

# Investment Strategy 2021 to 2022



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BOROUGH COUNCIL

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# 1. *Introduction*

- 1.1 - The Council's Investment Strategy outlines the principles and framework that underpin our investment proposals. The Investment 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 - New development and regeneration in Cheltenham is both necessary and essential to:
- help facilitate economic growth and recovery
  - help meet our housing needs
  - help create commercial space that supports our key employment sectors
  - stimulate a positive climate for inward investment into Cheltenham
  - help to deliver on our climate and environmental commitments
- 1.3 - The Council's Investment Strategy forms a key part of our overall Corporate Planning Framework. It provides a mechanism by which our capital investment and financing decisions can be aligned with our over-arching corporate priorities and objectives over a medium term planning horizon.
- 1.4 - In refreshing the Investment Strategy, it is important that we reset this within the current wider corporate strategy context, together with our priorities for investment, growth, climate change and social value. In setting the vision and key principles around how we plan to invest in the delivery of homes, commercial space and supporting infrastructure with the outcome of creating new places and investing and regenerating in existing places.
- 1.5 - The Strategy has direct links to the Council's Asset Management Strategy, Commercial Strategy, Capital Strategy, Treasury Management Strategy and emerging Housing Investment Plan. It forms a key part of the Council's Medium Term Financial Strategy (MTFS) as presented in the table on the next page.
- 1.6 - Collectively these plans and strategies will develop a diverse investment programme that allows cross subsidy across the programme to balance the social, economic and environmental outcomes set out in the councils Corporate Plan and Recovery Strategy.

Category	Overall	Revenue	Capital	Treasury Mgmt	Risk Mgmt
Strategies	Medium Term Financial Strategy				
	Investment Vision and Principles				
	Commercial Strategy	Investment Strategy	Capital Strategy	Treasury Management (TM) Strategy	Risk Management
	Asset Management Strategy			Housing Investment Plan	
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 Management 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				



## 2. *Our vision and ambitions for recovery*

- 2.1 - Covid-19 has tested Cheltenham's communities and economy over the last twelve months. As a Council, we have recognised in our Covid-19 Recovery Strategy and Medium Term Financial Plan that rebuilding the strength of our town will require innovation, ambition and a bold vision. To respond to this the Council will need to be agile in the way it responds and how it works with stakeholders and potential investors.
- 2.2 - Our vision is grounded in the belief that Cheltenham should be a place in which everyone can thrive. In order that we can lead the economic recovery of our town, we will continue to invest in Cheltenham for the benefit of Cheltenham both in terms of sustainable Council finances, but also in terms of the way we invest both commercially and for regeneration.
- 2.3 - The investments outlined in this document are the beginning of our approach to rebuilding and shaping Cheltenham. To drive longer term economic recovery in the town will take a fully integrated, whole Council approach focused on strategic outcomes within an understanding of place, commerciality, regeneration and our overarching contribution to climate change.
- 2.4 - With that in mind, we need to take a refreshed approach to future investment decisions and our management of our asset portfolio which balances social value, sustainability, regeneration, commercial and housing needs at a strategic level to ensure a positive direction of travel to economic recovery continues.
- 2.5 - A review of our approach to investment activity and the use of our assets and capital resources is currently underway and this will inform the development of a strategic vision and delivery framework that will help guide management of our current portfolio and guide future potential investment by establishing a clear vision, objectives and selection criteria.
- 2.6 - The outcomes of this review and changes to how we evaluate and assess our investment decisions will underpin our future strategies for commercial activity and asset management. The key thrust of this approach will be to:
- look at our development and investment programme comprehensively
  - provide the investment objectives for the delivery of housing and commercial space
  - identify how reserves will be used to support council services and investment in wider the public realm and placemaking outcomes
  - Investigate delivery vehicles and models that will support the council in effective delivery alongside seeking grants and investments from others that will increase the benefits to Cheltenham and the wider economy
  - Review of governance
  - Assess our in house skills, capacity and expertise and level of investment required to facilitate delivery



# 3. Purpose of this strategy

## 3.1 - The key aims of this document are:

- To outline how we invest our money to ensure we continue to be aligned to the key priorities outlined in the 2019-2023 Corporate Plan and to support the recovery of the town after Covid-19 (see Section 4, page 6).
- To set out the required and available funding options for the programme, including how these have been appraised to ensure we are able to achieve the best outcomes for our town and are maximising the benefit of our assets and resources. This includes indirect benefits such as increase in jobs, skills, inclusive growth, increase in tax revenues, place shaping outcomes, climate change deliverables, accelerating delivery of the Cheltenham Plan and Joint Core Strategy. (See Section 5, page 11)
- To present the arrangements for managing and monitoring the investment portfolio, including assessment of outcomes and the continual alignment to our Corporate Plan (See Section 6, page 14).





