

**OVERVIEW AND SCRUTINY PANEL (ECONOMIC WELL-BEING) -
THURSDAY, 3 SEPTEMBER 2015**

LATE AGENDA ITEM(S)

5. COMMERCIAL INVESTMENT STRATEGY (Pages 3 - 24)

The Corporate Director (Services) will present the Commercial Investment Strategy to the Panel.

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Public
Key Decision - Yes

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Commercial Investment Strategy

Meeting/Date: Overview & Scrutiny (Economic Well-being) Scrutiny –
3 September 2015
Cabinet – 17 September 2015

Executive Portfolio: Resources

Report by: Corporate Director (Services)

Ward(s) affected: All

Executive Summary:

The Council faces considerable financial challenges. Our “Plan on a Page” sets out the funding gap of £8.2m which needs to be addressed to achieve the Council’s ambition to reduce reliance on Central Government funding. A number of core business activities are in place to achieve this, mainly focussed on alternative service delivery models and budget change programmes.

Another activity which can reduce the funding gap without impacting on services is the generation of additional income. With a net return of 7.2% from the current commercial estate and an earmarked reserve of £4.737m available to invest in commercial assets, the attached Commercial Investment Strategy developed in conjunction with consultants EC Harris sets out the parameters and governance arrangements for managing further investments.

Recommendation(s):

Cabinet are asked to:

- Approve the Commercial Investment Strategy at Appendix A,
- Approve the “enhanced as is” model of governance arrangements

1. WHAT IS THIS REPORT ABOUT/PURPOSE?

- 1.1 Seeking approval for a Commercial Investment Strategy (CIS) which sets out a framework for investment in a wide portfolio of commercial type properties to provide a long-term revenue stream for the Council. The proposed Strategy at Appendix A has been prepared in conjunction with consultants EC Harris and sets out criteria for investments in land and property, risk appetite and the types of investment options favoured.

2. WHY IS THIS REPORT NECESSARY/BACKGROUND

- 2.1 The Council faces considerable financial challenges. Our “Plan on a Page” sets out the funding gap of £8.2m which needs to be addressed to achieve the Council’s ambition to reduce reliance on Central Government funding. Income generation is among the business activities which will help address this funding gap.

The Council’s current commercial estate generates a net return of £1.5m (7.2% of the £20.8m value of the estate) and the Council has established a “Capital Investment Earmarked Reserve” to provide a source of funding for further investment in assets generating a revenue cash flow. The CIS sets out the parameters and governance arrangements for managing this investment.

3. OPTIONS CONSIDERED/ANALYSIS

- 3.1 With a primary focus to be on commercial return, the following criteria have informed the CIS approach:
- Focus on revenue rather than capital
 - Short-term revenue generation
 - Ability to make timely decisions
 - Managed risk
- 3.2 The key criteria for investment options and governance arrangements are:
- Control over investment decisions
 - Financial independence
 - Stakeholder buy-in
 - Transparency
 - Commercial and political sensitivity
 - Liquidity
 - Not constrained by geography
- 3.3 In developing a portfolio model based on these objectives, the implementation of the CIS would see early investment focussing on a “Core” Investment Portfolio (“CIP”), with low risk and long-term sustainability. As the CIS progresses, a blend of investment profiles would be employed through Risk Shared Development (“RSD”) and Self-Development (“SD”). The proceeds of higher risk, shorter-term activities would partly be redeployed back into the lower risk, longer-term CIP.
- 3.4 It is proposed that the initial investment be focussed on direct property investment, property funds or listed property shares. Making use of more liquid funds and shares mean that capital can be deployed quickly and flexibly and could be readily realised and redeployed.
- 3.5 The consultants have recommended that higher value adding, riskier activities should initially be focussed within the district, where the Council’s knowledge

of the area creates a competitive advantage and allows it to better manage risk and direct investment where it will help deliver wider corporate objectives.

