Local authority investment decisions have made headlines over the past year with the financial press questioning the role of local authorities investing in property and assets as a means to generate income to compensate for the reduction in government funding. Investing in property and other assets is nothing new for Cheltenham Borough Council, we have historically held major assets such as retail sites and commercial property for some time now. In recent years however the emphasis on using these assets to generate a commercial yield has become much greater and this has involved some councils investing in property outside of its area. The scaling up of investments by local councils has been brought to the attention of the Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA resulting in changes to the Treasury Management Code and the Prudential Code.

Following consultations in February and August 2017, CIPFA published its new 2017 guidelines of Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes and the Prudential Code for Capital Finance in Local Authorities just before the end of 2018. The Council is now required to prepare and approve four strategies/statements:

- Capital Strategy;
- Investment Strategy;
- Treasury Management Strategy Statement; and an
- MRP Statement

I will start with the Capital Strategy

The purpose of the Council's Capital Strategy is to document the principles and framework that underpin the longer-term capital investment and expenditure proposals.

The Council's Capital Strategy forms a key part of its overall Corporate Planning Framework. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's over-arching corporate priorities and objectives over a medium term planning horizon.

In particular, the Capital Strategy demonstrates how we will deliver our 5 key priorities these are

working toward's making Cheltenham the Cyber Capital of the UK,

to deliver a number of Town Centre and wider public enhancements that will continue the revitalisation of the town ensuring its longer-term viability as a retail and cultural destination,

alongside enhancements to our environmental services and developing the way we commission these services,

we will also be seeking new opportunities to bring in additional resources, for example the introduction of the Cheltenham lottery as well as leveraging more value from our assets and commissioned providers to deliver our £100m housing investment plan,

and continue improvements in the way services and information are accessed, by residents and businesses by maximising new technology opportunities and different ways of working.

The capital strategy aims to, provide a clear context within which proposals for new capital expenditure are evaluated to ensure that all capital investment is targeted at meeting the Council's Vision and Priorities which I have just summarized. We will do this by delivering projects that focus on revenue benefits in the form of spend to save, spend to earn or generating growth in revenue income.

Put simply, our Capital Strategy aims to invest and deliver for the residents of the Borough, a few I would like to highlight,

- we have invested in commercial property which provides for an ongoing sustainable income stream to deliver front-line services, whilst also having a direct impact of the safe-guarding of much needed office accommodation within the town centre;
- We are delivering the affordable homes which the market fails to provide and we will prioritise those people on our Housing Register;
- Public Realm High Street investment focussed on supporting the revitalisation of the high street,
- We have invested in a new suite of waste and recycling vehicles to enhance and deliver the services requested by our residents;
- We have invested and delivered a new sport and play hub at leisure@;
- We have invested in a new £8.5 million crematorium, on time and within budget, which will deliver services for future generations.

Moving forward with the capital programme it is important to remember that the financial resources available to meet corporate priorities are constrained in the current economic and political climate. Central government support for revenue and capital investment has reduced significantly over the last few years. Along with these reductions is the recognition that the Council must rely more on internal resources and seek ways in which investment decisions can be either self-sustaining or generate positive returns both in terms of meeting corporate objectives and producing revenue savings.

That said we are ambitious for our town! We will continue to seek economic investments that generate longer term growth. These projects will yield a combination of revenue generation, jobs and capital infrastructure investment. Based on sound business cases.

Housing is one of the top priorities for this administration, A significant element of past resources such as capital receipts and S106 contributions, have been applied to the housing market in the Borough. This work will continue to deliver a commitment from the Cabinet to facilitate the delivery of building affordable new homes and bringing void properties back into use, in partnership with Cheltenham Borough Homes. Significant progress has been made in this area and additional funds along with a strategic delivery partner will enhance this project.

The council is keen to work with other Government agencies and private developers to create long term employment opportunities through capital investment. Such investments will also appraise the ability to generate new business rate income.

