Appendix A

Section 6 – Capital Strategy

Contents

1: Introduction

This Capital Strategy describes how the Council's investment of capital resources in the medium-term will optimise the ability of the authority to achieve its overriding vision and priority outcomes. It represents an essential element of the Council's overall Business Plan and is reviewed and updated each year as part of the Business Planning Process.

The Strategy sets out the approach of the Council towards capital investment over the next ten years and provides a structure through which the resources of the Council, and those matched by key partners, are allocated to help meet the priority outcomes outlined within the Council's Corporate Strategy. It is also closely aligned with the remit of the Commercial & Investment (C&I) Committee, and is informed by the Council's Asset Management Strategy and Commercial Strategy. It is concerned with all aspects of the Council's capital expenditure programme: planning; prioritisation; management; and funding.

During 2019, the Council declared a climate and environment emergency and agreed to develop a Climate Change and Environment Strategy for the Council. Identifying the Council's carbon footprint has been a key area of focus alongside research undertaken by Cambridge University Science and policy Exchange (CUSPE) on the carbon footprint for the whole of Cambridgeshire. Both carbon footprints will now inform future capital and investment strategies and decisions.

2: Vision and outcomes

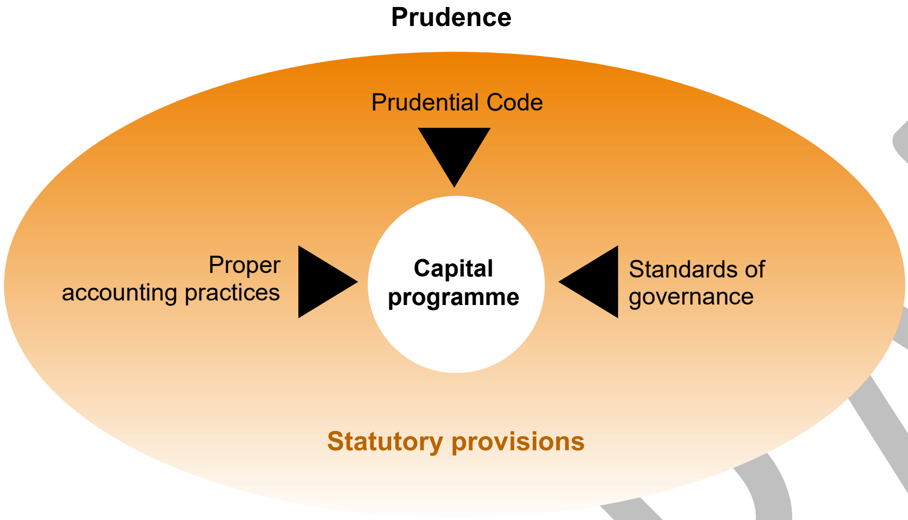
The Council achieves its vision of *"Making Cambridgeshire a great place to call home"* through delivery of its Business Plan which targets key priority outcomes. To assist in delivering the Plan the Council needs to provide, maintain and update long-term assets (often referred to as 'fixed assets'), which are defined as those that have an economic life of more than one year.

Expenditure on these long-term assets is categorised as capital expenditure, and is detailed within the Capital Programme for the Authority. Fixed assets are shaped by the way the Council wants to deliver its services in the long-term and they create future financial revenue commitments, through capital financing and ongoing revenue costs.

3: Operating framework

Local Government capital finance is governed and operates under the Prudential Framework in England, Wales and Scotland. The Prudential Framework is an umbrella term for a number of statutory provisions and professional requirements that allow authorities largely to determine their own plans for capital investment, subject to an authority following due process in agreeing these plans and being able to provide assurance that they are prudent and affordable.

The framework is based on the following foundations:



4: Capital Expenditure

Capital expenditure, in accordance with proper practice (as defined by CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020-21) results in the acquisition, creation or enhancement of fixed assets with a long-term value to the Council. If expenditure falls outside of this scope[1], it will instead be charged to revenue during the year that the expenditure is incurred. It is therefore crucial that expenditure is analysed against this definition before being included within the Capital Programme to avoid unexpected revenue charges within the year. A guide to what can and cannot be included within the definition of capital expenditure is provided in Appendix 1.

The Council applies a self-determined de minimis limit of £10,000 for capital expenditure. Expenditure below this limit should be charged to revenue in the year that it is incurred. However, as the de minimis is self-imposed, the Code does allow for it to be overridden if the Authority wishes to do so.

All capital expenditure should be undertaken in accordance with the financial regulations; the Scheme of Financial Management, the Scheme of Delegation included within the Council's Constitution and the Contract Procedure Rules. Further, detailed guidance can also be found in the Council's Capital Guidance Notes (currently in draft format).

[1] In addition, expenditure can be classified as capital in the unlikely scenario that:

- It meets one of the definitions specified in regulations made under the 2003 Local Government Act;
- The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

5: Capital funding

Capital expenditure is financed using a combination of the following funding sources:

Earmarked Funding	Central Government and external grants
	Section 106 (S106), Community Infrastructure Levy (CIL and external contributions
	Private Finance Initiative (PFI) / Public Private Partnerships (PPP)[2]
Discretionary Funding	Central Government and external grants
	Prudential borrowing
	Capital receipts
	Revenue funding

Explanation of, and further detail on these funding sources is provided in Appendix 2.

The Council will only look to borrow money to fund a scheme either to allow for schemes that will generate payback and/or reduce future carbon liabilities (via either financial/carbon savings or through income generation), or if all other sources of funding have been exhausted but a scheme is required. Therefore in order to facilitate this, the Council will re-invest 100% of all capital receipts received (after funding costs of disposal up to the allowable limit of 4% of receipt) back into the Capital Programme, focusing these on schemes that generate an ongoing revenue return.

6: External environment

The Council uses a mixture of funding sources to finance its Capital Programme.

Developer Contributions

Whilst the housing and property market across the county had recovered since the economic crisis of 2008, with strong growth particularly in the city of Cambridge where values rose over and above pre-credit crunch levels, the market as a whole was facing a new level of uncertainty with the prospect of the United Kingdom (UK) leaving the European Union on 31st January 2020. Since then, the outbreak of Covid-19, declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has and continues to impact many aspects of daily life and the global economy, with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel restrictions have been implemented by many countries and "lockdowns" applied to varying degrees. Whilst restrictions have now been lifted in some cases, national and local lockdowns are continuing to be deployed as necessary with the emergence of a "second wave" and significant further outbreaks in local areas. The pandemic and the

[2] This source of funding is no longer available for new schemes

measures taken to tackle Covid-19 continue to affect economies and real estate markets locally and globally.

Generally, activity in the housing market has recovered with the latest HMRC data pointing to up-tick in the number of sales completed in June 2020. Indicators to the latest RICS Residential Market Survey are consistent with a further pick-up in activity in the second half of 2020. Whether this trend will be sustained is, however, open to question. Average twelve-month sales expectations suggest that the recovery may run out of steam with unemployment looking likely to rise towards the end of 2020 and the stamp duty holiday coming to an end. Feedback to the RICS UK Quarter 2 Commercial Property Survey suggests, generally, that rents and capital values are likely to fall sharply across retail and office sectors in the coming year. Furthermore, there may be significant changes for the office sector moving forward, as it is anticipated that businesses will scale back their office footprint to some extent over the next two years.

Locally, the general pattern of growth across the county is still varied and disparate with the higher demand for housing still largely in the south and lower demand in the north. Despite Cambridge usually outperforming the UK in terms of residential property performance, the latest data seems to indicate that the city is lagging behind much of the rest of the UK. Since the residential property market re-opened following lockdown, Cambridge has recorded the lowest number of new sales and 39% fewer houses on the market than at the same time last year; compared to a reduction of only 15% in the UK as a whole. Cambridge is also amongst the least affordable Cities in the UK as the average house price in Cambridge is over £410,000 compared to the UK City average of £254,000. Agents are not currently widely reporting a drop in house prices; more a reluctance to sell, and those properties that are on the market are taking longer to sell. City centre properties remain more attractive as there is such a shortage of stock and no new developments are occurring in that area. On the fringes of Cambridge, the increased supply of housing following the recent developments has resulted in a stabilising impact on price. Recently, it has been reported that due to Covid-19, there is a lot of interest in Cambridge properties from people wanting to move out of London. South Cambridgeshire has seen the largest increase in house prices, but house price rises have been seen across Fenland, East Cambridgeshire and Huntingdonshire as well.

The outbreak of Covid-19 has created an unprecedented level of uncertainty on a macro and micro-economic level, and across differing sectors of the property market, both nationally and locally. It is hard to predict what the impact will be on the ability of the Council to fund capital investment through the sale of surplus land and buildings, or from contributions by developers.

The Government has also declared a climate emergency and set a target of net-zero carbon emissions for the UK by 2050. Delivering the changes required for the net-zero target will require changes to regulatory frameworks, planning in particular, as this will shape standards for new developments. Whilst the development industry reacts to these changes, some impact may be felt on developer contributions.

Community Infrastructure Levy

Developer contributions have also been affected by the introduction of Community Infrastructure Levies (CIL). CIL works by levying a charge per net additional floor space created on all small-scale developments, instead of requiring developers to pay specific contributions towards individual projects as per the current developer contribution process (Section 106, which is still in place for large developments). Although this is designed to create a more consistent charging mechanism, it also complicates the ability of the Council to fund the necessary infrastructure requirements created by new development due to the changes in process and the involvement of the city and district councils who have exclusive legal responsibility for determining expenditure. The Council also expects that a much lower proportion of the cost of infrastructure requirements will be met by CIL contributions.

Huntingdonshire and East Cambridgeshire District Councils are currently the only districts within Cambridgeshire to have adopted CIL. Both Cambridge City Council and South Cambridgeshire District Council submitted their draft CIL Charging Schedules in 2014 but withdrew them in 2017 due to delays in the examination of their Local Plans; they will therefore consider CIL at a later date. Fenland District Council has no plans to implement CIL at present.

New legislation introduced on the 1st September 2019 has now removed the 'rule of five' pooling restriction, where it was not possible to pool more than five developer contributions together on any one scheme; this therefore will have a positive impact on funding flexibility for the Council.

Moving forward, the Council will also need to consider the use of carbon off-set funds, where developers pay into a fund in order to effectively purchase off-set credits, rather than meet their whole carbon reduction obligation through on-site measures. The fund will then pool payments for investment into priority carbon reduction projects. Consideration will need to be given to how these funds could work and the type of regulation that may come forward as a result. Accessing this type of opportunity may be a future means of funding public infrastructure created as a result of development.

