Appendix 1

Capital Strategy

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1. Update on Capital Financing Budget

Table 1: Capital Financing Budget (CFB) for 2019/20 to 2021/22

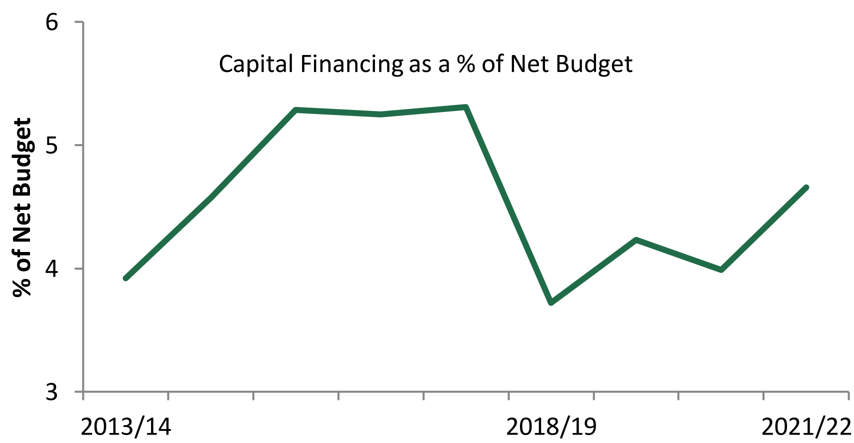
Parameter	Value (£m)		
	2019/20 Actual	2020/21 Budget	2021/22 Budget
Repayment of Borrowing			
Minimum Revenue Provision*	9.7	10.9	13.2
External Loan Interest	4.7	5.1	4.9
Investment Income	(1.3)	(0.9)	(0.9)
Contributions from Services Revenue Budgets	(0.8)	(1.7)	(1.8)
Total Capital Financing Costs	**12.3**	**13.4**	**15.4**
Use of Financing EMR	**(0.3)**	**(1.4)**	**(1.4)**
Actual CFB in MTFS	**12.0**	**12.0**	**14.0**
***Capital Receipts targets**	**10.5**	**3.0**	**3.0**
Flexible use of Capital Receipts	**2.8**	**1.0**	**0.0**

* Anticipated MRP based on achieving capital receipts targets

Repayment of Borrowing

1.1 The use of prudential borrowing allows the Council to spread the cost of funding the asset over its useful economic life. Using prudential borrowing as a funding source increases the Council's capital financing requirement (CFR), and will create revenue costs through interest costs and minimum revenue provision.

1.2 Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, requires local authorities to charge to their revenue account for each financial year a minimum amount to finance the cost of capital expenditure. Commonly referred to as MRP (Minimum Revenue Provision). This ensures that the revenue costs of repaying debt are spread over the life of the asset, similar to depreciation.



1.3 The projection of the Council's Capital Financing Requirement (CFR) and external debt, based on the proposed capital budget and treasury management strategy is shown in Annex D. This highlights the level to which the Council is internally borrowed (being the difference between the CFR and external debt), and the expected repayment profile of the external debt.

1.4 The nature and scale of the Council's capital programme means that it is a key factor in the Council's treasury management, including the need to borrow to fund capital works. The treasury management strategy for the Council is included in Appendix 2 of this report.

1.5 The Council's current strategy is to use available cash balances, known as 'internal borrowing' and to borrow short term loans. As short-term interest rates are currently much lower than long-term rates this is likely to be more cost effective.

Contributions from Services

1.6 All business cases supporting capital expenditure will include full analysis of the financial implications of the scheme alongside a clear indication of how the financial implications will be managed within the Medium-Term Financial Strategy.

1.7 When including any scheme in the Council's Capital Programme the Section 151 Officer will determine the appropriate impact on the Revenue Budget. This impact will require service budgets within the MTFS to fund either all, part or none of the net capital costs of the scheme.

1.8 In making a determination about funding capital schemes from revenue budgets the level of potential revenue savings or additional revenue income will be considered. If a capital scheme will increase revenue costs within the MTFS, either from the future costs of maintaining the asset or from the costs of financing the capital expenditure, then the approach to funding such costs must be approved as part of the business planning process before the scheme can commence.

1.9 In 2019/20 the Council received £0.8m of revenue contributions to reduce the Minimum Revenue Provision charged to the General Fund. The Council's strategy is to use further revenue contributions of £3.5m over the next two financial years to finance the Capital Programme to reduce the pressure on the Capital Financing Budget.

1.10 The contributions for 2019/20 include £1.432m for the schools transformation programme; £1.399m for the Weston Road site, Crewe from the purchase of an investment property; £0.261m from Everybody Sport and Recreation (ESAR) for the improvements to the Council's leisure facilities: £0.279m LED lighting replacement scheme and £0.101m from the Digital Azure upgrade programme.

Use of Financing Earmarked Reserve

1.11 To allow a longer-term approach to setting the Financial Parameters of the Capital Strategy the Council will maintain an earmarked reserve to minimise the financial impact of annual variations to the Capital Financing Budget.

1.12 The Council's Reserves Strategy determines the appropriate use of reserves and how they are set up and governed. In the first instance any under or overspending of the CFB within any financial year will provide a top-up or draw-down from the Financing Earmarked Reserve. In balancing the CFB over the period of the MTFS the Section 151 Officer may also recommend appropriate use of the Financing Earmarked Reserve over the period.

1.13 In 2019/20 the Council applied £0.3m from Financing Reserve to help fund the Capital Financing Budget. The Council's current strategy is to draw-down up to £2.8m from the Financing Earmarked Reserve for the period 2020/21 to 2021/22.

2. Update on 2019/20 -2021/22 Capital Programme

2.1 Since the Third Quarter Review the Capital Programme has increased by £2.4m for the next three-year period.

2.2 The main changes are the increase in additional grant for the Council's Basic Need allocation of £3.0m for the financial year 2021/22 and a small number of Supplementary Capital Estimates within the Place Directorate totalling £0.7m. There are also several budget reductions for projects where the budget is no longer required. The most notable reduction was for the Organic Waste Transfer site at £2.6m. **Table 2** shows the movements in the last quarter.

Table 2: Summary Capital Programme

Directorate	TQR Budget 2019/22 £m	SCE's / Virements in Quarter 2019/22 £m	Transfers to/from Addendum 2019/22 £m	Budget Reductions at Outturn 2019/22 £m	SCE's at Outturn 2019/22 £m	Revised Outturn Budget 2019/22 £m
People	47.6	0.0	0.9	(0.3)	3.0	51.2
Place	446.1	1.5	0.2	(4.1)	0.7	444.4
Corporate	60.5	0.0	0.3	0.0	0.0	60.8
	554.2	**1.5**	**1.4**	**(4.4)**	**3.7**	**556.4**

2.3 The main transfers from the addendum were £0.9m for two Nursery school expansions at Beechwood and Ash Grove Primary Schools. The grant funding has been approved from the Department of Education and work will start on site in 2020/21. There was also a transfer of £0.310m for the Digital Azure upgrade within our ICT Services. These changes are shown in **Annex F**.

