Appendix A

Investment Strategy

March 2023

Appendix A

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 Investment Guidance (the Guidance) issued by The Ministry of Housing, Communities and Local Government (MHCLG) 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 Investment 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 need to be subject to Full Council approval.

Due regard has also been given to the prevailing rules in relation to local authority borrowing from the Public Works Loan Board (PWLB) and, in particular, the impact of borrowing for the acquisition of commercial assets on the Council's wider borrowing requirements. Due regard has been given to the guidance published by HM Treasury on 25 November 2020 and, accordingly, the Council does not intend to buy commercial assets primarily for yield (even by using available reserves).

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, sound due diligence indicators and the need for regular and formal reporting and the effective scrutiny of investment decisions and performance.

This Strategy should be read alongside the Council's Business Plan. This document reflects the Council's ambition to support sustainable economic growth and local entrepreneurship; create employment opportunities during a very difficult and uncertain economic climate and contribute to the importance of creating strong and vibrant places across our district.

2. The Investment Strategy

2.1 South Cambridgeshire is located centrally in the East of England region at the junction of the M11/A14 roads and with direct rail access to London and to Stansted Airport. It is a largely rural district which surrounds the city of Cambridge and comprises over 100 villages and 2 small but growing towns (Cambourne and Northstowe). It is surrounded by a ring of market towns just beyond its borders, which are generally 10–15 miles from Cambridge. Together, Cambridge, South Cambridgeshire and the Market Towns form the Cambridge Sub-Region. South Cambridgeshire has long been a fast growing district and in 2022 had a population of 162,000 (bigger than Cambridge itself, and an increase of 15,000 since the 2011 Census) and has become home to many of the clusters of high technology research and development in the Cambridge Sub-Region.

2.2 The current macro-economic challenges facing the UK, coupled with changes in PWLB rules and government guidance on council investments mean that it is prudent to take a different approach to Investments over the next 2-4 years than that previously adopted by the Council.

2.3 While the Council will protect and enhance its existing investments (the income from which will continue to be used to support local services and support the financial position of the Council), the next 2-4 years will focus on the following categories of investments:

i. Investment to support local public services by lending to or buying shares in other organisations (known as **Service Investments**), including the wholly owned housing development company, South Cambs Ltd (Trading as Ermine Street Housing)

and

ii. Investment to generate economic growth (known as **Commercial Regeneration Investments**) through:

a. Providing facilities and infrastructure that will enable local business start-up and growth

b. Supporting economic development and regeneration opportunities

c. Opportunities which support the Sustainable Growth and the Environmental agenda

d. Employment Zones

e. Investment Partnerships

f. Larger scale opportunities linked to growing and emerging sectors (though we expect these to be fewer in number given the current economic position)

2.4 We want to ensure that the whole of South Cambridgeshire *(not just the growing and new towns)* become places that offer opportunities for new and developing businesses and take advantage of the continued expected growth in the Greater Cambridge region.

2.5 Investments must deliver positive financial returns.

2.6 Investments must comply with the Responsible Investment Policy, at Appendix 1.

2.7 The Strategy relates only to the General Fund; The Housing Revenue Account will develop its own investment strategy relating to maintenance and acquisitions.

2.8 The Council will continue to take independent advice on each proposed investment and ensure that its officers and members are engaged in continual professional development in relation to property investment activities by local authorities.

Funding

2.9 The Investment Strategy identifies the sum of up to £44 million between 1 April 2023 and 31 March 2028 for Service and Commercial Regeneration Investments (as described above) and outlined in more detail at Section 7.

2.10 The existing portfolio of investments comprises:

(a) A loan to Cambridge Ice Arena with a value of £2.4 million for a term of 25 years at a rate of 4.31%. The interest cost for the loan is based on a PWLB rate of 2.56% plus a margin of 1.75%;

(b) Loans to South Cambs Ltd, Trading as Ermine Street Housing (ESH), with a value of £94.62 million (as at March 2022) at a rate of 3.78% (reviewed annually). The Council earmarked a total investment of £100 million to Ermine Street in its capital programme to enable the supply of 500 private rented housing stock; loans are based on an opportunity cost of 1% plus a margin of 2.78% (subject to review).

Loans to ESH have to date been on the basis of interest only repayment; following a review by Savills Plc, this may be reviewed to consider some capital repayment.

(c) An established commercial property estate that is managed in accordance with an approved Corporate Asset Plan. The following table provides details of the current categories of investment and purchase value:

Table 1

Category	Value £000
Offices	31,150
Industrial	2,900
Development Land	18,559
Other	0
TOTAL	**52,609**

Security

2.11 In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for the capital investment. Should year end accounts preparation and audit processes value these properties below their purchase cost, then an updated Investment Strategy will be presented to Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

2.12 In relation to third party loans, the Council will ensure that the total exposure to loans remains proportionate to the size of the Council. The Council has significant control over ESH being its only shareholder. However, the risk that the borrower, ESH, will be unable to repay loans provided by the Council represents a significant risk. In order to limit this risk, and ensure that total exposure to loans remains proportionate, an upper limit on outstanding loans to ESH has been set at £100 million. This will be kept under review. Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts will, therefore, be shown net of this loss allowance.

Financing the Strategy

2.13 The Council will fund Service will fund Service and Commercial Investments (incorporating Regeneration Investments) by utilising the most appropriate and efficient funding strategy available at the time of investment. The Council has the option of utilising prudential borrowing, capital receipts, and reserves and may consider other structures such as joint ventures. Financing decisions will link to the Council's Medium Term Financial Strategy and Treasury Management Strategy.

2.14 As a condition of accessing the PWLB, Local Authorities must submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. As part of this, the Head of Finance will need to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on the Head of Finance's professional interpretation of guidance issued. When applying for a new loan, the Local Authority must confirm that the plans they have submitted remain current and provide assurance that they do not intend to buy investment assets primarily for yield.

