

CORPORATE INVESTMENT STRATEGY

Introduction

An investment strategy is designed to assess opportunities for the effective utilisation and optimisation of the councils' non-operational assets and resources to secure new or improved sources of income and/or capital growth. The key elements of this strategy are set out below:-

- The **Strategic Case** – reducing grant from central Government and a predicted significant growth in demand for council services is placing increasing pressure on council budgets. In response, the LGA has suggested 3 principle ways to meet these challenges:-
 - Income from assets
 - Trading services
 - Sale of commodities
- The **Economic Case** – Various Investment Vehicles offer a range of diverse options to generate income, particularly where there can be a margin between the net return and the funding costs.
- The **Commercial Case** – Opportunity to deliver a long term and sustainable income, not impacted by Central Government policy. Additional secondary objectives such as business rate growth, economic activity and regeneration in local areas.
- The **Financial Case** – Each investment opportunity will be evaluated against stringent financial criteria to ensure each delivers gross income aspirations whilst taking consideration of the costs of operating the fund, including lending, acquisition and operating costs.
- The **Regeneration Case** – There is an opportunity to use council assets to lever in further investment or combine with other private or public sector assets to achieve specific regeneration and development objectives and ambitions. There are also opportunities to support failing or declining projects or assets to improve rental income and potentially provide a catalyst for adjacent regeneration and private ownership and investment.

Reasons why this is required

Continuing reductions in Central Government funding at a time when Councils are facing increasing demand for services, given changing demographics and an aging population, means that alternative sources of income and optimization of council assets and resources need to be identified.

Historically, many Councils have retained fairly significant property and land portfolios for operational reasons, but the shifting landscape for local government, changing customer trends in how they access and consume services, and different and more flexible working practices for Councils have rendered many of these assets surplus to requirements. There is therefore, an opportunity to review these assets and resources, and evaluate the most suitable options in order to optimize operational efficiency, customer access and economic and financial value.

Benefits of Property as an Asset Class

| Pros | Cons |
|---|---|
| <ul style="list-style-type: none"> • Physical Asset • Relatively stable income stream • Capital growth potential • Diversification opportunities • Risk / Return profile • Inflation protection | <ul style="list-style-type: none"> • Large lot sizes • Relatively illiquid/transaction costs • Not transparently traded like a commodities • Expert management needed • A broad investment class |

Why Property

- Property is a tangible asset, usually comprising two elements; land and buildings. Whilst a building can become obsolete or destroyed, land remains an asset that generally retains value.
- A slight disadvantage of owning a tangible asset like property, is the requirement for ongoing management and the total cost of ownership. Effective management is essential to maintain income flow and to ensure that a building remains attractive to occupiers and potential buyers.
- As Cherwell and South Northants Councils own existing property portfolios, as well as shares within property holdings, the resources to undertake effective management already exists in house. However, should more complex schemes and arrangements be entered into, it will be necessary to review the models by which these may be managed in order to deliver the greatest benefit.
- Cost of ownership can be minimised, through a diversified treasury strategy employing a mix of existing resources, other council lending or central borrowing. This places councils in an advantageous position to the wider property market that has constraints on their funding options.
- Property can offer councils a wider range of benefits not as readily available from other classes such as:
 - Control over key assets in their districts that will align with the Councils' corporate strategy.

- Delivery of projects that otherwise might stall or not progress if left in private sector hands.
- Momentum where intervention by a Council can then unlock a lead to confidence in the market from third parties.
- Non-financial gains where inward investment can create / maintain jobs / training etc.What should we invest in?

| Community Investments | Strategic Investments | Commercial Investments |
|---|---|---|
| Investment in leisure centres, sporting facilities which don't provide traditional yields but provide a wide community benefit. | Purchase of underperforming property assets which provide key strategic regeneration opportunities to generate the catalyst for economic development. | Purchase of income producing investments competing in the open market both in and outside the District. |

Governance

There are two key elements to ensuring that the right governance is in place:-

- Agree the appropriate investment approach
- Establish where the decisions on individual investments will be taken and how

Investment Approach

It is essential that the Council first establishes the objectives for its Investment Strategy. A major priority for the councils will be financial sustainability, and a financial objective and contribution from this strategy will need to be established as part of Medium Term Financial Plan.

