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Uttlesford District Council

Chief Executive: Peter Holt

Investment Board

Date: Thursday, 19th January, 2023

Time: 6.00 pm

Venue: Zoom - <https://zoom.us/>

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

Open to Public and Press

1 Apologies for Absence and Declarations of Interest

To receive any apologies for absence and declarations of interest.

2 Minutes of the Previous Meeting

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To consider the minutes of the previous meeting.

3 Commercial Strategy 2023 - 2028

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To consider the first draft of the Commercial Strategy 2023 – 2028.

For information about this meeting please contact Democratic Services

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Agenda Item

**INVESTMENT BOARD held at COUNCIL CHAMBER - COUNCIL OFFICES,
LONDON ROAD, SAFFRON WALDEN, CB11 4ER, on TUESDAY, 20
DECEMBER 2022 at 6.00 pm**

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

Officers in attendance: A Webb (Director – Finance and Corporate Services) and
C Gibson (Democratic Services Officer)

Ind. Member: R White.

IB6 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

The Chair opened the meeting and welcomed all Members to the first in-person meeting held since the pandemic. In response to various comments from Members, he accepted that, from a governance and risk assessment viewpoint, meetings of the Investment Board should have been held quarterly as previously agreed. The Director of Finance and Corporate Services outlined the various timing issues that arose in terms of when valuations were being received.

Apologies for absence were received from Councillors Criscione, LeCount and De Vries.

There were no declarations of interest.

IB7 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 29 June 2022 were approved.

IB8 UDC PROPERTY PORTFOLIO Q1 & Q2 2022/23 REPORT

The Director of Finance and Corporate Services presented the Property Portfolio Q1 and Q2 report of 2022/23. The report covered two quarters, as there had been delays in the revaluation of the vacant building plots at Chesterford Research Park (CRP).

He said that all information in the risk assessment was in respect of the September 2022 positions. He outlined the CRP valuation as at September 2022 and said that all December 2022 valuations were likely to dip following the September 2022 mini-budget but that the market was settling down again. He said that the yield had increased to 5.21%, as a result of an uplift in the rent from Waitrose at Chorley.

Members discussed:

- Terminology used in respect of yield figures and a request to show the net contribution sum being made to Council income after all the costs had been taken out. The Independent Member gave a clear explanation as to how the Investment Board should be assessing the Council's assets in light of the various terminologies. It was agreed that in future a "crib sheet" would be included that explained all key terminology and that this would ensure transparency.
- The CRP valuation in September 2022. The Director of Finance and Corporate Services explained that the three negative valuations had occurred as there had been a re-tender of the park operator and that as a result more monies were being paid out to Cushmans for service charges. He agreed that a note should be included to explain these negative valuations.
- The fluctuating cost of borrowing. The Director of Finance and Corporate Services said that he would look in future to give Members a greater feel as to what had been happening in respect of borrowing costs.
- The increased income from Waitrose at Chorley; this had come about because of a five year rent review and reflected the fact that the local market area had widened.
- The valuation for Nucleus that was showing at minus £5.3m in September 2022; the Director of Finance and Corporate Services said that we would be looking at a similar valuation for December 2022. He also stated that use of the facility was being made for events such as weddings and long service awards.
- Capital values; the Director of Finance and Corporate Services said that the only asset that had reduced in value was Skyway House, Takeley and that this possibility had always been recognised at the time of the investment.
- The Risk Register; Members were generally comfortable with the register. The Director of Finance and Corporate Services said that an additional note would be added to explain why the impact on tenant default had reduced to a rating of 3. This was because monies had been put aside to offset amongst other things the risk of rent default.
- The financing arrangements, particularly the borrowing rates from other local authorities. The Director of Finance and Corporate Services said that the Council had borrowed in advance of need in September 2022 and that this had provided protection until June 2023. Rates of borrowing between local authorities was currently around 3.75% and that he had modelled a borrowing figure of 4% into the budget. He said that interest rates were predicted to peak in Summer 2023.
- The Tewkesbury acquisition, where it was stated that the valuation on completion would increase significantly.

Members noted the report.

IB9

COMMERCIAL STRATEGY 2023 - 2028

The Chair introduced the item. He said that the update had followed a robust discussion a year ago and he outlined changes made, particularly relating to the Vision statement in Paragraph 4.

The Director of Finance and Corporate Services outlined his report which was the first draft of the Commercial Strategy 2023 – 2028 for consideration by the Board. He explained the logic behind the proposed changes to the Vision statement and that the various other changes largely related to updated positions on each investment in the portfolio.

Members discussed:

- Possible governance concerns, in that the strategy document had not shown changes made since the previous strategy document had been agreed.
- The adequacy of Paragraphs 1 – 3 of the Introduction as to whether enough scene setting background information had been included.
- The lack of reference to ethical issues; the Chair pointed out that there was an Ethical Investment Policy in place.
- The reference in Paragraph 37 to the likelihood of the Council needing to sell any assets to enable future balanced budgets to be set.

The Chair was unable to get agreement to support the document as various Members considered that they needed to see exactly what changes had been made since the previous Commercial Strategy had been agreed.

