Cambridge City Council
Capital Strategy 2023/24
Contents

1. 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 (GF) and Housing Revenue Account (HRA) Medium Term Financial Strategies and the Council's Vision and Annual Statement.

1.4 By its very definition a capital strategy is a document developed in the context a long-term planning horizon. The past ten years has seen the population of our city grow by 17.6%. The population will soon exceed 150,000 and is expected to continue to grow. The success of our universities mean that we welcome 15,000 new residents each year with a similar number moving out of the city.

1.5 In our city centre and on its outskirts substantial inward investment has contributed to a dynamic and vibrant local economy with specialisms in technology and biological sciences. Working with its partners across the private and public sectors, the Council is well-placed to continue benefit from this investment through local taxation and the provision of income-generating services. However, we are conscious of the expectations that accompany such investment and the effort needed to maintain economic competitiveness.

1.6 Despite the city's economic success, the benefits of economic growth and private sector investment have not been evenly distributed. The city has the fifth lowest score nationally for youth social mobility. Significant health inequalities continue to be observed in the most deprived areas of our city compared to its most affluent. The high cost of housing increases the reliance on the rental sector and the number of journeys into our city to access its economic opportunities contribute to high levels of congestion. Development land in Cambridge continues to be significantly more expensive and scarcer than in neighbouring areas increasing the cost and reducing the viability of public sector investment.

1.7 This strategy has been updated at an important time for the organisation. The Our Cambridge transformation programme has gathered momentum since the capital strategy was last approved in February 2022. As is explained in more detail within the strategy, transformation has influenced the development of this document in various ways. The following considerations are particularly relevant:

(i) To fully realise the benefits of transformation, some deployment of capital resources is likely to be required.

Where the associated capital schemes have been costed and approved, they are reflected within detailed information in this document. However, further schemes are expected to come forward as part of transformation work streams and these schemes will ultimately consume existing capital resources and/or require the authority to undertake additional borrowing.

(ii) Conversely, one of the potential outcomes of transformation is that the Council may change the way services are provided or cease to provide or scale back existing service provision. Where this applies, existing capital estimates may overstate the required capital resources. The transformation programme includes provision for both revenue and capital savings to be built into the decision- making process.

(iii) Finally, changes to the budget-setting timetable introduced this year mean that this version of the strategy is necessarily based on the draft budget which the Executive agreed to consult on following its meeting on 8 December 2022.

2 Objective

2.1 The objective of the capital strategy is to provide a framework for understanding the governance procedures and organisational structure relevant to understanding how the Council makes decisions relating to capital expenditure and capital resources. The strategy outlines how stewardship, value for money, prudence, sustainability and affordability will be secured. The strategy also articulates how the current arrangements have been developed to enable the organisation to achieve its corporate objectives.

3 Scope

3.1 The capital strategy specifically focusses on the key areas of:

- Capital expenditure
  - Investments for service purposes
  - Investments for commercial purposes

- Debt, borrowing and treasury management
  - Investments for treasury management purposes

It also considers:

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

Capital Expenditure

3.2 Capital expenditure (or investments) may be for service or commercial purposes. The CIPFA Prudential Code defines these as follows:

Investments for service purposes *(or service investments) are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services. Service investments may or may not involve financial returns; however, obtaining those returns will not be the primary purpose of the investment.*

Investments for commercial purposes *(or commercial investments) are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services. This includes non-financial assets such as commercial property, where they are held primarily for financial return. Commercial in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs, and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily to generate net financial return or profit.*

3.3 Decisions regarding all types of capital investment are informed by an understanding of how the proposed investment will support the Council to achieve its corporate objectives.

3.4 Service delivery within the Council is split across a range of models including services provided exclusively by partners, shared services and services delivered in-house. The Council has a specific priority requiring it to focus its activities on ‘Modernising the council to lead a greener city that is fair for all'. The nature of the service and the model applied determines the dependency on the extent of capital investment required to provide the service. Changes in the needs and expectations of our residents and technological developments can alter the dependency on capital investment. Consequently, assumptions regarding the need and extent of future investment to sustain and enhance service delivery are subject to regular challenge and revision.

