Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

Overarching Investment Opportunities Protocol

1. Contacts

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2. Executive Summary

This report describes proposals for implementing an investment strategy to preserve and improve the financial and other resources available to the Council. The strategy aims to generate revenue income from capital investment, and is a direct response to the prospect of dwindling central government funding in future years.

The strategy sits within, and adopts the principles incorporated in the Council's corporate Asset Management Plan in respect of land and property transactions. However, as well as land and property, the strategy is open to other forms of investment opportunity to the extent that they support and promote other Council policies, plans and priorities.

To fund investment opportunities as they arise, the investment strategy will draw upon the newly established Investment Opportunities Reserve, supplemented by other available sources of internal and external finance, to the extent that it is necessary to realise approved investments.

3. Recommendations

3.1 That the committee agrees to set up a Task & Finish Group to consider the Investment Strategy described in this report (including the Land & Property Sub-Strategy at Appendix 1 and report back to the January Committee.

4. Background

4.1 At its meeting of 3 February 2015, the Cabinet considered a report on the Council's Budget Spending Plans 2015-16 and resolved that "a new Investment Opportunities Reserve of £824,000 is created" (Paragraph 6.10 of that report).

4.2 The purpose of the reserve is principally to fund investments that will generate increased income given the expectation that central government funding shall continue to diminish over time. Accordingly, the Council recognises the importance of accessing investment opportunities of all kinds to maximise its income earning

potential alongside other measures aimed to preserve services while maintaining a balanced budget.

4.3 To this end the Investment Opportunities Reserve has been established comprising capital funds of £824k, which will be used in conjunction with other available resources (capital receipts, earmarked capital & revenue reserves, borrowing etc.) for the purposes of securing investments in land, property, and other assets that will generate higher returns than currently available for alternative cash investments at a time when interest rates remain at historically low levels.

4.4 This report sets out the broad considerations that need to be made, and the procedures to be followed, with regard to future investments to be funded from the Investment Opportunities Reserve. The strategy aims to provide consistency of approach and transparency to decision making.

5. Scope (Terms of Reference)

5.1 The Council will consider all forms of investment within its powers with the principal aim of enhancing the revenue income generating potential from capital investment.

5.2 To this end, the strategy adopts a requirement for new investment opportunities to provide a minimum financial return equivalent to the higher of:

i) 3% above the prevailing 20 year Public Works Loans Board (PWLB) loan rate, or
ii) 3% above the average level attained on treasury management investments in the prevailing financial year.

5.3 At existing rates of interest, the 20 year PWLB rate (being the higher) plus 3% or more would apply, making the target level of return 5.56% (by contrast the use of average returns for treasury management would result in a lower target of 3.87%).For indicative purposes these targets are contrasted against current performance as follows:

Source of Return	Actual Return 2014/15	Actual Return 2015/16 (to 2 November 2015)	2015/16 Difference from PWLB Target Rate of 5.56%
Treasury Management	0.87%	0.81%	-4.75%
Property *	10.24%	9.09%	3.53%
Combined Return	1.05%	1.52%	-4.04%
**Based on acquisition of 4A & 4B Terminus Rd (Willow Park), 8A Terminus Road (Woodruff Centre) & 2-8 Crane Street*			

5.4 The target level of financial return is therefore not a fixed rate, but determined relative to movements in market rates over time. The link between the financial target and the 20 year PWLB borrowing rate is intended to reflect the expectation that investments shall typically be of a long term duration. Similarly, the link between the target and the

Council's treasury management performance reflects the expectation that any form of investment should outperform it's alternative cash equivalent. The proposed addition of a 3% mark-up to both benchmarks is to ensure that the investment opportunities derived from the Strategy are not only worthwhile, but distinct from other forms of investment that may produce more modest returns.

5.5 However, it is also recognised that financial return is not the sole rationale in any investment decision, as there may be other important considerations which may vary in emphasis over time. Such considerations may include either in combination or individually any number of the following

- The extent to which council plans, policies and priorities are supported
- The benefit to the local community, its residents, businesses and partners
- The Impact on the local economy, housing and infrastructure
- The potential to regenerate or develop the local area
- The risks involved, as well the benefits.

5.6 Accordingly, the investment opportunities strategy proposes that (subject to Member approval) flexibility be applied to enable an investment proposal to proceed where there is a strong non-financial reason for doing so, even though the overall level of financial return may fall short of the target financial return.

5.7 Thus, it is intended that a case by case review of each proposed investment be conducted using an appropriate evaluation methodology to establish how well it meets the target financial return and some (or all) of the considerations mentioned above.

5.8 In any event, in cases where it is not expected that the target financial return shall be met, the evaluation shall include comparison against other relevant benchmarks of financial performance where available. This is because although existing Contract Standing Orders do not cover the buying or selling of land or any interest in land, it is nevertheless the requirement to obtain the "achievement of the best consideration in the circumstances and to recognise the Council's community objectives".

5.9 Consequently, while investments shall be selected with a view to 'future-proof' the financial resources the Council has available, it shall also be considered with a view to maintain, extend or improve service delivery for the benefit of the community generally.

6. The Council's Legal Power to Invest

6.1 Generally, The Local Government Act 1972 empowers Councils as follows:

"a local authority shall have power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions" (Part VII, Section 111).

