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# 1 Introduction

- 1.1 The Asset Investment Strategy (AIS) covers all investment considerations that constitute capital spend.
- 1.2 The AIS applies to all investments in assets involving land and property for the General Fund, Housing Revenue Account, and the Trusts for which the Council is Trustee.
- 1.3 The AIS sets out the basis on which the Council determines all expenditure on land and building assets held for operational and investment purposes, which can include acquisition, spend on existing assets and where opportunities arise for development. They are categorised by type of investment.
- 1.4 All investments in assets (land and/or property) will be held and acquired for a clearly defined purpose within clearly defined legal powers and in accordance with the corporate priorities.
- 1.5 This AIS will be subject to review by the Asset Investment Advisory Board (AIAB) and forms part of the suite of documents under the Capital Strategy. Any material changes in year will be referred to the Executive for approval.

# 2 Type of Investment

- 2.1 **Investments for service purposes** (or service investments) - this is expenditure on assets that form part of the Council's public service delivery and includes housing, economic regeneration, preventative action, and treasury management.
- 2.2 An asset that is held primarily to generate an income which is used to support wider service spending but serves no direct policy purpose (i.e., purely for yield), should not be categorised as service delivery.
- 2.3 **Housing** - can include all spending on delivering new homes, maintaining, or improving existing homes, and purchasing built homes to deliver housing services. This is irrespective of the financial arrangements of the housing project or housing delivery. However, as per government expectations, the location and value of any housing expenditure will be appropriate to meet the Council's housing needs as defined in the Corporate Strategy and Local Plan.
- 2.4 **Regeneration** - involves direct investments in assets to generate additional social or economic benefits. Regeneration projects would usually have one or more of the following characteristics:
  - a) the project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector i.e., affordable below market rent economic stater units or dwellings
  - b) the Council is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment

c) the project involves or generates significant additional activity that would not otherwise happen without the Council's intervention, creating jobs and/or social or economic value

2.5 While some parts of a regeneration project may generate rental income or capital receipt, as per the government guidance the rents will be recycled within the project or applied to related regeneration projects, rather than being applied to wider services. The returns will not be the primary purpose of the investment and the proportionality of this income must be considered as defined in this strategy.

2.6 **Preventative action** - is a special category which involves direct financial support to local companies or acquiring assets to protect jobs, prevent social or economic decline. This type of activity is distinct from regeneration, as it is only preserving existing activity as opposed to creating additional activity but is not an investment 'primarily for yield' as yield is not the primary motive of the activity.

2.7 This type of action would have all the following characteristics:

- a) the intervention prevents a negative outcome, such as by buying and conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease
- b) there is no realistic prospect of support from a source other than the local authority
- c) the Council has an exit strategy, and does not propose to hold the investment for longer than is necessary to achieve the objectives that justified the intervention
- d) the intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of business support that generate a balance sheet asset.

2.8 This category is distinct from routine repairs, maintenance, and preventative activities such as expenditure on flood defenses, repair or maintenance work to existing council-owned assets etc. which is included in the service delivery category.

2.9 **Treasury management** - unlike the other categories listed, is not a type of capital expenditure. However, treasury management includes the refinancing or extending of existing debt from any source, the externalisation of internal borrowing or borrowing to manage cashflow within year, which local authorities often finance through PWLB borrowing or other capital resources. This is covered in the Treasury Management Strategy.

2.10 **Investments for commercial purposes** (or commercial investments)

These are investment assets bought primarily for yield that do not serve a direct policy purpose but is held primarily to generate an income. An 'investment asset' could be a capital or property asset, or interest or right that generates a balance sheet asset (such as, but not limited to a loan, sale, and leaseback agreement). As it has been 'bought primarily for yield', the investment asset would serve a direct policy purpose linked to the Council's core functions but has been acquired primarily because it would generate an income stream for the Council, which would most often (but not exclusively) be used to support wider service spending. If the Council is planning to acquire investment assets bought primarily for yield in any of the following three years, the Council will be unable to borrow from the PWLB to finance expenditure in its capital plan.

