

OPEN

Overview & Scrutiny Committee

Agenda

6pm
Thursday, 22nd March 2018
Council Chamber
Wyre Forest House
Finepoint Way
Kidderminster



Overview & Scrutiny Committee

Members of Committee:

Chairman: Councillor H E Dyke
Vice-Chairman: Councillor M Rayner

Councillor J R Desmond
Councillor N Knowles
Councillor S Walker
Councillor S J Williams

Councillor K Henderson
Councillor D Little
Councillor H S Williams
Councillor R Wilson

Would Members please note that, to ensure continuity in scrutiny, substitutes should only be appointed for the Scrutiny Committee in exceptional circumstances.

Information for Members of the Public:

Part I of the Agenda includes items for discussion in public. You have the right to inspect copies of Minutes and reports on this Agenda as well as the background documents used in the preparation of these reports.

Part II of the Agenda (if applicable) deals with items of "Exempt Information" for which it is anticipated that the public may be excluded from the meeting and neither reports nor background papers are open to public inspection.

Declaration of Interests by Members – interests of members in contracts and other matters

Declarations of Interest are a standard item on every Council and Committee agenda and each Member must provide a full record of their interests in the Public Register.

In addition, alongside the Register of Interest, the Members Code of Conduct ("the Code") requires the Declaration of Interests at meetings. Members have to decide first whether or not they have a disclosable interest in the matter under discussion.

Please see the Members' Code of Conduct as set out in Section 14 of the Council's constitution for full details.

Disclosable Pecuniary Interest (DPI) / Other Disclosable Interest (ODI)

DPI's and ODI's are interests defined in the Code of Conduct that has been adopted by the District.

If you have a DPI (as defined in the Code) in a matter being considered at a meeting of the Council (as defined in the Code), the Council's Standing Orders require you to leave the room where the meeting is held, for the duration of any discussion or voting on that matter.

If you have an ODI (as defined in the Code) you will need to consider whether you need to leave the room during the consideration of the matter.

Co-opted Members

Scrutiny Committees may wish to appoint Co-Opted Members to sit on their committee in order to add value to the scrutiny process. To appoint a Co-Opted Member, a Committee must first agree to appoint either a specific person or to approach a relevant organisation to request that they put forward a suitable representative (e.g. the local Police Authority). Co-Optees are non voting by default but Committees can decide to appoint voting rights to a Co-Optee. The Co-Option of the Member will last no longer than the remainder of the municipal year.

Scrutiny Committees can at any meeting agree to terminate the Co-Option of a Co-Opted Member with immediate effect. Where an organisation is appointed to put forward a Co-Opted Member, they are able to send a substitute in exceptional circumstances, provided that they notify Democratic Services in advance. Co-Opted Members must sign up to the Members Code of Conduct before attending their first meeting, failure to sign will

mean that they are unable to participate. This also applies to substitute Co-Opted Members, who will need to allow sufficient time before a meeting in order to sign the Code of Conduct.

The following will apply:

- i) The total number of voting co-opted members on any Scrutiny Committee will not exceed 25% at any one time.
- ii) The total number of voting Co-opted Members on any Review Panel will not be limited.
- iii) Those Co-opted Members with voting rights will exercise their rights in accordance with the principles of decision making set out in the constitution.

For Further information:

If you have any queries about this Agenda or require any details of background papers, further documents or information, you should contact Louisa Bright, Principal Committee and Member Services Officer, Wyre Forest House, Finepoint Way, Kidderminster, DY11 7WF. Telephone: 01562 732763 or email louisa.bright@wyreforestdc.gov.uk

Wyre Forest District Council
Overview & Scrutiny Committee
Thursday, 22nd March 2018
Council Chamber, Wyre Forest House, Finepoint Way, Kidderminster
Part 1
Open to the press and public

Agenda item	Subject	Page Number
1.	Apologies for Absence	
2.	Appointment of Substitute Members To receive the name of any Councillor who is to act as a substitute, together with the name of the Councillor for whom he/she is acting.	
3.	Declarations of Interests by Members In accordance with the Code of Conduct, to invite Members to declare the existence and nature of any Disclosable Pecuniary Interests (DPI's) and / or Other Disclosable Interests (ODI's) in the following agenda items and indicate the action that they will be taking when the item is considered. Please see the Members' Code of Conduct as set out in Section 14 of the Council's Constitution for full details.	
4.	Minutes To confirm as a correct record the Minutes of the meeting held on the 1st March 2018 and the Minutes of the meeting of the Overview and Scrutiny Sub-Committee held on 14 th March 2018 (to follow).	6
5.	Capital Strategy 2018-21 To consider a report from the Corporate Director: Resources and the Corporate Director: Economic Prosperity and Place which provides Members with information on the new Investment Guidance and considers a Capital Strategy for 2018-21 that has regard to the requirements of the new investment guidance with particular reference to non-financial investments.	9
6.	Work Programme To review the work programme for the current municipal year with regard to the Corporate Plan Priority, Annual Priorities and the Forward Plan.	54
7.	Press Involvement To consider any future items for scrutiny that might require publicity.	

8.	To consider any other business, details of which have been communicated to the Solicitor of the Council before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.	
9.	Exclusion of the Press and Public To consider passing the following resolution: “That under Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of “exempt information” as defined in paragraph 3 of Part 1 of Schedule 12A to the Act”.	

Part 2

Not open to the Press and Public

10.	Lion Fields Parcel Two: Former Magistrates Court – Development Proposals To consider a report from the Head of Economic Development and Regeneration – North Worcestershire regarding Lion Fields Parcel Two Development Proposals.	-
11.	To consider any other business, details of which have been communicated to the Solicitor of the Council before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.	

WYRE FOREST DISTRICT COUNCIL

OVERVIEW & SCRUTINY COMMITTEE

COUNCIL CHAMBER, WYRE FOREST HOUSE, FINEPOINT WAY, KIDDERMINSTER

THURSDAY 1ST MARCH 2018 (6 PM)

Present:

Councillors: H E Dyke (Chairman), M Rayner (Vice-Chairman), K Henderson, N Knowles, D Little, T Onslow, S J Walker, H S Williams and S J Williams.

Observers

Councillors: I Hardiman, M J Hart, F M Oborski MBE, and J A Shaw.

OS.86 Apologies for Absence

Apologies for absence were received from Councillors: J R Desmond and R Wilson.

OS.87 Appointment of Substitutes

Councillor J Campion was appointed as a substitute for Councillor R Wilson.

OS.88 Declarations of Interests by Members

No declarations of interest were made.

OS.89 Minutes

Decision: The minutes of the meeting held on 1st February 2018 be confirmed as a correct record and signed by the Chairman.

OS.90 Feedback from Cabinet

Agreed: The contents of the Cabinet decision list following consideration of the recommendations from its meeting on 7th February 2018 be noted.

OS.91 Work Programme

Agreed: The work programme be noted.

OS.92 Acquisition of Land in Broadwaters Ward

The Committee received a report from the Property and Investment Manager, which gave consideration to an acquisition of land in the Broadwaters Ward.

The Corporate Director: Economic Prosperity and Place led Members through the report. He explained that authority was sought for the Council to use its compulsory

Agenda Item No. 4

purchase powers to acquire land at Radford Avenue / Horsefair in Kidderminster, to enable the bringing forward of a development scheme at a prominent gateway position within the Horsefair. He advised that the land for which a Compulsory Purchase Order (CPO) was requested had been in private ownership for over 15 years and discussions with the landowner had been ongoing for a number of years, with no agreement reached. He emphasised that the use of a CPO was a last resort and would not be undertaken lightly.

Councillor M Hart left the meeting at this point, 6.08 PM and returned at 6.11 PM

The Corporate Director: Economic Prosperity and Place commented that the land was within the area of both the Churchfields Masterplan and the Kidderminster Central Area Action Plan. The Horsefair was an important local centre to support both the vitality of the town centre and the regeneration of Churchfields. He added that the Officers were in dialogue with local groups in the Horsefair, and the collective view was that this was an unsightly area of land that was in need of redevelopment.

A discussion ensued and in answer to a Members question regarding the widening of the road to develop a left hand lane, the Corporate Director: Economic Prosperity and Place confirmed that this was not featured as a requirement in the redesigning of the area.

Agreed: Recommend to Cabinet that:

- **The Council makes a Compulsory Purchase Order ('CPO') to acquire 'The Order' land as detailed. This will be subject to:**
- **A business case being agreed to acquire 'The Order' Land and develop the wider site utilising the 'Capital Portfolio Fund'**
- **Planning permission being granted for a scheme which encompasses the land.**

OS.93 Press Involvement

There were no future items of scrutiny that might require publicity.

OS.94 Exempt Information

Decision: Under Section 100A(4) of the Local Government Act, 1972 the press be excluded from the meeting during the consideration of the following items on the grounds that they involve the likely disclosure of "Exempt Information" in paragraphs 2, 6 and 7 of Part I of Schedule 12A of the Act.

Councillor T Onslow entered the meeting at this point (6.23 PM)

OS.95 Acquisition of Land in Areley Kings and Riverside Ward.

The Committee considered a report from the Property and Investment Manager which considered an acquisition of land in Areley Kings and Riverside Ward. The Corporate Director: Economic Prosperity and Place led Members through the report.

Agreed: Recommend to Cabinet:

The proposals in points 6.1.1 to 6.1.2 of the confidential report to the Overview and Scrutiny Committee be agreed.

There being no further business, the meeting ended at 6.48 PM

WYRE FOREST DISTRICT COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

22nd MARCH 2018

CAPITAL STRATEGY 2018-21

OPEN	
CABINET MEMBERS:	Councillor Nathan Desmond Cabinet Member for Resources and Councillor Ian Hardiman, Cabinet Member for Planning and Economic Regeneration
RESPONSIBLE OFFICERS:	Tracey Southall: Corporate Director: Resources and Mike Parker, Corporate Director: Economic Prosperity and Place
CONTACT OFFICERS:	Tracey Southall Ext 2100 e-mail tracey.southall@wyreforestdc.gov.uk Mike Parker Ext 2500 e-mail mike.parker@wyreforestdc.gov.uk
APPENDIX 1 APPENDIX 2 APPENDIX 3 APPENDIX 4	Quantitative Indicators for assessment of risk exposure Strategy for the Capital Portfolio Fund Capital Strategy/Scheme of Delegation The Role of the Section 151 Officer

1. PURPOSE OF REPORT

- 1.1 To provide members with information on the new Investment Guidance issued in early February 2018 by the Ministry for Housing, Communities and Local Government (MHCLG).
- 1.2 To consider a Capital Strategy for 2018-21 that has regard to the requirements of the new investment guidance with particular reference to non-financial investments. This provides new guidance for property investments and loans outside the treasury management function; for the avoidance of doubt, this guidance also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party.
- 1.3 To consider establishing limits for non financial investments.
- 1.4 To fulfil the key requirements of the new Investment Guidance.

2. RECOMMENDATIONS

- 2.1 Overview and Scrutiny Committee commends to Cabinet to recommend

to Council to:

- 2.1.1 Approve the Capital Strategy 2018-21 including the associated Quantitative Indicators in Appendix 1 and the updated Strategy for Capital Portfolio Fund set out in Appendix 2:
- 2.1.2 Approve the limits for gross debt of non treasury investments compared to net service expenditure and for commercial income as a percentage of net service expenditure as set out in Appendix 1;
- 2.1.3 Approve the limits for loan investments as set out in Section 5.1.