3.5 The Council embraces its 'place-making' responsibilities. The most specific articulation of this responsibility is reflected in its priorities of 'Building a new generation of council and affordable homes and reducing homelessness' and 'Tackling poverty and inequality and helping people in the greatest need'. Taken together these objectives will often necessitate capital investment which involves acquiring, improving or creating assets. The financial and non-financial impact of such investments are appraised through the GF and HRA budget-setting process based on the type of proposal under consideration.

3.6 The Council acknowledges that local authorities are no longer permitted to make new investments in commercial property primarily for yield although investment in an existing portfolio is permitted. The Council retains a significant portfolio of investment properties which were funded from Council resources without the need for specific external borrowing. Existing capital plans acknowledge the need for specific and periodic investment in these assets to retain tenants and deliver against the Council's priority to achieve net zero by 2030 and its vision to support a thriving local economy in which businesses can develop and provide local employment and training opportunities for the city's residents. The sale of individual properties would generate one-off capital receipts that postpone the need to borrow externally to fund the Council's overall capital programme. However, disinvestment of this nature may inhibit the achievement of the Council's long-term vision and associated priorities.

3.7 Local authorities are permitted to treat as capital various types of expenditure which do not create or enhance Council-owned assets providing that spend creates an asset which would be classified as capital expenditure in another entity's accounts. The Council has used these powers to deliver against its priorities by establishing joint ventures, making loans available to enable other entities to undertake capital investment and providing capital grants to individuals and third parties. In the case of shared services some flexibility can involve the Council contributing to the cost of assets being constructed by third parties which the Council will benefit from. Examples include the Waterbeach Renewable Energy Network facility which South Cambridgeshire District Council is constructing using contributions from its own resources, the City Council and the Cambridgeshire and Peterborough Combined Authority.

3.8 The establishment of entities such as the Cambridge Investment Partnership, a joint venture with Hill Residential, has combined private sector expertise and commercial acumen with public sector ambition and resources. This has successfully facilitated investment in housing in the city which might not otherwise have been possible. Likewise, the Cambridge City Housing Company, a wholly-owned subsidiary, has enabled the provision of housing to meet the needs of those who would be unable to access housing provided by the private sector.

Debt, Borrowing and Treasury Management

3.9 The CIPFA Prudential Code includes the following definition:

Investments for treasury management purposes *are those investments that arise from the organisation's cash flows or treasury risk management activity, and ultimately represent balances that need to be invested until the cash is required for use in the course of business. Treasury investments may include an allowance for a reasonable level of short-term investments to provide access to liquidity.*

3.10 The Council has both external borrowing from 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) as part of the council's treasury management function.

3.11 The Council has a cautious approach to the management of cash balances. Link Asset Services is the Council's appointed treasury management advisor. The arrangement with Link ensures that the creditworthiness of potential counterparties is closely monitored using a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's and relevant market data including Credit Default Swaps (CDS) and Credit Watches. More details can be found in the Council's Treasury Management Strategy Statement (TMSS) which is reviewed and approved annually.

3.12 Investments include an investment for treasury management purposes in a pooled property fund. This investment was originally undertaken to provide diversity within the portfolio mitigating interest rate risk without exposing the Council to undue risks relating to the liquidity and security of the amounts invested. In accordance with CIPFA guidance, the composition of the portfolio and the rationale supporting the use of pooled property funds is subject to regular review and scrutiny to ensure it is justified in the context of the Council's medium term and long-term financial strategy.

3.13 The council has committed to borrowing from a financial institution to fund the redevelopment of the Park Street multi-storey car park. The loan will be drawn down between April 2024 and December 2025 in line with expected expenditure on the project. The option to use similar types of financing will continue to be examined as an avenue which might be available to the Council. The learning gathered from securing funding for Park Street will assist the Council in exploring non-PWLB sources of finance for other projects.

