed by the council's HRA, contributing towards the council's target of 500 new council homes. Market housing will be sold to generate surpluses, 50% of which will return to the council to support further capital expenditure. The council will continue to work with the CIP to identify and bring forward appropriate development projects.

- 7.26 The council has a wholly-owned subsidiary company, the Cambridge City Housing Company (CCHC), which owns residential properties in Cambridge. These are let on affordable rents to those who cannot afford local market rents but are unlikely to be allocated council housing. The company has two objectives, the provision of affordable rented housing and a financial return to the council.
- 7.27 The company currently owns 23 properties. The council has agreed that no further properties will be purchased until the volatility in house prices resulting from Brexit has subsided. Then, subject to viability considerations and the availability of suitable properties, the council will consider providing the company with further funding to purchase residential properties.
- 7.28 The council is investigating options for investment in renewable energy schemes. Appropriate independent advice will be sought to support the council is assessing potential investments, particularly with regard to risks and their mitigation.

#### Loans to group undertakings

- 7.29 The council has made and plans to make further loans to a number of group undertakings. These loans include:
- A loan of £7.5m to CCHC: this loan is secured on the properties owned by CCHC and pays an interest rate of 2.02% per annum.

- A £5.2 m loan note to CIP: to facilitate the redevelopment of the council's former depot site at Mill Road. No interest is payable on this loan.
- An interest-bearing loan note of £27m to CIP: to enable housing development on the Cromwell Road site
- Interest-bearing capital contributions and loans to the CIP: to fund development on these two sites. The payments are appropriately covered by assets in CIP and there are detailed plans to demonstrate that all investment in the CIP will be recovered in less than five years with a surplus 'profit' paid to the council.

## **8 Other long-term liabilities**

- 8.1 The council will take on liabilities in the course of the provision of operational services. Examples include financial guarantees, including those given in respect of subsidiaries or joint ventures. Where decisions are made for service purposes, these may be outside of normal commercial terms, including liquidity, security and/or yield.
- 8.2 Where such liabilities are taken on the council will ensure that financial risks are clearly identified and quantified along with any implied subsidy as part of the decision-making process.
- 8.3 The council has given financial guarantees in respect of the pension contributions due from Visit Cambridge and Beyond in the event of their winding up or liquidation.

## **9 Knowledge and skills**

### S151 Officer

- 9.1 The council's S151 officer is required to report explicitly on the affordability and risk associated with the capital strategy. The S151 officer is an experienced CCAB qualified accountant with statutory



responsibilities for the proper administration of the council's financial affairs and for advising the council on budgetary matters. As such the S151 officer oversees the council's capital expenditure and investment activities and ensures that professional advice is obtained where the council does not have the necessary skills in house.

### Treasury management

- 9.2 Treasury management activity is undertaken by an accountant and assistant accountant in the council's technical and financial accounting team. They are managed by a CCAB qualified accountant.
- 9.3 The team has many years of treasury management experience and has demonstrated that it has the skills to opt-up to professional status under the MiFID II reforms.
- 9.4 The CIPFA Code requires the responsible officer to ensure that members and officers are adequately trained in treasury management. Training is arranged as required and is regularly reviewed.

### Property assets

- 9.5 The council's investment property is managed by its property services team, an experienced team of 8 staff. The team includes 6 chartered surveyors each with over 25 years of property experience in both the private and public sector. This extensive experience includes dealing with a mix of property types and professional work including professional services, landlord and tenant, statutory valuations, acquisitions and disposals, commercial and residential property management. They have extensive knowledge of the Cambridge property market with most of the team having worked in and around Cambridge for the past 10 years or so, some much longer.

- 9.6 Property services also works with external agents where specialist expertise is required to deal with particular properties or resource is not available to deal with matters in a timely way. Examples of where external advice is used include agency, valuation, building surveying and planning work. The council also has internal building surveying resource in its estates and facilities team to advise on construction, repair and maintenance, and statutory compliance matters across its investment properties. Estates and facilities commission and manage repairs and maintenance as well as capital investment programmes, either directly or through framework contracts.
- 9.7 The council's asset valuations for its financial statements are prepared by external agents with an agreed rolling programme of valuations for the whole council property portfolio. All material investment properties are valued on an annual basis.
- 9.8 When acquiring new investment property, the council appoints external agents to advise on and negotiate the terms of acquisition, recognising that others are closer to the investment market on a day to day basis than the council's in-house team in some cases. As well as advising prior to acquisition, the agents undertake due diligence which helps to ensure that those charged with governance can make informed decisions.