- 3.6 The governance structure for the CIS needs to allow the Council to trade on a commercial basis and also recognise the statutory and political boundaries that must be observed. The structure must be one that both Members and Officers will be comfortable with. There are essentially two options available to the Council:
- Option 1: Enhanced 'as is' position, expanded to include wider CIS activity. The Constitution has been amended to provide greater delegated decision making to allow Senior Officers and Members to act and take decisions on disposals and acquisitions of land and property. Such decisions will be taken within the parameters of a Business Plan to be approved by Cabinet.
 - Option 2: Local Authority Trading Company (LATC). The Council could set up a LATC to deliver the CIS.
- 3.7 Option 1 makes use of existing resources, with our current commercial estate managed by the Estates team and run through the Council's main corporate governance channels. New financial thresholds for disposals and acquisitions of land and property were approved by full Council in July. These were agreed as the previous thresholds were considered too restrictive to enable a more commercial approach to management of the Council's property portfolio. These will be reviewed 12 months after approval. The new Disposals and Acquisitions Policy sets out the legal context, principles and governance arrangements by which the Council will dispose of and acquire land and property and provides an appropriately agile decision-making process that will support the disposal and acquisition of land and property.
- 3.8 Option 1 allows the Council to remain fully in control, with democratic processes to be followed involving Members in decisions. The Disposals and Acquisitions Policy states that the Council will have regard to all statutory and local regulations, including reporting to Corporate Management Team and in line with the Constitution, including the Treasury and Capital Management Group. All disposal and acquisition decisions will be retrospectively reported to the Overview & Scrutiny (Economic Well-Being) Panel.
- 3.9 Option 2 requires a separate Limited company to be set up with its own trading name. Assets could either be owned by the LATC or the Council, with the LATC acting as the managing agent returning revenue back to the Council in the form of dividends. A LATC can be empowered to make quick decisions based upon its constitutional arrangements and agreed levels of devolved decisions making.
- 3.10 Setting up and operating a LATC can attract additional costs over and above what would be incurred in a local authority context. The structure for a LATC recommended by the consultants employed to develop the CIS would have a Board of five Directors consisting of three Officers with relevant expertise plus two Non-Executive Directors appointed to bring relevant experience and independence to the Board. However, this option would not include elected Members becoming Directors due to the potential for conflict of interest and influence over Officers involved.

3.11 **Recommendation** - Initial feedback from Members has favoured Option 1 due to the control, democratic processes and transparency which an enhanced 'as is' position offers. Concerns over the lack of accountability mean that Option 2 is not supported.

3.12 This governance structure will ensure regular reporting to Members. An annual Business Plan will be presented to Cabinet for approval, with the Treasury and Capital Management Group to meet and receive reports on CIS performance on a regular basis. There will be a quarterly public report to Cabinet on CIS performance which will report against a range of metrics to be set out in the Business Plan. An evaluation framework will be created to monitor the performance of the CIS, with performance against agreed metrics to be reported quarterly.

4. COMMENTS OF OVERVIEW & SCRUTINY PANEL

4.1 To follow.

5. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED?

5.1 The CIS proposes a balanced approach to risk and reward. It is recommended that the initial focus should be on short term revenue generating opportunities that are lower risk, with a view to building up the portfolio with longer term, higher risk opportunities as the implementation of the CIS progresses. A portfolio approach will help manage risk and exposure in any one sector, geography or investment type.

5.2 The Business Plan will set parameters for the Loan to Value of each type of investment to ensure that additional borrowing is affordable and that there is adequate security over direct capital investment in assets. Capacity and capability can be developed over time, with the Business Plan to set out where additional resources and support are required to guide investment decisions and manage performance.

6. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

6.1 The Capital Investment Earmarked Reserve is currently £4.737m and a Business Plan currently being drafted is due to be taken to Cabinet for approval in October. Subject to approval, funds will be available for investment before the year end.

7. LINK TO THE CORPORATE PLAN

7.1 The implementation of the CIS will enable the achievement of a number of the strategic themes and priorities in the Corporate Plan, with a focus on delivering a growing and sustainable revenue stream for the Council which would help to support and enhance the delivery of frontline services. The CIS could also be used to enable commercial development within the district, attracting jobs and business growth to support a strong local economy, and new residential development, including contributions to affordable housing provision, could help deliver sustainable growth.

8. CONSULTATION

8.1 Consultation with Members has included workshops with the Overview & Scrutiny (Economic Well-being) Panel and Cabinet. The Disposal and

Acquisition Policy approved recently set out the procedures, monetary thresholds and governance arrangements for the disposal and acquisition of land and property.

9. LEGAL IMPLICATIONS

- 9.1 The recommendation to use an existing 'as is' approach to managing the CIS removes the need to establish a separate Local Authority Trading Company. Initial investments through property funds, shares and direct investments in land and property can all be held in the Council's own right. The Constitution has recently been amended with new arrangements reflecting the recently agreed disposals and acquisitions policy and the governance arrangements for the CIS.

10. RESOURCE IMPLICATIONS

- 10.1 Current resources for managing the Council's existing estates are likely to be insufficient to accommodate the additional work required to identify investment opportunities and manage a wider portfolio. The Business Plan will set out where additional resources and support need to be brought in to guide investment decisions and monitor and manage performance.

11. REASONS FOR THE RECOMMENDED DECISIONS

- 11.1 To achieve the Council's ambition of removing the New Homes Bonus from its core funding stream, additional income needs to be generated. With a return of 7.2% from the current commercial estate and an earmarked reserve of £4.737m available to invest in commercial assets, the attached Commercial Investment Strategy sets out the parameters and governance arrangements for managing further investments.

Cabinet are asked to:

- Approve the Strategy at Appendix A, and
- Approve the "enhanced as is" governance arrangements.

