



# Uttlesford District Council

Chief Executive: Dawn French

## Investment Board

**Date:** Wednesday, 23rd October, 2019

**Time:** 4.00 pm

**Venue:** Council Chamber - Council Offices, London Road, Saffron Walden,  
CB11 4ER

**Chairman:** TBD

**Members:** Councillors G Bagnall, C Criscione, N Hargreaves, A Khan,  
P Lavelle, G LeCount, J Lodge, R Pavitt, N Reeve, G Sell and  
J De Vries

### AGENDA PART 1

#### Open to Public and Press

**1 Election of a Chair**

To elect a Chair.

**2 Apologies for Absence and Declarations of Interest**

To receive any apologies for absence and declarations of interest.

**3 Actions from the last meeting**

5 - 6

To consider actions from the last meeting.

**4 Terms of Reference**

7 - 10

To consider the Terms of Reference.

**5 Purbeck House**

To receive a verbal update on Purbeck House.

**6 Implications of the PWLB 1% Rate Increase**

To receive a verbal update on the implications of the PWLB rate increase.

**7 Commercial Strategy**

11 - 22

To consider the Commercial Strategy.

**8 Investment Protocol**

23 - 30

To consider the Investment Protocol.

**9 Date of the Next Meeting**

To confirm the date of the next meeting.

**10 Exclusion of public and press**

Consideration of reports containing exempt information by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

**PART 2**

**Exclusion of Public and Press**

**11 Investment Opportunity 1**

31 - 34

To consider an Investment Opportunity (1).

**12 Investment Opportunity 2**

35 - 42

To consider an Investment Opportunity (2).

**For information about this meeting please contact Democratic Services**

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**Working Group:** Investment Board

**Title:** Actions from the last meeting

**Report Author:** Adrian Webb, Director - Finance and Corporate Services  
awebb@uttlesford.gov.uk  
Tel: 01799 510421

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**Date:**  
Wednesday, 23  
October 2019

## Summary

1. This report sets out the actions from the first meeting of the Investment Board and provides an update on the current position.

## Recommendations

2. Members note the current position.

## Financial Implications

3. None

## Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

## Situation

5. Attached at Appendix One is the action list from the informal meeting of the Investment Board held on 1 October 2019. Each action has a comment attached where appropriate.
6. Outstanding items will be carried forward.

Action List from meeting 1 October 2019

Number	Action	Comment
1	Members to look at the Commercial Strategy and email Officers with any comments or queries by this Friday	None Received
2	Quorate to be 7 members of the 14 strong Board	Updated in the Terms of Reference to 50% of total membership
3	Members must be available for meetings at short notice as investments may need to progress at speed	N/A
4	Officers to prepare an advert for the independent members	Not yet done
5	Interview panel for the independent members to be Cllrs Lodge, Fairhurst and Pavitt	Dependent on 4 above
6	Revised Terms of Reference attached for information and comment	No comments received
7	Members to familiarise themselves with the format of the Protocol document ready for further discussion at the next board meeting	N/A
8	Purbeck House – any questions to Officers by this Friday	None received
9	Investment 1 – prepare the proposal for the client for further discussions	Being prepared. Commitment to present to client first week of November
10	Investment 2 – explore with the promoter the 'green' and 'sustainability measures' in the development. Start to prepare the business case	Verbal update at the meeting

**Working Group:** Investment Board

**Title:** Terms of Reference

**Report Author:** Adrian Webb, Director - Finance and Corporate Services  
awebb@uttlesford.gov.uk  
Tel: 01799 510421

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**Date:**  
Wednesday, 23  
October 2019

## Summary

1. This item sets out the Terms of Reference for the Investment Board

## Recommendations

2. The Investment Board agrees the Terms of Reference as set out at Appendix One

## Financial Implications

3. None

## Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

None

## Situation

5. The draft terms attached as Appendix One were discussed and amended at the informal meeting held on 1 October 2019.
6. The Terms of Reference may need to be further updated should there be additional changes to the Commercial Strategy.