2.15 The new borrowing rules, therefore, restrict the ability of local authorities to borrow from PWLB for pure investment in commercial property and the Council is aware that, if it intends to buy commercial assets primarily for yield (even by using reserves), then they will be prevented from taking any PWLB borrowing and will need to consider alternative sources of funding. The Council is not, therefore, permitted to reprofile the capital programme so that borrowing is only used on allowed projects, with internal borrowing used for commercial activities and will respect the guidance issued on investments. <u>Accordingly, there is a presumption against primarily for yield investments, such as prime and close to prime commercial real estate investment</u>.

Risk

2.16 The Council assesses the risk of loss before entering into and whilst holding property investments. The Council is engaged in the market through the proactive management of the investment portfolio, the asset valuation exercise and the economic growth activity and, through this, gaps/opportunities in the market are identified. Each asset is reviewed on an annual basis in order to review its performance, investment requirements and whether it should remain in the portfolio. The Council intends to develop a more detailed Acquisition and Disposal Strategy to sit alongside the Investment Strategy.

2.17 The Council assesses the risk of loss before entering into loans with third parties. Loans to ESH will be provided on a commercial basis to comply with Subsidy Controls (previously State Aid Rules) taking into account the level of risk, with a clear schedule of repayment of interest and principal that enable ESH to deliver its Business Plan and meet the Council's overall objectives. External advisors will be brought in as required to support Council officers in assessing the legal and financial risks of making loans.

2.18 In relation to the commercial property estate, typical measures for monitoring individual assets and the portfolio as a whole are summarised in the table below:

Outcome/Risk	Potential Measure	Benchmarks
Individual acquisitions are achieving strategy objectives	• Gross and Net Initial Yield measured against targets for the investments (stress tested by providing pessimistic as well as realistic scenarios) • Net Present Value and Internal Rate of Return Calculations to show longer term financial returns • Cumulative Year break-even	• Industry benchmarks for type of investment • Other acquisitions in the portfolio • Overall portfolio and theme averages • Other Local Authorities

Acquisitions can be operationally managed effectively	• Operating expenses as a proportion of gross effective income • Operating expenses and debt service costs as proportion of effective income	• Established sector benchmarks
Acquisitions and portfolio are appreciating in value	• Asset by asset as well as portfolio measurement of asset valuation against price paid and outstanding debt (initial borrowing minus accumulated Minimum Revenue Provision)	• Other acquisitions in the portfolio • Established sector benchmarks • Other Local Authorities
The Investment Strategy income target is being met	• Close and regular financial monitoring of average yield as well as growth of the portfolio	• Actual v. Budget - variance explained by average yield and portfolio use

2.19 The Council's established commercial property estate (see Table 1 above) provides some degree of diversification, allowing a risk spread profile.

2.20 The Council recognises, however, that there is a need to assess the continuing appeal of the Council's existing property investments in the market. In some property investment classes this could be more significant than others, for example functional obsolescence in the industrial sector may have less impact on market appeal and rental growth than in the office sector. Economic obsolescence risk may be higher in markets which are more susceptible to social change and popular culture.

2.21 The economic landscape has changed immensely in the last few years, initially as a result of the uncertainty over the withdrawal process from the European Union, and Coronavirus pandemic (COVID-19) and more recently the war in Ukraine and global economic picture. This has all led to a marked increase in uncertainty within the economic markets. The Royal Institution of Chartered Surveyors (RICS) considers market impacts and publishes regular guidance on property valuations, with recommendations to reflect the uncertainty (such as the insertion of Market Uncertainty Clauses [MUCs] within property valuations). Due regard should be given to the guidance issued given the continuing uncertainty around the property sector.

2.22 Asset investment advice is provided by retained agents and, where necessary, additional specialist advice is procured from suitably experienced external advisers. This will include the provision of pre-purchase reports and building surveys and other due diligence required to support the business case. The advice by the retained agents will include an assessment of the market and how it will evolve over time, the nature and level of competition and the impact that any asset acquisition or disposal could have on the projected income generated. The retained agent advice is monitored against the specification of requirements detailed in the invitation to tender and contract.

Liquidity

2.23 Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. The Council has no immediate plans or needs to sell any of the property investment assets. However, lower yielding assets may be sold and replaced with higher yielding assets within manageable risk tolerances.

2.24 **Loan Commitments:** Although not strictly counted as investments, since no money has exchanged, loan commitments and financial guarantees carry similar risks to the Council. The Council has no such loan commitments or financial guarantees.

3 Proportionality

3.1 In setting a balanced budget (as required by statute) the Council takes into account the contribution of income that is generated by its investment activity and, in doing this, it recognises that such investment activity meets wider economic and service objectives of the Council. The table below shows the extent to which expenditure planned to meet the service delivery objectives and/or place making role of the Authority is funded by the expected net income from investments over the lifecycle of the Medium Term Financial Strategy.

Investment Net Rate of Return	2023/2024 Budget £000	2024/2025 Budget £000	2025/2026 Budget £000	2026/2027 Budget £000	2027/2028 Budget £000
Net Revenue Stream	32,918	25,938	18,278	19,496	20,368
Net Investment Income	7,003	7,598	7,960	8,321	8,721
PROPORTION	**21.3**	**29.3**	**43.5**	**42.7**	**42.8**

3.2 An appropriate level of contingency within the General Fund Reserve is assessed annually as part of the outturn position each year. The Council also has a revenue contingency allocation of £350,000 to enable unforeseen and "one off" needs (i.e. having no long term ongoing revenue commitment) to be considered for funding during the financial year. These contingencies cover any net reduction in income sources, including rental income from investment properties, compared to the levels estimated.

4 Borrowing in Advance of Need

4.1 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.

4.2 Where exceptionally the Council chooses to disregard the CIPFA Prudential Code and Government Guidance in respect of borrowing to fund investment activity, the rationale for this decision must be explained in the Strategy.

