



Appendix B

Uttlesford District Council

Commercial Strategy

2020 - 2024



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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 £55,000 in additional income.
2. The 2020-2024 Corporate Plan sets an ambitious target to

Be a self-sufficient Council that generates its own resources from local taxation (Business Rates and Council Tax) and commercial investments thereby removing the reliance on Central Government grants.
3. The 2020-2025 Medium Term Financial Strategy (MTFS) predicts an annual shortfall by 2024/25 of £4.853 million per annum. The MTFS currently includes only £300,000 per annum for new priorities, any additional spend will increase the predicted 2024/25 shortfall. As future years are added to the plan the shortfall increases year on year.
4. The Administration has indicated that they propose to address the shortfall through investments. To achieve this the Council will need to set an investment fund approved limit of £300 million.

Vision

5. To generate sufficient income to enable the Council to be a self-sufficient Council 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.

Purpose of the Investments

6. To provide a long term income for the council to support the provision of Council services. This 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.
7. The Council seeks to operate in the most cost effective ways and will look for improvements in its operations which will reduce costs or avoid increased costs. However the scale of reduction in external finance is such that other income sources must be found. Reductions in council services are considered a last resort.
8. The income target for the Board will be guided by the Medium Term Financial Strategy (MTFS). The MTFS forecasts the income and expenditure over a four year period and includes all known factors. It shows the predicted annual net surpluses or deficits. The investment income is 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.

Current Portfolio

9. 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.

10. 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

Whilst this loan is being drawn down the balance will be funded by a mix of local authority and internal borrowing – The amount of each varies during the year dependant on the level of UDC balances available. Average interest rate, interest only, is 0.8%

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

11. Since the initial purchase the Council has made three additional ongoing loans to aspire (CRP) Ltd for works on the Newnham Building totalling £5,741,000 taking the total investment to £52,991,000. There is approval for a further loan of £1.25 million to complete the renovation, which will be drawn down in early 2020/21.

12. For 2019/20 the income from Chesterford Research Park is expected to be £2,130,000 with the cost of borrowing being £400,000. There is also repayment to the Council of staff time whilst undertaking company work on Aspire (CRP) Ltd.

13. In December 2019, Full Council approved a funding request for up to £32 million for Investment 2 which is in the process of completion.

Loans to wholly owned subsidiaries

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

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

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

The Investment Fund

16. This strategy sets out an investment fund requirement of £300 million with a portfolio yield target (before borrowing costs) of 4%. Current investments are

Chesterford Research Park	£54.241 million
Investment 2	£32.000 million
Total	<u>£86.241 million</u>

17. This strategy also confirms the previous allocation of £20 million to future development at Chesterford Research Park, bringing the allocated total to £106.241 million

18. This will leave £193.759 million for further commercial investments, of which approximately £15 million will likely be spent on acquisition costs (Stamp Duty, legal and agents fees).

The future

19. The Council is committed to investing in Chesterford Research Park. The Council is keen to see existing tenants expand and grow on the Park and for the Park to attract new tenants from a diverse range of research activities. The Park is within the district boundary and investing helps to sustain existing employment, introduce new employment opportunities and generate additional Business Rates.

20. The remaining Investment Portfolio may include a mix of

- Light Industrial
- Single-let office space
- Multi-let office space
- Out-of-town retail
- Market rent housing

21. Within each of the above classes, there will also be a mix of investment size and lease lengths, to provide a balance and reduce market exposure.

Borrowing, the Prudential Code and Statutory Guidance on Local Government Investments

22. The Council can rely on a variety of statutory powers to borrow and invest. Where the primary purpose of borrowing and investment is to secure a financial return, the Council has powers under sections 1 and 12, Local Government Act 2003. Section 1 provides that:

A local authority may borrow money—

(a) for any purpose relevant to its functions under any enactment, or

(b) for the purposes of the prudent management of its financial affairs.

Section 12 states:

A local authority may invest—

(a) for any purpose relevant to its functions under any enactment, or

(b) for the purposes of the prudent management of its financial affairs.

23. Where the Council proposes to rely on the borrowing powers in Local Government Act 2003 section 15 of the Act makes it a requirement to have regard –

(a) to such guidance as the Secretary of State may issue, and

(b) to such other guidance as the Secretary of State may by regulations specify for the purposes of this provision.”

The current guidance to which the Council must have regard is:

- Statutory Guidance on Local Government Investments (3rd Edition) issued by the Secretary of State; and
- The Prudential Code issued by CIPFA.

24. The Statutory Guidance contains two paragraphs on what is termed “borrowing in advance of need. The guidance states:

46. Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

47. Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:

- *Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and*
- *The local authority’s policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.*

25. The Council will adopt a “case by case” approach in considering whether to depart from the Statutory Guidance and the Prudential Code where the primary purpose of borrowing is to “profit from the investment of the extra sums borrowed”. In reaching a decision, the Council will balance the need to generate additional income to underpin core services to Uttlesford residents against the risks involved in taking on the borrowing and against the risks involved in the investment to be funded by borrowing. It will ensure that investments funded by borrowing in these circumstances are proportionate to the need to make good shortfalls caused by the reduction in Government funding. Given the Council’s acute funding shortfall and the likely consequences for Uttlesford residents of not being able to maintain core services without additional funding, the Council is likely to depart from the Statutory Guidance and from the Prudential Code where sound investment opportunities are identified.

