

Uttlesford District Council

Commercial Strategy 2024 to 2029

Prepared by:
Commercial Team
Uttlesford District Council
January 2024



| CONTENTS | PAGE |
|---|-------------|
| Introduction | 1 |
| Vision | 2 |
| CIPFA Prudential Code 2021 (the Code), Public Works Loan Board and Minimum Revenue Provision (MRP) | 2 |
| Aims of the Strategy | 3 |
| Purpose of the Investments | 3 |
| Current Portfolio | 5 |
| Loans to wholly owned subsidiaries | 9 |
| The Investment Fund | 10 |
| The Portfolio Moving Forward | 11 |
| Funding and Reserves | 12 |
| Success and Performance Reporting | 12 |
| Security, Liquidity and Yield | 13 |
| Risks | 14 |
| Proportionality | 15 |
| Capacity, Skills and Culture | 15 |

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 £65,000 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 2024-2029 MTFS has significant and rising shortfalls in funding, despite the commercial portfolio that has been acquired. It is likely that in order to comply with CIPFA guidance on asset performance and review, at least one of the commercial portfolio assets will be identified as suitable for sale, with the receipt being used to reduce the need for future short term borrowing.
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. The effect of the September 2022 budget has impacted the sector throughout 2023 and this is expected to continue well into 2024.
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 should that scenario ever arise.
6. This strategy has been developed alongside several corporate strategies including an Ethical Investment Policy which is attached as Appendix One.

Vision

7. The original 2021 Commercial 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 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 following the Government and CIPFA rules including review of potential asset sales.

CIPFA Prudential Code 2021 (the Code), Public Works Loan Board (PWLB) and Minimum Revenue Provision (MRP)

8. 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.’
9. 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 immediately sell these investments. However, Authorities which have an expected need to borrow should review options for exiting their financial investments for commercial purposes in their annual treasury management or investment strategies. The options should include using the sale proceeds to repay debt or reduce new borrowing requirements. They should not take new borrowing if financial investments for commercial purposes can reasonably be realised instead, based on a financial appraisal which takes account of financial implications and risk reduction benefits. Authorities with commercial property may also invest in the repair, renewal and updating of their existing commercial 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.'

10. Whilst the Code does not require the sale of commercial assets it suggests that commercial investments should, where the local authority has a need to borrow, be subject to an on-going review to consider exit arrangements, taking into account the financial implications and risk implications of doing so.
11. In addition to the requirements of the Prudential Code, the Treasury has also restricted access to the PWLB where councils borrow for yield. Those that do will be unable to undertake new borrowing from the PWLB for any other purpose (such as council house building) in the year that the borrowing is taken out and the following year. This will cause the Council issues in that with Chesterford Research Park there is an almost annual need to invest further as the park develops.
12. 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.
13. The rule changes now do not allow the council to follow its intended strategy of potentially selling assets at the best market opportunity with years remaining on the leases and reinvesting to refresh the portfolio and ensure it remains balanced.

Aims of the Strategy

14. 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, £268,469,231 (£268 million) has been used or allocated.
 - (c) MRP will be applied on an annuity basis over the life of each asset. No MRP will be applied on an asset in the year which it is scheduled to be sold, providing the receipt is used in its entirety to repay debt.
 - (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) 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.
 - (f) The Council will look to maintain the commercial asset portfolio at an investment level of no more than £268 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

15. 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.
16. 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.

Current Portfolio

Chesterford Research Park

17. 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.
18. 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.
19. Since the initial purchase the Council has made additional ongoing loans to Aspire (CRP) Ltd for further development totaling £16,646,000 taking the current investment to £63,896,500.
20. In August 2023 Council approved a request from Aspire (CRP) Ltd for additional borrowing of £21,060,000 to fund the 50% share of the new build that is known as Building 800 and the development of phase 1 of the solar farm. As at December 2023 the drawdown of the first £3,300,000 had taken place and is included in the figure in paragraph 19 above. No payment is due on this loan until 1 April 2025, to

allow for construction and occupation of the new building to take place.

