APPENDIX 1 – Investment Decision Factors

- Compatibility and ability to balance the existing portfolio

  Compared with cash investments, property is relatively difficult to sell and convert to cash at short notice and market conditions can impact on how long a sale can take. In order to mitigate against this, the diversity of the portfolio will be maintained to ensure that if there is a need to sell an asset to release cash, the Council can take advantage of the different market conditions for the different sectors.

  Generally new investments will add diversity and balance to the existing portfolio as well as providing yield.

- Market value

  External advice is sought to gain assurance over the market value of a potential purchase to ensure that the price sought by the vendor is not inflated. The advice will include an analysis of current value, lettability in the event of tenant failure and what possible alternative uses are available for the property or site if the current tenant vacates. This enables the Council to take a view on future values in the event of a change in circumstances.

  External advice will usually take the form of a Purchase Report from a retained agent and a third party wholly independent valuation.

- Credit rating of the tenant

  The strength of the existing tenant(s) within a proposed acquisition is assessed. A strong tenant is important as there is less chance of them defaulting on lease payments and thereby putting the Council's income stream at risk. Credit reference agencies along with Companies House searches are used to carry out this area of due diligence.

- Length and terms of the lease

  In order to minimise the risk of rental values going down following the renewal of a lease, the Council will prefer to invest in properties which have long term leases in place and strong tenants. The Council also ensures that leases place the onus for insurance, repairs and maintenance on the tenant so that the Council does not incur any additional or unforeseen costs.

  The reality is that these characteristics will not be available in assets bought for regeneration purposes and that lease length can be less important in multi-let assets and in asset classes where vacancy rates are low.

- Location

  The Council's present and future commercial investments will all be within the District. When future investments are evaluated social good and regeneration potential will always be considered.

- Diversity of the commercial property portfolio

  To minimise the risk of changes in the performance of particular sectors of the commercial property market (i.e. the retail, office and industrial sectors) impacting on the Council's income, investment decisions are taken in the context of the existing nature of the portfolio and whether or not the property to be acquired complements the existing mix of portfolios. The Council will seek to maximise the diversity of its overall portfolio and not concentrate new investments in any one sector or area.

- Yield

  The Council will consider the return it will get on its investment (the yield). The Council has a minimum yield expectation that covers the costs of borrowing and will only invest in a property below this level if it fulfils other strategic interests. The yield calculation takes into account any costs incurred if the investment is to be funded by borrowing.

- Investment cover ratio

  This ratio compares the total net income from property investments to any interest costs associated with borrowing to make those investments. This demonstrates the Council's ability to meet borrowing costs. The Council's assets are unencumbered but adopting a notional level of gearing can a useful indicator of the robustness of an investment.

- Loan to value ratio

  This is the amount of debt the Council currently has compared to the total asset value. In this instance, the asset value is the total value of the Council's commercial property portfolio. This illustrates whether or not the Council has assets of sufficient value to repay debt if required. Again, the Council's assets are unencumbered but adopting a notional level of gearing can a useful indicator of the robustness of an investment.

- Target income returns

  This is net revenue income from commercial properties compared to the value of the property or stapled to it's price on acquisition when it is known as the running yield. The target will be set by the Investment Advisory Board.

- Gross and net operating income (NOI)

  The income received from the Council's investment portfolio at a gross level and a net level (after the deduction of costs) over time.

- Operating costs

  This is the trend in operating costs of the property portfolio over time. It gives an overview of the impact of commercial property investments on the costs of running the portfolio.

- Property vacancy levels

  The lower the level of vacant properties (voids) the better the property portfolio is being managed to ensure that rental income is maximised as much as possible.

APPENDIX 2 – The Investment Advisory Board and Governance

The Investment Advisory Board is made up of:

<table>
<tr><th colspan="2">Investment Advisory Board</th></tr>
<tr><th>Members</th><th>Officers</th></tr>
<tr><td>Leader of the Council
Portfolio Holder for Finance
Portfolio Holder for Property, Economic Development, Regeneration
Chair of the Audit Committee
Leader of the Opposition</td><td>Chief Executive (CEX)
Director of Finance (S151)
Corporate Director of Assets and Investments (CDAI)
Assistant Director Property Investment and Contract Management (AD PICM)
Investment Consultant
Director of Law and Governance (Monitoring Officer)</td></tr>
</table>

The primary purposes of the Investment Advisory Board are twofold:

- To consider recommendations from officers regarding the potential purchase of a property asset, prior to submission of a bid. The Investment Advisory Board review the officers' investment valuation, sanction expenditure on further due diligence and ultimately whether to submit a bid or not, and at what value.

- To consider the results of pre-acquisition due diligence following acceptance of an offer from CDC to purchase an asset, and ultimately to consider whether to endorse the purchase and proceed to exchange of contracts.

The Investment Advisory Board is authorised to sanction all offers. All recommendations relating to offers to purchase are reported to the next available meeting of the Council and their consent is required prior to any exchange of contracts.

Given the short notice that could often be inevitable in convening meetings of the Investment Advisory Board, all members would be able to nominate substitutes if they are unable to attend, or meetings could be held on a 'virtual' basis. For similar reasons, a quorum is not recommended, (particularly as the Investment Advisory Board is not decision making), although a meeting should include:

- at least two of the Officers: CEX, S151, MO, CDAI and AD PICM.
- at least two of the Members: Leader of the Council, Portfolio Holder for Finance, Portfolio Holder for Property, Economic Development

Other directors and assistant directors will be invited to participate when they have distinct operational needs that can only be addressed through the acquisition of additional premises.

As well as considering investment recommendations the Investment Advisory Board responsibilities also include:

1. Setting the threshold target return that investment properties should reach before they can be considered for investment.

2. Setting target volume of investments, expressed in capital and income terms, and subject to an investment timeline.

   For the avoidance of doubt CDC Property are well placed to identify, evaluate and rank assets that might meet the two criteria identified above, but the criteria themselves are not necessarily property dependent; they will be a function, inter alia, of the Council's need for income, appetite for risk, quantum of reserves, Minimum Revenue Provision and capacity to take on additional debt, and the interplay of property with other treasury investments.

3. Managing the progress of an investment decision through the governance process including interaction with the wider Council.

4. The extent of interaction and co-investment between CDC and OCC.

5. The extent to which regeneration and the climate crisis, for example, should play a part in investment decisions.

6. The use of external suppliers, particularly lawyers and external valuers.

7. Retaining agents on acquisition and how this might impact on procurement protocols.

8. Geographic investment boundaries i.e. is there an area of economic influence that extends beyond the council's boundaries?

9. Preferred sectors and investment characteristics (lease length, covenant strength etc vs lettability).

10. Cashflow horizons.