26. The Council will set out for each investment the risks associated with the investment, be they specific or industry/sector. These will be monitored on a regular basis by the Investment Board, and where necessary recommendations will be made to the Cabinet. The Council maintains a Medium Term Financial Strategy Reserve which is retained for use in the event of a significant drop in revenue income from an investment.

Key Performance Indicators (KPIs)

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

Investment Protocol

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

Security, Liquidity and Yield

29. As the Council only has a small amount of money of its own to invest, any further expansion of the commercial strategy will necessarily be funded from a mix of external borrowing, from financial institutions, Public Works Loan Board (PWLB) and other local authorities. The Council will not invest in high yield, high risk opportunities. This will be reflected in an average portfolio yield target of 4% (before cost of borrowing).
30. 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. Property purchase for letting at market rents will be undertaken through a new wholly owned subsidiary company Aspire (MRH) Ltd.
31. Financing of acquisitions will be decided on a case by case basis. In almost all cases a mix of repayment and interest only loans will be undertaken, with the expectation being that this will be on an 80:20 interest only: repayment basis. The final decision will be made by Cabinet following recommendations made by the Investment Board.
32. The option to liquidate funds is either by selling the investment (or part thereof) or by refinancing the debt.

Risks

33. Each investment must be considered independently and only those viewed as having a positive expected yield and an acceptable risk profile will be taken forward for consideration by the Council.
34. 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

35. For Aspire (CRP) Ltd the Council has appointed two non-executive directors to serve on the Board and bring independent challenge and support. The new delivery company, Aspire (MRH) Ltd, will also have two non-executive directors on the Board.
36. The Aspire companies will use a range of specialists which will vary between investments. This will ensure the continued professionalism and sector knowledge.
37. A risk register will be maintained for each investment and these will be monitored by the Investment Board on a regular basis. The risk register will be based on the corporate standard used by the Governance, Audit and Performance Committee.

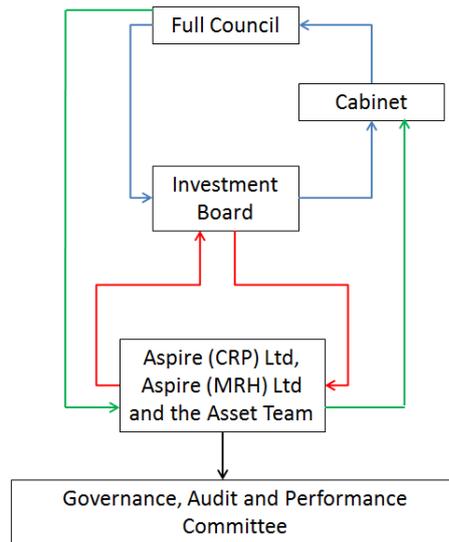
Proportionality

38. The aim of the Commercial Strategy is to generate income to underpin the Council's core budget, to invest in other income generating opportunities and also good causes for the district.
39. The Council's sole current investment at Chesterford Research Park comprises eleven core buildings and circa twenty tenants. For the income to be below the interest repayment amount three of the five largest tenants would be required to default on their tenancy agreement at the same time. Even with this relatively low risk it is important to attract different types of research business to the Park.

Capacity, Skills and Culture

Investment Board (IB)

40. 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 and the S151 Officer (or Assistant Director of Resources for Aspire investments) to conclude investments where authorisation has been given by Full Council.
41. 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.
42. The investment decision making and monitoring process is as set out overleaf



43. 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 IB develops a protocol to implement the Commercial Strategy which will be approved by Cabinet.
- d) The Cabinet will receive from the IB quarterly updates, including KPIs, on the performance of the portfolio.
- e) For new investments, the IB reviews the business cases and if appropriate supports a recommendation to Cabinet for the acquisition.
- f) Cabinet reviews the investment and if satisfied recommends to Council that funding is made available.
- g) Ahead of the Council meeting, the IB Chairman, along with officers, undertakes an all-Member briefing session to set out the investment and the reasons for its recommendation.

44. Internal Process (red line)

- a) The IB provides the two Aspire companies with a Commercial Protocol and sets out in detail the type of new investments it is seeking. Aspire (CRP) Ltd looks after developments at Chesterford Research Park, whilst Aspire (MRH) Ltd is responsible for residential housing to be let at market rents. The Council's Asset Team will manage all other non-CRP commercial investments.
- b) Depending on the category of investment sought, Aspire (MRH) Ltd, Aspire (CRP) Ltd or the Asset Team, working with professional advisors, will identify investments which meet the protocol set out by the IB. They will prepare investment 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 Boards of the Aspire companies is also required prior to submission to the IB.

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

45. New Investments (green line)

- a) At an Extraordinary Meeting of Council a decision is taken on whether or not to allocate the funding.
- b) If the investment is agreed, funding will be made available to the relevant Aspire Company or to the Asset Team to enable the purchase to be made.
- c) The Aspire companies report annually to the Cabinet as the shareholder board of the Council.

46. Governance, Audit and Performance Committee (GAP) (black line)

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

Joint Working

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