Appendix B

DRAFT
Corporate Asset Investment Fund

STRATEGY 2018/2022

Leicestershire County Council

Building Business. Boosting Communities.

FOREWORD

Byron Rhodes
Deputy Leader
Leicestershire County Council
and Chair of the Corporate Asset Investment Fund Advisory Board

The Council has a long and strong track record in owning and managing a diverse portfolio of property and other investment assets. In recent years, the Council has taken a more proactive commercial approach to investment expanding the portfolio, thereby boosting the local economy and generating vital income for front line council services.

This strategy helps ensure there is a strong and resilient foundation to the Council's property holdings and that council taxpayers' money is invested safely and wisely to ensure the services can continue to be supported against the background of tight financial settlements from central government.

Chris Tambini,
Director of Corporate Resources

The Corporate Asset Investment Fund is an important source of funding for the Council.

As central government support is reducing, it is important for the Council to ensure its long term financial viability and stability. One important way this is achieved is by becoming more commercial and looking for new and innovative ways to safeguard the Council's services that people of Leicestershire rely on.

TABLE OF CONTENTS

INTRODUCTION

1.1 Leicestershire County Council (the Council) owns and manages property and other investments, some of which are held for the purposes of generating income to support front line services. These types of investments are held in and funded through the Corporate Asset Investment Fund (the Fund) which the Council established in 2014.

1.2 Such investments have a significant and growing value that represent a means by which the Council can continue to provide high quality services to the people of Leicestershire despite the ongoing pressure on public finances. Since 2014, income generated by the Fund has reduced the amount of savings required to be made, and the impact on service provision to residents and businesses in the County which might otherwise have been adversely affected.

1.3 The Corporate Asset Investment Fund Strategy for 2018 to 2022 is aimed at supporting the growth of the Fund to further improve the Council's financial resilience as government grants continue to fall, and demand on services and operating costs continue to rise. It outlines how the Council will look to make investments during this period utilising the Fund and how it will manage these to help achieve the strategic priorities of the Council.

1.4 Whilst a key priority is to continue to increase the income/revenue for the Council from its investments, the Strategy sets out processes to ensure this is done in a transparent and safe and secure way, ensuring adequate liquidity should the Council ever need to call upon the capital invested, that risks are properly identified and managed and that performance is monitored continuously.

1.5 The Strategy for 2017/18 included reference to indirect and non-property investments. In the last year these forms of investments have gained greater prominence within the Fund which now includes investments in Pooled Property Funds and private debt. The Strategy for 2018-22 has been amended to reflect this area of growth.

1.6 The Strategy is an integral part of the Council's Medium Term Financial Strategy (MTFS) and intrinsically linked with the Corporate Asset Management Plan (CAMP) and the Treasury Management Strategy and Annual Investment Strategy and it should be read in conjunction with these documents.

STRATEGIC OBJECTIVES

2.1 The aims of this Strategy have been aligned with the five Strategic Outcomes set out in the Council's Strategic Plan (below) which will play a key role, alongside the Medium Term Financial Strategy, in shaping the Council's investment activities over the next four years. The continued growth of the Fund during 2018 to 2022 will be at the heart of the Council's ability to deliver these objectives and other Council policies and programmes going forward.

Strong Economy - Leicestershire's economy is growing and resilient so that people and businesses can fulfil their potential.

Wellbeing and Opportunity - The people of Leicestershire have the opportunities and support they need to take control of their health and wellbeing.

Keeping People Safe - People in Leicestershire are safe and protected from harm.

Great Communities - Leicestershire communities are thriving and integrated places where people help and support each other and take pride in their local area

Affordable and Quality Homes - Leicestershire has a choice of quality homes that people can afford.

2.2 The specific aims of this Strategy are to ensure investments funded or held in the Fund –

- Support the objectives of the Council's MTFS
- Generate an income stream which increases the Council's financial resilience given the decrease in government funding
- Supports the delivery of front line services through increased income generation, or through capital investments that will reduce operating costs.
- Supports the Council's strategic objective of affordable and quality homes through helping to unlock and accelerate developments.
- Manage investment risk by investing in diverse sectors
- Meet the objectives of the Council's Corporate Asset Management Plan, Strategic Plan, its Economic Growth Plan and the County-wide Local Industrial Strategy
- Maximise returns on Council owned property assets

- Support growth in the County and its economic area of influence and ensure there is a more diverse range of properties and land assets available to meet the aims of economic development
- Support the Council in maximizing the benefit from its financial assets in a risk aware way (not including standard treasury management activity)[1]

1 Treasury Management activity with banks, local authorities and the capital market are not in the scope of this Strategy, such activities being undertaken in accordance with the Treasury Management Strategy and Investment Strategy agreed annually by the County Council.

