

Uttlesford District Council

Chief Executive: Peter Holt

Investment Board

Date: Wednesday, 2nd February, 2022

Time: 6.00 pm

Venue: Zoom

Chair: Councillor N Reeve

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

Independent Member: R White

AGENDA PART 1

1 Apologies for Absence and Declarations of Interest

To receive any apologies for absence and declarations of interest.

2 Minutes of the previous meeting

3 - 6

To consider the minutes of the previous meeting.

3 Commercial Strategy 2022 - 2027

7 - 27

To consider the Commercial Strategy 2022 – 2027.

For information about this meeting please contact Democratic Services

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**INVESTMENT BOARD held on ZOOM on THURSDAY, 11 NOVEMBER 2021
at 6.00 pm**

Present: Councillor N Reeve (Chair)
Councillors G Bagnall, C Criscione, N Hargreaves, A Khan,
P Lavelle, G LeCount, J Lodge, R Pavitt, G Sell and J De Vries

Officers in attendance: P Holt (Chief Executive), C Gibson (Democratic Services Officer) and A Webb (Director - Finance and Corporate Services).

IB11 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies for absence were received from R White (Independent Member) and for lateness from Councillor De Vries.

IB12 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 27 July 2021 were approved.

IB13 UDC PROPERTY PORTFOLIO Q1 2021/22 REPORT

In light of the Q2 2021/22 report also being on the agenda, the Director – Finance and Corporate Services gave a brief summary of the Property Portfolio Q1 2021/22 report that set out the quarterly performance for the Council.

He said that the Nucleus negative sum was based on an assumption that the building would operate at a loss for the next eight years.

IB14 UDC PROPERTY PORTFOLIO Q2 2021/22 REPORT

The Director – Finance and Corporate Services gave a summary of the Property Portfolio Q1 2021/22 report that set out the quarterly performance for the Council.

He said that Chesterford Research Park was fully let with the exception of two small rooms in the garden cottages. He highlighted the latest increase in the valuation of the park to over £170m and confirmed that all rent and service charge payments had been received. He updated Members on the properties at Takeley and Livingstone. He confirmed that there had been a change of insurer in respect of the Waitrose Distribution Centre and that all insurance payments were now up to date. He said that B&Q at Stane Retail Park was now open, and that Aldi expected to open early in December 2021. The Distribution Centre at Gloucester was aiming to be operational by the end of November 2021 and there would be no loss of income due to three weeks slippage. Works at the MOOG HQ, Tewkesbury were progressing well. He referred Members to the total asset

valuation at the end of September 2021 as £221.5m and explained that the value of the MOOG HQ at Tewkesbury would be significantly increasing.

The Director – Finance and Corporate Services provided an update to Members on possible future acquisitions. He corrected an error on page 84 in that the figure should be £163.5m and said that there had been no changes made to the risk register.

Councillor De Vries joined the meeting at 6.35 pm.

In response to various questions, the Director – Finance and Corporate Services:

- clarified that the “Net Yield” figure shown on page 89 of 4.76% was the figure before borrowing costs were taken out and should probably just be called “Yield”.
- said that the increased valuation figure for Chesterford Research Park reflected an increased demand for life science research and there was clearly a high demand at the research park.
- explained the mixed borrowing strategy being utilised over different time periods.
- said that everything was currently on hold in the light of the Prudential Code consultation and proposed changes to Minimum Revenue Provision and possible debt caps.

The Chair thanked the Director – Finance and Corporate Services for his report and said that the investments were currently reflecting a healthy position.

IB15

PRUDENTIAL CODE CONSULTATION AND PROPOSED CHANGES TO MINIMUM REVENUE PROVISION AND POSSIBLE DEBT CAPS

The Chair introduced the item and referred to an excellent Members’ briefing having been given by the Chief Executive and the Director – Finance and Corporate Services earlier that week.

