Appendix H

Cambridge City Council

Capital Strategy 2025/26

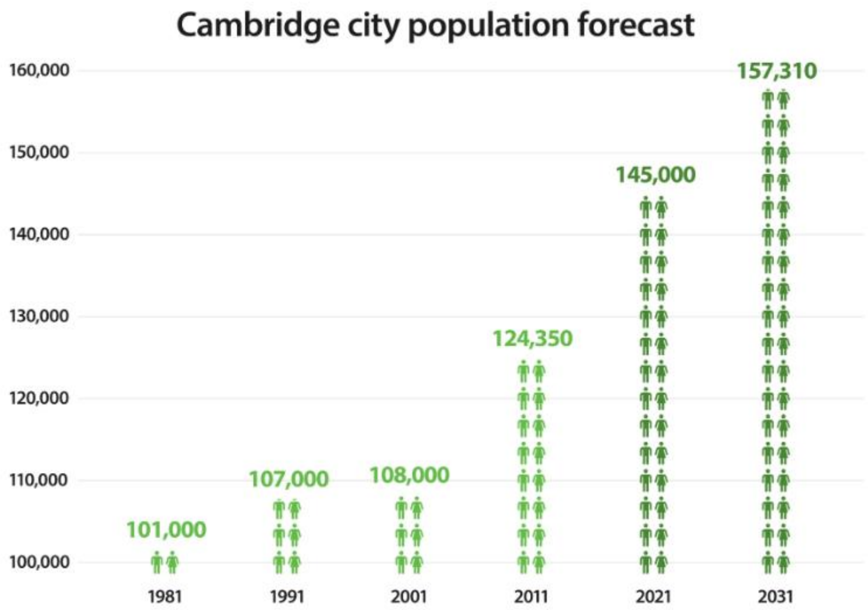
1. Introduction

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 organisational priorities and 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 (Appendix G), General Fund (GF) and Housing Revenue Account (HRA) Medium Term Financial Strategies ('MTFS') and the Council's Vision and Annual Statement.

1.4 By its very definition the Capital Strategy is a document developed in the context of a long-term planning horizon. The population grew by 17% over 10 years between 2011 and 2021 and is soon expected to exceed 150,000. The success of our universities means 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. Addressing inequality and poverty through investment in high-quality affordable housing and as part of initiatives such as community wealth building are key corporate priorities.

1.7 Ongoing transformational change is enabling the council to respond to regeneration opportunities in the city in a more agile and streamlined manner. In particular, the scope of the Housing Development Agency has been expanded to assume a broader role as a Development Agency which enables housing and wider property issues to be considered together as part of the potential redevelopment of existing sites.

1.8 More broadly, the council continues to engage with central government on future growth of the city, which has been identified as a vital contributor to the economic growth of the UK, particularly through investment in the technology and science sectors. In order to unlock this growth, there will need to be significant provision of new housing, including affordable housing, within the city and on its fringes.

1.9 The local economic context in which the council operates continues to evolve. Over the medium term the council will invest its own resources to redevelop assets it already owns and increase the provision of housing through its Housing Revenue Account. The council will also continue to work to facilitate investment in the city by the public and private sectors. Whatever form these investments take they will ultimately impact service provision. The council will need to understand and forecast that impact whilst at the same time reviewing its approach to service delivery to achieve the savings required to close the budget gap identified in the Medium-Term Financial Strategy.

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 each service and the model applied determines the dependency on and 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 General Fund and HRA budget setting process based on the type of proposal under consideration. There is an expectation that future investment in existing property assets to modernise, develop and, in some cases, repurpose those assets could be significant over the medium-term.

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 provided that spending 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 such 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 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 during 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 commercial loans, and 'internal' borrowing from cash balances. This borrowing is managed alongside the investment of cash balances (currently c. £75 million) as part of the council's treasury management function.

3.11 The council has a cautious approach to the management of cash balances. Mitsubishi UFG (MUFG) is the council's appointed treasury management advisor. The arrangement with MUFG 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 (Appendix G) 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 borrowed £30 million to date from a financial institution to fund the redevelopment of the Park Street multi-storey car park, with commitments to draw down another £55 million during 2025/26. 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 its corporate priorities. The impact of expected future borrowing is built into the Medium-Term Financial Strategy for both the General Fund and HRA and reflected in the savings targets which need to be achieved.

3.15 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 summarises the key stages in decision making according to whether the decision relates to General Fund 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 General Fund projects deemed to be of 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 Group Leads. 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 General Fund as defined in the council's constitution. Legislation prevents General Fund 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 benefiting 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 services which benefit the local area. 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 activity' section of this Strategy.