These investment assets bought primarily for yield would usually have one or more of the following characteristics:

- a) buying land or existing buildings to let out at market rate
- b) buying land or buildings which were previously operated on a commercial basis which is then continued by the Council without any additional investment or modification
- c) buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly
- d) buying a speculative investment asset (including both financial and non-financial assets) that generates yield without a direct policy purpose

Where the Council invests in 'commercial investments' including property, as part of a larger project, the risks associated with investment must be proportionate to the Council's financial capacity to absorb losses without unmanageable detriment to local services. These investments will be proportional to the level of resources available to the Council and the same robust procedures for the consideration of risk and return will be applied to these decisions.

Existing commercial investments – the Council may invest in maximizing the value, including repair, renewal and updating of its existing properties. The Council will carry out prudent active management and rebalancing of its existing portfolio as appropriate.

### 3 Key Objectives

The key objectives of the AIS is to focus on:

- 3.1 Ensuring the Council continually assesses the following in respect of its current asset holdings:
  - What it owns
  - How it performs
  - Whether the Council can afford it (financial viability)
  - Whether or not the asset still fulfills its intended purpose and Value for Money
- 3.2 Consideration of all investments against:
  - Corporate priorities
  - Financial viability
  - Risk Management strategy including:
    - Covenant
    - Exit strategy
- 3.3 Returns
  - Acquire or develop assets that provide long term financial viability
  - Maximise value whilst minimising risk through asset management plans
  - Prioritise investments in line with corporate priorities
    - Proportionality of income from investments: Any yield element will be in line with the Governments guidance on access to the PWLB so as not to limit access to the PWLB lending facility

- Impact on the Council's revenue budgets - proportionality of “for yield” investments to net service expenditure will not exceed 20% of net service costs.
- The assessment of proportionality of any commercial as part of a mixed use/purpose scheme must be on a scheme-by-scheme basis including the nature of the scheme and corporate priorities

#### 3.4 Risk

- Support corporate priorities and service delivery – housing, regeneration, preventative action
- Protect capital invested in assets
- Maintain ongoing financial viability in relation to the objectives for holding the asset

#### Governance

- Ensure a fit for purpose governance framework to support asset investment

## 4 Legal Powers

#### 4.1 The Council has powers to:

- i) Invest, pursuant to Section 12 of the Local Government Act 2003 (LGA 2003) and an Investment Strategy, for any purpose relevant to its functions under any enactment and for the process of the prudent management of its financial affairs.
- ii) Borrow, pursuant to Sections 1-6 inclusive of LGA 2003.

In both cases this is subject to Section 15 of LGA 2003: a duty to “have regard to” Guidance from Chartered Institute of Public Finance and Accountancy (CIPFA) and MHCLG and HM Treasury guidance.

#### 4.2 The Council also has other relevant powers. These include:

- (1) Section 120 of LGA 1972: a power to acquire land; and
- (2) General Power of Competence (GOPC), pursuant to Section 1 of LA 2011.

#### 4.3 The powers enable the Council to invest in commercial and residential assets.

#### 4.4 When making investments the Council will consider, amongst other things, the type of property and the location.

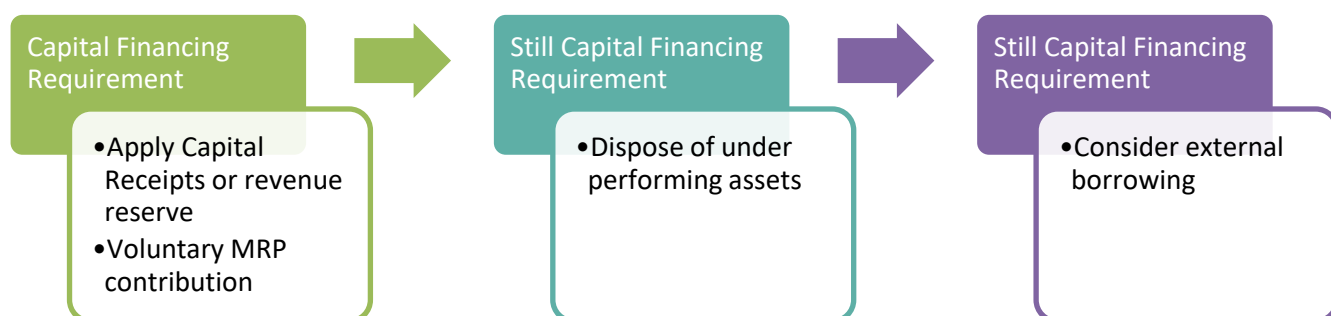
#### 4.5 Every proposal submitted to the AIAB shall identify the legal powers under which the Council will invest having regard to legal opinion taken and supplementary legal advice where appropriate.

