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Wednesday, 3 January 2024

Notice of Reports Received following Publication of Agenda.

Governance and Audit Committee

Thursday, 11th January, 2024 at 2.00 pm,
County Hall, The Rhadyr, Usk, NP15 1GA

Attached are reports that the committee will consider as part of the original agenda but were submitted to democratic services following publication of the agenda.

Item No	Item	Pages
7.	Annual Performance Review of Investment Committee	1 - 24

Paul Matthews
Chief Executive

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REPORT

SUBJECT:	Investment Committee Review
MEETING:	Governance and Audit Committee
DATE:	11th January 2024
DIVISION/WARDS AFFECTED:	All

1. PURPOSE:

- 1.1 To provide members of Governance and Audit Committee with an update on proposed governance changes to the Asset Investment Policy, together with a performance update on the Council's commercial property and investment portfolio.

2. RECOMMENDATIONS:

- 2.1 To receive a verbal update at the meeting following consideration of the proposed governance changes to the Investment Committee at its meeting on 9th January 2024.
- 2.2 To consider and scrutinize the proposed, revised governance arrangements contained in the revised Asset Investment Policy (appendix 1) and summarized in section 4 of this report, and to endorse or otherwise such changes being proposed to Council at its meeting on 18th January 2024.
- 2.3 To receive a performance update on the Council's commercial property and investment portfolio, subsequent to update considered by the Investment Committee on 28th November 2023.

3. KEY ISSUES:

Background

- 3.1 In May 2018, Council approved a revised Asset Management Strategy, which included an Asset Investment Policy designed to optimize returns from the Council's investment portfolio, including the acquisition or development of new assets or other commercial opportunities.
- 3.2 The purpose of the policy was to support the Council delivering against its core policy objectives whilst helping sustain Council services and enhancing

its asset base. The policy provides a framework to enable the acquisition of commercial assets to increase net rental income streams and realise capital appreciation opportunities.

- 3.3 The Asset Investment Policy outlined the criteria for evaluation of commercial and property investments, measured against the potential income generation opportunities to satisfy the Council's then Corporate Plan and in supporting its wider budget framework.
- 3.4 The policy set out the need to seek out investment opportunities within Monmouthshire, the City Deal region and neighbouring areas of economic influence, which supported the Council's economic and regeneration priorities. The policy enabled the Council to identify investment opportunities beyond our county boundary that met the investment criteria as well as identified different types of investment that would diversify the portfolio and minimise risks by both sector and location.
- 3.5 Alongside the policy, the Council at that time approved £50,000,000 of prudential borrowing that could be used to acquire or invest over a three-year period. The cost of borrowing is serviced by the resulting rental streams, with a requirement that it should provide a net surplus over and above borrowing costs.
- 3.6 The Investment Committee, which currently presides over the monitoring of performance updates, is made up of the Council Leader, Deputy Leader, Cabinet Member for Resources and Leaders of the two largest opposition parties. The Committee is advised by the Deputy Chief Executive (s151 officer for the Council) and officers from Finance, Landlord Services and Legal Services. When previously considering acquisitions or investments, specialist advisors have been used to supplement internal capacity and expertise as appropriate.

The Asset Investment Policy

- 3.7 The Asset Investment Policy sets out the framework and governance criteria for the management of the investment portfolio. The policy stipulated that the returns must exceed borrowing costs by a minimum of 2% per annum and over its expected lifetime (ROI). The Asset Investment Policy enables individual investments to provide a lower return (i.e. below 2%) if investments can demonstrate economic development opportunities for Monmouthshire or alignment to other policy objectives. However, in such circumstances borrowing costs must at least be covered.

- 3.8 All business cases received by Investment Committee considered the known risks at the time of the investment, together with the proposed mitigating action and potential exit strategies.
- 3.9 The Investment Committee has been responsible for making decisions on possible investments based on the business cases presented, ensuring that they met the criteria as set out in the Asset Investment Policy. In addition, the Committee has been responsible for ensuring that the assets are effectively managed, performance is monitored, and performance reviewed via an annual report to the Governance and Audit Committee.

Proposed Governance Changes

- 4.1 The Governance & Audit Committee received the last performance review of investment committee in November 2022. That update provided information on the local and national context and that included the strengthening of the Prudential Code and following moves by UK Treasury and the DMO (Debt Management Office) in restricting lending for commercial investments being entered into primarily for yield.
- 4.2 The Council paused any further active consideration of commercial investments activity as a consequence of the pandemic and the resultant uncertainty in property and investment markets. No investments have been made subsequent to the strengthening of the Prudential code and confirmation has been provided on an annual basis to the DMO that no PWLB borrowing is intended for the purpose of acquiring investment assets primarily for the purposes of yield.
- 4.3 As previously stated the Investment Committee established in 2018 to manage the investment portfolio had delegated authority to acquire or invest over a three-year period against a £50,000,000 fund established through approved prudential borrowing.
- 4.4 All three investments made by the Investment Committee to date had been made within the three-year period, the last of these in March 2020. The three-year period approved by Council in May 2018 has now lapsed. The expiry of this period and changes to the Council's commercial investment risk appetite has warranted a review of the governance arrangements around commercial activity, including the choice of appropriate fora to consider performance updates of the investment portfolio.
- 4.5 Furthermore, there remains a pause on further commercial investment activity and that has continued due to the ongoing market volatility since the start of the pandemic.