3. BACKGROUND

- 3.1 Ownership of the Capital Strategy sits at the highest level - corporately with members and key officers. It is a primary document for all capital decision making, together with the Corporate Plan and other strategies
- 3.2 The Ministry for Housing, Communities and Local Government (MHCLG) issued new statutory Guidance on Local Government Investments in early February 2018. One of the key requirements of this new Guidance is the requirement for a Capital Strategy including a number of additional disclosures for non-financial investments to be approved by Full Council. These disclosures include the requirement for Council to agree set limits that cannot be exceeded for gross debt compared to net service expenditure and for commercial income as a percentage of net service expenditure. This impacts on this Council's approved policies for the £25m Capital Portfolio Fund and the £10m Development Loans Fund. Officers have spent the last 12 months working to put all due diligence processes in place and are actively developing proposals for presentation to Members. A Capital Report is already produced annually as part of the Medium Term Financial Strategy (MTFS) and the Strategies for the Capital Portfolio Fund and Loans to Third Parties (now renamed Development Loans Fund) were approved by Cabinet on 14th June 2017; these documents cover many but not all of the requirements in the new Investment Guidance. A new, more comprehensive Capital Strategy is now necessary to ensure the linkages between the separate policies is transparent and to meet the additional requirements of the new Guidance and is presented for approval in this report.

3.3 Strategic Context

- 3.3.1 This strategy is a high level summary of WFDC's approach to capital investment in the future of the district. It guides the development of service capital plans, and sets out the policies and practices that the authority uses to establish monitor and manage the Council's capital programme, in line with the Medium Term Financial Strategy. The Capital Strategy will take account of both local improvement priorities and national priorities that are established through effective consultation with residents and our partners; as well as recognising the contribution the Council makes within the Local Enterprise Partnership (LEP) geographies of which it is a member. These priorities inform resource allocation. Progress on achieving these objectives is closely monitored in accordance with the

performance framework.

- 3.3.2 The Council's Wyre Forest Forward transformation programme is a key strategic document for the period 2018-2021. The Transformation Programme is being developed to meet the anticipated significant reduction in Government Funding. Its key objectives are to help the Council become non reliant on this source of funding, through reduced expenditure and increased income, but also to continue to provide its statutory services, protect its most vulnerable residents and focus investment on delivering economic development to the District.

The non treasury investment strategies for the Capital Portfolio Fund and Development Loans Fund are part of the transformation Programme forming a key part of the MTFS for 2017-20. Whilst they will not alone close the funding gap this Council continues to face they can make a proportionate contribution to achieving ongoing financial sustainability. The modest assumptions so far have reduced the funding gap by £136k or around 10% in 2020-21 and this could potentially contribute another circa £410k savings so a further 26% towards closing the remaining funding gap. Whilst there is undoubtedly risk attached to the progression of these strategies, the greater risk to our financial future is to do nothing. Risk analysis is set out and explored in detail as part of this report.

The diagram below shows how this Capital Strategy fits into the overall Strategic Planning Model for the Council.

Simple Strategic Planning Model



3.4 Strategic Links

This report links to a number of other key strategies and approvals as follows:

- the Treasury Management Service Strategy (TMSS) 2018-19 approved by Council on 21st February 2018 that covers financial investments

- The Medium Term Financial Strategy 2018-21 including the Capital Programme Report Appendix 6 considered by Cabinet on 19th December 2017 and 7th February 2018 and approved by Full Council on 21st February 2018
- Approval of Cabinet Proposals for a £25m Capital Portfolio Fund and £10m Loans to Third Parties (now renamed Development Loans Fund) by Council as part of the MTFS 2016-19 on 22nd February 2017
- The Strategies for the Capital Portfolio Fund and Loans to Third parties approved by Cabinet on 14th June 2017
- Approval Process for Capital Portfolio and Loans to Third Parties approved by Cabinet 20th September 2017 and process for Scrutiny of business cases in respect of the Capital Portfolio Fund and Development Loan Fund approved by Overview and Scrutiny Committee 5th October 2017
- The Strategic Asset Management Plan (SAMP) approved by Council 2016
- The Enabling Enterprise and Business Growth In Wyre Forest strategy adopted in 2016
- ReWyre Initiative and Kidderminster Regeneration Prospectus adopted in 2009 and ReWyre ReNewed adopted in 2014.
- Greater Birmingham & Solihull LEP Strategic Economic Plan 2016-30 'A Greater Birmingham for a Greater Britain' 2016
- Worcestershire LEP Strategic Economic Plan 2014-2024 'World Class Worcestershire' 2014
- Corporate Plan 2014-19, Key Priorities and Local Plan Core Strategy 2006-2026

3.5 The MHCLG Guidance gives the following definition of an investment:

"The definition of an **investment** covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

For the avoidance of doubt, the definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party. "

Treasury Management investments are covered in the TMSS that was approved by Council on 21st February 2018. This Capital Strategy clearly links to, and is complementary to this key strategy document as the non treasury investments being the Capital Portfolio Fund and Development Loans Fund already approved by Council on 22nd February 2017, are included in the Capital Financing Requirement (CFR) and within the Operational Boundary and statutory Authorised Limit for prudential borrowing. The Treasury Management Practices (TMPS) are also in the process of revision to include non treasury investments. The separate Strategies for the Capital Portfolio Fund and Loans to Third Parties set out specific detail including reporting, risk and governance of these non treasury investments; the Capital Portfolio Fund Strategy is updated in Appendix 2.

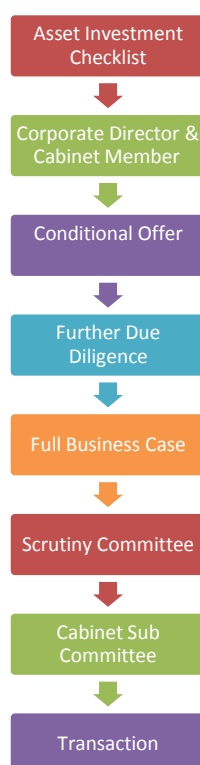
3.6 Effective Date for Implementation

- 3.6.1 MHCLG has set an effective date of 1st April 2018 for implementation of the revised Investment Guidance but have acknowledged that due to the publication so late in the annual planning process, Councils will take Capital Strategies as soon as reasonably possible. Detailed understanding and interpretation of the Guidance continues to emerge and this initial Strategy will be further developed for the 2019-22 report. However, since this Guidance comes just as plans to start spending the £35m approvals are being actively progressed it is important Members are provided with information on the new requirements. This is to ensure there is due regard to the new Guidance with increased focus on the potential exposure to risk in terms of proportionality to the overall financial strength of the Council

3.7 Reporting Requirements

- 3.7.1 The Council is required to receive and approve, as a minimum a Capital Strategy report once a year which incorporates a variety of policies, estimates and actual and meets the requirements of the MHCLG Guidance. The Strategy will be considered by the Overview and Scrutiny Committee before presentation to Cabinet and then onward recommendation to Council. The Treasury Management Review Panel will continue to be used for treasury management investments but the separate reporting and governance arrangements approved by Cabinet on the 20th September 2017 will be followed for non treasury investments. These are summarised in the diagram below:

Process Flow for Governance Process for Non Treasury Investments - Capital Portfolio Fund (note a more detailed process flow is included in Appendix 2)



- 3.7.2 This Capital Strategy will be reviewed and updated on an annual basis. This will ensure the strategy maintains strong and current links to the Council's priorities and to its key strategy documents as set out in 3.4 Strategic Links including consistency with the Medium Term Financial Strategy and the Corporate Plan.
- 3.7.3 The Strategy focuses on core principles that underpin the five year capital programme as presented in the draft budget report. It has regard to the requirements of the new MHCLG Investment Guidance therefore including investments that are not managed as part of normal treasury management processes or under treasury management delegations. It gives a position statement with regards to capital expenditure and the resources available in terms of funding for these non treasury policies. The Strategy focuses on the key issues and risks that will impact on the delivery of the Capital Portfolio Fund and Development Loans Fund Strategies and the governance framework required to ensure the overall Capital Strategy is delivered.

3.8 Capital Strategy for 2018-21

The strategy for 2018-21 covers the following mains areas:

1. Capital Issues

- The Council's Capital Programme is under-pinned by the borrowing strategy contained in the approved Treasury Management Service

Strategy, the Property Disposal Strategy and also the Capital Portfolio and Development Loans Fund Strategies.

2. Disclosure and reporting requirements required by the Statutory Guidance on Local Government Investments

- Limits for non treasury investments
- Agreement of the types of loan to be made and self assessed limit that cannot be exceeded for such loans
- Agreement of the types of property investments to be made and self assessed limit for total exposure to these investments;
- Definition of types of contribution non-financial investments can make for this Council;
- Processes and procedures for how risk assessment will be managed including security, debt recovery, liquidity and performance monitoring;
- How balance is achieved between Security, Liquidity and Yield based on risk appetite and contributions of investment activities;
- Set out quantitative Indicators to help measure total risk exposure in terms of proportionality;
- Capacity, skills and culture including policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003 and the MHCLG Guidance on Local Authority Investments

4 KEY ISSUES

4.1 CAPITAL PROGRAMME REPORT –

The Capital Strategy explains how we will manage our capital resources to deliver our current and foreseeable capital programme.

The December 2017 MTFS Cabinet report considered the Capital Programme 2017-18 onwards in Appendix 6 that set out the detail to support the recommendations within the main Budget report. This can be found at http://www.wyreforest.gov.uk/council/docs/doc52595_20171219_cabinet_agenda.pdf (pages 117 -127). This report forms part of this overall Capital Strategy for 2018-21; in future years the Capital Report will be integrated with the annual Capital Strategy Report.

4.2 CORE PRINCIPLES OF CAPITAL STRATEGY INCLUDING NON FINANCIAL INVESTMENTS

Core principles of this Council's Capital Strategy can be summarised as follows:

Table 1 – Core Principles

Principle 1 – Managing the impact of investment decisions on our revenue budgets

We will do this by:

<ul style="list-style-type: none"> Ensuring capital investment decisions do not place unnecessary additional pressure on Council Tax or our MTFS
<ul style="list-style-type: none"> Taking investment decisions that generate an appropriate rate of return to cover costs of funding within an acceptable risk range as set out in the Capital Portfolio and Development Loans Fund Strategies, whilst ideally also meeting Corporate Priorities
<ul style="list-style-type: none"> Purchase rather than leasing vehicles such as the refuse fleet with programmes for replacement that maximise efficiency and minimise revenue budget costs
<ul style="list-style-type: none"> Promote capital investment which allows invest to save outcomes and which contribute to the Council's Corporate priorities and complement the Wyre Forest Forward Transformation programme .
<ul style="list-style-type: none"> Focus on Resources and spending programmes the Council will use to maximise the use and financial return on assets within an acceptable risk appetite
<ul style="list-style-type: none"> Have a defined framework for the management of risk for investments that applies the Security, Liquidity, Yield principles and considers longer term risks and opportunities.
<ul style="list-style-type: none"> Have appropriate exit strategies and contingency plans in place to protect the Council's long term position including maintaining appropriate risk reserves
<p>Principle 2 – Optimise the availability of capital funding where that funding supports the priorities of WFDC</p>
<p>We will do this by:</p>
<ul style="list-style-type: none"> Disposal of surplus assets and use them to reinvest via the Evergreen Investment Fund, using them to supplement prudential borrowing to expedite delivery of capital schemes in line with Corporate priorities.
<ul style="list-style-type: none"> Effective working relationships with potential funders including the Worcestershire and GBSLEPs and through our Limited Liability Partnership with Public Sector Plc (PSP)
<ul style="list-style-type: none"> Listen to and support effective partnering arrangements
<ul style="list-style-type: none"> Generating capacity within the services' revenue budgets to deliver ongoing contributions towards necessary capital investment.
<ul style="list-style-type: none"> Have clear policies for the consumption of our reserves
<p>Principle 3 – Ensure we have effective pre and post project appraisal</p>
<p>We will do this by:</p>
<ul style="list-style-type: none"> Developing projects that fully support the council's Corporate Priorities and Wyre Forest Forward Programme
<ul style="list-style-type: none"> Ensuring a system of competition exists for project/loan approval
<ul style="list-style-type: none"> Build into project appraisal recognition of environmental sustainability
<ul style="list-style-type: none"> Fully consider project risk
<ul style="list-style-type: none"> Carefully consider Value for Money and Efficiency of every project

- Only adding schemes once an affordable business plan is in place

Principle 4 – Performance manage our capital programme

- Integrating the capital programme into our performance management framework
- Ensure our capital schemes use appropriate project management tools
- Expect responsibility for the delivery of the capital programme to be clearly defined
- Make sure our assets perform at an optimal level through effective ongoing asset management, consistent with levels of investment
- Reporting regularly on the performance of our property and non treasury portfolios including updates on risk and recommendations for appropriate mitigation measures.