3.14 Decisions regarding external borrowing are undertaken with reference to the Prudential Code published by CIPFA which requires that capital expenditure be 'affordable, prudent and sustainable'. In practice, the Council recognises that this means that without other sources of finance it may not be possible to achieve all of its corporate priorities.

3.15 From 2023/24 the Council is required to provide additional information regarding its forecast treasury position to provide more detailed information about when it expects that it will need to take on additional external borrowing. This is known as the liability benchmark which is a chart illustrating the difference between current levels of debt and the Council's underlying need to borrow after taking account of planned use of reserves. In accordance with recommended practice, this information is presented separately for the GF and HRA as an appendix to the TMSS.

3.16 The Council recognises, however, that in the current economic environment delivering capital schemes is increasingly challenging. The Council will continue to work with its partners and other local authorities to highlight the need for access to finance, including grant-funding, that will enhance the financial viability of potential future investments, particularly those linked to the net zero agenda and the construction of new affordable housing. The Council recognises also that some types of investments which deliver social value might deliver a lower financial return than other forms of capital expenditure.

4 Decision making frameworks

4.1 The Council has established arrangements for taking decisions which impact on the organisation's capital plan. The Council's constitution specifies the rules relating to council decision-making. This section summarise the key stages in decision-making according to whether the decision relates to GF service expenditure, the HRA or other non-service capital expenditure.

4.2 Before any decision is taken internal governance procedures ensure the proposed spend is thoroughly evaluated and prioritised according to the following hierarchy of objectives:

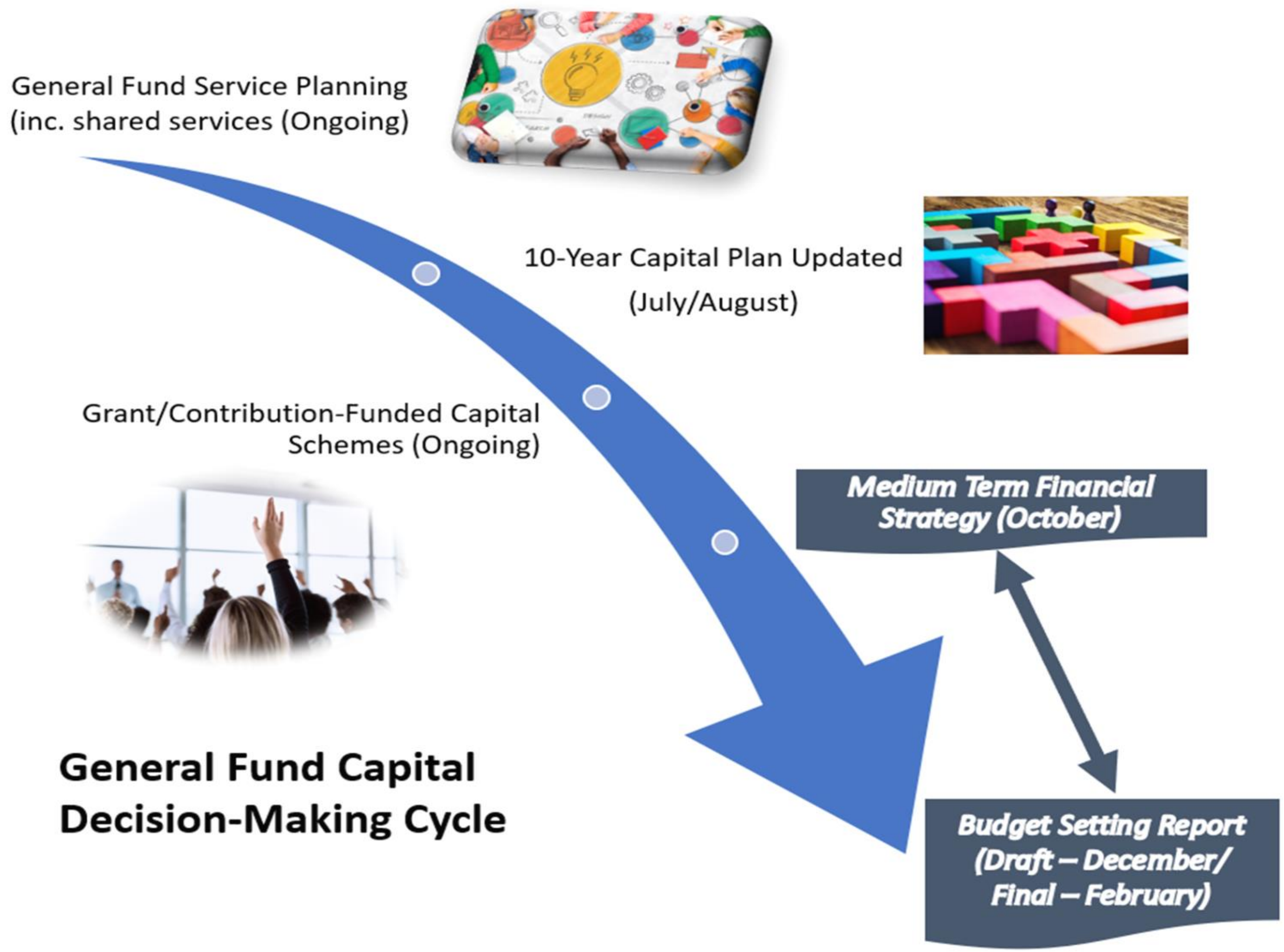
- Statutory requirements e.g. Health and Safety;
- Maintenance of service delivery capacity and capability;
- The delivery of wider policy objectives, including those related to climate change and biodiversity; and then
- Income generation to support the delivery of council objectives.