# 4. *How we invest our money*

4.1 - The Council 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 directly support local public services by lending to other organisations (service investments), and
- to invest in community led and sustainable place shaping, regeneration and economic development of our town (known as growth investments).

Our treasury management strategy outlines the principles and arrangements in place for the first category of investment. This strategy focuses on our approach to the second and third of these categories.

4.2 - The 2019-2023 Corporate Plan outlines our strategic priorities for Cheltenham, what we have chosen to focus on and why we think these are important for our town. The sections below summarise the investments we have made and areas of focus for 2021/22 to support the key priorities in the Corporate Plan.



**Priority One – 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.**

### **Growth Investment**

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 Golden Valley development, home of Cyber Central. **This was the most expensive land purchase ever made by the Council. 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 the Golden Valley Development had been awarded ‘Garden Communities’ status.**

### **Service Investment**

In October 2019, approval was obtained from Cabinet to support the creation of the Workshop Development by Workshop Cheltenham Limited (WSC). WSC will provide a tier 2 growth hub, flexible workspace for creative industry start-ups and incubation units for cyber tech companies along with an events space and a new home for Cheltenham Festivals. **In March 2020, Cabinet approved a proposal for an investment of up to £1.7m with WSC to facilitate the delivery of the facility.** Due diligence is still required on the numbers set out in the proposal however the breakeven point for Workshop to be profitable is just below 50% occupancy if £1.7m is invested and 49.8% occupancy if £1.45m is invested. It is estimated that the occupancy will be an average of around 50% for the first year and then grow 5% per annum.

In February 2021, approval was given by Tewksbury Borough Council's planning committee for the closure of a runway at Gloucestershire Airport to build a business park and a new access road from the B4063. The Airport is jointly owned by Gloucester City Council and Cheltenham Borough Council and is a vital partner in regenerating our town and delivering on our vision to be the cyber capital of the UK. The creation of the business park nearby to the Golden Valley development will create jobs, infrastructure and vital economic links in the area. **In order to fulfil this vision, the Council has committed £7.25m in 2021/22 to provide a loan to the Airport to fund the delivery of this project.**

## Priority Two – Continue the revitalisation of the town ensuring its longer-term viability as a retail and cultural destination

### Growth Investment

Over the last three years, we have made strategic inward investment in the town which has safeguarded much needed office space to ensure Cheltenham continues to be a vibrant and prosperous location for businesses. We have also purchased retail premises to support the ongoing economic development of the town. **In 2019/20 investment of £40.673m was made for the purposes of revitalising the town and this property was valued at £68.068m by 31 March 2020.**

We have also invested in the revitalisation of the high street, complemented by the flagship concept store opening for John Lewis, and the redevelopment of the Brewery Quarter. We recognise the devastating impact the pandemic has had on our town centre and how we need to continue to invest positively to support businesses and communities to recover.

We have facilitated the establishment of Cheltenham Economic Recovery Task Force bringing together senior leaders from across the public and private sector to help drive forward the town's economic recovery





### **Priority Three – Achieving a cleaner and greener sustainable environment for residents, businesses and visitors**

#### **Service Investment**

In 2019, the Council declared a climate emergency and an objective to be a carbon neutral Council and Borough by 2030. The roadmap to achieving this goal includes action on leadership, engagement, energy, transport and buildings. Achieving carbon neutrality cannot be done alone and we are continuing to work together with our partners across the town, as well as with Vision 21 across Gloucestershire on the joint vision for sustainability.

**To demonstrate our commitment to this vision and lead the response to the climate challenge in Cheltenham, £300k of capital investment has been committed to the Carbon Neutrality programme in 2021-22. Additionally, the Council have also successfully secured £382k of capital funding from the central Government's Public Sector Decarbonisation Scheme to move our work forward.**

### **Priority Four – Increasing the supply of housing and investing to build resilient communities**

#### **Service Investment**

Together with our partner Cheltenham Borough Homes (CBH) we are committed to delivering the affordable homes which the market fails to provide and we will prioritise those people on our Housing Register.

