1. INTRODUCTION

1.1 The purpose of the Council's Capital Strategy is to document the principles and framework that underpin its longer-term capital investment and expenditure proposals. The Capital Strategy was a new requirement for Councils to produce from April 2018 following the publication of the revised Prudential Code for Capital Finance in Local Authorities 2018.

1.2 Cheltenham Borough Council's Capital Strategy forms a key part of the Council's 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.

1.3 The Strategy sets the framework for all aspects of the Council's capital expenditure; including planning, prioritisation, management and funding. The Strategy has direct links to the Council's Asset Management Strategy, Commercial Strategy, Investment Strategy and Treasury Management Strategy and forms a key part of the Council's Medium Term Financial Strategy (MTFS) as articulated below:

Category	Overall	Revenue	Capital	Treasury Mgmt	Risk Management
Strategies	Medium Term Financial Strategy				
	Commercial Strategy	Investment Strategy	Capital Strategy	Treasury Mgmt (TM) Strategy	Risk Management
			Asset Mgmt Strategy		
Guidance	CIPFA and Technical Guidance	Budget Guidance	Capital Guidelines	CIPFA Code for Practice for TM	Risk Management Guidance
Plans	MTFP Projection	Annual Budget	Capital Programme & Asset Mgmt Plan	Treasury Policy Statements	Risk Register
Governance	Constitution and Annual Governance Statement	Quarterly Performance Reports		Prudential Indicators and Annual Report	Risk Register reporting and regular review
	Contract and Finance Procedure Rules				Audit Committee and Cabinet Reports
	Internal and External Audit Plans and our response to audit review				
Decision making	Cabinet/Council				

1.4 Decisions made on capital and treasury management will have financial consequences for the Council for many years into the future.

1.5 In particular, the Capital Strategy demonstrates how we will deliver the 5 key priorities for the Council:

- We will work toward making Cheltenham the Cyber Capital of the UK; a national first, which will deliver investment in homes, jobs, infrastructure and enable the Council to deliver inclusive growth for our communities.

- 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.

- Deliver enhancements to our environmental services and develop the way we commission these services.

- We will be seeking new opportunities to bring in additional resources e.g. introduction of Cheltenham lottery as well as leveraging more value from our assets and commissioned providers to deliver our £100m housing investment plan.

- Improve the way services and information are accessed by residents and businesses by maximising new technology opportunities and different ways of working the outcome of which will contribute towards our financial self-sufficiency.

1.6 Capital expenditure is where the Council spends money on assets, such as land, property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

2. WHAT IS OUR CAPITAL STRATEGY

2.1 The key aims of the Capital Strategy are 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;

- Deliver projects that focus on delivering revenue benefits in the form of spend to save, spend to earn or generate growth in revenue income;

- set out how the Council identifies, programmes and prioritises capital requirements and proposals arising from business plans, the Asset Management Plan (AMP) and other related strategies;

- consider options available for funding capital expenditure and how resources may be maximised to generate investment in the area and to determine an affordable and sustainable funding policy framework, whilst minimising the ongoing revenue implications of any such investment;

- identify the resources available for capital investment over the MTFS planning period; and

- establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, and the achievement of Value for Money.

2.2 Put simply, our Capital Strategy aims to invest and deliver for the residents of the Borough:

- At the end of August 2019, we completed the purchase of 112 acres of strategically important land for £37.5m which forms part of the West Cheltenham JCS allocation. This was the most expensive land purchase ever made by CBC. It will enable the delivery of the Cyber Central vision – which was formally launched on 17th September 2019 at Hub8 in Cheltenham. In June 2019 the government announced that Cyber Central had been awarded 'Garden Communities' status

- 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, complemented by the flagship concept store opening for John Lewis, and the redevelopment of the Brewery Quarter;

- We have invested in a new suite of waste and recycling vehicles to enhance and deliver the service 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.

2.3 Beyond the above, our Capital Strategy will also help us meet our need to upgrade and maintain:

- Operational buildings;
- Infrastructure in the Borough;
- Our vehicle fleet;
- Our ICT infrastructure.

2.4 In 2020/21, the Council is planning capital expenditure of £43.938m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2018/19 actual £000	2019/20 forecast £000	2020/21 budget £000	2021/22 budget £000	2022/23 budget £000
General Fund services	10,438	8,105	2,982	600	692
Council housing (HRA)	9,479	29,846	30,076	36,976	32,082
Capital investments	43,126	28,104	10,880	-	-
TOTAL	63,043	66,055	43,938	37,576	32,774

2.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the aspiration to build 500 new homes.