12. LIST OF APPENDICES INCLUDED

Appendix A – Commercial Investment Strategy

BACKGROUND PAPERS

CONTACT OFFICER

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Commercial Investment Strategy

Appendices

1. CIS Business Plan (to follow once approved)
2. "Plan on a Page"
3. Delivery Options

Date Approved: xx/xx/2015
Review Date: xx/xx/2017
Version 1

1. Introduction

Over the medium term, the Council faces considerable “revenue” financial challenges. The Medium Term Financial Strategy (MTFS) approved in February 2015 showed a revenue gap of £2.4m by 2019/20, with extensive use of General Fund reserves required over the MTFS period. While setting budgets in line with the MTFS would maintain a level of reserves above the £3m minimum agreed by Cabinet, such use of reserves does not support the “principles of financial sustainability”.

As shown on the “Plan on a Page” (Appendix 2), the Council’s ambition to remove its reliance on Central Government funding increases the funding gap to £8.2m. The “Plan on a Page” shows that the Council aims to bridge this funding gap through a number of core business activities. As well as alternative service delivery models and budget change programmes, the “Plan on a Page” recognises income generation as one of those core activities.

The “Commercial Investment Strategy” (CIS) will be one of the main components of generating income. The CIS has been developed in conjunction with consultants EC Harris and sets out a framework for investing in a wider portfolio of commercial type properties. The focus of the CIS is to deliver a growing and significant commercial return and sustainable revenue stream for the Council.

The Council already generates a 7.2% net return from its current £20.8m commercial estate, contributing £1.5m in net revenue to help fund services. With a 10-year average return of 6.2% per annum for commercial property nationally, it is expected that further investment will provide a significant, sustainable long term revenue income for the Council.

2. Strategic Objectives

The CIS is expected to contribute towards three of the four Strategic Priorities in the Council’s Corporate Plan 2015-16. The income generated will help to fund all services.

Strategic Priority	Link to CIS
Ensuring we are a customer focussed and service led Council – Delivering value for money services.	The CIS will provide a sustainable revenue stream to the Council and support and enhance the delivery of frontline services.
A strong local economy – Making Huntingdonshire a better place to live, work and invest.	The CIS could be used to enable commercial development within the HDC area, attracting jobs and business growth.
Enabling sustainable growth – Delivering new and appropriate housing with minimum impact on our environment.	The CIS could be used to bring forward new residential development within the HDC area, including contributions to affordable housing provision.

Criteria informing the CIS approach

Feedback from key stakeholders, including the Overview & Scrutiny (Economic Well-being) Panel and Cabinet, showed a strong appetite for the CIS among both officers and Members. There was also agreement that the primary focus of the CIS is to be on commercial return, with an emphasis on revenue generation, with the need for this as identified in the “Plan on a Page”.

The key criteria for investment options considered as part of this Strategy are listed in the following table and have been set to ensure that investments focus on commercial return. Criteria which need to apply to governance arrangements for the CIS are also set out below.

Criteria	Reason for criteria	Approach taken to inform CIS
Focus on revenue (rather than capital)	To meet revenue funding gap and enhance frontline services	- Acquire to hold, rather than to dispose - Re-invest any capital receipts - Potential to invest in existing property funds
Short term revenue generation	To meet short term funding requirements	- Seek to invest initially in current revenue generating assets or property funds - In the medium term, identify opportunities for greater return on investment by taking a longer term approach e.g. acquisition of vacant properties or development to realise a revenue stream
Ability to make timely decisions	The Council's current governance structure could impede the Council's ability to react quickly to investment opportunities	- Amendments to the levels of delegated decision making in the Constitution proposed and agreed through the Disposal and Acquisitions Policy
Managed risk	Benefits will need to be clearly evidenced in order to demonstrate value to stakeholders and the wider community	- Consideration for the type and amount of funding invested - Identify potential lower risk sources of revenue initially, moving to a more balanced risk portfolio