Key Objectives for non-treasury capital portfolio property investments are:

- Acquire properties that provide investment value in accordance with the Council's corporate and financial objectives,
- Maximise return whilst minimising risk through the management processes as outlined in this strategy,
- Prioritise properties that yield optimal rental growth and stable income,
- Protect capital invested in acquired properties
- Work within the developed governance framework that enables the Council to move at a timely pace in line with the market
- Build a balanced property portfolio that is proportionate to the overall financial position of the Council

5 LIMITS FOR NON-TREASURY INVESTMENTS FOR 2018-21

5.1 LOAN TYPES AND SELF ASSESSED LIMIT FOR SUCH LOANS

Council on the 22nd February 2017 approved the £10m Loans to Third Parties (now renamed Development Loans Fund) as part of the MTFS. The detailed Strategy for the loans to third parties was subsequently approved by Cabinet on 14th June 2017; this set out types of loan that can be made and the detail in relation to the approval process. This Strategy will be refreshed when the Fund Management Agreement to deliver this initiative is in place. The current limit for expenditure on the Development Loans Fund is £10m to be funded in full from prudential borrowing. The Council is in the final stages of appointment of a Fund Manager to manage these loans and the plan is that loan durations are kept short to pump prime investment projects within the district that would not be supported by high

street banks with the optimum loan period being 3 -5 years and the longest duration being up to 15 years. These relatively short durations will hopefully negate the need for a Minimum Revenue Provision to be made as the repayment of the funds will repay debt and thus make the proposals affordable. However, a prudent view that MRP will be levied for all loans has been taken in the business case for this proposal. The MHCLG recommended limit for debt compared to net service expenditure (NSE) is presented below, together with debt compared to gross service expenditure. These ratios are based on the current expenditure profiling for these loans included in the Capital Programme; **approval is requested for the upper limit in 2020-21** to provide cover if suitable loan applications are received at a faster pace than currently projected.

Development Loans Debt to gross and net service expenditure (GSE and NSE)		2018-19	2019-20	2020-21
DEBT TO GROSS SERVICE EXPENDITURE RATIOS				
Non treasury development loans investments debt to gross service expenditure (GSE) ratio	<i>Gross debt of non treasury development loans investments as a percentage of gross service expenditure, where gross service expenditure is a proxy for the size and financial strength of a local authority.</i>	11.94%	19.84%	19.95%
DEBT TO NET SERVICE EXPENDITURE RATIOS				
Non treasury development loans investments debt to net service expenditure (NSE) ratio	<i>Gross debt of non treasury development loans investments as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.</i>	50.66%	85.07%	86.45%

The limit for debt compared to NSE looks high since this is comparing the total gross debt for these loans classed as capital expenditure to the net revenue budget. As the financing costs in relation to such debt would be borne by the revenue budget rather than 100% of the debt at any one time, and debt will only be taken subject to affordability, with due regard to risk, this limit is considered to be acceptable.

However, Net Service Expenditure may not be the best measure of the Council's financial strength and for this reason a number of other quantitative ratios are also included in Appendix 1 to provide additional transparency around the potential risk of this proposal. Key indicators from this Appendix are also included in Section 7.4.1 and demonstrate that the Development Loans Fund planned capital expenditure is a relatively modest proportion of the total Balance Sheet Property Plant and Equipment and the total Capital Financing Requirement. The financing costs are also a small proportion of total NSE.

5.2 TYPES OF PROPERTY INVESTMENTS TO BE CONSIDERED AND SELF ASSESSED LIMIT FOR TOTAL EXPOSURE

Council on the 22nd February 2017 approved £25m Capital Portfolio Fund. The detailed Strategy for the Capital Portfolio Fund was subsequently approved by Cabinet on 14th June 2017 and is now updated in Appendix 2 of this report; this sets out the types of property investment to be considered. The current limit for expenditure on the Capital Portfolio Fund is £25m to be funded in full from prudential borrowing. The MHCLG recommended limit for debt compared to net

service expenditure is presented below, together with debt compared to gross service expenditure. These ratios are based on the current expenditure profiling for Capital Portfolio purchases included in the Capital Programme; **approval is requested for the upper limit in 2020-21** to provide cover if suitable acquisition opportunities are identified at a faster pace than currently projected.

A number of other quantitative indicators to provide additional transparency and a better indicator of the potential risk of this policy are also provided in Appendix 1 and Section 7.4.2.

Property Investments Debt to gross and net service expenditure (GSE and NSE)		2018-19	2019-20	2020-21
DEBT TO GROSS SERVICE EXPENDITURE RATIOS				
Non treasury property investments debt to gross service expenditure (GSE) ratio	<i>Gross debt of non treasury property investments as a percentage of gross service expenditure, where gross service expenditure is a proxy for the size and financial strength of a local authority.</i>	39.79%	49.60%	49.87%
DEBT TO NET SERVICE EXPENDITURE RATIOS				
Non treasury property investments debt to net service expenditure (NSE) ratio	<i>Gross debt of non treasury property investments as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.</i>	168.85%	212.68%	216.12%

The limit for debt compared to NSE looks much higher than the ratio for the Development Loans Fund since this is comparing the total gross debt of £25m for these investments classed as capital expenditure to the net revenue budget. As the financing costs in relation to such debt would be borne by the revenue budget rather than 100% of the debt at any one time, and debt will only be taken subject to affordability, with due regard to risk exposure in each business case proposal, this limit is considered to be acceptable.

6. **DETERMINATION OF TYPES OF CONTRIBUTION OF NON- FINANCIAL INVESTMENTS**

6.1 Non- financial investments can be categorised in accordance with the different types of contribution they make to the corporate priorities of the Council recognising that each investment can have more than one type of contribution.

Types of contribution this Council will consider include:

- Regeneration including provision of housing
- Economic benefit/business rates growth
- Support for local business objectives (eg fulfilling demand for key target sectors); ReWyre led initiatives
- Enabling Enterprise and Business Growth in line with Wyre Forest Strategic aims
- Creation or protection of social value in the local area
- Safeguarding or creation of local jobs
- Supporting neighbourhood strategy

- Responding to local market failure/gaps in market supply of eg certain types of funding
- Regeneration, economic growth across the two Local Enterprise Partnerships (LEPS) – Worcestershire and Greater Birmingham and Solihull of which this Council enjoys membership in accordance with their Strategic Economic Plans (SEP) as this will benefit the district
- Investment in Local Authority Trading Company or associates, Joint Ventures or to other third parties
- Income generation
- Mix of the above

7. RISK ASSESSMENT FOR PROPOSALS AND FOR ONGOING MANAGEMENT OF PROPERTY PORTFOLIO

- 7.1 Processes and procedures for how risk assessment will be managed including security, debt recovery, liquidity and performance monitoring are set out in the updated Capital Portfolio Strategy contained in Appendix 2. An overarching Property Portfolio Management Strategy is also in the process of development and this will set out further detail in relation to the ongoing monitoring and management of the properties
- 7.2 The balance between security, liquidity and yield based on risk appetite and contributions of investment activities will be achieved by use of the more sophisticated Risk Matrix in Appendix 2. This set out a prescribed scoring threshold system. This will allow the Council to have a robust means of comparing multiple opportunities whilst taking into account balance between security, liquidity and yield.
- 7.3 Quantitative Indicators to help measure total risk exposure in terms of proportionality are as set out in full in Appendix 1 – key indicators around proportionality are detailed in Section 7 below and Section 9 Financial Implications provides further explanation and detail.

7.4. Proportionality

7.4.1 Development Loans Fund

These relatively short-term loans to pump prime the local economy and the £10m allocation spread over a number of different loan approvals mean that the Development Loans Fund carries less risk than the Capital Portfolio Fund.

This £10m approval is shown below as a proportion of the total CFR, together with the proportion of total Balance Sheet Fixed Assets (ie Property Plant and Equipment). These are a better indicator of proportionality than Debt to net service expenditure (NSE) ratio:

		2018-19	2019-20	2020-21
LOAN TO VALUE RATIOS				
Loan to PPE value ratio (development loans)	<i>The amount of non treasury development loans investment debt compared to the total asset value (Long term assets - PPE).</i>	8.56%	13.32%	13.32%
CFR RATIOS				
CFR - Development Loans	<i>Development Loans CFR as a proportion of the gross CFR</i>	11.78%	16.54%	12.02%
FINANCING COSTS TO NET SERVICE EXPENDITURE RATIOS				
Development loans investments financing costs to net service expenditure (NSE) ratio	<i>Non treasury development loans investments financing costs as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.</i>	2.49%	3.53%	4.11%
INCOME/INVESTMENT COVER RATIOS				
Developments loan investment cover ratio	<i>The total net income from development loans investments, compared to the interest expense.</i>	20.83%	14.00%	14.06%

7.4.2 Capital Portfolio Fund

The £25m total approval for the Capital Portfolio Fund is shown below as a proportion of the total CFR, together with the proportion of total Balance Sheet Fixed Assets (ie Property Plant and Equipment).

		2018-19	2019-20	2020-21
LOAN TO VALUE RATIOS				
Loan to PPE value ratio (property)	<i>The amount of non treasury property investment debt compared to the total asset value (Long term assets - PPE).</i>	28.54%	33.30%	33.30%
Loan to value ratio (property only)	<i>The amount of property debt compared to the total property asset value (property portfolio only).</i>	100.00%	100.00%	100.00%
CFR RATIOS				
CFR - Property	<i>Property CFR as a proportion of the gross CFR</i>	39.93%	41.52%	43.66%
FINANCING COSTS TO NET SERVICE EXPENDITURE RATIOS				
Property investments financing costs to net service expenditure (NSE) ratio	<i>Non treasury property investments financing costs as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.</i>	5.91%	10.10%	12.10%
INCOME/INVESTMENT COVER RATIOS				
Property investment cover ratio	<i>The total net income from property investments, compared to the interest expense.</i>	12.29%	9.45%	11.74%
Property target income returns (excluding financing costs)	<i>Net revenue income (excluding financing costs) compared to equity. This is a measure of achievement of the portfolio of properties.</i>	3.78%	5.01%	5.96%
Property target income returns (including financing costs)	<i>Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.</i>	0.28%	0.26%	0.36%
Commercial income to NSE ratio	<i>Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.</i>	2.72%	4.27%	5.01%

Whilst this shows that the Capital Portfolio Fund is a relatively high proportion of the total CFR and Fixed Assets, risk will be mitigated by the robust due diligence

included as part of each individual business case as proposals are progressed. The objective is to hold a balanced portfolio to spread risk that is proportionate to the overall financial position of the Council. As shown in section 9.1 the MTFS is only assuming a modest net return on investment leaving scope for a proportion of actual net yield achieved to be set aside as a Risk Reserve if appropriate.