The Chief Executive said that there was nothing new to report since the Members’ briefing but there was likely to be within the next few weeks. He referred to the recommendations to Cabinet in the report and the likely change of brief to the Investment Board moving forward, in that it was more likely to relate to managing an asset portfolio over a longer period of time, with the net yield inevitably reducing.

In response to various questions, the Chief Executive and the Director – Finance and Corporate Services:

- explained the roles being played by the Government and CIPFA in this consultation and what has caused the need for this consultation to take place. CIPFA was fundamentally opposed to commercial development by Councils.
- said that introductory supportive conversations had taken place with the MP for Saffron Walden, who was also the Minister of State for Levelling Up Communities.

- said that the Prudential Code and the Minimum Revenue Provision would apply to anything that UDC had an interest in and there would be a clear need to comply.

Councillor Lavelle left the meeting at 7.07 pm.

Councillor Hargreaves gave his support to the proposed wording to CIPFA as detailed in paragraph 12 of the report. No objections were expressed by Members.

The Director – Financial and Corporate Services that the wording “financial appraisal” related to each individual asset. He said that his team were currently undertaking various modelling activities but that ultimately it would be the responsibility of external auditors to interpret the Prudential Code

Councillor Pavitt left the meeting at 7.23 pm.

Members encouraged officers to continue to talk to the Saffron Walden MP on this issue.

The Chair outlined the reasons why the Council had taken forward investments, primarily to look for income to maintain services at sufficient levels. He raised a question on behalf of Councillor Evans relating to the possibilities of utilising leaseback schemes.

The Director – Finance and Corporate Services said he would not rule it out but that there should not be “workaround” schemes and that the Prudential Code was a “catch-all”.

Councillor De Vries left the meeting at 7.34 pm.

Members debated the merits of either putting forward a joint statement by Group Leaders or a motion to Council on this issue.

The Chief Executive agreed that he would work with the Director – Finance and Corporate Services that could create a narrative for all groups to agree on and that they would take soundings, particularly in terms of the timing of any actions.

Members showed no dissent to the Chief Executive’s comments about the brief of the Investment Board needing to change as it moved forwards.

Councillor Criscione said that the Investment Board should meet quarterly, and the Chair supported this view.

No dissent was shown to the recommendations detailed in paragraph 2 of the report.

AGREED that Members of the Investment Board recommend to Cabinet to: -

- a. Agree the response to the CIPFA consultation as set out in Appendix One; and
- b. Note the position in respect of Minimum Revenue Provision (MRP) and possible debt caps; and
- c. Confirm that there will be no additional investment portfolio acquisitions until the changes to financial rules, MRP and caps have been clarified.

The Chair confirmed that the Independent Member had been brought up to speed on these issues. He thanked the Chief Executive, the Director – Finance and Corporate Services and his team for all their good works.

The meeting closed at 7:50 pm.

Committee: Investment Board
Title: Commercial Strategy 2022 - 2027
Report Author: Adrian Webb, Director - Finance and Corporate Services
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Tel: 01799 510421

Date:
Wednesday, 2
February 2022

Summary

1. The Commercial Strategy 2022 – 2027 is presented for comment ahead of it going to Cabinet for approval and Council for adoption. The Investment Board has the opportunity to question, amend, endorse the strategy ahead of its progress alongside the budget reports to adoption on 22 February 2022.

Recommendations

2. It is recommended that Members endorse the Strategy, subject to any agreed amendments.

Financial Implications

3. All financial implications are built into the 2022/23 budget and the five year MTFS

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

Impact

Communication/Consultation	The strategy aligns with the 2022/23 budget the basis of which was subject to public consultation in Autumn 2021
Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	The strategy enables the Council to remain sustainable over the medium term
Ward-specific impacts	None

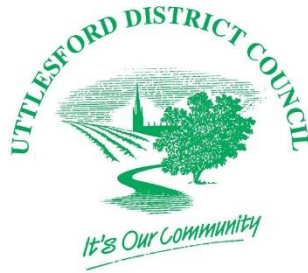
Workforce/Workplace	None
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Situation