2.4 The revised programme is funded from both direct income (grants, external contributions) and the Council's own resources (prudential borrowing, revenue contributions, capital reserve).

2.5 The final Outturn position as the 31st March 2020 showed total capital expenditure of £124.0m against a Third Quarter forecast position of £132.8m. The slippage of £8.8m has been re-profiled into future years as shown in **Annex A**.

2.6 **Annex B** details requests of Supplementary Capital Estimates (SCE) up to and including £500,000 and Capital Virements up to and including £1,000,000 approved by delegated decision which are included for noting purposes only.

2.7 **Annex C** details requests of Supplementary Capital Estimates (SCE) up to and including £1,000,000 and Capital Virements up to and including £5,000,000 to be approved by Cabinet. This includes a virement for £2.0m for the Flooding and Weather Events project set up to deal with flooding across the borough in February 2020. The budget will be vired from within the Council's existing approved capital budgets

2.8 **Annex D** details requests of Supplementary Capital Estimates (SCE) over £1,000,000 to be approved by full Council. There is one Supplementary Capital Estimate of £3.0m which is the additional Basic Need Funding for the financial year 2021/22 that is not already approved within the main capital programme.

2.9 **Annex E** lists details of reductions in Approved Budgets where schemes are completed, and surpluses can now be removed. These are for noting purposes only.

Table 3: Revised Addendum Programme

	Budget 2019/20 £000	Budget 2019/20 £000	Budget 2019/20 £000	Total Budget 2019/22 £000
Addendum				
People	0	234	0	**234**
Place	0	40,967	353,756	**394,723**
Corporate	1,715	3,008	3,683	**8,406**
Total Addendum	**1,715**	**44,209**	**367,439**	**403,363**

2.10 **Annex F** shows the movements from and to the Capital Addendum since the Medium-Term Financial Strategy was approved in February 2019.

Annex A:
Revised Capital Programme

CHESHIRE EAST COUNCIL CAPITAL PROGRAMME SUMMARY				
CAPITAL PROGRAMME 2019/20 - 2021/22				
	Actual 2019/20 £000	**Forecast 2020/21 £000**	**Forecast 2021/22 £000**	**Total Forecast 2019-22 £000**
Committed Schemes - In Progress				
People	8,159	15,584	3,302	**27,045**
Place	91,530	73,069	126,566	**291,165**
Corporate	13,433	15,887	30,934	**60,254**
Total Committed Schemes - In Progress	**113,122**	**104,540**	**160,802**	**378,464**
CAPITAL PROGRAMME 2019/20 - 2021/22				
	Actual 2019/20 £000	**Forecast 2020/21 £000**	**Forecast 2021/22 £000**	**Total Forecast 2019-22 £000**
New Schemes				
People	2,790	13,397	8,060	**24,247**
Place	8,088	44,482	100,654	**153,224**
Corporate	0	330	0	**330**
Total New Schemes	**10,878**	**58,209**	**108,714**	**177,801**
Total	**124,000**	**162,749**	**269,516**	**556,265**

CHESHIRE EAST COUNCIL CAPITAL PROGRAMME SUMMARY

CAPITAL PROGRAMME 2019/20 - 2021/22

	Actual 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Total Forecast 2019-22 £000
Funding Requirement				
Indicative Funding Analysis: (See note 1)				
Government Grants	52,647	71,911	127,116	**251,674**
External Contributions	7,265	19,274	52,385	**78,924**
Revenue Contributions	577	607	0	**1,184**
Capital Receipts	7,029	3,000	3,000	**13,029**
Prudential Borrowing (See note 2)	56,482	67,957	87,015	**211,454**
Total	**124,000**	**162,749**	**269,516**	**556,265**

Note 1:
The funding requirement identified in the above table represents a balanced and affordable position, in the medium term. The Council will attempt to maximise external resources such as grants and external contributions in the first instance to fund the capital programme. Where the Council resources are required the preference will be to utilise capital receipts from asset disposals. The forecast for capital receipts over the next two years from 2020/21-2022 assumes a prudent approach based on the work of the Asset Management team and their most recently updated Disposals Programme.

Note 2:
Appropriate charges to the revenue budget will only commence in the year following the completion of the associated capital asset. This allows the Council to constantly review the most cost effective way of funding capital expenditure.

Annex B:
Delegated Decision - Requests for Supplementary Capital Estimates (SCEs) and Virements

Service & Capital Scheme	Amount Requested £	Reason and Funding Source
Summary of Supplementary Capital Estimates and Capital Virements		
Supplementary Capital Estimates up to £500,000		
S278's Agreements		
Kings School, Prestbury	30,000	£60k fees paid by the Developer, budget increase to match the amount received.
Welshmans Lane, Nantwich	4,526	£11,500k fees paid by the Developer, budget increase to match the amount received.
A34 Astbury Mere	1,500	Increase in budget to match fees increase.
Parking - Replacement Vehicle	293	Revenue contribution to cover additional costs.
Active Travel (Cycle/Walking route) Investment	10,000	Revenue contribution towards the cost of a feasibility study for a new cycle bridge across the River Dane – part of the Congleton Masterplan.
Middlewich Southern Link and Clive Green Lane Upgrad	45,000	Increase in budget to include the Cheshire West and Chester Council contribution to the scheme.
S106 Rope Lane Ped Crossing	5,748	To increase the budget to include all of the eligible S106 funds available for these projects
London Rd, Sandbach Ped Cross	12	
S106 Holmes Chapll Rd Bus Stops	876	
Newcastle Rd, Shavington Ped X	21,282	
Middlewich Rd Elworth Ped Crossing	3,995	
Sustainable Travel Access Programme	105,000	
Growth and Enterprise		
Wheelock Rail Trail s106	210	This project is funded by a S106 receipt, the increase is to align the budget with the actual receipt.
Schools Capital Maintenance	125,900	To increase the budget to include School contributions to works carried out by Facilities Management including the Schools Contributions for 2020/21
Environment & Neighbourhood Services		
Environmental Health Vehicles	1,261	Revenue contribution to cover the additional cost
Household Bins Schemes	209,900	Current expenditure levels will create a shortfall against the available budget at year-end. The excess expenditure is being funded by a revenue contribution.
Congleton Park Play Area Improvements	5,434	Final outturn is higher than originally budgeted. This increase is being off-set by additional external funding from FCC (WREN).
Playing Fields Fund	99,963	Approved capital grant offer has now been received from the Football Foundation.
Total Supplementary Capital Estimates Requested	**670,900**	