4.3 The Council has recently updated its project management arrangements. GF projects deemed to be of a higher risk are subject to review by the Change Assurance Team (known as ‘CAT’). This group comprises professionals drawn from across the organisation who can consider the broader impact, risks and opportunities associated with proposals developed by Heads of Service. Approval for a project can be withheld until such time that members of the CAT are satisfied that the project can realistically deliver its stated objectives within the proposed budget.

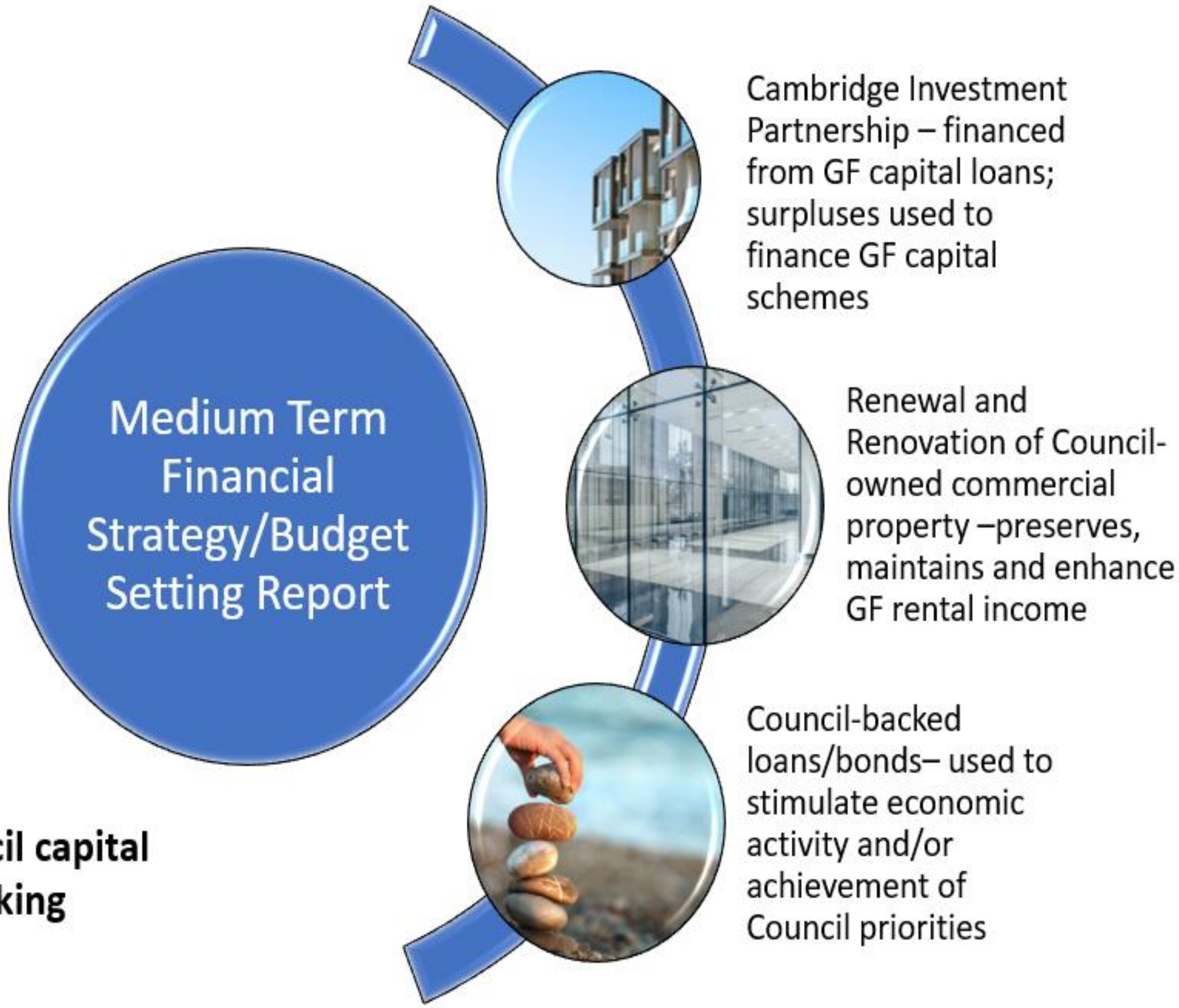
4.4 Decisions relating to the HRA are taken with reference to the HRA’s budget-setting process which runs in parallel to the GF as defined in the Council’s constitution as illustrated in the diagram below. Legislation prevents GF resources from being used to fund HRA activities and vice versa. Recognising the impact of HRA on the Council’s overall capital strategy forms an essential part of understanding how the Council works with its partners to deliver Council priorities benefitting the City as a whole and not just current Council tenants.

4.5 The Council has sought to embrace opportunities to engage in activities outside day-to-day provision of statutory and non-statutory Council service which benefit the local authority. These have included the establishment of joint ventures with the Hill Group, funded by a combination of Council-backed loans and equity, to bring forward housing developments across the City using a combination of purchased land and sites owned by the Council. Such approaches are supported by central government which acknowledges that public-private partnerships can provide appropriate vehicles to deliver new homes. Guidance