8. CAPACITY, SKILLS AND CULTURE, INCLUDING POLICY ON USE OF EXTERNAL SERVICE PROVIDERS

- 8.1 The Council has recognised that it needs to resource this challenging new policy area appropriately including the blending of more commercial skills into its more traditional local government culture. It has appointed a RICS qualified Property & Investment Manager with external commercial experience to advise on its investment opportunities. Commercial property investment opportunities often arise unexpectedly and/or 'off market' and it is important to have appropriate professional net-working contacts and to be nimble in order to take advantage of opportunities when they arise. The Council's Property and Investment Manager will be responsible for identifying suitable opportunities and has the necessary delegations to negotiate conditional offers and, in conjunction with the Council's Financial Services Manager, developing the viability appraisal and business case for the Council to invest; this Strategy is important to provide a framework to guide the Council in identifying appropriate investment opportunities.
- 8.2 The Council has commissioned external experts to support its decision making process and has established a framework of suitably qualified valuers and building surveyors to ensure that decisions taken by the Council are based on appropriate valuations and building condition surveys. This framework will be renewed every three years and experts will only be used that hold the appropriate and current qualifications. Further, the Council has retained the services of KPMG, initially to provide an external independent health check reporting on the property evaluation model and process and also to provide advice on specific property acquisitions proposals at competitive call-off rates.
- 8.3 The contract that is currently in the final stages of agreement for FSA accredited Fund Managers with a proven track record, to deliver the Development Loans Fund Policy contains provision for regular reporting of performance management of the Fund. The option for a 2 year review and break clause is included within the contract to provide an exit strategy for the Council if the performance of the Fund is failing to reach projected expectations.
- 8.4 Member training will be provided at least annually as part of the Induction process. The external Fund Managers will prepare reports for development loan proposals and present to Overview and Scrutiny to provide full explanation to members. For particularly complex proposals external specialist advice will be taken and advisors may attend member meetings for additional assurance and explanation.

9. **FINANCIAL IMPLICATIONS**

- 9.1 There are no additional financial implications for the Council arising from this report. The financial implications of borrowing up to £35 million were set out in the reports to Cabinet and Council already mentioned. The very modest net income targets assumed in the original Cabinet Proposal have been retained in the current Medium Term Financial Strategy but profiled over future years based on early projections as summarised below:

	2017-18	2018-19	2019-20	2020-21
Development Loans Fund	£	£	£	£
Capital	2,000,000	4,000,000	4,000,000	
Revenue Budget Net Income	0	(25,000)	(35,000)	(45,000)
	2017-18	2018-19	2019-20	2020-21
Capital Portfolio Fund	£	£	£	£
Capital	10,000,000	10,000,000	5,000,000	
Revenue Budget Net Income	111,310	(55,310)	(65,000)	(91,000)
COMBINED NET INCOME IN MTFS	111,310	(80,310)	(100,000)	(136,000)

These very modest net returns have been assumed in line with the original Cabinet proposal to provide consistency whilst due diligence processes have been progressed and further market intelligence gathered. This also reduces the risk of failure to achieve these net income streams as these are new policy areas subject to external market influences and there is a risk that suitable investment opportunities/loan applications will not be secured within the scope/risk appetite of this Strategy. It is anticipated that more favourable returns will be achieved and these will be reported as each business case is approved and revisions reflected in the MTFS. The Table included in Section 26, Appendix 2 provides further scenario modelling for the Capital Portfolio Fund.

- 9.2 Two very modest allocations have been approved so far from the Capital Portfolio Fund as shown in the table below; they are both subject to the approval of full business cases. By the time this meeting takes place further approval should have been given for a small parade of retail units in Kidderminster Town Centre; this is in the region of £1m.

<u>Capital Portfolio Fund</u>	2017-18	2017/18	2018-19	2019-20
Allocated Schemes:	Original	Revised		
Silverwoods Way (former Frencos Site) (maximum allocation; subject to detailed Business Case)	-	428,190	-	-
Comberton Place Residential Investment – subject to detailed business case	-	-	250,000	-
Unallocated	25,000,000	9,571,810	9,750,000	5,000,000
Total	25,000,000	10,000,000	10,000,000	5,000,000

9.3 Table of Forecast Capital Financing Requirement (CFR)

The CFR is calculated from the Council's balance sheet, and is the underlying need to borrow for capital purposes – in effect the debt liability. It represents the cost of the Council's assets, less any capital receipts and allowable adjustments. Borrowing is undertaken for the CFR as total rather than being specific to individual capital programme items or eg individual property acquisitions.

Once calculated, the Corporate Director: Resources then decides how the debt liability is to be funded. It can be funded either from internal resources on a temporary basis (internal borrowing), or from the market (external borrowing). Internal borrowing is often an effective method of reducing funding costs whilst also avoiding counterparty risk (ie when investing reserves and balances). Whether to use internal or external borrowing is purely an operational decision based on current market conditions and cash balances available. Borrowing rates are currently very low and this authority has also signed up to the PWLB Certainty Rate Government Scheme giving us a reduction of 20bps on borrowing interest rates. The timing of external borrowing will be carefully considered in liaison with Link Asset Services our Treasury Management. The current CFR and the elements attributable to the Capital Portfolio Fund and Development Loans Fund are shown in the table that follows:

Description	2017-18 (and prior to 1/4/2017)	2018-19	2019-20	Closing CFR (at 31/3/2021)
	£'000	£'000	£'000	£'000
CFR – General Capital Programme	19,530	23,883	24,493	23,981
CFR – Capital Portfolio Fund	10,000	19,750	24,250	23,625
CFR – Development Loans Fund	2,000	5,825	9,660	9,505
Current estimated Capital Financing Requirement at 31st March	31,530	49,458	58,403	57,111

A more detailed analysis of the impact of planned capital expenditure, the CFR and Minimum Revenue Provision giving forward balance sheet projections is shown in the table below. These projections will be extended over a longer timeframe in future reports:

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	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
Capital Expenditure					
Supported Spend (RSG Settlement)	0	0	0	0	0
Unsupported Spend	5,821	18,317	22,865	11,586	1,755
Total Spend	5,821	18,317	22,865	11,586	1,755
Financed by:					
Borrowing/Leasing	3,598	14,567	19,047	10,586	755
Capital Receipts	644	1,188	2,240	0	0
Capital Grants	1,537	1,766	1,408	1,000	1,000
Revenue	42	796	170	0	0
Capital Financing Requirement (CFR)					
CFR	17,545	31,530	49,458	58,403	57,111
Movement in CFR	3,399	13,985	17,928	8,945	(1,292)
External Debt					
Borrowing	17,004	31,000	49,000	58,000	57,000
Other Long Term Liabilities	0	0	0	0	0
Total Debt at 31st March	17,004	31,000	49,000	58,000	57,000
Under/(Over) borrowing	541	530	458	403	111
Minimum Revenue Provision (MRP)	199	582	1,119	1,641	2,047

RATIO OF FINANCING COSTS TO NET REVENUE STREAM

	2016-17 Actual %	2017-18 Estimate %	2018-19 Estimate %	2019-20 Estimate %	2020-21 Estimate %
General Fund *Prudential Code	3.63	8.80	15.96	23.76	28.70
General Fund *Local Indicator	N/A	N/A	9.18	12.70	15.72

* A local indicator has been introduced from 2018-19 onwards to reflect the impact of the estimated rental income stream for the Capital Portfolio Fund scheme (currently excluded from the Prudential Code calculation) demonstrating that the capital investment continues to be prudent and sustainable.

- 9.4 A detailed business case will be prepared including a full analysis of the financial viability including key risks for each specific proposal. The framework for managing and monitoring ongoing performance will ensure there is regular (at least annual) reporting of the financial performance of the capital portfolio fund and development loans fund. Performance measurement will be based on annual external revaluations of the properties. Reports will be presented to Cabinet and then on to Council including analysis of the performance with a view to making recommendations concerning amendments or alterations to the adopted strategy to ensure that the main objectives continue to be achieved. Suitable benchmarking will be set up so that the performance of the property portfolio may be measured against a suitable peer group or against nationally reported indices of property investment performance also geographical market differences may limit the usefulness of benchmark analysis.

In the event of a failure to achieve the performance targets in the case of individual assets, the business plan for the property will be reviewed and amended as necessary to address the underperformance, or alternatively the asset can be disposed of. However, rather than a "fire-sale", an exit strategy would be formulated to optimise the Council's financial position; timing would be key to take account of dynamic market conditions.

9.5 Reserves and Balances

The Council held £4.914m in General Reserves at the 1st April 2017 including a £1m Working Balance. It also held £5.714m in Earmarked Reserves and is merging some of these to create a General Risk Reserve from the 31st March 2018. It is recognised that there may be limited scope within the current levels of Reserves to mitigate the risk arising from the £35m overall capital allocation and it is the intention to build up these reserves as part of the business case for each Capital Portfolio Fund and Development Loans Fund proposal. One approach will be to take a proportion of the net yield into reserve commensurate with assessed future risk, supplemented by transfers from future final accounts savings that this Council has a strong history of achieving. This should be feasible since very modest net income streams have been forecast so far in the MTFS.

Each business case proposal will include an assessment of cumulative risk in terms of the level of reserves required to mitigate such risk. If the Council is unable to maintain appropriate levels of reserve to mitigate risk, proposals will not be recommended for approval. Ongoing reporting of Portfolio Performance will include a review of risk vis a vis reserve levels.

9.6 Liquidity

9.6.1 Development Loans Fund

The planned relatively short term durations of the Development Loans Fund and engagement of external Fund Managers with FSA accreditation and proven, directly relevant private sector experience should ensure the £10m allocation remains relatively liquid. Whilst it is currently envisaged that repayments will be recycled into further loans, this can be revisited if appropriate to support the overall liquidity of the Council.

9.6.2 Capital Portfolio Fund

Property investments are by their very nature illiquid but regular valuation refreshes, structured project management and ongoing analysis of market conditions will enable risk to be continuously monitored. The weekly economic market analysis that Link Asset Services provide as part of retained Treasury Management Services contract will be useful as an overall indicator of market confidence and this will be supplemented with specific property market intelligence gathered regularly by the Property and Investment Manager.

A longer term view will be taken on property market risk with the intention to “ride-out” any downward spikes in the property market as a result of dynamic property market conditions; this is particularly important given the potential for volatility as a result of Brexit.

Subject to market conditions we may adopt a “revolving door” approach to the Capital Portfolio Fund investments. This could involve the disposal of assets once

for example regeneration objectives have been met and the private sector is willing to take on the investments, to recycle resource by either the repayment of debt or use of capital receipts for further portfolio purchases. Decisions would be dependent on prevailing market conditions and consideration of each business case proposal.

- 9.7 Whilst the strategies will provide a very welcome contribution towards balancing the budget over the medium and longer term, it is difficult to forecast the size of the contribution until specific business cases are considered. It should be possible to include a more accurate forecast as part of the next medium term financial strategy. It is clear that these strategies alone will not close the funding gap and that they will need to be progressed together with other cost reduction/income generation initiatives over the next 2 to 3 years.

9.8 Fair Values – Implications of Proposals

In accordance with the most recent MHCLG Guidance, an allowed “expected credit loss” model for loans and receivables as set out in International Financial Reporting Standing (IFRS) 9 Financial Instruments as adopted by proper practices will be used to measure the credit risk of the £10m Development Loans Fund portfolio. The agreement with the external Fund Manager includes provision for appropriate credit control arrangements including the option for either the Fund Manager or the Council to undertake more complex debt recovery, to be assessed on a case by case basis.