Service & Capital Scheme	Amount Requested £	Reason and Funding Source
Summary of Supplementary Capital Estimates and Capital Virements		
Capital Budget Virements that have been made up to £1,000,000		
Education and 14-19 Skills		
Future Capital Maintenance	8,175	Virement from Schools Maintenance grant (Facilities Management) for £8,175 spend on wall design works for Buglawton Primary School
Sandbach Boys School	45,095	Virement from the Sandbach Planning Area Programme - Secondary Schools to increase the budget for the Boys School to match the approved grant agreement.
Adelaide Academy	1,950	
Cranberry Primary School	217	
Alsager High School	4,378	
Disley Primary School (Basic Needs)	416	
Hungerford Primary School	1,029	
Mablins Lane Primary School - Phase 2	758	
Monks Coppenhall Primary School - Basic Needs	1,170	
Malbank High School	7,567	
Brine Leas High School	4,594	
Pupil Referral Unit - New Site	7,503	
Elworth CoE Primary School	8,983	
Shavington Primary School	7,792	
To Expand 'in borough' SEN placement Capacity - Springfield Special School	6,555	
The Quinta Basic Needs	2,582	Virements from the Capital Maintenance, Basic Need and the Special Provision Block Allocations to cover the Salary Recharges from the Organisation and Capital Team.
St Johns CoE Primary School	6,212	
Expansion of Park Lane School (to expand 'in borough'	21,776	
Wilmslow High School-Condition	216	
Vernon Primary School	2,099	
Hurdsfield Primary School	10,247	
Wilmslow High School BN	31,867	
Monks Coppenhall SEN Expansion	416	
Puss Bank SEN Expansion	9,456	
Sandbach High School - Basic Need	16,891	
Sandbach Boys School - Basic Need	16,528	
Middlewich High School - Front Entrance	9,857	
Special Provision Fund Capital Grant	8,945	
Schools Condition Capital Grant	17,851	
Weaver Primary School - Mobile	905	
Pupil Referral Unit - New Site	307,504	Virement from Basic Need Block to fund Pupil Referral Unit overspend
The Dingle Primary School	86	Virement from Capital Maintenance fund to The Dingle Primary School to fund overspend
Healthy Pupils Capital Fund	5,582	Virement from borrowing for Elworth Hall Primary to fund overspend on Healthly Pupils Project
Growth and Enterprise		
Field to Fork	1,198	Virements within the Tatton Park Capital Programme to cover overspends at Outturn
Tatton Events Infrastructure	2,175	
Schools Capital Maintenance	502,200	Schools Capital Condition grant - 2020-21 Schools Condition Programme, that will be delivered by the Facilities Management Team.

Service & Capital Scheme	Amount Requested £	Reason and Funding Source
Summary of Supplementary Capital Estimates and Capital Virements		
Capital Budget Virements that have been made up to £1,000,000		
Highways and Infrastructure		
Winter Service Facility	43,455	Department for Transport grant reallocated within the programme to cover the staffing overhead cost against the Winter Service Depot project
Highways Investment Network	120,412	
Highway Maintenance Minor Wks	41,270	
Client Contract and Asset Mgmt	32,736	
S106 Rope Lane Ped Crossing	4,039	Virements within the Highways service to cover additional costs within the programme.
Main Rd, Shavington TRO	1,467	
Hassall Rd, Alsager Ped Xing	1,650	
Accessibility: Public Transp't	215	
Environment & Neighbourhood Services		
Household Waste Recycling Centre	100,000	Virement from Organic Waste Composting Plant project to meet costs of reprocurement due to contractor no longer trading.
Energy Improvements at Cledford Lane	80,000	Virement from Organic Waste Composting Plant project to cover additional costs of snagging the silt bay works.
Total Capital Budget Virements Approved	**930,817**	
Total Supplementary Capital Estimates and	**1,601,717**	

Annex C:
Delegated Decision - Requests for Supplementary Capital Estimates (SCEs) and Virements

Service / Capital Scheme	Amount Requested £	Reason and Funding Source
Capital Budget Virements above £1,000,000		
Highways and Infrastructure		
Flooding and Weather events	2,013,569	Virements from within the current LTP funded programme (Highways Investment Network(£522k), Local Area Programme(101k), Highway Maintenance Minor Wks(£925k) and Bridge Maintenance Minor Wks(£166k)) where the expenditure has been managed to enable these essential works to take place. Also the residual budget against the Poynton Revitilisation Scheme (£300k) which is now complete.
Total Capital Budget Virements Requested	**2,013,569**	

Annex D:
Requests for Supplementary Capital Estimates (SCEs) and Virements

Service/Capital Scheme	Amount Requested £	Reason and Funding Source
Capital Supplementary Estaimates Over £1,000,000		
Education and 14-19 Skills		
Future Years Basic Need Block Allocation	2,977,000	Additional Basic Need Grant for the financial Year 2021/22 - not yet included in the capital programme.
Total Supplementary Capital Estimates Requested	**2,977,000**	

Annex E:
Capital Budget Reductions

Service/Capital Scheme	Approved Budget £	Revised Approval £	Reduction £	Reason and Funding Source
Cabinet are asked to note the reductions in Approved Budgets				
Education and 14-19 Skills				
Schools Condition Capital Grant	1,560,000	1,269,000	(291,000)	Confirmation of the grant less than the original estimate by £291,000
S278s				
Flowers Lane, Crewe	30,000	11,949	(18,051)	Project is now complete and can be finally closed.
Sandbach Road, Alsager	20,000	15,000	(5,000)	To decrease budget to the amount of fees received.
Barony Road, Nantwich	5,000	3,812	(1,188)	Project is now complete, to reduce budget to the amount spent.
138 Sydney Road, Crewe	10,000	6,279	(3,721)	Project is now complete, to reduce budget to the amount spent.
Old Mill Road, Sandbach	20,353	19,592	(761)	Project complete - reduce budget to match spend and close down
Reaseheath College, Nantwich	3,000	2,855	(145)	Project complete - reduce budget to match spend and close down
S278 Aldi Knutsford	35,000	31,000	(4,000)	Project complete - reduce budget to match spend and close down
Growth and Enterprise				
Crewe Town Centre Regeneration	31,637,094	31,253,580	(383,514)	To reduce budget for funding transferred to Revenue for costs that could not be classed as Capital expenditure.
Modular Construction (Gawsworth)	125,462	0	(125,462)	Housing development schemes which have been aborted, due to planning permission not being gained.
Gawsworth Dark Lane - historically Engine of th	1,264	0	(1,264)	
Starter Homes - Phase 1 (Browning Street)	867,000	0	(867,000)	
Browning Street - historically Engine of the North budget	59,272	-	(59,272)	
Hurdsfield Family Centre	449,706	449,171	(535)	This project is now complete.
Twin Trails - Gritstone Trail	15,081	15,000	(81)	This project is now complete.