21. Further drawdowns are planned during 2024/25 as Building 800 is delivered. This will be a multi-let, near 60,000 sq ft building, a mix of office and laboratory space. Phase 1 of the solar farm has a total panel area of circa 1,500m² which equates to 3,060 individual PV cells, which are set out in 85 PV tables, with each table consisting of cells in a 9x4 grid formation. The solar farm will then provide electricity to the following buildings

- The Mansion House
- Building 60
- Science Village
- Building 52
- Building 800 (when complete)

22. Plans are also being developed for a similar sized building to Building 800 (to be known as Building 1100/1200).

23. For 2024/25 the income from Chesterford Research Park is expected to be £2,814,950 rising to £4,394,450 by the end of the period. There is also repayment to the Council of staff time whilst undertaking company work on Aspire (CRP) Ltd.

Skyway House, Takeley

24. On 30 June 2020 the Council completed the purchase of Skyway House at Takeley. The tenant is Weston Homes Plc who have signed a 25 year lease with no break clause.



Stane Retail Park, Colchester

25. 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 development saw the construction of two buildings, one for Aldi and the other for B&Q located on an extension to the existing site. Aldi has signed a 25 year lease with a break option at year 20 (2041). B&Q has signed a 15 year lease with no break and a tenant right to renew option.



1 Deer Park Road, Livingston

26. 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. The lease is for 20 years with no break.



27. 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.

28. 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.

Regional Distribution Centre, Chorley

29. On 16 September 2020 the Council completed the purchase of a large logistics

building on Matrix Park, Chorley adjacent to the M6. The tenant is Waitrose Limited who have a 30 year lease with no break option expiring in 2042. Waitrose have fully sub-let to GXO a worldwide distribution company. [GXO Logistics](#)



Distribution Warehouse, Gloucester

30. 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. The lease is for 15 years with break ending in 2037.



Headquarters, Tewkesbury

31. 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. The lease started in May 2023 and is for 35 years with no break and a tenant option to extend for a further 15 years.



Loans to wholly owned subsidiaries

32. 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

| Drawdown Date | Amount £ | Loan Term | Rate % | Repayment Basis | Loan Interest Receivable 2023/24 £ |
|-----------------------|-------------------|-------------------|--------|---|--|
| 03/05/2017 | 47,250,000 | 50 years | 4.0 | Interest Only | 1,890,000 |
| 26/03/2018 | 223,000 | 49 years 1 month | 4.0 | Interest Only | 8,920 |
| 02/01/2019 | 2,518,000 | 48 years 4 months | 4.0 | Interest Only | 100,720 |
| 09/06/2020 | 1,250,000 | 20 years | 4.5 | Principal & Interest | 96,095 |
| 01/07/2020 | 2,600,000 | 20 years | 4.5 | Principal & Interest | 199,878 |
| 20/08/2019 | 3,000,000 | 20 years | 4.5 | Principal & Interest | 230,628 |
| 15/03/2021 | 2,975,500 | 20 years | 4.5 | Principal & Interest | 228,745 |
| 26/08/2021 | 780,000 | 20 years | 4.5 | Principal & Interest | 59,963 |
| 06/12/2023 | 3,300,000 | 50 years | 7.5 | Interest Only commencing 1/4/2025 | 0 |
| Total of Loans | 63,896,500 | | | Annual payment from Aspire (CRP) Ltd | 2,814,950 |

33. Interest only loans relate to new builds and refurbishment of existing buildings and thereby extending their useful life. Principal and interest loans are where it is for fit out works which have a 20-year life expectancy.

The Investment Fund

34. 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

| | Capital Investment (exc. Fees) |
|---------------------------------------|--------------------------------|
| Completed Investments | |
| Loan to Aspire (CRP) Ltd | 63,896,500 |
| Skyway House, Takeley | 20,000,000 |
| 1 Deerpark Road, Livingston | 4,758,374 |
| Regional Distribution Centre, Chorley | 54,608,773 |
| Stane Retail Park – Aldi | 27,004,322 |
| Stane Retail Park – B&Q | 42,692,000 |
| Distribution Warehouse, Gloucester | 37,749,262 |
| | 250,709,231 |
| Future Committed Investments | |
| Loan to Aspire (CRP) Ltd | 17,760,000 |
| | 17,760,000 |
| Investment Total | 268,469,231 |

35. With the change in the Code and MRP the Portfolio is now complete, and no further assets will be added, although additional investment at Chesterford Research Park will take place.