5. The Commercial Strategy 2022 -2027 has been written to reflect the changes announced regarding Minimum Revenue Provision (MRP) and the Prudential Code (The Code).
6. Combined the changes have significant impact on both the future commercial plans for the Council and the financial position ongoing.
7. The changes on MRP and The Code are set out in paragraphs 6 – 8 of the attached Strategy.
8. It should be noted that the changes to The Code do not result in the requirement for the Council to sell any assets either now or in the future.
9. In light of the changes there are now seven key elements to the future of the commercial portfolio
 - a. There will be no new commercial investments.
 - b. Subject to (d) and (e) below, The portfolio, as set out in this document is therefore complete. Of the £300 million allocated in 2020 to building the fund, £275,565,000 (£275 million) has been used.
 - c. MRP will be applied on an annuity basis over the life of each asset.
 - d. As the Council already owns, through Aspire (CRP) Ltd, the land at Chesterford Research Park it will continue to develop the asset to maximise its value.
 - e. As the Council already owns 46% of Stane Retail Park, which includes all of the public car parking, link roads and other shared elements for the entire site, it will evaluate the option of acquiring the rest of the asset to maximise the value of the already owned part. This would be done on the basis that the sum of the whole is worth more than the sum of the constituent parts.
 - f. The portfolio will be reviewed on a regular basis to determine the requirements of the Council and the appropriateness of retaining or selling each asset.
 - g. The Council will look to maintain the commercial asset portfolio at an investment level of no more than £275 million. However, it should be noted that investments may need to take place ahead of sales which could temporarily increase that number.

Risk Analysis

10. Risks are identified within the Strategy.



Uttlesford District Council

Commercial Strategy 2022 to 2027



Prepared by:
Commercial Team
Uttlesford District Council
January 2022

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1. 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. By way of illustration, a 1% rise in Council Tax is equivalent to about £55,000 in additional income.
2. When the 2020-2024 Commercial Strategy was approved in February 2020, the Administration indicated that they proposed to address the significant shortfalls identified in the Medium Term Financial Strategy (MTFS) primarily through investments. To achieve that the Council agreed to set an investment fund approved limit of £300 million.
3. The 2021-2026 MTFS, which included the investment income from all of the agreed commercial acquisitions, predicted small surpluses for each of the years from 2022/23 onwards. As future years were added to the plan the additional costs will in part be offset by increases in rent from the investments.
4. Changes in both the CIPFA Prudential Code (the Code) and Government legislation on Minimum Revenue Provision (MRP) now mean that 2022-2027 MTFS has significant and rising shortfalls in funding despite the commercial portfolio that has been acquired. It is likely that in 2022/23 an asset will need to be sold with the profit being used to offset future capital funding and thereby reducing the annual shortfalls to a less significant level.

Vision

5. To generate sufficient income to enable the Council to be self-sufficient, in that it generates its own resources from local taxation (Business Rates and Council Tax) and commercial investments thereby removing the reliance on Central Government grants.

CIPFA Prudential Code 2021 (the Code) and Minimum Revenue Provision (MRP)

6. The Code was revised and published in December 2021. There are a number of changes but two in particular have a negative impact on future commercial investments
 - The Code previously said commercial activity should not be undertaken for yield. The Code now says 'an authority must not borrow to invest primarily for financial return'.
 - It further strengthens the statement by 'It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any

financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.'

7. There are useful points of clarification which enable the Council to continue to invest in Chesterford Research Park and retain the existing commercial assets, subject to regular review.
 - a) 'Authorities with existing commercial investments (including property) are not required by this Code to sell these investments. Such authorities may carry out prudent active management and rebalancing of their portfolios. However, authorities that have an expected need to borrow should review options for exiting their financial investments for commercial purposes and summarise the review in their annual treasury management or investment strategies. The reviews should evaluate whether to meet expected borrowing needs by taking new borrowing or by repaying investments, based on a financial appraisal that takes account of financial implications and risk reduction benefits. Authorities with commercial land and property may also invest in maximising its value, including repair, renewal and updating of the properties.'
 - b) 'the risks associated with investments for service and commercial purposes are proportionate to their financial capacity – ie that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.'
8. The Government has also strengthened the position with regards to MRP. Councils are now required to set aside annually monies, so as to ensure that, at the end of the borrowing term, there is sufficient funds available to pay off the amount borrowed. This Council has always applied MRP at 0% as the approach now mandated takes no account of inflation and future values.