#### External advice

- 9.9 In addition to the use of external agents in the purchase of investment properties the council makes use of other external advice as necessary for capital and treasury activity. This includes getting appropriate legal and other professional advice on more complex projects and capital transactions and the appointment of treasury management advisors.

## Estimated Capital programme and Capital Financing Requirement - 2019 to 2029

£'000	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
<b>General Fund Capital Expenditure</b>	44,893	34,839	31,689	19,907	30,739	3,646	3,209	1,937	3,323	2,892
<b>Housing Revenue Account Capital Expenditure</b>	44,825	60,118	60,233	40,828	29,572	27,969	27,888	25,215	25,521	27,363
<b>Capital Financing Requirement</b>	257,204	288,147	317,284	336,293	367,567	377,209	378,979	378,238	377,497	376,756

The Capital Financing Requirement shows the Council's underlying need to borrow including £213,752 for Council Dwellings under self-financing.

## Capital Financing Requirement and estimated borrowing profile 2019 to 2029

£'000	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
<b>Capital Financing Requirement</b>	257,204	288,147	317,284	336,293	367,567	377,209	378,979	378,238	377,497	376,756
<b>Comprising:</b>										
<b>External Borrowing</b>	213,572	223,316	249,837	269,472	301,372	311,755	314,266	314,266	314,266	314,266
<b>Internal Borrowing</b>	43,632	62,831	58,447	47,755	43,186	38,500	37,759	37,018	36,277	35,536
<b>General Fund Projected Year End Reserves</b>	16,053	16,829	11,443	7,257	6,971	6,685	6,685	6,685	6,685	6,685
<b>HRA Projected Year End Reserves</b>	11,818	7,820	12,312	2,973	3,020	3,091	3,091	3,091	3,091	3,091
<b>Total Reserves</b>	<b>27,871</b>	<b>24,649</b>	<b>23,755</b>	<b>10,230</b>	<b>9,991</b>	<b>9,776</b>	<b>9,776</b>	<b>9,776</b>	<b>9,776</b>	<b>9,776</b>



**Item**  
**ANNUAL TREASURY MANAGEMENT STRATEGY**  
**STATEMENT REPORT 2020/21 TO 2023/24**

**To:**

The Executive Councillor for Finance & Resources: Councillor Richard Robertson

Strategy & Resources Scrutiny Committee 3<sup>rd</sup> February 2020

**Report by:**

Caroline Ryba – Head of Finance & S151 Officer

Tel: 01223 458134 Email: caroline.ryba@cambridge.gov.uk

**Wards affected:**

All Wards

---

## Key Decision

### 1. Executive summary

1.1 The Council is required to receive and approve, as a minimum, three main treasury management reports each year.

1.2 The first and most important is the Treasury Management Strategy (this report), which covers:

- capital plans (including prudential indicators);
- a Minimum Revenue Provision policy which explains how unfinanced capital expenditure will be charged to revenue over time;
- the Treasury Management Strategy (how investments and borrowings are to be organised) including treasury indicators; and
- a Treasury Management Investment Strategy (the parameters on how investments are to be managed).

- 1.3 A mid-year treasury management report is produced to update Members on the progress of the capital position, amending prudential indicators as necessary, and advising if any policies require revision.
- 1.4 The Outturn or Annual Report compares actual performance to the estimates in the Strategy.
- 1.5 The statutory framework for the prudential system under which local government operates is set out in the Local Government Act 2003 and Capital Financing and Accounting Statutory Instruments. The framework incorporates four statutory codes. These are:
- the Prudential Code (2017 edition) prepared by CIPFA;
  - the Treasury Management Code (2017 edition) prepared by CIPFA;
  - the Statutory Guidance on Local Authority Investments prepared by Ministry of Housing, Communities and Local Government (MHCLG) (effective 1 April 2018); and
  - the Statutory Guidance on Minimum Revenue Provision prepared by MHCLG (effective 1 April 2019).
- 1.6 The Council's S151 Officer has considered the deliverability, affordability and risk associated with the Council's capital expenditure plans and treasury management activities. The plans are considered to be affordable. Where there are risks such as the slippage of capital expenditure, or reductions in investment values or income, these have been considered and are considered to be mitigated or at an acceptable level. The Council has access to specialist advice where appropriate.
- 1.7 Treasury Management Reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Strategy and Resources Committee.
- 1.8 It should be noted that the estimated Prudential & Treasury Indicators for 2019/20 to 2023/24 (inclusive), as set out in Appendix C, include amounts for other long-term liabilities arising from the implementation of International Financial Reporting Standard (IFRS) 16 in April 2020. In previous years there were no long-term liabilities to be disclosed within these indicators.