36. In 2024/25 the portfolio yield for the completed investments is 5.12%. The rental income for the next five years is shown in the following table.

| | Annual Rental Income | | | | |
|---------------------------------------|----------------------|-------------------|-------------------|-------------------|-------------------|
| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
| Completed Investments | | | | | |
| Loan to Aspire (CRP) Ltd | 2,814,950 | 4,394,450 | 4,394,450 | 4,394,450 | 4,394,450 |
| Skyway House, Takeley | 1,128,000 | 1,128,000 | 1,239,273 | 1,276,228 | 1,276,228 |
| 1 Deerpark Road, Livingston | 391,933 | 411,321 | 411,321 | 411,321 | 411,321 |
| Regional Distribution Centre, Chorley | 2,840,000 | 2,840,000 | 2,840,000 | 3,325,757 | 3,355,324 |
| Stane Retail Park – Aldi | 360,395 | 360,395 | 379,279 | 405,716 | 405,716 |
| Stane Retail Park – B&Q | 1,342,275 | 1,342,275 | 1,400,440 | 1,481,872 | 1,481,872 |
| Distribution Warehouse, Gloucester | 2,293,433 | 2,293,433 | 2,293,433 | 2,581,841 | 2,581,841 |
| Headquarters, Tewkesbury | 1,680,500 | 1,680,500 | 1,680,500 | 1,737,959 | 1,910,335 |
| | 12,851,487 | 14,450,374 | 14,638,696 | 15,615,143 | 15,817,088 |
| Future Committed Investments | | | | | |
| Loan to Aspire (CRP) Ltd | | 1,332,000 | 1,332,000 | 1,332,000 | 1,332,000 |
| Investment Total | 12,851,487 | 15,782,374 | 15,970,696 | 16,947,143 | 17,149,088 |

The Portfolio Moving Forward

37. 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'.
38. 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 some or all of the assets for the longer term.
39. In line with the need to retain the asset for a longer period of time it will now be necessary to set aside some of the income raised each year into a reserve to cover increased risk of business failure, voids and future costs of refurbishment at the end of lease.
40. 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.
41. Regular reviews of all assets in the portfolio will be undertaken to determine the most appropriate point in time for sale. 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. Under the various guidelines within which the commercial portfolio now operates it is likely that, should the evaluation identify a positive cost benefit of selling an asset, the council would be expected to sell. As part of that sale there would be a requirement that the sale receipt is used in its entirety to reduce the level of borrowing.
42. It is likely that in 2024/25 the Council will need to sell an asset or assets to assist the setting of balanced budgets in the coming years.

Funding and Reserves

43. 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.

44. 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.
45. In 2023 as part of the Commercial Strategy a Commercial Asset Reserve (part of the MTFs Reserve) was established to cover costs at the end of the tenancy for each asset. 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.
46. This reserve will grow without being drawn upon for a number of years but will then be heavily used between years 15 and 25 (2037 – 2047) as most of the assets have lease expiry during that time period.

Success and Performance Reporting

47. Success will be primarily measured in the financial return to the Council.
48. A quarterly report is produced for the portfolio which is presented to the Investment Board. 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.
49. As at 31 December 2023 the value of the completed acquisitions is set out below

| | Price paid (including future commitments) £ | Amount paid as at 31 December 2023 £ | Valuation as at 31 December 2023 £ |
|------------------------------|--|---|---------------------------------------|
| Colchester, Stane RP | 27,004,322 | 26,504,322 | 27,125,000 |
| Chorley, Waitrose RDC | 54,608,773 | 54,608,773 | 50,900,000 |
| Livingston, 1 Deer Park Road | 4,758,374 | 4,758,374 | 4,675,000 |
| Takeley, Skyway House | 20,000,000 | 20,000,000 | 15,425,000 |
| Gloucester, Amazon | 42,692,000 | 42,278,237 | 36,300,000 |
| Tewkesbury, MOOG HQ | 37,749,262 | 37,464,079 | 32,900,000 |
| | 186,812,731 | 185,613,785 | 167,325,000 |
| Aspire (CRP) Ltd | 63,896,500 | 63,896,500 | 101,775,000 |
| Total Portfolio | 250,709,231 | 249,510,285 | 269,100,000 |

Security, Liquidity and Yield

50. 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).
51. 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.
52. The option to liquidate funds is either by selling the investment (or part thereof) or by refinancing the debt.

