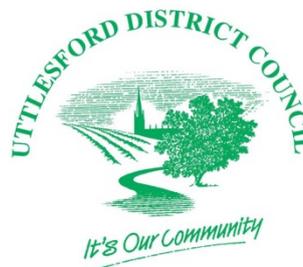


Uttlesford District Council

General Fund Investment Strategy 2019/20



Prepared by:
Finance
Uttlesford District Council
January 2019



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. By way of illustration, a 1% rise in Council Tax is equivalent to approximately £50,000 in additional income.
2. The Medium Term Financial Strategy sets out the forecast deficit position for the Council for the period 2020/21 through to 2023/24. The 2019/20 budget has generated an increase in reserves of £2.200 m, in future years there is a forecast deficit of £1.5m per annum in 2020/21 rising to £3.5m per annum in 2023/24.
3. In 2016/17 the Council received £7.652m in government funding made up of Business Rates Retention, New Homes Bonus, Rural Services Grants and Revenue Services Grant. In 2020/21 this sum is forecast to reduce to £5.087m and by 2023/24 to £3.1m
4. In 2016 the Council took the decision to make strategic investments. It is likely that, to support the Council budget beyond 2019/20 a mix of additional investment and significant cost cutting will be required. It is anticipated that there will be the need to borrow circa £80m for investments, plus £20m for loans to Aspire (CRP) Ltd during the next three years. Prior to 2019/20 the Council only looked for strategic investments that were within the district boundary. This has severely restricted the opportunities for future investment. The emerging funding gap means that the Council now needs to consider opportunities outside of its geographical boundary. Therefore the new criteria for areas of search are as follows
 - a) Preference will be given to in-area investment as for commercial acquisitions this helps to sustain jobs and generate business rates. If however suitable opportunities do not arise;
 - b) The Council will look within the region for investment opportunities. For clarity this means the following counties
 - Essex
 - Hertfordshire
 - Cambridgeshire
 - Suffolk
5. If suitable opportunities do not arise the Council will look outside of the region but staying within the United Kingdom.
6. Any investment, be it in or out of the district, requires significant due diligence. However for any out of district investment in the absence of local knowledge there will be heightened due diligence to ensure that all risks and opportunities are identified and understood. This work will be undertaken by our retained legal advisers and land agents.

7. There are four main types of investment that the Council could make:

- a) Commercial Property - acquisition of existing commercial properties
(This is the preferred investment route for the Council)

Chesterford Research Park (CRP)

In May 2017 the Council, through its wholly owned subsidiary Aspire (CRP) Ltd, acquired a 50% share in Chesterford Research Park. As part of the Cambridge Life Science cluster the Park is world renowned, having been in existence for 18 years, with available space to significantly increase the commercial floorspace, plus expand the Park into other areas of research to diversify and reduce the investment risk.

The Council is committed to investing in the Park and now needs to maximise on the initial investment. 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.

It is likely that the Council will be taking on a 10 year lease of four office units at the new housing development at Walpole Farm, Stansted.

To balance the portfolio, new investments are likely to be for existing commercial properties that enable an earlier return on investment, which will help to meet the immediate funding gap and to provide the opportunity for diversity in sector and location.

- b) Commercial Property - build on land owned by the Council

The Council currently has no land suitable for commercial development. Purchase of land would be considered should opportunities arise.

- c) Residential Property - build on land owned by the Council

The Council has a limited amount of General Fund land on which houses could potentially be built. Land would be transferred/leased to Aspire Rentals Limited, one of the Council's wholly owned subsidiaries, for it to build and let properties at market rates.

- d) Residential Property - acquisition of existing properties or purchase of land on which to build

This would be non-HRA properties let at market rents. Due to property prices in the District it is likely that this opportunity would be limited.

8. The option to purchase land for either commercial or residential development may arise in the medium-term as the Garden Communities proposed in the Local Plan develop.

Contribution

9. It is expected that for 2019/20 the net contribution to the Council budget from the investments at Chesterford Research Park will be circa £1.7m
10. The Council recognises that, to 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, to maximise the investment potential, and additional large scale investment, including some out of area, will be necessary.

Indicators

11. Loan to Aspire (CRP) Ltd for the purchase of 50% of Chesterford Research Park (£47.25m) funded by
 - a) Financial Institutions - £37m for 40 years on a repayment basis @ 2.86% fixed. The drawdown of this funding is as follows
 - 1 July 2017 - £10m
 - 1 July 2021 - £12m
 - 1 July 2022 - £15m
 - b) Use of reserves and balances (£10.25m) funds the balance.

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 0.7%

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

For 2019/20 the income from Chesterford Research Park is expected to be £2m with the cost of borrowing being £0.3m.