LEGAL CONTEXT

3.1 Section 12 of the Local Government Act 2003 (the 2003 Act) provides a general power to invest: -

"(a) for any purpose relevant to its functions under any enactment or

(b) for the purposes of the prudent management of its financial affairs"

3.2 The power contained in Section 12 (a) cannot be used for investing purely to create a return as this is not considered to be a purpose relevant to the Council's functions whereas the power in Section 12 (b) may be used for investing to create a return as it may be prudent when used with other measures to manage the Council's financial affairs.

3.3 Section 120 of the Local Government Act 1972 (the 1972 Act) provides the power for the acquisition of land by agreement (whether inside or outside the authority's area) for the purpose of:

"Any of their functions under this or any other enactment, or the benefit, improvement or development of their area"

3.4 Acquisition can take place notwithstanding that the land is not immediately required for that purpose.

3.5 Further power is conferred upon an authority by the Localism Act 2011 (the 2011 Act). Section 1 of this Act introduced a new General Power of Competence which gave local authorities the power to do anything that individuals generally of full legal capacity may do. This Act is widely drawn and includes reference to commercial activities which do not necessarily have to benefit the local authority's area. However, this power is subject to a requirement that any actions being carried out for a "commercial purpose" must be done "through a company", (i.e. a company within the meaning of s.1 (1) Companies Act 2006).

3.6 The approach of the County Council to date has been to rely on the powers set out in the 2003 Act. At present, this has not required the setting up of a company for its property and non-property investment activities using the Fund. However, it is likely to be necessary in the future, if the Council wishes to expand and diversify the scope of its investments. Such arrangements are not detailed in this Strategy at this stage.

3.7 The Strategy should be read in conjunction with the Capital Strategy, Treasury Management Strategy and Annual Investment Strategy. The strategies were approved by County Council in February 2018 and taken together take into account the statutory guidance issued by the Secretary of State under the Local Government Act 2003.

INVESTMENT STRATEGY 2018 TO 2022

4.1 The Corporate Asset Investment Fund Strategy is a high level summary of the Council's approach to investments made for the purposes of generating an income. It sets out the criteria and the processes and practices that will be considered and followed when carrying out such activities.

4.2 The Strategy developed for 2018 to 2022 has been aligned with the Council's MTFS timetable and reflects the aspiration of the current Capital Programme to invest in assets that will secure a long term return. It is designed to provide a framework that is flexible enough for the Council to compete in the commercial market whilst ensuring governance processes are in place, full assessments are made and risks are minimised.

Use of the Fund

4.3 The primary use of the Fund will be to -

4.3.1 develop new or existing assets to meet Council service needs where this will reduce operating costs or, for example, meet local housing needs, whilst at the same time securing a return for the Council;

4.3.2 continue to acquire both parcels of land for development and standalone income producing investments;

4.3.3 continue to make better use of underperforming investment assets already owned by the Council, to redevelop these where appropriate to ensure they meet the needs of local businesses, meet current market expectations and achieve a higher economic return;

4.3.4 maintain progress in the restructuring and rebalancing of the property portfolio (including the use of pooled property funds).

4.4 In addition, the Fund will cover investment in Private Debt. Approval was granted by the Cabinet in December 2017 to invest up to £20m in private debt. Such investments are covered by the treasury management strategy agreed annually by the County Council. However, the funding, and overall monitoring of these investments are being picked up under the Corporate Asset Investment Fund to reflect the potential higher risk/higher reward nature of the investment and also to provide diversification to the overall portfolio of the Fund.

4.5 The Fund will be reviewed and performance of individual investments assessed on an annual basis. Where performance of an investment cannot be improved to an acceptable level this will be disposed of. The sale proceeds from such disposals will either be reinvested or directed to other service needs.

Growth of the Fund

4.6 The overall value of the Fund as at 31st March 2018 is in excess of £100m from which an annual income of approximately £2m per annum is derived. This is expected to increase to £4m by the end of the current financial year. In addition, there is also underlying growth (capital growth) being achieved on the value of the assets.

4.7 In the Corporate Asset Investment Fund Strategy for 2017/18, the Fund had an investment ceiling of £200 million, based on values at that time. The Fund celling was to increase in line with RPI to give real terms numbers.