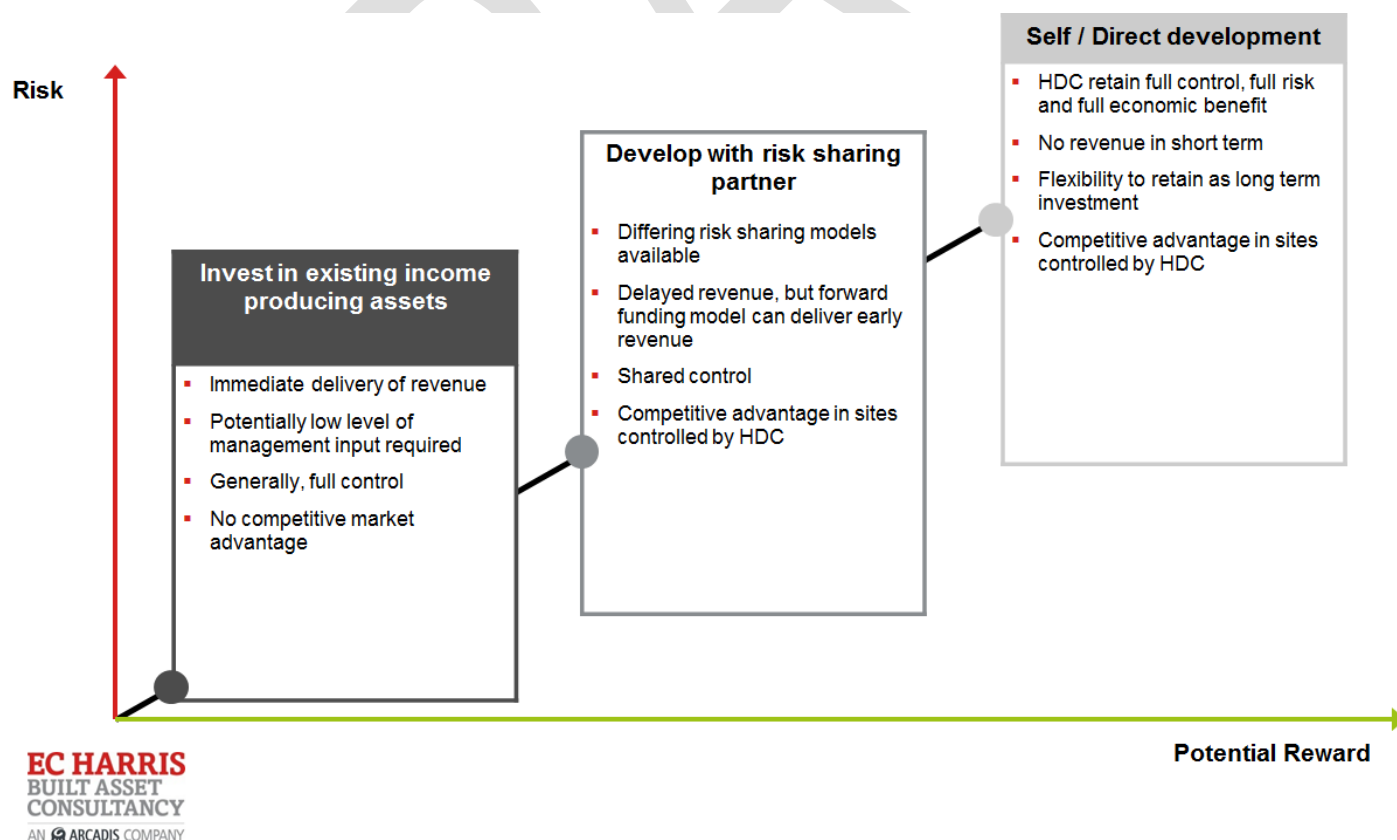
Investment criteria

Criteria	Reason for criteria	Approach taken to inform CIS
Control over investment decisions	It is important for the Council to control the nature of the investments to allow the opportunity to mitigate potential risks	- Indicates a preference towards direct investment (rather than investment into property funds) - If working with the private sector, preference is to have a controlling majority over decision making
Financial independence	Ensures the CIS is accountable and responsible for its performance, avoiding the need and temptation for cross-subsidy between the Council and the CIS	- Consider a governance structure where returns to the Council are through dividends - Capital receipts made within the CIS are ring-fenced and therefore can be reinvested back in the CIS
Stakeholder buy-in	Recognising that the CIS needs long term stability and cross political support to be successful	- Stakeholder consultation and engagement throughout the development of the CIS - Agreed and periodically reviewed business plan - Regular reports and reviews of CIS performance
Transparency	Meets the Council's audit and scrutiny requirements and demonstrates the basis of investment decisions and value for money	- Business cases required to support all investment decisions - Independent appraisal and evaluation - Regular reporting and review of CIS performance - Clear decision and management processes to be established