To reduce its backlog maintenance liability the Council needs to rationalise its office accommodation and other operational estate. This is either in the form of commercially letting an element of its existing office accommodation or through the sale of surplus assets. Such action would contribute to ongoing revenue savings and / or capital receipts respectively.

Leisure, Culture & Tourism – are a major part of the Borough's economy. To support such areas the Council will consider the investment in infrastructure projects that bring in significant third party investment. The Council will be undertaking appropriate investment and replacement into ICT hardware and software on a case by case basis along with its Publica partners. The primary focus will be on improving the use of technology on an "invest to save" basis.

Turning to how we resource this strategy our current approach to capital financing is geared towards ensuring the maximisation of resources available. As such funding is applied in order from the following sources:

- Specific grants (e.g. Growth Fund, Better Care Fund)
- S106 monies / Partnership funding
- Useable capital receipts
- Revenue Contributions for Capital Outlay (RCCO)
- Reserves
- Prudential Borrowing

In relation to borrowing our objectives are to achieve low interest rates either long term or short term. As seen in table 6 - page 8 of appdx 2 borrowing is around £112m at an average rate of 3.26%. Going forward likely to increase further (in relation to HRA borrowing & West Cheltenham Project)

The Council is legally obliged to set an affordable borrowing limit each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. Page 9 – Table 7 appdx 2 shows the authorized limit is set at £217m for 2019/20 and the operational boundary of £207m.

This enables the Council to maintain a greater degree of flexibility, as usable capital receipts can only be used to finance capital spending, whereas both revenue and reserves can be used for both capital and revenue purposes.

Whilst predominately linked to financing of the Housing Capital Programme, capital receipts derived from ‘Right to Buy Sales’ have been used in the past to support affordable housing provision.

The Prudential Code for Capital Finance allows councils to undertake unsupported borrowing to meet its objectives if this is considered to be affordable, prudent and sustainable, the code enables authorities to take greater control of their investment in the capital assets such as local authority housing, office accommodation, and infrastructure which are central to the delivery of quality local public services. The arrangements provide a flexible framework within which they can be procured, managed, maintained and developed. When considering the potential use of prudential borrowing, the Council must satisfy itself that the borrowing will be undertaken to deliver specific key priorities or be used to finance projects which will provide on-going revenue savings in excess of the financing costs.

Given the pressure on the Council’s revenue budget in future years, prudent use will be made of this discretion in cases where there is a clear financial benefit, Such schemes will focus on clear priorities, attracting significant third party investment and those that generate revenue benefits in future financial years.

Non Treasury Investment Strategy report appdx3

This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),

- to support local public services by lending to other organisations (service investments), and

- to earn investment income (known as commercial investments where this is the main purpose).

The Authority typically receives its income in cash for example from taxes and grants, before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities lead to a cash surplus at various points of the year which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £26.3m and £32.0m during the 2019/20 financial year.

Service Investments: Loans

Subject to a business case, the Council will lend money to its subsidiaries. The Council also lends money to support local public services and stimulate local economic growth. These include loans to organisations and residents within the Borough which support the priorities of the Council.
The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set in table 1 of appdx 3. Most of the loans made in the past have been to subsidiaries Cheltenham Borough Homes (CBH) and Gloucestershire Airport.

In addition to the loans granted the Council has included provision in its Treasury Management Strategy to loan up to £500,000 to both Ubico and Cheltenham Borough Homes (and up to £100,000 to Publica , Cheltenham Festivals and The Cheltenham Trust should any company require our support. The Council is a shareholder in Gloucestershire Airport, Ubico and SWAP (South West Audit Partnership) and a shared owner in Publica. In these cases, the loan facility is to enable the Council to be able to provide a loan for short-term cash flow purposes.

The Authority assesses the risk of loss before entering into and whilst holding service loans by undertaking credit checks and ensuring that appropriate legal documentation is in place to secure the Council's money.
The Council also receives independent financial advice on its financial dealings from Arlingclose Limited.