Aims of the Strategy

9. Given the changes in the Code and MRP the following seven principles guide the new strategy
 - (a) There will be no new commercial investments.
 - (b) Subject to (d) and (e) below, The portfolio, as set out in this document is therefore complete. Of the £300 million allocated in 2020 to building the fund, £275,565,000 (£275 million) has been used.
 - (c) MRP will be applied on an annuity basis over the life of each asset.
 - (d) As the Council already owns, through Aspire (CRP) Ltd, the land at Chesterford Research Park it will continue to develop the asset to maximise its value.
 - (e) As the Council already owns 46% of Stane Retail Park, which includes all of the public car parking, link roads and other shared elements for the entire site, it will evaluate the option of acquiring the rest of the asset to maximise the value of the already owned part. This would be done on

the basis that the sum of the whole is worth more than the sum of the constituent parts.

- (f) The portfolio will be reviewed on a regular basis to determine the requirements of the Council and the appropriateness of retaining or selling each asset.
- (g) The Council will look to maintain the commercial asset portfolio at an investment level of no more than £275 million. However, it should be noted that investments may need to take place ahead of sales which could temporarily increase that number.

Purpose of the Investments

- 10. The investments are to generate income to enable the council to provide its core services. This income requirement has arisen because of reductions in the Council's finance from central government. Government also restricts the ability of councils to raise income from council tax increases.
- 11. The Council seeks to operate in the most cost effective ways and will continuously look for improvements in operations that will reduce costs or avoid increased costs. However, the scale of reduction in external finance was such that other income sources had to be found.
- 12. For 2021/22 the income target for the Board was guided by the MTFS. The MTFS forecasts the income and expenditure over a five year period and includes all known factors. It shows the predicted annual net surpluses or deficits. The investment income sought to cover the forecast significant deficits in each of the years of the MTFS, so as to ensure that existing services can continue to be provided. The investments acquired achieved this, however changes to the Code and MRP now mean that the assets are required to support budgets as the Council seeks efficiencies whilst minimising inevitable service impacts.

Current Portfolio

Chesterford Research Park

- 13. 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.
- 14. 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 5 July 2017 with the remainder as follows

5 July 2020 - £12m

5 July 2021 - £15m

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

15. Since the initial purchase the Council has made additional ongoing loans to Aspire (CRP) Ltd for further development totalling £13,346,000 taking the total investment to £60,596,000.

16. For 2022/23 the income from Chesterford Research Park is expected to be £2,411,000. There is also repayment to the Council of staff time whilst undertaking company work on Aspire (CRP) Ltd.

17. Further investment is planned during 2022/23 and future years as a new building (Building 800) is delivered. This will be a multi-let, near 60,000 sq ft building, a mix of office and laboratory space.

Skyway House, Takeley

18. On 30 June 2020 the Council completed the purchase of Skyway House at Takeley. The tenant is Weston Homes Plc who have signed a long lease.



Stane Retail Park, Colchester

19. On 4 August 2020 the Council completed on the forward funding opportunity at Stane Retail Park on the outskirts of Colchester adjacent to the A12. This will see the construction of two buildings, one for Aldi and the other for B&Q located on an extension to the existing site. Both tenants have agreed long leases. Completion took place in December 2021.





1 Deer Park Road, Livingston

20. On 21 August 2020 the Council completed on the acquisition of 1 Deer Park Road, Livingston. The tenant, Veterinary Specialist (Scotland) Ltd had recently taken occupation and final fit out was taking place.



