APPENDIX 3 A

DRAFT INVESTMENT STRATEGY

1. Introduction

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, the CIPFA Treasury Management Code of Practice (the Code) and MHCLG Investment Guidance (the Guidance) to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

In February 2018 the Secretary of State issued new guidance on Local Government Investments (the Guidance), which widened the definition of an investment to include all the financial assets of a local authority as well as other non-financial assets held primarily or partially to generate a profit. This wider definition includes investment property portfolios as well as loans made to wholly owned companies or associates, joint ventures or third parties. The Guidance applies for financial years commencing on or after 1 April 2018.

The Guidance requires the Strategy to be approved by Full Council on an annual basis and sets out the disclosure and reporting requirements. Any mid-year material changes to the Strategy will also be subject to Full Council approval.

The Guidance sets out the Government's position on borrowing in advance of need, which is that Authorities must not borrow more than, or in advance of their needs, purely to profit from the investment of the extra sums borrowed. The Council must have regard to the Guidance but is able to depart from it where such departure can be justified.

The Council has noted and has had regard to the Guidance. It has decided to depart from the Guidance in this instance, and within the parameters set out in this Strategy, for the purposes of delivering Business Plan objectives and maintaining a robust financial position. The Council has set out within this Strategy its approach to risk and risk mitigation, including the requirement for fully tested and scrutinised business cases, due diligence indicators and regular and formal reporting and scrutiny of investment decisions and performance.

2. The Strategy

The Strategy aims to provide a robust and viable framework for the acquisition of commercial property investments and pursuance of redevelopment and regeneration opportunities that can deliver positive financial returns for the Council.

Investments will be focussed within the District, the Greater Cambridge Partnership area and the Travel to Work Area as shown in Appendix A4.
Investment relating to the Strategy will be directed towards three streams of activity:

a) Stream 1

Prime and close to prime commercial real estate investment let on long leases to good covenants which will provide a secure long-term income over and above their ability to pay back the purchase price debt.

The contributions from Stream 1 investments will include:

- Yield / profit
- Long term capital uplift

b) Stream 2

Investment which can generate regeneration or economic development benefits as well as positive financial returns for the Council. Financial returns for the Council may come in the form of increased business rates income, New Homes Bonus where the investment is within the District and residential letting income from Build to Rent developments.

The contributions from Stream 2 investments will include positive financial returns for the Council, and may also include the following:

- Investing in climate and environmental initiatives
- Investing in Social Capital
- Redeveloping Council owned assets;
- Building homes and commercial premises;
- Using public land and buildings to achieve long term socio economic development within the District and wider Greater Cambridgeshire Area, as identified in the Local Plan and Appendix A4;

c) Stream 3

Investment partnerships with third party developers to deliver new homes that will include:

- Acquisition of 3rd party land;
- Include public sector and bank debt
- Incorporation of grants and other funding
- An equal sharing of risk and reward between partners

The investment assessment criteria for all three streams are shown in Appendix A2

3. Financing the Strategy

The Council will fund the investment property acquisitions by utilising the most appropriate and efficient funding strategy available at the time of purchase. The Council has the option of utilising prudential borrowing, capital receipts, and reserves and may consider other structures such as joint ventures with pensions and insurance funds. Financing decisions will link to the Council's Financial Strategy and Treasury Management Strategy.

4. Governance Arrangements

It is necessary to have a framework for determining which properties and development opportunities should be invested in.

A dedicated Officer level Property Selection Team (PST) will be formed and structured as outlined in Appendix A3. This team will advise a Property Investment Governance Board (PIGB) on potential purchases and development opportunities that meet the pre-determined selection criteria contained within the Strategy. The PST will identify investment opportunities based on the selection criteria set out in this Strategy, will carry out all necessary due diligence and will present a full business case to the PIGB for challenge.

The structure of the PIGB is also outlined in Appendix A3. The purpose of the PIGB is to challenge and scrutinise investment opportunities identified by the PST, ensuring that only credible options are progressed, and providing the forum for the strategic management of the overall portfolio of investments, consistent with the aims of the Strategy.

The PIGB will be advisory in nature and will assist the Executive Director in his decision making by reviewing, challenging and recommending to him the progression or rejection of property investments.

To enable the timely and decisive decision making which is essential in this type of industry, to respond to opportunities as they arise, regular meetings of the PIGB will be scheduled

Decisions of the Executive Director will be subject to fulfilment of the minimum criteria set out within the Strategy, satisfaction with the business case and risk assessment, and will have regard to the recommendation of the PIGB.