## Appendix One

### **Investment Board: Terms of Reference**

#### ***Status***

This is a working group of the Cabinet. It may make recommendations but is not a decision-making body. Given that the Investment Board will be constituted by members with a knowledge of commercial investment, supplemented with external training as necessary, and supported by industry expert independent people, it is acknowledged that Cabinet will not, without good reason duly considered, reject opportunities recommended by the Investment Board.

#### ***Membership***

Twelve members of the Council to be appointed by the Cabinet, on nomination by group leaders. (8 R4U, 2 Liberal Democrat, 1 Conservative, 1 Independent Group.)

The group will also have two independent members of the public to provide additional support and guidance to the members.

Quorum to be 50% of the Board membership, to include the two independent members of the public (ie 7 when fully appointed).

#### ***Attendance***

Officers will attend to support the Working Group as necessary.

The Working Group may invite other parties to attend and to contribute to meetings as it decides.

#### ***Meetings***

The Working Group will fix its own timetable for meetings.

Meetings will be open to the public, subject to the exclusion rules that apply to committee meetings. Agendas and minutes will be published on the Council website.

#### ***Officer support***

A senior Council officer will be designated as the lead officer for the Working Group.

Democratic Services will provide administrative support for the Working Group.

### ***Role of the Working Group***

The Council has established the group to review and recommend to Cabinet suitable investment opportunities. The group will also monitor the performance of the existing portfolio on a quarterly basis.

The Working Group will:

- Establish an Investment Protocol, for adoption by Cabinet, which provides greater detail and clarity on the types of investments for consideration and other factors such as yield, location, multi or single let.
- Monitor the existing portfolio to ensure it meets the targets set in the Investment Protocol.
- Recommend to Cabinet changes to the Investment Portfolio to enable the targets to be met.
- Review the Commercial Strategy and recommend changes to Cabinet as necessary.

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**Working Group:** Investment Board

**Date:**

Wednesday, 23  
October 2019

**Title:** Commercial Strategy

**Report Author:** Adrian Webb, Director - Finance and Corporate Services

awebb@uttlesford.gov.uk

Tel: 01799 510421

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## Summary

1. The Commercial Strategy was approved at Full Council on 8 October 2019 but there was a request to consider possible revisions and bring the revised version back to Full Council in December 2019.

## Recommendations

2. Members to recommend to Cabinet potential improvements to the Commercial Strategy.

## Financial Implications

3. None

## Background Papers

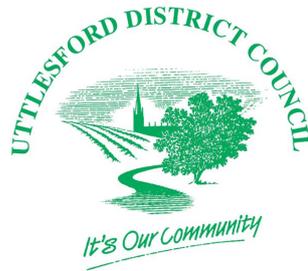
4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

None

## Situation

5. Attached at Appendix One is the approved Commercial Strategy.
6. At Full Council in October 2019 there were a number of concerns raised about the content of the plan and the reasons for undertaking commercial investments. The comments included
  - a. The plan needs context around the reasons for undertaking commercial investments.
  - b. Whether the sum of £80million is sufficient for the non-CRP (Chesterford Research Park) investments. The decision around this needs to be taken in light of the Public Works Loan Board (PWLB) announcement around borrowing rates.

- c. Is the Investment Board too large? There have been comments that six to eight members would be a more appropriate number.
- d. The governance arrangements are insufficient to enable members to have confidence in the process. Therefore
  - i. Could the proposed Council process be enhanced/improved?
  - ii. Does the document need a section on how the Aspire Board(s) fit into the governance process?
- e. Should Members be Directors of the Aspire companies, or is it sufficient for these roles to be filled by Officers as the Cabinet is the Shareholder Board and sets the direction for the company to follow.



