# INVESTMENT STRATEGY

## Introduction

An Investment Strategy for the governance and making of property investment decisions was agreed in September 2019 by Full Council. This updated Strategy Paper refines the Property Investment Strategy, by setting out the new investment framework, under which the Council can undertake investments against the following broad categories:

- maximising the use of and value of Council owned assets (land & buildings) to maximise revenue return through appropriate change of use to include (but not limited to) commercial, residential or renewable energy;
- investments for regeneration purposes in order to deliver a wider social, service, or community benefit;
- investments in property funds, bond funds, equities and multi asset classes;
- acquisitions and investments, which generate a commercial return (yield).

Continuing reductions in Central Government funding, at a time when Councils are facing increasing demand for services and an ageing population, means that alternative sources of income and optimisation of Council assets and resources need to be identified. The investment strategy is intended to enhance the financial resilience of the Council by investing to:

- increase income from existing assets; and/or
- increase capital growth;
- secure new sources of income.

Full Cabinet therefore agreed that the development of a Property Investment Portfolio was considered appropriate. Since September 2019, Officers have been developing a clear and transparent strategy with suitable governance arrangements, alongside ensuring that we have the right commercial skills in place to evaluate and manage the risk profile of the Portfolio.

The Council has a key leadership role to play in placemaking in Oxfordshire. The investment decisions that it makes have the potential to greatly enhance the well-being and prosperity of communities across the County. The Council will consider the community value and social value of investment opportunities when making its decisions. The Council will also make every effort to ensure that its investments are in line with its commitment to make climate action a ‘top priority in decision making’ and to deliver our own estate and countywide reduction targets. Similarly, investments can also support the development of new delivery models for the benefit of residents, businesses, and visitors. The Council will seek to prioritise opportunities that are carbon neutral, use/generate green energy, or reduce travel and waste. This is all part of our contribution to healthy place shaping and climate action.

The Council has an existing portfolio of land and buildings which, for a number of reasons, may be surplus to requirements as a result of the Council's evolving Property Strategy. There is therefore an opportunity to review these assets and resources, and then evaluate the most suitable options in order to optimise operational efficiency, customer access, and economic and financial value.

Furthermore, there are opportunities to support regeneration or growth using Council assets to lever in further investment or combine with other private or public sector assets to achieve specific regeneration and growth objectives.

An investment strategy also offers opportunities for generating income from assets and the opportunity to deliver a long term and sustainable income to enhance the financial resilience of the Council. This may be achieved through the capital programme or various investment vehicles which offer a range of diverse options to generate income, particularly where there can be a margin between the net return and the funding costs. Each investment opportunity will be evaluated against stringent financial criteria to ensure each delivers gross income aspirations whilst taking consideration of the costs of operating, including lending, acquisition and operating costs where relevant.

In line with the council's commitments on operational and countywide carbon emissions, investment opportunities will also be subject to a carbon assessment.

## Statutory Framework

The Ministry of Housing, Communities & Local Government (MHCLG) has policy responsibility for The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code. This covers the responsibility for ensuring that statutory guidance drives local authorities to make borrowing and investment decisions in a way that is commensurate with their statutory responsibilities and the best value duty. It also includes overall responsibility for the Local Government finance system, including understanding the risks to the system from changes in the types of borrowing and investment activities that local authorities are undertaking.

The CIPFA Prudential Code requires that where authorities have commercial investments, that local authorities should disclose the contribution they make towards the service delivery objectives and/or place making role of the authority. In addition, the types of investment, due diligence processes, the proportionality of those investments and the local authority's risk appetite are also required to be set out. The Government also recognises that local authorities have a key role in local economic regeneration, and this may mean that they choose to take on projects that the private sector would not consider.

## Investment Objectives

The Council's investment objectives are defined as follows:

- To support growth, regeneration and help deliver the Council's strategic objectives;
- To align with the evolving national zero carbon transition;
- To ensure the portfolio is governed and administered within appropriate risk parameters and in a way that supports long term sustainability for the Council and residents of Oxfordshire;
- To maximise the use of capital receipts and revenue income to:
    - maintain the portfolio size, diversity and yield;
    - invest in property to generate future income / capital receipts;
    - invest in assets to support service delivery and other Council priorities, and reduce ongoing revenue costs.