3. CAPITAL PROGRAMME NEEDS AND PRIORITIES

3.1 Underlying the capital strategy is the recognition 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.

3.2 The Asset Management Plan (AMP) includes significant backlog maintenance issues across the Council's property portfolio. To provide the necessary investment needed to bring them up to current standards would require a level of investment that is currently unaffordable within the revenue resources of the Council. The Council may wish to prioritise the disposal of any surplus assets which would generate capital resources via capital receipts. These receipts, alongside private sector investment, can be prioritised to maximise outputs with minimal ongoing future revenue costs.

3.3 Economic Investment – The Council will continue to seek investments that generate longer term growth. These projects will yield a combination of revenue generation (business rates, property rental or interest), jobs and capital infrastructure investment. Based on sound business cases the Council will aspire to make acquisitions to assist with strategic site assembly for the delivery of investment projects.

3.4 Housing – A significant element of past resources (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 bring 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.

3.5 Employment – 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.

3.6 Corporate Property – 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.

3.7 Leisure, Culture & Tourism - A major part of the Borough's economy is based on leisure, culture and tourism. To support such areas the Council will consider the investment in infrastructure projects that bring in significant third party investment. The Council will work with its partners to bid to attract third party funding into its offering, where available.

3.8 ICT – 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.

3.9 The Council's capital investment falls within, and needs to comply with, the "Prudential Code for Capital Finance in Local Authorities" (The Code). Under the Code local authorities have greater discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes.

3.10 The Council has various mechanisms in place which seek to ensure that there is an integrated approach to addressing cross-cutting issues and developing and improving service delivery through its capital investment in pursuance of the Council's over-arching aims. These include:

- Democratic decision-making and scrutiny processes which provide overall political direction and ensure accountability for the investment in the capital programme;
- The Council which is ultimately responsible for approving investment and the capital programme;
- The Cabinet which is responsible for setting the corporate framework and political priorities to be reflected in the capital programme; the Cabinet will continue to receive regular performance and monitoring reports which are subject to scrutiny;
- Officer Groups which bring together a range of service interests and professional expertise;
- An integrated service and financial planning process, including the corporate performance management framework. Within this framework, all proposals for capital investment are required to demonstrate how they contribute to the achievement of the Council's aims and priorities. This includes an evaluation process for investment proposals which ensures cross-cutting appraisal of projects which are aligned to the Council's key aims and priorities and deliver on the efficiency and value for money agendas.

4. RESOURCING STRATEGY

4.1 The Council's current approach to capital financing is geared towards ensuring the maximisation of resources available to the Council. As such funding is applied in order from the following sources:

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

4.2 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.

4.3 In order to progress new capital schemes not already identified within the capital programme, the Council will need to prioritise the use of available resources which could involve the disposal of existing assets or prudential borrowing on a scheme by scheme basis.

4.4 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.

4.5 The Prudential Code for Capital Finance in Local Authorities commenced throughout Great Britain in April 2004. The code allows councils to undertake unsupported borrowing to meet its objectives if this is considered to be affordable, prudent and sustainable, measured using prudential indicators. 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 (invest to save).

4.6 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 as "invest to save", "spend to earn" or major regeneration schemes which do not increase expenditure levels in the longer term.

4.7 Such schemes will focus on clear priorities, attracting significant third party investment and those that generate revenue benefits in future financial years - namely income, interest, council tax or business rate yield.

4.8 The Council will continue to consider on a cautious and prudent basis the extent to which prudential borrowing may be undertaken to fund new capital investment, which generates returns over and above the revenue costs of the debt.

4.9 New sources of funding are also being identified through the Local Economic Partnership (LEP) working on a County Region basis. The strategy, the outcomes of which inform the Medium Term Financial Strategy, is intended to consider all potential funding options open to the Council and to maximise the financial resources available

for investment in service provision and improvement within the framework of the MTFS.

4.10 The Council will continue to work with the private sector to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation.

4.11 The Council will continue to work with Local Health Partners and other public agencies to consider sharing facilities to the mutual benefit of all parties.

4.12 Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Council. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment as and when received. The Council's property estate is mainly held for operational service requirements and administrative buildings although it does have a significant commercial investment portfolio. This estate is managed through the Asset Management Plan which identifies property requirements and, where appropriate, properties which are surplus to requirements and which may be disposed.