## **2. Recommendations**

- 2.1 The Executive Councillor is asked to recommend this report to Council, including the estimated Prudential & Treasury Indicators for 2019/20 to 2023/24 (inclusive) as set out in Appendix C.

## **3 Treasury management activities**

- 3.1 The Council is required to have regard to the relevant CIPFA and MHCLG Guidance when carrying out its treasury management activities (see paragraph 1.5). The Council is required to set prudential and treasury indicators, including an authorised limit for borrowing, for a three-year period and should ensure that its capital plans are affordable, prudent and sustainable.
- 3.2 The Prudential Code states that, where appropriate, the S151 Officer should have access to specialised advice to enable them to reach their conclusions in respect of affordability and risk. As such, the Council has retained Link Asset Services (LAS) as its specialist treasury management advisors.
- 3.3 LAS's specialist services include the provision of advice to the Council on developments and best practice in treasury management, the creditworthiness of potential counterparties, deposit and borrowing interest rates, and the performance and outlook of the wider economy.

## **4. Borrowing policy statement**

- 4.1 The Council is permitted to borrow under the Prudential Framework, introduced with effect from 1<sup>st</sup> April 2004.
- 4.2 At present the only debt held by the authority relates to twenty loans from the Public Works Loan Board (PWLB) for self-financing of the Housing Revenue Account (HRA). These loans were taken out in 2012 and total £213,572,000.
- 4.3 The Council anticipates taking further external borrowing during the period 2020/21 to 2023/24, including up to £91,368,000 to fund the Park Street redevelopment project, and £3,605,000 to fund further capital expenditure within the HRA.

4.4 In the event that external borrowing is undertaken the Council is able as an eligible local authority to access funds at the PWLB Certainty Rate (a 0.20% discount on loans) until 31<sup>st</sup> October 2020.

4.5 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement (CFR) estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

## **5. Minimum Revenue Provision (MRP) policy statement**

5.1 MRP is the revenue charge that the Council is required to make for the repayment of debt, as measured by the underlying need to borrow, rather than actual debt. The underlying debt is needed to finance capital expenditure which has not been fully financed by revenue or capital resources. As capital expenditure is generally expenditure on assets which have a life expectancy of over one year it is prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure.

5.2 The Local Authorities (Capital Finance and Accounting) regulations require local authorities to calculate for the financial year an amount of MRP which is considered to be 'prudent'.

5.3 There is no requirement to charge MRP where the CFR is nil or negative at the end of the preceding financial year.

5.4 The HRA of the CFR is not subject to an MRP charge.

5.5 There is no requirement to make an MRP charge on an asset until the financial year after that asset becomes operational.

5.6 The Government has issued revised guidance (effective 1 April 2019) on the calculation of MRP. The Council is required to have regard to the guidance based on the underlying principle that the provision should be linked to the life of the assets for which the borrowing is required.

5.7 However, the guidance is clear that differing approaches can be considered as long as the resulting provision is prudent.



5.8 In general, the council will make MRP based on the equal installment method, amortising expenditure equally over the estimated useful life of the asset for which the borrowing is required. However, no provision will be made in respect of expenditure on specific projects where the Head of Finance determines that capital receipts will be generated by the project to repay the debt. Specifically, in respect of the current capital programme:

- The Council has made a loan to a company (which is classed as capital expenditure) to enable it to let intermediate rent properties. This will be financed from internal borrowing. As this loan is to a wholly owned subsidiary company and is secured on assets no MRP will be set aside. However, to ensure that this policy is prudent, the Council will review this loan annually and if the loan is renegotiated. Where there is evidence which suggests that the full amount of the loan may not be repaid or is not secured on assets of appropriate value, it will be necessary to reassess the need to commence MRP to recover the impaired amounts from revenue.
- The Council is making capital contributions and loans to the Cambridge Investment Partnership (CIP) – a joint venture and deadlock partnership in which the Council has a 50% stake – to facilitate the development of new housing within the city. These payments are classed as capital expenditure. As the payments will be appropriately covered by assets in CIP and as there are detailed plans to demonstrate that all investment in CIP will be recovered in less than five years with a significant surplus, no MRP will be set aside. However, to ensure that this policy is prudent, the Council will review the position regularly. Where there is evidence which suggests that the finance provided may not be repaid, it will be necessary to reassess the need to commence MRP to recover the impaired amounts from revenue.
- No MRP will be required on bond investments which are treated as capital expenditure under regulation where those bonds are appropriately secured. This security will be reviewed at least annually.

5.9 The Council approved a programme of investment in commercial property using powers under S12 of the Local Government Act 2003 in

October 2016. This is deemed capital expenditure and will be financed from cash balances. MRP will be provided for using the useful life determinant with regard to maximum lives permitted in the revised MHCLG MRP guidance of 50 years for freehold land and 40 years for all other assets. MRP is made on the purchase of these properties from the date that rental income is earned.

- 5.10 The Council has agreed to finance an element of the capital cost of a new community centre at Clay Farm from internal borrowing. Using the asset life method MRP would normally be made over an asset life of 40 years. However, the element of capital cost being funded from internal borrowing will effectively be repaid over a shorter period from receipts of rental income from the tenant and subsidy from the site developer. The current estimate is that this repayment will take approximately 17 years. The Council has decided to make MRP on this accelerated basis in respect of this asset.
- 5.11 The Council is developing a scheme to regenerate its multi-storey car park on Park Street, funded by external borrowing. The source, timing and form of this borrowing is to be determined. This MRP policy will be updated as necessary, in line with guidance, once more details are known.
- 5.12 The Council will make £12,545k voluntary overpayments of MRP in 2019/20.

## **6. The Council's Capital Expenditure and Financing 2019/20 to 2023/24**

- 6.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the Council's borrowing need; or
  - if insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.
- 6.2 Estimates of capital expenditure forms one of the required prudential

indicators. The table below shows the proposed capital expenditure and how it will be financed.

	<b>2019/20 Estimate £'000</b>	<b>2020/21 Estimate £'000</b>	<b>2021/22 Estimate £'000</b>	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>
General Fund Capital Expenditure	44,893	34,839	31,689	19,907	30,739
HRA Capital Expenditure	44,825	60,118	60,233	40,828	29,572
<b>Total Capital Expenditure</b>	<b>89,718</b>	<b>94,957</b>	<b>91,922</b>	<b>60,735</b>	<b>60,311</b>
<b>Resourced by:</b>					
• Capital receipts	(11,716)	(10,695)	(8,695)	(3,321)	(3,286)
• Other contributions	(53,356)	(52,843)	(53,464)	(37,779)	(25,125)
<b>Total available resources for financing capital expenditure</b>	<b>(65,072)</b>	<b>(63,538)</b>	<b>(62,159)</b>	<b>(41,100)</b>	<b>(28,411)</b>
<b>Financed from internal and external borrowing</b>	<b>24,646</b>	<b>31,419</b>	<b>29,763</b>	<b>19,635</b>	<b>31,900</b>

## 7. The Council's Prudential and Treasury Management Indicators

7.1 The table below shows the CFR, which is the underlying need to incur borrowing for a capital purpose. The Operational Boundary for External Debt is based on this. The table also shows the expected debt position over the period.

<b>Capital Financing Requirement and Cumulative External Borrowing</b>	<b>2019/20 Estimate £'000</b>	<b>2020/21 Estimate £'000</b>	<b>2021/22 Estimate £'000</b>	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>
General Fund Capital Financing Requirement	42,883	73,826	102,963	120,871	149,641
HRA Capital Financing Requirement	214,321	214,321	214,321	215,422	217,926
<b>Total Capital Financing Requirement</b>	<b>257,204</b>	<b>288,147</b>	<b>317,284</b>	<b>336,293</b>	<b>367,567</b>
<b>Movement in the Capital Financing Requirement</b>	<b>24,197*</b>	<b>30,943*</b>	<b>29,137*</b>	<b>19,009*</b>	<b>31,274*</b>
Estimated External Gross Debt/Borrowing (Including HRA Reform)	213,572	223,316	249,837	269,472	301,372
Authorised Limit for External Debt	400,000	400,000	400,000	400,000	400,000
Operational Boundary for External Debt	262,204	293,147	322,284	341,293	372,567

\*Includes Minimum Revenue Provision (MRP) of £449k in 2019/20, £476k in 2020/21 and £626k in 2021/22, 2022/23 and 2023/24.