Acquisitions and development opportunities that do not meet the minimum criteria set out within the Strategy may still be considered where they would bring other compelling benefits to the District, but would require approval of Full Council

5. Capacity, Skills and Use of External Advisors

The Guidance requires that elected members and officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment. In addition, it places a duty on the Council to ensure that advisors negotiating deals on behalf of the Council are aware of the core principles of the prudential framework and the regulatory regime in which the Council operates.

The Council will appoint specialist advisors to provide training to ensure that relevant officers and members have the required skills to make informed decisions and assess the associated risks. This training will take place before any investment decisions associated with the Strategy are considered. The PST will include representatives from Legal Services and Corporate Finance, who will ensure that advisors and officers negotiating deals are aware of the Council's financial and regulatory frameworks.

The Council recognises that investing in land and properties to generate yield and capital returns is a specialist and potentially complex area. The Council will engage the services of professional property, legal and financial advisors, where appropriate, to access specialist skills and resources to inform the decision-making process associated with this Strategy.

The Council recognises that it is responsible for property investment decisions at all times and will ensure that undue reliance is not placed upon our external service providers and will maintain sufficient in-house expertise to manage the procurement of investments, through the PST.

6. Prudential Indicators

The Guidance requires local authorities to develop quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of commercial property investment decisions.

The indicators associated with the Council's proposed Commercial Property Investment Strategy are detailed below.

a. Debt to Net Service Expenditure (NSE) Ratio

This indicator measures the gross debt associated with Commercial Property Investments as a percentage of the Council's net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.

Estimate £'000	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	**Limit**
Gross Debt	-	20,000	40,000	60,000	80,000	100,000	
NSE	18,815	20,701	22,180	21,718	21,177	20,786	
Debt to NSE Ratio	**0%**	**97%**	**180%**	**276%**	**378%**	**481%**	**500%**

The indicator shows that the debt level proposed by the Strategy will be approximately up to 5 times the level of the Council's net revenue budget if the proposed investment in the Strategy is funded solely from borrowing.

Given that the Strategy will take the risk profile of investments into account in the decision-making process and the Council sees property investments as a long-term investment this ratio is reasonable. A maximum limit of 500% has been set for this indicator.

b. Commercial Income to NSE Ratio

This indicator measures the Council's dependence on the income from commercial property investments to deliver core services.

Estimate £'000	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	**Limit**
Commercial income	2,004	2,600	3,200	3,800	4,400	5,000	
NSE	18,815	20,701	22,180	21,718	21,177	20,786	
Commercial income to NSE Ratio	**10.7%**	**12.6%**	**14.4%**	**17.5%**	**20.8%**	**24.1%**	**30%**

The additional income generated from the investments set out within this Strategy will be equivalent to 24% of the Council's Net Service Expenditure by 2023/24. This ratio is considered reasonable and includes the revenues generated from Ermine Street Housing. A maximum limit of 30% has been set for this indicator.

c. Investment Cover Ratio

This indicator measures the total net income from property investments compared to interest expense.

Estimate £'000	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Commercial income	2,004	2,600	3,200	3,800	4,400	5,000
Interest cost	-	594	1,188	1,782	2,376	2,970
Investment cover Ratio	n/a	4.38	2.69	2.13	1.85	1.68

The indicator shows that the net income from property investments is expected to be at least 1.68 times higher than the anticipated interest expense.

d. Loan to Value (LTV) Ratio

This indicator measures the amount of debt compared to the total asset value. In the period immediately after purchase it is normal for the directly attributable costs of purchasing commercial property investments to be greater than the realisable value of the asset (e.g. because of non-value adding costs such as stamp duty). The initially high LTV ratio in 2019/20 is due to the inclusion of the assets of Ermine Street Housing that have been purchased from reserves. A decrease in the loan to value ratio from 2020/21reflects that Debt finance will be raised through Public Works Loan Board borrowings and property values are expected to remain constant, however borrowings will be repaid.

Estimate £'000	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total debt	-	20,000	40,000	60,000	80,000	100,000
Total asset values	63,553	86,597	128,478	153,509	177,559	201,715
LTV Ratio	-	4.33	3.21	2.56	2.22	2.02

Each year the Council will assess whether assets purchased via the Strategy retain sufficient value to provide security of investment using the fair value model in International Accounting Standard 40: Investment Property. If the fair value of assets is not sufficient to provide security for the capital investment the Strategy will provide detail of the mitigating actions that are being taken, or are proposed to be taken, to protect capital investment.

e. Target Income Returns (Yield)

This indicator shows net revenue income compared to equity and is a measure of achievement of the property portfolio. The net return is shown after making allowance for financing and borrowing repayment costs.

