Working Group:	Investment Board	**Date:** Wednesday, 23 October 2019
Title:	Investment Protocol	
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Summary

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

Recommendations

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

Financial Implications

3. None

Background Papers

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

None

Situation

5. The Investment Board will need to develop an Investment Protocol which reflects the aims of the Commercial Strategy and acts as a method to filter potential investments.

6. Attached as Appendix A is an example of an Investment Protocol.

7. Once the Commercial Strategy is approved at Council in December 2019 the Investment Protocol can be finalised.

Appendix A

Uttlesford District Council Investment Protocol 2019 to 2023

Prepared by:

Asset Management

Uttlesford District Council

September 2019

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Introduction

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

Portfolio Mix

The Investment Portfolio will need a mix of

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

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

Investment Funding

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

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

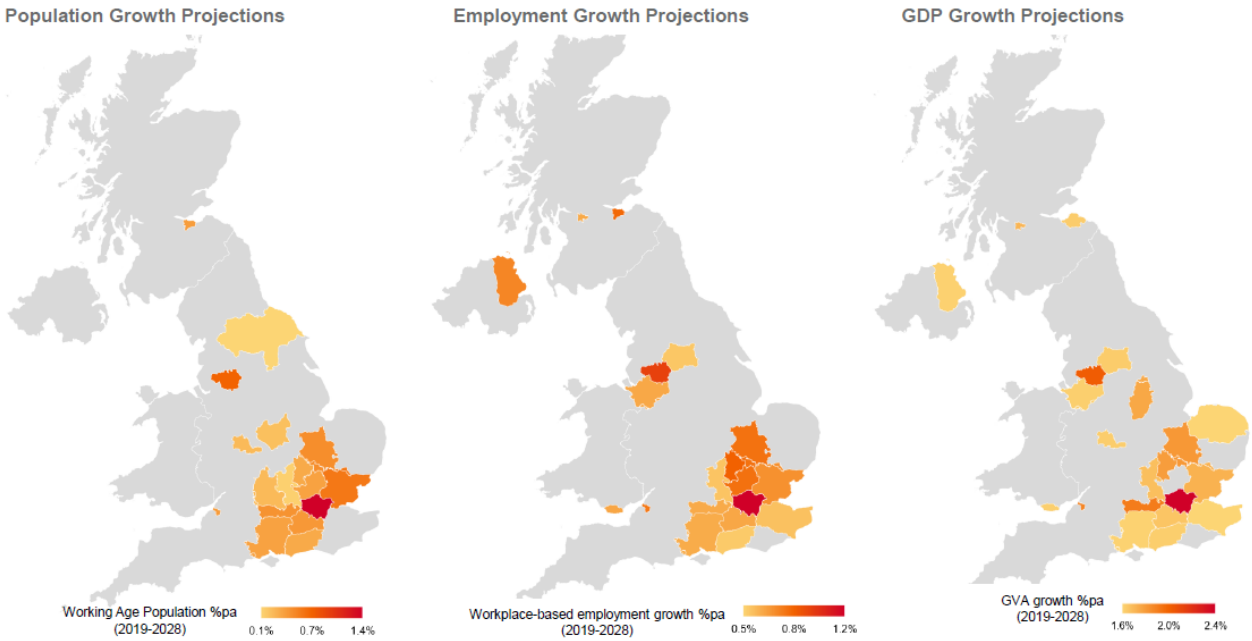
Investment Locations

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

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

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

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



Source: Oxford Economics

Evaluation Criteria

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

Key Performance Indicators (KPIs)

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

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

Appendix One – Evaluation Matrix

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

Appendix Two – Examples of possible KPIs

Debt to net service expenditure (NSE) ratio	*Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*
Commercial income to NSE ratio	*Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.*
Investment cover ratio	*The total net income from property investments, compared to the interest expense.*
Loan to value ratio	*The amount of debt compared to the total asset value.*
Target income returns	*Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.*
Benchmarking of returns	*As a measure against other investments and against other council's property portfolios.*
Gross and net income	*The income received from the investment portfolio at a gross level and net level (less costs) over time.*
Operating costs	*The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.*
Vacancy levels and Tenant exposures for non-financial investments	*Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.*