Government Grants

The Budget and Spending Review 2015 set out plans to increase Central Government capital spending by £12 billion over the following 5 years; how it intended to do this has been set out in the National Infrastructure Delivery Plan 2016-2021. This brought together for the first time the Government's plans for economic infrastructure with those to support delivery of housing and social infrastructure. It included a new Pothole Action Fund, for which the Council was allocated an additional £5.2m over the period 2016-17 to 2019-20, specific large-scale schemes such as up to £1.5bn to upgrade the A14 between Cambridge and Huntingdon, as well as potential development of both the A1 East of England and the Oxford to Cambridge Expressway. It also acknowledged the development of Northstowe as a major housing site.

Government Grants - Highways

As part of the National Infrastructure delivery Plan, a National Productivity Investment Fund (NPIF) was created to provide an additional £1.1 billion of funding by 2020-21 to relieve congestion and deliver upgrades on local roads and public transport networks. In 2018-19, a £1.7bn Transforming Cities Fund was created out of the NPIF to target projects that drive productivity by improving connectivity, reducing congestion and utilising mobility services and technology; the Cambridgeshire and Peterborough Combined Authority (CPCA) was allocated £74m from this fund. Key measures in relation to the Cambridge-Milton Keynes-Oxford corridor have also been announced, including; a commitment to build up to 1 million new homes in the area by 2050, £5m to develop the proposals for Cambridge South Station, and construction on key elements of the Expressway between Cambridge and Oxford, ready to be open by 2030. A new discounted interest rate was introduced in 2018, accessible to authorities for 3 years to support up to £1bn of infrastructure projects that are 'high value for money'. The Council submitted two bids to access this discounted interest rate; in November 2019 it was notified that the bids had been successful and the Council can now secure £61m of borrowing at a discount of 1.4% below standard PWLB borrowing rates. This will support a variety of energy investment and community energy schemes to be delivered by 2023-24. The first tranche was accessed in March 2020 when the Council applied for £8m at the discounted rate.

In addition to the Highways Maintenance formula allocation, the Department for Transport (DfT) also created a Challenge Fund and an Incentive Fund. The Challenge Fund was to enable local authorities to bid for major maintenance projects that are otherwise difficult to fund through the normal maintenance funding; this has now been amalgamated into the Pothole Fund. The Incentive Fund is to help reward local highway authorities who can demonstrate they are delivering value for money in carrying out asset management to deliver cost effective improvements. Each authority has to score themselves against criteria that determines which of three bands they are allocated to (Band 3 being the highest performing). The Council continues to be successful in maintaining Band 3 status and for 2020-21 has secured the maximum funding available of £14.6m.

The Autumn Budget 2018 also announced a further £420m of funding in 2018-19 for local authorities to tackle potholes, repair damaged roads, and invest in keeping bridges open and safe; the Council's share of this funding was £6.7m. The 2019 Conservative Manifesto committed to an additional £2bn of additional funding for pothole repair; £500m per annum from 2020-21. Allocations of this funding have not yet been provided by DfT but are expected in early 2021-22. For 2020-21, the funding provided by DfT has come via the new Pothole Fund, which is an amalgamation of Challenge Fund monies and the old Pothole Action Fund and is the result of industry-wide lobbying of Government for increased funding for highway maintenance. This has resulted in additional funding; the Council expected £6m but was allocated £10.2m. The additional £4.2m is anticipated to be spread across 13 schemes located around the county, allocated according to the Council's infrastructure asset management strategy. The Council is also looking to bid for additional funding for the reconstruction of the carriageway at the B1050 Shelford Road, Willingham.

No further detailed capital plans were announced in the one-year Spending Review 2019, other than a total of £241m for the Towns Fund in 2020-21 and £220m to transform bus services; the county has been allocated £384k for the latter. The Council now awaits the outcome of the 2020 one-year spending review, due in November 20.

As the CPCA is now the local transport authority it therefore receives the above DfT local transport authority designated funding, however, the CPCA continues to commission the Council to carry out the required works on the transport network.

Government Grants - Education

The Government has previously announced sufficient capital funding would be available to provide for the increasing numbers of school-aged children to enable authorities to make sure that there are enough school places for every child who needs one, as well as ensuring that longer-term capital allocations are made in order to aid planning for school places. Unfortunately, the new methodology used to distribute funding for additional school places does not always reflect this commitment as the initial allocation of £4.4m across the period 2015-16 to 2016-17 was £32m less than the Council had estimated to receive for those years according to our need. Almost all of this loss related to funding for demographic pressures and new communities, i.e., infrastructure that we have a statutory responsibility to provide, and therefore the Council had limited flexibility in reducing costs for these schemes. Given the growth the county is facing, it was difficult to understand these allocations and as such, the Council has continued to lobby the Department for Education (DfE) for a fairer funding settlement that is more closely in line with the DfE's commitment to enable the Council to provide all of the new places required in the county.

In addition to lobbying the DfE, the Council has also sought in the meantime to maximise its Basic Need funding by establishing how the funding allocation model works and providing the School Capacity (SCAP) data to the DfE in such a way as to maximise the Council's allocation. The allocations were £25.0m for 2018-19, £6.9m for 2019-20, and £20.6m for 2020-21. This went some way to reduce the Council's shortfall, but still did not come close to covering the costs of all of the Council's Basic Need schemes.
For 2020-21 the Council has been allocated zero Basic Need funding based on the Council's SCAP return submitted in July 2019. This took into account the following:

- The number of new places and additional capacity created up to 2020-2021.
- After a period of rising birth rates, these have now peaked and are starting to decline slightly. This is beginning to be reflected in future forecasts of demand for places and the future additional capacity required.
- The major driver for additional capacity in the years ahead is housing growth. The assumption in the SCAP return is that the capacity in school places generated by these developments will be fully met through developer contributions; either Section 106 or CIL. These places, therefore, do not attract any Basic Need funding.

It is anticipated that further Basic Need funding will not be announced until 2021; and given the 2020 one-year spending review, it is expected that this announcement will only relate to allocations for 2021-22. In addition, the annual SCAP return was cancelled in 2020 due to Covid-19; however based on the SCAP return principles, the Council is anticipating a significantly reduced level of funding than previously anticipated for 2022-23 and beyond. This obviously adds a level of uncertainty to the Council's longer-term capital planning.

The DfE also revised the methodology used to distribute condition allocations in order to target areas of highest condition need. A floor protection was put in place to ensure no authority received more than a 20% cut in the level of funding until 2018. The £1.2m reduction in allocation for Cambridgeshire for 2015-16 hit this floor; therefore it was anticipated that the Council's funding from this area would be reduced further once the protection was removed in 2019-20. However, the DfE have continued to include the protection worth £451k in 2019-20 and 2020-21, but it is unclear whether this will continue moving forward. In June 2020, the Government announced that an additional £560m of condition funding would be made available in 2020-21 to maintain and improve the school estate; the Council's allocation was £1.6m.

The National Infrastructure Delivery Plan commits to investment of £23bn over the period 2016 to 2021 to deliver 500 new free schools, over 600,000 additional school places, rebuild and refurbish over 500 schools and address essential maintenance needs. To date, the Government has given approval to 8 new free schools in Cambridgeshire to pre-implementation stage. Not all of these, however, are in areas where the Council has an identified basic need requirement. There were a further 12 bids applied for in Cambridgeshire for Wave 13, however there was much stricter criteria in place around this wave and none of the bids were successful. The application process for Wave 14 closed in November 2019; there were 2 bids for Cambridgeshire and the Council is expecting to hear whether these are successful in autumn 2020.

External Pressures

Irrespective of the external funding position, the county's population continues to grow. This places additional strain on our infrastructure through higher levels of road maintenance, increased pressure on the transport network, a rise in the demand for school places, a shortage of homes and additional need for libraries, children's centres and community hubs.

As part of the Greater Cambridge City Deal (now Greater Cambridge Partnership) signed with Government in 2014, it was agreed that Government would allocate £500m to Greater Cambridge infrastructure projects. The first tranche of funding was agreed on the basis of five yearly instalments and the second and third tranche is subject to two (2020 and 2025) Gateway Reviews. The purpose of the Deal is to deliver a step change in investment capability; an additional 44,000 jobs and 33,000 homes with benefits for the whole county as well as the wider area. To date, £300m of the funding has been secured, after passing the first Gateway review and unlocking a further £200m during 2020.

Despite this deal, as with the revenue position, the external operating environment poses a significant challenge to the Council as it determines how to invest in order to meet its priority outcomes, whilst facing increasing demands on its infrastructure that are not necessarily matched by increases in external funding.

The Covid-19 pandemic is also having an impact on capital programmes, albeit less severely than with the revenue position. Where the pandemic is anticipated to have an impact on the costs of a capital scheme and this has been quantified, this has been worked into revised budgets based on the current situation. However, work is ongoing in some areas to quantify impact, and as such there is the potential for budgets to continue to be revised over the following months as the situation continues to unfold. Any further changes to Government guidelines in response to the pandemic, or local lockdowns, would also require further revision of costs/timescales, and therefore capital budgets.

7: Working in partnership

The Council is committed to working with partners in the development of the county and the services within it. There are various mechanisms in place that provide opportunities to enhance the investment potential of the Council with support and contributions from other third parties and local strategic partners. One of the most significant partnerships is between the Council, Cambridgeshire's city and district councils, Peterborough City Council and the Greater Cambridge / Greater Peterborough Local Enterprise Partnership (LEP) – relaunched as the Business Board – to set up a Combined Authority for Cambridgeshire and Peterborough in order to deliver the region's devolution deal; this was agreed by all member authorities in November 2016. The proposal included;

- A new £20m annual fund for the next 30 years to support economic growth, development of local infrastructure and jobs,
- A £100m housing fund, and
- A new £70m fund to be used to build more council-rented homes in Cambridge.

The Mayoral Combined Authority was established following Mayoral elections in May 2017.

The Council has also worked closely with Cambridge City Council, South Cambridgeshire District Council, the University of Cambridge and the LEP (now the Business Board) to negotiate the City Deal with Central Government. The deal has resulted in a changed set of governance arrangements for Greater Cambridge, allowing the County, Cambridge City Council and South Cambridgeshire District Council to pool funding, powers and decision making through a joint Executive Board. This structure is leading the joint delivery of a number of major transport schemes and has achieved a more joined-up and efficient approach to tackling the key economic issues facing this rapidly-growing city region.

The Council continues to work with partners and stakeholders to secure commitment to delivery, as well as funding contributions for infrastructure improvements, in order to support continued economic prosperity. For example, the Council worked with the former Greater Cambridge / Greater Peterborough LEP (now the

Business Board) plus the New Anglia LEP and the South East Midlands LEP, as well as neighbouring local authorities, the city and district councils and the DfT to agree a funding package for improvements to the A14 between Cambridge and Huntingdon, which was secured with work on the main scheme having completed during 2020. The Council will continue with this approach where infrastructure improvements are shown to have widespread benefits to our partners.