## 5 Financing

#### 5.1 The Council must finance asset investments in compliance with the Annual Capital Strategy which sets out the principles of capital financing. The Council summarises all sources of financing underpinning its assets in the Capital Financing Requirement (CFR) statement. The CFR identifies where the council has used cash without

drawing down a useable reserve, grant, or capital receipt (called internal borrowing) or has borrowed externally i.e., PWLB. Internal and external borrowing results in an obligation to repay the loan and statute requires a charge to the revenue account each year to provide for the eventual loan repayment, known as Minimum Revenue Provision (MRP).

- 5.2 Borrowing to fund or part-fund an investment in an asset must comply with the Prudential Code issued by the CIPFA. This requires borrowing to be affordable, sustainable and provide value for money as reasonably determined by the Council.
- 5.3 The Council must comply with the requirement for all local authority investments as set out in this strategy whilst recognising the inherent lack of liquidity of asset investments i.e., land and buildings.
- 5.4 The proportion of overall borrowing to the CFR must be in line with the Prudential Indicators contained in the Treasury Management Strategy. (See indicator 3 – External Debt).
- 5.5 Minimum Revenue Provision (MRP):
  - must be charged in accordance with the MRP policy contained in the Treasury Management Framework
  - must form part of the annual financing cost used to calculate the net return on each investment funded or part-funded by borrowed funds (external and internal)
  - must be considered in all financial viability assessments
  - MRP does not apply to the Housing Revenue Account (HRA) – however, HRA schemes must include depreciation as a proxy for MRP as depreciation is a chargeable expense against the HRA
- 5.6 Whilst ever the council has internal borrowing, performance of individual assets will be benchmarked against the cost of the annual MRP charge, and where appropriate will trigger an exit strategy (sale) to generate a capital receipt to pay down the internal borrowing.
- 5.7 Consideration will be given to:
  - Application of Capital Receipts to reduce the internal borrowing
  - The ability of individual assets to generate income – assessed against market value
  - Whether the exit strategy needs to be triggered



- 5.8 Balance Sheet management will be undertaken to manage the Council's long-term commitments. If the Council has a manageable CFR internal borrowing can be

considered. Internal borrowing is only possible when it is part of a financially viable scheme that is at least revenue neutral after MRP, and Interest is accounted for.

## 6 Investment Process

- 6.1 Investments can be sourced from:
- Property searches
  - Direct approach to or from vendor (off market deals)
  - Third party agents
  - Unsolicited introductions from agents
  - Joint ventures with another local authority, developer, or investor
  - Asset management plans and maintenance schedules
- 6.2 The investment opportunity must be assessed to determine the type of investment as per section 2.
- 6.3 All investment proposals must be considered by the Asset Investment Manager using appropriate investment appraisal techniques.
- 6.4 Investment opportunities must undergo qualitative and quantitative appraisal (Financial modelling) and options appraisal to establish acceptability as an investment based upon the latest appropriate third party, industry standard information wherever possible.
- 6.5 External professional advice must be sought where necessary, in accordance with the Council's Contract Procurement Rules.
- 6.6 Tenanted investments tenant(s) will be fully appraised both physically and financially using industry standard techniques to assess viability in line with the overall level of risk involved. This will be against the checklist at 14.
- 6.7 A business case must be produced and supported by financial modelling which must include, where appropriate:
- i) Identification of investment type – service or commercial
  - ii) How the investment supports the Corporate Priorities
  - iii) Yield calculations
  - iv) Financing costs
  - v) Life cycle costs to be borne by the Council
  - vi) Net rate of return calculation
  - vii) Discounted cash flow analysis
  - viii) Sensitivity analysis of cash flow
  - ix) Exit Strategy, including trigger points
  - x) Financial implications of exit strategy
  - xi) Impact on General Fund, Housing Revenue Account and Trusts
- 6.8 All suitable opportunities will be referred to the AIAB for consideration. The AIAB will review each proposal in accordance with its Terms of Reference.
- 6.9 Decisions will be undertaken in accordance with the Scheme of Delegation and referred to the Executive or Full Council for approval as appropriate.