- 4.6 As a result of the Council's risk appetite and the ongoing strain on its financial standing any further investment will only be considered in order to support the core policy objectives contained within the Council's latest Community and Corporate Plan, and where deemed prudent, sustainable and affordable.
- 4.7 If any future investment considerations are intended to deliver against direct policy objectives of the Council then it naturally prompts for the current governance arrangements and Asset Investment Policy to be reviewed.
- 4.8 In terms of any future investment proposals, these can be considered in line with the Council's current constitution and decision-making processes through Council, Cabinet or otherwise.
- 4.9 To the extent that an investment proposal contains commercially sensitive information then either the whole or part of the report can be considered to be exempt from the press and public.
- 4.10 Notwithstanding this it is proposed that the Investment Committee, as an existing sub-committee of Council, is retained but put in abeyance. This therefore allows Council in future, and if it so wishes, to request the Investment Committee to preside over an investment proposal before making recommendation back to Council for consideration. In such circumstances this will retain the cross-party scrutiny and consideration of any such investment proposals.
- 4.11 It is proposed that the role of the Performance & Overview Scrutiny Committee now focuses on maintaining oversight and scrutiny of the performance of the Council's property investment portfolio on a six-monthly basis.
- 4.12 Furthermore it is proposed that the Governance and Audit Committee looks to seek ongoing assurance on overall governance arrangements of the commercial and property investments as part of the Council's overall land and property portfolio.
- 4.13 The Asset Investment Policy and the associated terms of reference for the Investment Committee have been updated on this basis and are shown in appendix 1.
- 4.14 In order to ensure that effective consultation takes place the changes outlined in this report will be considered by Investment Committee, and then subsequently Governance and Audit Committee, and Performance and Overview Scrutiny Committee ahead of being presented to Council for consideration. Feedback will be provided at Council and to the extent of confirming that proposed changes are supported or otherwise.

Investment Performance Update

5.1 The Investment Committee received performance updates in July and November 2023, and January 2024. A summary below sets out the performance of Castlegate Business Park and Newport Leisure Park investments for the previous and upcoming financial years. It illustrates the impact of the pandemic on both assets, and the improving performance following lettings at both sites:

	Castlegate Business Park	Newport Leisure Park
ROI at time of acquisition	3.76%	2.11%
ROI as of 22/23	-6.58%	0.01%
ROI as of 23/24 (Nov 23)	-2.85%	1.13%
Forecast for 24/25	0.43%	2%
Occupancy at time of acquisition	95%	100%
Occupancy as of 22/23	75.7%	97%
Occupancy as of 23/24 (Nov 23)	85.6%	97%

5.2 Figure 1 above captures a summary of the financial performance of the investment portfolio. This equates to a £363,474 improvement in the performance of the investment portfolio from 22/23 to 23/24. Both Castlegate Business Park and Newport Leisure Park (NLP) are projected to generate a net surplus, after borrowing repayments, in 24/25.

5.3 The 24/25 forecast is based on the expiry of rent-free periods or uplifts (i.e. stepped rentals) captured within existing lease agreements. The forecast does not reflect the anticipated positive effect of any additional vacant space being let.

Castlegate Business Park

5.4 Castlegate Business Park was acquired in June 2018 for £7million together with a service charge loan of £900k and associated acquisition costs. The asset consists of mixed office and production/warehouse space amount to circa 217,000 sqft situated in 18 acres of land adjoining the Caldicot settlement.

5.5 A new letting to Wunda Group, the largest single occupier of the property, has reduced the vacant space by a further 22,336 sqft. Combined with a small letting to an existing occupier, this has reduced the vacant space from 52,765 sq ft as of December 22 to 29,933 sqft as of November 23. The letting has also secured an extension to the remaining term of Wunda Group's existing occupancy.

- 5.6 To assist with reducing the vacant space and tailor to smaller occupiers, a marketing campaign has been launched for 'MonSpace', a flexible co-working environment from which meeting rooms and office spaces can be hired on flexible terms. Unit 120 consists of 9 suites that lend themselves to this arrangement. Two of the suites have been let including to a local businessman and Caldicot Town Council (who are seeking temporary accommodation whilst their existing premises is refurbished). These lettings are contributing a rental income to MCC and reducing our service charge, business rates and utilities liability.
- 5.7 Given that the asset currently performs below the 2% above borrowing criteria as set out in the asset investment strategy, Investment Committee has been obliged to review the retention of the asset and consider its disposal. On balance, it is the recommendation of officers that Investment Committee continue to hold this asset to retain a strategic employment asset, on the understanding of having continued to secure new lettings and increased the rent roll, reducing MCC's service charge, business rate and utilities liability. The asset continues to support policy objectives around employment space and business development, and the financial liability to the authority continues to reduce as the asset's net contribution to the authority is improving, with a project net return by 24/25 without any further lettings.