issued by HM Treasury specifically states that schemes which deliver housing are not restricted by the prohibition that would normally prevent ‘debt for yield’ schemes from being included in authority’s capital programmes. Similarly, whilst the government no longer permits PWLB borrowing to support the acquisition of new commercial properties where those properties are bought primarily for yield, HM Treasury explicitly permits PWLB borrowing to fund expenditure to maintain and enhance commercial properties acquired before the current guidance changed. The Council has an active pipeline of projects of this nature. More details can be found in the commercial section of this strategy.

4.6 The Councill will continue to explore the use of innovative approaches to deliver capital investment recognising that its track record of working with the private sector can help leverage interest from companies interested in establishing new partnerships to the benefit the City and its residents.


General Fund Service Planning
(inc. shared services (Ongoing)
10-Year Capital Plan Updated
(July/August)
Grant/Contribution-Funded Capital
Schemes (Ongoing)
Medium Term Financial
Strategy (October)
General Fund Capital
Decision-Making Cycle
Budget Setting Report
(Draft – December/
Final – February)

Housing Revenue Account Capital Decision-Making Cycle



Other Council capital decision making

5 Asset management planning

5.1 Taking decisions about capital investment are not solely focussed on the acquisition or creation of new assets. A significant element of the Council's capital resource reflects the need for assets and their component parts to be renewed and updated to ensure they continue to provide economic benefits and service potential to the organisation.