4.13 The Council will continue to maintain a policy of not ring-fencing the use of such capital receipts to fund new investment in specific schemes or service areas, but instead, to allocate resources in accordance with key aims and priorities, subject to the following exceptions:

- capital receipts received in respect of right to buy sales will be wholly invested in the provision of additional housing;
- any receipts from the sales of properties previously acquired for site assembly where borrowing has previously incurred will be used to repay the debt incurred on that particular acquisition.

4.14 Council resources will be allocated to programmes based on asset values to manage the long term yield and revenue implications. Capital receipts and reserves will be focused on those assets with short term life span (e.g. vehicles and IT investments) and the unsupported borrowing on long term assets (e.g. land and buildings).

4.15 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing

	2018/19 actual £000	2019/20 forecast £000	2020/21 budget £000	2021/22 budget £000	2022/23 budget £000
External sources	1,427	1,742	4,555	5,095	9,255
Own resources	12,327	20,607	9,253	7,880	8,836
Debt	49,289	43,706	30,130	24,601	14,683
TOTAL	**63,043**	**66,055**	**43,938**	**37,576**	**32,774**

4.16 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP) as detailed in Appendix 5. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance

	2018/19 actual £000	2019/20 forecast £000	2020/21 budget £000	2021/22 budget £000	2022/23 budget £000
Own resources	1,465	2,233	2,313	2,434	2,469

4.17 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £27.8m during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	31.3.2019 actual £000	31.3.2020 forecast £000	31.3.2021 budget £000	31.3.2022 budget £000	31.3.2023 budget £000
General Fund services	78,317	105,580	114,997	112,564	110,095
Council housing (HRA)	56,908	71,118	89,517	114,118	128,801
TOTAL CFR	**135,225**	**176,698**	**204,514**	**226,682**	**238,896**

4.18 *Asset management*: To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place.

4.19 *Asset disposals*: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive capital receipts in the coming financial year as follows:

Table 5: Capital

	2018/19 actual £m	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m
GF Asset sales	0.170	0.016	-	-	-
HRA Asset sales	2.849	0.900	1.500	1.500	1.500
Capital loans and grants repaid	0.856	1.035	1.152	1.135	1.140
TOTAL	**3.875**	**1.951**	**2.652**	**2.635**	**2.640**

5. Treasury Management

5.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing. Due to decisions taken in the past, the Council currently has £160.239m borrowing at an average interest rate of 2.49% and £21.807m treasury investments at an average rate of 2.24%.

5.2 **Borrowing strategy**: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.5% to 3.5%).

5.3 Projected levels of the Council's total outstanding debt which comprises borrowing are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.3.2019 actual £000	31.3.2020 forecast £000	31.3.2021 budget £000	31.3.2022 budget £000	31.3.2023 budget £000
Debt	120,595	163,294	193,802	218,443	233,173
Capital Financing Requirement	135,225	176,698	204,514	226,682	238,896

5.4 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

5.5 **Liability benchmark**: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a

minimum level of £17m at each year-end. This benchmark is currently £17m and is forecast to remain the same over the next three years.

Table 7: Borrowing and the Liability Benchmark

	31.3.2019 actual £000	31.3.2020 forecast £000	31.3.2021 budget £000	31.3.2022 budget £000	31.3.2023 budget £000
Outstanding borrowing	120,595	163,294	193,802	218,443	233,173
Liability benchmark	101,290	146,294	176,802	201,443	216,173

5.6 The table shows that the Council expects to remain borrowed above its liability benchmark. The liability benchmark is the total amount borrowed less investments held at year end or forecast. The Council wishes to have a treasury investment portfolio which achieves significant revenue income.

5.7 **Affordable borrowing limit**: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt

	2019/20 limit £000	2020/21 limit £000	2021/22 limit £000	2022/23 limit £000
Authorised limit – total external debt	298,000	320,000	350,000	370,000
Operational boundary – total external debt	288,000	310,000	340,000	360,000

5.8 Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

5.9 The Council's policy on treasury investments is to prioritise security and liquidity over yield; that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments

	31.3.2019 actual £000	31.3.2020 forecast £000	31.3.2021 budget £000	31.3.2022 budget £000	31.3.2023 budget £000
Near-term investments	11,536	9,000	9,000	9,000	9,000
Longer-term investments	8,000	8,000	8,000	8,000	8,000
TOTAL	**19,536**	**17,000**	**17,000**	**17,000**	**17,000**

5.10 **Governance**: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Executive Director Finance Assets and his staff, who must act in line with the treasury management strategy approved by Full Council. Quarterly reports on treasury management activity are presented to cabinet. The Treasury Management Panel is responsible for scrutinising treasury management decisions.