Newport Leisure Park

- 5.8 Newport Leisure Park was acquired in March 2019 at a cost of £22.5million. It is situated on the Newport/Monmouthshire border and comprises of a mix of six restaurants, two retail units and three leisure units within an 11 acre site. At the time of acquisition, all of the units were let on the basis of long leaseholds with no rental or service charge arrears.
- 5.9 Since the last performance update in November 2022, MCC have secured new tenants for Unit 2 with a letting to Active Parks Limited, trading as Innoflate. A letting of Unit 5 has also been completed to Magic Bean Company (Starbucks) who have completed construction of a drive-through and commenced trading in September 23.
- 5.10 There is one remaining vacant unit on the property. Unit 6 is being marketed and negotiations are ongoing with a prospective occupier. One tenant is in arrears and we are engaging in discussions with them on debt repayment or commencement of recovery proceedings.
- 5.11 Unit 1 (let to Cineworld) continue to satisfy their lease and rental obligations in full. On August 1st the Cineworld Group emerged from its Chapter 11 bankruptcy notice, reducing their debt and introducing a new management

structure and board. There has been no indication that Cineworld will elect to close their cinema at NLP, however we continue to monitor the situation closely.

- 5.12 Whilst it is recognized that the ROI is below that of the 2% target as per the asset investment policy, it is recommended that the asset is retained, as the Leisure Park continues to generate a strong net return to MCC. Any sale is likely to also result in a depreciated capital value due to the reduced rent roll and limited investment activity in the sector at this time.

Broadway

- 5.13 In March 2020, on the basis of the completed due diligence and legal negotiations, the Council agreed to provide loan funding to Broadway Partners Limited (through a Special Purpose Vehicle or SPV: 'Monmouthshire Broadband Limited') which had the aim of supporting the construction of a broadband network across Monmouthshire to improve digital connectivity for rural businesses and residents.
- 5.14 Loan funding of £1.9 million was approved for a 10-year term, secured against the network assets held and created by the investment made by the SPV. Furthermore, an unsecured revolving loan facility of £300,000 was provided to Broadway Partners Limited to assist the company in overcoming cash flow delays resulting from delays in UK Government gigabit voucher scheme payments.
- 5.15 Monmouthshire Broadway Limited drew down two of the four tranche payments, total amount £1.15 million, of the £1.9 million total secured loan, repaying the loan plus SONIA-linked interest on a monthly basis, in accordance with the provisions of the Facility Agreement.
- 5.16 In October 2021, Broadway Partners secured consent from the Council to grant security to its new investors – Downing LLP – who sought to invest £145 million in the company to enable it to deliver full-fibre broadband to 250,000 premises in rural communities.
- 5.17 In November 2021, Broadway Partners repaid in full and with the necessary interest the balance of the revolving loan facility and gave the requisite notice that they wished to close the facility.
- 5.18 Unfortunately, on the 31st May 2023, Broadway announced that administrators had been appointed to enable them to restructure the business and a sales process to be undertaken. During this period, Broadway continued to trade and provide their usual services to both new and existing customers on their high-speed fibre network.

- 5.19 Upon the company going into administration the total principal balance of the MBL loan outstanding was £745,370.42, along with accrued interest outstanding.
- 5.20 Council officers worked constructively with the appointed administrators over a period of months and which culminated in a new buyer (Voneus Limited) being secured for Broadway Partners Limited. As part of the sale the Council was able to secure full repayment of the outstanding loan with MBL, together with all associated interest and costs incurred.
- 5.21 The Council no longer has any further financial exposure as a result of the administration process concluding itself. The Council will continue to separately support Voneus Limited with its plans to rollout full fibre broadband connectivity across Monmouthshire and as these become clearer.

Commercial Portfolio

- 5.22 The Council's industrial portfolio comprises of 40 units ranging in size from 365ft² to 2,850ft² located within Caldicot and Raglan. Currently the portfolio is 100% let and there are aged rental arrears in the region of £5k. A number of lease renewals are under negotiation at Old Pill Farm Industrial Estate which are anticipated to increase rentals.
- 5.23 The retail portfolio is made up of 23 secondary neighbourhood units, which are a combination of freehold and long leasehold tenures. The portfolio is 95% let, with a small number of voids at Hanbury House in Chepstow. The former OSS and hairdressers at Monmouth Market Hall is being advertised for prospective tenants.
- 5.24 Innovation House, Magor is categorised as an investment asset with an income target of £156,000. The ground and first floor had been let as a Welcome Centre as part of MCC's Ukrainian Relief efforts. The second-floor larger wing was vacated in November 23 by BAM Nuttall. The second-floor small wing remains occupied. Following withdrawal of the Welcome Centre, the offices continue to be marketed. Heads of Terms have been received from a prospective occupier, with negotiations ongoing regarding a potential co-working operator.
- 5.25 There are £9k of arrears for County farms, relating to one farm in Leechpool. Site visits have been arranged to discuss options with the tenant. Significant rental uplifts have been achieved across multiple recent farm lettings. Another farm is scheduled to be vacated in April 2024, where there is also confidence of an increased income following re-letting.