The One Public Estate (OPE) group allows partners, including the district councils, health partners and the emergency services, to effectively collaborate on strategic asset management and rationalise the combined operational property estate within the county. The One Public Estate programme has secured up to £0.5m in funding to bring forward major projects for joint asset rationalisation and land release.

The Local Transport Plan is a key document and is produced in partnership with the city and district councils and the CPCA. There has been a strong working relationship for many years in this area, which has succeeded in bringing together the planning and transport responsibilities of these authorities to ensure an integrated approach to the challenges facing the county.

Due to the introduction of the Community Infrastructure Levy (CIL) on all but large scale developments, the Council also works more closely with the city and district councils on the creation of new infrastructure needed as a result of development. CIL is at the discretion of the Local Planning Authority i.e. the city and district councils, who are responsible for setting the levy and have the final decision on how the funds are spent. However as the County Council has responsibility for the provision of much of the infrastructure resulting from development, it is imperative that it is involved in the CIL governance arrangements of the city and district councils, and that it works closely with these authorities to ensure that it is able to influence investment decisions that affect the Council's services.

The Council is in the fortunate position of continuing to be a major landowner in Cambridgeshire, and as such has established a company, This Land, which enables the Council to develop its own land rather than sell it to third parties. The company has developed an initial 10-year pipeline of sites, with the objective of delivering more than 1,500 homes. The Council is the sole shareholder of This Land Limited (and the ultimate parent of its wholly owned subsidiaries).

Examples of specific capital schemes currently or recently being delivered in partnership include;

- Rolling out and exploiting better broadband infrastructure across the county; with Peterborough City Council, the district councils, the Business Board, local businesses and the universities;
- Housing schemes, being delivered in conjunction with This Land; and
- OPE projects, being delivered in conjunction with OPE partners, including;
    - North Huntingdon Strategic Growth Partnership – Wyton redevelopment of 4,500 homes with Huntingdonshire DC

- East Cambridge City Redevelopment, East Barnwell with Cambridge City
- Think Communities Property workstream (previously the Community Hubs project)
- Oaktree Health Centre Redevelopment, Oxmoor Estate with NHS CCS and Huntingdonshire DC
- Ely Hospital redevelopment with NHS CCS
- Wisbech Hospital redevelopment with NHS CCS
- Joint Highways Depot move
- Land Commission Board Workshops with CPCA

8: Non-financial Investment Strategy

Part of the Council's approach of dealing with the twinned pressures of reduced central government funding and growing demand for services has been to drive a more commercial approach within the organisation and to deliver better financial returns from property and asset holdings. In July 2016, the Commercial and Investments (C&I) Committee approved a Commercial Acquisitions Strategy to help develop a strategic approach to commercial acquisitions. This has subsequently been replaced by this Investment Strategy in order to reflect updated statutory guidance.

CIPFA's revised Prudential and Treasury Management Codes 2017 requires from 2019-20 onwards that all local authorities prepare an investment strategy, covering both financial and non-financial assets. The Investment Strategy for financial assets is included within the Treasury Management Strategy; for non-financial assets, it is included here and should provide (in addition to a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services):

- An overview of how the associated risk of non-financial investments is managed;
- The implications for future financial sustainability.

Any commercial acquisition carries with it a degree of risk and as this involves the investment of public funds, the rationale for engaging in such activity should be clear. The Council does not intend to invest in commercial activity for the sake of it but to mitigate against the implications of increasing budgetary pressures. The Council will not meet the financial challenges it faces through transforming services alone. The approach will require a mix of transformation, additional revenue sources, and a reduction in service levels. By focussing resources on the first two, the need to utilise the latter option will be minimised.

As with the rest of the Capital Strategy, all commercial activity will be undertaken in line with the Council's vision of 'making Cambridgeshire a great place to call home'. All commercial activity will therefore be undertaken in order to contribute to the following Priority Outcomes:

- Using our public assets wisely and raising money in a fair and business-like way to reduce their carbon footprint and generate social return for all citizens of Cambridgeshire.
- Growing financial, environmental and social capital place-by-place by stewarding local resources including public, private and voluntary contribution.

This will be achieved through contribution to the following Corporate Strategy theme:

- Developing strength and depth in our commercial activity

Appendix 3 sets out the details of the Council's non-financial Investment Strategy.

9: Asset management

The Council's Capital Strategy inevitably has strong links to the Council's property Asset Management Strategy, which provides detail on the framework for operational asset management; this includes defining the principles which guide asset management, its role in supporting service delivery and carbon reduction, why property is retained, together with the policies, procedures and working arrangements relating to property assets.

The Council's Asset Management Strategy is currently under review and will be developed under the guidance of C&I Committee. The Strategy will continue to focus on the key objectives of:

- Reducing costs
- Co-locating front and/or back-office services
- Reducing carbon emissions
- Adapting assets to build resilience to a changing climate
- Increasing returns on capital
- Opening up investment opportunities
- Improving service delivery to communities
- Taking advantage of lease breaks

This will be developed in line with the Cambs 2020 vision, which will see the Council move out of its current main base in Cambridge and adopt a Hub and Spokes model of office accommodation. There will also be a comprehensive review of existing policy and strategy, and in particular a strengthening of the Corporate Landlord model and its links into corporate strategies such as the Commercial Strategy, Think Communities and Older People's Accommodation.

Specific property initiatives include:

- The establishment of a wholly-owned company which has allowed the Council to become a developer of its own land, principally for housing. This requires significant capital investment through loans to the company for development purposes, but has generated ongoing revenue streams for the Council, as well as significant amounts of capital receipts that have been re-invested;

- Commercial investment, where the Council has devloped a portfolio of strategic investments which provide ongoing revenue streams and carbon reductions. These investments have been completed under the framework of the Council's Investment Strategy which is included as Appendix 3;

- The County Farms Estate Strategy has been reviewed by a Member working group, and will feed into both the Asset

Management Strategy and the Council's Commercial Activity programme;

- A review of the provision of back office accommodation as part of the Cambs 2020 scheme.

The Capital Strategy also has strong links with the Council's Local Transport Plan (LTP). Since the directly-elected Mayor and the Cambridgeshire and Peterborough Combined Authority (CPCA) was formed in 2017, it became the Local Transport Authority for the Cambridgeshire and Peterborough area and has responsibility for the LTP. While a new CPCA LTP is being prepared for the CPCA area, the Interim LTP – an amalgamation of Cambridgeshire County Council and Peterborough City Council's Local Transport Plans – acts as the strategy and plan for the whole area.

The Interim LTP demonstrates how the Council's policies and plans for transport contribute towards the vision of the Council, whilst setting a policy framework to ensure that planned, large-scale development can take place in the county in a sustainable way, as well as enabling the Council to take advantage of opportunities that may occur to bring in additional or alternative funding and resources. When adopted, the new LTP will align with the Combined Authority's vision.

The Interim LTP (Cambridgeshire LTP3 2011-2031) highlights the following eight challenges for transport, as well as the strategy for addressing them:

- Improving the reliability of journey times by managing demand for road space, where appropriate and maximising the capacity and efficiency of the existing network
- Reducing the length of the commute and the need to travel by private car
- Making sustainable modes of transport a viable and attractive alternative to the private car
- Future-proofing the Council's maintenance strategy and new transport infrastructure to cope with the effects of climate change
- Ensuring people – especially those at risk of social exclusion – can access the services they need within reasonable time, cost and effort wherever they live in the county
- Addressing the main causes of road accidents in Cambridgeshire
- Protecting and enhancing the natural environment by minimising the environmental impact of transport
- Influencing national and local decisions on land-use and transport planning that impact on routes through Cambridgeshire

10: Delivering statutory obligations

The majority of the Education Capital Programme, which makes up a significant proportion of the Council's total Capital Programme, is generated in direct response to the statutory requirement to provide sufficient school and early years and childcare places to meet demand. There is, therefore, a limit to the amount of flexibility that can be used to curtail, or reduce the costs for these schemes.

The Education Organisation Plan is refreshed every year and sets out the What, How and Why in relation to planning and delivering the additional school capacity required to meet current and forecast need, including information on how the Education Programme is prioritised.

Although the Programme is largely driven by demographic changes, the Council still has an element of choice or influence over how it develops its Programme to meet those needs as follows:

- General costs of construction

The Council seeks to minimise construction costs on all projects and builds to the latest Government area guidelines that set out accommodation schedules. These detail the specification and size of building required for a given number of pupils. The Council's Design and Build Contractor Framework seeks best value for money and mini competition between framework partners helps to ensure this.

- Quality of build

In general, the Council aims to build at mid-point in terms of quality. This balances the need to ensure that the materials the Council uses are robust and fit for purpose in respect of both an adequate life-cycle for the asset and also maintenance requirements that are not overly burdensome to the end user or operator, whilst at the same time providing Value for Money in terms of initial capital investment. In December 2019, the Council approved Near Zero Energy Standards for new build projects it will own and occupy. One of the Education schemes is being used as a pilot project to identify both higher energy standards for schools and new business models that are needed to deliver these higher standards. Collaboration with government will be important to bring forward these new business models and provide the freedoms for school operators and the Council to enter energy service agreements. These standards set energy performance and renewable energy thresholds for new buildings which over time, will be included in the detailed specification and size of school buildings required for a given number of pupils.

- Future proofing

The Council aims to build in the most efficient manner possible in order to minimise financial risk and also to avoid future disruption to schools. In some cases, building a school or extension in phases may be the best option; in other situations where it is possible that the need for additional places will come forward in the foreseeable future, it can prove more cost effective overall to build in one phase (even if this costs more in the short-term). Early during the review process for each scheme, a recommendation is made as to the most suitable solution; however the Council also tries to be flexible if circumstances change.

- Temporary accommodation

The Council uses temporary classroom accommodation when it is felt that this provides a suitable short-term solution in addressing a need. Such cases include meeting a temporary bulge in population, filling a gap prior to completion of a permanent solution or in an emergency.

- Home to School Transport

If the Council has some places available within the county overall, then it has the option of using Home to School Transport (funded by revenue) to transport children from oversubscribed areas to locations where schools do have capacity. The Council tries to minimise the use of this, as it is often an expensive solution and contributes to our carbon footprint. It is also not ideal to require children to travel longer distances to school, some distance from their local communities, and is not a sustainable option in the longer-term.

- Location (within the geographical area of need)

In many cases there may be a choice available between two or more schools in order to deliver the additional places for a certain geographical area of need. In these circumstances, a full appraisal is carried out, taking into consideration costs, the opinion and endorsement of the schools, pupil forecasts, and the premise and site constraints.