4.6 The council 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.

5 Asset management planning

5.1 Decisions about capital investment are not solely focussed on the acquisition or creation of new assets. A significant element of the council's capital plan 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 General Fund asset management plan was last reviewed and updated in March 2023. The following actions were identified which would be taken forward over the five-year period covered by the asset management plan:

- Refurbishment and remodelling of office accommodation to ensure that it is made to be and remains attractive and meets modern requirements and expectations of tenants, the public and staff.
- A planned maintenance programme based on whole building lifecycle, achieving economies by replacing components just before they would otherwise require responsive repairs, anticipating changes in minimum acceptable standards, and reducing future requirements for cyclical maintenance.
- Planned cyclical maintenance to prevent deterioration in the physical condition of the properties.
- A responsive maintenance service so that building occupiers, stakeholders and members of the public are satisfied with the condition and function of buildings.
- An efficient and effective approach to empty properties to maintain property occupancy level to protect the council's revenue.
- Diary and case management of lease expiries, rent reviews and other property management issues.
- Disposal of selected property, redevelopment and reinvestment to maintain a balanced portfolio that meets the needs of the council, reflects changing requirements and represent a sounder economic and social investment.

5.3 The council is delivering its Office Accommodation Strategy through a work programme that includes the Civic Quarter Project, which includes refurbishing and retaining the Guildhall as its main administrative base, and refurbishing the Corn Exchange, Market Square, and the surrounding public realm. Members approved a budget in November 2024 to developed detailed designs for the three Civic Quarter areas which would be reported on in Autumn 2025. The report will also cover the future use of Mandela House and the option to dispose of this to help fund the refurbishment of the Guildhall.

5.4 The HRA has a 5-Year Asset Management Strategy, which was last approved in autumn 2019. It is anticipated that it will be reviewed and presented for re-approval in the spring of 2025. The 30-year capital forecasts are based on the status of the asset management database, which includes significant provision for backlog expenditure which has been allocated over the next 5 years.

5.5 Stock condition data, along with lifecycle costing, has been analysed to identify the level of investment required to deal with any backlog repairs and planned maintenance, and to ensure the council continues to achieve and maintain the decent homes standard.

5.6 In accordance with its HRA Asset Management Strategy, the council has been working to improve the energy efficiency of its housing stock recognising the impact of higher fuel bills on its tenants as well as the council’s commitments to achieve net zero.

5.7 For non-property assets the ongoing maintenance costs of retaining and/or replacing assets will be considered carefully as part of the re-modelling of service delivery across the council. 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 General Fund balance sheet meant that it was able to fund capital expenditure from existing balances without needing to undertake external or internal borrowing. Compared to many other authorities the council has a low General Fund Capital Financing Requirement (a measure of the extent to which historic capital financing has been financed through borrowing), and the charge to the revenue account to finance capital expenditure in prior years, known as the Minimum Revenue Provision (MRP), is low and therefore does not present a significant source of pressure on the General Fund budget.

6.2 During 2024/25 the council drew down the first tranche (£30 million) of a total of £85 million of commercial borrowing arranged to fund the redevelopment of the Park Street car park. The associated borrowing costs and MRP charges will be more than covered by the returns generated by the project.

6.3 The General Fund 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 on revenue budgets over time. This is based upon the approved five-year capital programme, along with other capital pressures which are forecast to arise over the coming ten years, for example the replacement and renewal of existing assets as they approach the end of their life.

6.4 Forecasts of capital expenditure are set out in Annexe 1, which also sets out the underlying need to borrow based on forecast capital expenditure.

6.5 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 Treasury Management Strategy (see Appendix G) 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

6.6 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 the council needs to borrow externally. Disposal of assets is subject to scrutiny by relevant committees and Executive Councillor approval in line with the council’s constitution, depending upon the type and value of the asset. Detailed cases will be prepared for significant asset disposals and where appropriate, independent advice taken, to ensure that best value is achieved on disposals, considering 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

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

6.8 RTB Receipts: Tenants in HRA dwellings have the “Right to Buy” their home if eligibility criteria are met. The purchase price is discounted but generates a capital receipt for the HRA. This receipt must be used to fund the delivery of a replacement affordable home under the terms of the 1-4-1 agreement held with the Ministry of Housing, Communities and Local Government (MHCLG). The rules require receipts to be applied within five years (with unspent receipts returned to HM Treasury with interest). Local authorities are now able to keep 100% of receipts from sales of council homes purchased under Right to Buy. Previously, local authorities had to give a proportion of the receipt from any sale to HM Treasury. This change means that the council will retain more money to reinvest directly back into our housing stock and into new supply. Over time, changes to RTB discounts and eligibility criteria may also result in reduced Right to Buy purchases, which would mean that our stock levels would be better retained going forwards.

6.9 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. All efforts will be made to ensure that no receipts are paid back to central government.

Capital receipt flexibilities

6.10 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.'