5.2 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.

5.3 The asset management plan outlines how the council will manage its property. The plan 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.

5.4 The GF asset management plan, which incorporates commercial and operational property, is being updated. In early 2023 officers intend to have produced a 30-year maintenance plan for all the buildings, including a full assessment of the work required to ensure that the council meets its ambitious 2030 target to reach net zero carbon.

5.5 Delivering the programme of works arising from the asset management plan will significantly impact the Council's medium-term financial strategy. For this reason, the Council is also developing an Office Accommodation Strategy to determine its accommodation needs over the medium-term and understand how these can be met from the assets currently held. At a meeting of the Strategy and Resources Committee in October 2022 Members requested that officers complete a detailed investigation to assess the suitability of the Guildhall to be the Council's main office and civic space whilst comparing this option against a potential alternative space in or around a central location.

5.6 Having successfully partnered with the private sector to deliver housing as part through the CIP entities, the Council recognises that there is scope for and interest in future collaboration to deliver investment in the commercial property portfolio. A range of options and delivery models will be explored with independent professional expertise obtained to ensure the Council fully understands the potential advantages, disadvantages, risks and opportunities associated with the options identified.

5.7 The HRA asset management plan for housing stock was also 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.

5.8 The updated HRA asset management plan increases focus on improving the energy efficiency of the stock and compliance with relevant regulations, including fire safety. This remains a developing area following the Grenfell fire, the plan will be reviewed and updated once changes in regulations and other compliance requirements are published.

5.9 Initial work has been undertaken to understand the level of investment that will be required to move existing homes towards Passivhaus or net zero carbon standards through retrofit, so that this can be balanced against the aspiration to also deliver new build homes to the highest sustainability standards possible, within resource constraints.

5.10 The council will review 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.

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

6. Financing Capital Expenditure

6.1 Until recently the strength of the Council's GF Balance Sheet meant that the Council was able to fund capital expenditure from existing balances without needing to undertake external or internal borrowing. The Council currently has no GF external debt. The consequence of this is that compared to many comparable authorities the Council has a low capital financing requirement and the charge to the revenue account to finance capital expenditure in prior years, known as the Minimum Revenue Provision, is low and therefore does not present a significant source of pressure on the GF budget.

6.2 The GF Medium Term Financial Strategy acknowledges that future capital investment will need to be financed through borrowing, including external debt, and that the cost of financing will have a progressively more significant impact each rising from a projected £40K in 2022/23 to £5.861M by 2032/33. This increase reflects the scale of the investment which Heads of Service assess as being required to deliver Council priorities. Precise costings will be developed and presented for consideration by Members in accordance with the decision-making frameworks set out earlier in this document.

6.3 Forecasts of capital expenditure, based on projects approved by Members and incorporated into the budget, anticipated projects involving the CIP and current estimates of expected capital expenditure prepared by Heads of Service are set out in Appendix 1. The appendix also sets out the underlying need to borrow based on forecast capital expenditure. This is also known as the Capital Financing Requirement (CFR). Regulations state that the Council must set limits on the amount of external borrowing it undertakes. The Council must confirm that it has complied with these limits on an annual basis. Further details can be found in the TMSS and the annual Treasury Management Report. The Council's constitution requires that both these documents be approved by Full Council and subject to scrutiny by the Council's Strategy and Resources Committee prior to their approval.

Disposals

6.4 Proceeds from the sale of assets can provide an important source of funding for the capital programme. Guidance produced by CIPFA states that where assets are not held for service delivery local authorities should regularly review the rationale for holding such assets recognising that retaining such assets can implicitly bring forward the point when Council needs to borrow externally. All disposal of assets is subject to scrutiny by relevant committees and Executive Councillor approval. Detailed cases will be prepared for any asset disposals and where 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.

Use of capital receipts

6.5 Capital receipts may only be used for capital purposes. The council will also ensure that it observes the ring-fence between GF and HRA resources.