21. At the time of purchase Veterinary Specialist (Scotland) Limited was a partnership between Pets At Home (Guarantors) and Dick White Referrals. Pets At Home have remained the guarantor but they have sold their interest to Linnaeus Group. Dick White Referrals have also joined Linnaeus Group which is part of the Mars Veterinary Health Group.

Matrix Park, Chorley

22. On 16 September 2020 the Council completed the purchase of a large logistics building on Matrix Park, Chorley adjacent to the M6. The tenant, on a long lease, is Waitrose Limited and this regional distribution centre serves the north west and Scotland.



Amazon, Gloucester

23. The Council completed the forward funding acquisition in March 2021 for a large scale distribution centre. The tenant is Amazon and they will use it as a 'final mile' van based distribution centre. Occupation by the tenant is planned for the final quarter of 2021/22.





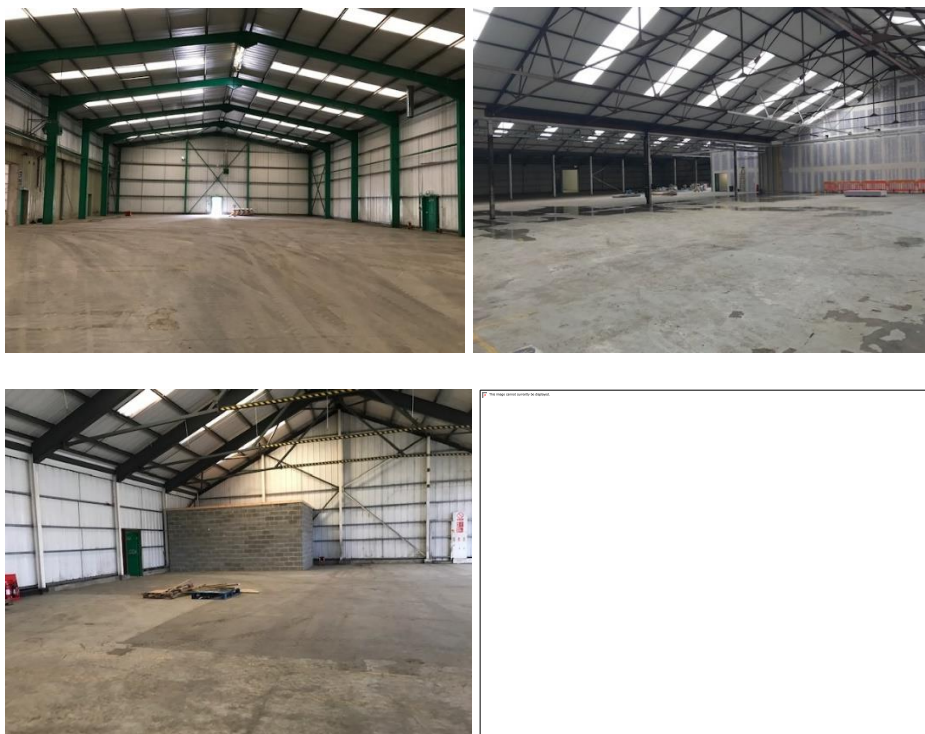
Moog, Tewkesbury

24. In March 2021 the Council acquired a site in Tewkesbury for a new build head office and warehouse. The tenant will be Moog Controls Ltd. It is expected that the tenant will take occupation in the second quarter of 2022/23.



Little Canfield Business Park

25. In November 2020 the Council acquired the former Winfresh Factory at Little Canfield, primarily as a new single waste depot. The site has a significant area of both building and land that will be let to tenant(s) once the conversion is complete. The site is planned to be ready for occupation in the first quarter of 2022/23.