Service/Capital Scheme	Approved Budget £	Revised Approval £	Reduction £	Reason and Funding Source
Cabinet are asked to note the reductions in Approved Budgets				
Environment & Neighbourhood				
Improvements to Haslington Play Area & Recreation Ground	72,815	72,801	(14)	Project is now complete and can be finally closed.
James Atkinson Way Playground, Crewe	30,245	26,945	(3,300)	Project is now complete and can be finally closed.
Wood Park Access Improvements	33,526	32,451	(1,075)	Project is now complete and can be finally closed.
Organic Waste Treatment Plant	11,500,000	8,872,262	(2,627,738)	Reduction in budget to reflect revised project costing.
Parks Development Fund	636,370	625,693	(10,677)	Reduction in budget to provide contribution towards the projects Perry Fields and Congleton Park Play Area to meet actual outturn.
Finance and Customer Services				
Digital Customer Services	5,977,259	5,977,026	(233)	Project overcharged in 2018-19, this has now been refunded in 2019-20
Total Capital Budget Reductions	**53,088,447**	**48,684,416**	**(4,404,031)**	

Annex F:
Transfers From and to the Capital Addendum

Servcice/Capital Scheme	£	Reason / Comment
Budgets Transferred from the Addendum to the Main Capital Programme		
Education and 14-19 Skills		
Ash Grove Nursery Expansion	(226,267)	Grant approval now received from the Department of Education - transferred to the main programme in 2019/20
Beechwood Nursery Expansion	(700,723)	Grant approval now received from the Department of Education - transferred to the main programme in 2019/20
Highways and Infrastructure		
Replacement Route Planning System	(108,571)	Transferred to the current programme in 2019/20 for Replacement Route Planning System
Growth and Enterprise		
Sustainable Towns (Regeneration & Development)	(43,000)	Additional funds of £43,000 to Macclesfield Town Centre project.
Corporate - ICT		
Digital Strategy	(310,000)	To facilitate the migration of the Dynamics 2013 CRM on premise solution to an Azure D365 PaaS solution
Total Budgets Transferred to Main Capital Programme	**(1,388,561)**	
Net Change to the Addendum	**(1,388,561)**	

Annex G:
Prudential Indicators revisions to 2019/20 – 2021/22.

Background

1.1 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

Estimates of Capital Expenditure

1.2 In 2019/20, the Council spent £124.0m on capital expenditure as summarised below:

Capital Expenditure	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	Future years £m
Total	124.0	162.7	161.3	108.2

Source: Cheshire East Finance

Capital Financing

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

Capital Financing	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	Future years £m
Capital receipts	7.0	3.0	3.0	3.0
Government Grants	52.7	71.9	97.9	29.2
External Contributions	7.3	19.3	16.1	36.3
Revenue Contributions	0.6	0.6	0.0	0.0
Total Financing	**67.6**	**94.8**	**117.0**	**68.5**
Prudential Borrowing	56.4	67.9	44.3	39.7
Total Funding	**56.4**	**67.9**	**44.3**	**39.7**
Total Financing and Funding	**124.0**	**162.7**	**161.3**	**108.2**

Source: Cheshire East Finance

Replacement of debt finance

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

Replacement of debt finance	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Total	**9.7**	**10.9**	**13.2**	**15.5**

Source: Cheshire East Finance

1.5 The Council's full MRP Statement is available in Annex E.

Estimates of Capital Financing Requirement

1.6 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt. The CFR is expected to increase by £60m during 2020/21. Based on the above figures for expenditure and financing, the Council's actual CFR for 2019/20 was £371.0m against an in year forecast of £419m as shown in the table below:

Capital Financing Requirement	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Total	**371**	**431**	**458**	**487**

Source: Cheshire East Finance

Asset disposals

1.7 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation project until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council received £10.4m of capital receipts in 2019/20 against a provisional forecast of £7.2m. The Council estimates a further £9.0m in the coming financial years as follows.

Capital Receipts	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Asset Sales	10.4	3.0	3.0	3.0
Loans Repaid	0.1	0.2	0.2	0.2
Total	**10.5**	**3.2**	**3.2**	**3.2**

Source: Cheshire East Finance

Gross Debt and the Capital Financing Requirement

1.8 The Council's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.3%) and long-term fixed rate loans where the future cost is known but higher (currently 2 – 3%).

1.9 Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are show below, compared with the capital financing requirement.

Gross Debt and the Capital Financing Requirement	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£m	£m	£m	£m
Borrowing	201	130	78	77
Finance Leases	2	1	1	1
PFI Liabilities	22	21	20	20
Total Debt	**225**	**152**	**99**	**98**
Capital Financing Req.	**371**	**431**	**458**	**487**

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

Liability Benchmark

1.11 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £20m at each year end. This benchmark is currently £183m and is forecast to rise to £327m over the next three years.

Borrowing and the Liability Benchmark	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Outstanding Debt	201	130	78	77
Liability Benchmark	181	252	287	326

Source: Cheshire East Finance

1.12 The table shows that the Council expects to remain borrowed below its liability benchmark.

Affordable borrowing limit

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

	2019/20 limit £m	2020/21 limit £m	2021/22 limit £m	2022/23 limit £m
Authorised Limit for Borrowing	359	420	448	477
Authorised Limit for Other Long-Term Liabilities	22	22	21	21
Authorised Limit for External Debt	**381**	**442**	**469**	**498**
Operational Boundary for Borrowing	349	410	438	467
Operational Boundary for Other Long-Term Liabilities	22	22	21	21
Operational Boundary for External Debt	**371**	**432**	**459**	**488**

Investment Strategy

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

1.15 The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with money market funds, other local authorities or selected high quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in shares and property, to balance the risk of loss against the risk of returns below inflation.

Treasury Management Investments	31/03/20 Actual £m	31/03/21 Estimate £m	31/03/22 Estimate £m	31/03/23 Estimate £m
Short term	0	0	0	0
Long term	20	20	20	20
Total Investments	**20**	**20**	**20**	**20**

Source: Cheshire East Finance

1.16 Further details on treasury investments are in pages of the Treasury Management Strategy, Appendix 2.

1.17 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 151 Officer and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury activity are reported to Cabinet as part of the Finance and Performance Update reports. The Audit and Governance Committee is responsible for scrutinising treasury management decisions.

1.18 Further details on investments for service purposes and commercial activities are in the Investment Strategy, Appendix 3.

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

Ratio of Financing Costs to Net Revenue Stream	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Financing Costs (£m)	12.0	12.0	14.0	14.0
Proportion of net revenue stream %	**4.23**	**4.00**	**4.66**	**4.61**

Source: Cheshire East Finance

1.20 Further details on the revenue implications of capital expenditure are on paragraphs 90-97 of the 2019-22 Medium Term Financial Strategy (**Appendix C**).