6.11 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 (Appendix G). 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 the capital invested. Therefore, it will ensure through regular valuations at fair value, that there is sufficient value in assets and the portfolio 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 be 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 from the provision of services on a commercial basis. This opportunity arises from, amongst other factors, Cambridge's strength economically and its popularity as a tourist destination. The council has retained assets 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, garage facilities 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 from the initial 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 General Fund 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. In accordance with relevant legislation, this 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 General Fund 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 examine 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 is included in the quarterly financial management reports produced by the finance team. These indicators provide an early warning of any risk that the council's commercial activities might not provide the expected contribution to the General Fund budget. The council's risk management processes are also structured to look at risks relating to individual services that might result 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 following objectives exist 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 General Fund 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 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 has redeveloped an operational asset, the multi-storey car park it owns on Park Street in Cambridge. The car park has been replaced by a smaller underground car park, with plans for an aparthotel above, achieving significant regeneration, environmental and public realm improvements 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 together with evaluating the most appropriate future use of the operational and administrative buildings. The scope of the council's Housing Development Agency, which worked alongside Cambridge Investment Partnership (CIP) to deliver new residential property, has been expanded to incorporate commercial and residential schemes. Under the leadership of an Assistant Director, a development programme is being prepared, and specific proposals are expected to be prepared for discussion with members in 2025-26. This work will run alongside the implementation of the Office Accommodation Strategy.

<u>Monitoring portfolio performance</u>

7.12 The portfolio is reviewed annually as a whole by classification, lot size range, sector mix, geography, lease type and repairing obligations, net income return, average unexpired lease term, and void rates, and outturn compared with previous years. This will identify portfolio imbalances. A new property management database has been acquired and is being implemented to support the delivery of the asset management plan and associated KPIs.

7.13 The following portfolio KPIs continue to be used:

Measure	Target / Baseline	Comment	Frequency
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
% 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
Voids	<£100,000 income	To maintain income levels	Quarterly
Largest lot size (excluding Lion Yard)	<10% of portfolio	To reduce specific stock risk	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 locations close to HRA housing which provide important local services for their communities.

7.15 The total value of investment properties as of 31 March 2024 was £164.6 million. 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:

	2023/24	**2022/23**	**2021/22**	**2020/21**	**2019/20**
Rental income net of direct costs (£'000)	9,261	8,133	8,739	9,315	9,603
Fair value at year end (£'000)	164,578	161,708	160,682	158,594	162,722
Rental yield	5.6%	5%	5.4%	5.9%	5.9%
Gain / (loss) in fair value in year (£'000)	2,870	1,026	2,088	(4,128)	(8,060)

7.17 The loss in fair value in 2019/20 and 2020/21 reflects exposure to retail through 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 many 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

MHCLG and CIPFA about the size of some property holdings. Concern has been raised about those councils which are externally borrowing to invest in property. Cambridge City has used reserves and internal borrowing to fund purchases, with the exception of the Park Street redevelopment whose primary purpose was re-provision of an end of life operational asset (the car park) and wider regeneration.

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 council's corporate and financial strategies and if they expose the council 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 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 £6.5 million as of 1 April 2024 and have an estimated rental income of around £528,000 per annum.

8 Other long-term liabilities

8.1 The council will take on liabilities associated with 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. Consideration will also be given to the impact of IFRS 16 (the new accounting standard for all leases effective from 2024/25) in respect of new lease agreements which the Council may enter.

9 Knowledge and skills

Section 151 Officer

9.1 The council's Section 151 Officer is required to report explicitly on the affordability and risk associated with the Capital Strategy. The Section 151 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 Section 151 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 within the council's Technical and Financial Accounting team, under the supervision of 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 officer responsible 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 5 staff. The team includes 4 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, and 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 work with external agents where specialist expertise is required to deal with properties or resources are 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 resources 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 valuers with an agreed rolling programme of valuations for the whole council property portfolio. All material investment properties are valued on an annual basis.

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.

<u>Annexe A</u>

Estimated Capital Programme, Capital Financing Requirement and Reserves - 2024-25 to 2033-34

£'000	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
General Fund Capital Expenditure	111.539	22.747	14.675	57.112	5.495	6.308	8.021	6.632	6.678	1.868
Housing Revenue Account Capital Expenditure	107.748	81.980	120.189	137.235	112.592	45.742	42.121	36.707	37.707	38.735
Capital Financing Requirement	424.867	484.032	500.433	544.677	562.183	565.516	569.684	572.050	574.240	572.647
General Fund Projected Year End Reserves (without Business Rates Growth)	16.318	10.727	9.879	9.202	8.669	8.669	8.669	8.669	8.669	8.669
HRA Projected Year End Reserves	7.396	8.409	8.601	8.521	8.208	8.041	8.241	9.391	16.457	20.921
Total Reserves	**23.714**	**19.136**	**18.480**	**17.723**	**16.877**	**16.710**	**16.910**	**18.060**	**25.126**	**29.590**

The Capital Financing Requirement shows the Council's underlying need to borrow including £213.752 million for Council Dwellings under self-financing.

The General Fund Capital Programme shown above reflects estimates including schemes not yet formally approved as part of the budget-setting process.