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Target income returns	-	2.5%	2.5%	2.5%	2.5%	2.5%

f. Gross and Net Income

Estimate £'000	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Gross Income:	3,728	5,046	6,509	8,690	9,397	10,107
Net Income	2,004	2,600	3,200	3,800	4,400	5,000

The net income target of £3.2m in 2020/21 to £5M by 2023/24 from Commercial Property Investments is not currently incorporated into the Council's financial projections for the period up to 2023/24. This income will need to be delivered if current service delivery is to be maintained by the Council.

The non-achievement of this income will require the identification of alternative savings proposals, which may result in cuts in service.

The achievement of the target income required from the Strategy will be closely monitored as part of the Council's standard budget monitoring process.

g. Operating Costs

Estimate £'000	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Operating Costs	59	233	259	260	260	260

The above operating costs relate to the cost of the Council's Property Selection Team. The costs shown reflect the cost of managing the procurement of assets under this Commercial Property Investment Strategy and developing the future pipeline of investments

Additional operating costs may be incurred as a result of the purchase of Commercial Investment Properties. Any such costs will be factored into the financial appraisals as part of the purchase assessment to ensure that target net rates of return are achieved. This indicator may therefore be revised once investments are made.

h. Vacancy Levels and Tenant Exposures

This indicator measures and sets targets for the void periods within the property portfolio.

Estimate £'000	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Operating Costs	0%	0%	0%	0%	0%	0%

The target of 0% reflects the strong tenant covenant strengths that will be required under the Stream 1 investment criteria. Void periods will be factored into the financial appraisals as part of the assessment criteria where relevant, therefore this indicator may be revised once investments are made.

Appendix A1

PROPERTY INVESTMENT STREAM 1

1.0 Objective

The objective of the Stream 1 investment criteria is to establish a framework for the identification of commercial property investments which, if acquired, would provide the Council with a positive rental return and capital growth.

The investment criteria are designed to ensure that funds are invested in properties that deliver yield and security commensurate with the Council's risk appetite.

Each potential investment will be evaluated to ensure the income received is sufficient to provide an acceptable rate of return following the payment of borrowing costs, acquisition costs, management fees and any running costs.

Purchases will take regard of the need to diversify the Council's property portfolio to manage risks across the entire portfolio.

2.0 Market Analysis and Background

As with other forms of investment at their most basic level, property investment is a trade-off between risk and return. A traditional well diversified property portfolio (spread across different property sectors and geographical regions) will deliver long term rental and capital growth with relatively low risk. Prime property in the target regions covered by this Strategy will typically provide an initial yield of between 5-7% with the additional prospect of capital growth leading to a higher total return to the Council.

The Strategy will adopt the same underlying principle of diversification in acquiring property investments offering a similar return profile. The three main property sectors will be included (industrial, office and retail) and in turn, these will be additionally diversified on criteria including location, the lease term and lot size. When added to the existing portfolio this will assist in protecting the Councils overall risk and return profile should an individual property investment cease to be income producing (for example, it is undergoing refurbishment or awaiting a new tenant).

3.0 Property Acquisition Methodology

Identification, consideration and recommendation of assets suitable for acquisition will be undertaken by a suitably qualified member of Estates and Strategic Land in conjunction with outside specialist guidance and support, procured in accordance with the Council's Contract Procedure Rules.

Estates and Strategic Land and appointed agents will undertake a search of the market which will include approaches and introductions of opportunities direct from the sellers, their agents and third parties.

Introductions from third party agents will be accepted on a first come first serve basis by verbal or written communication to Estates. If after the introduction the Council wishes to pursue the purchase further written agreement on the "basis of engagement" and fees will be required.

The use of independent consultants will be required to assess properties prior to bidding and any purchase will be subject to due diligence on all physical, financial and legal aspects of the property to address its suitability as an asset for long term security and growth.

All investments considered for purchase will undergo qualitative and quantitative appraisal to establish portfolio suitability which will consider rental levels, location, property type, rent review and lease expiry pattern, tenant(s), industry sector, tenure, lease covenants, market exit constraints and physical and environmental factors. In addition, 3rd party advice will be called upon where specialist market knowledge is required.

Property investment markets are, in general, controlled by national and regional commercial property agencies and establishing links and relationships with several such property agents is the best method of sourcing suitable properties for acquisition. Staffing resources will need to be made available to source suitable property assets for acquisition that match the criteria set under the Strategy. This can be done by both recruitment into the existing Estates team and by employing additional external expertise as required.