5.26 Income from the Council's solar farm is currently forecast to meet the projected income target based on current performance and market rates for the sale of energy. Weather, grid outages and unforeseen maintenance issues may impact the final position.

6. OPTIONS APPRAISAL:

6.1 The report is not a decision-making report. The report represents a performance review of the Investment Committee, proposed governance changes and update on the performance of the portfolio. Therefore, no option appraisal is required.

7. REASONS:

7.1 The Asset Investment Policy requires an annual performance review of the Investment Committee to be undertaken in order to ensure that the governance arrangements, policy documentation and legislation are being adhered to and reviewed and revised as required.

8. RESOURCE IMPLICATIONS:

8.1 The three investments acquired since the introduction of the Asset Investment Policy in 2018 are the acquisitions of Castlegate Business Park and Newport Leisure Park, and the investment in Broadway Partners Limited. £30.7m of the £50,000,000 prudential borrowing fund had been spent on these three investments. Any costs of due diligence and advice incurred exploring other commercial investment opportunities have been met from existing revenue budgets.

8.2 As a result of the investments, budgeted income targets have been introduced. Since the time of purchase, the budgeted income targets have been reduced to reflect the expected short-term rental reduction as a result of the Mitel surrender at Castlegate and a turnover of tenants at NLP. As a consequence, the £609,000 original budget surplus has reduced to £217,000 in 2023-24. The latest Month 6 projections estimate a net surplus on NLP of £291,000 and a deficit of £216,000 on Castlegate, a combined surplus on both investments of £75,000 resulting in an in-year forecast budget pressure of £142,000.

8.3 As a consequence of the lettings to Wunda Group but ongoing rent-free period of Unit 5, the ROI's for both investments have improved to 0.43% and 2% respectively. It is forecast that both assets will return to a net return for MCC for the 24/25 financial year.

- 8.4 The capital values of both assets continue to be impacted by the respective sectors however an improving rent roll is resulting in capital appreciation. There are no significant arrears at Castlegate Business Park. One occupier of Newport Leisure Park is in arrears and discussions are ongoing with the tenants to establish recovery plans.
- 8.5 In terms of loan funding provided to Broadway Partners Limited, through a Special Purpose Vehicle 'Monmouthshire Broadband Limited', a positive outcome resulting from Broadway Partners Limited going into administration has led to a full repayment to the Council of the total principal balance of the loan outstanding of £745,370.42, along with all accrued interest due. The Council no longer has any further financial exposure as a result of the administration process concluding itself.

9. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING)

There are no equality and Future Generations implications arising from the purpose of this report. This report provides a performance review of the Investment Committee together with proposed changes to future governance arrangements.

10. CONSULTEES:

Stacey Jones – Finance and Resources Manager
Joanne Chase – Head of Commercial Law

11. BACKGROUND PAPERS:

Appendix A – Asset Investment Policy – as revised December 2023

12. AUTHOR(S):

Peter Davies – Deputy Chief Executive (S151 Officer)
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Appendix 1 – Asset Investment Policy (Updated Dec 2023)

1. Introduction

In common with all public bodies, the Council has a property portfolio, which is used to facilitate service delivery and deliver corporate objectives. The Council has been driving down running costs through the rationalisation of its operational estate and enabling staff to work remotely. Whilst this process will continue to seek efficiencies, it is limited to cost avoidance and efficiency savings. This policy is concerned with supporting economic and regeneration policies through prudent investments, and which in turn may generate a net revenue return to the Council.

It is recognised that there has been significant scrutiny over public agencies acquisition of commercial portfolios funded by borrowing or capital reserves. This has led to government intervention and that has placed restrictions on Councils in so far as they must not borrow to invest for the primary purpose of financial return.

This policy will outline the system process that will ensure that investments are prudent, decision-making is transparent, there are defined performance and risk management frameworks in place and accountability is embedded within the governance arrangements.

2. Objectives of the policy

- 2.1 To invest in opportunities within the County of Monmouthshire to support economic and regeneration policies, support job and wealth creation and improve the opportunities for Monmouthshire citizens.
- 2.2 To invest in opportunities within the Council's immediate geographical boundary and neighbouring areas of economic influence which will support the Council's economic and regeneration priorities.
- 2.3 In so far as investments generate a net revenue surplus that they help sustain Council services and in supporting Council priorities.

3. Purpose of the Policy

- 3.1 The policy sets out the arrangements by which the:
 - Council and, as necessary, Investment Committee will assess investment opportunities
 - Performance and Overview Scrutiny Committee will assess subsequent performance and risk management
 - Governance & Audit Committee will seek assurance on overall governance arrangements
- 3.2 Investments that fall within the scope of this policy are:
 - Commercial investments through the provision of commercial loan facilities
 - The use of investment funding to acquire, build or renovate investment portfolio holdings

- Investments within equity or debenture interests.
- 3.3 All commercial investment opportunities will need to be the subject of a Business Plan which evidences that the specified financial and investment criteria set out in this policy are met.
- 3.4 The principal purpose for undertaking commercial investments will be to improve the financial, environmental or social wellbeing of the Council and its communities. Consideration will be given to the sustainable development principles within the business case and where possible the identification of options to reduce the existing carbon and environmental impact of potential investments.