7.2 During the above financial years the Council will operate within the 'authorised' and 'operational' borrowing limits contained within the Prudential Indicators set out in the Council's Treasury Management Strategy Statement. The anticipated Prudential and Treasury indicators are shown in Appendix C.

## **8. Investment strategy**

8.1 The Council's overall approach to investment in financial and non-financial assets is outlined in the capital strategy presented in a separate report to the Strategy and Resources Committee and Council.

## **9. Financial asset counterparties**

9.1 The full listing of approved counterparties is presented at Appendix A, showing the category under which each counterparty has been approved, the appropriate deposit limit and current duration limit.

## 10. Financial asset performance indicators

10.1 The Council's investments at 31 December 2019, including the principal invested, yield and credit rating as advised by Link are as follows:-

Counterparty	Link Credit Rating	Principal (£)	Yield
<b>Fixed Term Deposits (Original Term less than one year)</b>			
Cambridgeshire County Council	AA	5,000,000	1.30%
London Borough of Croydon	AA	3,000,000	0.87%
Eastbourne Borough Council	AA	3,000,000	0.75%
Guildford Borough Council	AA	3,000,000	0.95%
London Borough of Hounslow	AA	5,000,000	0.75%
Thurrock Borough Council	AA	7,000,000	0.78% - 0.92%
Bank of Scotland PLC (RFB)	A+	20,000,000	1.10% - 1.25%
Barclays Bank PLC (NRFB)	A+	4,478,862	0.65%
HSBC UK Bank PLC (RFB)	A+	5,000,000	1.01%
Lloyds Bank Plc (RFB)	A+	20,000,000	1.10% - 1.25%
<b>Fixed Term Deposits (Original Term More than One Year)</b>			
Rugby Borough Council	AA	10,000,000	1.60%
Allia Ltd	Unrated	2,200,000	2.40%

Counterparty	Link Credit Rating	Principal (£)	Yield
<b>Variable Net Asset Value Funds</b>			
JP Morgan Managed Reserves Fund	AA	5,000,000	1.10%
Payden Sterling Reserve Fund	AAA	5,000,000	0.97%
Royal London Cash Plus Fund	AAA	5,000,000	0.79%
CCLA Local Authorities Property Fund	Unrated	15,000,000	4.32%
<b>Loans to Other Organisations (over 1 year)</b>			
Cambridge Investment Partnership (Mill Road)	Unrated	4,900,000	5.00%
Cambridge Investment Partnership (Cromwell Road)	Unrated	27,000,000	2%
Housing Company Loan	Unrated	7,500,000	2.02%
<b>TOTAL:-</b>		<b>157,078,862</b>	

- 10.2 There is no risk to the capital invested (other than the risk of failure of the financial institution) for fixed term deposits and constant net asset value money market funds.
- 10.3 The Council continually reviews its investment policy and has identified concerns in relation to property holdings within the retail sector. As the Council has a £15 million stake in the CCLA Local Authorities' Property Fund, it has taken steps to be in constant dialogue with our relationship manager to assess any changes in their retail sector holdings. He confirmed that the fund holds a small high-quality retail investment portfolio (shops) equating to around 3.9% of their total investments.

- 10.4 The Council has made a loan of £7.5 million to Cambridge City Council Housing Company (CCHC), a wholly owned subsidiary. This loan earns 2.02% and is secured on the properties owned by the company.
- 10.5 The Council also began making loans to CIP, a joint venture, in 2019/20 – see paragraph 5.8 for further details.

## **11. Brexit update**

- 11.1 Following the general election held on 12 December 2019 the result was a majority for the Conservatives. The Government's stated target is to leave the EU on 31 January 2020.
- 11.2 The Council will continue to monitor the situation and to take advice from its treasury advisors as appropriate.