4.0 Minimum Investment Criteria

For a Stream 1 property investment to be considered by the PIGB for recommendation to the Executive Director it must: -

1. Achieve a minimum weighted score of 100 from the investment criteria matrix shown in Appendix A1.1;
2. Have an initial net yield of 2% after making allowance for financing costs, borrowing repayments and other associated costs;
3. Be accompanied by a full business case prepared by the Property Selection Team.

Each potential property investment will undergo a qualitative and quantitative appraisal and risk assessment to establish portfolio suitability and the legal and financial implications of the purchase. The findings of these appraisals will be reported to the PIGB as part of the business case. Appendix A1.2 details the specific areas that will be included in the business case as a minimum.

All acquisitions, where relevant, will be subject to building and plant survey, independent advice and valuation.

An investment opportunity that does not meet the minimum criteria under investment stream 1 may have separate investment or regeneration benefits and therefore may be considered separately under Stream 2 of the strategy.

5.0 Risk Management

5.1 Financing Risk

As with all investments, there are risks that capital values and rental values can fall as well as rise. To mitigate against future unfavourable market forces, Stream 1 acquisitions will be made on the basis that the Council is willing and capable of holding property investments for the long term i.e. 35 years +. This will ensure income and capital returns are considered over the long term thereby smoothing out any cyclical economic/property downturns.

Where the purchase of a property is reliant on increases in borrowing the business case will factor in fixed rate borrowing costs. By utilising fixed rate borrowing options the Council will be protected from future increases in financing costs.

5.2 Portfolio Risk – void periods

To mitigate the risk of void periods where the property is either partially or fully vacant, or a tenant has defaulted on its rental obligations, the investment portfolio will be actively managed. The investment criteria specified in the scoring matrix will tend to favour secure property investments i.e. high-quality buildings in prime locations, thus mitigating the risk of void periods on re-letting.

Void periods for commercial investment properties acquired under this Strategy will be monitored and vacancy levels will be reported to the PIGB and Audit Committee throughout the year so that they can be actively managed.

6.0 Portfolio Management

Newly purchased property acquired under this Strategy would be added to the existing portfolio and Corporate PPM would undertake asset and property management to maintain and improve the performance of an investment property; or additional specialist resources may need to be bought in as necessary. This would include ensuring statutory and regulatory compliance, tenant compliance, landlord responsibilities, securing receipt of rents, dealing with voids and insurance matters. The costs associated with these areas would be considered in the financial appraisal for the property acquisition.

The property asset management will be subject to an annual review and incorporated within the Property Asset Management Plan (PAM) which is presented to Full Council annually.

APPENDIX A 1.1 Investment Criteria Matrix

The table below shows the suggested scoring criteria to be applied when considering an investment property.

Criteria	excellent	very good	good	marginal	unacceptable
security - break up value	comfortably exceeds investment costs	exceeds investment costs	meets investment costs	below investment costs - good BP match	below investment costs - unacceptable BP match
liquidity- income	£1m+ pa	<£1m >£500k	<£500k >£250k	<£250k >£100k	<£100k
yield	5%+	4-4.99%	2.5-3.99%	>1% - 2.40%	<1%
proportionality - location	prime within district	secondary within district	within GCP area	within TTW area	outside TTW area
proportionality - investment size	£6m- £12m	£4m- £6m £12m-£20m	£2m-£4m £20m-£35m	£1m-£2m £35m-£50m	<£1m - >£50m
Capacity & Skills	100% capacity & skills	75% capacity & skills	50% capacity & skills	25% capacity & skills	<25% capacity & skills

- **Security** – does the investment protect the capital sums invested from loss? Purely commercial investments would be expected to comfortably exceed investment costs, however schemes that scored highly in terms of business plan objectives, may not always meet or exceed initial investment costs.
- **Liquidity –** the income an investment generates is key to delivering returns needed to support the MTFS and protect services.
- **Yield –** the yield will reflect the balance between security and liquidity sought from an investment, with purely commercial investments expecting to return higher yields than those that meet important business plan objectives.
- **location –** the location of the investment is important in that it needs to relate to a Local Plan priority, which may include investments in projects outside of the Council boundary but within the travel to work area.
- **Investment size –** a portfolio of investments of a range of sizes rather than one or two large investments that take up all the investment capacity of the Strategy would enable a more prudential approach to managing risk, as well as providing a balance between commercial return and business plan objectives.
- **Capacity and skills–** the capacity of the Property Selection Team, and therefore the Property Investment Governance Board are a limiting factor. If the resources are not available to pursue a potential investment the Council may need to consider revising the Investment Strategy.