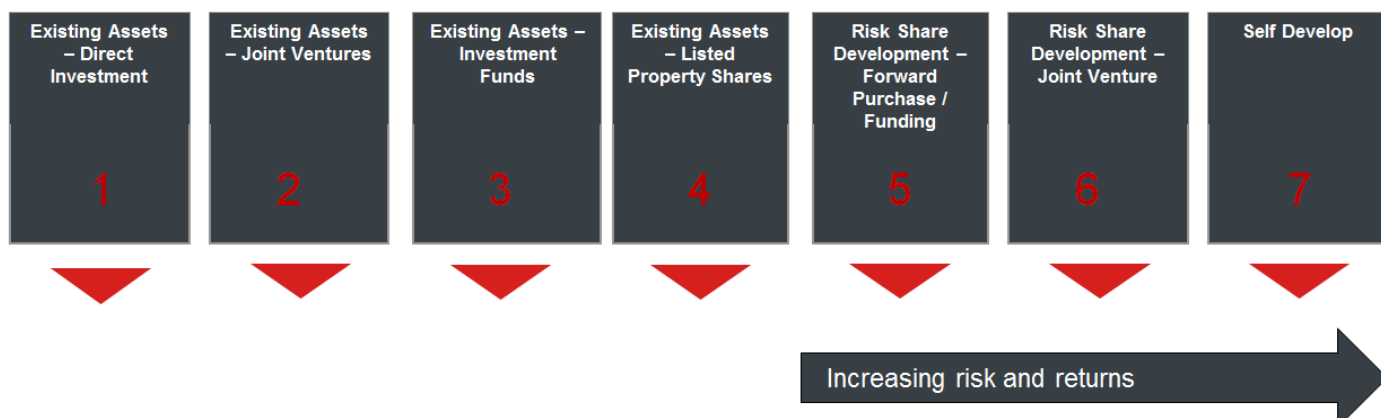
Criteria	Reason for criteria	Approach taken to inform CIS
Commercial and political sensitivity	Recognising that the set up and operation of the CIS may create conflicts of interest and as a public body reputational risks could impact upon the nature and type of investments	- Review governance structure for the CIS to mitigate any obvious conflicts of interest - Consider the reputational risks for the Council within any investment opportunities
Liquidity	To protect against market stress or changes to HDC strategy	- Some allocation to funds/shares which would allow HDC to access funds quickly
Not constrained by geography	Optimise the financial return with a greater number of opportunities	- Needs to balance with other strategic requirements such as control over investment decisions - Recognition that economic benefits to the area may not be optimised if outside the geographic area - May require additional market research to offset loss of competitive advantage and market knowledge from being outside the area

3. Investment Strategies and Delivery Options

There are a range of investment strategies with different financial, risk and timing profiles which have been considered. Each of these models could be used to deliver the CIS. The chart below shows the expected level of risk and reward associated with each of these.



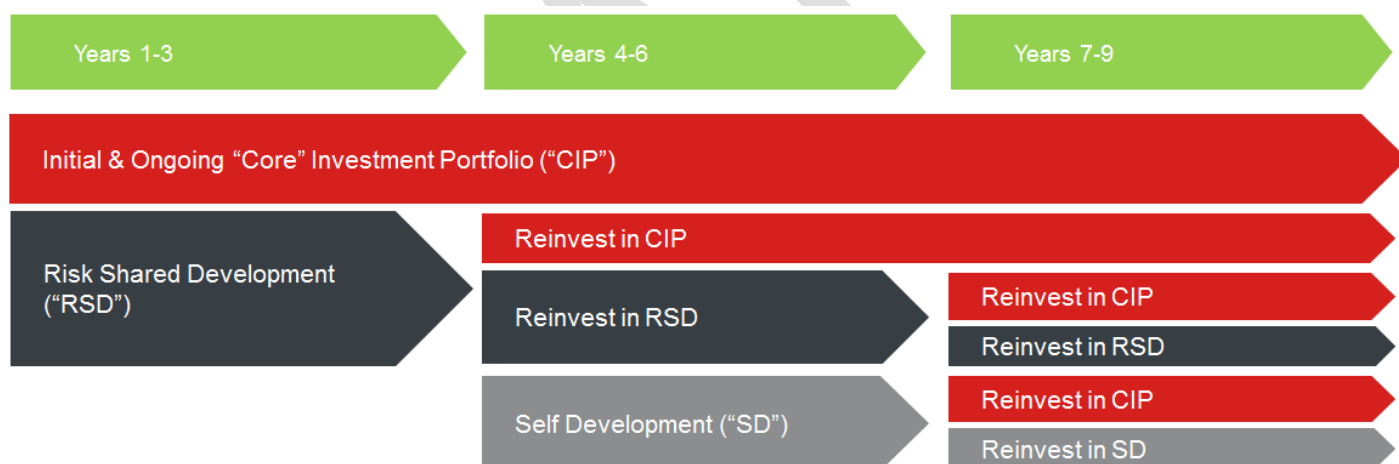
Seven delivery options are available for the Council to consider. The following diagram lists these in order of increasing risk and returns. Appendix 3 provides further detail on each delivery option.



Each option has benefits and limitations which can be assessed against the criteria in section 2 and the Council's key drivers.

4. Portfolio Model

In order to manage the portfolio in accordance with the criteria set out in section 2, it is proposed that a progressive approach to developing a portfolio model is taken. This measured model increases potential risk and reward over time, employing a blend of risk profiles with the proceeds of higher risk, shorter term activities partly redeployed back into the lower risk, long term sustainable "Core".



To ensure that the portfolio balances risk and reward, the CIS should be flexible enough to make use of all models and delivery options. The model above can take into account the following:

- The setting of overriding financial objectives and establishment of separate reporting for and analysis of the CIS
- Inclusion of the Council's existing commercial portfolio in the CIS
- The appropriate risk/return profile of the CIS
- The importance of income return in relation to the total return
- Use of borrowing to fund investment

To generate immediate income, initial investments will be focussed on the "Core" portfolio through delivery options 1-4. In developing the Business Plan, consideration will be given to investing in property funds and shares as the most liquid categories of delivery options. In this way, capital can be deployed in a timely and flexible manner. Such investments can be readily realised and redeployed.