1.21 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable. The longer-term revenue implications have been considered and built into the revenue budget forecasts post the period of the current Medium-Term Financial Strategy.

Appendix 2

Treasury Management Annual Report 2019/20

1. Background
2. External Content
3. Local Context
4. Borrowing Strategy
5. Investment Strategy
6. Treasury Management Indicators

Annexes:

A. Existing Investment & Debt Portfolio Position

1. Background

1.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management. The Treasury Management Strategy for 2019/20 was approved at Council on 21st February 2019

1.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and as a minimum a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.3 In carrying out treasury operations the Council has regard to the advice received from it's appointed Treasury Management advisors, Arlingclose Ltd. The current contract for advice expires 31st December 2020.

1.4 Investments held for service purposes or for commercial profit are considered in the Investment Strategy Report (see **Appendix 3**).

2. External Context

2.1 **Economic background:** The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

2.2 The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% year on year in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

2.3 GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

2.4 Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

2.5 In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

2.6 The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

2.7 The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

2.8 **Financial Markets:** Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

2.9 **Credit Review:** In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

2.10 While the UK and non-UK banks on the treasury advisors counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

2.11 Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-.

3. Local Context

3.1 As at 31st March 2020 the Authority has borrowings of £225m and investments of £47m. This is set out in further detail at **Annex B.** Forecast changes in these sums are shown in the balance sheet analysis in **Table 1** below.

Table 1: Balance Sheet Summary and Forecast

	31/03/19 Actual £m	31/03/20 Actual £m	31/03/21 Estimate £m	31/03/22 Estimate £m	31/03/23 Estimate £m
General Fund CFR	330	371	431	458	487
Less: Other long-term liabilities *	(26)	(24)	(22)	(21)	(21)
Loans CFR	**304**	**347**	**409**	**437**	**466**
Less: External borrowing **	(158)	(201)	(130)	(78)	(77)
Internal (over) borrowing	**146**	**146**	**279**	**359**	**389**
Less: Usable reserves	(112)	(106)	(102)	(97)	(89)
Less: Working capital	(86)	(80)	(75)	(73)	(71)
Investments (or New borrowing)	**52**	**40**	**(102)**	**(189)**	**(229)**

* finance leases and PFI liabilities that form part of the Authority's debt

** shows only loans to which the Authority is committed and excludes optional refinancing

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3 The Authority has an increasing CFR due to the capital programme and will therefore be required to borrow up to £119m over the forecast period 2020/21 to 2022/23.

3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. **Table 1** shows that the Authority expects to comply with this recommendation during 2019/20.

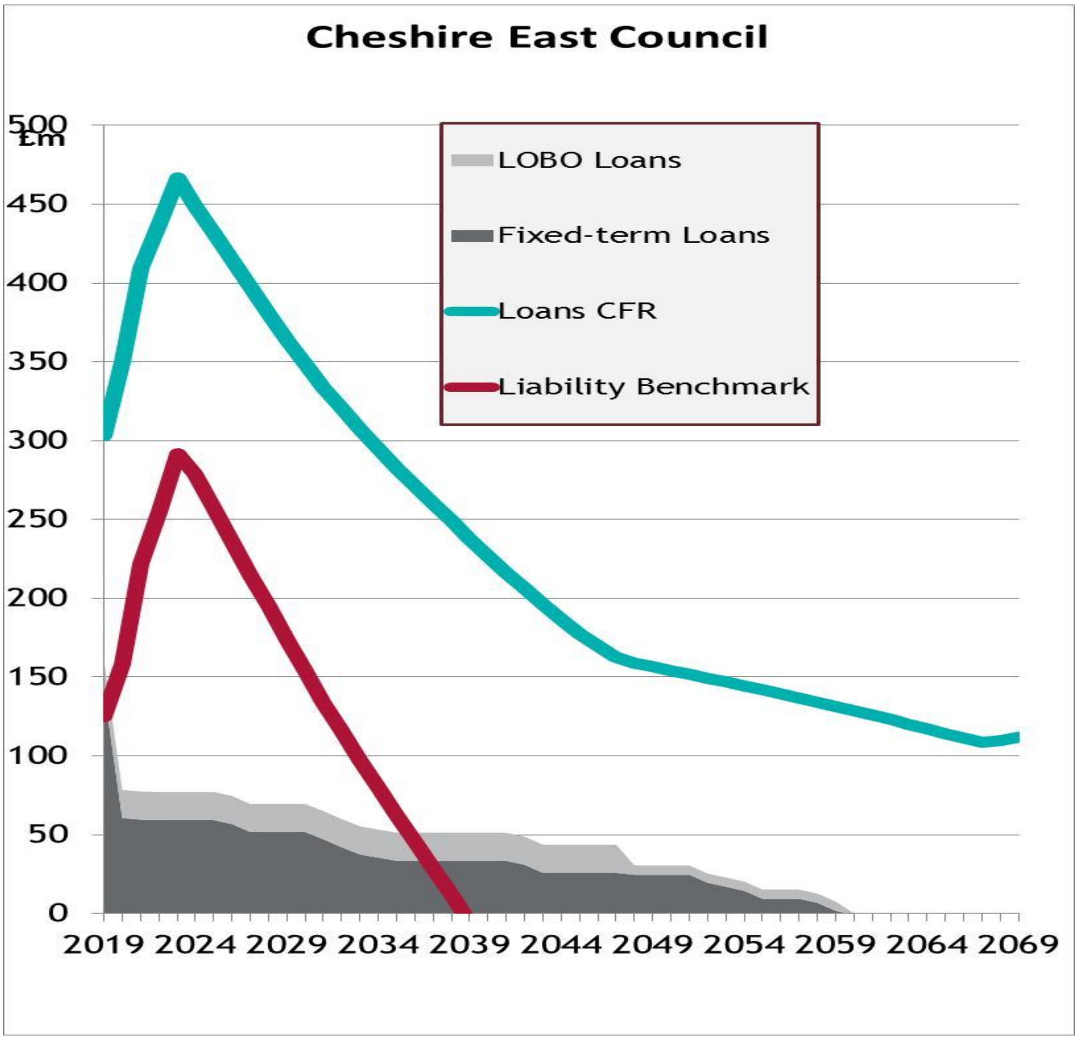
3.5 **Liability Benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £20m (increased from £10m in 2019/20) at each year-end to maintain a core strategic investment.

Table 2: Liability Benchmark

	31/03/19 Actual £m	31/03/20 Actual £m	31/03/21 Estimate £m	31/03/22 Estimate £m	31/03/23 Estimate £m
Loans CFR	304	347	409	437	466
Less: Usable reserves	(112)	(106)	(102)	(97)	(89)
Less: Working capital	(86)	(80)	(75)	(73)	(71)
Plus: Minimum investments	10	20	20	20	20
Liability Benchmark	**116**	**181**	**252**	**287**	**326**

3.6 Following on from the medium-term forecasts in table 2 above the long-term liability benchmark assumes minimum revenue provision on new capital expenditure based on a 25 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in **Chart 1**.