**No more so is this demonstrated than by the Housing Investment Plan which has now committed £100m of service investment to fund mixed tenure housing in the private rented sector and £80m of investment from the Housing Revenue Account to fund affordable housing.** The purpose of these investments is to shape sustainable and resilient communities and allow residents secure homes in which they and their families can thrive.

Additionally, 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. In 2020-21, a service investment of £1.605m was provided to CBH in order to support this commitment. **The 2021-22 capital programme commits a further £4.5m a year for three years to 2023-24 to increase the supply of housing in the town.**

## Priority Five – Delivering Services that meet the needs of our communities

### Service Investment

Subject to an approved business case, we may invest in our subsidiary companies or partners to directly support the provision of local services. There are two main forms these investments may take:

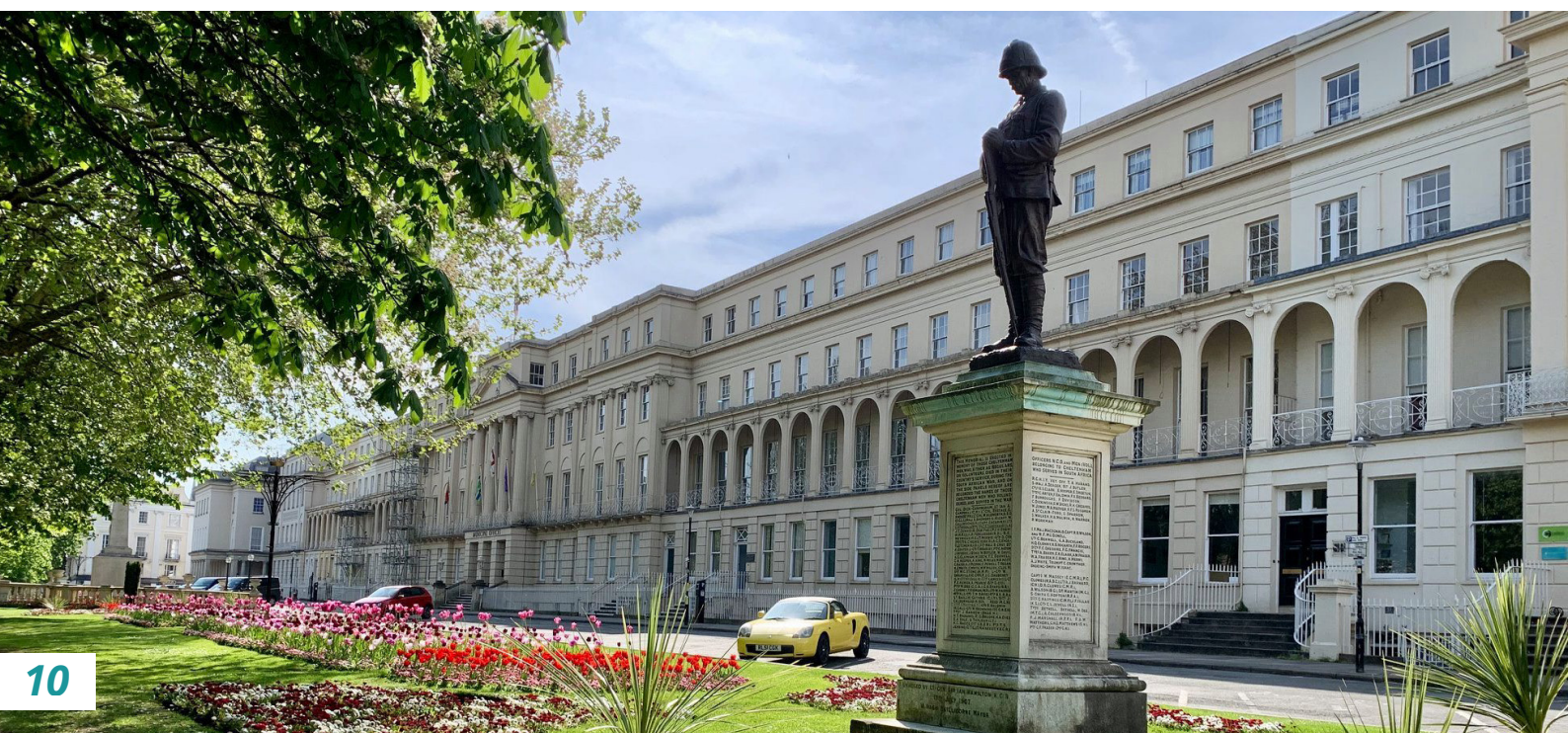
- Purchase of shares in an organisation;
- Loans to organisations within the Borough to support the running costs of the organisations