Loans to wholly owned subsidiaries

26. 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. To date, the following loans to Aspire (CRP) Ltd have been made

Date	Amount	Term	Rate	Basis	Annual Repayment	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	£9,000.00	
02/01/2019	£2,518,000	48 years 4 months	4%	Interest only	£101,000.00	
20/08/2019	£3,000,000	20 years	4.5%	Interest and principal	£135,000.00	
09/06/2020	£1,250,000	20 years	4.5%	Interest and principal	£56,000	
01/07/2020	£2,600,000	20 years	4.5%	Interest and principal	£117,000	
15/03/2021	£2,975,000	20 years	4.5%	Interest and principal	£121,000	
26/08/2021	£780,000	20 years	4.5%	Interest and principal	£20,000	

27. Interest only loans relate to refurbishment of a building and thereby extending its useful life. Interest and principal loans are where it is for fit out works which have a 20-year life expectancy.

28. In 2020 the Council allocated a further £20 million of funding, from the £300 million, for further expansion at CRP, of which £12.62 million remains to be allocated.

The Investment Fund

29. The original 2020 Commercial Strategy set out an investment fund requirement of £300 million with a portfolio yield target (before borrowing costs) of 4%. As set out earlier completion of that portfolio sum is not now an option. The following table shows the current portfolio position and is split into two parts

- Completed investments – those already in the portfolio
- Future committed investments – forward funding approved yet to complete

£'000	Capital Investment (exc. Fees)
<u>Completed Investments</u>	
Chesterford Research Park	60,596
Weston Homes	20,000
Veterinary Hospital	5,925
Stane Retail Park	30,424
Waitrose Retail Distribution Centre	55,000
Little Canfield Business Park	7,500
	179,445
<u>Future Committed Investments</u>	
Chesterford Research Park	12,620
Amazon Distribution Centre	43,000
Moog Circuits Ltd	40,500
	96,120
<u>Investment Total</u>	275,565

30. With the change in the Code and MRP the Portfolio is now complete, and no further assets will be added.

31. In a full year the portfolio yield, once all outstanding acquisitions are completed, will have a yield of 4.8%. The rental income for the next five years is shown in the following table.

£'000	Capital Investment (exc. Fees)	Annual Rental Income				
		2022/23	2023/24	2024/25	2025/26	2026/27
Completed Investments						
Chesterford Research Park	60,596	2,449	2,449	2,449	2,449	2,449
Weston Homes	20,000	1,171	1,200	1,230	1,261	1,276
Veterinary Hospital	5,925	333	333	333	333	333
Stane Retail Park	30,424	1,784	1,830	1,878	1,927	1,977
Waitrose Retail Distribution Centre	55,000	2,508	2,508	2,508	2,508	2,508
Little Canfield Business Park	7,500	263	350	350	350	350
	179,445	8,508	8,670	8,748	8,828	8,893
Future Committed Investments						
Chesterford Research Park	12,620	-	-	603	603	603
Amazon Distribution Centre	43,000	2,280	2,280	2,280	2,280	2,585
Moog Circuits Ltd	40,500	1,520	1,667	1,667	1,667	1,835
	96,120	3,800	3,947	4,550	4,550	5,023
Investment Total	275,565	12,308	12,617	13,298	13,378	13,916

* Little Canfield Business Park – Income is not shown in the investment income line in the MTFS it is shown within the General Fund budget as is other rental income of UDC occupied buildings (i.e.London Road)

The Portfolio Moving Forward

32. The original plan had been to acquire assets, hold them for a period of time to generate income, but then to sell them at the appropriate time to realise a sum at least the level of which was paid for the asset. The monies received would then be reinvested in a new asset and the process repeated. By doing this the need to refurbish buildings, find new tenants etc. would be avoided and the portfolio kept 'current'.
33. The changes introduced by Government and CIPFA have resulted in the need to revise the plan for the portfolio moving forward. It will not now be possible to sell assets and buy new, the council will need to retain the assets for the longer term.
34. In line with the need to retain the asset for a longer period of time it will now be necessary to set aside some of the income raised each year into a reserve to cover increased risk of business failure and future costs of refurbishment at the end of lease.
35. The Council is committed to investing in Chesterford Research Park and changes to the Prudential Code do not stop it from doing so. 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.