The Director of Finance and Corporate Services said he could circulate appropriate documents to all Members that would ensure the changes had been highlighted and that this item would then need to be brought back to a further meeting of the Investment Board, early in the new year.

This way forward was agreed.

The Chair thanked the Director of Finance and Corporate Services and the Independent Member for their significant input to the meeting.

Meeting closed at 7.30 pm

Agenda Item

Committee: Investment Board

Date:

Title: Commercial Strategy 2023 - 2028

Thursday, 19
January 2023

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

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Tel: 01799 510421

Summary

1. This is the second draft of the Commercial Strategy 2023 – 2028 for consideration by the Board. It follows discussion at the last Board meeting and comments received by Board members after that meeting.

Recommendations

2. The Board recommends the submission of the Strategy to Cabinet as part of the 2023/24 budget setting process, subject to any agreed changes at the meeting.

Financial Implications

3. None directly relating to the strategy.

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

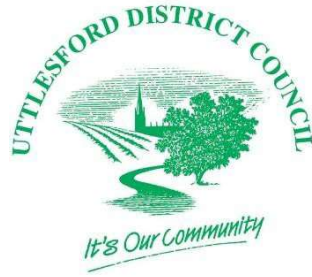
5. At the Board meeting held on the 22 December 2022 it was agreed that a track change version showing changes from the 2022 – 2027 Commercial Strategy would be circulated after the meeting. Members would then have an opportunity to review and comment ahead of the next meeting.
6. Appendix One is the track changed document that was circulated after the last meeting.
7. Comments were received from four Board members and their comments along with Officer replies and amendments are shown on the following page.

Comment by	Comment	Officer response (as necessary)
Richard White (Independent Member)	I think it was good in the first place	
Cllr Pavitt	<p>On page 13 you indicate colour coding (red/black) of the table under 29 but the table does not contain this colouring, everything being red. Perhaps that is a function of track changes.</p> <p>On page 14, in the valuation table, it would aid clarity to add the word 'valuation' to the title of the righthand column.</p>	<p>An effect of tracked changes</p> <p>Agreed and amended</p>
Cllr Sell	<p>I attach a link to South Somersets commercial strategy. They are Lib Dem controlled. Think it is more reader friendly</p> <p>https://www.southsomerset.gov.uk/your-council/commercial-investments/</p>	<p>The South Somerset strategy is a wider commercialisation strategy for the council, although it does concentrate on acquired assets. To fully understand the Council's assets you need to visit the website, the strategy does not provide that detail.</p> <p>Government dictates the sections that must be included in the strategy.</p> <p>The UDC policy is a single point of information about its commercial investments and ongoing strategy</p>
Cllr Khan	<p>We need to say something about the national economy and how our revised strategy is fit for purpose to meet the challenges ahead</p> <p>Do we need a short explanation of how the strategy has been revised in order to determine a new vision? Can we also say state something about ethical investments and provide a link to the</p>	<p>New paragraphs 4 and 5</p> <p>Amended Vision paragraph</p>

	<p>policy?</p> <p>Lots of conflicting statements. In your presentation to Cllrs about the deficit you stated that you cannot guarantee quality or level. Should you therefore not state... to help maintain and where possible improve the quality of services? I would break this down into 2 parts. Vision – To generate income for the council Outcome – To help maintain and where possible improve the quality of services for Uttlesford residents.</p> <p>We need a section to help clarify what success looks like and how we will measure it.</p> <p>8(f) By whom, how will this be reported</p> <p>10 How have we evaluated success so far. Can we provide an example of what we have achieved.</p> <p>29 Clarification on yield figure after costs would also be helpful?</p> <p>47 The current economic climate and forecast of recession. Is this stated?</p> <p>47 Interest rate fluctuations and stress testing given the current market?</p>	<p>The presentation to Cllrs did not talk about 'improving quality'. The vision sets out what is achievable</p> <p>New paragraph 44 added</p> <p>10(f) amended and added 'by the Investment Board'</p> <p>New paragraph 44</p> <p>This will be reported in the quarterly updates as it fluctuates depending on the amount of borrowing required. It is not a suitable figure for including in a Strategy</p> <p>This is the risks section, and whilst there isn't a specific risk worded like this, the risks are broken down into tenant default, cost of borrowing and void periods where tenants leave</p> <p>There is a cost of borrowing risk</p>
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	Capacity, Skills and Culture Section - There is no mention of training and development for members	New paragraph 56
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- 8. Appendix Two is a track change version of the suggested amendments following member feedback and some other changes to align with the budget and to correct grammatical and spelling errors.
- 9. Appendix Three is the 'clean' version incorporating all changes and is the one recommended for submission to Cabinet.