6. THE CAPITAL PROGRAMME

6.1 The Capital Programme is laid out in a separate report to Cabinet and Council each financial year as part of the annual budget setting process. The report reflects the most recent forecasts of expenditure based on Government announcements.

6.2 Annually capital bids are invited for assessment and consideration. In preparing the annual capital programme, new schemes will be appraised using the assessment against corporate priorities and objectives business case template.

6.3 The annual capital programme contains a projection of the capital investment required over a 4 year period. Typically, the capital programme consists of 4 areas of expenditure (i) replacement of vehicles (ii) replacement of ICT equipment / infrastructure (iii) housing grants for disabled facilities adaptations and (iv) to enable the provision of increased affordable housing.

Investments for Service Purposes

6.4 The Council makes investments to assist local public services, including making loans to the Council's subsidiaries and other local service providers that provide services to promote economic growth. In light of the public service objective, the Council is willing to take more risk than with treasury investments; however, it still plans for such investments to generate a small surplus after all costs.

6.5 **Governance**: Decisions on service investments are made by Full Council under the guidance of the Executive Director Finance and Assets. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.

7. PROGRAMMED MAINTENANCE

7.1 The Council's Planned Maintenance Programme for property is reviewed annually

and the programme includes the following types of expenditure:

- Planned – cyclical, programmed maintenance work for buildings based on regular condition surveys
- Routine – includes electrical and mechanical installation service contracts for the maintenance of infrastructure e.g. security/fire alarms and lifts
- Reactive – emergency / ad-hoc / unplanned expenditure.

7.2 The Council budgets for an annual revenue contribution of £470k (2020/21) to the Planned Maintenance Reserve and an £200k contribution (2020/21) to the Capital Reserve. In order to assess the longer-term maintenance obligations, it is considered necessary for a programme covering the next 10 years to be estimated to ensure adequate resources are in place to mitigate known and expected liabilities. It should be noted that maintenance expenditure can only be funded from revenue sources.

8. COMMERCIAL ACTIVITIES

8.1 Local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and they may wish to hold investments to facilitate this. When determining whether to acquire, the Council needs to recognise the contribution the asset will make. The contribution could be classified as direct service delivery and/or place-making, for example economic growth, business rates growth, responding to market failure or sustainability of certain asset classifications.

8.2 With central government financial support for local public services declining, the Council invests in commercial property mainly for financial gain. Total commercial investments are currently valued at £76.309m, providing a net return after all costs of 4.19% for 2019/20 and a predicted return of 4.44% for 2020/21. The net yield is calculated to be 5.25% for both 2019/20 and 2020/21.

8.3 With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The Priorities for the Council when acquiring property interests for investment purposes are detailed below and each property will be assessed on a case by case basis:

- **Covenant Strength** - in the case of a let property, the quality of the tenant and, more importantly, their ability to pay the rent on time and in full. The Council's primary reason and objective for this strategy is financial gain. It is however worth noting that the Council, as a public body, may not wish to invest in properties where the occupiers are generally seen to be undertaking a business which is contrary to its corporate values.
- **Lease length** - in the case of a let property, the unexpired length of the term of the lease or a tenant's break clause is of key importance in ensuring that the landlord's revenue stream is uninterrupted. The Council will take into consideration the risks associated with a tenant vacating and the potential to attract good quality replacement tenants at acceptable rental levels. Generally occupiers are moving away from 25 year leases which were more common back in the late twentieth century with 10 to 15 years now becoming more acceptable unless some form of lease break provisions are included in favour of the tenant.
- **Rate of return** - the rate of return from the property (for example through annual rental incomes) will need to be equivalent or better to the returns that could be earned from alternate investments, such as placing monies on deposit, following adjustment for risks and potential growth. The property will also need to produce an annual return in excess of the cost of PWLB borrowing or any other institution (principle and interest payments). The Council will therefore aim to achieve a

minimum net yield of 5%, excluding the cost of debt financing (principle and interest) but including other expenses.