The Business Plan will propose that higher value adding/risk investments are delayed until the CIS is embedded and appropriate resources are available to accommodate the additional preparation and management that such investments will require. Delivery options 5-7 should be focused initially within Huntingdonshire. The Council's knowledge of the district creates a competitive advantage and allows it to better manage risk and contribute to wider HDC objectives.

There may be some potential for added value to be achieved through CIS investments within the district, such as financial returns that could be achieved through the retention of NNDR income.

5. Governance

The governance structure for the CIS needs to allow the Council to trade on a commercial basis and also recognise the statutory and political boundaries that must be observed. The structure must be one that both Members and Officers will be comfortable with, two options are available to the Council and have been considered as follows:

- Option 1: Enhanced 'as is' position, expanded to include wider CIS activity. The Constitution has been amended to provide greater delegated decision making to allow Senior Officers and Members to act and take decisions on disposals and acquisitions of land and property. Such decisions will be taken within the parameters of a Business Plan to be approved by Cabinet.
- Option 2: Local Authority Trading Company (LATC). The Council could set up a LATC to deliver the CIS.

The Council's preferred option is **Option 1**, this makes use of existing resources, with our current commercial estate managed by the Estates team and run through the Council's main corporate governance channels. New financial thresholds for disposals and acquisitions of land and property are shown below. These were agreed as the previous thresholds were considered too restrictive to enable a more commercial approach to management of the Council's property portfolio. These will be reviewed 12 months after approval. The new Disposals and Acquisitions Policy sets out the legal context, principles and governance arrangements by which the Council will dispose of and acquire land and property.

Amount:	Decisions on disposals and acquisitions of land and property delegated to:
£0 - £500,000	Managing Director (as Head of Paid Service) & Head of Resources (as Section 151 Officer), following consultation with Executive Councillor for Resources
£500,000 - £2,000,000	Treasury and Capital Management Group
£2,000,000 +	Cabinet

Option 1 allows the Council to remain fully in control, with democratic processes to be followed involving Members in decisions. The Disposals and Acquisitions Policy states that the Council will have regard to all statutory and local regulations, including reporting to Corporate Management Team and in line with the Constitution, including the Treasury and Capital Management Group. All disposal and acquisition decisions will be retrospectively reported to the Overview & Scrutiny (Economic Well-Being) Panel.

This governance structure will ensure regular reporting to Members. An annual Business Plan will be presented to Cabinet for approval, with the Treasury and Capital Management Group to meet and receive reports on CIS performance on a regular basis. There will be a quarterly public report to Cabinet on CIS performance which will report against a range of metrics to be set out in the Business Plan.

6. Financial Modelling

The Business Plan will set out in detail the level and sources of funding to be invested in the CIS, the types of investment planned and timescales for these and the expected financial return from these investments. It will also identify potential investment opportunities.

The Council currently has a commercial estate consisting of over 200 assets valued at £20.8m. This estate generates £1.5m of net revenue, a return of 7.2%. This existing portfolio will be incorporated into the CIS and opportunities will be sought to sustain and improve net revenue. Potential development opportunities could generate capital receipts that could be used as a source of finance for the CIS to optimise and realised value, with a potential £1.2m in capital receipts estimated through a review of the commercial estate in 2012.

Opportunities to generate capital receipts for investment in the CIS may be identified through ongoing reviews of assets in the Council's operational estate. Operational or community assets that become surplus to requirements due to estate rationalisation or adopting new ways of working could be disposed of or developed to generate CIS funds.

The CIS will also be funded through the use of Earmarked Reserves. The Capital Investment Earmarked Reserve currently has £4.737m available for early investment.

Further funding for investment could come from borrowing. With low interest rates available to the Council, the Business Plan will set out options for borrowing from lenders such as the Public Works Loans Board and investing the money in the CIS where net returns are expected to result in a profit for the Council. Borrowing can be increased over time if this remains affordable.

Additional revenue returns from investment in opportunities within the district may be possible. Investment in commercial property could generate additional NNDR, with a recent Government announcement to allow Cambridgeshire authorities to retain 100% of any additional business rate growth from April 2015.

The current and expected future profile of the CIS will be measured using a series of metrics, including:

- Historic and forecast income and total returns – at a property level and on an equity basis
- Benchmarking of returns (IPD – Investment Property Databank)
- Gross and net income
- Operating costs
- Total expense ratio (TER)
- Vacancy levels
- Tenant exposures
- Debt metrics (LTV – Loan to Value, ICR – Interest Coverage Ratio)

The current rate of return on the Council's existing investment (9.4%) is considered to be above the market rate. The Business Plan will set out the expected rate of return from existing and new investments, taking into account changes in the property market and the wider economy.