Uttlesford District Council

Commercial Strategy 2023 to 2028~~2022 to 2027~~

Prepared by:
Commercial Team
Uttlesford District Council
December 2022~~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 ~~£60,000~~~~£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.~~
- ~~4.3. Changes in both the CIPFA Prudential Code (the Code) and Government legislation on Minimum Revenue Provision (MRP) now mean that the 2023-2028 2022-2027 MTFS has significant and rising shortfalls in funding despite the commercial portfolio that has been acquired. It is likely that in 2023/24~~2022/23~~ an asset will need to be sold with the profit being used to remove the need for future short term borrowing and thereby reducing the annual shortfalls to a lower but still significant level.~~with the profit being used to offset future capital funding and thereby reducing the annual shortfalls to a less significant level.~~~~

Vision

- ~~4. To generate income to maximise the number and quality of services provided by the Council, whilst acknowledging the difficult financial position local government as a whole is experiencing.~~
- ~~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)

- ~~6.5. 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.'

7.6. 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.'

8.7. 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 hassd always applied MRP at 0% as the approach now mandated takes no account of inflation and future values.

Aims of the Strategy

9.8. 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 4648% 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

~~40.9.~~ 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 financing from central government. Government also restricts the ability of councils to raise income from council tax increases.

~~41.10.~~ 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.

~~42.11.~~ For ~~2021/22~~2023/24 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 between 2017 and 2022, 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

~~43.12.~~ 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.

~~44.13.~~ 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.

~~15.14.~~ 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~~ 2023/24 the income from Chesterford Research Park is expected to be ~~15. £2,796,057~~ £2,411,000. There is also repayment to the Council of staff time whilst undertaking company work on Aspire (CRP) Ltd.

~~16.~~ Further investment is planned during 2023/24 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. Plans are also being developed for a similar sized building (Building 1100/1200). This will mean that construction will run in parallel of two new buildings which will be the 2nd and 3rd biggest on the Park. They both aim to be completed in 2025/26.

~~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

~~18.17.~~ 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

19.18. 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

20-19. 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.



20. 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.

21-

21. The tenant is currently going through a Board approval process to develop the second and third floors of the building into a training facility for both vets and veterinary nurses. The level of investment they will make will be in the region of £8 million to £10 million.

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](#). [Waitrose have sub-let to GXO a worldwide distribution company](#). [GXO Logistics Waitrose Limited and this regional distribution centre serves the north west and Scotland](#).

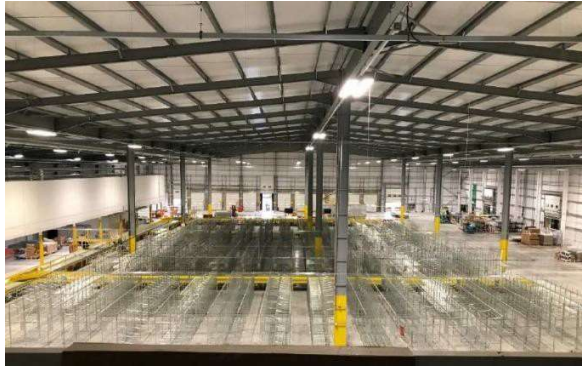


Amazon, Gloucester

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 delayed and it is likely they will look to sublet the facility for a number of years before they themselves take occupation.](#)

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.





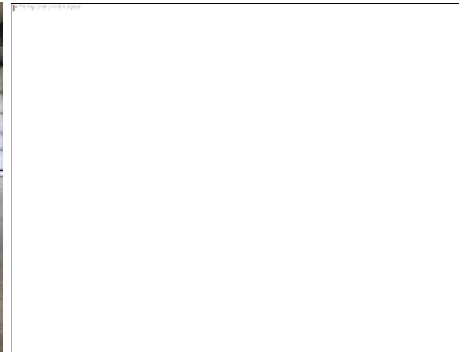
Moog, Tewkesbury

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. [The agreement for lease for the commercial element of the site is due to be signed in the final quarter of 2022/23. The prospective tenant is already in occupation under a temporary licence to operate arrangement.](#)



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	£8,920.00 £9,000.00	
02/01/2019	£2,518,000	48 years 4 months	4%	Interest only	£100,720.00 £101,000.00	
20/08/2019	£3,000,000	20 years	4.5%	Interest and principal	£230,628.43 £235,000.00	
09/06/2020	£1,250,000	20 years	4.5%	Interest and principal	£96,095.18 £100,000.00	
01/07/2020	£2,600,000	20 years	4.5%	Interest and principal	£199,877.98 £207,000.00	
15/03/2021	£2,975,000	20 years	4.5%	Interest and principal	£228,744.97 £234,000.00	
26/08/2021	£780,000	20 years	4.5%	Interest and principal	£41,070.82 £42,000.00	

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

<u>£'000</u>	<u>Capital Investment (exc. Fees)</u>
Completed Investments	
Chesterford Research Park	60,596
Weston Homes	20,000
Veterinary Hospital	5,925
Stane Retail Park	30,424
Waitrose Retail Distribution Centr	55,000
Amazon Distribution Centre	43,000
Little Canfield Business Park	7,500
	222,445
Future Committed Investments	
Chesterford Research Park	12,620
Moog Circuits Ltd	40,500
	53,120
Investment Total	275,565
£'000	Ca
Capital Investment (exc. Fees)	
Completed Investments	
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
	179,400
Future Committed Investments	45
Chesterford Research Park	12,620
Amazon Distribution Centre	43,000
Moog Circuits Ltd	40,500
	96,140
	20
Investment Total	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 4.85.21%. The rental income for the next five years is shown in the following table.