## Uttlesford District Council

# Commercial Strategy 2019 to 2023



**Prepared by:**  
**Asset Management**  
**Uttlesford District Council**  
**September 2019**

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## Introduction

The Council recognises that as a consequence of reducing government funding there is an increased requirement to generate additional income to underpin the core services provided by the Council to its residents. Traditional ways of generating additional income such as through Council Tax and fees and charges will not be able to absorb the reduction in government funding.

This document replaces the General Fund Investment Strategy 2019/20 as approved by Full Council on 21 February 2019.

## Current Portfolio

In May 2017 the Council, through its wholly owned subsidiary Aspire (CRP) Ltd, acquired a 50% share in Chesterford Research Park and formed a joint venture with Aviva Investors. As part of the Cambridge Life Science cluster the Park is world renowned, having been in existence for 19 years, with available space to significantly increase the commercial floor space, plus expand the Park into other areas of research to diversify and reduce the risk.

The Council gave a loan to Aspire (CRP) Ltd for the purchase of 50% of Chesterford Research Park (£47.25m). The loan was funded by

Phoenix Life – borrowing of £37m for 40 years on a repayment basis @ 2.86% fixed. The first £10m drawdown was 1 July 2017 with the remainder as follows

1 July 2021 - £12m

1 July 2022 - £15m

Whilst this loan is being drawn down the balance will be funded by a mix of local authority and internal borrowing – The amount of each varies during the year dependant on the level of UDC balances available. Average interest rate, interest only, is 0.7%

Use of reserves and balances (£10.25m) funds the balance.

For 2019/20 the income from Chesterford Research Park is expected to be £2,130,000 with the cost of borrowing being £400,000. There is also repayment of staff time.

## Loans to wholly owned subsidiaries

The Council recognises that, to further support the budget ongoing and to ensure the continued delivery of services at the level currently provided, further investment in the expansion of Chesterford Research Park will be necessary. The first set of additional loans relate to the refurbishment of the Newnham Building. To date, the following loans to Aspire (CRP) Ltd have been made

Date	Amount	Term	Rate	Basis	Annual Repayment	Building	Repaid
03/05/2017	£47,250,000	50 years	4%	Interest Only	£1,890,000.00		
27/06/2017	£60,000	10 months	4%	Interest and principal	£61,827.95		✓
26/03/2018	£223,000	49 years 1 months	4%	Interest only	£8,920.00	Newnham	
02/01/2019	£2,518,000	48 years 4 months	4%	Interest only	£100,720.00	Newnham	
20/08/2019	£3,000,000	20 years	4.5%	Interest and principal	£230,630.00	Newnham	

In addition there is approval for a further loan of £1.25m for the fit-out of the Newnham Building on an interest and principal basis over 20 years at an interest rate of 4.5%. This will be drawn down during the latter part of 2019/20 as the Newnham Building refit progresses.

## The future

The Council is committed to investing in the Park. The Council is keen to see existing tenants expand and grow on the Park and for the Park to attract new tenants from a diverse range of research activities. The Park is within the district boundary and investing helps to sustain existing employment, introduce new employment opportunities and generate additional Business Rates. As part of the 2019/20 Investment Strategy, approved by Full Council in February 2019, an in principle agreement to invest up to £20million at the Park over the next three years was approved.

Full Council in February 2019 also agreed an in principle sum of £80million for investments outside of CRP. This sum will, in the main, be invested out of area to offset risks of investing in a small geographical area. To minimise risk to the investment the Council will, in the main, concentrate on areas with above average;

Population growth projections  
 Employment growth projections  
 Gross Domestic Product (GDP) growth projections

The Investment Portfolio may include a mix of

Multi-let urban industrial  
 Offices in dynamic cities

Single-let long lease  
Convenience retail  
Market rent housing

The portfolio will also have a mix of lease lengths again to provide a balance.

Evaluation of potential opportunities will be made using a RAG based approach on criteria agreed by the Investment Steering Group.