For Chesterford Research Park, in addition to loan income received there is also repayment of staff time and potential for dividends.

Security, Liquidity and Yield

12. As the Council only has a small amount of money of its own to invest, any further expansion of the investment 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 yield expectations which are currently 4 – 7%.
13. Asset investments will, where possible, be based on a 40 year life span which is in accordance with current MHCLG guidance. Financial models, both income and expenditure will be prepared based on this time period. If the business case does not work on a 40 year financial basis, the investment will not be recommended to Council for approval.
14. Should the Council require the funds (either the reserves invested or to repay the loans taken out) to be available for other uses there are options depending upon the purchase route. For

Aspire (CRP) Ltd the request goes to the Board who will decide whether to seek external funding or to invoke the sale of the Park.

15. Where the investment vehicle is Council only, for example the purchase of existing commercial units, the options to liquidate funds are either by selling the investment (or part thereof) or by refinancing the debt.

Loans to wholly owned subsidiaries

16. In May 2017 the Council acquired a 50% share of Chesterford Research Park (CRP). The loan to Aspire (CRP) Ltd was for 50 years on an interest only basis. Future loans are on the following basis:

- a) Infrastructure loans, such as new buildings or refurbishment of existing buildings, will be on an interest only basis ending on 2 May 2067 to align with all other infrastructure loans.
- b) Refit loans will be on an interest and principal basis for 20 years from the date of the loan. This reflects the length of time a refit lasts, and also that a refit does not increase the overall value of the asset and therefore should be repaid during the useful life.

17. The following loans to Aspire (CRP) Ltd have so far 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	

18. In addition there is approval for a further loan of £4.25m on an interest and principal basis over 20 years at an interest rate of 4.5%. This will be drawn down during 2019/20 as the Newnham Building refit continues.

19. The Council will continue to support Aspire (CRP) Ltd with additional loans as new buildings are required or existing ones refurbished.

20. It is the Council's expectation that over the next 10 years the Council will invest a further £50m in building out more of Chesterford Research Park with the funding required being obtained through borrowing from PWLB or commercial lenders. Of this sum £20m is expected to be loaned to Aspire (CRP) Ltd over the next 3 years.

Risks

21. 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.
22. 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
23. For Aspire (CRP) Ltd the Council has appointed two non-executive directors to serve on the Board and bring independent challenge and support.
24. Use of specialists will vary between investments which will ensure the continued professionalism and sector knowledge.
25. The net income achievable by an investment will depend upon the risk appetite of the Council. This strategy sets out that commercial investments will be funded over 40 years which is in line with good accounting practice. At the time of assessing each investment the Council will need to decide whether:
 - a) To pay the entire principal back over the life of the investment. This is the lowest risk option but has the smallest profit.
 - b) To pay interest only for the 40 years with the intention of realising the asset at the end of the loan period to cover the principal debt. This is the highest risk option and relies on the asset retaining its market value even though potential lease periods remaining may be short or expired. The asset would need to be sold to cover the loan and the timing of sale would be important so as to ensure best returns are achieved.
 - c) A mix of 1 and 2. The precise mix would depend on the expected value of the asset at the end of the loan period.
26. It is likely that the precise repayment mechanism will vary by investment.

Proportionality

27. The aim of the Investment Strategy is to generate income to underpin the Council's core budget. The Medium Term Financial Strategy Reserve will provide a contingency fund to support payments for the investments should there be an in year income shortfall. This ensures that if there is a material downturn or variance against budget in one or more investment the Council has sufficient reserves to cover the cost of the loan.
28. The Council's main 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 seven 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.

29. The Council's MTFs currently identifies that the income received from the investments will be used to underpin the core services, to invest in other income generating opportunities and also good causes for the district.

Capacity, skills and culture

30. Each investment opportunity is fully evaluated prior to presentation to Full Council for a decision. Large scale investments, such as Chesterford Research Park, would include several Member briefings prior to the Full Council decision. Where appropriate, delegation is given to the Leader, Finance Portfolio Holder and S151 Officer (or Assistant Director of Resources for Aspire investments) to conclude investments and loans that have been approved by Full Council.
31. The Council employs experts in the fields of funding, negotiations, property due diligence and legal due diligence to support the councillors and statutory officers in their decision.
32. The Treasury Management Strategy sets out the Council's borrowing limits and these are reported as part of investment opportunity evaluations.
33. The wholly owned subsidiaries (the Aspire companies) all have the Cabinet as the shareholder board with funding requests being approved by Full Council. From 2018/19 the Aspire companies use the Council's external auditors as auditors. The companies also use one of the other major audit firms as tax advisors.