4.3 The Council has noted and has had regard to the Guidance and has no plans to borrow in advance of need and is, therefore, compliant with the CIPFA Prudential Code in respect of this matter. The Council will only depart from it in exceptional cases, within the parameters set out in this Strategy, for the purposes of delivering Business Plan objectives and maintaining a robust financial position. In these exceptional cases, the reasons for so doing will be fully explained, together with the Council policies for investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

5 Capacity, Skills and Use of External Advisors

5.1 The Guidance requires that elected members and officers involved in the investment 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. This will be achieved by ensuring an adequate and effective training programme, obtaining appropriate advice to inform the decision making process and by ensuring that procurement arrangements provide relevant information to potential advisers of the specific principles, regulations and governance relevant to the local authority sector.

5.2 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 and on a regular basis to ensure that Officers are engaged in continual professional development in relation to property investment activity and that Members, as decision makers, have the skills, knowledge and relevant information to effectively assist the decision making process. This will include training for new Members of the Council.

5.3 The Council recognises that investing in land and property to achieve business objectives and to generate returns is a specialist and potentially complex area. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Where skills, or capacity are lacking, 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 measures the impact of investment decisions on borrowing and affordability through Investment Indicators to ensure that the overall risk exposure remains within acceptable levels.

6 Governance Arrangements

6.1 It is necessary to have a framework for determining investment decisions.

6.2 A designated Investment Selection Team (IST) provides the setting for senior property, finance, service and legal professionals to share details of investment proposals ensuring that the core principle of the CIPFA Prudential Framework and the regulatory regime within which the Council operates are adhered to.

6.3 The Investment Team has day to day oversight of asset management issues, and is responsible for reviewing the extent, condition and value of the Council’s corporate estate in line with the approved Corporate Asset Plan 2020-2024 and supporting Asset Management Plan which is continually monitored by IST.

6.3 The IST will advise the Investment Governance Board (IGB) on potential purchases and development opportunities that meet the pre-determined selection criteria contained within the Investment Strategy. The IST will scrutinise 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 IGB for approval. The purpose of the IGB is to challenge and scrutinise investment opportunities identified by the IST, ensuring that only credible options are progressed. It also provides the forum for the strategic management of the overall portfolio of investments, consistent with the aims of the Strategy.

6.5 Investment decisions taken by Cabinet will be subject to the 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 IGB. 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 Cabinet approval.

6.6 Cabinet is required to approve investment in new capital schemes prior to any expenditure being incurred and Council approval will be required if additional, or the reprofiling of, funding is required. There may be occasions when an investment opportunity may be lost by the market need for speed; in these exceptional cases, decisions may be taken by the Leader after consultation with IGB and in accordance with the Access to Information Procedure Rules as set out in the Constitution and a full report will be prepared to inform the decision, fully outlining the opportunities and risks. The requirements relating to the giving of notice of the decision in the Forward Plan and for call-in of any decision shall apply unless the urgency procedures in the Council's Constitution are required to be used for urgent investment decisions.

6.7 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 IGB will be scheduled. The Council's Scheme of Delegations provides the basis for enabling Officers to progress investment opportunities, including due diligence checks and the submission of non-binding offers in line with market practice.

7 Service and Commercial Regeneration Investments

7.1 Investments will either be within the District or the Travel to Work Area as shown in [Appendix 2](#).

7.2 The Investment Strategy identifies the sum of up to £44 million for Service and Commercial Regeneration Investments as follows:

Funding Allocation	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000	2027/2028 £'000
Total Investment	**4,000**	**10,000**	**10,000**	**10,000**	**10,000**

7.3 Investment relating to commercial premises will be directed towards the following types of investment:

7.3.1 Service Investments

This category of investment is to support local public services. The Council may lend money or acquire shareholding in subsidiaries, suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. The main risk when making these investments is that the borrower will be unable to repay the principal and interest due. The Council will, therefore, assess the risk of loss before entering into and whilst holding such investments and mitigate this risk where practicable.

The Council has a wholly owned housing development company called Ermine Street Housing (ESH). The Council's main objectives for creating the company is to provide good quality flexible rental housing and to meet housing needs and gaps in the housing by operating a commercial entity to manage both purchased and leased properties for the purpose of residential lettings. ESH acquire properties on the open market, borrowing at market interest rates via the Council, then lets the property at market rents to facilitate a reasonable pay back on the investment. ESH also brings the benefit of contributing to housing supply in the District with its implications for the economic and social well-being of residents and the local economy. The Council will provide capital loans to ESH on commercial terms to enable the company to deliver its objectives in line with an approved business plan.

7.3.2 Commercial Regeneration Investments

This category covers 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 minimum target yield for commercial regeneration investments of this nature is 5%, excluding MRP and the cost of borrowing. Internal Rate of Return (IRR) may also be appropriate as a measure of an investment's rate of return.

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

- Assets that provide accommodation for essential businesses and services that are critical to the health of the local economy.
- Investing in climate and environmental initiatives, including assets that can be developed to deliver green energy generation, in line with business plan objective of being "green to our core", and investment in green energy bonds/funds in so far as they meet PWLB criteria.
- Investing in Social Capital.
- Redeveloping Council owned assets.
- Building homes and commercial premises.
- Development of Employment Zones
- 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 2**.

To provide a longer-term perspective for commercial regeneration investments, the IRR may be an appropriate metric to assess the strength of an investment. The IRR is the interest rate at which the net present value of all cash flows arising from an investment is equal to zero.

7.3.3 Commercial Regeneration Investments: Investment Partnerships

The Council has two existing Investment Partnerships. One with Hill Group and one with Balfour Beatty. To date only one partnership (South

Cambridgeshire Investment Partnership) has produced a proposed scheme which is the subject of a live planning application.

In the current economic climate and with the changes to the Public Works Loan Board, it is anticipated that future financially viable projects may be limited, particularly given that South Cambridgeshire District Council does not own any significant land holdings suitable for development. The Investment Partnerships were established for a period of 4 years, from 2020-2024, and remain delivery vehicles which can be used if appropriate opportunities do arise.