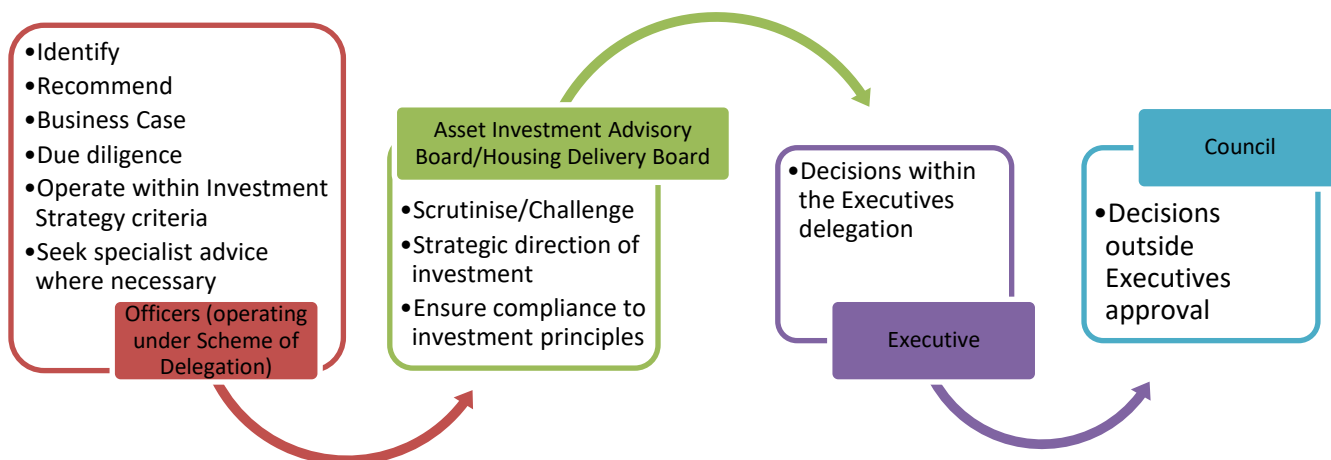
## 7 Governance and Due Diligence

7.1 Prior to any investments the Council makes it must first determine:

- The reason for the investment
- The powers under which the investment is made
- The extent to which the capital invested is placed at risk
- The impact of any potential losses on financial sustainability

The governance process must be reviewed on a regular basis to take account of changes in legal powers, the market, and other conditions to ensure it is robust.

7.2 The Governance framework will comprise:



7.3 Due diligence will include:

Evaluation:

- Compliance to Investment Principles
- Legal power under which the Council will invest
- Assessment of legal issues in relation to land and buildings

Risk Analysis

- Corporate Risk appetite
- Category of investment
- Assessment of sector risk and asset risk
- Reputational issues
- Appropriateness of an exit strategy

Land and buildings Analysis

- Independent valuation from external suitably qualified professional
- Land Registry title checks
- Formal building condition survey
- Independent assessment of asset life
- Any necessary environmental and flood risk investigations

- Development of Business Case

#### Financial Analysis

- Financial assessment
- Assessment of the impact of any potential abortive costs and how they will be funded
- Assessment of impact of default or significant loss in value and how it will be funded
- Allowance for future costs, income shortfall and management of assets
- Formal estimate of any re-instatement costs

## 8 Risk

8.1 Risk must be assessed in line with the Council's Risk Management Framework and Risk Appetite Statement. The Business Case for the investment must assess each risk domain documented in the Risk Management Framework.