- **Risk** - rate of return needs to be balanced against risk. In general, the higher the return from an investment, the higher level of risk that it carries. For example, a higher return may lead to longer voids at lease end or lower covenant strength of tenant and therefore higher risk of default, or over-rented against current market rents and risk of lower future income.
- **Lease Terms** - The terms of leases vary and even those held on an "Institutionally acceptable basis" can be very different in nature particularly as such leases have developed over time. The Council is seeking to invest in modern leases with full repairing and insuring obligations on the Tenant and a full Service Charge recovery to include any management fees where applicable. This will ensure a certain income/return to the Council.
- **Growth** - property has the potential for both revenue and capital growth. The Council will take into account that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Generally the nature of standard, institutional leases is that rent review clauses are upward only which protects landlords from any downward pressure on rental income giving some security as to the level of income. However, this can lead to over-renting in a downward market and the Council needs to be aware of this at lease end or tenant forfeiture.
- **Location** - should a tenant default or vacate, the location of the property is the key factor in influencing the ability to re-let and find another tenant. Location is also important when considering future redevelopment or regeneration opportunities. The Council will be able to undertake inspections and to deal with any management issues without the need to employ specialists or agents. Preference should be given to properties located within Cheltenham or in close proximity such as Gloucestershire Airport. This does not prevent investment outside of Cheltenham, subject to the appropriate justification and business case and correct governance procedure.
- **Sector** - information as to the sector of use of the property (e.g. office, retail, industrial, leisure) will assist in deciding on the risks associated with specific properties and the mix of sectors within the portfolio. It is essential that the overall portfolio is balanced with no overall exposure to one particular asset classification.
- **Building Age and Specification** - in the case of a let property, whilst the Council, as an investor, may be principally concerned with the characteristics of the tenant and lease, the age and specification of the property will also affect the ability of the Council to let or sell the property in the future, or the costs incurred to bring the property up to a lettable standard at the end of an existing lease. It must also be taken into consideration in respect of the cost of protecting the investment. An example of this would be the undertaking of repairs and refurbishment if the cost cannot be fully recovered from the tenant. Any permitted development rights will also be a consideration for the future.

8.4 In summary, the strategy for acquiring investment property assets is therefore to:

- Seek property let to tenants who are of strong covenant strength and sound financial standing with at least more than five years remaining on an FRI lease.
- Minimise risk.
- Maximise rental income and minimise management costs to ensure the best return is generated, thus making a positive contribution to the MTFS.
- Identify opportunities for future growth, redevelopment or regeneration via property in commercially popular or development areas.

- Prioritise Cheltenham.
- Pursue opportunities to increase returns and improve the investment value of commercial assets.

8.5 **Governance**: Decisions on commercial investments are made by the Cabinet and Full Council in line with the criteria and limits approved by Full Council in December 2016. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

8.6 Further details on commercial investments and limits on their use are on pages 2 of the investment strategy report.

9. Revenue Budget Implications

9.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Financing costs (£m)	3.134	3.889	4.002	4.002	4.002
Proportion of net revenue stream	6.26%	9.46%	9.59%	9.58%	9.58%

9.2 **Sustainability**: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Executive Director Finance and Assets is satisfied that the proposed capital programme is prudent, affordable and sustainable as detailed in paragraph 10.4 below.

10. CONCLUSION

10.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Executive Director Finance and Assets is a qualified accountant of fellowship status with over 20 years' experience. The Managing Director Place and Growth has over 30 years' experience in regeneration and development industry, and has worked in both the private and public sectors, in a delivery and advisory capacity. The Head of Property Services and Asset Management has over 25 years' experience in the public/private retail estate market. The Council pays and actively encourages staff to study towards relevant professional qualifications.

10.2 Where Council employed staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The

Council currently employs Arlingclose Limited as treasury management advisers. The Council employs other specialist advisers to advise upon specific, extra-ordinary transactions as required. Examples of such transactions include property acquisitions, and loans to third parties. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

10.3 Given that the Council's capital resources are diminishing, the importance of working with external partners to jointly fund schemes is recognised. The Council has well established working relationships with other major public service bodies at a single-service level, for instance the provision of new affordable housing, where the Council not only works with Cheltenham Borough Homes and the other Housing Authorities in Gloucestershire, but also with active Registered Social Landlords and the private sector.

10.4 All capital investment must be sustainable in the long term through revenue support by the Council or its partners. All capital investment decisions consider the revenue implication both in terms of servicing the finance and running costs of the new assets. The impact of the revenue implications is a significant factor in determining approval of projects. The use of capital resources has been fully taken into account in the production of the Council's MTFS.

10.5 The Council continues to make significant strides forward in ensuring that a more coherent approach to capital planning and asset management is taken.