The Investment partnerships can deliver new homes and regeneration opportunities that will include:

- Acquisition of 3rd party land
- Public sector and/or bank debt
- Incorporation of grants and other funding
- A sharing of risk and reward between partners

By the nature of these investments, returns are likely to be in the form of capital receipts from the sale of a constructed asset, potentially developed in phases depending on the scale of the project. These capital receipts will be identified in the capital programme as financing for priority capital projects determined by the Council. Capital projects may relate to the range of services provided by the Council, or for investments in redevelopment and regeneration projects that contribute to Business Plan objectives and which may deliver positive financial returns for the Council.

7.3.4 Further information about commercial investments (including Investment Partnerships), including the scope for investment, investment objectives, development methodology, green energy opportunities and risk management arrangements, is provided in **Appendix 3**, the expected business case coverage is identified in **Appendix 4** and investment assessment criteria for commercial investments is shown in **Appendix 5**.

8 Prudential Indicators

8.1 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.

8.2 Local Authorities are required to charge to their revenue account each year a Minimum Revenue Provision (MRP) to make provision for the repayment of debt, as measured by the underlying need to borrow. The MRP should be prudent and, although it is for each authority to determine the amount, the published guidance by the Government is "local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits". Provision has, therefore, been made for MRP in the performance indicators in line with the approved Capital and Treasury Management Strategies and based on the equal instalment method, amortising expenditure equally over the estimated useful life of the asset for which borrowing is required. The application of

MRP will be adjusted to reflect the annual valuation of Investment properties and will be determined on a property by property basis

8.3 The approved Treasury Management Strategy does, however, confirm that where a loan is made to a wholly owned subsidiary of the Council, the loan is deemed to be secured on the assets of the company. Evidence of the ability to repay the loan will be based on the company's business plan and asset valuation, and no MRP will be made. Exceptionally, where capital expenditure is part of a loan agreement to other than a wholly owned subsidiary – such as the loan to Cambridge Ice Arena – MRP will be applied in these cases.

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

8.4.1 Debt to Net Service Expenditure (NSE) Ratio

This indicator measures the gross debt (as cash or loan financing) associated with Commercial Investments and loans to third parties 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	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Third Party Loans (a)	100,000	100,000	100,000	100,000	100,000
Commercial Investments (b)	62,609	72,609	82,609	92,609	102,609
Funding Allocation (a+b)	162,609	172,609	182,609	192,609	202,609
Net Service Expenditure (c)	22,865	22,843	22,659	23,228	23,588
Debt to NSE Ratio (a+b)/c	**711%**	**756%**	**806%**	**829%**	**859%**

The indicator shows that the debt level proposed by the Strategy will be approximately 8 times the level of the Council's net revenue budget if the proposed investment in the Strategy is funded solely from cash or loan financing.

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 considered reasonable.

8.4.2 Net Commercial Income to NSE Ratio

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

The commercial income is the gross income from all investments made through the strategy less all operational costs. All income forecasts should allow for void periods where applicable. The table below identifies gross income:

Estimate £'000	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Net Commercial Income (a)	7,003	7,598	7,960	8,321	8,721
MRP (b)	1,329	1,154	919	1,019	982
Net Income (after MRP) (a-b)	5,674	6,444	7,041	7,302	7,739
Net Service Expenditure (c)	22,865	22,843	22,659	23,228	23,588

Net Commercial income to NSE Ratio (a-b)/c	**24.8%**	**28.2%**	**31.1%**	**31.4%**	**32.8%**

The additional income generated from the investments set out within this Strategy will be equivalent to 31.1% of the Council's Net Service Expenditure by 2025/2026.

The ratio shows an increase over time and given the potential risk in respect of reliance on this income, effective measuring of progress will be undertaken against income targets, both in terms of portfolio yield and size.
The indicator allows for MRP in accordance with the approved Treasury Management Strategy with the following allowance for each year:

Estimate £'000	2023/24	2024/25	2025/26	2026/27	2027/28
Minimum Revenue Provision	1,329	1,154	919	1,019	982

8.4.3 Investment Cover Ratio

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

Estimate £'000	2023/24	2024/25	2025/26	2026/27	2027/28
Net Commercial income	7,003	7,598	7,960	8,321	8,721
Interest cost	3,032	2,500	2,250	2,400	2,500
Investment Cover Ratio	2.31	3.04	3.54	3.47	3.49

The net investment cover ratio reduces throughout the medium term. This is because interest payable is growing at a faster rate that commercial income due to the externalisation of some debt.

For commercial investments the rate of 4.75% is used in 2023/24 reducing to 3.5% in 2025/26 reflecting expectations that interest rates will fall after peaking during the next financial year. The interest rates on loans to third parties are determined on a case by case basis. The assumptions will be revised in future years as the size of the portfolio develops.

8.4.4 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). Current market advice indicates that commercial property values are likely to be volatile for a while due to the effects of the pandemic and Brexit, however, borrowings will be repaid.

Estimate £'000	2023/24	2024/25	2025/26	2026/27	2027/28
Funding Allocation	162,609	172,609	182,609	192,609	202,609
Total asset values	202,281	217,195	232,355	247,773	263,462
LTV Ratio	**1.24**	**1.26**	**1.27**	**1.29**	**1.30**

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. The IST will also provide a liquidity assessment of the portfolio when undertaking the Fair Value assessment (see Section 2.7 of the Strategy).

8.4.5 Target Income Returns (Yield)

This indicator shows the target gross yield for each stream of investment activity and is a measure of the minimum expected return for the property investment portfolio. Green investments may deliver a lower return.

Target income returns	2023/24	2024/25	2025/26	2026/27	2027/28
Service Investments	2.5%	2.5%	2.5%	2.5%	2.5%
Commercial Investments	5%	5%	5%	5%	5%

8.4.6 Gross and Net Income

For this indicator, "Gross Income" means the revenues received in the form of commercial rents and interest before the deduction of management costs and interest repayments. "Net Income" means the net income available, after the deduction of management costs.