Service investment: Shares

The Council has a £1 shareholding in Ubico Ltd. Ubico is wholly-owned by seven local authorities and operates as a not for profit enterprise. Also the Council has £435,222 shareholding in Gloucestershire Airport which equates to 50%.

One of the risks of investing in shares is that they could fall in value meaning that the initial outlay may not be recovered, however this authority has not invested into Ubico or Gloucestershire Airport to generate a financial return. The Council has invested purely to support service provision, and has no intention to dispose of its investment in the foreseeable future. Ubico is a cost sharing company – any surplus generated within Ubico is returned to the partner Councils [shareholders] similarly with any deficit met by the Councils.

Commercial Investments: Property

Investment Property is defined in the CIPFA as property (land or buildings, or both) held solely to earn rentals or for capital appreciation, or both. The Council holds a number of assets which it classifies as Investment Properties within Cheltenham, as at the 31 march last year this value was £33,316.000 million pounds, members will recall that four commercial properties have been purchased during 18/19 at a cost £42.935 million, the value as at 31st March is currently being assessed and is expected to be £76,309.381.

In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

The Council aims to generate a revenue return from its Investment Property assets which is greater than the return generated by its Treasury Management activity. It is understood that the fair value of property will fluctuate, although it is anticipated that the revenue returns in 2019/20 will remain constant. The Authority assesses the risk of movement in asset values before entering into and whilst holding property investments and mitigates the risk by purchasing property with secure tenants on long leases.

The Authority is dependent on investment activity to achieve a balanced revenue budget. Table 4 of appdx 3 shows the extent to which the expenditure planned to meet the service delivery objectives of the Authority is dependent on achieving the expected income from treasury investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected income targets, the Authority will be required to draw additional balances from reserves, or generate savings elsewhere within the budget to continue to provide its services.

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority has plans to borrow in 2019/20 to invest in new capital schemes. Any funds borrowed will be in relation to specific schemes and based upon the cash required for the chosen schemes. There are no plans to borrow in advance of need.

Investment Indicators
The Authority has set quantitative indicators to allow members and the public to assess the Authority's total risk exposure as a result of its investment decisions as set out in table 5

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to and any guarantees the Authority has issued over third party loans.

How investments are funded: Government guidance is that these indicators should include how investments are funded. The Council's plans for borrowing are limited to a small number of schemes – which are primarily for service delivery – which do not form part of this report. As a result, investments funded by borrowing are presented in table 6:

The rates of return received are shown in table 7: The indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. It should be noted that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Treasury Management Strategy Statement

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

The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

Brexit uncertainty, is showing slow growth forecasts for the UK and the US together with Interests forecasted for possibly two increases at the back end of 2019- but again all dependent on Brexit.

On 31st December 2018, the council held £112.886m of borrowing and £16.467m of investments. This is set out in further detail in Appendix 2. Forecast changes in these sums are shown in the balance sheet analysis in table 1 on page 67 of appdx 3.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Authority has an increasing CFR due to the capital programme approved by this council last month, but minimal investments and will therefore be required to borrow up to £44m over the forecast period.

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

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

This authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has averaged £26m, and levels at around £24m are expected to be maintained in the forthcoming year.

Investments are forecast to average £23m with a return rate of 2.05%- achieving £472k income.

If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options.

The Authority may invest its surplus funds with any of the counterparty types, subject to the cash and time limits. members can see this councils approved investment counterparties and the limits set out in table 2 at pages 6 and 7 of appndx 4

And turning finally to the Minimum Revenue Statement

Guidance requires that the council must set an annual MRP statement as set out in the papers before you

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

No MRP will be charged in respect of assets held within the Housing Revenue Account.

Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21 or until the year after an asset becomes operational.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2019, the budget for MRP and voluntary revenue overpayments can be seen in the table on page 84 appndx 5.

Mayor, and members I hope will support the recommendations of the report, as set out in the paper.