4.8 The investment ceiling of the Fund for the 2018/19 financial year taking account of RPI therefore increases to £206.68 million.

4.9 Notwithstanding this, from September 2018, the Fund will have a revised notional ceiling of £260 million to take into account the anticipated build costs for development opportunities that have either been acquired or transferred into the Fund in the past year.

4.10 An overall target return for the fund is 7%, made up of a combination of capital growth and revenue income. Furthermore, there is a specific income producing target of £10 million by the end of the four years covered by this strategy.

4.11 Decisions on how the investment programme is funded will be defined by the Council's Treasury Management strategy and considered as part of the MTFS.

INVESTMENT CRITERIA

5.1 When investing the Council's financial resources action will be taken to ensure:-

- That principal sums invested are safeguarded as far as possible;
- That they provide adequate liquidity;
- That investment returns or yield are considered and balanced against potential risk factors.

5.2 Once liquidity (the ability to ensure as far as is practicable that should the Council wish to divest itself of an asset it can do so without incurring any material loss) has been confirmed, the following criteria will be considered as appropriate when assessing a potential investment:

- Security of the principal capital to be invested (both for land acquisitions and development/construction proposals);
- Return on investment (revenue and capital growth);
- Sensitivity analysis (i.e. returns pre and post rent reviews, voids assumption, end of life repair/disposal etc.);
- Any legal issues (restrictive covenants etc.) with regard to the title of the land/property;
- Any potential liabilities (such as land contamination/asbestos);
- Sustainability (the energy performance of the property and its use);
- Full cost of the acquisition (land value, fees, end of life costs etc.);
- Fit with the current portfolio;
- Exit strategy.

In addition, any property investment opportunities will also be considered with particular regard to: -

- **Actual income:** The income produced by the asset is the most important element of a potential acquisition. The income from an asset is governed by the lease length, rent review pattern, break options, vacancy rates and management costs.
- **Development potential income:** The total income assuming the site is fully developed (with cash flow timescales).
- **Tenant:** The financial standing and viability of any existing (or potential) tenants' covenants is to be considered.
- **Location:** More weighting is given to acquiring assets or land in an area that is viewed to be economically buoyant and has the ability of sustainable financial and economic growth, over the life time of the investment. There is a need, however, to be mindful of the ratio of investments within and without of the county.

- **Sector:** The strength of the investment or development sector should be considered in relation to its location, rather than in isolation. (E.g. a hotel in Leicester would be scored lower than a hotel in London).
- **Building:** The age and construction of any existing buildings should be taken into account in the decision-making process. This should include how energy efficient the building/s is/are. The potential for future structural repairs, retro fits and refurbishment expenses for both the Fund and the occupiers should be limited as much as possible. The Fund should not purchase a property let on a term which exceeds the economic life expectancy of the buildings.

5.3 Once an asset/investment opportunity has been identified, it should be considered as objectively as possible to ensure that the overall aims of the Fund are achieved in a coordinated and measured way.

5.4 The adequacy of the estimated financial return will be judged against the certainty of the return materialising, with riskier investments expected to demonstrate a potential for higher returns.

External Expert Support and Advice

5.5 To support proposed investments, expert external advice will be required, including the following areas:

- Legal aspects of the proposal (lease terms, historic liabilities etc.);
- Condition survey;
- Current and future market performance and expectations in relation to the subject property and its location. Other forms of investment will have their own appropriate independent advice and oversight;
- Valuation advice.

FINANCIAL RETURNS

Yield

6.1 The level of yield required balances security and liquidity. The term 'yield' can be defined as:

"The annual return on an investment, expressed as a percentage of the capital value"

6.2 For example, the annual rent received on a property investment is currently £50,000 per year gross. If the property has been valued at £1,000,000 then the revenue yield is 5%:

$$\textbf{Yield} = \frac{\textbf{Annual Rental Income}}{\textbf{Capital Value}} \times 100$$

$$\textbf{5\%} = (50{,}000/1{,}000{,}000) \times 100$$

6.3 However, in addition there is also the potential capital growth which reflects how the value of an asset changes over time. If, for example, the value of the £1,000,000 investment had risen to £1,025,000 by the end of the first year; this would give capital growth of 2.5% and a combined gross yield / return of 7.5%

6.4 The yield figure will reflect the various risks involved in the investment. By and large, the higher the level of uncertainty (e.g. a tenant with a poor credit rating) the higher the required yield would be.