Chart 1: Liability Benchmark Chart



4. Borrowing Strategy

4.1 The Authority currently holds loans of £201m, an increase of £43m since 31st March 2020. PWLB debt has been reducing by £6m per year whilst cash flow shortfalls caused by internal borrowing is being funded through cheaper short term borrowing.

4.2 At the moment this is being be met by temporary borrowing from other Local Authorities which is considerably cheaper than other sources of borrowing. Generally this was on a one to three month basis but with some extending into 2020/21 and 2021/22 as liquidity within the markets is expected to become scarce. The cost (including fees) in 2019/20 was around 0.97%. A full list of temporary borrowings as at 31st March 2020 is shown below in Table 3.

Table 3 – Current Temporary Borrowing

Lender	Start	Maturity	Rate %	£m
Tameside	05/03/19	05/05/20	1.15	5.0
Derbyshire	15/03/19	24/04/20	1.20	10.0
Lincolnshire	15/03/19	15/04/20	1.15	5.0
Wokingham	11/09/19	10/09/21	0.90	5.0
PCC Dyfed - Powys	20/01/20	22/04/20	0.49	2.0
Northern Ireland Housing Executive	13/01/20	15/04/20	0.77	10.0
Cheshire West & Chester	20/01/20	20/04/20	0.80	5.0
Essex	23/01/20	23/04/20	0.76	5.0
Kingston Upon Hull	14/02/20	01/04/20	0.70	10.0
Hart	03/02/20	15/05/20	0.76	4.0
Calderdale	05/02/20	22/04/20	0.70	1.0
PCC Staffordshire	06/03/20	06/05/20	0.80	3.0
Erewash	13/03/20	15/06/20	1.05	1.0
Lancashire	12/03/20	14/04/20	1.15	20.0
West Lindsey	16/03/20	23/04/20	0.62	1.0
Lancashire	19/03/20	19/05/20	0.85	10.0
Trafford	20/03/20	21/09/20	1.50	2.0
Warwickshire	19/03/20	21/09/20	1.60	10.0
Cherwell	20/03/20	09/04/20	1.50	3.0
North Yorkshire	27/03/20	28/09/20	1.45	5.0
TOTAL				**117.0**

4.3 **LOBO's:** The Authority holds £17m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBO's had options during 2019/20 but no changes were proposed.

5. Investment Strategy

5.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. Due to the overriding need for short term borrowing, other than £20m invested strategically in managed funds, the investments are generally short term for liquidity purposes. On occasions higher balances than expected have been held due to the timing of receipt of grants, particularly COVID-19 related grants in March 2020.

5.2 The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 The maximum amount that can be invested with any one organisation is set in the Treasury Management Strategy Report. The maximum amount and duration of investments with any institution depends on the organisations credit rating, the type of investment and for banks and building societies, the security of the investment. Generally credit rated banks and building societies have been set at a maximum value of £6m for unsecured investments and £12m for secured investments. Any limits apply to the banking group that each bank belongs to. Limits for each Money Market fund have been set at a maximum value of £12m per fund with a limit of 50% of total investments per fund. There is also a maximum that can be invested in all Money Market Funds at any one time of £50m. Due to their smaller size, unrated Building Societies have a limit of £1m each.

5.4 As reported in the last monitoring report, in October the Council has exceeded its limit for unsecured investments with Santander UK Bank with £8.5m invested in notice accounts which is in excess of the limit by £2.5m. This position was rectified in November and arose as there are separate accounts in use with different terms. This situation should not arise again.

5.5 A further breach occurred in March as large overnight balances were held with the Councils bank, Barclays. This arose due to the late receipt of high value grants and maintaining liquidity whist COVID-19 lockdown processes were being implemented.

5.6 Treasury Management income for 2019/20 is £673,000 which is higher than the budgeted £440,000. Offsetting this are increased borrowing costs (£126,000 higher than budget).

- The average daily investment balance including managed funds during 2019/20 is £31.7m

- The average annualized interest rate received on in-house investments during 2019/20 is 0.74%

- The average annualized interest rate received on the externally managed funds during 2019/20 is 4.23%

5.7 The Authority's total average interest rate on all investments in 2019/20 is 2.12%. The returns continue to exceed our benchmark, the London Inter-bank Bid Rate for 7 days at 0.66% (average 2019/20), and our own performance target of 1.25% (Base Rate for most of 2019/20 + 0.50%).

Table 4 – Interest Rate Comparison

Comparator	Average Rate 2019/2020
Cheshire East	2.12%
LIBID 7 Day Rate	0.68%
LIBID 3 Month Rate	0.72%
Base Rate	0.75%
Target Rate	1.25%

5.8 As the Authority holds a large amount of reserves and working capital, the level of strategic investments was increased from £10m to £20m in order to benefit from higher income returns whilst spreading risk across different asset classes.

5.9 The additional £10m was invested between October 2019 and February 2020 across 4 different funds which are all designed to give an annual income return between 4% and 5% but which have different underlying levels of volatility. By spreading investments across different types of fund, the intention is to dampen any large fluctuations in the underlying value of the investments. These are shown below in Table 5.

Table 5 –Strategic Investments

Fund Manager	Asset Class	£m
CCLA	Property	7.5
Kames	Multi Asset	5.0
Fidelity	Equity - Global	4.0
Schroders	Equity - UK	2.5
M & G	Bonds	1.0
TOTAL		20.0

5.10 The value of these investments does vary. The effects of COVID-19 on financial markets and values of underlying assets has been considerable. Fund values at 31st March 2020 were significantly lower than the amounts invested. The Balance Sheet shows the value of these investments at £18.1m. However, since then the values of some of these funds have improved whilst they all continue to deliver high levels of income return.