36. Regular reviews of all assets in the portfolio will be undertaken to determine the most appropriate point in time for sale, and to highlight timescales for refurbishments. The reviews will not only look at the asset itself but also the financial position of the Council and the opportunities that could be addressed if an asset is sold for a profit.
37. It is likely that in the final quarter of 2022/23 the Council will need to sell an asset to enable future balanced budgets to be set.

Funding and Reserves

38. With the uncertainty over changes to the Code and MRP resolved, the Council can now arrange long term funding. It is likely that this will be done in three tranches during 2022/23 to coincide with the end dates for short term financing.
39. With monies being set aside to repay the principal annually through MRP these loans will in future be on a repayment basis over 35 years. The reason for moving to repayment loans is that the new Code requires the Council to demonstrate that its debt levels are reducing.
40. The new strategy requires a Commercial Asset Reserve to be established to cover costs at the end of the tenancy for each asset (except CRP). This reserve will pay for any refurbishment, void period and rent free period for new tenants. The lease terms and approximate costs of refurbishment over the period 2022 – 2070 have been mapped and timings of costs established. The resulting position is that a sum of £1 million per annum, from the investment income, will be placed in the reserve.
41. This reserve will grow without being drawn upon for a number of years but will then be heavily used between years 15 and 25 as most of the assets have lease expiry at that point in time.

Performance Reporting

42. A quarterly report is produced for the portfolio. This includes a
 - a) professional valuation undertaken by a market leading specialist for each asset
 - b) commercial market trading update to help inform investment decisions
 - c) report on each asset by professional asset managers who are responsible for tenant liaison, rent collection, rent reviews etc.
43. As at 30 September 2021 the value of the completed acquisitions is set out below

Property	Price paid (including future commitments)	Amount paid as at 30 September 2021	September 2021 valuation
	£	£	£
Colchester, Stane RP	30,424,000	7,500,000	11,000,000
Chorley, Waitrose RDC	55,000,000	54,608,773	60,150,000
Livingston, 1 Deer Park	4,758,374	4,758,374	5,125,000
Takeley, Skyway House	20,000,000	19,500,000	19,600,000
Gloucester, Amazon	43,000,000	20,589,660	23,600,000
Tewkesbury, MOOG	40,500,000	11,953,310	16,950,000
	193,682,374	118,910,117	136,425,000
Aspire (CRP) Ltd	60,596,000	60,596,000	85,125,000
Total Portfolio	254,278,374	179,506,117	221,550,000

Security, Liquidity and Yield

44. As the Council only has a small amount of money of its own to invest, any further expansion at CRP 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 an average portfolio yield target of 4% (before cost of borrowing).
45. 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 Chesterford Research Park will be undertaken by the Council.
46. The option to liquidate funds is either by selling the investment (or part thereof) or by refinancing the debt.

Risks

47. 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

48. For Aspire (CRP) Ltd the Council has appointed two non-executive directors to serve on the Board and bring independent challenge and support.

49. There are five main risks with regard to the wider portfolio and the new strategy of asset retention.

Risk	Probability (L, M, H)	Favourable Impact (L, M, H)	Adverse Impact (L, M, H)	Mitigation
Tenant default rent payments	M	L	H	The Council has established a Commercial Asset Reserve, one role of which is to mitigate the budget impact of this risk occurring.
Cost of borrowing increases beyond yield	L	L	H	The Council will enter in to long term funding during 2022/23 in a number of tranches.
Refurbishment costs at end of lease are materially different to budget	M	M	M	Estimates for refurbishment have been made based on experiences at CRP. As this element of the Commercial Asset Reserve is unlikely to be used for the next 15 years there will be sufficient funds to cover any shortfall.
Unable to find new tenants resulting in void periods being longer and/or new tenants want longer rent free periods than budgeted	M	L	H	Estimates for reasonable periods for void and rent free periods based on advice from agents. As this element of the Commercial Asset Reserve is unlikely to be used for the next 15 years there will be sufficient funds to cover any shortfall in income.
The joint venture partner at CRP wants to sell their 50% share	L	H	H	The Council would have three options and would choose the most applicable at the time <ol style="list-style-type: none"> 1. Buy the JV partner's share 2. Sell the Aspire share at the same time 3. Accept whoever the new JV partner is