6.5 The average/balanced target yield for investments made by the Fund is 7% nominal. There will be costs incurred in managing the Fund and also costs associated with abortive work (feasibility studies, consultant work/staff time unsuccessful acquisitions bids).

6.6 Individual lot sizes can each be considered on their merits as long as they conform to the agreed overall portfolio mix.

6.7 Assuming that investment/development property is the only asset class of investment that is being considered, the overall return of a standalone investment will vary depending on the market sector, the nature of the property asset acquired and the characteristics of the tenant in the acquired property.

6.8 Whilst aiming for a yield of 7%, the Fund will seek to invest in a balanced way over several market sectors and types of investment in order to balance risk with securing the best return on investment.

Internal Rate of Return

6.9 Whilst yield is a useful measure for assessing the merits of an investment, yield will change over the life of an investment. To give a longer term perspective, the Internal Rate of Return (IRR) is a metric that is used to assess the strength of an investment. The IRR is the interest rate at which the net present value of all cash flows arising from an investment is equal to zero. In calculating an estimated IRR a number of assumptions need to be made in terms of projecting future expenditure and income streams including the future capital value of the investment holding. As a guide a minimum IRR of 7% is a high level assessment for whether an investment is worthwhile.

Other Balancing Factors

6.10 Other balancing factors to be reviewed regularly with respect to property investments(with the following approximate targets) are:

Location	In County		Out of County	In terms of amount of fund invested.
	75%		25%	
Asset type	Development site		Standalone investment	In terms of amount of fund invested.
	75%		25%	
Tenant Risk	Low	Medium	High Risk	Look for spread of risk (higher risk for small industrial units, lower risk for large office investments/ development)
	25%	50%	25%	
Lease length	Short <5 years	Medium 5-10 years	Long 10 years +	Look for spread of leases lengths (shorter for small low value assets, longer for high value investments/ developments
	25%	50%	25%	

INVESTMENT ASSESSMENTS

7.1 This Strategy places emphasis on openness, transparency and consistency. It aims to ensure maximum benefit from the effective purchase and subsequent management of the Council's assets, but within a framework which can be adaptable to market conditions. Within this framework, the Council must act within the appropriate legal framework, in a demonstrably fair and open manner, and consider whole life costs.

Direct Property Investments

7.2 Each proposed direct property investment proposal (including both proposals to acquire and/or develop property) will be subject to a three stage appraisal process as detailed below, although given the need to respond quickly to opportunities as they become available, a degree of flexibility is required and some of these stages may be combined.

STAGE 1 - Initial Assessment

7.3 The first phase of determining whether or not a direct property investment opportunity is worth proceeding with consists of a number of separate assessments:-

1. Strategic Fit
2. Risk Profile
3. Yield Profile
4. Tenancy Terms
5. Planning Overview
6. Site Inspection
7. Potential capital Growth
8. Valuation

7.4 Strategic Property Services, will first prepare an Initial Appraisal Report (IAR) which is intended to answer the basic question – 'is the asset worth acquiring?'.

7.5 The IAR considers the likelihood of the proposed investment achieving the return required, the size and barriers to entry of the market, plus its suitability to the Council's own ethical standards, the quantum of risk and complexity, the payback period and how much the Council knows about the proposal (i.e. are there just too many unknowns?). Initial basic property details are also recorded at this time.

7.6 The answers to these key points will give a simple yet effective picture of the proposal and will allow an early decision to be made by the Director of Corporate Resources as to whether or not an investment is worth pursuing.

7.7 The process is run by the Strategic Property Services team and the decisions summarised in a regular report to the Director of Corporate Resources.

7.8 A challenge can be raised through the Strategic Property Services team, ultimately to the Director of Corporate Resources, but there must be no multiple consideration of the same proposal during the initial process. Once it has been deemed a fail, unless there is a fundamental error in the data provided or a paradigm shift on the proposal itself then the activity must cease.

STAGE 2 – Financial Appraisal and Business Case

7.9 Once the asset/site has passed the initial evaluation, a financial appraisal and business case will be prepared to establish the financial/budgetary implications of acquiring the property at the negotiated price.

7.10 An independent property advisory firm will also be consulted on the opportunity and their report made known to the Board if the proposal is progressed beyond stage two.

7.11 The aim of the financial appraisal and business case is to assess how the acquisition will perform. It will consider all the acquisition costs and any potential income, the associated risks and then assess whether the asset is a suitable acquisition from a financial perspective. This process will be led by the Strategic Finance Service but the Director and the Board will be kept advised as projects are assessed and negotiated.