£'000	Capital Investment (exc. Fees)	Annual Rental Income				
		2023/24	2024/25	2025/26	2026/27	2027/28
Completed Investments						
Chesterford Research Park	60,596	2,796	2,796	2,796	2,796	2,796
Weston Homes	20,000	1,128	1,128	1,128	1,239	1,276
Veterinary Hospital	5,925	205	411	411	411	411
Stane Retail Park	30,424	1,714	1,784	1,784	1,870	1,991
Waitrose Retail Distribution Centre	55,000	2,840	2,840	2,840	2,840	3,537
Amazon Distribution Centre	43,000	2,293	2,293	2,293	2,293	2,664
Little Canfield Business Park	7,500	233	400	400	400	400
	222,445	11,209	11,652	11,652	11,849	13,075
Future Committed Investments						
Chesterford Research Park	12,620	-	-	603	603	603
Moog Circuits Ltd	40,500	1,667	1,667	1,667	1,667	1,743
	53,120	1,667	1,667	2,270	2,270	2,346
Investment Total	275,565	12,876	13,319	13,922	14,119	15,421

£'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, [from 2025/26,](#) -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 or first quarter of 2023/24 the Council will need to sell an asset or assets to enable future balanced budgets to be set.~~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 during 2022/23 secured long term borrowing with the Public Works Loans Board. These loans coincided with the end dates for short term financing and followed lengthy discussion with Government departments around the plans for ongoing development at Chesterford Research Park and the possible acquisition of Stane Retail Park 2.~~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 the main loan was secured on a repayment basis over 35 years. The reason for moving to a repayment loan is that the new Code requires the Council to demonstrate that its debt levels are reducing.~~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 £500,000 ~~£1 million~~ per annum, from the investment income, will be placed in the reserve, starting in 2025/26.
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 202²⁴ 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

	Price paid (including future commitments)	Amount paid as at 30-September-2022	SEP 2022
	£	£	£
Colchester, Stane RP	30,424,000	27,004,322	29,100,000
Chorley, Waitrose RDC	55,000,000	54,608,773	61,150,000
Livingston, 1 Deer Park Road	4,758,374	4,758,374	5,000,000
Takeley, Skyway House	20,000,000	19,500,000	18,350,000
Gloucester, Amazon	42,692,000	0	43,900,000
Tewkesbury, MOOG HQ	40,500,000	16,196,817	24,000,000
	193,374,374	122,068,286	181,500,000
Aspire (CRP) Ltd	60,596,000	60,596,000	108,576,802
Total Portfolio	253,970,374	182,664,286	290,076,802

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 5.4% (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, Moog and Amazon . 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

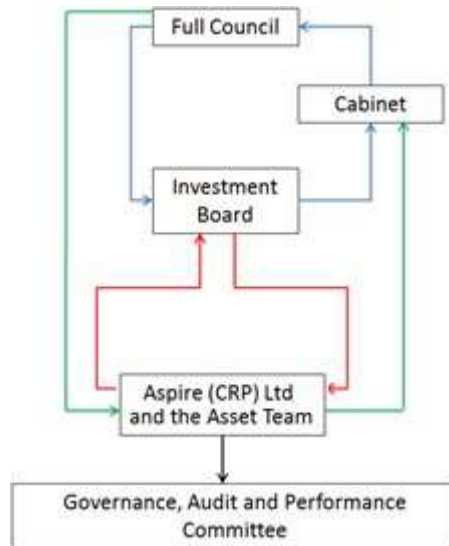
Proportionality

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~~500,000 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)

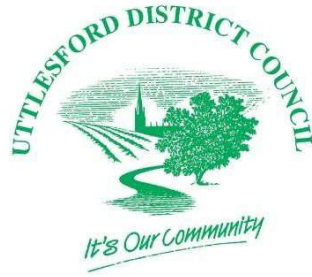
- d) Aspire (CRP) Ltd looks after developments at Chesterford Research Park. The Council's Asset Team will manage all other non-CRP commercial investments.
- e) Depending on the category of investment or disposal sought, Aspire (CRP) Ltd or the Asset Team, working with professional advisors, will identify 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~~will be presented to Cabinet



Uttlesford District Council

Commercial Strategy 2023 to 2028

Prepared by:
Commercial Team
Uttlesford District Council
December 2022

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Introduction

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 £60,000 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. Changes in both the CIPFA Prudential Code (the Code) and Government legislation on Minimum Revenue Provision (MRP) now mean that the 2023-2028 MTFS has significant and rising shortfalls in funding despite the commercial portfolio that has been acquired. It is likely that in 2023/24 an asset will need to be sold with the profit being used to remove the need for future short term borrowing and thereby reducing the annual shortfalls to a lower but still significant level.
4. 2022 was a turbulent year as the country emerged from the pandemic. The first six months saw continued growth within the sector. The change of Prime Minister and Chancellor in September saw a mini-budget that sent shock waves through the whole country and resulted in significant valuation reductions for commercial assets, although some sectors such as Life Sciences continued to outperform the market. It is expected that 2023 will still be a challenging year in terms of asset valuations although better than 2022.
- 3.—The Council has a commercial asset portfolio for revenue generation purposes, not capital growth. Whilst asset values have declined, the rental income has increased through rent reviews. The quality of the tenants has meant that the Council has not had any default on rental payments, since the assets were acquired. However, the Council has established an investment reserve, with one aim being to mitigate the risk of tenant rent default.