The Council has a £1 shareholding in Ubico Ltd. Ubico Ltd is wholly-owned by seven local authorities and operates as a not for profit enterprise. Ubico Ltd is an environmental services company which provides household and commercial refuse collection, recycling, street cleansing, grounds maintenance and fleet maintenance services to the Council. Also the Council has £435,222 shareholding in Gloucestershire Airport (at cost) which equates to 50%. The other 50% is retained by Gloucester City Council.

We have also included provision in our Treasury Management Strategy to loan up to £500,000 to both Ubico Limited and CBH and up to £100,000 to Publica Group (Support) Limited, Cheltenham Festivals, The Cheltenham Trust and Cheltenham BID should any company require our support.

***Put simply, our Investment Strategy aims to invest and deliver for the residents, communities and businesses in Cheltenham.***

***It demonstrates to wider investors that Cheltenham is a destination for growth, innovation and investment.***





# 5. Assessing the risk of our investments

## 5.1 - Service Investments - Loans

**Security:** 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 as below in table 1.

Category of borrower	31.3.2020 actual £			2021/22
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Charities	334,258	-	334,258	350,000
Cheltenham Borough Homes	7,897,375	-	7,897,375	107,000,000
Gloucestershire Airport	1,472,503	-	1,472,503	9,000,000
Workshop Cheltenham Limited	-	-	-	1,700,000

*Table 1: Loans for service purposes in £*

Accounting standards require us to set aside loss allowance for loans, reflecting the likelihood of non-payment. The loans that the Council has made are limited to specific service areas and subsidiaries and the likelihood of non-payment is minimal. There is no history of non-payment and no evidence to suggest that there will be any default against the loans granted. As a result, no allowance for loss has been included against the loan balances. Should any indication be given that there is a risk of default then the risk will be assessed and a provision established at that time. Should a loan default, the Authority will make every reasonable effort to collect the full sum lent and recover any overdue repayments.

**Risk assessment:** 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 to assist in decision making.

**Liquidity:** We have not invested in the companies to generate a financial return but to support service provision. We support the strong financial management of each of the partner companies we invest in and monitor the cash flow as part of this. As such, the liquidity of these investments may be low if the funding has been used to enhance and asset or business for long term gain.

## 5.2 - Service Investments: Shares

**Security:** One of the risks of investing in shares is that they could fall in value meaning that the initial outlay may not be recovered. The Council has no other shareholdings.

Category of company	31.3.2020 actual £		
	Amounts invested at cost	Gains or losses	Value in accounts at 31.03.2020
UBICO	1	-	1
Gloucestershire Airport	435,222	1,264,778	1,700,000
<b>TOTAL</b>	<b>435,223</b>	<b>1,264,778</b>	<b>1,700,001</b>

*Table 2: Shares held for service purposes in £*

**Risk assessment:** Ubico is a cost sharing company – any surplus generated within Ubico is returned to the partner Councils, similarly with any deficit met by the Councils. Through regular budget monitoring and sound financial management by Ubico and transparency within calculation of contract sums, the risk of any financial loss is mitigated. Gloucester City Airport is also jointly owned by ourselves and Gloucester City Council and are consolidated in our group accounts.

**Liquidity:** We have not invested in the companies to generate a financial return but to support service provision. We support the strong financial management of each of the partner companies we invest in and monitor the cash flow as part of this. As such, the liquidity of these investments are low as the Council has no intention to dispose of its investment in the foreseeable future.

**Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

## 5.3 - Growth Investments

The Council owns a number of properties and assets within Cheltenham that have been purchased to support projects and programmes which are aligned to the key priorities in the Corporate Plan.

In line with the revised guidance on the use of the Public Works Loan Board (PWLb) borrowing, these investments are not held purely for yield but support our place vision for Cheltenham.