### **Key Performance Indicators (KPIs)**

A suite of KPIs will be developed by the Investment Board for reporting by the Aspire companies on a quarterly basis. These KPIs will be used, as part of suite of information, to inform future investments and disposals and therefore the make-up of the portfolio

### **Investment Protocol**

An Investment Protocol will be developed alongside this strategy which sets out the criteria in detail.

## Security, Liquidity and Yield

As the Council only has a small amount of money of its own to invest, any further expansion of the commercial strategy will necessarily be funded from a mix of external borrowing, from financial institutions, Public Works Loan Board (PWLB) and other local authorities. The Council will not invest in high yield, high risk opportunities. This will be reflected in yield expectations which are currently 3 – 7%.

Investments at Chesterford Research Park will be made by way of loans to Aspire (CRP) Ltd the Council's wholly owned subsidiary. All commercial investments outside of CRP will be undertaken by the Council. Property purchase for letting at market rents will be undertaken through a new wholly owned subsidiary company Aspire (UDC) Ltd.

By investing mainly, but not exclusively, in areas of above average population growth, employment growth and GDP growth the risk to the Council investment will be reduced.

Financing of acquisitions will be decided on a case by case basis. In almost all cases a mix of repayment and interest only loans will be undertaken, with the split being agreed by Cabinet.

The option to liquidate funds is either by selling the investment (or part thereof) or by refinancing the debt.

## Risks

Each investment must be considered independently and only those viewed as having a positive expected yield and an acceptable risk profile will be taken forward for consideration by the Council.

The Council takes advice from its professional advisers at all times. For example, with the purchase of the 50% share at Chesterford Research Park the Council engaged

Arlingclose as its financial advisers who project managed the funding tender  
Cushman and Wakefield who undertook all of the purchase negotiations and due diligence

Hogan Lovells for Legal due diligence

For Aspire (CRP) Ltd the Council has appointed two non-executive directors to serve on the Board and bring independent challenge and support. The new delivery company, Aspire (UDC) Ltd, will also have two non-executive directors on the Board.

The Aspire companies will use a range of specialists which will vary between investments. This will ensure the continued professionalism and sector knowledge.

## Proportionality

The aim of the Commercial Strategy is to generate income to underpin the Council's core budget, to invest in other income generating opportunities and also good causes for the district.

The Council's main investment at Chesterford Research Park comprises eleven core buildings and circa twenty tenants. For the income to be below the interest repayment amount three of the five largest tenants would be required to default on their tenancy agreement at the same time. Even with this relatively low risk it is important to attract different types of research business to the Park.

## Capacity, Skills and Culture

### Investment Board (IB)

The IB will operate in accordance with the Commercial Strategy which is adopted annually by Full Council. Cabinet will delegate to the Leader; Portfolio Holder for Finance and Budget; Portfolio Holder for Business, Economy, Jobs, Investment and Strategy and Youth Services; and S151 Officer (or Assistant Director of Resources for Aspire investments) to conclude investments where authorisation has been given by Full Council.

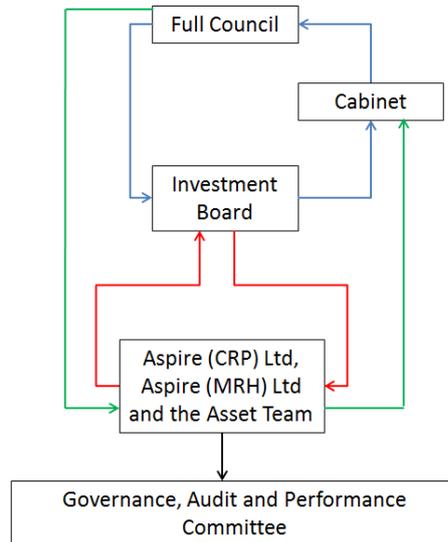
### Constitution of the IB

The IB is a Working Group of Cabinet and membership will be

Residents for Uttlesford Group – 8 members  
Liberal Democrat Group – 2 members  
Conservative Group – 1 member  
Uttlesford Independents Group – 1 member

In addition there will be two independent members to supplement the skills of the elected Members.

