CIS Risks, Mitigations and Financial Modelling Assumptions

Appendix 5

RISK	**COMMENTARY**	**MITIGATION**
Management		
• Unable to recruit necessary internal expertise to manage portfolio.	The current Estates service is not structured to be able to support the requirements of the CIS.	Skills analysis and recruitment planning, including visiting other Councils undertaking a similar CIS approach to establish skills needed. Then a full restructure of the Estates service will be undertaken.
• Internal support structure does not meet service requirements	Although the current estate is commercial centric in approach, the introduction of the CIS will require a faster approval process for investment decisions.	A Disposals & Acquisitions Policy (and a related Code of Practice) has been approved. Further the performance of the CIS is a key reporting requirement of the Treasury and Capital Management Group. Further, with a restructure of the Estates service will embed the structures needed to support the CIS.
Funding		
• Funds at 31 March 2016 not as high as currently estimated, therefore have to borrow earlier.	Possibility that the forecast underspend changes from that predicted, thereby reducing the amount available to be spent on asset acquisition from internal resources.	Ongoing monitoring of 2015/16 service delivery, ensuring that the ZBB programme and in-year savings are secured. Also, identifying as early as possible cost pressures so alternative action can be undertaken.
Investment		
• Reduced revenue streams because profile of investments changes due to investment opportunities not identified as quickly as possible.	No comment.	Early intervention with local and national estate agents (and similar brokerages) to identify opportunities as early as possible. Robust but pragmatic due diligence processes to review investment opportunities.

• Loss of capital investment	This could be the result of reduce asset values due to various forms of impairment (i.e. catastrophic disaster or local/national economy).	Pre-acquisition due diligence of assets and the market the assets are in. Ongoing monitoring of capital values and asset market to quickly identify and action where stresses are identified so asset disposal actions can be followed as quickly as possible.
• Investments in unfamiliar sector or regions may be time consuming with poor advice and low returns.	This would be the result of poor market research or over ambitious acquisitions.	Preservation of capital is paramount, thereby Council would need to follow appropriate due diligence of investment opportunities, to ensure that asset particulars are robust.
• Pressure to constrain investment to District only leading to limited opportunities and over reliance on local market conditions.	This could result to non-adherence to the CIS Business Case or political pressure to invest local rather than national.	The CIS Business Case clearly demonstrates the balance between investment types. The portfolio is balanced and shows that early property investment will centre on the local area, with a broadening in due course.
• Non-commercial activity within HDC slows investment progress	Due to poor management and or governance.	The CIS and its development is a key constituent of the “Income Generation” thread within the “Plan on a Page” and a service priority within the Resources service. An Estates service restructures will be undertaken and the CIS will be a centre of this services delivery plans.
Governance and Economics		
• Change in government regulations/legislation	The 2011 Act allows a Council to undertake “what an individual” would do; consequently investing activity of the sort included within the CIS is permissible; providing any borrowing is prudent and meets the requirements of the Prudential Code and relevant capital regulations.	By acting within current legislation requirements, the actions of the Council are not “ultra-vires”. Any future changes in government and or legislation would have to be dealt with as they occur. The worse that could happen is that the Council was required to sell its investments and repay supporting borrowing. Providing capital values are maintained at or above acquisition values, and as borrowings will be on a repayment

		basis, the Council should be able to meet any potential future obligations.
• Downturn in the National and Local economy.	This could affect capital values and rental incomes if tenant businesses fail.	Ongoing monitoring of the national and local economy and remedial action to protect capital investments (including sales/moth balling etc) and proactive reviews of rents.
• Procurement regulations make property development uneconomic without a JV and shared profit	Procurement regulations change that make current governance structures uneconomic.	Ongoing review of governance structures to ensure that tax and other economic factors are mitigated so the Council can maximise its returns.
Political Commitment		
• Political change forces change in direction.	CIS is no longer seen as a key deliverable to support ongoing service delivery.	The CIS is not a political vehicle; it is a means by which the Council can support ongoing service delivery.

CIS Financial Modelling Assumptions

The key investment assumptions included with the BP are:

- Maximum Debt: £60.0m
  - The limit on Commercial Investments as approved in Treasury Management Strategy.
- PWLB Loan Rate: 2.75%, loans with a life of 20 years
  - The prevailing loan rate
- Cost of funding capital propositions: a margin of 2% per annum and a management fee of 0.75% per annum.
  - The inherent cost of financing capital investments on an ongoing basis.
- CPI/General Inflation: 2.5%
  - Inflation on costs and income.
- Completion fees ranging from 0.50% to 5.75%
  - Each investment will incur costs to acquire. Such costs can be charged to capital.
- Revenue indexation/growth ranging from 2% and 3%
  - Esimtates for revenue growth from the portfolio and capital value.