## **12. Interest rates and interest received**

- 12.1 In support of effective forecasting the Council needs to be aware of the potential influence of interest rates on its treasury management. The Council is provided with regular interest rate forecasts by its treasury advisors, and the latest forecast is presented at Appendix B.
- 12.2 Total interest and dividends of £1,345,600 has been received on the Council's deposits up to 31<sup>st</sup> December 2019 (for this financial year) at an average rate of 1.44% (1.29% in 2018/19). This is broadly in line with the Council's interest budget.
- 12.3 In addition, the council has earned £334,950 to 31<sup>st</sup> December 2019 on loans provided to CIP and CCHC.

## **13. Implications**

### **(a) Financial Implications**

The prudential and treasury indicators have been amended to take account of known financial activities.

### **(b) Staffing Implications**

None.

### **(c) Equality and Poverty Implications**

No negative impacts identified.

**(d) Environmental Implications**

None.

**(e) Procurement Implications**

None.

**(f) Community Safety Implications**

No community safety implications.

**14. Consultation and communication considerations**

None required.

**15. Background papers**

No background papers were used in the preparation of this report.

**16. Appendices**

Appendix A – The Council’s current counterparty list  
Appendix B – Link’s opinion on UK forecast interest rates  
Appendix C – Prudential and Treasury Management Indicators  
Appendix D – Glossary of terms and abbreviations

**17. Inspection of papers**

To inspect the background papers or if you have a query on the report please contact:

Author’s Name:	Stephen Bevis
Author’s Title:	Accountant (VAT & Treasury)
Author’s Phone Number:	01223 458153
Author’s Email:	Stephen.bevis@cambridge.gov.uk



## Treasury Management Annual Investment Strategy

### Current counterparty list

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits (\*references have now been made to RFB & NRFB for UK Banks, with explanations within the Glossary at Appendix D).

Name	Council's current deposit period	Category	Limit (£)
<b>Specified investments:-</b>			
All UK Local Authorities	N/A	Local Authority	20m
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	20m
All UK Police Authorities	N/A	Police Authority	20m
All UK Fire Authorities	N/A	Fire Authority	20m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Barclays Bank Plc – NRFB*	Using Link's Credit Criteria	UK Bank	35m
HSBC Bank Plc – NRFB*	Using Link's Credit Criteria	UK Bank	20m
HSBC UK Bank Plc – RFB*	Using Link's Credit Criteria	UK Bank	20m
Standard Chartered Bank	Using Link's Credit Criteria	UK Bank	20m
Bank of Scotland Plc (BoS) – RFB*	Using Link's Credit Criteria	UK Bank	20m
Lloyds Bank Plc – RFB*	Using Link's Credit Criteria	UK Bank	20m

<b>Name</b>	<b>Council's current deposit period</b>	<b>Category</b>	<b>Limit (£)</b>
National Westminster Bank Plc (NWB) – RFB*	Using Link's Credit Criteria	UK Nationalised Bank	20m
Santander UK Plc	Using Link's Credit Criteria	UK Bank	5m
The Royal Bank of Scotland Plc (RBS) – RFB*	Using Link's Credit Criteria	UK Nationalised Bank	20m
Other UK Banks	Using Link's Credit Criteria	UK Banks	20m
Members of a Banking Group	Using Link's Credit Criteria	UK Banks and UK Nationalised Banks	30m
Svenska Handelsbanken UK	Using Link's Credit Criteria	UK Bank	5m
Enhanced Cash Funds (Standard & Poor's: AAf/S1, Fitch: AAA/S1)	Over 3 months and up to 1 year	Financial Instrument	10m (per single counterparty)
Enhanced Money Market Funds (not below AAf) – VNAV	Over 3 months and up to 1 year	Financial Instrument	5m (per fund)
Money Market Funds (AAf) – CNAV, VNAV & LVNAV	Liquid Rolling Balance	Financial Instrument	15m (per fund) with no maximum limit overall