Estimate £’000	2023/24	2024/25	2025/26	2026/27	2027/28
Gross Income:	7,483	8,090	8,464	8,838	9,251
Net Income	7,003	7,598	7,960	8,321	8,721

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

8.4.7 Operating Costs

Estimate £’000	2023/24	2024/25	2025/26	2026/27	2027/28
Operating Costs	480	492	504	517	530

The above operating costs relate to the cost of acquiring and maintaining the investments made through the Strategy. The costs shown reflect the estimated cost of internal staff, external asset management and a budget for feasibility work to conduct due diligence prior to investment.

8.4.8 Vacancy Levels and Tenant Exposures

Estimate	2023/24	2024/25	2025/26	2026/27	2027/28
Vacancy Levels	3%	3%	3%	3%	3%

This indicator measures and sets a maximum threshold for the vacancy periods and tenant exposures within the property portfolio.

The target of 3% reflects the strong tenant covenant strengths that will be required under the commercial 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.

9 Overall Portfolio Management

9.1 The Council have established a robust and very ambitious strategy for capital investment. The level of investment anticipated and the returns from that investment are significant and, as the strategy outlines, significant potential rewards come with equally significant risks. Closer performance management over and above the prudential indicators at Section 8 above and identified in the Capital Strategy will, therefore, be undertaken to help address potential fundamental risks such as:

- The financial returns as set out in the strategy are difficult to achieve resulting in lower than budgeted investment and rental income.
- Delays in investment, for any other reason, result in lower than budgeted investment and rental income;
- Wider economic impacts depress the value of investments in the short-term reducing balance sheet health;
- Access to borrowing is restricted by Government changes to PWLB lending rules.

9.2 The additional monitoring of the Investment Strategy and its resulting impact on Balance Sheet health will comprise:

9.2.1 The relationship between the Capital Financing Requirement, asset valuations and the Capital Adjustment Account and Revaluation Reserve as shown on the balance sheet, and

Appendix 1: Responsible Investment Policy

1. INTRODUCTION

1.1 This Responsible Investment Policy details the approach that will be followed in fulfilling the Council's commitment to integrate sustainable environmental policies across all areas of the Councils operations and activities. It also covers other responsible investment issues, which are set out below.

1.2 The policy will be reviewed annually as part of the annual refresh of the Treasury Management Strategy before being approved by Cabinet and Full Council.

2 PRINCIPLES

2.1 Responsible Investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable long-term return.

2.2 The Principle for Responsible Investment (PRI) is the world's leading advocate for responsible investment. The PRI enables investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

2.3 The six principles are as follows:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

2.4 The principles are based on the notion that ESG issues, such as climate change, can affect the performance of investment portfolios and should, therefore, be considered alongside more traditional financial factors if investors are to properly fulfil their fiduciary duty.

3 BELIEFS

3.1 The Council takes a long-term approach to investing core balances and believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide improved financial returns for investors. ESG issues can have a material impact on the value of financial assets and on long-term performance of investments and, therefore, need to be considered in order to better manage risk and generate sustainable, long-term returns.

3.2 Well-managed organisations with strong governance are more likely to be successful long-term investments.

4 POLICY OBJECTIVES

4.1 As a long-term investor and asset owner the Council will, therefore, hold companies and asset managers to account regarding environmental, social and governance factors that have the potential to impact corporate value. The Council will incorporate ESG factors into investment analysis and decision-making, enabling long-term sustainable investment performance.

4.2 As a shareholder, the Council has a responsibility for effective stewardship of the companies it invests in but also acknowledges that it has limited influence over individual companies being a small unit holder in a large fund pooled with many other institutional investors. Asset managers, who also take their stewardship role seriously, through dialogue and use of voting rights, are key influencers for more responsible corporate behaviour and long-term sustainability. The Council's preference is, therefore, for active ownership of companies to rest with asset managers and for asset managers to engage with companies on behalf of the Council and other investors to improve the environmental and social performance of the asset or company in which they invest.

4.3 The Council will practice active ownership through its choice over asset managers and asset management strategies. The Council will monitor and report the approach taken by asset managers in integrating ESG risks and opportunities into their modelling as part of their value assessment.

5 GOVERNANCE

5.1 The Responsible Investment Policy is owned by the Investment Governance Board and approved by Cabinet and Full Council. The Chief Operating Officer is accountable for implementation of the policy, with the Head of Finance responsible for other treasury management policies and practices.

6 APPLICATION

6.1 The policy beliefs are applicable to the Council's long term strategic investment portfolio only. ESG integration and reporting in short term low volatility net asset money market funds is less developed so the scope of this policy does not extend to them but will be kept under review. However the Council will expect funds to be signatories of the Stewardship Code 2012 and working towards the 2020 Code that is being implemented in 2021.