4. Powers to acquire land and property assets.

Power to acquire and hold assets

- 4.1 The 1972 Local Government act provides the authority for local government to both acquire and dispose of property assets. S120 deals with the acquisition of assets as follows:

S120 Acquisition of land by agreement by principal councils.

(1) For the purposes of—

(a) Any of their functions under this or any other enactment, or

(b) The benefit, improvement or development of their area,

(c) A principal council may acquire by agreement any land, whether situated inside or outside their area.

- 4.2 Well-being powers

Section 2 of the Local Government Act 2000, gives local authorities the power to do:

1) Anything which they consider is likely to achieve any one of the following objects:

(a) The promotion or improvement of the economic well-being of their area,

(b) The promotion or improvement of the social well-being of their area, and

(c) The promotion or improvement of the environmental well-being of their area

Section 2 (4), of the act provides local authorities with the ability to incur expenditure, give financial assistance, enter into arrangements or agreements and provide goods services and accommodation.

The Council has previously obtained specific advice and legal counsel on the application of these powers to acquire investment assets, which has confirmed that a direct benefit to the citizens of Monmouthshire needs to be accrued from the acquisition of the assets which can be tangible i.e. the provision of new facilities, or intangible i.e. funding service delivery.

General Power of Competence

Chapter 1 (part 2) of the Local Government and Elections (Wales) Act 2021 introduced the general power of competence powers for principal councils in Wales and which have been enjoyed by English authorities since the introduction of the Localism Act. These powers enable qualifying

councils to ‘act in their communities’ best interests’ without the need to identify specific legislative powers to undertake a particular activity. The Act sets out the boundaries of the power and the limits on charging and use of the power for commercial purposes.

The power enables councils to be more innovative and lend or invest money; or setup a company or co-operative society to trade and engage in commercial activity. Use of the power is not restricted to the geographical area of the authority or for the benefit of its residents.

Power to borrow

- 4.3 The power to borrow is provided via S1 of the 2003 Local Government Act. This determines that borrowing may be undertaken;
(b) For the purposes of prudent management of its financial affairs provided it does not exceed its affordable borrowing limit under s.3 Local Government Act 2003 (s.2 (1) and 2(4))

A number of English Authorities have sought advice on the extent of this power and whether it confers the right to borrow money for purely financial purposes. This is yet to be tested in the Courts; however, Welsh Government proposals seem to infer a greater degree of freedom than that afforded by the Localism Act, which confers the general power of competence to English authorities.

The Prudential Code, as updated in 2021, looked to address some of the wider concerns and where a small number of Councils had overly exposed themselves when entering into commercial investments. The Code requires the risks associated with investments for commercial purposes are proportionate to the Council’s overall financial capacity (i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services and the level of resources available to the organisation). The Code goes further to state that an authority must not borrow to invest primarily for financial return, unless directly and primarily related to the functions of the authority.

The UK government’s rules for access to PWLB lending now require statutory chief finance officers to certify that their local authority’s capital spending plans do not include the acquisition of assets primarily for yield, reflecting a view that local authority borrowing powers are granted to finance direct investment in local service delivery (including housing, regeneration and local infrastructure) and for cash flow management, rather than to add debt leverage to return-seeking investment activity.

Authorities with existing commercial investments (including property) are not required by the updated Prudential Code to sell these investments. Authorities may carry out prudent active management and rebalancing of their portfolios. Authorities with commercial land and property may also invest in maximising its value, including repair, renewal and updating of the properties.

5. Financial Criteria

- 5.1 Commercial investments will be expected to meet the criteria set out below; investments outside these criteria will require approval by Cabinet with a supporting business case and reasons for deviating from the agreed protocols.

Criteria	Measure
Minimum Return	2% benchmark net return on investment per annum and over its expected lifetime (to determine this the costs of borrowing will be deducted from the gross income received).

	Where the acquisition will result in net economic growth to Monmouthshire (through the provision of jobs, additional employment floor space, local regeneration or any other measurable community benefit) a lower return can be considered, but the return cannot be lower than 0% after borrowing.
Target annual return	7% per annum, to be reviewed annually to reflect prevailing market conditions
Minimum Repayment Provision (MRP)	To be assessed on a case-by-case basis by reference to the economic life of the asset or commercial loan term. In all cases, the MRP will not exceed 50 years.
Environmental Impacts of the proposed Investment	The proposed investment will need to quantify the baseline position and identify opportunities to reduce the environment impacts.

6. Investment Criteria

Property Investments

- 6.1 All proposed land and property acquisitions are to be undertaken by the Council's Estates team or its appointed agents in accordance with prevailing legislation and the codes of practice of relevant professional bodies. All valuations must be undertaken by a qualified¹ member of the Royal Institution of Chartered Surveyors with knowledge of the relevant local and specialist markets.
- 6.2 All potential acquisitions will be assessed against the following Investment Criteria:
- Location
 - Quality
 - Tenure
 - Title
 - Portfolio blend
 - Covenant strength and security of income
 - Income and capital growth potential
 - Potential landlord liabilities
 - Identifiable risks & portfolio blend
 - Development and added value opportunities
 - Economic, regeneration and other key Council priorities
 - Market and sectoral conditions
 - Independent Valuation
 - Environmental impact and sustainable development principles
 - Potential exit strategy
 - Sinking fund requirement
- 6.3 If consent is being sought to undertake borrowing to refurbish or develop a property asset a business case will be developed which considers the investment criteria set out in 6.2 above. In addition it will need to outline:

¹ MRICS or FRICS

- Statutory consents required to enable the development and the outcome of any initial investigations
- Anticipated development/ refurbishment costs
- Programme timescales
- Clarification how debt repayments will be funded in advance of rental returns.