Chart 2 – Current Investments by Counterparty Type

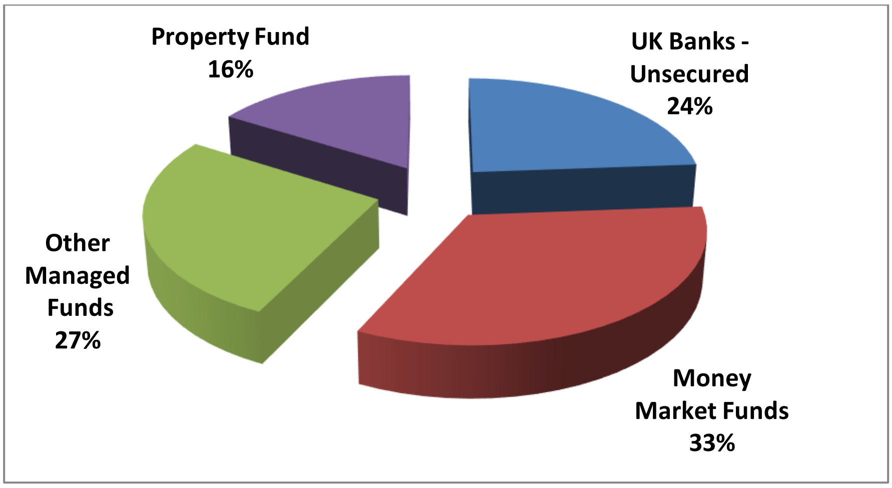


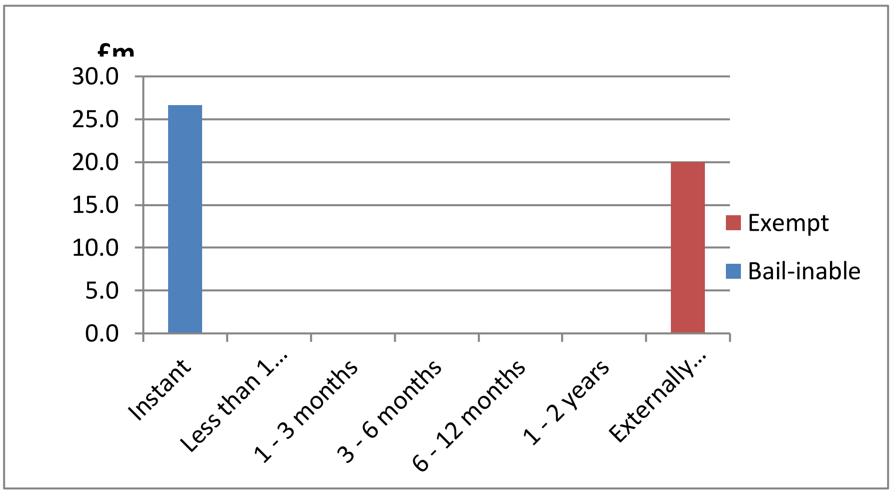
Table 6 – Types of Investments and Interest Rates at 31st March 2020

Instant Access Accounts	Average Rate %	£m
Money Market Funds	0.43	15.5
Barclays Call Account	0.30	11.1

Externally Managed Funds	£m
Property Fund	7.5
Other Managed Funds	12.5

Summary of Current Investments	£m
TOTAL	**46.6**

Chart 3 – Maturity Profile of Investments



Note: Bail-inable means that in the event of default the counterparty may be required to use part of the investments as their own capital in which case the Council would not get back as much as they invested. This would apply with most bank and Building Society investments.

6. Treasury Management Indicators

6.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

6.2 **Interest Rate Exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limit on the one-year revenue impact of a 1% rise in interest rates is:

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% **rise** in interest rates	£410,000
Actual impact in 2019/20 of increase in interest rates	£0

6.3 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The remained a net borrower in 2019/20 so any fall in rates would lead to savings rather than incurring additional cost. The limit and the actual impact were therefore £0.

6.4 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. Lower limits have been set at 0%. The upper limits on the maturity structure of borrowing which were set in February 2020 and the actual maturity profiles as at 31st March 2020 are:

Refinancing rate risk indicator	Upper Limit	Actual
Under 12 months	70%	66%
12 months and within 24 months	35%	3%
24 months and within 5 years	35%	0%
5 years and within 10 years	75%	1%
10 years and within 20 years	100%	12%
20 years and above	100%	18%

6.5 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper limit for loans maturing in under 12 months is relatively high as short term funding is currently considerably cheaper than alternatives. The increased margin applied to PWLB rates and the reduction in Base rates in March 2020 has increased the differences between long term certainty of interest costs and short term borrowing costs. This allows the Council to take full advantage the maximum that could be taken as short term borrowing was increased to 70% when setting the Treasury Management Strategy in February 2021.

6.6 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Price Risk Indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£25m	£15m	£10m
Actual amounts committed beyond year end	£0m	£0m	£0m

Annex A: Existing Investment & Debt Portfolio Position

	31/03/20 Actual Portfolio £m	31/03/20 Average Rate for the year %
External Borrowing :		
PWLB*– Fixed Rate	65	4.26%
Local Authorities	117	0.90%
LOBO Loans *	17	4.63%
Other	2	-
Total External Borrowing	**201**	**2.79%**
Other Long Term Liabilities:		
PFI	22	-
Finance Leases	2	-
Total Gross External Debt	**225**	-
Investments:		
Managed in-house		
Short-term investments:		
Instant Access	27	0.37%
Managed externally		
Property Fund	8	4.62%
Other Managed Funds	12	3.66%
Total Investments	**47**	**2.12%**
Net Debt	**178**	-

* The Authority inherited the majority of the external loans from Cheshire County Council in April 2009. The opening balance sheet position as at 1st April 2009 included PWLB loans totaling £120m and LOBO loans of £17m.

Appendix 3

Investment Strategy Annual Report 2019/20

1. Purpose

1.1 The Investment Strategy is part of a suite of related documents, and focuses predominantly on matters not covered by Capital Strategy and Treasury Management Strategy.

1.2 The Authority invests its money for three broad purposes:

- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

1.3 The investment strategy meets the requirements of the statutory guidance issued by MHCLG in February 2018, and focuses on the second and third of the investment categories.

1.4 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 21st February 2019.

2. Treasury Management Investments

2.1 The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments fluctuated between £10m and £63m during the 2019/20 financial year.

2.2 Full details of the treasury activities for 2019/20 are covered in the Treasury Management Report (Appendix 2).

3. Service Investment Loans

3.1 Loans have been provided to Everybody Sport & Recreation for the purpose of investing in new equipment, with the aim of increasing the usage of leisure centres and improving the health of residents.

3.2 In March 2013, Astra Zeneca announced it was relocating its R&D function from Alderley Park to Cambridge. In order to retain the expertise in the region and to stimulate local economic growth the Council has invested in Alderley Park Holdings Ltd by way of equity investment and loans.

3.3 In addition, the Council has committed to investing £5m (and invested £3.6m as at 31 March 2020) in the Greater Manchester & Cheshire Life Science Fund, a venture capital fund investing in a range of life science businesses. Partners in the Fund include the Greater Manchester Combined Authority, Cheshire & Warrington Local Enterprise Partnership and Alderley Park Ltd. The Fund has a regional focus and seeks to target companies looking to re-locate a material part of their business within the Greater Manchester and Cheshire and Warrington areas, which includes Alderley Park where the Fund is based.