7. Risk management

As described in section 2 and 4 above, a balanced approach will be taken to managing risks associated with the CIS. Initial investment will focus on lower risk investments, with potential risk and reward to be increased over time. A blend of risk profiles would see the proceeds of higher risk, shorter term activities partly redeployed back into the lower risk, long term sustainable “Core”.

It is acknowledged that the Council currently has limited resources and experience in property related investment and development so this approach to the CIS means the Council can take advantage of simpler investment opportunities at the outset. Capacity and capability can then be developed over time, with the Business Plan to set out where additional resources and support need to be brought in to guide investment decisions and monitor and manage performance.

Security over capital investment will be important, with Members recognising the need to protect the public purse. Parameters for the Loan to Value of each type of investment will be set out in the Business Plan. While property funds and shares are the simplest, most liquid investments, moving towards direct investment in land and property will provide security over physical assets. Diversification of the CIS portfolio through a series of investments over time should reduce the risk of the poor performance or the impact of a crash in the property market similar to the 2008 crash.

The Business Plan will set out risks and mitigation for the types of investments planned each year. The metrics set out in section 6 will allow performance and exposure to risk to be monitored and managed closely.

Commercial Investment Strategy Business Plan

To be submitted for approval in October 2015

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VISION

To improve the quality of life for the people of Huntingdonshire and work towards sustainable economic growth whilst providing value for money services

STRATEGIC PRIORITIES

A strong local economy

Enabling sustainable growth

Working with our communities

Ensuring we are customer focused and service led council

CURRENT SERVICES

Customer Service Strategy / Service Standards

Lean

Shared Services

Zero Basing

Income Generation

Facing the Future

FINANCIAL

Financial ambitions

To reduce the Council's reliance on Central Government Funding and in so doing create a sustainable financial platform

Approved MTFs

% cut from MTFs

Modified budget

2015/16	2016/17	2017/18	2018/19	2019/20
£18.881m	£19.870m	£20.671m	£21.259m	£21.721m
0% (-£0m)	19.2% (-£3.8m)	28.6% (-£5.9m)	35.1% (-£7.5m)	37.6% (-£8.2m)
£18.881m	£16.059m	£14.750m	£13.805m	£13.553m

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What is it?

- The Council acquires and manages freehold or leasehold properties.

How does it work?

- The Council uses property professionals to identify market opportunities.
- After deciding on price and clearing appropriate internal approvals, bid for assets.
- Using appropriate advisors (legal, surveying, valuation) undertake due diligence and complete legal acquisition documentation.
- Establish on going management arrangements (internal or outsourced).
- Regular asset reviews to determine business plan and exit strategy.
- Process required on an asset by asset basis.

Benefits

Financial Objective

Depending on property type, is capable of delivering market level income return

Revenue Delivery

Generates revenue from the time of the property acquisitions

Risk

Low risk option with the appropriate due diligence

Control

High level of control

Liquidity

Reasonable liquidity, subject to usual property market timings

Management Oversight

Assuming management is outsourced - relatively light requirement – high involvement at key decision points (buying and selling)

Limitations

Performance

Low return option and no competitive market position for HDC

Diversification

Circa 20 investments required to deliver portfolio diversification

2. Existing Assets – Joint Venture

What is it?

- The Council acquires and manages freehold or leasehold properties together with a partner.

How does it work?

- The options are to approach this on a case by case basis or create a strategic relationship with a trusted partner.
- The Council will wish to select a partner or partners on the basis of their demonstrated expertise and ability to co-invest with the Council (assume 50/50). The Partner will carry out much of the management role.
- The Partner will identify market opportunities.
- The JV will include governance allowing Council input on key decisions, including acquisitions and sales.
- The Partner is responsible for on going management arrangements.
- Council rights to review business plan and exit strategy.

Benefits

Financial Objective

Depending on property type, is capable of delivering market level income return

Revenue Delivery

Generates revenue from the time of the property acquisitions

Risk

Lower risk option – JV partner risk added

Control

Medium level of control

Liquidity

Reasonable liquidity, subject to usual property market timings and governance of JV

Management Oversight

Light requirement – JV partner undertakes most of the direct acquisition, management and sales work

Limitations

Performance

Low return option. Partner selected to bring track record and potentially competitive market position

Diversification

Circa 20 investments required to deliver portfolio diversification

3. Existing Assets – Investment Funds

What is it?

- The Council invests in an unlisted property fund which owns a range of diversified property investments.

How does it work?

- The Council will undertake a process of reviewing available fund options and the track record of the fund managers.
- Once capital is invested the entire responsibility for acquiring and managing the investments is delegated to and the responsibility of the fund manager.
- The fund manager will report and pay distributions to the Council on a regular basis, usually quarterly.
- The fund documentation will set out the rights of the Council to redeem its investment and/or to sell it on the secondary market. The nature of these rights will vary depending on the type of fund.