In addition to the above criteria the PIGB and the Executive Director should, when assessing the merits of an investment, specifically consider compatibility with all SCDC policies on matters relating to use such as: -

- Alcohol or tobacco production or sale;
- Animal exploitation;
- Environmentally damaging practices;
- Gambling;
- Pornography.

APPENDIX A1.2 - Stream 1 Business Case

The PST will prepare a business case for Stream 1 investments where the minimum weighted score target has been met. The business case will include the following as a minimum:

a) **Financial Appraisal**

A detailed financial appraisal setting out the projected income and costs associated with a potential acquisition along with an assessment of the proposed financing options and associated risks and considerations.

b) **Lease Classification**

A lease should be classified, for accounting purposes, as an operating lease rather than finance lease, to ensure that all rental income can be treated as revenue income (rather than a mix of capital receipt and revenue income). Operating leases are those where the risks and rewards of ownership are retained by the lessor (the Council) and must meet certain criteria. The main criteria being that the lease term should not be for the major part of the property's economic life and at the start of the lease, the total value of minimum lease payments (rents) should not amount to a significant proportion of the value of the property.

c) **Risk Management Assessment**

A detailed risk assessment of the potential purchase, including but not limited to:

- Specific risks associated with individual assets:
- Tenant default on rental payment (covenant risk)
- Risk of failure to re-let (void risks)
- Costs of ownership and management
- Differing lease structures (e.g. rent review structure, lease breaks).
- Sector risk (portfolio spread)

Market Risks, including risks of structural change or market failure, which may affect the market as a whole or particular subsectors or groups of property:

- Illiquidity upon sale (e.g. lot size, transaction times, availability of finance)
- Failure to meet market rental expectations (forecast rental growth)
- Failure to meet market yield expectations (forecast yield shift)
- Risk of locational, economic, physical and functional depreciation through structural change
- Risks associated with legislative change (e.g. planning or changes in fiscal policy)

d) **Portfolio Assessment**

An assessment to establish suitability against the Council's existing property portfolio which will consider rental levels, location, property type, rent review and lease expiry patterns, industry sector, tenure, lease covenants, market exit constraints and physical and environmental factors.

e) **Report on Title**

To confirm ownership.

APPENDIX A2 - PROPERTY INVESTMENT STREAM 2

1. Objective

The objective of the Stream 2 investment criteria is to establish a framework for the identification of properties or land for redevelopment. These opportunities may deliver placemaking or economic development benefits, as defined in the Councils Business Plan, **as well as** positive financial returns for the Council in the form of future revenue income streams or capital uplifts. Future revenue income streams could include increases in retained business rates income and New Homes Bonus.

Developed properties may be retained for the benefit of their long-term rental income and will become an investment asset after completion.

