

HUNTINGDONSHIRE DISTRICT COUNCIL

<b>Title:</b>	Commercial Investment Strategy: Business Plan
<b>Meeting/Date:</b>	Overview & Scrutiny Panel (Economic Well-Being) – 8 <sup>th</sup> December 2015 Cabinet – 10 <sup>th</sup> December 2015
<b>Executive Portfolio:</b>	Resources – Cllr Jonathan A Gray
<b>Report by:</b>	Head of Resources – Clive Mason
<b>Ward(s) affected:</b>	All Wards

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**Executive Summary:**

The Government's austerity programme continues and the Council is aiming to still provide cost effective services to its local population. However, with the potential for increased cuts in Government funding, the Council is endeavouring to meet this challenge by undertaking a number of innovative approaches to service delivery. One of the key approaches to supporting Council services is the development of new sources of income generation and the introduction of the Commercial Investment Strategy (CIS) is such an approach. The CIS itself was approved in October 2015; it is now necessary to approve the CIS Business Plan (BP) (**Appendix 2**). Although the CIS covers a period of 9 years and has three distinct phases of development, the Business Plan being recommended here will be for Phase 1 and cover the period from now until the 31<sup>st</sup> March 2019.

The Council currently has existing investment assets (property) totalling £20.9m and it is proposing to invest a further £50.0m in commercial assets. The primary aim of the CIS is to generate a future income stream with a secondary objective of capital growth. After the payment of £2.2m in asset completion costs, the Councils total commercial asset portfolio at the end of the BP period will be £68.7m and split as follows:

Type 1: Existing Assets:	£20.9m
Type 2 and 3: Investment Fund and Property Shares:	£14.7m
Type 4: Direct Assets (Local Acquisitions):	£18.9m
Type 4: Direct Assets (National Acquisitions):	£14.2m

For the investments:

- up to the end of this financial year, it is proposed that these investments should not be financed from external borrowing, so a transfer is required from the Councils General Fund of £6.8m to the Capital Investment Earmarked Reserve. By making investments directly from in-house resources will mean that the Council can maximise returns and will not have to set-aside revenue funding in respect of the Minimum Revenue Provision.

- in subsequent years the Council will plan to externally borrow up to £35.0m. As the Council will be externally borrowing there will be the requirement to set-aside an amount for Minimum Revenue Provision (MRP); this will be equal to the annual loan repayment and a specific MRP policy is required (which will need to be approved by Council).

Where assets are being effectively managed, there will be occasions when assets will be sold and proceeds reinvested, it is proposed that capital receipts are ring-fenced in line with the Reserves Strategy (elsewhere on the agenda).

### **Recommendation(s):**

That Overview and Scrutiny (Economic Well-Being) Panel review, note and comment to Cabinet in respect of the :

1. CIS Business Plan (**Appendix 2**).
2. Transfer of £6.8m from the Councils General Fund balance to the Capital Investment Earmarked Reserve.
3. Potential to borrow up to £35.0m from 2016/17 onwards to support the CIS. However, there will still be “head-room” to borrow a further £25.0m if commercial opportunities arise.
4. MRP policy noted below:

*“For each capital investment undertaken under the requirements of the Councils Commercial Investment Strategy, Minimum Revenue Provision will be made that is equal to the principal repayment for any loan finance supporting the investment.”*

That Cabinet approve the:

1. CIS Business Plan (**Appendix 2**).
2. Transfer of £6.8m from the Councils General Fund balance to the Capital Investment Earmarked Reserve.
3. Potential to borrow up to £35.0m from 2016/17 onwards to support the CIS. However, there will still be “head-room” to borrow a further £25.0m if commercial opportunities arise.
4. MRP policy noted below and refer this to Council for approval:

*“For each capital investment undertaken under the requirements of the Councils Commercial Investment Strategy, Minimum Revenue Provision will be made that is equal to the principal repayment for any loan finance supporting the investment.”*

## 1. WHAT IS THIS REPORT ABOUT?

- 1.1 The Council, along with all of local government, continues to face ongoing cuts in direct government grant as part of the government's austerity programme. However the pressure on services continues, and in some areas is increasing, so the Council is following a programme of service change to ensure that it is providing its services in the most cost-effective way possible.
- 1.2 Members will be aware that the Council is currently forecasting reductions of 37.6% by 2019/20, as detailed in the "Plan on a Page" (copy attached at **Appendix 1**). The "Plan on a Page" shows 6 strands that are being followed across the Council to assist in achieving the required budget reductions. One of these strands relates to "Income Generation" and a key constituent of this strand is the development of a Commercial Investment Strategy (CIS). The CIS itself was approved by Cabinet on the 17<sup>th</sup> September 2015 (Minute 35). What is now required is the approval of a Business Plan (BP) that will support the CIS.