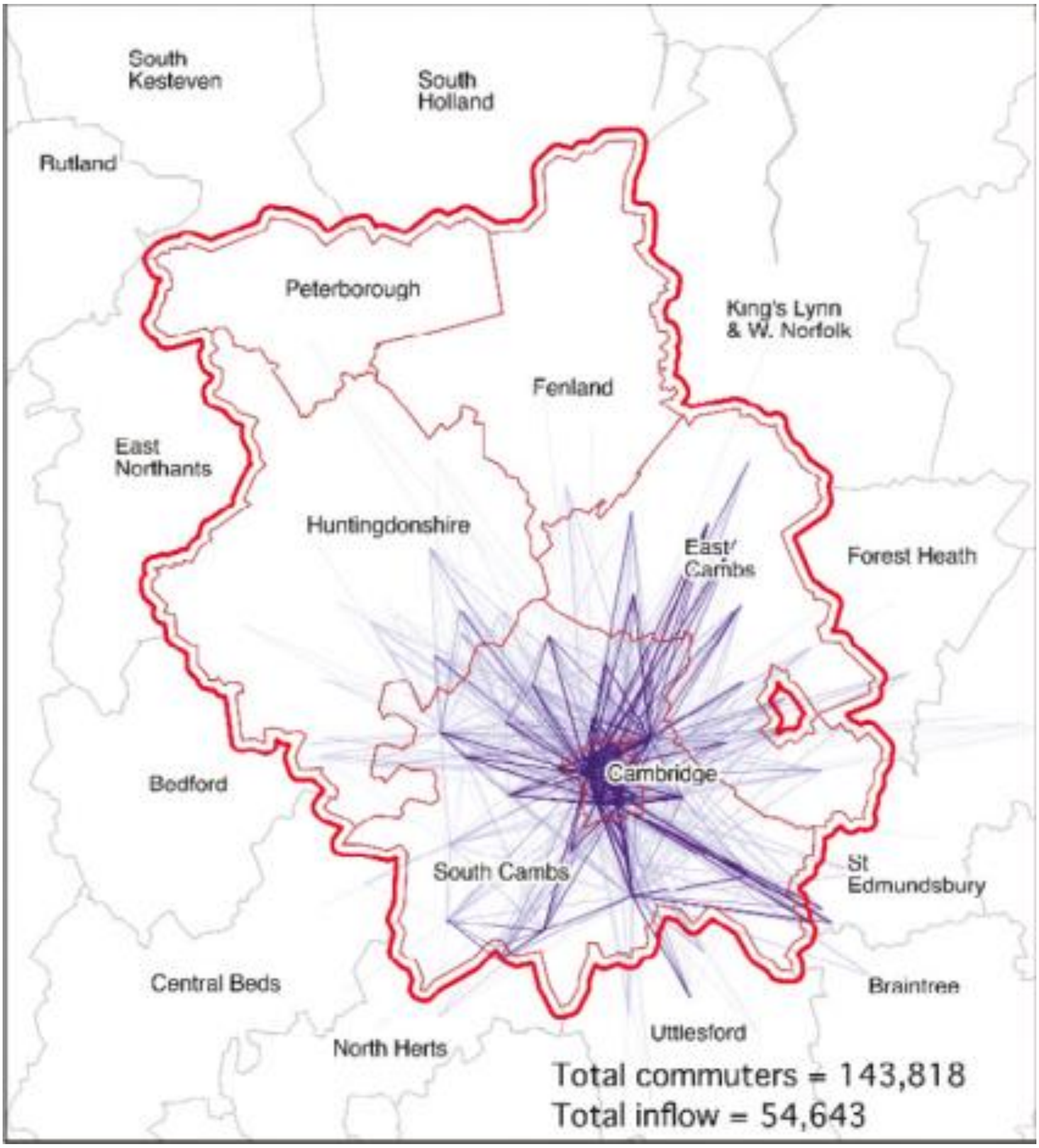
6.2 External asset managers used by the Council should have Responsible Investment and ESG policies in place and a high UN PRI Assessment Score (awarded annually). A high score is defined as the highest possible bands being A or A+.

6.3 The Investment Governance Board will receive annually a report detailing how each asset management firm integrates ESG risks into their financial assessment and decisions. This will include a summary of the annual United Nations Principle for Responsible Investment (PRI) Assessment Scores

Appendix 2: Investment Area

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):



In the south of the district, the commuting area could include a number of districts outside the county and consideration will be given to including those within the investment target area.

Appendix 3: Commercial Regeneration Investments

1. Objective

The objective of commercial regeneration investments is to establish a framework for the identification of properties or land for redevelopment. These opportunities may deliver placemaking, environmental 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. We want to ensure that sustainable economic growth opportunities can be identified and supported, as appropriate, across South Cambridgeshire and not just in the growing new towns. Future revenue income streams could include increases in retained business rates income and New Homes Bonus.

A key outcome of this category of investment will be the generation of economic growth through providing facilities and infrastructure. This includes the delivery of environmental benefits for the area.

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

The decision on whether or not these investments would meet the overall objectives of this Strategy will be informed by a detailed financial appraisal. The commercial regeneration 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. Scope of Investment

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

- Assets that provide accommodation for essential businesses and services that are critical to the health of the local economy.
- Investing in climate and environmental initiatives, further exploiting and supporting green energy generation and maximising energy efficiency.
- 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.
- Employment Zones

In line with Government guidance, commercial investment will need to be categorised for the purpose of “service delivery”, “housing”, “regeneration” or “preventative”. Given the new borrowing rules, there is a presumption against the acquisition of commercial assets primarily for yield, such as prime and close to prime commercial real estate investment (even by the use of existing reserves for this purpose).

Regeneration projects are permissible and are described in the guidance as having characteristics that fall into one of four areas:

(a) The project is addressing an economic or social market failure by providing services, facilities, or other amenities of value to local people and that would not otherwise be provided by the private sector.

(b) The Local Authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment.

(c) The project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value.

(d) While some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.

The "preventative" category can involve direct investments in companies or other assets to prevent social or economic decline (distinct from the regeneration category). The Government has defined this activity in the published guidance as action with all of the following characteristics:

(a) The intervention prevents a negative outcome, such as by buying and conserving assets of community value that would otherwise fall into disrepair or providing support to maintain economic activity that would otherwise cease.

(b) There is no realistic prospect of support from a source other than the local authority.

(c) The local authority has an exit strategy and does not propose to hold the investment for longer than is necessary to achieve the objectives that justified the intervention.

(d) The intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of business support that generate a balance sheet asset.

The Housing category covers the continuation of HRA schemes and General Fund housing activity, or housing delivered through Council owned companies and thus does not restrict the borrowing for the purpose of social or affordable housing.

Individual projects and schemes may have characteristics of several different categories of spending. In these cases, the Section 151 Officer will need to use his professional judgment to assess the main objective of the investment and consider which category is the best fit.