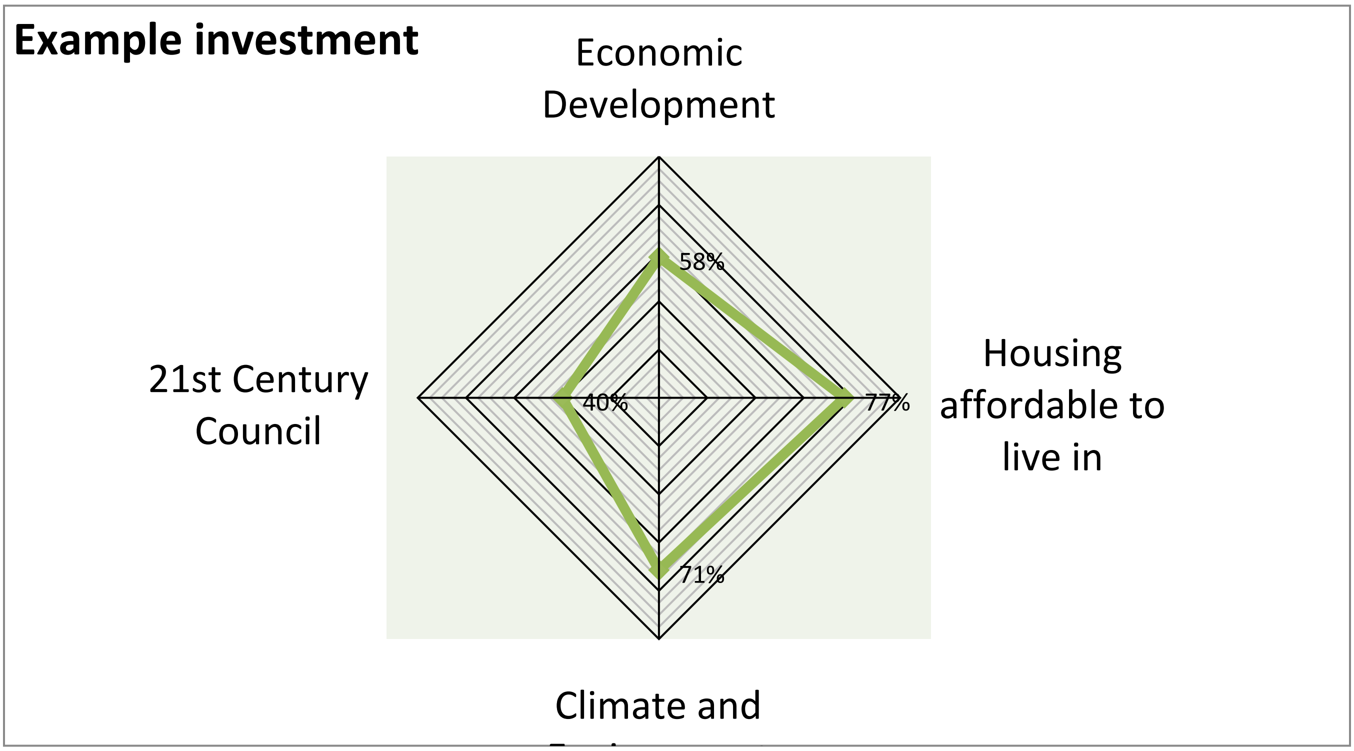
The Stream 2 investment criteria will be designed to ensure that the financial returns delivered from investments are commensurate with the deemed levels of associated risk. A higher risk investment will therefore require the delivery of greater financial returns.

2. Business plan objectives

In addition to financial indicators, Stream 2 investments will be assessed for their strategic fit against the focus areas contained within the 2019-24 Business Plan.

Example fit with Business Plan objectives

Business Plan areas:	score
Economic Development	58%
Housing affordable to live in	77%
Climate and Environment	71%
21st Century Council	40%
% fit with business plan	**62%**



3. Market Analysis and Background

Stream 2 investment opportunities could come in a diverse range of forms. Examples include, but are not limited to:

- Investing in climate and environmental initiatives
- Investing in Social Capital
- Redeveloping Council owned assets;
- Building homes and commercial premises;
- Using public land and buildings to achieve long term socio economic development within the District and wider Greater Cambridgeshire Area, as identified in the Local Plan and Appendix A4;

As with other forms of investment there is a trade-off between risk and return. Given the more speculative nature of this type of investment activity the risks associated with this type of investment may, in some cases, be higher than those associated with Stream 1 activity. It may be possible to share risks and rewards of Stream 2 activities with adjoining councils and other public sector and private sector partners.

The assessment criteria for Stream 2 activities needs to be agile enough to allow significantly different schemes to be assessed using the same overarching principles.

4. Minimum Investment Criteria

For a Stream 2 property investment to be considered by the PIGB and the Executive Director it must: -

1. Deliver a rate of return commensurate with the deemed level of risk associated with the investment;
2. Be accompanied by a full business case prepared by the Property Selection Team, and other officers where relevant.

The investment opportunities considered under Stream 2 could vary significantly and, due to the speculative nature of some schemes, there will be higher risks attached to some investment opportunities.

The minimum net rate of return for a low risk Stream 2 investment would be the 2% required to deliver the savings attached to the Investment Strategy, after making allowance for financing costs and borrowing repayment costs. A high-risk scheme, for example, may be required to achieve a return of up to 20%.

Each potential Stream 2 investment will undergo a qualitative and quantitative appraisal and risk assessment to establish the financial returns, financial and legal implications and risks associated with the purchase. The findings of these appraisals will be reported to the PIGB as part of the business case.

An investment opportunity that does not meet the minimum criteria under investment stream 2 may have separate investment or regeneration benefits and therefore may still be considered for progression however decision making in this case is to be reserved to the Leader of the Council rather than the Executive Director.

5. Acquisition / Development Methodology

Identification, consideration and recommendation of assets suitable for acquisition and / or development will be undertaken by a suitably qualified member of Estates and Strategic Land in conjunction with internal and external specialist guidance and support.

All investments considered for purchase will undergo qualitative and quantitative appraisals to establish financial suitability and risks. In addition, 3rd party advice will be called upon where specialist market knowledge is required.