- Type – extension or new build

The type will be dependent on a full appraisal of the situation. New builds are often the solution endorsed by members where a new town or key development location is identified within Cambridgeshire.

- Planning stipulations

National and local planning policies and high aspirations of local members, planners, developers and schools – especially Academy Trusts – to provide a higher specification than is statutorily required can cause costs to increase. Cambridge City Council and South Cambridgeshire District Council also require public art which can add an additional cost of up to 1% of the construction budget. All new schools also have to go through the Design Quality Panel, which adds an additional step into the planning process, extends the design phase and is funded by the project. Some developers require a new school to fulfil its community responsibility and become a landmark building within the development. In this instance, the developer is likely to place an additional premium on the negotiated S106 to afford that vision. Finally, some of the requirements of a S106 can have an impact on the levels of external funding available – for example, an increased requirement for affordable housing will reduce the amount available to fund education schemes for a development.

11: Development of the Capital Programme

The Council operates a five-year rolling revenue budget, and a ten-year rolling capital programme. The very nature of capital planning necessitates alteration and refinement to proposals and funding during the planning period; therefore whilst the early years of the Business Plan provide robust, detailed estimates of schemes, the later years only provide indicative forecasts of the likely infrastructure needs and revenue streams for the Council.

The Council follows a structured framework within which to develop the Capital Programme, which allows for factors such as the external environment and the Council's priority outcomes to be taken into account.

New schemes for inclusion in the Programme are developed by Services (in conjunction with Finance) in line with the Priority Outcomes outlined in the Corporate Strategy. As stated in the financial regulations, any new capital scheme costing more than £250,000 is appraised as to its financial, human resources, property, carbon, environment and economic consequences. The justification and impacts, as well as the expenditure and funding details of these schemes are initially specified in an outline Capital Business Case, which becomes more detailed as the proposal develops. At the same time, all schemes from previous planning periods are reviewed and updated as required. All schemes, whether existing or new, are scrutinised and challenged where appropriate by officers to verify the underlying costs and/or establish whether alternatives methods of delivery have been investigated in order to meet the relevant needs and outcomes of the Council.

An Investment Appraisal of each capital scheme (excluding schemes with 100% ring-fenced funding) is undertaken / revised as part of the Business Case, which allows the scheme to be scored against a weighted set of criteria such as strategic fit, business continuity, joint working, investment payback and resource use. This process will also need to be updated to include carbon emission reductions in future. The criteria allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its targeted Priority Outcomes.

Capital Programme Board (CPB) provides support and challenge with respect to both the creation of an initial budget for a capital scheme and also the deliverability and ongoing monitoring. The Terms of Reference require CPB to ensure that the following outcomes are delivered:

- Improved estimates for cost and time of capital projects;
- Improved project and programme management and governance;
- Improved post project evaluation and monitoring of key environmental benefits; and
- Improved prioritisation process across the programme as a whole.

CPB scrutinises the programme before it is sent to Committees, and officers undertake any reworking and/or rephasing of schemes as required to ensure the most efficient and effective use of resources deployed. The Board also ensures that all schemes included within the Business Plan under an initial outline business case are further developed and reviewed before final recommendation is given to start the scheme.

Service Committees review the prioritisation analysis and the Capital Programme is subsequently agreed by General Purposes Committee (GPC), who recommends it to Full Council as part of the overarching Business Plan.

A summary of the Capital Programme can be found in the Medium Term Financial Strategy section of the Business Plan (Section 2), with further detail provided by each Service within their individual finance tables (Section 3).

12: Revenue implications

All capital schemes have a potential two-fold impact on the revenue position, due to:

- the cost of borrowing through interest payments and repayment of principal (called Minimum Revenue Provision), or through the loss of investment income; and
- the ongoing revenue impact of the scheme (such as staff salaries, utility bills, maintenance, administrative costs etc.), or revenue benefits (such as savings or additional income).

To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with the revenue budget planning process. Both the borrowing costs and ongoing revenue costs/savings of a scheme are taken into account as part of a scheme's Investment Appraisal, and therefore, the process for prioritising schemes against their ability to deliver outcomes.

In addition, the Council is required by CIPFA's Prudential Code for Capital Finance in Local Authorities 2017 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to guarantee that it achieves this, towards the start of each Business Planning Process, GPC determines what proportion of revenue budget is spent on services and the corresponding maximum amount to be spent on financing borrowing. This is achieved by setting an advisory limit on the annual financing costs of borrowing (debt charges) over the life of the Plan.

In order to afford a degree of flexibility from year to year, changes to the phasing of the debt charges is allowed within any three-year block, so long as the advisory aggregate limit remains unchanged. Blocks refer to specific three-year periods, starting from 2015-16, rather than rolling three-year periods. The advisory limit on debt charges is reviewed each year by GPC to ensure that changing factors such as the level of interest rates, or the external funding environment are taken into account when setting both.

Invest to Save / Earn schemes are excluded from the limit – whilst the financing costs for commercial activity have already been removed from the budget and recharged to the Commercial Activity budget, there are several other Invest to Save / Earn schemes that have not been recharged e.g. third party loans. The following table therefore compares revised net financing costs excluding these costs. In order to afford a degree of flexibility from year-to-year, the limit is reviewed over a three-year period. Following the change in the Minimum Revenue Provision policy, agreed by Full Council in February 2016, the debt charge limits are as follows:

	2021 - 22 (£m)	2022 - 23 (£m)	2023 - 24 (£m)	2024 - 25 (£m)	2025 - 26 (£m)	2026 - 27 (£m)
Restated Debt Charges Limits	39.7	40.3	40.8	41.4	41.9	42.4
2021-22 Business Plan (excluding Invest to Save)	32.2	33.2	36.7	40.4	41.8	42.9
HEADROOM	**-18.7**			**-0.6**		

Once the service programmes have been refined, if the amalgamated level of borrowing and thus debt charges breaches the advisory limit, schemes will either be re-worked in order to reduce borrowing levels, or the number of schemes included will be limited according to the ranking of schemes within the prioritisation analysis.

In more recent years, the Council has undertaken a more focused review of the Capital Programme in order to minimise the cost to the taxpayer of financing debt charges for capital schemes. The review has focused on re-prioritising and re-programming capital schemes according to need to ensure that the Council makes the best use of the capital funding available and minimises the revenue impact of capital projects.

Due to the Council's strategic role in stimulating economic growth across the county through infrastructure investment, any capital proposals that are able to reliably demonstrate revenue income / savings at least equal to the debt charges generated by the scheme's borrowing requirement are excluded from contributing towards the advisory borrowing limit. These schemes are called Invest to Save or Invest to Earn schemes and will be self-funded in the medium-term.

However, there will still be a short-term revenue cost to these schemes, as with all other schemes funded by borrowing. Therefore, GPC will still need to review the timing of the repayments, in conjunction with the overall total level of debt charges to determine affordability of the Capital Programme, before recommending the Business Plan to Full Council.

Invest to Save and Invest to Earn schemes for all Services are expected to fund any revenue pressures, including borrowing costs, over the life of the asset. However, any additional savings or income generated in addition to this repayment will be retained by the respective Service and will contribute towards their revenue savings targets.

In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government would allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects between 2016-17 and 2018-19. The Government then further extended this flexibility to cover a further 3 years until 2021-22. As part of the 2017-18 Business Plan, the Council decided to use this flexibility to fund transformational activity, and as a result, prudential borrowing undertaken by the Council for the years 2017-18 to 2021-22 will be between £2.3m and £3.3m higher in each respective year. This is expected to create additional

Financing costs in the revenue budget of £150k to £200k each year. For further information, please see the Flexible Use of Capital Receipts Strategy contained within section 3 of the MTFS (Section 2).

The Council also includes the capitalisation of the cost of borrowing within all schemes; this has helped the Council to better reflect the cost of assets when they actually become operational. Although the capitalised interest cost budgets are initially held on an overall Service basis within the Capital Programme, the funding is ultimately moved to the appropriate schemes each year once exact figures have been calculated.

13: Managing the Capital Programme

The Capital Programme is monitored in year through monthly reporting, incorporated into the Integrated Finance Monitoring Report. Services monitor their programmes using their monthly Finance Monitoring Reports, which are reviewed by the Service Committees. These feed into the Integrated Report which is scrutinised by CPB, submitted to Strategic Management Team, then is subsequently reviewed by GPC. The report identifies changes to the Capital Programme to reflect and seek approval for;

- new / updated resource allocations;
- slippage or brought forward programme delivery;
- increase / reduction in overall scheme costs; and
- virements between schemes to maximise delivery against the priorities of the Council.

It is inevitable that new demands and pressures will be identified by the Council on an ongoing basis, however as far as is possible addressing these requirements is undertaken as part of the next Business Planning Process, in line with Regulation 6.4 of the Scheme of Financial Management.

Therefore, all new capital schemes should be approved via the Business Plan unless there is an urgent need to seek approval that cannot wait until the next planning process (i.e. because the scheme is required to start within the current financial year, or the following financial year if it is too late to be included within the current Business Plan).

In these situations, any supplementary capital request will be prepared in consultation with, and with the agreement of, the Chief Finance Officer. The report will, where possible, be reviewed by CPB before being taken to the Strategic Management Team by the relevant Director and the Chief Finance Officer, before any request for a supplementary estimate is put to GPC. As part of this report, in line with the Business Planning process, any new schemes costing more than £250,000 will be appraised as to the financial, human resources, property and economic consequences before detailed estimate provision is made.

New demands and pressures and changes to estimated costs and funding for ongoing schemes will also potentially result in the need for virements between schemes. All virements should be carried out in line with the limits set out in Appendix I of the Scheme of Financial Management, up to the upper limit of £250,000 by the Chief Finance Officer. Anything above this limit will be dealt with in line with the process for new schemes, and will be taken to GPC for approval as part of the monthly Integrated Finance Monitoring Report. Any over spends, whether in year or in relation to the whole scheme, once approved will be funded using applicable external sources and internal, non-borrowing sources first, before using borrowing as a last resort.

Once a project is complete, CPB follows a post-implementation review process for any significant schemes (schemes over £1m, or for schemes between £0.5m and £1m where the variance is more than 20%) in order to ensure that the Council learns from any issues encountered, and highlights and follows best practice where possible. In addition, the Board can request for a review to be completed on any scheme where it is thought helpful to have one.