8.2 Risk must be minimised through:

- Compliance to the investment objectives
- Completion of due diligence
- Having management strategies in place for each asset
- Having an exit strategy for each asset, including trigger points and operating parameters
- Re-evaluation of business cases to review and inform the Council's overall strategy

## 9 Property Management

9.1 Assets must be managed in accordance with the Strategic Asset Management Plans required by the Capital Strategy.

9.2 Maintenance schedules appropriate to the type of asset should be in place to protect the assets owned by the Council and to inform budgetary requirements of holding the asset.

9.3 The powers under which the Council is holding the asset will determine where the asset is held. Property will be accounted for in the HRA if it is being provided under Part II of the Housing Act 1985. If it is not provided under these powers it may be appropriated to the General Fund. The property may continue to be managed by the appropriate service with costs recharged to the relevant revenue account.

## 10 Performance Reporting

10.1 Performance reporting will be included in the corporate performance reporting process.

## 11 Exit Strategy

- 11.1 Performance will be monitored to ensure results are being delivered and to consider if the assets meet the needs of the Council. Underperformance may trigger the exit strategy.
- 11.2 Where appropriate assets must have an exit strategy to ensure that where there is a risk of change in market/obsolescence the council ensures value for money is being achieved in line with the corporate objectives.
- 11.3 Options for consideration will include:
- Disposal – sell the asset to realise best value
  - Alternative uses – based on market demand or service delivery requirements
- 11.4 An Exit Strategy may be triggered in the following circumstances:
- Long term void and unable to attract good quality replacement tenants at acceptable rent levels
  - The age and specification of the building affects the ability to let the property
  - The management or maintenance costs affect the viability
  - The use or user changes
  - The reaching of a specific period for being void based on the property's normal void turnaround period of a comparable property
  - Net yield of individual assets is less than the cost of capital (MRP)

## 12 Capital Financing Requirement

- 12.1 The CFR identifies where the council has used cash without drawing down a useable reserve, grant or capital receipt (called internal borrowing) or has borrowed externally i.e. PWLB. Internal and external borrowing results in an obligation to repay the loan and statute requires a charge to the revenue account each year to provide for the eventual loan repayment, this is covered in the MRP policy.

## 13 Other considerations

### ***Skills and Expertise***

- 13.1 The Council invests in its Asset Management Team through training to enable staff to:
- Identify investment opportunities
  - Undertake property management
  - Know when to divest the asset
- 13.2 External support will be sought where appropriate according to:
- Complexity of transaction
  - Nature of the investment

- Independence requirement
- Skills and capacity of internal team
- Time dependency of transaction

13.3 Management of property (commercial, service, and residential) may be through an agent where the service charge gives best value or where multi-let properties favour external expertise.

### ***VOIDS and rent arrears and long-term liabilities***

13.4 The council is exposed to the risk of void periods due to lease terminations and tenant default and rent-free periods in commercial asset for lease renewals. Revenue impact must be assessed every year by class of asset to enable an appropriate mitigation either by an income reduction factor or the maintenance of a void provision on the balance sheet covering loss of income and holding and re-letting costs.

13.5 Void periods must be kept under review to determine at which point the exit strategy for the asset will be triggered in accordance with the asset management plan for that asset.

13.6 Stock condition surveys must be used to assess long term maintenance liabilities and refurbishment costs to be factored into asset management lifespans to inform appropriate financial viability assessments and where necessary financial mitigations.

### ***Subsidised Rent***

13.7 Service investments may be considered for subsidised rent as part of the investment assessment if the overall financial viability of the scheme remains revenue neutral.

13.8 Commercial investment yields must reflect market conditions and be in line with individual asset management strategies and proportionality policy.

13.9 Commercial investment properties will not be subject to council determined rent subsidy or reduction for operational purposes. Such proposals may trigger the exit strategy for that specific asset.

### ***Environmental and Ethical Considerations***

13.10 The council has declared a Climate Change Emergency and made a commitment to becoming carbon neutral.

13.11 The council is committed to prioritising asset investment that has a positive impact on the environment and aligns with the council's corporate priorities.