6. Risk Management

Financing Risk

As with all investments, there are risks that capital values, rental values and development values can fall as well as rise. Where the acquisition or development is reliant on increases in borrowing the business case will factor in fixed rate borrowing costs commensurate with the anticipated holding period of the asset. By utilising fixed rate borrowing options the Council will be protected from future increases in financing costs.

Financial returns from Stream 2 activities may come in the form of capital receipts rather than revenue returns. This would need to be considered carefully as part of the overall Strategy given the requirement to achieve net revenue returns of 2.5% from the investment strategy overall. The returns linked with this Strategy will be carefully managed and monitored as part of the Council's budget monitoring framework and there will be clear links between this Strategy and the Financial Strategy.

APPENDIX A3 - PROPERTY INVESTMENT STREAM 3

1.0 Objective

The objective of the Stream 3 investment criteria is to establish a framework for the identification of properties or land for development of new homes through Investment Partnerships. These opportunities may deliver regeneration or economic development benefits as well as positive financial returns for the Council in the form of future revenue income streams or capital uplifts. Future revenue income streams will include:

- Rental income from Council Housing (HRA Affordable Homes);
- Rental income from Private Rented Sector Housing (PRS) through Ermine Street Housing;
- Capital receipts from Intermediate Home Ownership staircasing;
- Capital receipts from Right to Buy;
- Increases in retained business rates;
- Income and New Homes Bonus.

Developed properties may be retained for the benefit of their long-term rental income and will become an investment asset after completion.

The Stream 3 investment criteria will be designed to ensure that the financial returns delivered from investments are commensurate with the deemed levels of associated risk. A higher risk investment will therefore require the delivery of greater financial returns.

2.0 Market Analysis and Background

Stream 3 investment partnerships could come in a diverse range of forms. Examples include, but are not limited to:

- Building homes and commercial premises;
- Using public land and buildings to achieve long term socio economic sustainability for the District and wider Greater Cambridgeshire Area, as identified in the Local Plan and Appendix A4.

As with other forms of investment there is a trade-off between risk and return. Given the more speculative nature of this type of investment activity the risks associated with this type of investment may, in some cases, be higher than those associated with Stream 1 activity. It will be possible to share risks and rewards of stream 3 activities with investment partners.

The assessment criteria for Stream 3 activities needs to be agile enough to allow significantly different schemes to be assessed using the same overarching principles.

3.0 Minimum Investment Criteria

For a Stream 3 property investment to be considered by the PIGB it must: -

- Deliver a rate of return commensurate with the deemed level of risk associated with the investment;
- Be accompanied by a full business case prepared by the Property Selection Team, and other officers where relevant.

The scoring matrix for Stream 3 investments will be based on the target rates of return for Stream 2 investments. Schemes with higher risks will be expected to deliver higher levels of return to cover the risk considerations, and only schemes that deliver the assessed rate of return will pass the minimum assessment criteria.

The minimum net rate of return for a low risk Stream 3 investment would be the 2% required to deliver the savings attached to the Investment Strategy, after making allowance for financing costs and borrowing repayment costs.

Each potential Stream 3 investment will undergo a qualitative and quantitative appraisal and risk assessment to establish the financial returns, financial and legal implications and risks associated with the purchase. The findings of these appraisals will be reported to the PIGB as part of the business case.

An investment opportunity that does not meet the minimum criteria under investment stream 3 may have separate investment or regeneration benefits and therefore may still be considered for progression however decision making in this case is to be reserved to the Full Council rather than the PIGB.

4.0 Acquisition / Development Methodology

Identification, consideration and recommendation of assets suitable for acquisition and / or development will be undertaken by the Property Selection Team in conjunction with internal and external specialist guidance and support.

All investments considered for purchase will undergo qualitative and quantitative appraisals to establish financial suitability and risks. In addition, 3rd party advice will be called upon where specialist market knowledge is required.

