INVESTMENT BOARD held at COUNCIL CHAMBER - COUNCIL OFFICES, LONDON ROAD, SAFFRON WALDEN, CB11 4ER, on MONDAY, 17 JULY 2023 at 6.00 pm

Present:	Councillor N Reeve (Chair) Councillors G Bagnall, C Criscione, J Evans, R Gooding, N Gregory, N Hargreaves (Vice-Chair), D McBirnie and G Sell
Independent Person:	R White
Officers in attendance:	C Shanley-Grozavu (Democratic Services Officer), A Webb (Director - Finance and Corporate Services) and N Wittman (Assistant Director - Commercial and Digital Change Management)

IB1 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies for lateness were given by Councillor Gregory.

There were no declarations of interest.

Introductions were given by all.

IB2 MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting were approved as a correct record.

Councillor Criscione apologised for not sending formal apologies to the previous meeting.

Councillor Sell requested that thanks be given to the outgoing members of the board, following May's Local Elections.

Members requested that officers look to arrange future meetings at Little Canfield and Chesterford Research Park, subject to agreement from the Chair. The Director of Finance and Corporate Services also offered all members a tour around Chesterford Research Park.

Councillor Gregory arrived at 18:15

IB3 THE VALUATION PROCESS

The Director of Finance and Corporate Services provided an introduction to the process of establishing the value of the Council's asset portfolio.

In response to questions from members, officers confirmed that the approach to making the valuation was a standardised process used by CBRE and consistent with that used by Aviva and Aspire to allow for a direct comparison.

They explained that Local Authority accounts needed to provide a "fair value" on a commercial asset; given that the assets were a revenue income stream and not a driver of capital growth.

IB4 UTTLESFORD PROPERTY PORTFOLIO Q4 REPORT

The Director of Finance and Corporate Service presented the report on the Uttlesford Property Portfolio for Quarter 4 of the 2022/23 year.

The Board discussed the Portfolio in-depth, and the following comments were made:

<u>Chesterford Research Park (CRP)</u>

- Park staff had regular meetings with the tenants of the CRP and would support them to find solutions if they were found to be in financial trouble.
- Recent market research showed that there was a need for over one million square foot of lab space in and around Cambridge. Previously, officers sought to expand CRP one project at a time, but this was not quick enough to keep up with the demand of the industry. Therefore, officers were planning ahead to produce more buildings but due to the rapid nature of the expansion of the industry, many of the companies which would occupy them did not exist yet.
- Middle-sized units were a safer investment as they could be adapted either by dividing them up or by combining them together. A bigger build required more commitment from the tenants.
- As far as the Council Portfolio was concerned the 'asset' was the loan which the company makes repayments on each year. It was set at 50 years but had an immediate recall clause should it be the wish of the Investment Board to terminate the agreement.
- Aviva and UDC had a vote each on the board. Should there be a split vote, representatives of both organisations would meet to come to a resolution. There had not been any dispute so far, as both shared the same beliefs.
- The Loan to Aspire was required to be set at a market competitive rate. Should the Council wish to sell their shares in Aspire, then they would be required to pay capital gains tax.

<u>Other Assets</u>

- The majority of the tenants had rent guarantors, usually in the form of their parent companies.
- Tenant reputation was considered a risk to the Council; therefore, any concerns would be brought to the Investment Board as they arise.
- The valuation of an asset was subjective at any given time, as it was a reflection of the market at that point. For example when acquiring the Waitrose Distribution Centre, it was found to be located just outside of the

desirable area from logistical assets, yet it has now moved into this area and was therefore deemed more valuable.

- The Waitrose Distribution Centre was the first example of an increased rental yield. Officers explained that the rent had risen between 2% and 5% each year, but this would not be applied until the end of a 5 year period.
- Phase Two of Stanes Park was complete, and the new units were all occupied. Churchmanor were looking to sell the remaining 48% of the Park which was still under their ownership and the Council had the right to first refusal. Due to the cost of borrowing, officers had chosen not to pursue this offer further and the offer has now expired.
- Amazon had signed a 15-year lease for the Distribution Centre in Gloucester; however the site was currently vacant and was likely be sublet in the short-term.
- The valuation for the MOOG Headquarters in Tewkesbury was a reflection of the building itself and not the tenancy, as construction was still underway. Once development had finished, representatives of UDC, MOOG and the developers would agree to sign-off completion, and the lease could then also be signed.
- The valuation for the whole portfolio was now £270m compared to an acquisition price paid to date of £238m. The initial drop in market values for the portfolio was as a direct response from the markets to the September 2022 mini budget.

<u>Funding and Finances</u>

- The portfolio was funded through internal borrowing, loans and Council-to-Council lending. Funding was for the portfolio as a whole, rather than for an individual asset.
- Council-to-Council lending did not require any security and was interest only, in comparison to loans from the Public Works Loan Board (PWLB) which charged principle plus interest.
- The cost of borrowing and asset management were factored in when working out the percentage yield for the Net Income to the Council.
- The most up-to-date borrowing rates would be brought to the Board at the next meeting. When setting the Medium-Term Financial Strategy for the current year, officers had taken a view that 4.85% was a reasonable rate of interest to budget for.
- There were reserves within the accounts to cover provisions such as incentives or bad debts. However, the figures within the report did not take this into account.
- Options had been considered to mitigate risks from borrowing and the market. For example, should the portfolio fall into financial trouble, an asset could be sold or further funding from the PWLB could be acquired.
- UDC were unable to borrow from the PWLB if they intended to acquire a new asset, however they were able to borrow funds to maximise their existing assets.

Councillor Gregory left the meeting at 18:59 and Councillor Hargreaves left at 19:07

IB5 **GOVERNMENT REVIEWS INTO LOCAL AUTHORITY COMMERCIAL INVESTMENTS**

The Director of Finance and Corporate Services introduced the report on the recent findings from Government reviews of commercial investments at Thurrock Borough Council and Woking Borough Council.

Members discussed potential approaches to reviewing the findings and it was agreed that a member-only session be convened with the Independent Person also in attendance.

Cllr Bagnall left at 20:05

Meeting ended at 20:13