The investment decision making and monitoring process is as set out below



### Democratic Process (blue line)

As part of the annual budget setting process, Cabinet develops the Commercial Strategy in consultation with the IB. Cabinet recommends to Council the adoption of the Commercial Strategy.

Council adopts the Commercial Strategy.

The IB develops a protocol to implement the Commercial Strategy which will be approved by Cabinet.

The Cabinet will receive from the IB quarterly updates, including KPIs, on the performance of the portfolio.

For new investments, the IB reviews the business cases and if appropriate supports a recommendation to Cabinet for the acquisition.

Cabinet reviews the investment and if satisfied recommends to Council that funding is made available. Given that the IB will be constituted by members with a knowledge of commercial investment, supplemented with external training as necessary, and supported by industry expert independent people, it is acknowledged that Cabinet will not, without good reason duly considered, reject opportunities presented by officers that are supported by the IB.

Ahead of the Council meeting, the IB Chairman, along with officers, undertakes an all-Member briefing session to set out the investment and the reasons for its recommendation.

### Internal Process (red line)

The IB provides the two Aspire companies with a Commercial Protocol and sets out in detail the type of new investments it is seeking. Aspire (CRP) Ltd looks after developments at Chesterford Research Park, whilst Aspire (MRH) Ltd is

responsible for residential housing to be let at market rents. The Council's Asset Team will manage all other non-CRP commercial investments.

Depending upon the investment sought Aspire (MRH) Ltd and the Asset Team, working with professional advisers, identify investments that meet the protocol set out by the IB, and prepares investment business cases for each suitable opportunity for consideration by Cabinet. The Boards of Aspire (CRP) Ltd and Aspire (MRH) Ltd approve the investment business cases prior to submission to the IB.

The Aspire companies, along with the Asset Team, prepare the quarterly KPI and other information for submission to the IB.

#### New Investments (green line)

At an Extraordinary Meeting of Council a decision is taken on whether or not to allocate the funding.

If the investment is agreed, funding will be made available to the relevant Aspire company or to the Asset Team to enable the purchase to be made.

The Aspire companies report annually to the Cabinet as the shareholder board of the Council.

#### Governance, Audit and Performance Committee (GAP) (black line)

A report on annual performance of the Aspire companies is taken to the GAP Committee. A similar report will be presented by the Asset Team.

### Joint Working

The Council recognises the benefits of working with other parties, be they local authorities or private sector. Joint Working mitigates risk and has the potential to enable the Council to consider new commercialisation opportunities in markets that alone they would not be able to do so.

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**Working Group:** Investment Board

**Title:** Investment Protocol

**Report Author:** Adrian Webb, Director - Finance and Corporate Services  
awebb@uttlesford.gov.uk  
Tel: 01799 510421

**Date:**  
Wednesday, 23  
October 2019

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## Summary

1. This report sets out an example of an Investment Protocol

## Recommendations

2. Members request officers to prepare a draft Investment Protocol based on the revised Commercial Strategy.

## Financial Implications

3. None

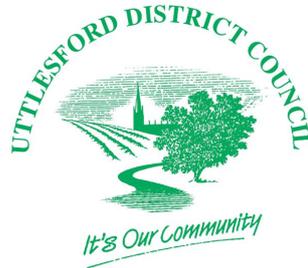
## Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

None

## Situation

5. The Investment Board will need to develop an Investment Protocol which reflects the aims of the Commercial Strategy and acts as a method to filter potential investments.
6. Attached as Appendix A is an example of an Investment Protocol.
7. Once the Commercial Strategy is approved at Council in December 2019 the Investment Protocol can be finalised.



# Uttlesford District Council Investment Protocol 2019 to 2023

Prepared by:  
Asset Management  
Uttlesford District Council  
September 2019

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## Introduction

This document supports the annual Commercial Strategy (previously known as the General Fund Investment Strategy) which is approved by Full Council as part of the budget setting process.