Commercial loans, Debenture or Equity Interests.

- 6.4 All proposed commercial investments will be led by the Council's Finance Department or its appointed specialist technical advisors in accordance with prevailing legislation and the codes of practice of relevant professional bodies.
- 6.5 All potential investments will be assessed against the following investment criteria:
- Financial standing of the proposed borrower
 - Company gearing and assets
 - Payback periods and affordability
 - Opportunity to protect investment through charges over residual assets, IPR, contracts etc.
 - Potential step in rights
 - Viability of investment purpose and market competition
 - Loan to value ratio
 - Potential risks
 - Environmental impact and the sustainable development principles
 - Potential exit strategy
 - Sinking fund requirement

7. Governance Criteria

- 7.1 It will be a matter for full Council to determine whether an investment proposal is to be considered by the Investment Committee before returning to Council for further consideration. Council approval will be needed for any associated cost of due diligence, and to the extent that this cannot be funded from within the Council's existing approved budget.
- 7.2 The Investment Committee will be comprised of the Council Leader, Deputy Leader, Cabinet Member for Resources and the Leaders of the two largest opposition parties (political balance 3:1:1). The Committee will be advised by the Deputy Chief Executive (s151 officer) and officers from Finance, Estates and Legal Services together with specialist technical advisors.
- 7.3 The terms of reference, which will govern the operating practices of Investment Committee, are set out in Annex 1. Three members of the Investment Committee or their nominated deputies will need to be in attendance for the meeting to be quorate.
- 7.4 A minimum of a two-stage process will be adopted by Investment Committee when considering any investment proposals.
- 7.5 Investment Committee will need to assess their training needs to ensure that they are suitably equipped to challenge and scrutinise investment proposals. Wider consideration will need to be

given to officer capability, capacity and experience and to the extent that third party advice is needed.

Stage 1

- 7.6 An initial business case is to be prepared which considers the financial and investment criteria set out in this policy. Provisional heads of terms, dependencies, anticipated timescales and potential risks should also be contained in the report.
- 7.7 The business case will be presented to the Investment Committee for approval to incur costs to undertake the due diligence necessary to substantiate the provisional proposal and recommendations.

Stage 2

- 7.7 Following the completion of due diligence, a final business case will be prepared. If the proposed investment remains prudent and in line with investment and financial criteria the business case will be presented to Investment Committee for consideration. Investment Committee will then make recommendation to full Council.
- 7.8 Officers will provide six-monthly investment portfolio performance and risk data to Performance and Overview Scrutiny Committee members to evaluate.
- 7.9 The Governance and Audit Committee will seek ongoing assurance on overall governance arrangements of commercial investments as part of the Council's overall land and property portfolio.

8. Review Principles

- 8.1 Six monthly performance data will be presented to the Performance & Overview Scrutiny Committee to evaluate performance against the financial criteria and business case projections. If this data illustrates that an investment is deemed to be underperforming or fails to meet any debt repayment costs, a review will be undertaken to determine:
- Wider prevailing market conditions and the impact on the investment
 - The potential to increase the revenue generated or reduce holding costs
 - The anticipated sale value of the asset
 - Opportunities for debt refinancing
 - Opportunities for step in
 - Residual value against outstanding borrowing
 - Consideration whether the circumstances are short, medium or long term and the potential for recovery
- 8.5 If it is determined that the asset's sale will realise a net value in excess of the initial investment with little potential to further increase revenue returns then the asset may be sold. In circumstances where the net sale value will not meet the initial investment, the asset should be retained and actions taken to increase the capital value. In circumstances where external factors (market conditions, changes to legislation, etc.) restrict the ability for the asset to recover this value, disposal may be considered.

- 8.6 All income and expenditure from property assets will be managed by the Estates Team and commercial loans by the Finance Department.
- 8.7 Where a property investment requires specific expertise, external agents may be instructed to manage the asset on the Council's behalf. If costs cannot be recovered from service charges, they will instead be deducted from the gross annual return.