Benefits

Financial Objective

Depending on property type, is capable of delivering market level income return

Revenue Delivery

Generates revenue from the time of the fund investment – generally a shorter time than investing in direct property

Risk

Risk is determined by the nature of the fund. Additional risks relate to the fund structure, principally the performance of the fund manager

Performance

Returns are related to the specific investment strategy of the fund and manager performance.

Diversification

Fund investment can spread risk over a large number of underlying assets.

Control

High level of control of fund interest

Management Oversight

Very light requirement

Limitations

Liquidity

Unlisted investment funds generally have a low level of liquidity, particularly in market downturns.

4. Existing Assets – Listed Property Shares

What is it?

- The Council invests in listed property shares in a fund or a separate account mandate managed by a specialist fund manager.

How does it work?

- The Council will undertake a process of reviewing managers and available fund options and selecting an appropriate investment strategy.
- Once capital is invested the entire responsibility for acquiring and managing the investments is delegated to and the responsibility of the fund manager.
- The fund manager will report and pay distributions to the Council on a regular basis, usually quarterly.
- The mandate with the fund manager can be structured to allow an immediate liquidation of the investment portfolio if required.

Benefits

Revenue Delivery

Generates revenue from the day the property shares are acquired – share transactions can be effected in a short time period

Liquidity

The highest level of liquidity

Risk

The risk and return level is flexible and can be altered over time by reference to the agreed investment strategy

Diversification

Risk can be spread over a large number of underlying property companies/assets.

Control

High level of control

Management Oversight

Very light requirement

Limitations

Performance

Higher volatility than direct property. Longer term performance correlates to property but short term can correlate to general equity markets

Financial Objective

Dividend yields generally lower than direct property yields.

5. Risk Share Development – Forward Purchase / Funding

What is it?
The Council enters into an agreement with a developer to fund part of the development cost and/or acquire a development on completion.
How does it work?
- The Developer will identify a market opportunity (although it may come from the Council) and carry out the development functions. - The Council will be able to determine the risk profile it wishes to take on in entering the arrangement with the developer (e.g. after planning permission has been secured and construction packages have been tendered). - During the construction stage the Council will likely require monitoring rights. - Post development completion (as per direct investment): - Establish on going management arrangements (internal or outsourced). - Regular asset reviews to determine business plan and exit strategy.

Benefits

Financial Objective	Should deliver a premium to pure investment activity, so at least a market level income return dependent on property type
Performance	A higher level of performance than investment activity
Risk	The risk of development is highly mitigated by the forward purchase/funding arrangements
Control	High level of control
Management Oversight	Moderate level once the transaction is agreed

Limitations

Revenue Generation	Revenue can accrue to the investment when funded, but this will only occur during or at the end of the development period
Diversification	Circa 20 investments required to deliver portfolio diversification
Liquidity	Low liquidity during the development period, thereafter as per the general property market

6. Risk Share Development – Joint Venture

What is it?
The Council enters into a JV agreement with a developer to carry out a specific development.
How does it work?
- The Developer will identify a market opportunity (although it may come from the Council) and carry out the development functions. - The risk of the development will be shared 50/50 between the Council and the Developer. - The Council will be involved in key decisions during the development period. - Post development completion (as per direct investment): - Establish on going management arrangements (internal or outsourced). - Regular asset reviews to determine business plan and exit strategy.

Benefits

Financial Objective	Should deliver a premium to pure investment and forward purchase/funding, so at least a market level return dependent on property type
Performance	A higher level of performance than investment and forward purchase/fund development activity
Risk	The risk of development is mitigated by careful partner selection and development stage oversight
Control	Strong level of control through JV documentation
Management Oversight	Meaningful level of oversight required

Limitations

Revenue Generation	Revenue will only accrue once the development is completed and leased (or sold).
Diversification	Diversification improved given Developer 50% capital contribution. Circa 20 investments required to deliver portfolio diversification
Liquidity	Low liquidity during the development period, thereafter as per the general property market

7. Self Development

Benefits

What is it?

- The Council undertakes a development itself, appointing a development manager.

How does it work?

- The Development Manager will identify a market opportunity (although it may come from the Council) and carry out the development functions.
- The risk of the development will be taken 100% by the Council.
- The Council will be involved in key decisions during the development period.
- Post development completion (as per direct investment):
 - Establish on going management arrangements (internal or outsourced).
 - Regular asset reviews to determine business plan and exit strategy.

Financial Objective

Should deliver a premium to pure investment and forward purchase/funding, so at least a market level return dependent on property type

Performance

The highest level of performance – the Council retains all development profit

Risk

The risk of development is mitigated by appointment of expert development manager and adoption of thorough risk management strategy

Control

Complete control with the Council

Limitations

Management Oversight

High level of oversight required

Revenue Generation

Revenue will only accrue once the development is completed and leased (or sold).

Diversification

Circa 20 investments required to deliver portfolio diversification

Liquidity

Low liquidity during the development period, thereafter as per the general property market