Vision

5. The previous strategy had a vision of the Council undertaking the investments in order to become self-sufficient and thereby not reliant on Government funding. The changes introduced by Government and CIPFA now makes that vision unachievable. The new vision below sets out what is achievable given the constraints under which the Council is working
4. **To generate income to maximise the number and quality of services provided by the Council, whilst acknowledging the difficult financial position local government as a whole is experiencing.**

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

5.6. 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

- α) 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'.
- β) 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.'

6-7. 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.'

7-8. 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 had always applied MRP at 0% as the approach now mandated takes no account of inflation and future values.

Aims of the Strategy

8-9. 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 48% 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, [by the Investment Board](#) 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

[9-10.](#) 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 financing from central government. Government also restricts the ability of councils to raise income from council tax increases.

[10-11.](#) 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.

[11-12.](#) For 2023/24 the income target for the Board is 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 between 2017 and 2022, 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

[12-13.](#) 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.

[13-14.](#) 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

- α) 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

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

14.15. 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.

15.16. For 2023/24 the income from Chesterford Research Park is expected to be £2,796,057. There is also repayment to the Council of staff time whilst undertaking company work on Aspire (CRP) Ltd.

16.17. Further investment is planned during 2023/24 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. Plans are also being developed for a similar sized building (Building 1100/1200). This will mean that construction will run in parallel of two new buildings which will be the 2nd and 3rd biggest on the Park. They both aim to be completed in 2025/26.

Skyway House, Takeley

17.18. 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

18-19. 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

49-20. 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.



20-21. 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.

21-22. The tenant is currently going through a Board approval process to develop the second and third floors of the building into a training facility for both vets and veterinary nurses. The level of investment they will make will be in the region of £8 million to £10

million.

Matrix Park, Chorley

22-23. 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. Waitrose have [fully](#) sub-let to GXO a worldwide distribution company. [GXO Logistics](#)



Amazon, Gloucester

23-24. 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 delayed and it is likely they will look to sublet the facility for a number of years before they themselves take occupation.

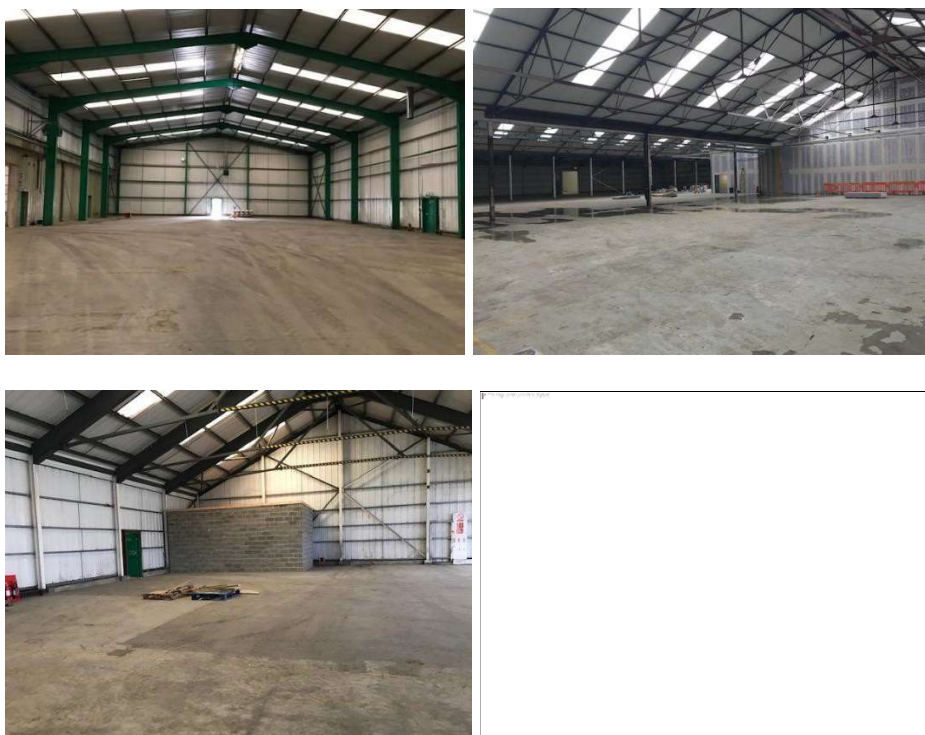


Moog, Tewkesbury

[24-25.](#) 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

[25-26.](#) 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. The agreement for lease for the commercial element of the site is due to be signed in the final quarter of 2022/23. The prospective tenant is already in occupation under a temporary licence to operate arrangement.