Risks

53. 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
 - a) Arlingclose as its financial advisers who project managed the funding tender
 - b) Cushman and Wakefield who undertook all of the purchase negotiations and due diligence
 - c) Hogan Lovells for Legal due diligenceFor Aspire (CRP) Ltd the Council has two non-executive directors to serve on the Board and bring independent challenge and support.
54. There are five main risks with regard to the wider portfolio and the new strategy of asset retention which are set out on the following pages.

Risks

Likelihood Scores

| Score | Probability |
|----------------------------|---------------|
| 1 (Little Likelihood) | Less than 10% |
| 2 (Some Likelihood) | 10% to 50% |
| 3 (Significant Likelihood) | 51% to 90% |
| 4 (Near Certainty) | More than 90% |

Impact Scores

| Score | Impact Level on Strategic Objectives |
|-------|--------------------------------------|
| 1 | Minor impact/delay/difficulty |
| 2 | Small impact/delay/difficulty |
| 3 | Considerable impact/delay/difficulty |
| 4 | Extreme impact/delay/Difficulty |

Each risk score for likelihood and impact is plotted onto a risk matrix to produce its score. A green score indicates risks which the organisation is most prepared to accept and red those which are less likely to be accepted.

| | | | | | |
|------------|---|---------------|---|----|----|
| | | 4 | 8 | 12 | 16 |
| LIKELIHOOD | 4 | 4 | 8 | 12 | 16 |
| | 3 | 3 | 6 | 9 | 12 |
| | 2 | 2 | 4 | 6 | 8 |
| | 1 | 1 | 2 | 3 | 4 |
| | | 1 | 2 | 3 | 4 |
| | | IMPACT | | | |

23-IB-01 LONG TERM BORROWING

| | | | | | | |
|--|-----------|---------------------|-----------------|----------------|---|-------------------------|
| The council is unable to secure long term borrowing | Owner | Original Likelihood | Original Impact | Original Score | Current Controls | |
| | AW | 2 | 4 | 8 | <ul style="list-style-type: none"> Phoenix loan is secured 2 x PWLB loans are secured | |
| | | Current Likelihood | Current Impact | Current Score | Further Action | |
| | | 2 | 4 | 8 | <ul style="list-style-type: none"> Evaluate sale of one or more assets | |
| | | Target Likelihood | Target Impact | Target Score | Action owner | Planned Completion date |
| 1 | 4 | 4 | AW | ongoing | | |

Progress Update (December 2023)

- No further long term borrowing is planned at the present time

23-IB-02 INTEREST RATES

| | | | | | | |
|---|-----------|---------------------|-----------------|----------------|---|-------------------------|
| Interest rates increase leading to a further reduction in net income | Owner | Original Likelihood | Original Impact | Original Score | Current Controls | |
| | AW | 2 | 4 | 8 | <ul style="list-style-type: none"> Phoenix loan and 2 x PWLB loans are secured | |
| | | Current Likelihood | Current Impact | Current Score | Further Action | |
| | | 3 | 4 | 12 | <ul style="list-style-type: none"> Evaluate sale of one or more assets Consider additional PWLB loans | |
| | | Target Likelihood | Target Impact | Target Score | Action owner | Planned Completion date |
| 1 | 4 | 4 | AW | ongoing | | |

Progress Update (December 2023)

- Base rate has stayed static for the last 3 months, as therefore has the cost of borrowing. Over the next few of years the investment net contribution will be lower than in previous years, recovering towards the end of the five year period as reflected in the Council's MTFS

