

REPORT

SUBJECT: Investment Committee Review

MEETING: Council

DATE: 18th January 2024

DIVISION/WARDS AFFECTED: All

1. PURPOSE:

- 1.1 To propose governance changes for how the Council oversees its commercial investment portfolio.

2. RECOMMENDATIONS:

- 2.1 To receive verbal updates at the meeting following consideration of the proposed governance changes by Investment Committee, Governance and Audit Committee and Performance & Overview Scrutiny Committee from their meetings on 9th, 11th and 15th January respectively.
- 2.2 To approve the proposed, revised governance arrangements contained in the revised Asset Investment Policy (appendix 1) and summarized in section 4 of this report.

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

- 3.10 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.
- 3.11 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.
- 3.12 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.
- 3.13 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.
- 3.14 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.
- 3.15 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.

- 3.16 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.
- 3.17 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.
- 3.18 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.
- 3.19 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.
- 3.20 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.
- 3.21 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.
- 3.22 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.
- 3.23 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.

4. OPTIONS APPRAISAL:

- 4.1 The report proposes governance changes for the Council's commercial investment portfolio and for the reasons outlined in this report. The current

governance arrangements are now outdated and are in need of revision. The proposed changes are seen as the most effective means of ensuring that the performance of the investment portfolio is appropriately scrutinized and assurance is given that the governance arrangements are operating effectively.

5. REASONS:

- 5.1 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. This review has concluded that the governance arrangements for overseeing the Council's commercial investment portfolio are in need of revision.

6. RESOURCE IMPLICATIONS:

- 6.1 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.
- 6.2 As a result of the investments, budgeted income targets have been introduced. The performance monitoring of the investment portfolio has been undertaken by the Investment Committee to date. Most recently performance updates have been provided to the Performance & Overview Scrutiny Committee and Governance & Audit Committee.
- 6.3 There are no other resource implications directly resulting from this report. This report concentrates on proposed changes to governance arrangements for the Council's commercial investment portfolio.

7. 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 outlines proposed changes to future governance arrangements for the Council's commercial investment portfolio.

8. CONSULTEES:

Investment Committee

Governance and Audit Committee
Performance & Overview Scrutiny Committee

9. BACKGROUND PAPERS:

Appendix A – Asset Investment Policy – as revised December 2023

10. AUTHOR(S):

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