Other Council Consultees

7.12 After the identification of an asset, it will be incumbent on Strategic Property Services as Fund Manager to establish whether there may be constraints on the development or use of the asset.

7.13 In some cases, it may be appropriate to seek planning permission for a form of development prior to acquiring land. Strategic Property Services will consult with planning and highways colleagues (and other departments as appropriate) together with external consultants to decide whether planning permission should be sought prior to acquisition (conditional contract).

7.14 As part of this consultation, advice will be sought on suitable alternative uses for the site/asset. In case the existing or proposed use becomes unviable in the future, it is useful to have an alternative use value. The relative monetary risk of the investment can be quantified using this information.

7.15 Contemporaneously with the planning audit, the Council's legal section will be asked to undertake title searches of the land to ensure that the title is clean and there are no abnormal issues with the land that would be detrimental from a legal perspective.

7.16 Any existing or proposed tenant will also be credit checked.

Valuation

7.17 Valuation advice will usually be provided by a professionally qualified member of the Council's Estates team. Where the advice required is particularly specialist or, if otherwise appropriate, valuation advice may be provided by another suitably qualified external surveyor.

STAGE 3 - Approval to Acquire/Develop

7.18 If the investment satisfies both stages one and two of the appraisal process, then on reaching agreement in principle as to the terms of acquisition, a detailed report will be prepared for consideration by the Board. Subject to the Board's support, acquisitions will then either be presented to the Cabinet for approval (necessary due to the size, complexity or risk (financial or reputational) of the proposed investment) or will be progressed by the Director of Corporate Resources under delegated powers. This report will set out how the acquisition is in accordance with agreed Council priorities and this Strategy.

7.19 Each business case will be approved by the Director of Corporate Resources (Section 151 officer) prior to presentation and discussion at the Board, which is chaired by the Lead Member for Resources.

7.20 All acquisitions shall have the necessary budgetary and relevant approvals before the acquisition is completed.

7.21 For clarity any decision that requires an approval of expenditure of more than £100,000 but less than £5 million can be made by the Director of Corporate Resources under the powers delegated by the Council.

7.22 Any decision that requires an approval of expenditure of less than £100,000 (and is line with a previous approved budget/scheme) can be made by the Head of Strategic Property Services'.

7.23 Any decision that requires an approval of expenditure of more than £5m will require Cabinet approval.

7.24 Cabinet approval is required for any 'out-of-county' direct property investment acquisitions.

7.25 Any indirect or non-property investment acquisitions 'out-of-county' are within the delegated authority of the Director of Corporate Resources

Surveys and Instructions

7.26 When all appropriate surveys (which must include an asbestos survey where the acquisition involves a building erected prior to 1999) have been satisfactorily completed or provided, the Council's legal services team will be instructed to complete the documentation associated with the acquisition.

Other Investments

7.27 Other investments, such as into pooled property funds and private debt, will be subject to approval as part of the Council's overall financial management processes. This will include a specific report to Cabinet outlining the potential risks and benefits of the investment.

RISK

8.1 In respect of every investment there will be a number of risks that need to be assessed prior to a project being taken forward and then managed, mitigated and monitored throughout the life of a project. The key risks faced by the County Council in respect of its investment activities are set out below.

Investment Risk

8.2 The main risk with any investment lies with the ability to ensure the ongoing income stream and original investment is maintained and safeguarded.

8.3 For direct property, measures can be taken through, for example, ensuring that the tenant is of good covenant and is financially secure.

8.4 If the tenant defaults then whilst there are procedures to recover the rent, this is not guaranteed and can be time consuming and costly.

8.5 There are also issues with voids (periods of time when the investment is not income producing but the asset is incurring costs such as insurance, security, business rates, repairs etc.).

8.6 The ability to attract tenants of sufficient quality/sound covenant will also be affected by the macro-economic situation and also more regional/location factors.

8.7 Holding an element of the fund in pooled property funds helps to mitigate against these risks although for these, and non-property based investments, there will always be a dependency on the overall economic situation, including specifically the prevailing interest rate.

Financing Risk

8.8 The Council is to ensure compliance with the Prudential Code for Capital Finance in Local Authorities and ensure liquidity and security of the principal capital and not to tie up resources into long term situations whereby short term cash needs cannot be met or cannot be met without a significant financial penalty.