## 2. BACKGROUND

- 2.1 Early in 2015 the Council started working with an external consultancy, EC Harris, in the development of the CIS, and then the BP. The CIS will incorporate the BP so the Strategy is one coherent document.
- 2.2 In the development of both the CIS and the BP, the Leader, Deputy Leader and the Executive Portfolio Holder for Resources have been consulted, including a meeting of the Treasury & Capital Management Group (TCMG) in mid-November and follow-up communications with the Executive Portfolio Holder for Resources. With regard to the development of the BP, at the TCMG meeting the following was undertaken:
- the BP model was reviewed so the investment schedule could be examined as well as both the revenue and capital propositions,
  - potential investment opportunities were discussed to gauge member appetite; these included both commercial assets and property funds.

Further, TCMG also discussed proposals for the reallocation of the General Fund balance.

## 3. THE BUSINESS PLAN

- 3.1 The BP itself is shown at **Appendix 2**, in addition to the Council's existing investment portfolio (£20.9m) the Council will aim to invest up to £50.0m between Quarter 3 of 2015/16 and the end of 2019, a summarised profile of investments is shown at **Appendix 3** and estimated revenue returns are shown in **Table 1** below.

Estimated Revenue Returns from the Commercial Investment Strategy					Table 1	
	2015/16	2016/17	2017/18	2018/19	Increase in Investments (2015/16 to 2018/19)	
	£000	£000	£000	£000	£000	
<b>EXISTING INVESTMENTS</b>						
Costs	371	379	386	394		
Income	(1,869)	(2,047)	(2,241)	(2,454)		
<b>Net Income</b>	<b>(1,498)</b>	<b>(1,668)</b>	<b>(1,855)</b>	<b>(2,060)</b>	562	38%
<b>NEW PROPOSITIONS</b>						
Revenue Propositions						
Costs	0	0	0	0		
Income	(27)	(114)	(236)	(265)		
<b>Net Income</b>	<b>(27)</b>	<b>(114)</b>	<b>(236)</b>	<b>(265)</b>		
Capital Propositions						
Costs	1	14	40	51		
Income	(56)	(875)	(2,120)	(2,825)		
<b>Income before debt charges</b>	<b>(55)</b>	<b>(860)</b>	<b>(2,081)</b>	<b>(2,774)</b>		
Debt Service/MRP	69	885	1,949	2,369		
<b>Net Income</b>	<b>14</b>	<b>25</b>	<b>(132)</b>	<b>(405)</b>		
<b>CIS OVERHEADS</b>	103	130	182	238		
<b>TOTAL NET REVENUE</b>	<b>(1,408)</b>	<b>(1,627)</b>	<b>(2,041)</b>	<b>(2,492)</b>	1,084	77%
<b>Revenue Contribution to Equity (*1)</b>	6.1%	7.1%	7.8%	9.0%		
<b>Key:</b> Equity – the difference between total asset values and debt						

### Existing Investment Portfolio

- 3.2 The BP includes the Councils current commercial estate, valued at £20.9m and for 2014/15 gave a return of 7.2%.

### Revenue Propositions

- 3.3 Local government is only permitted to invest in one revenue property investment fund; this is operated by CCLA Investment Management Limited and the BP proposes investing a total of £4.7m by the end of 2016/17.

### Capital Propositions

- 3.4 The Capital Propositions include the following investment opportunities (amounts shown are net of completion costs):
- i. Property Shares  
These are investments in property funds, similar in nature to Unit Trusts. The BP proposes investing £10.0m by mid-2016/17. Further property funds and shares (such as Real Estate Investment Trusts) are being investigated and their suitability is being assessed,

- ii. Direct Assets (Local Area)  
These are investments in commercial property assets that are within the Councils local area. The BP proposes investing £18.9m by mid-2017/18. The “local area” is deemed to be Cambridgeshire and the area covered by the Local Enterprise Partnership.
- iii. Direct Assets (Regional Cities)  
These are investments in commercial property assets that are outside of the Councils local area. The BP proposes investing £14.2m by the end of 2017/18.

### Governance and Reporting

- 3.7 The BP includes a number of key performance indicators (KPI’s). It is proposed that these KPI’s are included within the Councils overall Treasury Management Strategy and reported to management in line with that key Strategy.
- 3.8 In addition, the performance of the BP and proposed investment opportunities and future borrowing requirements will be reported on a quarterly basis to the Treasury and Capital Management Group (TCMS). The TCMS included the Leader, Deputy Leader and the Executive Portfolio Holder for Resources along with the Head of Resources (as the Councils S.151 officer).