14: Summary of the 2021-22 Capital Programme

Total expenditure on major investments underway or planned includes:

- Providing for demographic pressures regarding new and improved schools and Child and Family Centres, as well as adaptions and major repairs (£511m)
- Commercial Investment Portfolio (£192m)
- Housing Provision (£152m)
- Major road maintenance (£79m)
- Investing in Connecting Cambridgeshire (£45m)
- King’s Dyke Crossing (£34m)
- North Angle Solar Farm, Soham (£26m)
- A14 Upgrade (£25m)
- Shire Hall Relocation (£19m)
- Decarbonisation Fund (£15m)
- Transformation Activity (£14m)
- Integrated Community Equipment Service (£13m)
- Wisbech Town Centre Access Study (£11m)
- Stanground Closed Landfill Energy Project (£8m)
- Waste – Household Recycling Centre Improvements [redacted]
- Trumpington Smart Energy Grid (£7m)
- Babraham Smart Energy Grid (£6m)
- Cambs 2020 Spokes Asset Review (£6m)
- Community Fund (£5m)
- Data Centre Relocation (£5m)

The 2021-22 ten-year Programme, worth £630.0 million, is budgeted to be funded through £503.0 million of external grants and contributions, £48.4 million of capital receipts and £78.6 million of borrowing. This is in addition to an estimated previous spend of £812.3 million on some of these schemes, creating a total Capital Programme value of £1.4 billion. The related revenue budget to fund capital borrowing is forecast to spend £33.0 million in 2021-22, increasing to £42.7 million by 2025-26.

The Capital Programme includes the following Invest to Save / Invest to Earn schemes:

Scheme	Total Investment (£m)	Total Net Return* (£m)
Commercial Investments	192.4	144.9
Smart Energy Grid Demonstrator scheme at the St Ives Park and Ride	3.6	2.0
Babraham Smart Energy Grid	6.3	10.6
Trumpington Smart Energy Grid	7.0	7.0
Stanground Closed Landfill Energy Project	8.3	8.9
Woodston Closed Landfill Energy Project	2.5	8.8
North Angle Solar Farm, Soham	26.3	40.1
Housing schemes	152.4	57.8
County Farms investment (Viability)	3.0	7.4
Shire Hall Relocation	18.7	45.2
TOTAL	**420.5**	**332.7**

*The net return includes the cost of financing the capital expenditure and the ongoing revenue costs associated with the investment (therefore a zero net return indicates that the project has broken even).

Figures within this section may be redacted in relation to schemes that are not yet tendered, due to commercial sensitivity.

Appendix 1: Allowable capital expenditure

Financial regulations proscribe certain costs from being capitalised, in particular administrative and other general overheads, together with employee costs not related to the specific asset (such as configuration and selection activities). Authorities are also required to write off any abnormal costs that arose from inefficiencies (such as design faults, theft of materials etc.).

The following table provides some examples of what can and cannot be capitalised. The examples should be regarded as illustrative rather than definitive – interpretation of accounting rules requires some subjective judgement that will be affected by the specific circumstances of each project.

Item of expenditure	Capital or Revenue?	Detail
Feasibility studies	**Revenue**	Until a specific solution has been decided upon, costs cannot be directly attributable to bringing an asset into working condition. This includes all costs incurred whilst deliberating on any issues, scoping potential solutions, choosing between solutions and assessing whether resources will be available to finance a project. However, feasibility studies can be capitalised if they occur after a decision has been made to go ahead with a particular option i.e. if they are directly attributable in bringing an asset closer to a working (or enhanced) condition.
Demolition of an existing building	**Capital**	Demolition would usually be an act of destruction that would be charged to revenue; however if the costs incurred are necessary in preparing a site for a new scheme, it can be argued that they are an integral part of the new works.
Costs of buying out sitting tenants of existing building	**Capital**	Similar to demolition costs, this would help prepare a site in its existing condition for the new works.
Initial delivery and handling costs	**Capital**	Required to bring the asset closer into working condition.
Costs of renting alternative accommodation for staff during building works	**Revenue**	All costs incurred in carrying out the regular business of the authority whilst construction is underway make no direct contribution to the value of the asset.

Item of expenditure	Capital or Revenue?	Detail
Site security during construction	**Revenue**	Although this activity protects the investment during construction, it does not enhance it.
Installation and assembly costs	**Capital**	Required to bring the asset closer into working condition.
Testing whether the asset is functioning properly	**Capital**	Required to bring the asset closer into working condition.
Rectification of design faults	**Capital**	Required to bring the asset closer into working condition. However, the previous expenditure incurred on the defective work would need to be written off to revenue.
Liquidated Damages	**Revenue**	Paying out damages as compensation for breaching a contract does not enhance the value of the asset.
Furniture and fittings	**Capital – but often revenue for CCC**	Items required to bring an asset into working condition are often capitalised as part of the overall cost of the scheme, even if such items fall below the de minimis limit of the authority. However, the Council's policy is to not capitalise equipment, therefore if the purchase is outside of an overarching property scheme, then the costs will be revenue. The downside of capitalisation is that it will not be possible to justify future replacement of furniture and fittings as being capital.
Training and familiarisation of staff	**Revenue**	The asset will be regarded as being in working condition, irrespective of whether anyone in the authority can use it.
Professional fees	**Capital**	But only to the extent that the service provided makes a contribution to the physical fabric of the new construction (e.g. architecture design) or the work required to bring the property into working condition for its intended use (e.g. legal advice in preparation of building contracts).
Borrowing costs	**Capital**	Any interest payable on expenditure incurred before the asset is in working condition can be added to the cost of the fixed asset. Any financing costs incurred after that date will be a charge to revenue. CCC is looking to amend its accounting policies in 2017-18 in order to be able to apply this.
Finance and Internal Audit staff costs	**Revenue**	These costs are generally incurred for governance reasons, rather than enhancing the value of the asset.

Appendix 2: Sources of capital funding

Central Government and external grants

Grant funding is one of the largest sources of financing for the capital programme. The majority of grants are awarded by Central Government departments including the Department for Education (DfE) and the Department for Transport (DfT). In addition, the Council receives grants from various external bodies, including lottery funded organisations. Grants can be specific to a scheme or have conditions attached, including time and criteria restrictions.

Capital receipts

The sale of surplus or poor quality capital assets as determined by the Asset Management Strategy generates capital receipts, which are reinvested in full in order to assist with financing the capital programme.

Section 106 (S106), Community Infrastructure Levy (CIL) and external contributions

S106 contributions are provided by developers towards the provision of public infrastructure (normally highways and education) required as a result of development. Capital schemes undertaken in new development areas are currently either completely or mostly funded by the S106 agreement negotiated with developers. The Community Infrastructure Levy (CIL) is a new levy that local authorities can choose to charge on new developments in their area that will replace a large proportion of S106 agreements once it comes into force. Other external contributions are made by a variety of organisations such as district councils, often contributing towards jointly funded schemes.

Private Finance Initiative (PFI) / Public Private Partnerships (PPP)

The Council has previously made use of additional government support through PFI and PPP and has dedicated resource to manage schemes that are funded via this source. Previous schemes that have been funded this way include Waste, Street Lighting and Schools. However, due to increasing criticism around some high-profile, large-scale PFI projects failing to deliver Value for Money, the Government announced in October 2018 that this form of capital finance will be abolished. It is believed another model will be created to continue allowing the private sector to fund public infrastructure, but it is not yet clear what from this will take.

Borrowing (known as prudential borrowing)

The Council can determine the level of its borrowing for capital financing purposes, based upon its own views regarding the affordability, prudence and sustainability of that borrowing, in line with the CIPFA Prudential Code for Capital Finance in Local Authorities 2017. Borrowing levels for the capital programme are therefore constrained by this assessment and by the availability of the revenue budget to meet the cost of this borrowing, considered in the context of the overall revenue budget deliberations. Further information is contained within the Treasury Management Strategy Statement (Section 7 of the Business Plan).

Revenue Funding

The Council can use revenue resources to fund capital projects on a direct basis. However, given the general pressures on the revenue budget of the Council, it is unlikely that the Council will often choose to undertake this method of funding.

Appendix 3: Investment Strategy for Non-financial Investments

Objectives

- Acquire properties that provide long-term investment to support the delivery of the Council's corporate objectives, including limitation of carbon emission liabilities
- Deliver a portfolio which balances risk and rewards, aligned to the Council's risk appetite
- Prioritise properties that yield optimal rental growth and stable income
- Protect capital invested in acquired properties

Legal Powers

Power to invest

Pursuant to the powers set out in Section 12 of the Local Government Act (LGA) 2003, the Council may invest either for *"any purpose relevant to the Council's functions under any enactment", (s. 12(a))* or *"the purposes of the prudent management of its financial affairs" (s. 12(b))*.

The power to invest given in Section 12 should in principle include the power to invest in commercial property. However, the power to invest in commercial property must be used either for a purpose relevant to a function of the Council, for example the regeneration of an area, for economic development outcomes, or for the prudent management of the authority's financial affairs. Investing purely to create a return is not viewed as a function of an authority. It is therefore important that the primary objective of the strategy is to support the strategic objectives of the Council. It is also important to ensure that public funds are not exposed to unnecessary or unquantified risk.

In exercising the power to invest under Section 12(b) the Council also has regard to the MHCLG Statutory Guidance on Local Government Investments. The Guidance advocates the preparation of an Investment Strategy which the Council will be expected to follow in its decision making process unless a sensible and cogent reason is articulated for departing from it.

Power to borrow

Section 1 of the LGA 2003 gives each local authority a power to borrow money for:
(a) any purpose relevant to its functions under any enactment

(b) the purposes of prudent management of its financial affairs provided it does not exceed its affordable borrowing limit under Section 3 of the LGA 2003 (s.2(1) and 2(4))

These powers mirror those in Section 12 of the LGA 2003 referenced above. The powers within the LGA 2003 are not considered wide enough to permit local authorities to borrow to invest purely in order to benefit from a financial return, particularly in light of the revised guidance on Local Government Investments which clearly states that authorities 'must not borrow more than or in advance their needs purely in order to profit from the investment of the extra sums borrowed'. However, the Localism Act 2011 was drafted to encourage councils to develop new and innovative business models. This legislation gives councils the General Power of Competence, which means a local authority has powers to do anything that is "for the benefit of the authority, its area or persons resident or present in its area". The power does not enable an authority to carry out activities that were not permitted by legislation in force before the Localism Act 2011.

The power to undertake an activity for a commercial purpose

The General Power of Competence may allow the Council to invest in property for a return but this activity is likely to be characterised as an activity for a commercial purpose and cannot therefore be undertaken directly by the authority (Section 4 of the Localism Act 2011). It may be pursued through a company formed for that purpose and being within the meaning of Section 1(1) of the Companies Act 2006. There will be attendant corporation and income tax liabilities which will need to be addressed in a business case. The formation of a company requires the preparation of a thorough and detailed business case and these and other considerations such as the financing of the company and any state aid issues would need to be addressed in that document.