8.9 The returns generated by the Fund need to reflect the potential for the principal invested to reduce and for lost liquidity. A minimum total nominal return of 6.1% is sought in every investment (3.5% Green Book * 2.5% average inflation). This is reviewed (at least) annually for changes in the opportunity cost of the Council's resources (e.g. borrowing) and other factors such as inflation and returns available elsewhere. Detail of how financial returns on investments will be assessed is set out in Appendix B of this Strategy below.

8.10 Decisions relating to the financing of investment and/or development will be taken in conjunction with the Council's Treasury Management Strategy Statement and Annual Investment Strategy both approved each year as part of the Council's MTFS.

Reputational Risk

8.11 It is important that the reputation of the Council is protected during both times of financial restraint or otherwise in the investments that it makes.

Development Risk

8.12 This risk is specifically associated with developing property and these are higher than those risks associated with acquiring an already built property investment or investing in pooled property funds. This is therefore reflected in the potential returns.

8.13 Build cost over runs and delays during the pre and the main construction phases will directly affect the profitability of the scheme and (as above) the risk of not securing a tenant to pay the rent is higher when dealing with new builds.

8.14 This can be mitigated by not building speculatively but only with an identified occupier tenant already in place, legally secured through an Agreement to Lease. However, this may not always be the best strategy as some prospective tenants may wish to see the building in place first before entering into a contract. Each of these scenarios will be judged on a merit basis as they arise.

8.15 Officers will continue to keep the Director of Corporate Resources updated on projects to ensure that risks are monitored, eradicated or mitigated (or, in project management risk terms, the strategies to be employed are: treat, tolerate, transfer, terminate) where possible.

Managing Risks

Direct Property Investment Appraisal Process

8.16 In order to minimise the risks associated with any investment being considered the Director of Corporate Resources will:-

8.16.1 Consider the level of return required from the capital that is invested. Each proposal should review the liquidity of the proposed acquisition and a fully costed exit strategy should the asset underperform and is not capable of being improved.

8.16.2 Undertake a cost/benefit analysis to fully understand the likely returns, identify any hidden costs and include key metrics such Expected Yield, Internal Rate of Return and Payback period.

8.16.3 Undertake a market analysis to ascertain the likelihood of success across a full range of indicators.

8.16.4 Consider the use of external expertise where required to enhance the internal knowledge/ skills of officers and provide a greater level of assurance on the risks and mitigations involved, with the quality of the advice measured through the performance of each individual proposal against the benchmark/ target rate as set in the original business case and reported through to the Board regularly.

8.16.5 Produce a risk register for each property investment opportunity and update this annually. As each risk is analysed, a score which is a factor of probability and impact will be calculated (as per chart below) to ascertain the need for prioritising any actions to either tolerate, treat, terminate or transfer each particular highlighted risk.

			Impact (Negative)			
			Minor	Moderate	Major	Critical
			1	2	3	4
Probability	4	Almost Certain	Medium (4)	High (8)	Very High (12)	Very High (16)
	3	Likely	Medium (3)	High (6)	High (9)	Very High (12)
	2	Possible	Low (2)	Medium (4)	High (6)	High (8)
	1	Unlikely	Low (1)	Low (2)	Medium (3)	Medium (4)

8.17 The property investments will be considered as part of a diverse asset portfolio, to mitigate the risk associated with any single investment proposal. This diversification will include selecting a range of proposals with mixed payback, investment levels, returns, geographical locations, investment liquidity, specialist's skills and markets.

Fraud and Corruption

8.18 The Director of Corporate Resources will ensure that risks of loss through fraud, error, corruption or other such eventualities in its investment dealings are mitigated as far as is practicable and that these systems and procedures in place to tackle this are robust.

8.19 The Director and officers are alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, procedures for verifying and recording the identity of counterparties (e.g. tenants) will be maintained, as will arrangements for reporting suspicions, and ensuring that all members of staff involved in such dealings are properly trained.

8.20 Items that will be regularly reviewed as part of every transaction will include: -

8.20.1 Powers to own property investments

8.20.2 Money laundering risks

8.20.3 Property fraud risks

8.20.4 Changes to property legislation (e.g., Energy Act)

8.20.5 Appropriate third party checks before transacting

8.20.6 Due diligence in transactions

8.20.7 Keeping abreast of impact of legislative changes

8.20.8 Regular inspections of the assets

8.21 Full records of the purchase process will be kept in a separate file relating to the property and these records shall include details as to the valuation relied on in making the decision to acquire, the financial appraisal together with consents, approvals and papers recording the decisions taken under delegated powers. Such documents will form part of the public record.