In exercising this power, the Council aims to obtain a mixed portfolio of investments that spreads both the return and risks across a range of assets, such as:

- Land and property acquisition
- New housing investment
- Business Opportunities
- Financial assets (cash or non- cash)

6.2 Where necessary, the appropriate legal advice shall be obtained to ensure the legality of any proposed transaction before it is secured or obligates the Council.

7. Investment Protocol

7.1 The investment strategy is intended to be applied in accordance with the Council's prevailing Contract Standing Orders and Financial Regulations, and therefore is not a substitute.

7.2 Accordingly, the process for considering, approving and recording any form of investment (excepting those relating to investment of cash surpluses made under the Council's Treasury Management Strategy and Annual Investment Strategy) shall follow the provisions under the Asset Management Plan, Contract Standing Orders and Financial Regulations to the extent that they are appropriate for procuring supplies and services, appraisal of contractors and contracts, and any other incidental tasks relevant to the form of investment.

7.3 For any one particular category of investment, the provisions so prescribed in these sources of reference shall be supplemented (where deemed to be necessary) by a "sub-strategy procedure document" making clear any additional requirements to be followed or satisfied. For example, it may set out additional decision criteria or methodology for assessing the suitability of an investment, the benefits or risks associated with the investment, or any additional officer and Member reporting requirements. An example is attached at Appendix 1 being the proposed sub-strategy for Land and Property Acquisitions.

7.4 The Land & Property Sub-strategy procedure is the only one proposed at the current time. Any further procedures that may be proposed in future for other forms of investment shall be submitted in the first instance to the Commercial Programme Board (or other relevant Committee) for approval prior to being adopted.

7.5 Any investment opportunities shall be assessed against the criteria stated in the Council's prevailing capital prioritisation form assessment, and must go through the appropriate approval process before any commitment to the investment is made.

7.5 In any event, formal Member approval by way of a report submitted to the appropriate Committee shall be obtained in advance of committing to any form of investment where Contract Standing Orders and Financial Regulations require this.

8. Investment Risks for the Council

8.1 The Strategy recognises that any form of investment is not without risk since the value of any investment may rise or fall over time, especially where it is to be retained over many years.

8.2 To mitigate the impact of uncertainty the investment objective shall be to provide a spread of investments with varying degrees of risk, given that it is recognised that the inherent risk is generally reflected either in the price or the rate of return (i.e. the higher the risk, the higher the return and vice versa).

8.3 Accordingly, the consideration of any investment shall include a risk assessment that shall aim to measure as objectively as possible the likelihood and severity of the impact should the risks identified be realised. This can provide comparison against the potential benefits (financial and otherwise) for which the investment is being considered in the first place, and form part of the decision making process.

8.4 Among the risk factors to be considered are:

• Acquisition Risk – the Council may incur transaction costs without guarantee of securing the investment (e.g. the Council may be one of several bidders, or required to pay a premium).

• Price & Cost Risk – Once acquired the price or cost of the investment may fluctuate over time, which may in itself reflect variations in demand and supply.

• Economic / Political Risk – the ability to retain or dispose of an investment may be inhibited by the economic and political environment at any point in time.

• Market Risk – the Council's ability to influence the price, financial return or other benefits pertaining to the investment may be limited by the market in which it operates.

8.5 In order to manage some of the risks associated with the acquisition of assets under this investment protocol a thorough and due diligence process must be adhered to identify any potential risks as part of the evaluation process.

9. Resource & Financial Considerations

9.1 The Investment Opportunities Reserve currently has £824k available for capital investment. As investments are made over time (and the amount available diminishes to fund future investments) there will be a need to replenish the fund or supplement the amount available with other financial resources.

9.2 Where this need arises, the Head of Finance & Governance shall be consulted to consider the availability of other sources of internal or external finance by which to supplement the Investment Opportunities Reserve, or otherwise to fund new investments. Among the options considered shall be the scope for making contributions from revenue underspends that occur at year end, or transferring a proportion of in-year capital receipts to the Reserve.

9.3 In these respects the use of existing internal resources such as capital receipts or other surplus reserves is likely to be preferred to prudential borrowing from external sources. But such borrowing as may be considered necessary and approved shall be conducted within the approved limits for Prudential Borrowing applicable.

10. Consultation

10.1 This report has been prepared by officers comprising the Capital Investment Development Group who have met on several occasions in 2015. The report has duly been considered by the meeting of the Commercial Programme Board held on 28 July, and Corporate Management Team meeting on 12 August.

11. Community impact and corporate risks

11.1 The community impact of any particular investment proposal is indeterminable at this stage as it is dependent on the ultimate type of investment entered into (e.g. whether property related, purely financial, or other form of investment).

11.2 The corporate risks are those covered above by Section 8 of this report.

12. Other Implications

12.1 Such investments as may be made shall be done so ethically in a manner that is consistent with other Council policies, values and practices, and does not inadvertently result in promoting, supporting or delivering outcomes that the Council would not wish to occur.

12.2 Other implications considered include:

Crime & Disorder:		None
Climate Change		None
Human Rights and Equality Impact		None
Safeguarding:		None

13. Appendices

Appendix 1 - Land & Property Sub Category Report

14. Background Papers

None