<b>Name</b>	<b>Council's current deposit period</b>	<b>Category</b>	<b>Limit (£)</b>
Custodian of Funds	Requirement for Undertaking Financial Instruments	Fund Managers	Up to 15m (per single counterparty)
UK Government Treasury Bills	Up to 6 months	Financial Instrument	15m
<b>Name</b>	<b>Council's current deposit period</b>	<b>Asset Value (£'m) – as at 27<sup>th</sup> November 2019</b>	<b>Limit (£)</b>
<b>Other specified investments - UK building societies:-</b>			
Nationwide Building Society	1 month or in line with Link's Credit Criteria, if longer	236,035	Assets greater than £100,000m - £20m
Yorkshire Building Society		50,417	
Coventry Building Society		45,446	Assets between £50,000m and £99,999m - £5m
Skipton Building Society		21,638	
Leeds Building Society		19,643	Assets between £5,000m and £49,999m - £2m
Principality Building Society		9,502	
West Bromwich Building Society		5,552	

Name	Council's current deposit period	Category	Limit (£)
<b>Non-specified investments:-</b>			
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	Up to 35m (in total)
Cambridge City Council Housing Working Capital Loan Facility	Up to 1 year	Loan	200,000
CCHC Investment *	Rolling Balance	Loan (Asset Security)	7,500,000
Cambridge Investment Partnership (Mill Road)*	Rolling Balance	Loan (Asset Security)	17,800,000
Cambridge Investment Partnership (Cromwell Road)*	Rolling Balance	Loan (Asset Security)	48,300,000
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 15m
Certificates of Deposit (with UK Banking Institutions)	Liquid Rolling Balance	Financial Instrument	15m (per single counterparty)
Certificates of Deposit (with UK Building Societies)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Certificates of Deposit (with Foreign Banking Institutions)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)

Name	Council's current deposit period	Category	Limit (£)
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/S1)	Over 1 year and up to 5 years	Financial Instrument	10m (per single counterparty)
Enhanced Money Market Funds (not below AAf) - VNAV	Over 1 year and up to 5 years	Financial Instrument	5m (per fund)
Commercial Property Investments funded from cash balances	Over 1 year	Commercial Property	20m (in total)
Municipal Bonds Agency	N/A	Pooled Financial Instrument Facility	50,000
Secured Local Bond in Local Businesses – Using Allia Limited	N/A	Local Business Bond	Up to £5m in total
Supranational Bonds – AAA	Using Link's Credit Criteria	Multi-lateral Development Bank Bond	15m
UK Government Gilts	Over 1 year & up to 30 Years	Financial Instrument	15m

**Note:** In addition to the limits above, the total non-specified items over 1 year (excluding balances with related parties) will not exceed £50 million.

**LAS opinion on forecast UK interest rates – as currently predicted**

**Introduction**

The paragraphs that follow reflect the views of the Council’s treasury management advisors (Link Asset Services) on UK Interest Rates as currently predicted.

**Interest rates**

The last interest rate hike, where Members of the Bank of England Monetary Policy Committee (MPC) increased the bank rate by 0.25% to 0.75%, with no changes to the current Quantitative Easing (QE) value of £435 billion, was on 2 August 2018. The vote was 9-0 in favour of an increase to the bank rate. Going forward, Link Asset Services has provided the following interest rate forecast issued on 11 November 2019:-

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
<b>Bank rate</b>	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%
<b>3 month LIBID</b>	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.00%	1.00%	1.10%	1.20%
<b>6 month LIBID</b>	0.80%	0.80%	0.80%	0.90%	1.00%	1.10%	1.10%	1.20%	1.30%	1.40%
<b>12 month LIBID</b>	1.00%	1.00%	1.00%	1.10%	1.20%	1.30%	1.30%	1.40%	1.50%	1.60%
<b>5yr PWLB rate</b>	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%
<b>10yr PWLB rate</b>	2.60%	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.70%	3.20%	3.20%
<b>25yr PWLB rate</b>	3.20%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.60%	3.80%	3.90%
<b>50yr PWLB rate</b>	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.20%	3.70%	3.80%