The categorisation does not prevent the Council from borrowing for projects that are primarily for other purposes, which also happen to generate a financial yield. The challenge will be finding projects that deliver much more than financial yield, such that the Section 151 Officer is satisfied that the investment is not primarily for yield and that the yield in such projects will be secondary to another prime purpose. This could include:

(a) Land assembly for development or regeneration purposes.
(b) Using borrowing to acquire or build new service assets (e.g. a new administrative office building, or a new leisure centre) and then re-purposing the existing redundant building into a 'yield' asset.

(c) Projects where the intention is to inject further investment beyond the initial purchase price; this could be through refurbishing or re-purposing the acquired asset. For example, purchasing an office building with the intention of converting it say into residential or other uses, for yield. Alternatively, acquiring a run-down industrial estate with a view to gaining vacant possession, demolishing it, and then redeveloping the site to create a new business or retail park.

(d) Ring-fencing revenue income from existing yield-based assets to invest on that asset, or other yield bearing assets, to improve investment performance and yields.

(e) Reviewing the existing ‘legacy’ property portfolio and identifying opportunities where investment could generate greater yields.

Every scenario will need to be reviewed on a case-by-case basis, and the S151 Officer will need to be satisfied that the scheme or acquisition meets the borrowing rules and will not fetter the ability to access PWLB borrowing.

3. Property Acquisition/Development Methodology

Identification, consideration and recommendation of assets suitable for acquisition and/or development will be undertaken by the Economic Development & Commercial Investments Team in conjunction with internal resource and outside specialist guidance and professional support, as required, procured in accordance with the Council's established Contract Procedure Rules. This may involve approaches and introductions of opportunities direct from sellers, their agents and third parties. In such cases, fees may be payable if, after an introduction is made, the Council wishes to pursue the purchase further.

All investments considered for purchase will undergo qualitative and quantitative appraisal to establish portfolio suitability and risks. In addition, 3rd party advice will be called upon where specialist market knowledge is required. Any purchase will be subject to due diligence on all physical, financial and legal aspects of the commercial investment to address its suitability as an asset for long term security and growth. It is recognised that some of the cost of feasibility work and technical appraisal and assessment will be abortive.

These investment opportunities will initially be submitted to IST for consideration and subsequently to the IGB.

All commercially based investments and/or developments involve risk and, at each stage of the process, the commitments made will be at risk as there can be no guarantee that the investment will be secured or a fully successful development will be achieved. The terms of the agreement between the parties will seek to mitigate the inherent risks. Moreover, the timing of the exercise can also be a critical factor in achieving optimum success, particularly in terms of market conditions, the state of the national economy and levels of investment confidence within the development industry.

4. Investment Partnerships

This category of investment includes the identification of properties or land for development of new homes and other assets through Investment Partnerships. Investment Partnerships could come in a diverse range of forms. Examples include, but are not limited to:

- Building homes and commercial premises;

- pursuing redevelopment and regeneration opportunities;

- Enabling long-term stalled developments;
- Using public land and buildings to achieve long-term socio-economic sustainability for the District and wider Greater Cambridgeshire Area.

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 income streams may 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 stair-casing;
- Capital receipts from Right to Buy and the sale of constructed assets;
- Increases in retained business rates;
- New Homes Bonus.

By the nature of these investments, returns are likely to be in the form of capital receipts from the sale of a constructed asset, potentially developed in phases depending on the scale of the project. Developed properties may, however, be retained for the benefit of their long-term rental income and will become an investment asset after completion.

The 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.

5. Green Energy Projects

The approved Business Plan 2020-2025 identifies the Focus, Actions and Measures which relate to green energy investments within the ‘Green to our core’ priority.

The Investment Strategy will develop projects identified in the Green Energy Programme, which is responsible for co-ordinating transformation activities within the South Cambridgeshire District Council commercial estate and assess these using the same criteria as other commercial regeneration investments.

6. Minimum Investment Criteria

For a commercial regeneration investment to be considered by the IGB it must:

(a) Deliver a rate of return commensurate with the deemed level of risk associated with the investment.

(b) Be accompanied by a full business case, using the outline business case template at **Appendix 4**. If relevant to the form of commercial investment, the investment criteria matrix at **Appendix 5**, should be used. The minimum score target will be determined by IST having regard to Business Plan objectives.

(c) Include an assessment of the carbon equivalent tonnes to allow proposals to be scored against the context of reducing the Council's carbon footprint.

(d) Include an assessment of the strategic fit of the investment proposed against the Objectives and Focus Areas contained within the 2020-2025 Business Plan.

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

The investment opportunities could vary significantly and, due to the speculative nature of some schemes, there will be higher risks attached to some investment opportunities. Each potential 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 IGB as part of the business case.

An investment opportunity that does not meet the minimum criteria 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 Cabinet. For investments where there is a variable revenue stream, such as some energy projects, or a long time gap between investment and first revenue, such as development projects, alternative valuation options, such as the Internal Rate of Return (IRR) may be appropriate as a measure of an investment's rate of return.

7. Risk Management

7.1 **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 may come in the form of capital receipts either in place of or in addition to revenue returns. This would need to be considered carefully as part of the overall Investment Strategy given the requirement to achieve net revenue returns of 2.5% overall.

7.24 **Portfolio Risk:** To mitigate portfolio risk, the Council will seek to maintain a diverse commercial property portfolio and, in this regard, future decisions on its established commercial property estate will have regard to diversification. Each asset is reviewed on an annual basis in order to review its performance, investment requirements and whether it should remain in the portfolio. Void periods for commercial investment properties held by the Council will be monitored and vacancy levels reported to the IGB during the year to ensure active management.

7.25 **Development Risk:** The Council assesses the risk of loss before entering into and whilst holding property investments, including adequate due diligence checks, surveys and technical reports to support the business case.

Appendix 4: Business Case Outline

The business case will include the following as a minimum:

Reasons: Why is the investment needed?
Options: What are the options available?
Benefits: What would be the benefits of the investment? How would it help deliver the Business Plan objectives?

Investment 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.