Loans to wholly owned subsidiaries

26-27. 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	£8,920.00	
02/01/2019	£2,518,000	48 years 4 months	4%	Interest only	£100,720.00	
20/08/2019	£3,000,000	20 years	4.5%	Interest and principal	£230,628.43	
09/06/2020	£1,250,000	20 years	4.5%	Interest and principal	£96,095.18	
01/07/2020	£2,600,000	20 years	4.5%	Interest and principal	£199,877.98	
15/03/2021	£2,975,000	20 years	4.5%	Interest and principal	£228,744.97	
26/08/2021	£780,000	20 years	4.5%	Interest and principal	£41,070.82	

27-28. 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.

[28-29.](#) 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

[29-30.](#) 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

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

£'000	Capital Investment (exc. Fees)
Completed Investments	
Chesterford Research Park	60,596
Weston Homes	20,000
Veterinary Hospital	5,925
Stane Retail Park	30,424
Waitrose Retail Distribution Centre	55,000
Amazon Distribution Centre	43,000
Little Canfield Business Park	7,500
	222,445
Future Committed Investments	
Chesterford Research Park	12,620
Moog Circuits Ltd	40,500
	53,120
Investment Total	275,565

[30-31.](#) With the change in the Code and MRP the Portfolio is now complete, and no further assets will be added.

[31-32.](#) In a full year the portfolio yield, once all outstanding acquisitions are completed, will be 5.21%. The rental income for the next five years is shown in the following table.

£'000	Capital Investment (exc. Fees)	Annual Rental Income				
		2023/24	2024/25	2025/26	2026/27	2027/28
Completed Investments						
Chesterford Research Park	60,596	2,796	2,796	2,796	2,796	2,796
Weston Homes	20,000	1,128	1,128	1,128	1,239	1,276
Veterinary Hospital	5,925	205	411	411	411	411
Stane Retail Park	30,424	1,714	1,784	1,784	1,870	1,991
Waitrose Retail Distribution Centre	55,000	2,840	2,840	2,840	2,840	3,537
Amazon Distribution Centre	43,000	2,293	2,293	2,293	2,293	2,664
Little Canfield Business Park	7,500	233	400	400	400	400
	222,445	11,209	11,652	11,652	11,849	13,075
Future Committed Investments						
Chesterford Research Park	12,620	-	-	603	603	603
Moog Circuits Ltd	40,500	1,667	1,667	1,667	1,667	1,743
	53,120	1,667	1,667	2,270	2,270	2,346
Investment Total	275,565	12,876	13,319	13,922	14,119	15,421

* 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

~~32.33.~~ 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'.

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~~39-40.~~ With monies being set aside to repay the principal annually through MRP the main loan was secured on a repayment basis over 35 years. The reason for moving to a repayment loan is that the new Code requires the Council to demonstrate that its debt levels are reducing.

~~40-41.~~ 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 £~~1,0500,000~~ per annum, from the investment income, will be placed in the reserve, ~~starting in 2025/26~~.

~~41-42.~~ 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.

Success and Performance Reporting

43. Success will be primarily measured in the financial return to the Council. In addition, projects that have only been enabled through the commercial investment income will also be identified. To date these are

- a) £1million fund established for Business recovery following the pandemic
- b) £1million fund established to help the district with the climate change emergency
- c) £450,000 fund established for major sports projects

42.44. 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.

43.45. As at 30 September 2022 the value of the completed acquisitions is set out below

	Price paid (including future commitments) £	Amount paid as at 30 September 2022 £	Valuation against amount paid SEP 2022 £
Colchester, Stane RP	30,424,000	27,004,322	29,100,000
Chorley, Waitrose RDC	55,000,000	54,608,773	61,150,000
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Gloucester, Amazon	42,692,000	0	43,900,000
Tewkesbury, MOOG HQ	40,500,000	16,196,817	24,000,000
	193,374,374	122,068,286	181,500,000
Aspire (CRP) Ltd	60,596,000	60,596,000	108,576,802
Total Portfolio	253,970,374	182,664,286	290,076,802

Security, Liquidity and Yield

44.46. 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 5% (before cost of borrowing).

45.47. 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.

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

Risks

47.49. 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

- α) Arlingclose as its financial advisers who project managed the funding tender
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- χ) 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.

48-50. 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, Moog and Amazon. 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

49-51. 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.

50-52. 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 £500,000 per annum to cover the cost of future refurbishment, void and rent free periods for each of the assets, except CRP.

51-53. 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)

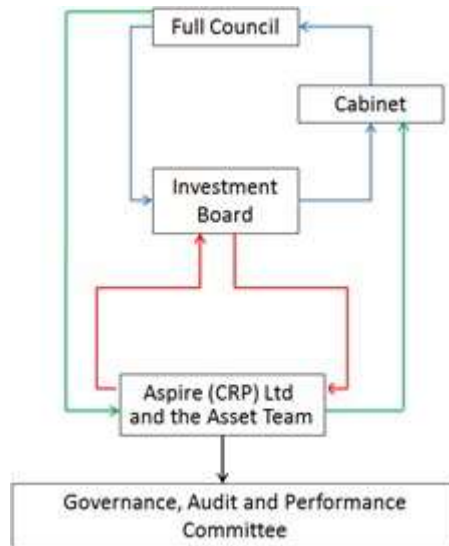
54. The IB will operate in accordance with the Commercial Strategy which is adopted annually by Full Council. Cabinet will delegate to the Leader; Portfolio Holder for Finance and Budget, Portfolio Holder for the Economy, Investment and Corporate Strategy and the S151 Officer (or Assistant Director of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

52-55. [Training will be provided to Members of the Investment Board at the start of each new Administration term and in the interim as deemed necessary.](#)

53-56. 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.

