

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

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