

Report to: **Cabinet**

Date of Meeting: 6 February 2019

Public Document: Yes

Exemption: Para 3 Schedule 12A Information relating to the finance or business affairs of any particular person

Review date for release **APPENDIX B** of this report contains exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972



Agenda item: **24**

Subject: **Commercial Investment Framework**

Purpose of report: The Council's Transformation Strategy accounts for the following net income.

Property investment	SMT	2019/20	£50k
		2020/21	£300k
		2021/22	£50k
		2022/23	£50k

The Commercial Investment Framework attached to this report provides the mechanism to help deliver this income.

Recommendation:

- 1) That the Council adopt the Commercial Investment Framework including scoring matrices and new governance arrangements.**
- 2) That Cabinet recommends to Council the availability of up to £20,000,000 through existing resources or Public Works Loan Board funding. Monies will be drawn down as and when required.**

Reason for recommendation: To support the Council's Property Investment objective within the Transformation Strategy.

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Financial implications: Financial implications and legal powers are contained in the Commercial Investment Framework. The framework has clear governance arrangements and the financial criteria to be used for investment assessment, this aligns to the Council's low risk appetite. The Council's Capital Strategy, Treasury Management Strategy and Prudential Indicators (contained on this agenda) reflect the position as if the Commercial Investment Framework is adopted in order to demonstrate the effect on the Council's overall financial position. The financial and legal positions of each investment proposal will be

documented and commented on by both the Strategic Leads for Finance and for Governance & Licencing.

Legal implications: The legal position is detailed in the Framework itself, which in turn reflects the advice received from our external legal advisers. No further legal comment is required.

Equalities impact: Low Impact

Risk: Medium Risk

Property investment brings with it the potential for significant risk if things go wrong. Risks can be mitigated but ultimately some risks are externally driven.

Typical risks are listed within the Investment Framework.

The Council must take a prudent approach to the management of its financial affairs and therefore when assessing investments will need to consider such factors as the security against loss, the liquidity of the investment, the yield and risk of change of interest rates, property values and voids.

Assessing the risk of individual investment opportunities will be a key element of both the Outline Business Case and Full Business Case outlined within the Framework.

Links to background information: .

Link to Council Plan: Continuously improving to be an outstanding Council
Developing an outstanding local economy

Report in full

Background

- 1.1 The proposal to invest in commercial property has been considered by different committees previously.
- 1.2 Overview Committee of 30 January 2018 received an update of the Council's Transformation Strategy of which one of the five themes relates to:

Maximise the value of our assets through commercial thinking with a focus on income generation, sustainability and developing local economies
- 1.3 Overview then welcomed Adam Burleton of Link Asset Services who presented to the Committee on the financial limitations that Councils had to operate within and outlined examples of local authority commercial activity including opportunities around investing in commercial property to generate an income to help support wider functions and aspirations of a local authority.

- 1.4 Overview Committee of 13 March 2018 then heard from Jones Lang LaSalle property consultants about opportunities and live examples of commercial property investments by local authorities. The Committee were of the view that taking an approach to investing in commercial property was the right step for the Council to take, and specific opportunities to do so should be explored. Officers agreed to progress this.
- 1.5 A draft Commercial Investment Framework was confidentially presented to a Special Asset Management Forum (AMF) on 6 September 2018. AMF Members were supportive whilst providing a steer towards tweaking of the scoring matrices, widening of the Investment Decision Making Group to include Cllr Skinner and involving SWAP to review once adopted.
- 1.6 External legal advice was commissioned through Bevan Brittan to advise on the Council's powers to invest commercially along with the mechanism by which this should be done. Comments are reflected within paras 2 of Framework.
- 1.7 AMF on 17 January 2019 considered and subject to two small additions, resolved to recommend to Cabinet the adoption of the attached Commercial Investment Framework and appendices a-c. These additions have now been made.
- 1.8 The Framework incorporates a general introduction and background to commercial investment, legal and regulatory powers, objectives, types of investment considered, weighted scoring matrices for assessment of opportunities and a new arrangement to ensure agile but safe decision making.
- 1.9 The availability of up to £20,000,000 investment fund is being taken to Council on 27th February 2019.

Commercial Investment Framework

- 2.1 The following for adoption are attached:
 - 1 Commercial Investment Framework
 - 2 Appendix A – Strategy and Transaction Examples
 - 3 Appendix B – **Commercially Confidential** – Weighted Scoring Matrices
 - 4 Appendix C – Commercial Investment Governance
- 2.2 The Commercial Investment Framework addresses the opportunity that by investing circa £20,000,000 between 2019/2020 and 2020/2021, £10,000,000 within the Income Only Fund (IOF) and £10,000,000 within the Income Plus Fund (IPF), the Council could expect to receive a net return of circa £450,000 per annum.
- 2.3 Whilst the Framework focusses on property investment, this same Framework can be utilised for investing in other types of income generating asset e.g. energy provision or peer to peer lending.
- 2.4 There are potentially 5 different forms of property investment the Council can consider under this Framework, as follows:
 1. Management of Existing Assets
 2. Acquisition for Commercial Income (IOF)
 3. Acquisition for District wide benefits (IPF)
 4. Direct Development – both housing and commercial (IPF)
 5. Strategic Partnerships and Joint Ventures (IPF)

- 2.5 To ensure investment opportunities can be considered in a structured and objective manner, all such opportunities will be considered using one of the four weighted scoring matrices included in the attached Commercially Confidential appendix B.
- 2.6 A new Commercial Investment Governance model is proposed which will enable safe, accountable and democratic decisions to be taken in a more agile manner. Investment opportunities are considered against the relevant scoring matrix and if the necessary score and indicative return is achieved at this stage, the opportunity will be progressed by a dedicated Investment Assessment Team, before Outline Business Case to SMT and Portfolio Holders for Asset Management, Finance and Economy. If supported there will then be a Full Business Case with a decision made to invest by Deputy Chief Executive in consultation with Leader and Portfolio Holders for Asset Management, Finance and Economy, jointly referred to as the Investment Decision Making Group. This is explained in appendix C.