Other Considerations

As well as ensuring the Council has the legal power to invest, the Council also needs to ensure that exercising its powers is carried out in line with relevant statutory guidance and professional codes of practice. CIPFAs Prudential Property Investment Guidance 2019 sets these out as:

- The application of case law principles concerning the reasonableness of decision making
- Statutory guidance issued by the government (MHCLG's Statutory Guidance on Local Government Investments and Statutory Guidance on Minimum Revenue Provision)
- The CIPFA Prudential Code
- Good practice in investment management, which considers the appropriateness of investments to the authority's risk appetite, its financial circumstances and the expected length of the investment need

These are taken into consideration throughout the rest of this strategy.

Governance Processes

The decision to invest public funds in commercial property is one that should not be taken lightly. Any investment carries with it a degree of risk and the level of returns are directly proportionate to the risk of the investment made. Whilst it is important to ensure that due and proportionate governance is followed, the market for commercial acquisitions is such that agile decision making is also important. This is particularly the case where the Council wishes to acquire commercial opportunities before they hit the market and thereby avoid bidder competition which tends to escalate the sales price.

There is a fine balance in ensuring appropriate due process has been undertaken whilst not restricting opportunities through overly burdensome governance requirements. As a consequence it will not always be possible for all acquisition proposals to be considered within the democratic cycle of meetings. C&I Committee has agreed that in order for such proposals to be considered, evaluated and pursued within an agile, yet transparent and accountable, framework, it needs to delegate responsibility via a tiered decision-making process as follows:

- £10m or less - Deputy Chief Executive/Chief Finance Officer (CFO) in consultation with Chairman of C&I Committee
- Greater than £10m but no more than £25m - C&I Committee Investment Group
- Greater than £25m but no more than £50m - C&I Committee
- Greater than £50m - GPC

The C&I Investment Group has been created to reflect the proportional representation of the Committee; there are 3 Conservatives Members, 1 Liberal Democrat Member, and 1 Labour Member. The meetings of this Group can be undertaken virtually if necessary. At times, it may be too difficult to convene this Group even before an initial expression of interest needs to be placed; therefore in this scenario, the Deputy Chief Executive/CFO in consultation with the Chairman and Deputy Chairman of C&I Committee is delegated the responsibility to place an initial bid (with the information also circulated to other members of the Group). Any final bid, however, has to follow the delegation as set out above.

Where appropriate, the Council works with a partner organisation to develop the portfolio in order to ensure the right skills are used and the necessary capacity is generated in order to access market opportunities. The Council has used several professional advisors to date, which has provided access to different opportunities across the market. The Commercial Team have brought together all of the Council’s investment information using input from services and professional experts in order to establish an overall investment approach (covering both financial and non-financial investment). This will ensure that investment decisions are assessed holistically, ensuring they not only operate within certain performance thresholds, but also take into account the full range of commercial opportunities available for investment.

The details of all opportunities are reviewed by the Investment Working Group using a robust appraisal process that assesses potential acquisitions for their location, tenancy strength, tenure, lease length, repairing terms and physical condition. This information is reviewed alongside strategic criteria and key ratios and forms the basis of a scorecard to indicate whether investment is worth pursing further. In addition, the acquisition business case also requires information on risks and exit strategies to be completed. The Council has also contracted investment advisors Redington to provide support and advice to elected members and statutory officers, including delivery of training.

Managing Risk

The structure of the property portfolio has a significant bearing on the portfolio's inherent risk and return profile. Therefore a key objective of the strategy is to create diversification within the portfolio in order to manage exposure to the risks of concentrating too much activity in any particular sector. Key risks in the portfolio can be categorised in a number of ways, as follows.

Income Risk

The main risk in a commercial portfolio is tenant vacancies and the resultant loss of income. The costs of holding a vacant property include non-domestic rates, insurance, utilities, security, inspections and management. In addition, there are costs of marketing the property, the agent's disposal fees and legal fees for completing the lease documentation for re-letting the premises.

Yield Risk

The aim of the majority of investments is to provide a secure return on income. The Council manages its commercial property as a single portfolio, ensuring that the collective returns achieved on the investments meet the overall financial target that is set. It is therefore important that any purchasing decisions also contribute positively to the performance of the portfolio, both financially and but also in minimising the overall risks.

Concentration Risk

Concentration risk can be categorised into a number of constituent risks.

Sector Concentration: The main property sectors are retail, office, industrial and leisure/healthcare. The Council aims to spread its portfolio of investment across the different sectors in order to limit exposure to any volatility in a particular area. Like geographic diversification, industry diversification is sensitive to the diversification requirements of the overall portfolio. The value of industrial real estate holdings is sometimes adversely affected by changes in environmental legislation, and such holdings will therefore be limited in overall investment portfolios.

Geographical Concentration: The strength of the investment opportunity dictates the wider locations which may be considered outside of Cambridgeshire, as opposed to location being the driving force. It is important for the Council to understand the future economic viability of localities, which will be influenced by a number of local and national economic factors. For example future major transport infrastructure investment could significantly influence the economic viability of an area and therefore the future value of investments in that locality. Engaging the services of an expert is therefore an essential prerequisite of the strategy.

Property Concentration: Diversifying a real estate portfolio by property type is similar to diversifying a securities portfolio by industry. Different property types cater to different sectors of the economy. For example, office property generally responds to the needs of the financial and services-producing sectors; industrial property to the goods-producing sectors; retail property to the retail sector; and hotels to the travel and tourism sectors, employment growth, and the business cycle. Understanding the return and risk factors attendant to different property types requires understanding the factors affecting each property type's user groups.

Tenure Concentration: The portfolio is managed to ensure that it contains a broad spread of tenants. This analysis can be driven by credit ratings, nature of business, lease length, and the value of the leaseholds. It is important to evaluate tenant credit ratings according to the senior corporate debt of the lessees. Leases can be compared with regard to their length (including renewal options), which may vary considerably, typically from ten to twenty years.

Due Diligence

The risks associated with a specific investment are mitigated by carrying out robust due diligence of the individual acquisition. This process includes the following activities:

- Valuation
- Market conditions
- Covenant strength
- Terms of leases
- Structural surveys

- Future costs
- Other issues

The Investment Strategy provides continual evaluation of the investment portfolio to meet the Council's priority to ensure that the investment portfolio is fit for purpose. A larger and more balanced portfolio helps to achieve the Council's aim of increasing income to support the delivery of services throughout the county, however a core portfolio of property assets has been sought with a view to diversification on individual assets by sector (industrial, offices and retail), location and risk.

Proportionality

The Council needs to consider the long-term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure.

Dependency on Commercial Income

As noted earlier in the strategy, the Council cannot meet the financial challenges it faces through transformation alone and therefore part of the strategy has to be to generate additional revenue resources. However, there are inherent risks associated with commercial activity and as such the Council will be taking a measured risk approach towards supporting a proportion of its core activity with commercial income. The table below shows the forecast levels of commercial income as a percentage of net service expenditure:

	2020-21 Estimate %	2021-22 Estimate %	2022-23 Estimate %	2023-24 Estimate %	2024-25 Estimate %	2025-26 Estimate %
Commercial income* to net service expenditure	-2.6%	-3.8%	-3.4%	-3.3%	-3.2%	-3.1%

** Commercial income here includes both financial and non-financial income*

Debt relative to Service Expenditure

As part of the process for agreeing the Capital Strategy, GPC currently agrees a debt charges limit at the beginning of the business planning process as a mechanism to ensure that the Council does not overcommit its revenue resources to servicing debt (see Section 12). This can also be reviewed in terms of debt as a proportion of net service expenditure, which is forecast as follows:

	2020-21 Estimate %	2021-22 Estimate %	2022-23 Estimate %	2023-24 Estimate %	2024-25 Estimate %	2025-26 Estimate %
Financing costs to net service expenditure	8.4%	9.7%	9.4%	10.0%	10.5%	10.4%

However, it should be noted that the majority of these costs do not relate to borrowing incurred (or anticipated) for commercial investment, but rather to necessary borrowing required to support the Council's service Capital Programme.

Developing the Portfolio

Financial investment options, such as investment in property funds and issuing commercial loans to other organisations are covered by the Treasury Management Strategy. There are two main methods by which the Council can deliver is non-financial investment – through acquisition of property, or through development of its own assets.

Acquisition

The Council acquires both freehold and long-term leasehold properties, engaging the services of commercial property experts in order to identify suitable market opportunities. Where appropriate, the Council uses experienced advisors to undertake robust due diligence and complete sale documentation. Ongoing management arrangements for properties differs depending on the level of specialisation of the asset, as well as the complexity and certainty of tenure. For specialised, complex tenures, the Council outsources the ongoing property management arrangements, including facilities management and marketing arrangements. However, in other cases the management arrangements are undertaken by the internal team of commercial property surveyors.

The benefits of the acquisition approach are:

- revenue is generated from the point of acquisition
- risks are mitigated with proper due diligence
- reasonable levels of liquidity
- management costs are relatively low

There are two types of direct investment opportunities that the Council pursues:

- Best property for the sector in an ideal location, with long-term income from high quality tenants where yields are equal to or slightly above prime for the sector. Rental yield (financial return on the capital investment as a percentage) is lower than the general market, but capital and rental growth is steady and medium/long-term risk of void periods and tenant default is reduced.
- Properties similar to those above, but in slightly less favourable locations, with shorter leases and lesser tenant covenant strength, where returns are appropriate for the sector and risk. Rental yields in this area are slightly higher, reflecting the increase in risk. Given the depreciating specialist infrastructure and changes in trends, such assets may require substantial future capital expenditure in order to maintain the value of the interest; the risk from this should be fully explored and understood before purchase. Residential property provides a good income diversifier given its limited correlation to commercial property and returns have been stable over the long-term, although the level of tenant and property management should be carefully considered and allowed for in all appraisals.

The Council has initially taken a relatively low-risk approach to acquisitions in order to develop a sound real estate investment portfolio, and has therefore focused on the first type of opportunity in its search. This has reduced the level of return generated initially; longer-term it is proposed to target an average portfolio yield of 6% by 2024-25. Where an individual opportunity does not deliver a 6% yield (either initially or longer-term) but it is felt to still have potential, the investment is still reviewed by C&I Committee, taking into account any other supporting factors such as reduction of concentration risk. However, the Cambridgeshire market generates relatively low returns due to competition and security of tenure, therefore moving forward the Council may need to consider opportunities further afield if it wishes to generate higher returns.

As a result, the Council has acquired property in the following sectors: student accommodation, leisure, retail, manufacturing and office/logistics. The Council has continued with the incumbent outsourced operator for one of its acquisitions, who have expertise in student accommodation management. Marketing and property management for three of the Council’s other acquisitions have also been outsourced to Carter Jonas; using one managing agent for several properties provides benefits of efficiency and expertise. Four of the five properties the Council has acquired have relatively secure or straightforward tenures mitigating the scale of proactive management required and the outsourced arrangements are overseen by the internal team of commercial property surveyors, acting as the intelligent client.