10. LEGAL AND POLICY IMPLICATIONS

- 10.1 The Council has adopted policies for the Capital Portfolio Fund and Development Loans Fund. The legal considerations were set out in depth in appendices 3/1 and 3/2 to the medium term financial strategy report, which was considered by Cabinet on 20 December 2016. These remain current so will not be repeated but can be found at <http://www.wyreforestdc.gov.uk/media/2639628/20161220FinancialStrategy2017-2020IncludingCover.pdf> (pages 34 to 54).
- 10.2 The new MHCLG Guidance on investments that should be read in conjunction with the new Prudential Code introduces the requirement for regard to additional disclosures with increased emphasis on transparency, accountability, proportionality and the risk management framework. The Solicitor to the Council is satisfied that the underlying legal powers for these policies remain unchanged and can still be relied up and that this new Capital Strategy has appropriate regard to the new Investment Guidance.
- 10.3 The Council is further protected since for each proposal the Detailed Business Case /Due Diligence report will include a review of the legal basis for the specific proposal.

11. **STRATEGIC RISK MANAGEMENT**

11.1 The risks associated with the Capital Portfolio and Development Loans Fund Strategies and the steps to be adopted to mitigate them, were set out in depth in appendices 3/1 and 3/2 to the medium term financial strategy report, which was considered by Cabinet on 20 December 2016 (see hyperlink in 9.1 above). The new MHCLG Investment Guidance does introduce an element of new risk, key areas being of proportionality and purely commercial investments that are out of the area. Our current policy is that it will always be the Council's preference to invest within the district area to support regeneration and local economic development whilst also allowing the Council to consider opportunities with the wider geographical area of the two Local Enterprise Partnerships, (LEP) which the district is a member of. Due regard is evidenced in this Capital Strategy to proportionality and a transparent approach adopted to ensure Members are fully aware of the potential impact of these plans.

11.2 In addition to this, the new information contained in this report and refreshed policy for the Capital Portfolio fund in appendix 2 provides further assurance and risk mitigation.

11.3 The latest version of the CIPFA Prudential Code that must be read alongside the MHCLG Investment Guidance requires the chief financial officer reports explicitly on the risks associated with the capital strategy. These are summarised in the Risk Matrix that follows:

RISK REGISTER FOR CAPITAL PORTFOLIO FUND (CPF) & DEVELOPMENT LOANS FUND (DLF)	Impact (H/M/L)	Likelihood (H/M/L)	Risk Rating (R/A/G)	Risk Mitigation
External challenge that proposals do not satisfy MHCLG Investment Guidance/other statutory requirements	H	L	A	<p>Identification of objectives – links to corporate priorities/income generation – this will include determination of whether or not proposals meet regeneration and economic objectives; each proposal will be considered on a case by case basis.</p> <p>Due Diligence – including check against statutory powers ie legal basis for proposal.</p>
Market/economic conditions deteriorate from initial risk assessment and the Council is tied into long term borrowing costs that cannot be covered by	M	M	A	<p>Risks will be refreshed as part of regular reporting on Property Portfolio and DLF and any “red flags” raised with mitigating actions proposed on a case by case basis. Risk assessments will be considered over the short, medium and longer term as part of due diligence.</p>

RISK REGISTER FOR CAPITAL PORTFOLIO FUND (CPF) & DEVELOPMENT LOANS FUND (DLF)	Impact (H/M/L)	Likelihood (H/M/L)	Risk Rating (R/A/G)	Risk Mitigation
future income.				External borrowing will be profiled so there will be structural options for the future management of overall debt. The transparency of limits for these strategies mean the Council is fully cognisant of proportionality.
100% prudential borrowing due to lack of capital receipts available for funding reduces net yield and means the return is too low compared to the relative risk. This could lead to greater risks being taken to increase yields	H	M	A	Due Diligence processes in place will ensure risk is fully assessed in each business case proposal. Funding by 100% prudential borrowing will reduce the number of viable opportunities but evidence shows this can still work and provide useful income streams whilst also meeting corporate priorities of regeneration etc, increasing business rates, council tax and potentially new homes bonus.
Lack of internal capacity, commercial knowledge and skills; both officers and members.	M	L	A	Successful recruitment of Property Investment Manager supplemented with external specialist advice. Member training will be provided. For DLF external Fund Managers will attend Overview and Scrutiny committee and for CPF external advice will be taken and provided as appropriate.
Borrowing costs fluctuate and could increase; Council is unable to making ongoing costs of refinancing debt.	M	L	A	Each business case proposal will consider forecasts for the costs of borrowing and build in headroom to allow for reasonable movement. External debt will be taken in different tranches taking advice from Link Asset Services (to give a spread of maturity dates) to spread this risk and internal borrowing used where possible to reduce costs. A financing costs reserve will also be maintained to help mitigate this risk.
Bad debts as a result of failure of third parties to make loan repayments or tenant rental default.	M	L	A	Fund manager for DLF will manage debt portfolio, assessing the likelihood of default; provision for an appropriate percentage will be included in business case proposals. A proactive approach will be taken to debt management with advice and assistance offered by the Property Portfolio Management team and

RISK REGISTER FOR CAPITAL PORTFOLIO FUND (CPF) & DEVELOPMENT LOANS FUND (DLF)	Impact (H/M/L)	Likelihood (H/M/L)	Risk Rating (R/A/G)	Risk Mitigation
				early legal action where necessary to realise security/collateral on DLF.
DLF - Failure to secure sufficient value of loans to cover the fixed cost of the external Fund Managers Minimum Revenue Provision Policy (MRP);	M	M	A	Professional Fund Managers consider there is demand in the district to fill the gap in loan requirements left by banks. Flat fee for minimum 2 year contract period can be met from reserves in worst case scenario.
DLF - Collateral/Security on loans granted is insufficient to cover bad debts;	M	L	A	Ongoing monitoring of covenants and credit quality of borrower may require mitigating action, exit strategies and or risk reserves.
DLF - State Aid considerations;	M	L	G	Due diligence checks will explore State Aid requirements in full and a commercial rate will be set for loans well about the basic PWLB rates.
Management costs are excessive	M	L	A	For DLF Management costs are part of contract. For CPF Initially, existing internal resource to be used to manage portfolio with other options considered and evaluated as part of each business case, costs to be covered by income generated.
Minimum Revenue Provision Policy is not sufficiently flexible	M	L	G	Policy change to introduce further flexibility approved as part of TMSS Council 21 st February 2018
Capital values and rental values can fall as well as rise.	M	M	A	Regular asset valuations will be undertaken and reported with Fair Values adjustments reflected in annual accounts as per accounting requirements. Historically, property investments have performed well and values increased over time.
Vacancies (voids) in the portfolio will reduce average yield. As well as lost rental income on	M	M	A	Proactive Property Portfolio Management and maintenance of appropriate risk

RISK REGISTER FOR CAPITAL PORTFOLIO FUND (CPF) & DEVELOPMENT LOANS FUND (DLF)	Impact (H/M/L)	Likelihood (H/M/L)	Risk Rating (R/A/G)	Risk Mitigation
vacant units, the Council could find itself liable for a share of on- going costs which a tenant would normally pay such as empty property rates.				reserves will mitigate this.
Disputes with tenants. Common disputes include ongoing maintenance and repair costs of buildings and the ability to recover those costs from tenants	M	L	A	Proactive Property Portfolio Management and maintenance of appropriate risk reserves will mitigate this.
External factors. Property investment is subject to factors the Council cannot control, e.g. failure of tenants, poor building management, changes in perception of what is a good location, economic downturn etc.	H	L	A	Property Investment Manager will scan external horizon and report as part of regular monitoring reports.
Ease of market exit (sale)	H	M	R	To be assessed on a case by case basis as part of initial business case and ongoing property portfolio management reports.
Changes in government policy	H	L	A	Latest MHCLG Investment Guidance received in February 2018

11.4 The Council is further protected since for each proposal the Detailed Business Case /Due Diligence report will include a review of specific risks and also consider the cumulative risks of the Capital Portfolio and Development Loans Fund strategies with particular emphasis on proportionality.

11.5 A schedule setting out risk exposure will be maintained as proposals are progressed and presented to Members as part of the initial business case and also ongoing Property Portfolio reporting process.

11.6 The latest forecasts for interest rate rises present a risk to financial business case viability for potential property acquisitions since the historically low PWLB interest rates have proven extremely beneficial for local authorities over the last few years.

12. SCHEME OF DELEGATION

- 12.1 The Council's Capital Strategy and Non-Treasury Investments Scheme of Delegation is detailed in Appendix 3.

13 ROLE OF SECTION 151 OFFICER

- 13.1 The Treasury Management Role of the Section 151 Officer is detailed in Appendix 4. The revised Treasury Management Code of Practice has significantly extended the specific role of this officer to include a series of new roles in respect of the capital strategy and also a specific role in respect of investment in non-financial assets.

14. EQUALITY IMPACT ASSESSMENT

- 14.1 This is a financial report and there is no requirement to consider an Equality Impact Assessment

15. CONCLUSION

- 15.1 This proposed Capital Strategy, focuses on non treasury investments that for this Council cover approvals for the Capital Portfolio Fund £25m and Development Loans Fund £10m and has due regard to the recent MHCLG Guidance on Investments. The Strategy also identifies and cross-references the various policies and strategies of the Council that are linked and together form the overall Corporate Governance Framework for non treasury investments. It is useful to have this in a single document for transparency of assurance around what is recognised to be an area where risk needs to be carefully managed in the short, medium and longer term.
- 15.2 The latest MHCLG Investment Guidance has proved challenging to interpret and apply due to the complexities of Local Government Finance and the potential for conflict with existing legislation. Advice from Link Asset Services has been fundamental to this process, particularly as they have discussed the anomalies directly with the MHCLG and has helped to assure that this Capital Strategy has due regard to the new Investment Guidance.
- 15.3 Clarification and more detailed understanding of the new Guidance will continue to emerge over the next 12 months. This early Capital strategy will be developed and improved for the 2019-22 report.