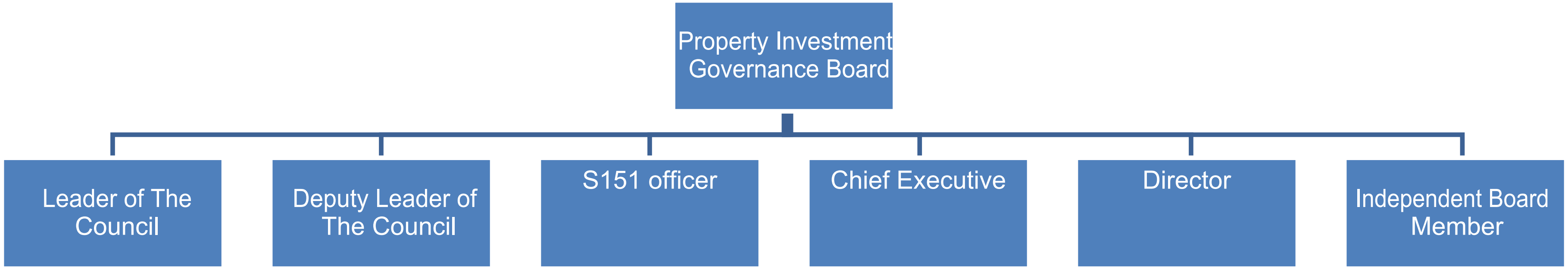
5.0 Risk Management

Financing Risk
As with all investments, there are risks that capital values, rental values and development values can fall as well as rise. Where the acquisition or development is reliant on increases in borrowing the business case will factor in fixed rate borrowing costs commensurate with the anticipated holding period of the asset. By utilising fixed rate borrowing options the Council will be protected from future increases in financing costs.

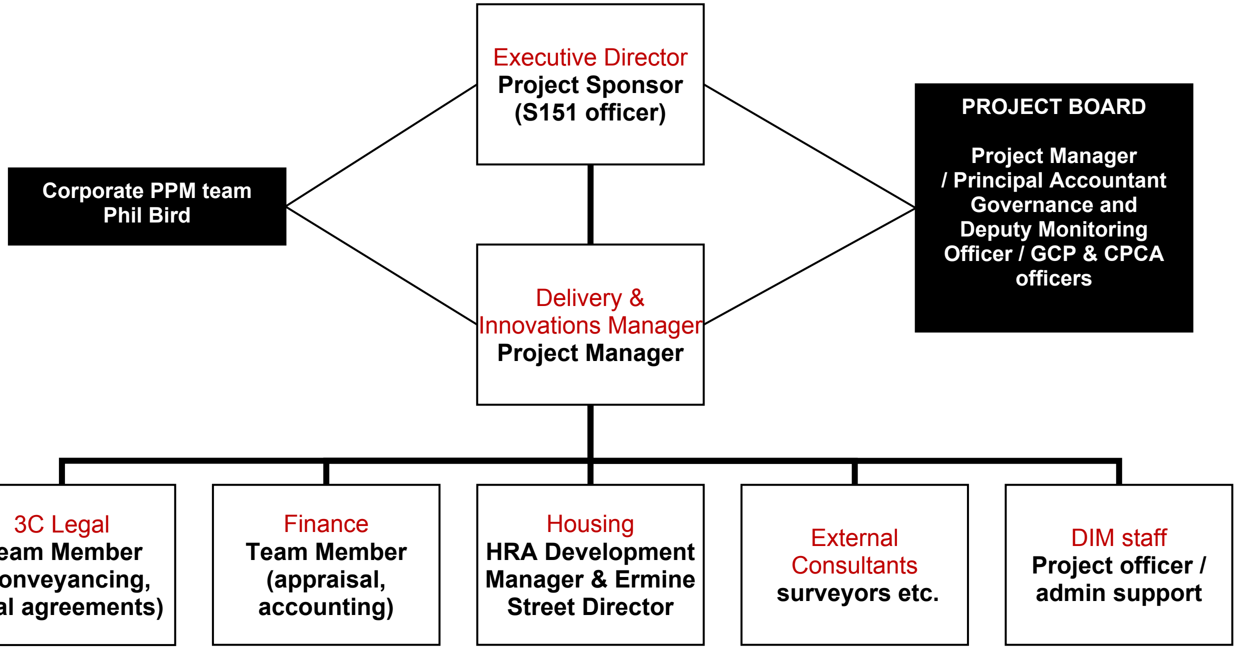
Financial returns from Stream 3 activities may come in the form of capital receipts rather than revenue returns. This would need to be considered carefully as part of the overall Strategy given the requirement to achieve net revenue returns of 2% from the investment. The returns linked with this Strategy will be carefully managed and monitored as part of the Council’s budget monitoring framework and there will be clear links between this Strategy and the Financial Strategy.

APPENDIX A3

PROPERTY INVESTMENT GOVERNANCE BOARD (PIGB) STRUCTURE



PROPERTY SELECTION TEAM (PST) STRUCTURE



APPENDIX A4

Investment Target Area

The investment target area outside of the Local Plan boundary follows the definition of the Greater Cambridge commuting pattern, as identified in the Cambridgeshire and Peterborough Independent Economic Review (September 2018)