Member and Officer Oversight

8.22 The Council will continue to ensure the prudent management of its investments and for giving priority firstly to the security of the capital.

8.23 The Council will continue to ensure that procedures for monitoring, assessing and mitigating the risk of loss of invested sums are robust. The Board will play a vital role in assessing investment proposals early on and thereafter monitoring projects and overall performance of the Fund.

8.24 Financial performance of the Fund is monitored by officers and members on a regular basis. The Cabinet and the Scrutiny Commission will receive regular MTFS monitoring reports which include information on the operation of the Fund. These bodies also receive an annual report on investment activity undertaken during each financial year which also provides an update on ongoing projects.

8.25 Officers have continuous oversight of matters relating to property assets held for both service delivery and investment purposes. These are monitored through the Asset Management Working Group and the Corporate Property Steering Group chaired by the Director of Corporate Resources.

8.26 Effective management and control of risk are prime objectives in the management of the Fund. Any risk identified will form part of the managing departments Risk Register Which will be managed and mitigated and reassessed regularly in accordance with the Council's usual practice. Where appropriate, any significant risks will be captured on the Council's Corporate Risk Register which is overseen and monitored by the Council's Corporate Governance Committee.

RISK SUMMARY

9.1 The Fund is to acquire property investments (where the Fund is purely buying an income stream), property development sites (where the Fund will be involved in finding tenants and building schemes out) and other property/strategic land (where there is an expectation of a future capital gain).

9.2 This could be either directly or indirectly as part of the managed fund (pooled property). The Fund is also acquiring debt but not considering, at this stage, investing in other investable assets (commodities, FTSE shares etc.).

9.3 The Fund is unlikely to acquire surplus operational property (that is being disposed of) where it has no development potential.

9.4 The Council must consider its ability to recall invested funds; including the length of time and the ease and cost with which said investments can be returned in their entirety.

9.5 It is important for the Council to consider the key requirement of the Prudential Code which requires authorities not to tie up resources into long term situations whereby short term cash needs cannot be met or cannot be met without a significant financial penalty. There must be a clear understanding and forecast of short term cash needs which will need to be fully provided for by the Council before it considers longer term capital tie in.

9.6 This portfolio view, as well as individual asset classes, will be regularly reported to the Board, the Cabinet and the Scrutiny Commission.

9.7 Each individual proposal will have an exit strategy clearly articulated in the original business case which will provide an indicative timeline for the repayment of capital/ returning of funds once the decision has been made to divest, subject to market conditions.

PERFORMANCE MONITORING/ BENCHMARKING

10.1 CIPFA guidance states that:-

"**Performance measurement** is a process designed to calculate the effectiveness of a portfolios or managers investment returns or borrowing costs, and the application of the resulting data for the purposes of comparison with the performance of other portfolios or managers, or with recognised industry standards or market indices."

10.2 It is clearly important to monitor performance to ensure that any judgements being made are the right ones.

10.3 The Fund is subject to regular valuations – with a regular review of investment methods as well as the delivery models. This will also include a regular assessment of the credit worthiness etc. of the Fund's tenants.

10.4 It is the Council's aim to achieve a stable long term surplus, profit and value for money from its investment activities.

10.5 As part of the performance reporting of the commercial programme the Board will consider not only new investment proposals, but also ongoing reporting of commercial activity outlining:

10.5.1 the performance of the portfolio,

10.5.2 the future pipeline of opportunities,

10.5.3 the investment forecast,

10.5.4 the risks and mitigations,

10.5.5 the detailed performance and commentary of each investment/ development proposal within the portfolio.

10.6 The reporting will be effective enough to allow the Board to support decisions on the future of each investment proposal considering four key outcomes:

Increase - the proposal is performing well, and every indicator shows that the Council should increase the amount invested to generate a greater return

Continue - the proposal is performing well, and every indicator shows that the Council should continue with the existing levels of investment

Warning - the proposal is not performing well, and should be closely monitored and remedial action taken. If the proposals poor performance hasn't been reversed The Board should consider alternate strategies

Exit/Disinvest/Stop - the proposal is not performing well, despite the Council's best efforts, the proposal should be considered for closure as soon as practicable and the exit strategy evoked.

10.7 The commercial approach of the Council has to be considered against the wider CIPFA financial regulations and MHCLG guidelines.