## Portfolio Mix

The Investment Portfolio will need a mix of

- Multi-let urban industrial
- Offices in dynamic cities
- Single-let long lease (circa £10m)
- Convenience retail (circa £20m)
- Private Sector housing for market rent (circa £10m)

The amounts identified above will include the costs of purchase, such as land agents, legal fees and Stamp Duty which means the actual portfolio holding will be less than the £80 million shown. For the commercial elements there will need to be a range of lease lengths to ensure a stable portfolio.

## Investment Funding

Each investment will be considered for funding on its own merits. It is anticipated that a mix of repayment and interest only loans will be taken out with the exact split being determined by a number of factors including

- Anticipated residual value at given points during the asset lifecycle
- Council risk appetite at the time of acquisition
- The split of repayment and interest only loans for the portfolio as a whole

## Investment Locations

The Chartered Institute of Public Finance Accountants (CIPFA) control the way in which Councils operate and provide guidance to the external auditors on all aspects of Council finances. CIPFA are advocates of investment in district boundary only, but recognise there may be need to go beyond the boundary where limited in-boundary opportunities exist.

The Council will look to invest in-area at Chesterford Research Park using the £20million agreed in principle at the February 2019 Full Council Meeting.

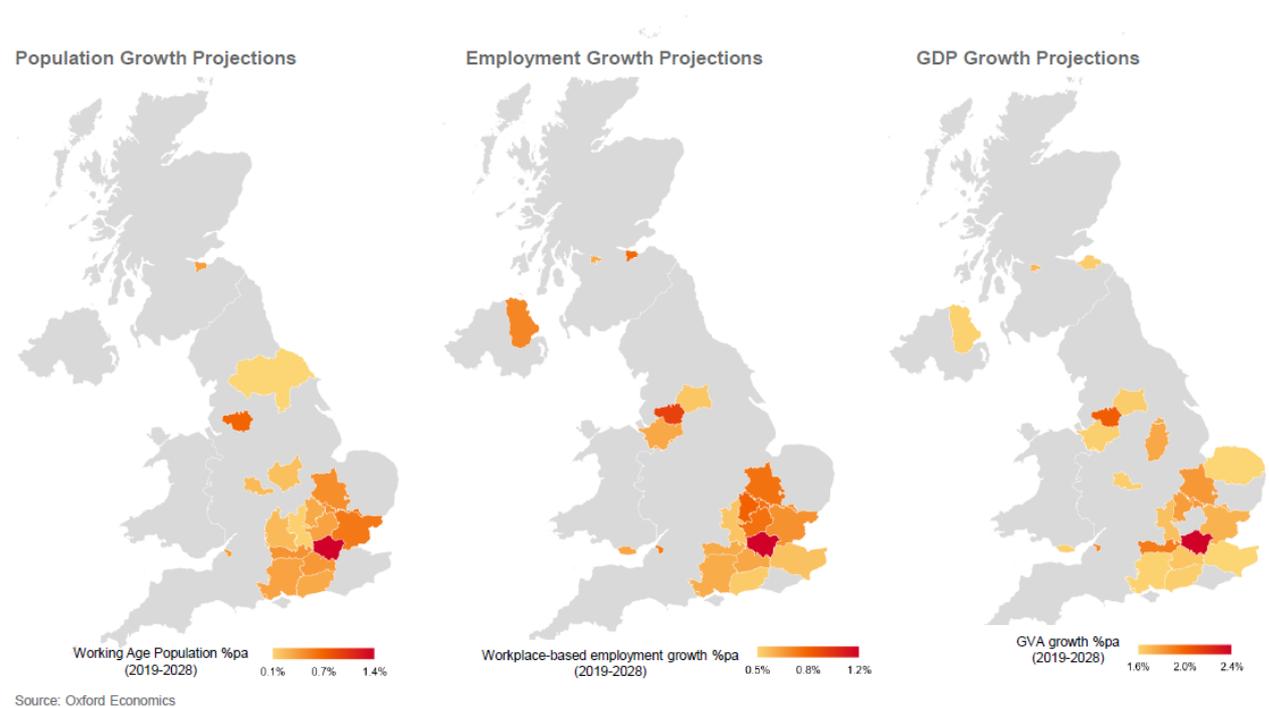
The Full Council in February 2019 also agreed an in principle sum of £80million for investments outside of CRP. This sum will, in the main, be invested out of area to offset risks of investing in a small geographical area and to reflect the limited opportunities that exist within the Uttlesford boundary. To minimise risk to the investment the Council will concentrate on areas with above average;