16. CONSULTEES

- 16.1 Link Asset Services
16.2 CLT
16.3 Cabinet
16.4 KPMG

15. BACKGROUND PAPERS

- the Treasury Management Service Strategy (TMSS) 2018-19 approved by Council on 21st February 2018 that covers financial investments
- The Medium Term Financial Strategy 2018-21 including the Capital Programme Report Appendix 6 considered by Cabinet on 19th December 2017 and 7th February 2018 and approved by Full Council on 21st February 2018
- Approval of Cabinet Proposals for a £25m Capital Portfolio Fund and £10m Loans to Third Parties (now renamed Development Loans Fund) by Council as part of the MTFS 2016-19 on 22nd February 2017
- The Strategies for the Capital Portfolio Fund and Loans to Third parties approved by Cabinet on 14th June 2017
- Approval Process for Capital Portfolio and Loans to Third Parties approved by Cabinet 20th September 2017 and process for Scrutiny of business cases in respect of the capital portfolio fund and development loan fund approved by Overview and Scrutiny Committee 5th October 2017
- The Strategic Asset Management Plan (SAMP) approved by Council 2016
- The Enabling Enterprise and Business Growth In Wyre Forest strategy adopted in 2016
- ReWyre Initiative and Kidderminster Regeneration Prospectus adopted in 2009 and ReWyre ReNewed adopted in 2014.
- Greater Birmingham & Solihull LEP Strategic Economic Plan 2016-30 'A Greater Birmingham for a Greater Britain' 2016
- Worcestershire LEP Strategic Economic Plan 2014-2024 'World Class Worcestershire' 2014
- Corporate Plan 2014-19, Key Priorities and Local Plan Core Strategy 2006-2026
- MHCLG Statutory Guidance on Local Government Investments (3rd edition) 2nd February 2018

Appendix 1

Quantitative ratios are presented in this appendix in colour coded categories as follows:

Green	Debt to gross Service expenditure (GSE) ratios				
Yellow	Debt to net service expenditure (NSE) ratios				
	For these first two categories, ratios are provided for total debt and also for non treasury debt relating to the Capital Portfolio Fund (property) and separately for the Development Loan Fund				
Pink	Loan to Value ratios				
Beige	Capital Financing ratios				
Purple	Financing costs to net service expenditure (NSE) ratio				
Light Blue	Income/investment cover ratios				
Light Yellow	Trends/benchmarks				

		2018-19	2019-20	2020-21
DEBT TO GROSS SERVICE EXPENDITURE RATIOS				
Gross debt to gross service expenditure (GSE) ratio	<i>Gross debt as a percentage of gross service expenditure, where gross service expenditure is a proxy for the size and financial strength of a local authority.</i>	97.48%	115.08%	113.70%
Non treasury property investments debt to gross service expenditure (GSE) ratio	<i>Gross debt of non treasury property investments as a percentage of gross service expenditure, where gross service expenditure is a proxy for the size and financial strength of a local authority.</i>	39.79%	49.60%	49.87%
Non treasury development loans investments debt to gross service expenditure (GSE) ratio	<i>Gross debt of non treasury development loans investments as a percentage of gross service expenditure, where gross service expenditure is a proxy for the size and financial strength of a local authority.</i>	11.94%	19.84%	19.95%
DEBT TO NET SERVICE EXPENDITURE RATIOS				
Gross debt to net service expenditure (NSE) ratio	<i>Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.</i>	413.69%	493.43%	492.75%
Non treasury property investments debt to net service expenditure (NSE) ratio	<i>Gross debt of non treasury property investments as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.</i>	168.85%	212.68%	216.12%
Non treasury development loans investments debt to net service expenditure (NSE) ratio	<i>Gross debt of non treasury development loans investments as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.</i>	50.66%	85.07%	86.45%
LOAN TO VALUE RATIOS				
Loan to value ratio (Gross)	<i>The amount of gross debt compared to the total asset value (Long term assets - PPE).</i>	69.92%	77.25%	75.92%
Loan to PPE value ratio (property)	<i>The amount of non treasury property investment debt compared to the total asset value (Long term assets - PPE).</i>	28.54%	33.30%	33.30%
Loan to PPE value ratio (development loans)	<i>The amount of non treasury development loans investment debt compared to the total asset value (Long term assets - PPE).</i>	8.56%	13.32%	13.32%
Loan to PPE value ratio (total non treasury investments)	<i>The amount of total non treasury investment debt compared to the total asset value (Long term assets - PPE).</i>	37.10%	46.62%	46.62%
Loan to value ratio (property only)	<i>The amount of property debt compared to the total property asset value (property portfolio only).</i>	100.00%	100.00%	100.00%

Appendix 1

CFR RATIOS		2018-19	2019-20	2020-21
CFR - Property	Property CFR as a proportion of the gross CFR	39.93%	41.52%	43.66%
CFR - Development Loans	Development Loans CFR as a proportion of the gross CFR	11.78%	16.54%	12.02%
CFR - Combined	Property and Development Loans CFR as a proportion of the gross CFR	51.71%	58.06%	55.68%
FINANCING COSTS TO NET SERVICE EXPENDITURE RATIOS				
Property investments financing costs to net service expenditure (NSE) ratio	Non treasury property investments financing costs as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.	5.91%	10.10%	12.10%
Development loans investments financing costs to net service expenditure (NSE) ratio	Non treasury development loans investments financing costs as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.	2.49%	3.53%	4.11%
Total non treasury investments financing costs to net service expenditure (NSE) ratio	Total non treasury investments financing costs as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.	8.40%	13.63%	16.21%
INCOME/INVESTMENT COVER RATIOS				
Property investment cover ratio	The total net income from property investments, compared to the interest expense.	12.29%	9.45%	11.74%
Developments loan investment cover ratio	The total net income from development loans investments, compared to the interest expense.	20.83%	14.00%	14.06%
Total non treasury investment cover ratio	The total net income from non treasury investments, compared to the interest expense.	14.09%	10.67%	12.42%
Property target income returns (excluding financing costs)	Net revenue income (excluding financing costs) compared to equity. This is a measure of achievement of the portfolio of properties.	3.78%	5.01%	5.96%
Property target income returns (including financing costs)	Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.	0.28%	0.26%	0.36%
Commercial income to NSE ratio	Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.	2.72%	4.27%	5.01%
TRENDS				
Gross income (combined)	The income received from the combined non-treasury investments at a gross level over time. This is currently a prudent estimate based upon the income included in the MTFS.	(£1,189,441)	(£1,843,294)	(£2,125,262)
Operating costs	The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.	£114,131	£140,794	£114,262
Financing costs	The trend in financing costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.	£995,000	£1,602,500	£1,875,000
Net income	The income received from the investment portfolio at a net level (less costs) over time.	(£80,310)	(£100,000)	(£136,000)

Capital Portfolio Fund Strategy**Background**

1. As part of the Council's Medium Term Financial Strategy 2017-2020 the Council has established a Capital Portfolio Fund, initially of £25m sourced through borrowing from Public Works Loan Board (PWLb), to invest in assets that support its priority for regeneration and economic growth and to develop additional income streams.
2. One of the Council's Corporate Plan priorities for 2014-20 is to "support you to contribute to a successful local economy" and the Council sees its investment in assets through the Capital Portfolio Fund as one of the means by which it can actively deliver on this priority.
3. In 2016 the Council adopted a new Strategic Asset Management Plan (SAMP); of the stated objectives of the SAMP for the next 5 years, one is "to support business growth and economic development" which it is envisaged would include housing developments and another is to "maximise revenue potential from non-operational assets". The Capital Portfolio Fund is a key vehicle to deliver these objectives.
4. Also in 2016 the Council adopted a strategic approach to "Enabling Enterprise and Business Growth in Wyre Forest" which included strategic ambitions to provide flexible business accommodation as well as providing targeted financial assistance. Seen alongside the Council's proposed Loans to Third Parties initiative (renamed the Development Loan Fund), the Capital Portfolio Fund will also enable the Council to support local businesses and help them to grow, as well as attracting new business into the district.
5. The Council's plans to invest in assets also sits alongside its longstanding ReWyre regeneration initiative which has been the cornerstone of the Council's support of regeneration of the district since its adoption in 2009.
6. As part of the North Worcestershire group of authorities the Council is also a member of two Local Enterprise Partnerships – Worcestershire and Greater Birmingham & Solihull. The Council is an active LEP member and has successfully attracted funding from both through the Local Growth Fund for key regeneration projects such as Hoobrook Link Road, Kidderminster Railway Station and Churchfields Urban Village; as such the Council has a vested interest in the successful growth of the LEP areas where it has a functional economic geography and supports the delivery of their respective Strategic Economic Plans (SEP) as this will benefit the district as a whole. The Council has therefore decided that it will consider the investment of its Capital Portfolio Fund across this combined LEP geography.
7. In February 2018 the Council agreed to establish a group structure of local authority trading companies (LATC) with the purpose at this time to establish a development company that would undertake new residential developments or would hold residential units purchased by the Council through the Capital Portfolio Fund.

The Investment Strategy

8. The Council has adopted a Capital Strategy for 2018/19 which will be reviewed annually; this strategy has been developed to explicitly meet the Statutory Guidance on Local Government Investments which was published in February 2018. This Capital Portfolio Fund Strategy forms part of a series of documents (including the Development Loan Fund) that support the Capital Strategy.
9. The purpose of this Strategy is to guide the use of the Capital Portfolio Fund to make property acquisitions and to invest in the development of the Council's own assets (or the acquisition of assets) to support economic redevelopment or regeneration in the District or within the combined LEP geography which will in turn generate income to support the continued delivery of Council services.
10. Currently the Council holds no assets for investment purposes under the current accounting procedures; going forward any assets supported through the Capital Portfolio Fund will be held for the benefit of regeneration and economic development purposes.
11. The Council has appointed a RICS qualified Property & Investment Manager with external commercial experience to advise on its investment opportunities. Commercial property investment opportunities often arise unexpectedly and/or 'off market' and it is important to have streamlined decision making processes in order to take advantage of opportunities when they arise. The Council's Property and Investment Manager will be responsible for identifying suitable opportunities and has the necessary delegations to negotiate conditional offers and, in conjunction with the Council's Financial Services Manager, developing the viability appraisal and business case for the Council to invest; this Strategy is important to provide a framework to guide the Council in identifying appropriate investment opportunities. The Council is mindful that in some circumstances it will need to respond without delay when opportunities arise and to be in a position to assess investment opportunities in a systematic manner but should also be able to move quickly when a compelling opportunity arises. The Council has been careful to balance this against the need for robust decisions to be made, involving its Members; the Council has decided that all investment proposals will be considered by its Overview and Scrutiny Committee and by its Cabinet before any final decisions are taken and it has established the ability to call a sub committee meeting of either or both of these committees if the need for timely decisions means that the normal scheduled meetings would not be suitable. The Council's process for determining investment opportunities is set out in Appendix 2 below
12. The Council has commissioned external experts to support its decision making process and has established a framework of suitably qualified valuers and building surveyors to ensure that decisions taken by the Council are based on appropriate valuations and building condition surveys. This framework will be renewed every three years and experts will only be used that hold the appropriate and current qualifications. Further, the Council has retained the services of KPMG to ensure that its procedures are adhered to when it carries out any investments.

13. The Council is already well underway in assessing the development potential of its own assets and in developing business cases where there are opportunities to use its already established Evergreen Investment Fund (comprising capital receipts from asset disposals for reinvestment to support income generating proposals) and/or the Capital Portfolio Fund. What has become apparent in the preparation of the early business cases is that viability is marginal if these investments are viewed only through the commercial lens i.e. they would be unlikely to appeal to the private investor as the returns are too low. However, the Council's interest also lies in supporting economic regeneration and improving housing opportunities for its residents and has therefore accepted that lower returns than would normally be expected by a private investor are a trade off for addressing market failure where the private investor fails to act. However, as a minimum all the business cases agreed to date (including the use of Evergreen Investment Fund monies) have covered the costs of the Council's borrowing and minimum revenue provision and generated a predicted small revenue receipt.
14. In considering the use of the Capital Portfolio Fund going forward it is the Council's intention to continue to consider investment propositions within the district in its existing assets, in assets it might wish to acquire or working with partners where the principal consideration is to support economic regeneration in its widest sense which includes supporting new housing opportunities. Such investments will need to be justified on a business case by case basis and will need to generate a return for the Council which is determined on a case by case basis (see later).
15. Whilst it will always be the Council's preference to invest within the district area to support regeneration and local economic development, the Council recognises that it has an interest in the success of the LEPs of which the district council is a member . The Council has an interest in supporting the growth of the wider functional economic geography of the LEP areas on the basis that it will benefit locally from the wider City-Region success. To that end therefore the Council will consider investments that support this wider economic benefit covering Worcestershire, Birmingham, Solihull, Cannock, Lichfield, Tamworth and East Staffordshire areas (see map). The Council may also consider investing in capital property investment funds in order to broaden the investment portfolio, spread risk and utilise the expertise of fund managers. Any such proposals will involve a careful choice of fund to ensure the Council's objectives are met.
16. Each investment opportunity will be supported by the external 'Red Book' valuation and building condition information including where appropriate asbestos and mechanical and electrical and will be required to demonstrate through a robust business case and financial modelling that is proportionate to the level of investment that it meets or ideally exceeds the Council's minimum expectations for net return. Each business case will also recommend whether the investment is to be held by the Council or through the group structure, recognising that returns to the Council on any asset held in the group structure will be through interest payments on loans made to it by the Council and/or in

profit distribution by way of a dividend payment to the Council as sole shareholder.