9 Risks

- 9.1 As with all investments, they will be subject to fluctuations in market conditions and external factors. All investments will be considered against the security, liquidity, yield principles acknowledging that there will be variations between commercial loans, which are likely to be more liquid than property assets and have shorter paybacks. They are however unlikely to be secured against tangible assets as opposed to property investments, however their payback periods will be longer. An ongoing assessment of risk will need to be undertaken for all such investments.
- 9.2 Illiquidity - In the event that a property needs to be sold to generate capital funds, the disposal process may take an extended period of time to complete, dependent on the prevailing market conditions and the need to secure best value consideration upon disposal.
- 9.3 Commercial property will require management to safeguard the physical condition of the asset and the landlord tenant relationship. Regardless of contractual arrangements, there will always be the risk of tenant default.
- 9.4 In the event of a market downturn, it is likely that rental streams will reduce and voids may occur. This may result in the costs of borrowing exceeding revenue received; this risk can be in part mitigated through the creation of sinking funds for each investment. This is where a portion of the surplus income is ring fenced to the asset and used to fund unexpected maintenance costs or offset declining rent rolls.
- 9.5 When providing commercial loans, risks may arise from a change in the financial viability of the borrower, changes in the market, competition, changes in UK or Welsh Government policies. Whilst these scenarios should all be considered in the business plan, not all circumstances can be predicted as has been highlighted by the Covid 19 pandemic.
- 9.6 Six monthly assessments of the risk profile for the investment portfolio will enable the Performance & Overview Scrutiny Committee to evaluate and if necessary seek opportunities to mitigate the risk through for example refurbishments, or disposal of the investments.

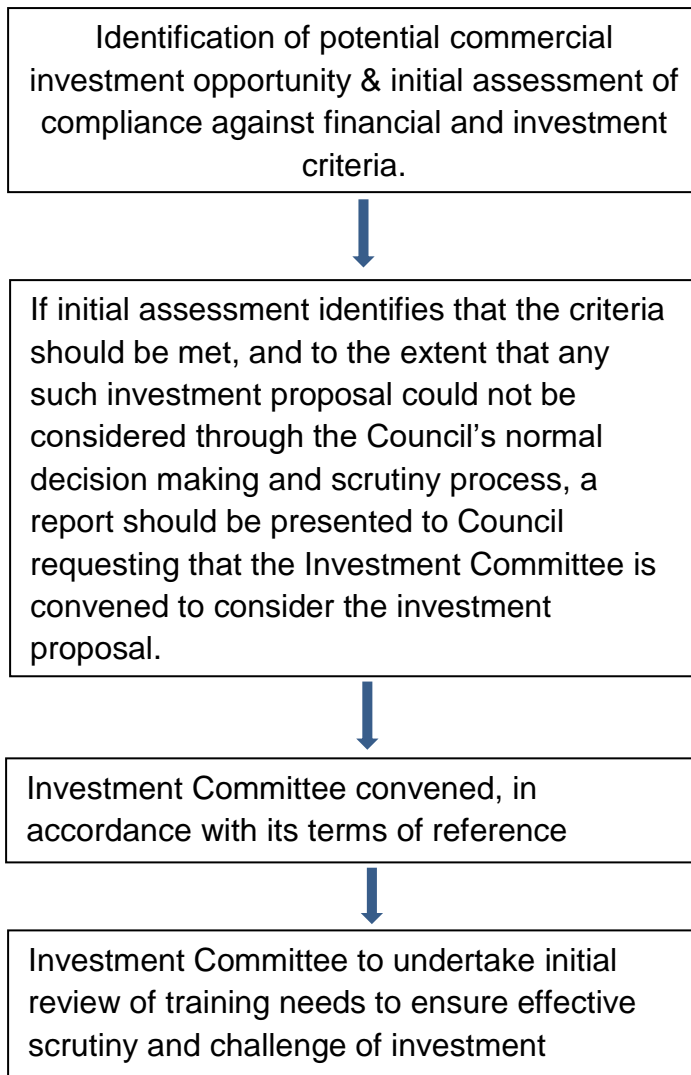
10. Purchasing and Finance.

- 10.1 The Council benefits from the ability to access funding from the PWLB at relatively low interest rates and fixed repayment terms enabling certainty over debt repayments and potential yields at the point of the acquisition of an investment.
- 10.2 If stage 1 approval is provided by Investment Committee, due diligence costs will be incurred. If the investment proceeds these will be included in the total investment cost and funded through

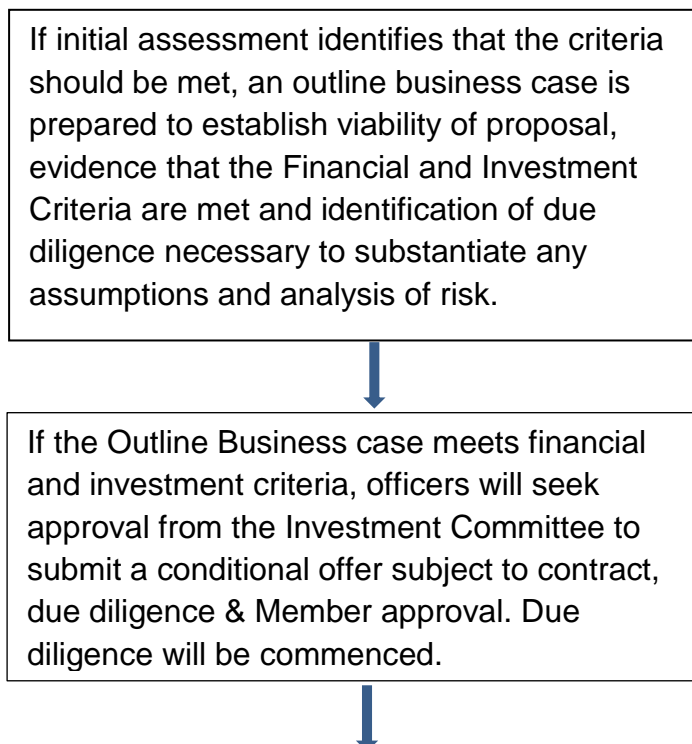
borrowing. If the proposal does not proceed if the abortive costs cannot be financed through existing revenue budgets, they will need to be set against the Investment Fund and repayments offset from the gross investment income.