These acquisitions have created a balanced portfolio of investments across sectors and geographical locations, and have significantly reduced the Council’s concentration risk across property type, sector and tenure. However, geographical concentration risk still exists, as all purchase have been made in county, or around the local economy (albeit the locations are spread around the county).

Development

The Council can either carry out development itself, such as with the Council's Commercial Energy Investments, or enter into an agreement with a developer to fund all or part of a development. This can be enacted as a direct commercial arrangement with a developer or can be delivered via a joint venture (JV) arrangement. This would require risk and reward arrangements to be established. In a JV scenario the level of risk mirrors the level of reward that each partner derives; this would normally be 50:50, however other scenarios could also be developed. If the Council develops the investment itself and simply seeks a provider to construct to a defined specification, the provider does not share any of the benefits – but neither does it share any of the risks.

The benefits of this type of commercial arrangement are that the developer can bring skills that the Council does not hold internally. The investment will deliver a premium over and above straight investment, however it therefore carries with it proportionately greater risk. Selecting the right development partner is therefore essential for success.

Self-development brings greater financial rewards and ensures that the Council remains in control of the development. However, the Council may need to invest to ensure that it has the right skills and capacity to manage such an investment programme, if these skills do not exist within the Council. The disadvantages are that revenues are only accrued once the development has been completed; land acquisition and other costs are incurred long before any revenue stream commences. There is also very low liquidity during construction and diversification of the portfolio is low. The self-development route exposes the Council to procurement and construction risks which need to be mitigated by the 'buying in' of the appropriate and necessary skills.

The Council has one completed energy development scheme and has several further energy schemes in progress.

Funding the Portfolio

Section 5 and Appendix 2 of the main Capital Strategy detail how capital expenditure can generally be funded. Not all types of funding, however, can be used to fund non-financial investment; the main sources are revenue/reserves, capital receipts, borrowing, and occasionally, Government grants.

Revenue/Reserves

Given the Council's overall financial position, this requires further savings to be identified within the revenue budget to the same value as the charge; therefore this funding route is not a realistic option for the Council

Capital Receipts

The Council's current surplus asset policy is to repurpose non-operational property to generate a revenue return where possible, rather than dispose of the asset to generate a receipt. However, the Council has also set up its own housing company, This Land, to develop some of the Council's surplus estate, which in turn generates capital receipts for the Council at the point where assets are sold to the company. The Council has therefore decided to use these specific receipts, currently forecast to generate around £113m, to fund the Council's commercial investment programme, as well as the receipt from the disposal of Shire Hall. However, these receipts could have been used to fund the non-commercial investment aspects of the Council's Capital Programme; therefore there is an opportunity cost of using the receipts to fund commercial investment (which is equivalent to the revenue cost that would have been incurred should the commercial investment have been funded by borrowing).

Borrowing

As with borrowing for any capital project, both the interest cost and a Minimum Revenue Provision (repayment of principal) charge would need to be covered by revenue payments (see Section 12). However, there are additional restrictions in place with respect to borrowing to fund both financial and non-financial investment – MHCLGs Statutory Guidance on Local Government Investments states that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums bowed. If an authority exceptionally choose to do so, then it needs to clearly explain why it has disregarded the guidance.

The Council anticipates that the core element of its commercial investment will be funded by capital receipts. However, by itself this is not sufficient to support the Council's plans regarding expectation of the level of commercial income that will be used to support the Council's revenue budget over the medium-term. Therefore, the Council has taken a measured risk towards using borrowing to fund some element of the Council's commercial investment, whilst also ensuring to develop the Council's place-making role at the same time.

When underrating any borrowing, the Council has to have regard to CIPFAs Prudential Code 2017 to ensure borrowing remains within an affordable limit. The Council therefore reviews borrowing in relation to commercial investment as part of the overall capital programme, to ensure it remains affordable, prudent and proportional.

Whilst the cost of PWLB borrowing increased by 100 basis points during October 2019, due to having secured £100m of borrowing prior to rate rises, the Council's track record in securing good value borrowing from other lenders (particularly other local authorities) and also remaining 'internally borrowed' (utilising cash balances to mitigate the level of external borrowing), the Council does not expect this rate rise to impact significantly over the life of the Business Plan.

Managing the Portfolio

Management of Property

Properties with fully repairing and insuring leases and excellent energy performance are sought as a preference for investment, in order to minimise the cost of management and maintenance. Exceptions can be made for properties that are purchased for specific development or planning reasons. In order to minimise management overheads, use of an external property management firm is considered to handle the day to day operational issues with the portfolio, particularly for properties which are outside the county, are specialised in nature or have complex tenures.

Tenure

Assets acquired with tenants in place may be subject to sub-leases granted within the security of tenure provisions of the Landlord and Tenant Act 1954. This is less attractive if assets are purchased for future development possibilities, as ending the tenancies requires the Council to satisfy one of the grounds under the Act to take back possession. Conditions of tenure is therefore a further important consideration in any investment decision and is reviewed as part of the acquisition business case.

Realising the Investment

There may be a need in the future to dispose of property investments. This could happen because of the need to return the investment to cash for other purposes, poor financial performance of a particular property or poor environmental and energy performance, for example. Whilst it is expected that the majority of investments will be held for the medium to long-term in order to achieve the required return and to justify the cost of the acquisition, it is important to understand the opportunities to dispose of any investment at the outset. Therefore, as part of the investment decision, consideration will be given to the potential ways in which the Council could “exit” from the investment, such as sale to another investor, sale for redevelopment, etc. An investment will only proceed where a clear exit strategy has been identified in the acquisition business case.

Monitoring the Portfolio

The Council’s Commercial Team is responsible for undertaking ongoing performance and risk management of the Council’s investment portfolio in order to ensure that it is continuing to deliver against target. The Council does this through both the monthly C&I Finance Monitoring Report, and the quarterly C&I Key Performance Indicators Report, both reported to C&I Committee. Active monitoring of the performance of individual properties within the portfolio is undertaken jointly across services – property, finance and commercial – and is reported to both the C&I Investment Group and Commercial Board. If any underperformance is identified, the Commercial team will develop an action plan to determine how to mitigate any increase in risk or threat to ongoing security, liquidity or yield.

Current Portfolio

Acquisition:	Brunswick House	**Date of Acquisition:**	26/07/18
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services notwithstanding reducing government grant and rising demand. Supporting sustainable and well managed student accommodation, held in local ownership in Cambridge, one of the world's leading student cities. There is significant undersupply of purpose built student accommodation in the city with 44% of students unable to access purpose built accommodation. Inward economic investment: directly and indirectly supportive to jobs in the education sector, a key industry in the county's economy.	**Assessment of Risks**	Constructed in 2012, the property was acquired in good condition, marketed to students at the higher/premium end of the market. The principal financial risk relates to occupancy levels (demand for student housing). Demand for student accommodation in Cambridge is expected to remain strong, despite the impact of Covid-19. The nature of the student property market in Cambridge is that quality of student experience is a key aspect of the offer alongside, and indeed in many cases ahead of, pricing. At the point of acquisition there were additional risks arising from tenancy terms and correction of a construction deficiency at the property under warranty; these were outlined in Committee reports and have subsequently been mitigated or resolved through remedial works and novation arrangements.

Acquisition:	Brunswick House	**Date of Acquisition:**	26/07/18
			A successful planning application has been made since purchase to relax planning conditions to allow more flexible use of the building outside of university term time, for example for conference use.
Advisors / Market Research	Property Consultants, Carter Jonas, were engaged to appraise the investment opportunity – conducting market research and valuing the property in view of demand, planning conditions, future prospects and condition. Legal advisors, Birketts LLP, dealt with the conveyancing and transaction, providing advice on legal issues arising from Property, Construction, Tax, Commercial, Planning and Employment. Brunswick House is staffed on a day-to-day basis and marketed by HomesforStudents, who operate 15,000 student rooms across the country with a strong reputation for student experience, welfare and security. The property is managed for the Council by Homes for Students who handle all day to day management on a contract running to	**Liquidity / Exit Strategy**	There are no plans to sell currently. The acquisition was not funded by borrowing; however, if required, the property could be sold. There was an active market for the property when it was acquired, and the property market in Cambridgeshire has strong foundations and resilience. Should student accommodation become less viable the Council would investigate alternatives such as residential apartments or accommodation for elderly people.

Acquisition:	Brunswick House		**Date of Acquisition:**	26/07/18	
	2021. Should this contract not be renewed an alternative manager would be procured to continue running Brunswick House as student accommodation.				
If funded by borrowing, why was this required?	N/A		**Explanation of why the Statutory Guidance on local Authority Investments and the Prudential Code have not been adhered to**	N/A	
Cost (£m)	**Funded by Borrowing (£m)**	**Total Interest Costs (£m)**	**Annual Income (£m)**	**Annual Costs (£m)**	**Annual Net Return (£m)**
39.5	-	-	2.4 initially	0.5 initially	1.9 initially
Payback Period (Yrs)	**Net Income Yield (%)**	**Return on Investment (%)**	**Total Return over 25 Years (£m)**	**Internal Rate of Return (%)**	**Net Present Value (£m)**
16.4	4.8 increasing to 6.1	69.6	66.9	4.4	8.3
Additional Investment (£m)	**Current Value (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		
The Council is looking to establish a sinking	30.2	-9.3	The reported loss arises partly from the temporary impact of new competition opening in the immediate area, plus the impact of Covid-		

Acquisition:	Brunswick House		**Date of Acquisition:**	26/07/18
fund with at least 1% of net income in order to maintain and improve the property and compete with new entrants to the student accommodation market in Cambridge.			19 (albeit this is also expected to be relatively short-term). As such, occupancy was slightly below 100% for the 2019-20 academic year and fell further in the latter part of 2019-20 as students returned home, reducing the Council's return. However, occupancy for the new academic year currently stands at over 70% and is expected to continue to rise.	