Appended is an Investment Matrix which helps in assessing the link to corporate objectives, suitability and return from any investments, and the risk profile that the Council is prepared to accept in considering any potential investments.

Investment Policy Advisory Group

It is proposed that upon adoption of such a strategy and the creation of the agreed governance structure, that there will be a resource, both internally and externally, appointed to consider the asset classes to be focused on and the acquisition criteria further defined.

The property investment market is very competitive and needs consistent and quick decisions if the Council is going to be successful in acquiring assets in this environment. It is therefore proposed that an Investment Policy Advisory Group is established to act as an advisory body for these initial decisions. They should ensure the decisions fall within the Corporate Strategy and are based upon the approved investment matrix. They will then report their recommendations to Full Council.

The Policy Advisory Group will be made up of:-

Members

- Leader of the Council
- Portfolio Holder for Financial Management
- Portfolio Holder for Estates and the Economy
- Chair of the Accounts, Audit and Risk Committee
- Leader of the Opposition

Officers

- Chief Executive
- Executive Director – Finance and Governance (Section 151)
- Assistant Director – Property, Investment and Contract Management
- Assistant Director – Law and Governance (Monitoring Officer)

The primary purposes of the Policy Advisory Group would be twofold:-

- To consider recommendations from officers regarding the potential purchase of a property asset, prior to submission of a bid. This would include consideration of the yield, and the Investment Evaluation based on the criteria set out. The ultimate consideration would be whether to submit a bid or not, and at what value.
- To consider the results of the due diligence process, (following acceptance of an offer from Council to purchase an asset), with the ultimate consideration of whether to endorse the purchase and proceed to exchange of contracts.

Decisions to submit bids, approve purchases and exchange of contracts would be taken as urgent decisions by the Chief Executive or Executive Director of Finance and Governance in consultation with the Investment Policy Advisory Group and reported to the next available meeting of the Council.

Given the need to react quickly and take timely decisions, meetings of the Investment Policy Advisory Group may need to be convened on a 'virtual' basis. In order to ensure the necessary governance, the meeting should include:-

- At least two of:-
 - Leader of the Council
 - Lead Member for Financial Management
 - Lead Member for Estates and the Economy.

And:

- At least two of:-
 - Chief Executive
 - Executive Director – Finance and Governance
 - Assistant Director – Property, Investment and Contract Management

**CORPORATE INVESTMENT STRATEGY
Draft Scoring Matrix**

| SCORING CRITERIA | SCORE | 4 | 3 | 2 | 1 | 0 |
|--|------------------|--|---|--|--|--|
| | WEIGHTING FACTOR | EXCELLENT / VERY GOOD | GOOD | ACCEPTABLE | MARGINAL | UNACCEPTABLE |
| Location - In Borough/Adjacent to Borough and can still add value | 25% | Prime | Good | Secondary | Tertiary | Remote |
| Tenancy - Strong Covenant | 15% | Single tenant with strong financial covenant | Multiple tenants with strong financial covenant | Single tenant with good financial covenant | Multiple tenants with average financial covenant | Tenants with poor financial covenant strength |
| Tenure | 10% | Freehold | 150+ year unexpired with no LL controls | 150+ with minimal landlord controls / gearing below 5% | Lease under 150 years | Lease under 100 years |
| WAULT - Weighted average unexpired lease term | 20% | 20 years + | 15 years + | 10 years + | 5 Years + | Less than 5 years |
| Repairing Terms | 10% | FRI | 75% + on FRI | 50% + on FRI | Internal repairing Only, Cap Ex required | Short term leases with high landlord responsibilities, Cap Ex required |
| Lot size | 10% | Between £4m and £6m | Between £6m and £8m, £4m and £2m | Greater than £8m, Less than £2m | | |
| Profile | 10% | Super Core | Core | Value Add | Opportunistic | |
| Management Resources | 10% | Minimum. Single tenant, FRI. | Minimum Fully let, no more than 3 tenants. | Moderate. Common parts, Service Charge etc. | Active but well managed to date. | Active and historical lack of management |