13.12 Asset investment will include environmental considerations where the financial viability of the investment remains positive.

- 13.13 The council will not invest in assets that it considers are unethical or are being used for unethical purposes.
- 13.14 Investments will be assessed on their contribution to council's financial sustainability and at least a revenue neutral impact on the MTFP, which in turn finances and supports the council's Corporate Objectives including the Climate Emergency declaration.

## 14 Investment Checklist

- 14.1 The following check list will be used to determined decisions on whether proposed investments can be undertaken.

<ul style="list-style-type: none"> <li>▪ <b>Can we invest in commercial, service and residential property?</b></li> </ul>
<ul style="list-style-type: none"> <li>– What are the legal powers to support the investment and, crucially, are they powers specifically to acquire assets or to make investments?</li> </ul>
<ul style="list-style-type: none"> <li>– Where borrowing is required, what are the powers available to support the taking out of loans?</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Should we acquire commercial, service and residential property?</b></li> </ul>
<ul style="list-style-type: none"> <li>– Can the council justify the exercise of the legal powers in the way proposed?</li> </ul>
<ul style="list-style-type: none"> <li>– Does the council's decisions have proper regard for the statutory guidance?</li> </ul>
<ul style="list-style-type: none"> <li>– Does the council's decisions have proper regard for the Prudential Code in terms of affordability, prudence and proportionality?</li> </ul>
<ul style="list-style-type: none"> <li>– Is the investment defensible under the best value duty?</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Will we acquire commercial, service and residential property?</b></li> </ul>
<ul style="list-style-type: none"> <li>– Is the proposal consistent with the council's Corporate Strategy and Medium Term Financial Plan and HRA Business Plan?</li> </ul>
<ul style="list-style-type: none"> <li>– Can the proposal be accommodated within the council's Treasury Management Strategy and Asset Investment Strategy?</li> </ul>
<ul style="list-style-type: none"> <li>– Does the council have the necessary competence to take the proposed decision?</li> </ul>
<ul style="list-style-type: none"> <li>– Does the council have appropriate skills to manage the asset?</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>What is the assessment of risk ?</b></li> </ul>
<ul style="list-style-type: none"> <li>– Is the proposal consistent with the council's Risk Appetite Statement?</li> </ul>
<ul style="list-style-type: none"> <li>– Can the requirements of the Governance Framework be fulfilled?</li> </ul>

## 15 Glossary

**AIAB:** Asset Investment Advisory Board

**AIS:** Asset Investment Strategy

**CIPFA:** Chartered Institute of Public Finance and Accountancy

**Due diligence:** A process to ensure correct documents and searches are complete and that the proposed purchase is legally and financially viable.

**Fair value:** The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Freehold:** The ownership of a property in perpetuity

**FRI:** Full repair and insurance; Usually a tenant's obligation under the terms of a lease.

**IRI:** Internal Repair & Insuring

**LGA:** Local Government Association

**Lease:** Type of tenure, whereby rights to a property are granted for a fixed term.

**Local Enterprise Partnerships (LEPs):** Local business led partnerships between local authorities and businesses and play a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs.

**Management Costs:** Costs incurred to ensure both parties comply with their obligations, if done internally the costs will be absorbed by the council, or if externally, the charges will be deducted from the total income.

**MHCLG:** Ministry of Housing, Community and Local Government

**Minimum Revenue Provision (MRP):** MRP is a statutory mechanism for allocating funds out of revenue income to repay debt (from borrowing or credit arrangements) for capital spend that is unfinanced.

**MTFP:** Medium Term Financial Plan

**PWLB:** Public Works Loans Board

**Rent Review:** The period after which the annual rent for a property can be reviewed in accordance with the terms of the lease, allows for growth on the investment.

**SDLT:** Stamp Duty Land Tax

**Yield:** The earnings generated and realised on an investment over a period (generally annually). It is expressed as a percentage based on the invested amount, modified for MRP and any other appropriate adjustments, or on the current market value.