17. It is necessary for the Council to take a prudent approach to the management of its financial affairs and when assessing investments the Council will need to carefully consider the balance of risk and reward and in doing so will consider such factors as the security against loss, the liquidity of the investment, the yield, affordability of the loan repayments, change in interest rates and property values (see Appendix 1 below). As part of this approach the Council will consider each investment carefully in terms of the ability of the underlying asset to provide security for the capital investment.
18. Returns from investment in property can be by way of both income (rent) received and appreciation of the underlying value (capital growth) and consideration will need to be given to both of these factors to understand the total return on an investment. The Council also recognises that by investing in property it can have direct benefits such as Business Rates or Council Tax income as well indirect benefits through increased confidence in the local economy. Property prices are a function of property type, location, age etc together with the lease arrangements and the covenant strength of tenants. Within the property investment market there can be a wide spread of returns (yields) relating to the characteristics of the asset investment in question. The yield reflects the risk that investors associate with securing a long term income, including the potential for growth. So in Appendix 1 below, those investments on the left hand side of the table will be associated with lower yields and those on the right with higher yields. The range might be anything from 2-4% in prime retail locations to 12-20% in secondary and tertiary locations. Indicatively, good quality office and industrial property investments will provide a gross income return of 7% or greater, whilst equivalent retail property income yields will be between 5-7%. The Council accepts that there isn't a strong office market within the district, nor are its town centres capable of commanding many national retailers and that new build industrial units are few; consequently it may have to consider carefully selected secondary and tertiary investment opportunities within the district.
19. The experience of the Council's investment business case development so far indicates that a gross yield of upwards of 6% on the value of the investment will be necessary for the investment to be of interest to the Council, taking into account its borrowing costs and other overheads. The Council will consider whether returns from investment opportunities are acceptable on a case by case basis taking into account the criteria set out in Appendix 1 below and the location of the investment opportunity. More risky investments (with a higher yield) should produce a higher return than less risky investments with a lower yield. All proposals will initially be screened against the pass/fail criteria of whether the costs of borrowing can be met and using Net Present Value (NPV) and Internal Rate of Return (IRR) calculations; schemes that produce a positive NPV and an IRR in excess of the cost of capital will then be assessed against the criteria set out in Appendix 1. Table 1 in section 26 illustrates scenarios and how this could make a contribution towards closing the funding gap of between £312,500 to £500,000 per annum.

20. In considering its costs against a gross return the Council will need to consider some or all of the following when developing the business case for investing:
- Finders' Fees approx. (1%)
 - Legal Fees approx. (0.5%)
 - Survey and Valuation and due diligence fees approx. (0.5%)
 - Stamp Duty Land Tax (5% on freehold purchases over £250K)
 - Finance Costs including minimum revenue provision (circa 5%)
 - Marketing and other rent incentives
 - Agents' letting fees
 - Void Business Rates/Council Tax (tenants should be covering these in occupied units)
 - Repairs and maintenance (depending on lease type (probably covered in a service charge))
 - Running costs of building, including building management (depending on lease type again probably covered in a service charge)
 - Opportunity cost of alternative use or sale of the asset
 - Staff Costs to manage the portfolio (non-recoverable)
21. The Council may hold property assets either directly or indirectly. Direct property investment gives the Council full control over the property and responsibility for its management and the business cases brought forward so far for investment are envisaged to be held in this way. Indirect property investment is where the asset is held through the group structure and will be necessary primarily where the Council is to act in the private rented housing market.

The Criteria For Investing

22. The Council will select investments for the purpose of regeneration or economic development (including housing) or a mixture of both, that meet the tests of viability that the Council has set. The Council may acquire and hold properties directly or through the group structure; all of these factors will be determined on a business case by case basis. The Council will prioritise investment opportunities within the district but will also retain the discretion to make investments outside the district within the geography of the LEP areas where it is a member. The Council may invest in the development of its own assets, acquire assets for development or invest in existing assets or consider investing via capital property investment funds.
23. Officers will continue to monitor prevailing market conditions to enable the Council to reserve discretion to acquire assets that may fall outside the investment criteria outlined above if a strong case can be made that the investment provides an exceptional opportunity to promote the Council's main priorities and values as described in this report. The Council will use the Estates Gazette Interactive (EGI) software to support its market analysis.

24. Having assessed opportunities against their ability to cover borrowing costs by calculating NPV and IRR of the proposed opportunity, further evaluation will then be undertaken against a comprehensive set of defined property specific criteria as set out in Appendix 1 below. The Council will consider these criteria and seek to achieve the appropriate balance of risk and reward proportionate to the size of the investment being considered. The Council will score each investment proposal using the matrix; any proposal will need to score a minimum of 250 to be considered acceptable as an investment candidate. Those proposals scoring 250 and above will then be subject to further appraisal including building survey and formal valuation work. The ideal property investment would be a freehold in a town centre, let to a tenant with a strong financial covenant for a long term on a full repairing and insuring lease.
25. Any direct asset acquisition would be subject to purchaser's costs, typically these would include legal fees, agent valuation and survey fees together with Stamp Duty Land Tax (SDLT), typically these will amount to 6-7% of the asset purchase price. In addition the Council will have to take into account the cost of borrowing through PWLB and an amount for minimum revenue provision. The following table illustrates the summary financial modelling that could be applicable to the Capital Portfolio Fund taking into account the outline financing and purchase costs as indicated above:

Table 1

Simplistic Scenario Modelling of the Potential Returns Required from Capital Portfolio Fund Proposals assuming 3% PWLB rate (average over term) - Full Year Revenue		Eventual Borrowing - 2% net return	Eventual Borrowing - 1.25% net return	Eventual Borrowing - 1.625% (average) net return
Basic Investment before Stamp Duty and costs		£23,419,200	£23,419,200	£23,419,200
Acquisition Costs @ 6.75%		£1,580,800	£1,580,800	£1,580,800
Total Capital Expenditure		£25,000,000	£25,000,000	£25,000,000
Minimum Return Required to Cover Funding Costs				
Financing costs - PWLB Interest 3%		£750,000	£750,000	£750,000
Financing costs - MRP 50 year basis		£500,000	£500,000	£500,000
Total Funding annual costs		£1,250,000	£1,250,000	£1,250,000
Administration Costs		80,000	80,000	80,000
Total Costs		1,330,000	1,330,000	1,330,000
Net Revenue Income potential @2%, 1.25% & 1.625%		500,000	312,500	406,250
Total Rent Required to meet return £		1,830,000	1,642,500	1,736,250
% Total gross return on £25m		7.320%	6.570%	6.945%
Total return required to Break Even as % of £25m investment		5.320%	5.320%	5.320%
Difference is % Potential Net Return		2.000%	1.250%	1.625%

26. In terms of management of risk it is understood that there are inherent risks associated with investments and each business case will be required to identify the risks associated with that investment proposal and the Council will need to balance risk and reward proportionate to the scale of the investment proposed. It is to be expected that some of the risks the Council will be

expected to consider will be:

- Capital values and rental values can fall as well as rise.
 - Borrowing costs fluctuate and could increase.
 - Vacancies (voids) in the portfolio will reduce average yield. As well as lost rental income on vacant units, the Council could find itself liable for a share of on- going costs which a tenant would normally pay such as empty property rates.
 - Disputes with tenants. Common disputes include ongoing maintenance and repair costs of buildings and the ability to recover those costs from tenants.
 - Tenant default, and that financing costs could rise.
 - External factors. Property investment is subject to factors the Council cannot control, e.g. failure of tenants, poor building management, changes in perception of what is a good location, economic downturn etc.
 - Ease of market exit (sale)
 - Changes in government policy
 - Sectoral changes
27. The overall investment value and range of assets acquired needs to represent a good mix and spread of risk, size and location across differing sectors to ensure that the portfolio is resilient to change that might lie outside the Council's control. It is important that the Council maintains an adequate level of reserves and balances to ensure it can manage any down turn in the property market and limit the impact it will have on revenue income.
28. The Council aims to hold a mix of the following as its target portfolio:
- I. Retail Investments that:
 - i. Are located in vibrant town centre or local centre locations; or
 - ii. Are located in out of town retail parks; or
 - iii. Are located on key transport corridors where there are local regeneration benefits; and
 - iv. Are let to tenants with a good covenant and a minimum of five years unexpired lease term; or
 - v. Are let to tenants with lesser terms where the Council has alternative regeneration reasons for investing; and
 - vi. Produce a gross return on investment that meets agreed viability criteria and
 - vii. Are in lot sizes of £250k - £5m.
 - II. Office Investments that:

- i. Are in vibrant town centre or local centre locations; or
 - ii. Are located on business parks; and
 - iii. Are let to tenants with a good covenant and ideally at least five years unexpired lease term; and
 - iv. Produce a gross return on investment that meets agreed viability criteria and
 - v. Are in lot sizes of £1m - £5m.
- III. Industrial/Warehouse Investments that:
 - i. Are located on good highway routes; or
 - ii. Are located on vibrant industrial estates; and
 - iii. Are of modern construction and capable of flexible layouts; and
 - iv. Are let to tenants with a good covenant and ideally a minimum of five years unexpired lease term; or
 - v. Are let to tenants with lesser terms where the Council has alternative regeneration reasons for investing; and
 - vi. Produce a gross return on investment that meets agreed viability criteria and
 - vii. Are in lot sizes of £250k - £5m.
- IV. Leisure/ Food & Beverage Investments that:
 - i. Are located in vibrant town centre or local centre locations; or
 - ii. Are located in out of town retail parks; or
 - iii. Are let to tenants with a good covenant and ideally at least five years unexpired lease term; and
 - iv. Produce a gross return on investment that meets agreed viability criteria and
 - v. Are in lot sizes of £500k - £5m.
- V. Mixed Use Investments:
 - i. The Council will consider combinations of mixed residential, retail, leisure and office investments that meet a blend of the criteria set out above.

29. It is also important that the Council actively manages the investment portfolio. At an operational level this will in most cases fall to the Council's Estates Officer with the support of the Facilities Management Team. Such work will include matters such as rent collection, service charge calculation and collection, building maintenance, security, dealing with tenants, re-letting empty units, negotiating terms of rent reviews, dilapidation claims and the general miscellany of property management. In terms of strategic management this will fall to the Property & Investment Manager to ensure that the portfolio is delivering the investment returns that were envisaged and to always act in the Council's financial interest which will also include appropriate disposal of investments that are underperforming or no longer meet the Council's objectives, as well as acquisition. As part of this management of the portfolio the Property & Investment Manager in conjunction with the Financial Services Manager will consider the liquidity needs of the Council and form a view of the prevailing market conditions to determine whether it would be necessary and/or advantageous to dispose of any of its investments. The Council has not yet adopted a Portfolio Management Strategy, but acknowledges that this will need to follow when the first investments are made.
30. The Property & Investment Manager will also be responsible for providing regular reports on management issues and the performance of the Council's investment portfolio. The Council's Cabinet and Corporate Leadership Team will receive a report from the Property & Investment Manager bi-annually which will update on the individual asset management plans, the overall asset investment portfolio against expectations at the time of purchase and performance against prevailing market conditions. This will then feed into the indicators established within the Capital Strategy. If any investment is failing to perform as expected it will be necessary to consider whether such investment should continue to be held (and whether the performance is expected to change) or whether it should be disposed of. These reports can be made available to other meetings of the Council as required.