Acquisition:	Cromwell Leisure Park	**Date of Acquisition:**	24/05/2019
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the leisure sector, supporting the local economy. This is the only large cinema in Wisbech, creating both a significant draw into the town and leisure provision opportunity across the Fenland/west Norfolk/south Lincolnshire sub region. Provides geographic diversity to the portfolio by investment into the most deprived district in the county.	**Assessment of Risks**	Risks include the reliance on rent from the leisure market which has experienced a recent downturn and has been put under further pressure during the pandemic. The investment market for leisure is also quiet at present so there may be a liquidity risk if the Council needed to sell the property. The cinema anchors the Leisure Park investment as a whole, but the cinema industry has been hit very hard due to social distancing issues with Covid-19. However, cinemas had been trading well prior to the pandemic and there is backlog of major film releases that would help restore the sector if social distancing issues can be overcome.
Advisors / Market Research	The Council commissioned Carter Jonas to produce a purchase report which examined the local area, cinema brands, food and beverage markets, the property itself and the relevant surveys and the current leases and service charges. Legal advice on the lease was also obtained from Mills and Reeve LLP.	**Liquidity / Exit Strategy**	There are no plans to sell currently. There are 4 units, with two of the smaller units now vacant. The existing tenants are the Light Cinema, who have a tenancy running to 2039 with a break at 2029; Prezzo Plc with a lease running to 2039 with a break at 2029 and the Restaurant Group (UK) Ltd with a lease running to 2039 and a break

Acquisition:	Cromwell Leisure Park	**Date of Acquisition:**	24/05/2019
			option at 2029. However, the Restaurant Group (UK) Ltd are now under a CVA and will be released and discharged from all remaining covenants at 31 March 2021. In the event of any of the tenants vacating new tenants are sought. It is most likely that the cinema would remain a cinema given that it's fitted out for this purpose and given the lack of local competition. Other leisure uses would be the most likely alternatives to a cinema but would require fitting out. Similarly, the restaurants are likely to remain as restaurants given the lack of local competition, the proximity of a cinema attraction and also the Tesco supermarket nearby. However, the Council has been approached regarding potential other uses; consideration of the mix of use will need to be carefully balanced with any new lettings. The Council also has the option to sell the property though this may be difficult in the current climate for the leisure sector.
If funded by borrowing, why was this required?	The Investment Strategy is clear that the level of income generation being targeted by the Council is unlikely to be supported by capital receipt funded investment alone. The	**Explanation of why the Statutory Guidance on local Authority**	N/A This is an in-county acquisition, supporting the leisure sector in Fenland.

Acquisition:	Cromwell Leisure Park		**Date of Acquisition:**	24/05/2019	
	strong yield of this asset is likely to underpin a funding approach which relies on borrowing.		**Investments and the Prudential Code have not been adhered to**		
Cost (£m)	**Funded by Borrowing (£m)**	**Total Interest Costs (£m)**	**Annual Income (£m)**	**Annual Costs (£m)**	**Annual Net Return (£m)**
7.0	-	-	0.7 initially	0.0 initially	0.7 initially
Payback Period (Yrs)	**Net Income Yield (%)**	**Return on Investment (%)**	**Total Return over asset life (50 Years) (£m)**	**Internal Rate of Return (%)**	**Net Present Value (£m)**
17	10.1 falling to 7.8	206.0	29.1	6.0	5.3
Additional Investment (£m)	**Current Value (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		
0.4	7.0	N/A	Asset has not yet been valued at market value as this will be done during the 2020/21 accounts process. Council policy means assets are not revalued until the year after acquisition.		

Acquisition:	Superstore Site, Newmarket Road	**Date of Acquisition:**	15/08/2019
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the retail sector, supporting the local economy. Site provides the largest supermarket within 2 miles of the city centre and benefits from both considerable scale (e.g. extensive car parking) and diversification opportunities. It is a key selling point for both local residents and also college and university inhabitants and the prospering tourist market. Site is let on a number of continuous leases; the Council believes there is strong residual value in the event the tenant leaves and a replacement is needed, or there is opportunity to completely redevelop the site for housing.	**Assessment of Risks**	Risks are reduced by having a single tenant who is financially sound and trading in a prime area of Cambridge. The BNP Paribas Acquisition Report identifies a potential risk in the lease where Tesco have a "Substitution Clause". Tesco could serve notice to replace the Newmarket Road property with another subject to the replacement complying with terms outlined in the BNP Paribas report (i.e. an investment of equivalent standing). BNP Paribas are of the view that due to the strong levels of trade enjoyed by Tesco at the property, the chances of a trigger event occurring are very low and accordingly don't feel the clause presents a risk to the long leasehold owner.
Advisors / Market Research	BNP Paribas Real Estate provided an acquisition report which included information about the location and accommodation, a lease and income	**Liquidity / Exit Strategy**	There are no plans to sell currently. Tesco's current lease is due to expire in December 2029, however they do have the

Acquisition:	Superstore Site, Newmarket Road	**Date of Acquisition:**	15/08/2019
	overview and a market commentary and value assessment. The Council also commissioned Birketts LLP as legal advisors for this transaction and to consider in detail the terms of the leases.		option to renew for further periods. There is a risk that Tesco may decide to not renew their lease in the future and stop trading from the Newmarket Road site. Whilst it is perceived unlikely in the short to medium-term, if this decision was taken by Tesco in 2029, we would explore re-letting the property to another retailer who would be interested in leasing the whole site. Alternatively, we could explore reconfiguring the existing unit and site to create smaller individual units which could be rented out on a long-term basis. A third option would be to consider a residential led re-development of the site, given the option to purchase the freehold interest for a nominal amount. The Council also has the option to sell its interest in the property, particularly given the location and tenure on this site.
If funded by borrowing, why was this required?	The Investment Strategy is clear that the level of income generation being targeted by the Council is unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.	**Explanation of why the Statutory Guidance on local Authority Investments and the Prudential Code have not been adhered to**	N/A

Acquisition:	Superstore Site, Newmarket Road		**Date of Acquisition:**	15/08/2019	
Cost (£m)	**Funded by Borrowing (£m)**	**Total Interest Costs (£m)**	**Annual Income (£m)**	**Annual Costs (£m)**	**Annual Net Return (£m)**
54.5	54.5	26.0	2.5 initially	0.1 initially	2.4 initially
Payback Period (Yrs)	**Net Income Yield (%)**	**Return on Investment (%)**	**Total Return over asset life (50 Years) (£m)**	**Internal Rate of Return (%)**	**Net Present Value (£m)**
20	4.6 rising to 5.6	167.9	150.8	4.8	35.4
Additional Investment (£m)	**Current Value (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		
0	54.5	N/A	Asset has not yet been valued at market value as this will be done during the 2020/21 accounts process. Council policy means assets are not revalued until the year after acquisition.		

Acquisition:	Kingsbridge Centre, Peterborough	**Date of Acquisition:**	21/08/2019
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the industrial sector, supporting the local economy. Whilst this investment is out of county, it is very much located in an area that is intrinsically linked to the Cambridgeshire local economy. Investment also provides opportunity to diversify the portfolio into the industrial/manufacturing sector.	**Assessment of Risks**	Well specified, freehold, self-contained distribution warehouse; originally designed as 5 industrial units, enabling split up and flexibility upon re-letting. The building is extensively fitted out by both occupiers to suit operational needs. One of the tenants is wedded to the building, with significant sunken costs and upgraded power supply, making it difficult for the business to relocate operation. Both tenants have long income to strong covenant ratings with guaranteed rental performance to Oct 2025 and no arrears. There is an acute shortage of available 'oven ready' supply, with the All Industrial void rate the lowest it's been in over a decade and no new speculative development of large warehouses on the horizon. Watts Environmental Phase 1 report concludes a low to medium environmental risk. This is satisfactory for a building in its current industrial use.

Acquisition:	Kingsbridge Centre, Peterborough		**Date of Acquisition:**	21/08/2019	
Advisors / Market Research	DTRE provided an acquisition report which included information about the location and accommodation, a lease and income overview and a market commentary and value assessment. Legal advice was obtained from Birketts LLP.		**Liquidity / Exit Strategy**	There are no plans to sell currently, however if required, the property could be sold. There was an active market for the property when it was acquired, and the industrial sector is currently very tight due to lack of supply, particularly in Peterborough which benefits from good road links.	
If funded by borrowing, why was this required?	The Investment Strategy is clear that the level of income generation being targeted by the Council is unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.		**Explanation of why the Statutory Guidance on local Authority Investments and the Prudential Code have not been adhered to**	This is an out of county acquisition, supporting the industrial sector in Peterborough. Whilst it is out of county, it is very close geographically to the county border and is therefore inextricably linked with the local Cambridgeshire economy.	
Cost (£m)	**Funded by Borrowing (£m)**	**Total Interest Costs (£m)**	**Annual Income (£m)**	**Annual Costs (£m)**	**Annual Net Return (£m)**
12.3	1.6	0.8	0.7 initially	0.0 initially	0.7 initially
Payback Period (Yrs)	**Net Income Yield (%)**	**Return on Investment (%)**	**Total Return over asset life (50 Years) (£m)**	**Internal Rate of Return (%)**	**Net Present Value (£m)**
20	5.9 rising to 7.5	213.5	45.5	5.4	10.8
Additional Investment (£m)	**Current Value (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		

Acquisition:	Kingsbridge Centre, Peterborough		**Date of Acquisition:**	21/08/2019
0	12.3	N/A	Asset has not yet been valued at market value as this will be done during the 2020/21 accounts process. Council policy means assets are not revalued until the year after acquisition.	

Acquisition:	Evolution Business Park, Impington	**Date of Acquisition:**	31/01/2020
Service Objectives	Diversify and increase income streams to the Council, protecting frontline services notwithstanding reducing government grant and rising demand. Investing in a site that provide jobs in Cambridgeshire and promotes a thriving local economy.	**Assessment of Risks**	A key risk is the funding arrangements for one tenant, a young but successful company, which currently underpins 45% of the income from the site. The Council does have the option to pursue a further unit (currently being explored), which would help to mitigate some of the tenant risk.
Advisors / Market Research	The Council commissioned a pre-purchase report by Carter Jonas which included review of the locations and site accommodation, lease and tenant reviews and market commentary. Legal advice was obtained from Birketts LLP.	**Liquidity**	There are no plans to sell currently. Investor appetite has been very strong in the area which suggests the site could be sold if required.
If funded by borrowing, why was this required?	The Investment Strategy is clear that the level of income generation being targeted by the Council is unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.	**Explanation of why the Statutory Guidance on local Authority Investments and the Prudential Code have not been adhered to**	N/A

Acquisition:	Evolution Business Park, Impington		**Date of Acquisition:**	31/01/2020	
Cost (£m)	**Funded by Borrowing (£m)**	**Total Interest Costs (£m)**	**Annual Income (£m)**	**Annual Costs (£m)**	**Annual Net Return (£m)**
29.7	29.7	18.2	1.7 initially	0.0	1.7
Payback Period (Yrs)	**Net Income Yield (%)**	**Return on Investment (%)**	**Total Return over 25 Years (£m)**	**Internal Rate of Return (%)**	**Net Present Value (£m)**
16	5.7 rising to 6.6	230.5	45.6	6.6	34.8
Additional Investment (£m)	**Current Value (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		
0	29.7	N/A	Asset has not yet been valued at market value as this will be done in during the 2020/21 accounts process. Council policy means assets are not revalued until the year after acquisition.		