3.4 The value of outstanding loans to each category of borrower compared to the upper limits are as follows:

Table 1: Loans for service purposes in £'000

Category of borrower	31/03/19 Actual	As at 31/03/20			2019/20
		Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0	0	0	0	1,800
Suppliers	24	24	1	23	100
Local businesses	4,679	5,087	61	5,026	10,000
Local charities	679	601	44	557	2,000
TOTAL	**5,382**	**5,712**	**106**	**5,606**	**13,900**

3.5 Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

4. Service Investments: Shares

4.1 The Authority has invested in Alderley Park Holdings Limited in order to maintain and stimulate the key strategic industry of life sciences within the Borough. Cheshire East is a 10% shareholder in Alderley Park, and has invested in the development of the site along with Bruntwood (51% shareholder) and Manchester Science Partnerships (MSP; 39% shareholder). As part of the arrangement, the Council also invested in MSP, taking a 3% equity stake for £0.7m. These shares were sold to Bruntwood in September 2019 for £2.4m.

4.2 The Council also has shares in its subsidiary, wholly owned companies. However they are of nominal value, and consequently whilst the turnover of the group of companies is significant (£60m in aggregate) the share values are not considered material in the context of this Investment Strategy.

4.3 The value of each category of shares compared to purchase costs and upper limits are as follows:

Table 2: Shares held for service purposes in £'000

Category of company	31/03/ 2019 actual	As at 31/03/2020			2019/20
		Amounts invested	Gains or losses	Value in accounts	Approved Limit (cost of investment)
Local Businesses	5,952	1,070	2,040	3,110	5,000
TOTAL	**5,952**	**1,070**	**2,040**	**3,110**	**5,000**

5. Commercial Investments: Property

5.1 Note that MHCLG defines property to be an investment if it is held primarily <u>or partially</u> to generate a profit.

5.2 On 2nd April 2019 the Council purchased land and buildings on the North and East side of Weston road in Crewe for £21m.

Table 3: Property held for investment purposes in £'000

Property	Actual	31/03/20 actual		31/03/21 expected		2019/20 Approval Limit
	Purchase cost	Gains or (losses) in-year	Value in accounts (includes gains/ (losses) to date	Gains or (losses)	Value in accounts	
Industrial Units	907	522	1,965	0	1,965	
Enterprise Centres	770	(947)	350	0	350	
Retail	23,350	(500)	24,870	0	24,870	
Residential	600	(435)	240	0	240	
Total	**25,627**	**(1,360)**	**27,425**	**0**	**27,425**	**32,100**

6. Commercial Investments: Loans

6.1 In considering commercial investment opportunities, the Council will adopt a prudent approach, with two underlying objectives:

- **Security** – protecting the capital sum invested from loss
- **Liquidity** – ensuring the funds invested are available when needed

6.2 Consideration is being given to a loan to Cheshire & Warrington Local Enterprise Partnership linked to developments within the Business Rates Enterprise Zone. This is likely to go ahead in 2020/21.

Category of borrower	2019/20	2019/20
	Value in Accounts £000	Approved Limit £000
Partner Organisations	0	30,000

7. Loan Commitments and Financial Guarantees

7.1 As Accountable Body for the Cheshire & Warrington Local Enterprise Partnership, the Council acts as Entrusted Entity to a £20m European Regional Development Fund (ERDF) supported Urban Development Fund which is due to commence in 2020/21. The Council, as contracting party, provides guarantees in respect of the amounts provided through ERDF.

8. Proportionality

8.1 The Authority is only partially dependent on profit generating investment activity to achieve a balanced revenue budget, in respect of Place services. **Table 4** below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net profit, the Authority's contingency plans for continuing to provide these services include effective budget management and tight cost control.

Table 4: Proportionality of Investments in £'000

	2018/19 Actual	2019/20 Budget	2019/20 Actual	2020/21 Budget	2021/22 Budget
Gross service expenditure - Directorate Level	76,924	73,120	73,137	78,216	80,516
Investment income	(1,787)	(2,236)	(1,785)	(2,486)	(2,486)
Proportion	2%	3%	2.5%	3%	3%

NB: The proportion is the investment income divided by the gross service expenditure

9. Borrowing in Advance of Need

9.1 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority follows this guidance.

10. Capacity, Skills and Culture

10.1 The Authority has established an Investment Strategy Board comprised of members, supported by officers and where necessary, external advisors, and acts on recommendations from officers that consider opportunities to enhance the Revenue & Capital Budgets of the Council through strategic investments, whether that involves using capital/cash resources or borrowing and lending powers. The Board meets when there is a need to consider potential investments.

10.2 The Board is made up of the following individuals:

- The Leader of the Council (Chair)
- Portfolio Holder for Finance, ICT & Communication
- Portfolio Holder for Environment & Regeneration

10.3 Support is provided by:

- Executive Director Corporate Services
- S151 Officer
- Monitoring Officer
- Executive Director Place
- Director of Growth and Enterprise

11 Investment Indicators

11.1 The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

11.2 **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans

Table 5: Total investment exposure in £'000

Total investment exposure	31/03/20 Forecast	31/03/20 Actual	31/03/21 Forecast
Treasury management investments	20,000	47,000	20,000
Service investments: Loans	5,689	5,712	5,611
Service investments: Shares	3,880	3,110	5,000
Commercial investments: Property	28,785	27,425	32,000
Commercial Investments : Loans	0	0	30,000
TOTAL INVESTMENTS	**58,354**	**83,247**	**92,611**
Commitments to lend	1,484	1,484	1,484
TOTAL EXPOSURE	**59,838**	**84,731**	**91,127**

11.3 **How investments are funded:** Currently the Authority's investments are funded by usable reserves and income received in advance of expenditure.

11.4 However in 2020/21 there is a possibility if the Authority decides to increase its investments in commercial properties and loans that they may require funding from borrowing.

Table 6: Investments funded by borrowing in £'000

Investments funded by borrowing	31/03/19 Actual	31/03/20 Actual	31/03/21 Forecast
Treasury management investments	0	0	0
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	32,000
Commercial Investments : Loans	0	0	30,000
TOTAL FUNDED BY BORROWING	**0**	**0**	**62,000**

11.5 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred. The effect of COVID-19 on financial markets in March 2020 was significant and the valuation of investments was negatively impacted. These valuations can be volatile and the expectation is that these will recover in 2020/21 and beyond.

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

Investments net rate of return	2018/19 Actual	2019/20 Actual	2020/21 Forecast
Treasury management investments	1.75%	2.12%	2.80%
Service investments: Loans	2.52%	-12.59%	0.48%
Service investments: Shares	107.67%	-26.25%	0.00%
Commercial investments: Property	6.66%	6.66%	6.66%

11.6 The negative return for service loans reflects the revaluation of the GM & Cheshire Life Sciences Fund and although shares in MSP were sold following gains in 2019/20 and earlier years, the revaluation of the Alderley Park shares based on the Balance Sheet value has resulted in a negative return for shares. However, the valuation is still higher than the original purchase cost.