**Appendix 1**

# Investment Protocol

## 1. Key Objectives

1.1 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.

1.2 For Land & Property investments the net initial yield range should be between 5.0% and 9.0% although exceptions may be made in special circumstances. Generally a lower yield will reflect a more secure investment requiring less management so a high yielding property may not necessarily be a good investment.

7.3 In any event the Council seeks to achieve a return on Land & Property investments at least equivalent to the latest published return for the CCLA Property Fund in which the Council invests for treasury management purposes. All costs in relation to the purchase and management of the property are to be included in assessing the Return on Investment (ROI).

7.4 For other investments target returns shall be assessed relatively to appropriate benchmarks and the average returns for alternative cash usages within the treasury management strategy.

7.5 For indicative purposes only the actual returns for treasury management and Property investments were as follows:

| Source of Return | Actual Return 2014/15 | Actual Return 2015/16 | |
|---|---|---|---|
| Treasury Management | 0.87% | 0.79% | |
| Property * | 10.24% | 9.09% | To 2 November 2015 |
| **Based on acquisition of 4A & 4B Terminus Rd (Willow Park), 8A Terminus Road (Woodruff Centre) & 2-8 Crane Street* | | | |

## 2. Methodology

2.1 It is 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.

2.1 Accordingly flexibility can be applied (subject to Member approval) 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.

2.2 A case by case review of each proposed investment must be conducted using an appropriate evaluation methodology. 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".

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

2.4 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.

2.5 In any event, formal Member approval by way of a report submitted to the appropriate Committee shall be obtained where required by Contract Standing Orders and Financial Regulations.

## 3. Assessment of Investment Risk

3.1 The protocol 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.

3.2 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).

3.3 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.

3.4 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 be 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.

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

## 4. Sub-category protocols

4.1 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-category protocol" 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.

## 5. Relationship with Standing Orders and Financial Regulations

5.1 The investment protocol is intended to be applied in accordance with the Council's prevailing Contract Standing Orders and Financial Regulations, and is not a substitute for them.

5.2 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.