6.6 Most 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 Department of Levelling-Up, Housing and Communities (DLUHC) 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.

6.7 The receipts assumed in the HRA Self-Financing Settlement continue to be shared with DLUHC 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.

6.8 Currently, 1-4-1 receipts must be spent within a five-year timeframe to fund the delivery of new social housing. A maximum of 40% of the cost can be met from this funding stream with the balance funded from Devolution Grant, the council's own resources or borrowing. Some additional flexibility exits in respect of the construction of shared ownership property with incentives being introduced to encourage the construction of new build properties.

6.9 Where receipts are not used within the five-year timeframe, receipts must be repaid to central government with interest at 4% above the base rate.

6.10 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 five-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. Following changes introduced in the pooling regime, there will be a cap on the number of homes that can be acquired on the open market using these resources each year, to be phased in from April 2022. All efforts will be made to ensure that no receipts are paid back to central government.

Capital receipt flexibilities

6.11 Under a direction issued by central government in February 2018 and subsequently extended, authorities can choose to use capital receipts received 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.'

6.12 The council has no plans to use this flexibility.

7 Commercial activity

7.1 The Council has invested in assets where its principal rationale for acquiring the asset was the expectation of generating a stable financial return, typically, but not exclusively, via securing an annual rental income. Such acquisitions are referred to as non-financial assets in the Council's Treasury Management Strategy Statement. The Council undertakes a review of its non-financial assets considering security, liquidity and yield, as it does for investment in 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 appropriate to the perceived level of risk for the asset in the market at that time, within any constraints imposed by policy decisions, after satisfying the requirements for security and liquidity.

7.3 The definition of commercial activity in the context of the Council is broader than the non-financial assets the Council owns. The Council recognises that it is well-placed to benefit, on a commercial footing, from the strength of the city economically, reflected in its success economically and as a tourist destination, and from the asset it holds which enable non-discretionary services to be provided in a competitive market. The council considers commercial activity to include:

- The provision of income-generating services, such as car parking, markets, the garage facility and bereavement services, which utilise significant assets. These assets are classified as *service investments* under the Prudential Code and as operational assets for management purposes.
- Investment in commercial properties through acquisition but also through portfolio management (recycling portfolio performance through buying and selling) and regeneration or redevelopment of the existing portfolio. These assets are classified as *commercial investments* under the Prudential Code.
- Investment in other income-generating assets that support council objectives, such as housing and renewable energy generation facilities. These are classified as service investments under the Prudential Code.
- Loans to group undertakings, classified as *service investments*.

7.4 Where services are income-generating the need for capital investment will be appraised as part of the service-planning process. Capital investment in income-generating services is expected to be self-financing to the extent that planned investment will either be funded from historic surpluses returned by the service or be funded from future surpluses generated as a result of making the investment. The Council recognises the risk that expected surpluses may not materialise over the life of the asset so investments which cannot be funded from service reserves currently held are subject to a detailed sensitivity analysis to highlight the extent of the uncertainty and the cost which the GF may find itself having to finance.

7.5 The Council's transformation programme recognises that the Council has the resources to enter new markets and provide additional services on a commercial footing which, in accordance with relevant legislation, may require setting up arms-length corporate entities as local authorities elsewhere have done successfully. In some cases, additional capital investment may be required to enable the Council to enter those markets. Such investments will be appraised as part of the GF capital decision-making cycle explained above. Where decisions are taken to access new markets the rationale behind entering that market and the extent to which it complements and/or facilitates the achievement of Council priorities will form part of the Council's business case. The established mechanism for involving the Change Assurance Team to examining business cases deemed to be of material significance to the organisation will ensure that where necessary appropriate legal and taxation advice is obtained.

7.6 Reporting against key indicators relating to commercial activity will be included in quarterly monitoring of the Council's financial health. This will provide an early warning of any risk that the Council's commercial activities might not provide the expected contribution to the GF budget. The Council's risk management processes are also structured to look at particular risks relating to individual services that might reflect in lower profitability of commercial services.