	Purchase Price	01.04.19	31.3.2020 actual £	
		Value in accounts £	Purchases, Gains or (losses)	Value in accounts £
<b>Growth Investments</b>	Various	35,320,000	40,673,000	75,993,000

*Table 3: Growth investments in £ (including HRA Investment properties)*



**Security:** 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. A fair value assessment of the Authority's investment property portfolio is made each year as part of the final accounts process. The fair value of the Authority's investment property portfolio is included in the Statement of Accounts, based upon 'market value'.

**Risk assessment:** It is understood that the fair value of property will fluctuate. Over the 2020/21 financial year we are forecast to have a reduction in rental income from these properties of 15% due to the impact of the pandemic. The long term impact of this is mitigated by having a diverse portfolio of secure tenants across a number of sectors on long leases. We continue to assess the movement in asset values before each year and our holdings will be reviewed as part of the ongoing work to achieve our strategic vision for Cheltenham.

**Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the Council has cash funds that can be accessed when they are needed, the Treasury management policy includes the provision of liquid investments should the Council be in need of cash. It is not anticipated that the Council would need to sell any Investment Property at short notice.

**Proportionality:** Table 4 below shows the extent to which the General Fund 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.

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Financing costs (£m)	3.145	3.942	3.826	3.826	3.826
Proportion of revenue	14.52%	13.57%	11.21%	11.21%	11.21%

*Table 4: Proportionality of Investments in £*



## 2. *How we monitor the investment strategy*

- 6.1 - The staff responsible for making borrowing and investment decisions are professionally qualified and experienced. We are led by an Executive Director for Finance and Assets with over 20 years of experience in the sector and an Executive Director for Place and Growth with over 30 years' experience in regeneration and development.
- 6.2 - Use is also made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and other specialist advisers to advise upon specific, extra-ordinary transactions as required. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills aligned with its risk appetite.
- 6.3 - The Cabinet will make decisions or make recommendations to full Council on new investments that align to our key Corporate Plan priorities. The Cabinet also receive financial performance reports on a quarterly basis which allows the monitoring of our investments.
- 6.4 - In particular, the following quantitative investment indicators have been set to allow our Officers, Elected Members and residents to monitor the risk exposure the Council have as a result of its investment decisions:

### Indicator One: Total risk 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.

Total investment exposure	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	33,592,664	9,200,000	10,000,000
Service investments: Loans	7,596,005	9,794,040	11,105,573
Service investments: Shares (at cost)	435,223	435,223	435,223
Commercial investments: Property	75,993,000	75,993,000	75,993,000
<b>TOTAL INVESTMENTS</b>	<b>117,616,892</b>	<b>95,422,263</b>	<b>97,533,796</b>
Commitments to lend <sup>1</sup>	-	-	-
<b>TOTAL EXPOSURE</b>	<b>117,616,892</b>	<b>95,422,263</b>	<b>97,533,796</b>

<sup>1</sup> This excludes the potential loan facility offered to Ubico Limited, Publica Group (Support) Limited and Cheltenham Trust for cash flow purposes.

*Table 5: Total investment exposure in £*



## Indicator Two: Total investments funded by borrowing.

Investments funded by borrowing	31.03.2019 Actual	31.03.2020 Forecast	31.03.2021 Forecast
<b>Treasury management investments</b>	-	-	-
<b>Service investments: Loans</b>	7,434,135	10,114,920	11,498,579
<b>Service investments: Shares</b>	-	-	-
<b>Commercial investments: Property</b>	79,527,259	79,527,259	78,893,259
<b>TOTAL FUNDED BY BORROWING</b>	86,961,394	89,642,179	90,391,838

*Table 6: Investments funded by borrowing in £*

## Indicator Three: Rate of return received

This 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. Note 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.

Investments net rate of return	2019/20 Actual	2020/21 Forecast	2020/21 Forecast
<b>Treasury management investments</b>	1.58%	1.77%	1.55%
<b>Service investments: Loans</b>			
<b>Cheltenham Borough Homes</b>	3.63%	3.63%	3.63%
<b>Gloucestershire Airport</b>	1.80%	1.80%	1.80%
<b>Everyman Theatre</b>	3.93%	3.93%	3.93%
<b>St Margarets Hall</b>	3.00%	3.00%	3.00%
<b>Service investments: Shares</b>	0.00%	0.00%	0.00%
<b>Growth Investments: Property yield/contribution</b>	£3,867,919	£3,505,210	£3,747,410

*Table 7: Investment rate of return (net of all costs)*





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