54-57. The investment decision making and monitoring process is as set out overleaf



55-58. 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.

56-59. Internal Process (red line)

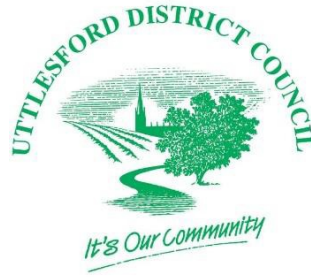
- d) Aspire (CRP) Ltd looks after developments at Chesterford Research Park. The Council's Asset Team will manage all other non-CRP commercial investments.
- e) Depending on the category of investment or disposal sought, Aspire (CRP) Ltd or the Asset Team, working with professional advisors, will identify 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.

57-60. 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.

58-61. A report on annual performance of Aspire (CRP) Ltd will be presented to Cabinet



Uttlesford District Council

Commercial Strategy 2023 to 2028

Prepared by:
Commercial Team
Uttlesford District Council
December 2022

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Introduction

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 £60,000 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. Changes in both the CIPFA Prudential Code (the Code) and Government legislation on Minimum Revenue Provision (MRP) now mean that the 2023-2028 MTFS has significant and rising shortfalls in funding despite the commercial portfolio that has been acquired. It is likely that in 2023/24 an asset will need to be sold with the profit being used to remove the need for future short term borrowing and thereby reducing the annual shortfalls to a lower but still significant level.
4. 2022 was a turbulent year as the country emerged from the pandemic. The first six months saw continued growth within the sector. The change of Prime Minister and Chancellor in September saw a mini-budget that sent shock waves through the whole country and resulted in significant valuation reductions for commercial assets, although some sectors such as Life Sciences continued to outperform the market. It is expected that 2023 will still be a challenging year in terms of asset valuations although better than 2022.
5. The Council has a commercial asset portfolio for revenue generation purposes, not capital growth. Whilst asset values have declined, the rental income has increased through rent reviews. The quality of the tenants has meant that the Council has not had any default on rental payments, since the assets were acquired. However, the Council has established an investment reserve, with one aim being to mitigate the risk of tenant rent default.

Vision

6. The previous strategy had a vision of the Council undertaking the investments in order to become self-sufficient and thereby not reliant on Government funding. The changes introduced by Government and CIPFA now makes that vision unachievable. The new vision below sets out what is achievable given the constraints under which the Council is working

To generate income to maximise the number and quality of services provided by the Council, whilst acknowledging the difficult financial position local government as a whole is experiencing.

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

7. 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
 - a) 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’.
 - b) 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.’
8. 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.’
9. 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 had always applied MRP at 0% as the approach now mandated takes no account of inflation and future values.

Aims of the Strategy

10. 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 48% 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, by the Investment Board 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

11. 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 financing from central government. Government also restricts the ability of councils to raise income from council tax increases.
12. 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.
13. For 2023/24 the income target for the Board is 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 between 2017 and 2022, 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

14. 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.
15. 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
 - a) 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
 - b) Use of reserves and balances (£10.25m) funds the balance.
16. Since the initial purchase the Council has made additional ongoing loans to Aspire (CRP) Ltd for further development totaling £13,346,000 taking the current investment to £60,596,000.
17. For 2023/24 the income from Chesterford Research Park is expected to be £2,796,057. There is also repayment to the Council of staff time whilst undertaking company work on Aspire (CRP) Ltd.
18. Further investment is planned during 2023/24 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. Plans are also being developed for a similar sized building (Building 1100/1200). This will mean that construction will run in parallel of two new buildings which will be the 2nd and 3rd biggest on the Park. They both aim to be completed in 2025/26.

Skyway House, Takeley

19. 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

20. 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

21. 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.



22. 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.
23. The tenant is currently going through a Board approval process to develop the second and third floors of the building into a training facility for both vets and veterinary nurses. The level of investment they will make will be in the region of £8 million to £10 million.

Matrix Park, Chorley

24. 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. Waitrose have fully sub-let to GXO a worldwide distribution company. [GXO Logistics](#)



Amazon, Gloucester

25. 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 delayed and it is likely they will look to sublet the facility for a number of years before they themselves take occupation.



Moog, Tewkesbury

26. 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 final quarter of 2022/23.



Little Canfield Business Park

27. 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. The agreement for lease for the commercial element of the site is due to be signed in the final quarter of 2022/23. The prospective tenant is already in occupation under a temporary licence to operate arrangement.