### 4. FINANCING

- 4.1 In total, the Council is looking to have a commercial asset portfolio of £71.0m; £68.7m once completion costs are excluded (based on current values). This is shown in **Table 2** below:

Funding of CIS Portfolio			Table 2
Funding	Asset £m	Completion Costs £m	Total £m
Existing Assets	20.9	0.0	20.9
Revenue Funding (2015/16)	12.1	0.4	12.5
Revenue Funding (2016/17)	2.4	0.1	2.5
Borrowing	33.3	1.8	35.1
<b>Total</b>	<b>68.7</b>	<b>2.3</b>	<b>71.0</b>

### Reserves

- 4.2 The forecast:
  - General Fund (GF) balance will have increased to £9.8m by the end of 2015/16 (**Appendix 4**). At the Cabinet meeting held in February 2015, the minimum level of GF Reserves was set at £3.0m. At this time, this is contributing to a short-term investment income return of 0.2% which is considerably less than the Revenue Returns noted in **Table 1** (3.1). Therefore, to maximise the return from our balances it is proposed that £6.8m is transferred from the GF Reserve to the Capital Investment Earmarked Reserve (CIER).

- CIER balance will have increased to £5.7m by the end of 2015/16 (**Appendix 4**). With the inclusion of the £6.8m from the GF, this would give a total of £12.5m available for immediate investment. A significant advantage of transferring this balance is that by using internal resources this will mitigate the need to borrow; thus the need to finance a Minimum Revenue Provision.

### **Borrowing**

- 4.4 Borrowing is expected to be from the Public Works Loans Board (PWLB). For the investments within the BP, repayment loans are expected to be the preferred form of loan finance.
- 4.5 If however, loan rates are found to be cheaper at other financial institutions then the Council will take appropriate advantage, providing that the institutions are included within the Councils Treasury Management Strategy.

### **Minimum Revenue Provision (MRP)**

- 4.6 Where the Council externally “borrows” for capital purposes, the Council is required:
- to set aside an amount in respect of MRP.
  - have in place an approved MPR policy.
- 4.7 The capital propositions included within the BP that are to be financed from external borrowing are modelled on being financed by repayment loans (4.4), consequently the annual principal repayment will equate to the MRP requirement. As this is a new approach to MRP a new Policy is required to be approved by Full Council. Therefore the proposed MRP Policy for the CIS is shown below:

*“For each capital investment undertaken under the requirements of the Councils Commercial Investment Strategy, Minimum Revenue Provision will be made that is equal to the principal repayment for any loan finance supporting the investment.”*

- 4.8 Through the operation of the CIS, there may be occasions when investment assets are sold; it is recommended in the Reserve Review report elsewhere on the agenda, such capital receipts will be ringfenced for future CIS reinvestment in line with the Reserves Strategy.

## **5 RISKS AND BUSINESS PLAN ASSUMPTIONS**

- 5.1 The Council has a very good track record of managing commercial assets; however what is proposed by the CIS is a step change in approach and therefore will attract a unique set of risks. A detailed analysis of the risks and mitigations is shown in **Appendix 5** along with the key assumptions of the Business Plan.

## **6. COMMENTS OF OVERVIEW & SCRUTINY PANEL**

- 6.1 To be circulated after the Overview & Scrutiny (Economic Well-Being) Panel to be held on the 8<sup>th</sup> December 2015.

## **7. TIMETABLE FOR IMPLEMENTATION**

- 7.1 The CIS Business Plan (Appendix 2) illustrates the proposed investment plan.

## **8. LINK TO THE CORPORATE PLAN**

- 8.1 Supports “ensuring we are a customer focused and service led council” by delivering value for money services.

## **9. CONSULTATION**

- 9.1 Detailed discussions with the Leader and Executive Portfolio Holder for Resources as key members of the Treasury & Capital Management Group.

## **10. LEGAL IMPLICATIONS**

- 10.1 The council has the relevant broad legal powers to undertake the activities proposed. Each specific decision taken will need to be assessed for any legal implications and requirements to ensure the Council acts lawfully and in accordance with the decision making process set out in the Constitution. As such, regard will need to be given to the Constitution and the scheme of delegations which may require amendments to allow this process to be workable.

## **11. RESOURCE IMPLICATIONS**

- 11.1 The direct resource implications are noted within the report.

## **12. REASONS FOR THE RECOMMENDED DECISIONS**

- 12.1 The recommended decisions will enable the Council to commence the acquisition of commercial assets, this in turn will generate revenue funding that will assist the Council in devliering cost effective services.

## **13. LIST OF APPENDICES INCLUDED**

Appendix 1 – Plan on a Page.

Appendix 2 – Commercial Investment Strategy: Business Plan.

Appendix 3 – Summarised Profile of Investments

Appendix 4 – Extract of Forecast Outturn and General Fund Reserve  
as at September 2015 (reported to Cabinet, November 2015)

Appendix 5 – CIS Risks, Mitigations and Key Assumptions

## **BACKGROUND PAPERS**

If stated need to be made available for publication for Cabinet meetings.

## **CONTACT OFFICER**

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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

CLICK arrow for details

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**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
Approved MTFS	£18.881m	£19.870m	£20.671m	£21.259m	£21.721m
% cut from MTFS	0% (-£0m)	19.2% (-£3.8m)	28.6% (-£5.9m)	35.1% (-£7.5m)	37.6% (-£8.2m)
Modified budget	£18.881m	£16.059m	£14.750m	£13.805m	£13.553m