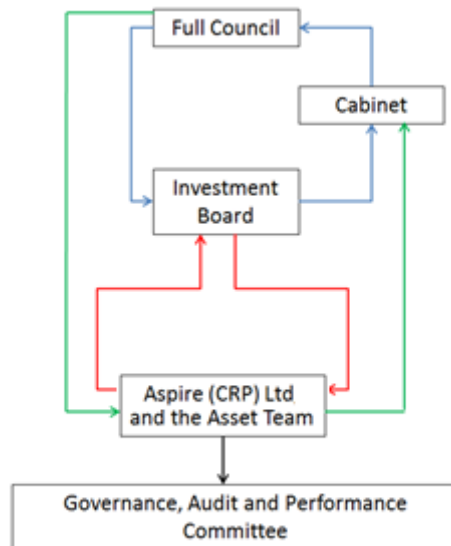
Proportionality

50. The income requirement has arisen as a result of reductions in the Council's finance from central government. Government also restricts the ability of councils to raise income from council tax increases.
51. The Council has established a Commercial Asset Reserve (see para 40) which will be established with the sum of £3 million to cover the risk of investment failure. In addition, the Reserve will increase by £1 million per annum to cover the cost of future refurbishment, void and rent free periods for each of the assets, except CRP.
52. As part of the regular review of the portfolio the Council will look to, at the right points in time, reduce the level of borrowing in place by selling one or more of the assets.

Capacity, Skills and Culture

Investment Board (IB)

53. 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 the Economy, Investment and Corporate Strategy and the S151 Officer (or Assistant Director of Resources for Aspire investments) to conclude investments or disposals where authorisation has been given by Full Council.
54. Constitution of the IB
 - a) The IB is a Working Group of Cabinet and membership will be determined by the Leader of the Council
 - b) In addition there will be two independent members to supplement the skills of the elected Members.
55. The investment decision making and monitoring process is as set out overleaf



56. Democratic Process (blue line)

- a) 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.
- b) Council adopts the Commercial Strategy.
- c) The Cabinet will receive from the IB quarterly updates, including KPIs, on the performance of the portfolio.
- d) For new investments or disposal of existing, the IB reviews the business case and if appropriate supports a recommendation to Cabinet for the acquisition or disposal.
- e) Cabinet reviews the business case and recommendation for either an acquisition or disposal, and if satisfied recommends to Council that either funding is made available, or the disposal is approved.

57. Internal Process (red line)

- d) Aspire (CRP) Ltd looks after developments at Chesterford Research Park. The Council's Asset Team will manage all other non-CRP commercial investments.
- e) Depending on the category of investment or disposal sought, Aspire (CRP) Ltd or the Asset Team, working with professional advisors, will identify assets which meet the requirements set out by the IB. They will prepare business cases for consideration by the IB. The IB will review and consider the cases in detail and if suitable will make the recommendation to the Cabinet to proceed. Approval by the Board of Aspire (CRP) Ltd is also required prior to submission to the IB.

- f) Aspire (CRP) Ltd, along with the Asset Team, prepare the quarterly KPI and other information for submission to the IB.

58. New investments or disposal of existing assets (green line)

- a) At an Extraordinary Meeting of Council a decision is taken on whether or not to allocate the funding for a new investment or agree to the disposal of an existing asset.
- b) If an investment is agreed, funding will be made available to Aspire (CRP) Ltd or to the Asset Team to enable the purchase to be made in accordance with paragraph 53.
- c) If the authority is for a sale the disposal will be undertaken in accordance with paragraph 53.

59. A report on annual performance of Aspire (CRP) Ltd is presented to Cabinet