Loans to wholly owned subsidiaries

28. 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	£8,920.00	
02/01/2019	£2,518,000	48 years 4 months	4%	Interest only	£100,720.00	
20/08/2019	£3,000,000	20 years	4.5%	Interest and principal	£230,628.43	
09/06/2020	£1,250,000	20 years	4.5%	Interest and principal	£96,095.18	
01/07/2020	£2,600,000	20 years	4.5%	Interest and principal	£199,877.98	
15/03/2021	£2,975,000	20 years	4.5%	Interest and principal	£228,744.97	
26/08/2021	£780,000	20 years	4.5%	Interest and principal	£41,070.82	

29. 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.

30. 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

31. 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

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

£'000	Capital Investment (exc. Fees)
Completed Investments	
Chesterford Research Park	60,596
Weston Homes	20,000
Veterinary Hospital	5,925
Stane Retail Park	30,424
Waitrose Retail Distribution Centre	55,000
Amazon Distribution Centre	43,000
Little Canfield Business Park	7,500
	222,445
Future Committed Investments	
Chesterford Research Park	12,620
Moog Circuits Ltd	40,500
	53,120
Investment Total	275,565

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

33. In a full year the portfolio yield, once all outstanding acquisitions are completed, will be 5.21%. The rental income for the next five years is shown in the following table.

£'000	Capital Investment (exc. Fees)	Annual Rental Income				
		2023/24	2024/25	2025/26	2026/27	2027/28
Completed Investments						
Chesterford Research Park	60,596	2,796	2,796	2,796	2,796	2,796
Weston Homes	20,000	1,128	1,128	1,128	1,239	1,276
Veterinary Hospital	5,925	205	411	411	411	411
Stane Retail Park	30,424	1,714	1,784	1,784	1,870	1,991
Waitrose Retail Distribution Centre	55,000	2,840	2,840	2,840	2,840	3,537
Amazon Distribution Centre	43,000	2,293	2,293	2,293	2,293	2,664
Little Canfield Business Park	7,500	233	400	400	400	400
	222,445	11,209	11,652	11,652	11,849	13,075
Future Committed Investments						
Chesterford Research Park	12,620	-	-	603	603	603
Moog Circuits Ltd	40,500	1,667	1,667	1,667	1,667	1,743
	53,120	1,667	1,667	2,270	2,270	2,346
Investment Total	275,565	12,876	13,319	13,922	14,119	15,421

* 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

34. 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'.
35. 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.
36. In line with the need to retain the asset for a longer period of time it will now be necessary, from 2025/26, 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.
37. 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.

38. 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.
39. It is likely that in the final quarter of 2022/23 or first quarter of 2023/24 the Council will need to sell an asset or assets to enable future balanced budgets to be set.

Funding and Reserves

40. With the uncertainty over changes to the Code and MRP resolved, the Council during 2022/23 secured long term borrowing with the Public Works Loans Board. These loans coincided with the end dates for short term financing and followed lengthy discussion with Government departments around the plans for ongoing development at Chesterford Research Park and the possible acquisition of Stane Retail Park 2.
41. With monies being set aside to repay the principal annually through MRP the main loan was secured on a repayment basis over 35 years. The reason for moving to a repayment loan is that the new Code requires the Council to demonstrate that its debt levels are reducing.
42. 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 £1,000,000 per annum, from the investment income, will be placed in the reserve.
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Success and Performance Reporting

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 - a) £1million fund established for Business recovery following the pandemic
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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, Moog and Amazon. 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	<p>The Council would have three options and would choose the most applicable at the time</p> <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
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Proportionality

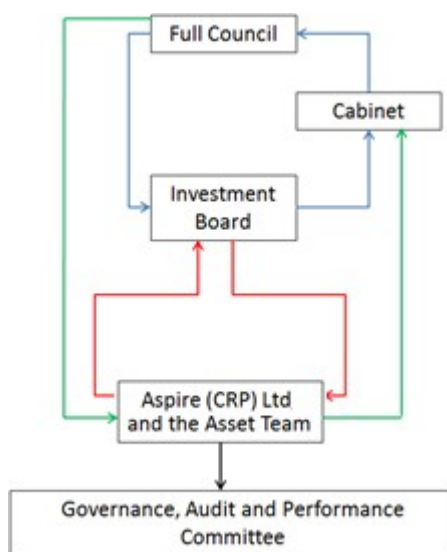
52. The income requirement has arisen as a result of reductions in the Council's finance from central government. Government also restricts the ability of councils to raise income from council tax increases.
53. The Council has established a Commercial Asset Reserve (see para 40) which will be established with the sum of £3 million to cover the risk of investment failure. In addition, the Reserve will increase by £500,000 per annum to cover the cost of future refurbishment, void and rent free periods for each of the assets, except CRP.
54. 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)

55. 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 Finance for Aspire investments) to conclude investments or disposals where authorisation has been given by Full Council.
56. Training will be provided to Members of the Investment Board at the start of each new Administration term and in the interim as deemed necessary.
57. 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.

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



59. 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.

60. 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.

61. 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.

62. A report on annual performance of Aspire (CRP) Ltd will be presented to Cabinet