Population growth projections

Employment growth projections

Gross Domestic Product (GDP) growth projections

Examples of suitable areas can be seen in the three UK maps below which are taken from the 10 year Economic Projections (2019 – 2020) – locations that are projected to outperform the UK Average prepared by Oxford Economics.



## Evaluation Criteria

Given the large number of opportunities that are presented to the Council an evaluation matrix (RAG based) will be used. The precise matrix will be agreed by the Investment Steering Group but will be similar to that attached at Appendix One. Only opportunities that are devoid of red areas will move forward to the Investment Steering Group for consideration.

## Key Performance Indicators (KPIs)

A suite of KPIs will be developed by the Investment Steering Group in discussion with the Cabinet which will be regularly monitored and reported. These KPIs will be used, as part of suite of information, to inform future investments and disposals

and therefore the make-up of the portfolio. Examples of suitable KPIs are included at Appendix Two.

## Appendix One – Evaluation Matrix

	Location	Asset Style / Sector	Letting Risk (Void / lease length)	Depreciation Risk	Diversification	Income Yield / Rental Growth	
SUITABILITY 	High	Highly sustainable urban locations, High population and employment growth, high demand, Constrained land supply	Multi-let city centre/ mixed use investments	Multi-let / 10 years + Single-let / 15 years +	Minimal: <5% of asset's value every 10 years	Multi-let, large lot size	IY: 4.5% - 6%, positive rental growth
		Average population and employment growth, Good levels of occupational demand	Well connected multi-let industrial in supply constrained locations	Multi-let / 7-10 years Single-let / 10-15 years		Multi-let, small lot size	IY: 4.25% - 4.5%, positive rental growth
		Lower growth locations Limited population and employment growth Demand <= Supply	Investments with inflation linked leases	Multi-let / 5-7 years / Single-let / 8-10 years	Low: 5-10% of the asset's value every 10 years	Single-let, small lot size	IY: 6% - 7% and limited rental growth
		Business parks / Offices in remote locations	Convenience retail Retail shops in dominant locations	Multi-let / 3-5 years Single-let / 5-8 years			
		Out-of-town, non-core, peripheral locations High levels of vacancy with limited occupational demand	Smaller-sized hotels in high tourist locations	Multi-let / 1-3 years	High: >20% of asset's value every 10 years		IY: sub 4%
			Large single-let Distribution warehouses	Vacant Single-let / < 5 years		Single let, large lot size	IY: 8%+ and significantly negative rental growth
	Low	Smaller sized retail in less dominant locations Secondary shopping centres			Comprehensive refurbishment or redevelopment		

Appendix Two – Examples of possible KPIs

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>
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>
Investment cover ratio	<i>The total net income from property investments, compared to the interest expense.</i>
Loan to value ratio	<i>The amount of debt compared to the total asset value.</i>
Target income returns	<i>Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.</i>
Benchmarking of returns	<i>As a measure against other investments and against other council's property portfolios.</i>
Gross and net income	<i>The income received from the investment portfolio at a gross level and net level (less costs) over time.</i>
Operating costs	<i>The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.</i>
Vacancy levels and Tenant exposures for non-financial investments	<i>Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.</i>

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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