Investment in commercial properties

7.7 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 (geographic, property type, tenure) 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 and small businesses which may not always be 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.

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

7.9 In order to achieve some geographical diversity, the council has invested in properties which fall outside the city boundary. The council took 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.

7.10 The council is redeveloping 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, achieving significant regeneration, environmental and public realm improvement in the area. Once complete, the aparthotel will form part of the council's investment portfolio in an under-represented property type, with rentals for the hotel servicing the borrowing required to undertake the development.

7.11 The council will 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 be mixed use schemes, including residential accommodation some of which may be sold to partially fund the developments. The programme is expected to span 10 years, cost c£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. A new property management database is being procured to support the delivery of the asset management plan and associated KPIs.

7.13 The following portfolio KPIs, as included within the GF asset management plan, will be introduced:

Measure	Target / Baseline	Comment	Frequency
Gross external debt to net service expenditure	N/A	Not currently relevant due to the revised PWLB lending terms – see para 5.25	Annually
Commercial property income to net service expenditure	<50%		Annually
Ratio of investments to the resources of the council	<30%	Fair value of investment property as a % of the council's net assets.	Annually
Ratio of external borrowing to portfolio value	N/A	Not currently relevant due to the revised PWLB lending terms – see para 3.6	Annually
% 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

Measure	Target / Baseline	Comment	Frequency
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 2022 was £160.7m. 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 has been as follows:

	2021/22	2020/21	2019/20	2018/19	2017/18
Rental income net of direct costs (£'000)	8,739	9,315	9,603	9,984	9,418
Fair Value at year end (£'000)	160,682	158,594	162,722	170,782	175,281
Yield	5.4%	5.9%	5.9%	5.9%	5.4%
Gain / (loss) in fair value in year (£'000)	2,088	(4,128)	(8,060)	(4,499)	21,575

7.17 The loss in fair value from 2019/20 reflects exposure to retail through its significant shopping centre investments as well as market uncertainty in relation to both the Brexit process and the COVID-19 pandemic. As such, some reductions are likely to be temporary, but may take some time to reverse while others represent more of a structural change as markets adjust.

7.18 The investment property portfolio is managed as a whole, including those properties which the council has held for a number of years. The more recent acquisitions are considered to have stabilised the rate of return as their acquisition was aligned with the criteria set out in 7.7 above compared to the historic portfolio.

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

7.20 CIPFA released guidance on prudential property investment in 2019. 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. It has also sought to provide greater diversification of risk through its more recent portfolio acquisitions in terms of property type, location, management costs and covenant strength.

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 2022 show that the net cost of services (net of service-related income) chargeable to the GF was £26.7m (20/21 £33.4m). Net income from investment properties was 30.9% (2021 26.6%) of this figure. The percentage increased in 2021/22 due to the receipt of significant grant income linked to the Covid 19 pandemic in 20/21.

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 £6.599 million at 31 March 2022 and earn rental income of around £473k per annum.

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.

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. has recently appointed new external agents for its asset valuations which should bring fresh objectivity and challenge to its valuations.

External advice

9.8 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.

Appendix 1

Estimated Capital Programme, Capital Financing Requirement and Reserves - 2022 to 2032

£'000	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
General Fund Capital Expenditure	141,441	35,055	38,359	15,392	10,842	5,320	4,213	4,334	4,944	3,013
Housing Revenue Account Capital Expenditure	83,781	114,680	94,055	104,139	78,182	59,221	69,554	83,201	67,462	29,955
Capital Financing Requirement	362,954	430,328	494,963	570,380	582,913	645,934	718,050	803,913	874,625	905,877
General Fund Projected Year End Reserves	22,115	17,706	17,466	17,416	17,416	17,366	17,316	17,266	17,216	17,166
HRA Projected Year End Reserves	22,637	4,084	4,332	3,707	3,479	3,359	3,359	3,359	3,359	3,359
Total Reserves	**44,752**	**21,790**	**21,798**	**21,123**	**20,895**	**20,725**	**20,675**	**20,625**	**20,575**	**20,525**

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