10.8 Each investment made by the Council will need to be regularly valued as part of the year end accounts closure process, with different asset types requiring differing valuation methods and timings.

10.9 There will be an annual analysis of the portfolio mix and re-profiling of the portfolio. This includes the current estate as well as new acquisitions. There will be more regular reviews in changeable/volatile economic circumstances.

10.10 The Fund should continue to consider its exposure to both macro and local economic downturns and monitor financial market commentaries and reviews on the likely future courses of interest rates, exchange rates and inflation and their potential impact on the property market and yields.

10.11 The Fund should allow sufficient flexibility both to take advantage of potentially advantageous changes in market conditions and to mitigate the effects of potentially disadvantageous changes.

10.12 Officers will report regularly to the Director of Corporate Resources and will provide an annual report to Cabinet and to the Scrutiny Commission as well as updates throughout the year.

10.13 The Fund uses the Investment Property Databank (IPD) Benchmark as its performance yardstick.

10.14 More financial technical benchmarks such as Expected Yield and Internal rate of Return are also used to provide accounting rigor with regard to the Fund's performance.

10.15 Other items such as total investment, risk profile, liquidity and exit costs for the individual activities above a certain threshold are summarised in the regular reports to The Board.

STAFF RESOURCES

11.1 The Fund is managed by the Head of Service with support from colleagues in Strategic Property Services. The Director of Corporate Resources will ensure that there are adequate resources employed to ensure the Fund is managed in a safe and productive manner.

APPENDIX A - APPROVAL TEMPLATE

DIRECT PROPERTY INVESTMENT APPRAISAL REPORT – UPRN xxxx

Date of Report	
Property	
Description	
Tenure	
Agent dealing	
Price	
Yield	
Tenant/s & Credit scores	
Risk Analysis Summary	
Development /asset improvement opportunities	
SPS comments	
Comments	Finance comments: - Legal comments: - Planning comments:- Highways comments:- Site/Building Surveyor reports:- External advisor comments:-
Recommendation	
CAIFAB meeting	
Appendices	Plan/marketing details

APPENDIX B - ASSESSMENT OF POTENTIAL ACQUISITIONS

Corporate Asset Investment Fund - Investment Strategy

Acquisition Process - Assessment of Potential Purchases

		Phase 1			Phase 2											
Area of Assessment	Responsibility for Delivery	Day 1	Day 2	Day 3	Day 4	Day 5	Day 6	Day 7	Day 8	Day 9	Day 10	Day 11	Day 12	Day 13	Day 14	Day 15
PHASE 1																
Strategic Fit	SPS - Asset management															
Risk Profile	SPS - Asset management															
Yield Profile	SPS - Estates															
Review of Tenancy Terms	SPS - Estates															
Planning Overview	SPS - Estates/Asset Management															
Site Inspection	SPS - Estates															
Assessment of Potential Capital Growth	SPS - Estates															
Valuation	SPS - Estates															
Preliminary Negotiations	SPS - Estates/Head of Strategic Property															
Outline Business Case	SPS - Estates/Asset management															
Alert Finance, Legal and Consultants	SPS - Asset management															
Inform Operational Property	SPS - Estates															
Instruct Consultants	SPS - Asset management/Estates															
Alert CAIFAB	SPS - Head of Strategic Property															
PHASE 2																
Negotiate Heads of Terms	SPS - Head of Strategic Property/ Estates															
Investment Appraisal Report	SPS - Estates/Asset Investment Advisor															
Structural and measured building surveys	SPS - Asset Investment Advisor															
Planning Appraisal	SPS - Planning Consultant															
Title Check	Legal - LCC or external solicitor															
Review of Lease Documents	Legal - LCC or external solicitor															
Tenant Credit Check	SPS - Asset Investment Advisor															
Preparation of Detailed Business Case	SPS - Head of Strategic Property															
Approval of Detailed Business Case	Finance / Head of Finance															
Preparation of Report to CAIFAB	SPS - Head of Strategic Property															
Inform Insurance	SPS - Estates															
Approval of Report to CAIFAB	Finance - Head of Finance															
Submission of Report	SPS - Head of Strategic Property															

PHASE 3

CAIFAB meeting within 5 days of submission of report (if required)

Exchange contracts within 20 days of agreement of Heads of Terms (time has been included for land and title searches to be received and reviewed)

Complete acquisition within 15 days of Exchange of contracts

Report purchase to CPSG for information following completion

Leicestershire County Council

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