Appendix 1

Criteria	score weight	5	4	3	2	1
		Excellent/ very good	Good	Acceptable	Marginal	Poor*
Location	20	Major prime	Micro prime	Major secondary	Micro secondary	Tertiary
Tenancy strength	20	Single tenant with strong financial covenant	Single tenant with good financial covenant	Multiple tenants with strong financial covenant	Multiple tenants with good financial covenant	Tenants with poor financial covenant strength
Tenure	10	Freehold	Lease 125 years plus	Lease between 75 & 125 years	Lease between 10 & 75 years	Lease less than 10 years
Occupiers lease length	20	Greater than 15 years	Between 10 and 14 years	Between 9 & 6 years	Between 3 & 5 years	Less than 2 years or vacant
Repairing terms*	10	Full repairing & insuring	Internal repairing - 100% recoverable	Internal repairing - partially recoverable	Internal repairing - non recoverable	Landlord
Building Quality/ Obsolescence	15	Newly Built	Recently Refurbished	Average condition and likely to continue to be fit for current use for 25+ years	Aged property with redevelopment potential	Nearing end of useful life/ use unlikely to continue when lease expires
Investment size	5	Between £10m & £15m	Between £5m & £10m	Between £2m & £5m	Between £250k & £2m	Less than £250k or more than £25m

** unless there is an overwhelming case for investment that exceeds the Council's expectations*

Criteria Explained:

Location

Major Prime	Micro Prime	Major Secondary	Micro Secondary	Tertiary
Central Birmingham	Edge of Central Birmingham	Worcester, Solihull, Kidderminster, Lichfield, Tamworth, Burton, Cannock	Market and smaller Towns	Local Centres

Tenancy Strength

Single tenant with strong financial covenant	Single tenant with good financial covenant	Multiple tenants with strong financial covenant	Multiple tenants with good financial covenant	Tenants with poor financial covenant strength
All tenant covenants are considered in terms of their financial strength, risk of business failure, length of building occupancy and whether there are rent or rates arrears. The Council will use the conventional means of assessing tenant covenants which might for example include Dun and Bradstreet.				

Tenure:

Freehold	Lease 125 years plus	Lease between 75 & 125 years	Lease between 10 & 75 years	Lease less than 10 years
This is the best interest in the property and would be in perpetuity.	Leasehold interests can vary considerably in length, the longer the better.			

Lease Length:

Greater than 15 years	Between 10 and 14 years	Between 9 & 6 years	Between 3 & 5 years	Less than 2 years or vacant
The length of the tenants' lease will determine the guarantee of rental income; the longer the term remaining, the better and more secure the income. Most leases will have break and review options and these will need to be considered in the context of lengthy of time the income can be guaranteed and slo to potential for uplift in rent.				

Repairing Terms:

Full repairing & insuring	Internal repairing - 100% recoverable	Internal repairing - partially recoverable	Internal repairing - non recoverable	Landlord
The tenant has responsibility for all external and internal maintenance, decoration and repair as well as liability for insuring the building.	The tenant will have lesser obligations for maintenance, decoration, repairs and insurance confined to the parts the occupy. Some costs are recoverable by the landlord through a service charge. The landlord retains responsibility for structural and external repairs.			The landlord is responsible for all external and internal repairs.

Building Quality/Obsolescence:

Newly Built	Recently Refurbished	Average condition and likely to continue to be fit for current use for 25+ years	Aged property with redevelopment potential	Nearing end of useful life/ use unlikely to continue when lease expires
Consideration will be given to building age and quality in determining the repairs and maintenance that might be required immediately to comply with statutory requirements through to the likely general maintenance required from year to year.				

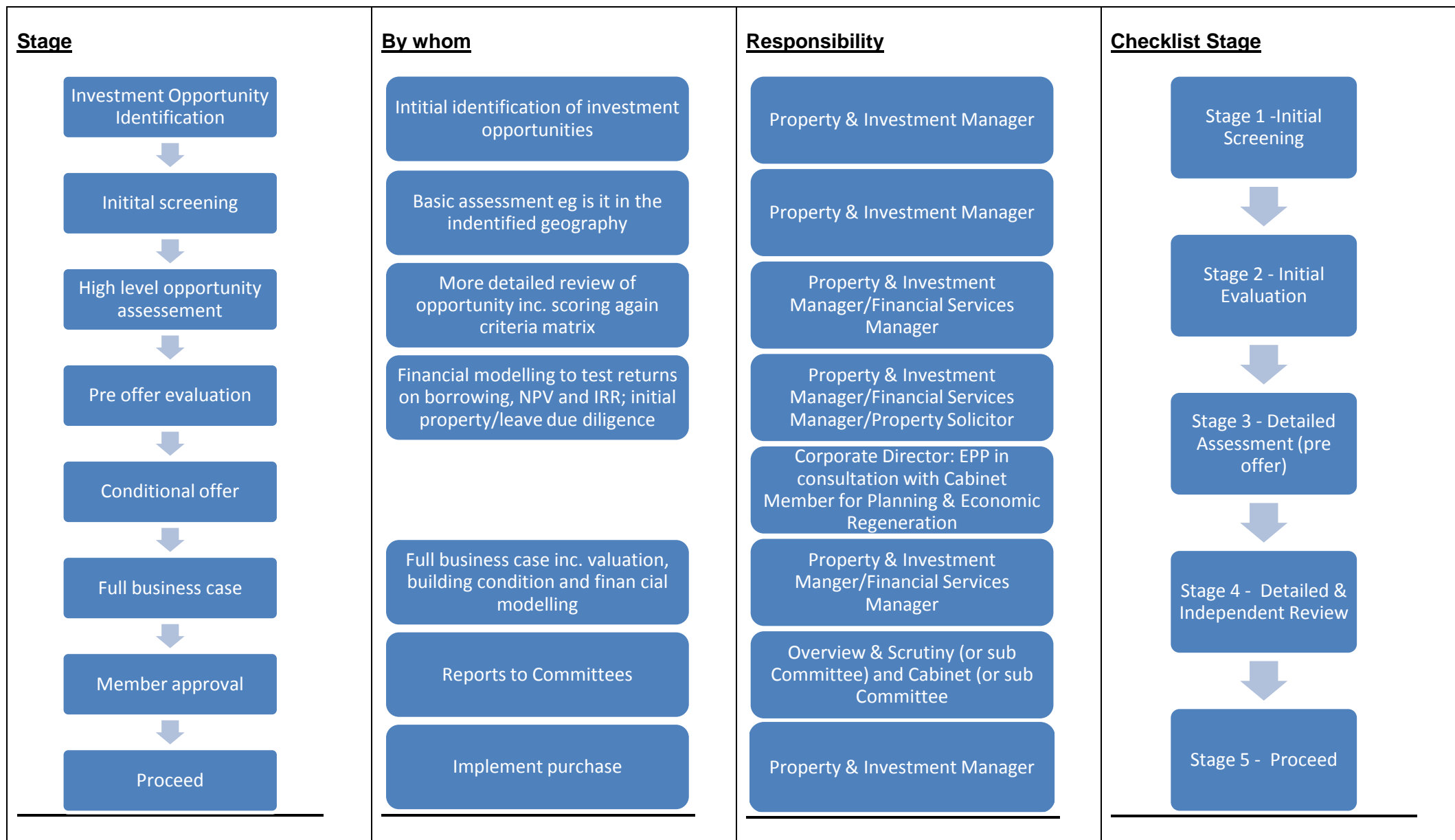
Appendix 2

Newly Built	Recently Refurbished	Average condition and likely to continue to be fit for current use for 25+ years	Aged property with redevelopment potential	Nearing end of useful life/ use unlikely to continue when lease expires
The building condition surveys will advise on these elements.				

Investment Size:

Between £10m & £15m	Between £5m & £10m	Between £2m & £5m	Between £250k & £2m	Less than £250k or more than £25m
The lot size will be considered as part of the overall offer. The Council plans to develop a balanced portfolio of lot sizes.				

APPENDIX 2



APPENDIX 3: CAPITAL STRATEGY SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on Capital Strategy policies, practices and activities
- approval of annual strategy.

(ii) Committees/Council/responsible body –Cabinet after receiving recommendation from Overview and Scrutiny Committee

- approval of/amendments to the organisation's Capital Strategy
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny – Overview and Scrutiny Committee

- reviewing the Capital Strategy policy and procedures and making recommendations to the responsible body.

Note: Cabinet on the 20th September 2017 delegated to a sub-committee its decisions on individual Capital Portfolio investments and on Loans from the Development Loans Fund.

The Overview and Scrutiny Committee decided on the 5th October 2017 to establish a sub-committee with terms of reference to scrutinise, and make recommendations upon business cases in respect of the capital portfolio fund and development loan fund.

APPENDIX 4 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER (with revisions to include non-treasury investments)

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term (20 year) timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury*

investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Overview and Scrutiny Committee Work Programme 2017-2018

June 2017

“How are we doing?” Q4 update (Housing and Planning)
Churchill & Blakedown Neighbourhood Plan Adoption
Strategies for the Capital Portfolio Fund and Loans to Third Parties –
Review of Wyre Forest District Local Plan (2015) Consultation on Preferred Options
Tracking Recommendations 2016/2017
Scrutiny Proposal Form
EXEMPT Capital Portfolio Fund: Proposed Acquisition

July 2017

Kidderminster Town Centre Business Improvement District (BID)
Strategic Facilities & Asset Management Plan (including Wyre Forest House Tenancy
Management & Marketing Strategy)
Establishing a Local Authority Trading Company (LATC)
Housing Enforcement Policy Update
Nominations for the Treasury Management Review Panel
EXEMPT Residential Unit Investment Business Case

September 2017

“How are we doing?” Q1 update (Enabling)
Annual Report on Treasury Management Service and Actual Prudential Indicators
2016/17
Wyre Forest Health and Wellbeing Plan Update
Climate Change Update
Open Space, Playing Fields and Sports Built Facilities Strategies
Compulsory Acquisition of Land & Properties & Empty Property Strategy
Public Space Protection Order (PSPO)

October 2017

Annual update from S106 Monitoring Group
‘Write-off’ Procedure
Potential additions to scrutiny work programme
Scrutiny of decisions on capital portfolio fund

November 2017

Treasury Management Mid Year Report
Depot 2020 Invest and Improve Project
Local Plan Project Plan
Hereford and Worcestershire Joint Municipal Waste Management Strategy Review
(JMWMS)

December 2017

“How are we doing?” Q2 update (Business and People)
Depot 2020: Consideration of Call-In Request
EXEMPT Asset exchange in Kidderminster

February 2018

“How are we doing?” Q3 update (Place)
Treasury Management Strategy 2018/19
Annual review of the North Worcestershire Community Safety Partnership 2017/18
Establishing a Group Structure of Local Authority Trading Companies

Community Led Housing Pledge

1st March 2018

Acquisition of Land in Broadwaters Ward

EXEMPT Acquisition of Land in Areley Kings & Riverside Ward

14th March 2018 – Sub Committee

EXEMPT Investment Proposal

22nd March 2018

Capital Strategy

Future use of the former Magistrates' Court, Worcester Street

Review Panels

December 2017 – mid 2018: Availability of affordable and social rented housing

January – March 2018: Partners and Communities Together (PACT)

September – November 2018: Review of service standards for highways maintenance
inc grass cutting / weed control

May – July 2018: Review of civil enforcement issues - PSPO

October – December 2018: Review of civil enforcement issues - Parking