## Appendix C

### PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
<b>PRUDENTIAL INDICATORS</b>					
<b>Capital expenditure</b>					
- General Fund	44,893	34,839	31,689	19,907	30,739
- HRA	44,825	60,118	60,233	40,828	29,572
<b>Total</b>	<b>89,718</b>	<b>94,957</b>	<b>91,922</b>	<b>60,735</b>	<b>60,311</b>
<b>Capital Financing Requirement (CFR) as at 31 March</b>					
- General Fund	42,883	73,826	102,963	120,871	149,641
- HRA	214,321	214,321	214,321	215,422	217,926
<b>Total</b>	<b>257,204</b>	<b>288,147</b>	<b>317,284</b>	<b>336,293</b>	<b>367,567</b>
<b>Change in the CFR</b>	<b>24,197</b>	<b>30,943</b>	<b>29,137</b>	<b>19,009</b>	<b>31,274</b>
<b>Deposits at 31 March</b>	105,000	60,600	35,600	54,800	73,200
<b>External Gross Debt</b>	213,572	223,316	249,837	269,472	301,372
<b>Ratio of financing costs to net revenue stream</b>					
-General Fund	-1,507	-1,965	-1,784	-1,404	-1,142
-HRA	6,951	7,042	7,187	7,313	7,352
<b>Total</b>	<b>5,444</b>	<b>5,077</b>	<b>5,403</b>	<b>5,909</b>	<b>6,210</b>
<b>% of net revenue expenditure</b>					
-General Fund	-8.08%	-10.02%	-8.84%	-6.96%	-5.66%
-HRA	16.63%	16.22%	15.80%	14.97%	14.33%
<b>Total (%)</b>	<b>8.55%</b>	<b>6.20%</b>	<b>6.96%</b>	<b>8.01%</b>	<b>8.67%</b>

## PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000
<b>TREASURY INDICATORS</b>					
<b>Authorised limit</b>					
for borrowing	400,000	400,000	400,000	400,000	400,000
for other long term liabilities*	2,000	2,000	2,000	2,000	2,000
<b>Total</b>	<b>402,000</b>	<b>402,000</b>	<b>402,000</b>	<b>402,000</b>	<b>402,000</b>
<b>Operational boundary</b>					
for borrowing	262,204	293,147	322,284	341,293	372,567
for other long term liabilities*	1,841	1,699	1,553	1,390	1,222
<b>Total</b>	<b>264,045</b>	<b>294,846</b>	<b>323,837</b>	<b>342,683</b>	<b>373,789</b>
<b>Upper limit for total principal sums deposited for over 364 days</b>	50,000	50,000	50,000	50,000	50,000
<b>Upper limit for fixed &amp; variable interest rate exposure</b>					
Net interest on fixed rate borrowing/deposits	5,442	5,075	5,401	5,907	6,208
Net interest on variable rate borrowing/deposits	-15	-15	-15	-17	-17
<b>Maturity structure of new fixed rate borrowing</b>		Upper Limit	Lower Limit		
10 years and above (PWLB borrowing for HRA Reform)		100%	100%		

\* - Other long term liabilities include lease liabilities assessed under International Financial Reporting Standard (IFRS) 16, which is due for implementation from April 2020. The 2019/20 figure is shown for comparative purposes.



**Treasury Management – Glossary of Terms and Abbreviations**

<b>Term</b>	<b>Definition</b>
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counterparties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
MHCLG	Ministry for Housing, Communities & Local Government (formerly the Department for Communities & Local Government, DCLG)
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months

<b>Term</b>	<b>Definition</b>
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases
Government CNAV	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered Rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans
London Interbank Bid Rate (LIBID)	The average interest rate which major London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Low Volatility Net Asset Value (LVNAV)	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
Non Ring Fenced Bank (NRFB)	Government & Bank of England rules apply to all UK Banks from 1 January 2019, requiring them to split their business into 'core' retail and investment units known as Ring and Non Ring Fenced Banks
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board – an Executive Government Agency of HM Treasury from which local authorities and other prescribed bodies may borrow at favourable interest rates

<b>Term</b>	<b>Definition</b>
Quantitative Easing (QE)	A financial mechanism whereby the Central Bank creates money to buy bonds from financial institutions, which reduces interest rates, leaving businesses and individuals to borrow more. This is intended to lead to an increase in spending, creating more jobs and boosting the economy
Ring Fenced Bank (RFB)	Government & Bank of England rules apply to all UK Banks from 1 January 2019, requiring them to split their business into 'core' retail and investment units known as Ring and Non Ring Fenced Banks
Security	A measure of the creditworthiness of a counterparty
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
Variable Net Asset Value (VNAV)	MMF values based on daily market fluctuations to 2 decimal places known as mark-to-market prices
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Weighted Average Life (WAL)	Weighted average length of time of unpaid principal
Weighted Average Maturity (WAM)	Weighted average amount of time to maturity
Yield	Interest, or rate of return, on an investment

This page is intentionally left blank