- 10.3 A sinking fund will be created to manage unforeseen repair works or offset a fall in income levels to prevent the portfolio becoming a net cost to the authority. The value of the sinking fund will be determined on an individual investment basis to reflect value and risk.

11. Governance & Purchase Flow Chart



Stage 1 Approval



Commission due diligence reports, surveys, re-assess financial, and investment criteria against initial assumptions. Finalise Business Case.



Stage 2 Approvals

Present finalised Business Case to Investment Committee for their scrutiny and decision. If investment is approved then legal processes can be implemented.



Present finalised Business Case to Investment Committee for their scrutiny and decision. Decision to be reported to full Council for consideration.



If Council approval is secured, legal processes to commence under delegated authority secured as part of the Council decision.

Completion of legal processes

Commence legal processes, which will be undertaken by the Council's Commercial and Property Legal Team.



If the investment is a property acquisition, exchange contracts, which contractually commits the Council to the purchase.



Finalise legal documentation. Arrange draw down of funds and completion of investment.



Post completion – if property acquisition, payment of Land Transaction Tax and other fees; arrange for rental payments and ongoing property / portfolio management. Establish sinking fund with finance team.



Update relevant colleagues / external organisations and update terrier and other software systems.

Performance Monitoring

Performance dashboard of investments and risk register to be presented to Performance & Overview Scrutiny Committee on a six-monthly basis or sooner if required.

Ongoing assessment of governance arrangements around investments and wider land and property portfolio by Governance & Audit Committee.

Annex 1 – Investment Committee Terms of Reference

- Purpose:* To hold strategic oversight and accountability for the acquisition of commercial investments in line with the Asset Investment Policy.
- Membership:* The Committee will be comprised of the following elected Members:
- The Leader
 - Deputy Leader
 - Cabinet Member with portfolio responsibility for Resources
 - Leaders of the two largest opposition parties
- The membership of the committee reflects the political balance of the current administration and will be subject to review following a local government election within the Monmouthshire County Constituency.
- Chairperson:* The Leader of the Council. In the absence of the Leader, the Deputy Leader will assume the Chair role in their absence.
- In attendance:* Leaders of the remaining opposition parties
- Chief Executive
 - Deputy Chief Executive (S151 officer)
 - Chief Officer for Law and Governance (Monitoring Officer)
 - Chief Officer, Communities and Place
 - Head of Finance (Deputy S151 officer)
 - Head of Landlord Services
 - Other Council Officers as required.
 - Specialist advisors as required.
- Deputising:* Members of the Investment Committee are able to nominate a substitute elected Member to deputise for them if they are unable to attend a committee meeting. The deputy will be able to vote on behalf of the substantive Committee Member.
- Democratic Services should be advised of any substitute Members, no less than 24 hours prior to the meeting, save in the event of an emergency.
- Voting Rights:* Will be limited to the members of the Investment Committee
- Quorum:* Three members of the committee
- Frequency:* The meetings will be convened as commercial investment opportunities arise and that require the scrutiny and oversight of the Investment Committee. Such circumstances will be determined by Council, and where it is not

considered appropriate for this to be considered through the Council's usual decision making and scrutiny functions due to the commercial sensitivity involved.

Declarations of Interest:

All Members, Officers and external advisors will be required to submit declarations of interest prior to discussing proceedings. Officers and external advisors with a personal or commercial interest in the proposed investment will not take part in the discussions, without the express consent of the Chair.

Investment Committee remit will be to:

1. Take decisions on proposed commercial acquisitions or investment opportunities.
2. Scrutinise business cases and ensure that proposals are in accordance with the approved Asset Investment Policy.
3. To execute the powers of authority delegated by Council in a prudent manner
4. Members of Investment Committee will act in the best interest of the corporate entity
5. The Committee will undertake review of its effectiveness and identify any training required for committee members.

Note: Ongoing Scrutiny of Commercial Investments

The Performance & Overview Scrutiny Committee will be responsible for:

- a) The ongoing monitoring and review of the performance of the commercial and property investment portfolio, ensuring that it meets the agreed financial benchmarks within the asset investment policy and to ensure identified risks are actively managed.
- b) To maintain oversight of mitigation and exit strategies for poorly performing investment assets, including disposals. Any disposal will need to be considered in line with the Council's disposal policy and approved by Cabinet.

The Governance & Audit Committee will be responsible for ensuring that the governance and risk management arrangements in place around the commercial and property investment portfolio, and the Council's land and asset portfolio more generally are in place and operating effectively.

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