Risk Management Assessment: A detailed risk assessment of the potential investment, including mitigation measures that can be employed:

Specific risks associated with the proposed investment:

- Risk of failure (sales/letting void risks)
- Costs of ownership and management
- Differing ownership structures (e.g. wholly owned subsidiaries).
- Sector risk (portfolio spread)
- Provide an exit strategy financial assessment as a 'worse case' scenario
- Liquidity assessment
- LTV ratio assessment

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 value expectations (forecast value 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)

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.

Legal Status/Advice: Including the following:

- Report on title (to confirm ownership)
- Options for legal structures (e.g. use of wholly owned subsidiaries)
- Advice on SDLT and VAT linked to use of legal structure options

Estimated Timescale: Including the following:

- Proposed start date/Estimated end date/duration

Estimated Project Resources: Including the following:

- Identify role and name of officers
- Estimate the demand on officer time
- Identify resource gaps and whether these can be met
- Identify external resources required and estimated budget cost

Appendix 5 – Commercial Regeneration Investment Criteria Matrix

For appropriate transactions, the IST will score the ~~property~~ investment against the scoring criteria shown below. The criteria will apply to the acquisition of new and existing assets and in these cases the minimum score for the investment would be at least 100 out of a maximum score of 184.

The criteria will not, however, cover all commercial investment scenarios, including regeneration opportunities and, in these cases, a detailed business case would need to be prepared in line with the outline at appendix 6, balancing the level of return with the project risk.

The Investment Criteria Matrix is based upon CIPFA guidance and is comparable with methods used by other local authorities, such as New Forest, Kettering and Redditch, which all broadly follow a format recommended by CIPFA. The table below shows the suggested scoring criteria to be applied when considering an investment opportunity.

Appendix A

Score		4	3	2	1	0
Scoring Criteria	Weighting Factor	Excellent / very good	Good	Acceptable	Marginal	Unacceptable
Location	~~12~~ 10	Major Prime	Micro Prime	Major Secondary	Micro Secondary	Tertiary
Tenancy Strength	~~10~~ 8	Single tenant with strong financial covenant	Single tenant with good financial covenant	Multiple tenants with strong financial covenant	Multiple tenants with good financial covenant	Tenants with poor financial covenant strength / vacant
Single/Multi Let	6	Single Let	2-3 Tenants	4-6 Tenants	6+ Tenants	Vacant
Occupiers lease length	5	Greater than 10 years	Between 7 and 10 years	Between 4 and 7 years	Between 2 and 4 years	Less than 2 years; vacant
Re-letting prospects (Void Period)	5	< 3 months	3-6 months	6-12 months	12-18 months	18+ months
Tenure	~~9~~ 4	Freehold	Lease 125 years plus	Lease between 50 & 125 years	Lease between 20 & 50 years	Lease less than 20 years
EPC/Sustainability	4	Highly Sustainable A-B	Mainly Sustainable C	Moderate but some works would be beneficial - D	Unlikely to be problematic when re-letting or selling - E	Unsustainable - F or worse
Repairing Terms ~~obligations~~	~~4~~ 3	Full repairing and insuring	Internal repairing – 100% recoverable	Internal repairing – partially recoverable	Internal repairing – no recoverable	Landlord
Building Quality / obsolescence	~~4~~ 2	Newly Built ~~(useful life 50+ years)~~	Recently refurbished (within the past 5 years)	Average condition and likely to continue to be fit for current use for 25+ years	Aged property with redevelopment potential	Nearing end of useful life / unlikely to continue when lease expires
Income Profile	2	10% Reversionary	0-10% Reversionary	Rack Rented	Over Rented -10%	Over Rented - 10%+
Lot size	~~2~~ 1	Between £6m and £12m	Between £4m & £6m or 12m and £18m	Between £2m & £4m or £18m and £20m	Between £1m & £2m or £20m & £25m	Less than £1m or more than £25m

Investment Criteria Definitions

Location - property is categorised as prime, secondary or tertiary in terms of its location desirability. For example, a shop located in the best trading position in a town would be prime, whereas a unit on a peripheral neighbourhood shopping parade would be considered tertiary.

Tenancy Strength – the financial strength and risk of failure of a tenant determines the security of the property's rental income. A financially weak tenant increases the likelihood that the property will fall vacant. Rating agencies, such as Dun & Bradstreet are often used to evaluate covenant strength, ranging from "5A" to "HH" to reflect company size based upon worth or equity, and a Composite Credit Appraisal from 1 to 4 to reflect the assessment of the firm's creditworthiness. The minimum acceptable financial strength for any given tenant will be determined through financial appraisal of company accounts and the use of appropriate methods of risk assessment and credit scoring. To minimise management and risk, the preference will be for single occupancy investments wherever possible.

Tenure – anything less than a freehold acquisition will need to be appropriately reflected in the price**.** If leasehold, is the lease free from unencumbered/onerous terms? Is the rent periodically reviewed to take into account inflation and upward market movement?

Occupational Lease Length – the lease term will determine the duration of the tenant's contractual obligation to pay rent. The most attractive investments offer a long lease with a strong tenant covenant. The lease term will reflect any tenant break clauses. The optimum lease length will depend on the sector, with commercial B1 offices typically 7+years and 10+ years for industrial. Retained agents will be expected to qualify the quality of the length lease in their pre-acquisition report.

Building Quality – a brand new or recently refurbished building with an anticipated life of at least 40 years will not usually require capital expenditure for at least 15 years. This is attractive for income investors requiring long term rental income with the minimum of ongoing capital expenditure.

Repairing Obligations – under a Full Repairing & Insuring Lease (FRI), the tenant is responsible for the building's interior and exterior maintenance/repair. The obligation is limited to the building's interior under an Internal Repairing & Insuring Lease (IRI). The preference will be to favour FRI terms (or FRI by way of service charge i.e. all costs relating to occupation and repairs are borne by the tenants and administered through a service charge).

Lot Size – to maintain portfolio balance the preference will be for no single property investment to exceed £12m for a single let property.

In addition to the above criteria the IGB 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.