23-IB-03 TENANT DEFAULT

| | | | | | | |
|--|-----------|---------------------|-----------------|----------------|--|-------------------------|
| Tenants default on rental payments either short term or because of business failure | Owner | Original Likelihood | Original Impact | Original Score | Current Controls | |
| | AW | 2 | 4 | 8 | <ul style="list-style-type: none"> • Additional financial due diligence undertaken ahead of all purchases • Monitoring of tenants both financial information and news channels | |
| | | Current Likelihood | Current Impact | Current Score | Further Action | |
| | | 1 | 3 | 3 | | |
| | | Target Likelihood | Target Impact | Target Score | Action owner | Planned Completion date |
| | | 1 | 4 | 4 | AW | ongoing |

Progress Update (December 2023)

- Tenants passed the viability test and no adverse financial reports this quarter
- Commercial asset reserve will enable short term rent losses to be covered without detriment to council services

23-IB-04 BUILDING LOSS

| | | | | | | |
|--|-----------|---------------------|-----------------|----------------|---|-------------------------|
| Loss of building due to fire/flood leading to no rent being received for duration of the repair/reinstatement | Owner | Original Likelihood | Original Impact | Original Score | Current Controls | |
| | AW | 1 | 4 | 4 | <ul style="list-style-type: none"> • UDC fully insures the building and recharges the tenant • Copies of fire safety procedures/test etc. held by agent | |
| | | Current Likelihood | Current Impact | Current Score | Further Action | |
| | | 1 | 4 | 4 | <ul style="list-style-type: none"> • Monitor procedures as part of the inspection process | |
| | | Target Likelihood | Target Impact | Target Score | Action owner | Planned Completion date |
| | | 1 | 4 | 4 | AW | ongoing |

Progress Update (December 2023)

- Discussions with all tenants on fire safety etc. Inspections check for issues and ensure maintenance repairs etc. are undertaken
- Commercial asset reserve will enable short term loss in rent to be covered without detriment to council services

23-IB-05 REPUTATION

| | | | | | | |
|--|-----------|---------------------|-----------------|----------------|---|-------------------------|
| Actions of tenants affect the reputation of the Council | Owner | Original Likelihood | Original Impact | Original Score | Current Controls | |
| | AW | 1 | 4 | 4 | <ul style="list-style-type: none"> • Tenants checked as part of initial due diligence • Continuous monitoring of tenants both financial information and news channels | |
| | | Current Likelihood | Current Impact | Current Score | Further Action | |
| | | 1 | 3 | 3 | | |
| | | Target Likelihood | Target Impact | Target Score | Action owner | Planned Completion date |
| 1 | 3 | 3 | AW | ongoing | | |

Progress Update (December 2023)

- No adverse or positive news stories this quarter

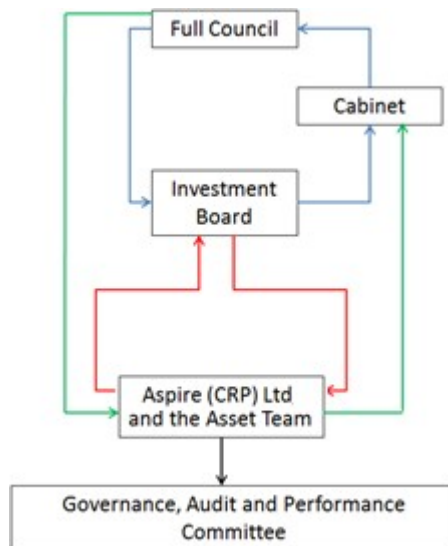
Proportionality

55. 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.
56. The Council has established a Commercial Asset Reserve (see para 44) which will be established with the sum of £3 million to cover the risk of investment failure. In addition, the Reserve will increase by £1,000,000 per annum to cover the cost of future refurbishment, void and rent free periods for each of the assets.
57. 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. An annual asset review will be undertaken to help inform this decision.

Capacity, Skills and Culture

Investment Board (IB)

58. 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 the Economy, Chair of the Investment Board and the S151 Officer (or Director of Finance and Revenue and Benefits for Aspire investments) to conclude investments or disposals where authorisation has been given by Full Council.
59. 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.
60. The investment decision making and monitoring process is as set out below



61. 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.

62. 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.

63. 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 paragraphs 60 to 62.
- c) If the authority is for a sale the disposal will be undertaken in accordance with paragraphs 60 to 62.

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