## Existing Investment Portfolio

As at 31 March 2020, the Council has an existing property portfolio of which £25m is invested in property via a strategic pooled fund and £23.5m in direct investment properties held for rental returns or capital appreciation. The direct investments are predominately made up of:

- Agricultural holdings which were specifically retained in 1992 (when the rest of the Smallholdings Estate was sold) as these sites were recognised as holding long term potential for residential development. Since this time the Estates team have been promoting development of these sites through the Local Plan, and have significantly enhanced the value from farm land to residential development land as the sites have been allocated - total value £17m. Work continues to further enhance land values through master planning and ultimately grant of planning permission.
- Non-operational properties held for rental or capital returns total value £6.5m.

## Investment Categories

Investments have been grouped into four broad categories as set out below

| A | B | C | D |
|---|---|---|---|
| Maximise use of and value of Council owned assets (land & buildings) linked to the Council's forthcoming Property Strategy – Capital expenditure | Investments for regeneration purposes in order to deliver a wider social, service, or community benefit – Capital expenditure | Investments in property funds, bond funds, equities and multi asset classes (either through treasury management activities or capital expenditure) | Investments, which generate a commercial return (yield) – Capital expenditure |

### Category A

The Council already owns a sizeable property portfolio (land and buildings) comprising of operational and non-operational assets. Assets which are determined as surplus to operational requirements, via the evolving Property Strategy, will be considered for investment purposes. The resource to undertake effective management of our property assets already exists in-house, and investment in our own assets is a continuation and extension of work already underway.

Non-operational Sites – there are currently a number of major development sites totalling 86 hectares, that are in progress, with anticipated receipts expected from 2024. £40m of the anticipated receipts are already included within the capital programme funding up to 2028/29.[1] The table below shows the extent of our remaining non-operational land holdings that have development value.

| Phases | Land Holdings | Indicative Timescales |
|---|---|---|
| In Progress | ~86 hectares | Major Receipts 2024 onwards |
| Medium Term | ~17 hectares | Receipts c.2035-40 onwards |
| Long Term | ~29 hectares | Receipts c.2040-50 onwards |

Operational Sites – closely linked to the Property Strategy, the Council has the potential to make further changes to how staff work in and use buildings in order to rationalise space and better match customer requirements. Using operational space more efficiently, including opportunities to share office accommodation with Partner organisations, has the ability to both reduce/share running costs and generate income from the commercial market.

Over the last decade there has been significant work to improve the utilisation of our sites, leading to a 25% reduction in running costs. A number of key Council-owned sites in central Oxford were reviewed in 2018 with input from external property consultants, validating the case for releasing and redeveloping specific sites in order to generate

[1] The majority of these receipts will not be realised until at least 2024 onwards.

income.[2] With access to funding, under the investment strategy, there is potential across the estate to further optimise the use of our assets and invest in them to maximise capital values and/or rental yields.

Maximising the use of and value of Council owned assets to increase revenue return through appropriate change of use, is a key priority and it is anticipated that this will be the focus of the Property Investment Strategy over the short term. Where for commercial reasons it is considered more appropriate to sell Council owned assets, it is anticipated that these capital receipts will be reinvested in property assets.

**Category B**

This type of property investment reflects the acquisition of property primarily for regeneration purposes in order to deliver a wider social, service, or community benefit. They may include:

- Strategic regeneration / placemaking opportunities that provide benefits to the wider community including buildings for charitable or community uses;
- Delivery of projects that otherwise might stall or not progress if left in private sector hands but will fulfil Council objectives;
- Non-financial gains where inward investment can create/maintain jobs or prevent local market failure;
- Purchase of underperforming property assets which provide key strategic regeneration opportunities to generate the catalyst for future economic development;
- Partnering with others to deliver broader benefits and unlock financial investments for the area that would otherwise be lost.

These investments will always be within the boundaries of Oxfordshire and will only be pursued where there is a clear business case demonstrating how it will contribute to the regeneration of Oxfordshire. Under current HM Treasury proposals, it is anticipated that Public Work Loan Board (PWLB) funding would be available for the acquisition of Category B properties.

**Category C**

The Council already has a portfolio of investments as part of its Treasury Management activities (of which circa £25m is invested in property funds). The strategic approach to these investments is reviewed on an annual basis as part of the Treasury Management Strategy Statement & Annual Investment Strategy. It is proposed that any change to investments that are classified under Category C are managed using the current Treasury Management governance framework. However, it is important to consider the portfolio of

[2] Or in some case, increase a capital receipt which could then be reinvested.

investments as a whole, especially as some investments in this category may be classified as capital expenditure rather than treasury management activity.

**Category D**

This type of investment reflects the acquisition of income producing property held for non-operational purposes. In considering properties in this category, prudence and caution must be exercised. Such investments would be undertaken for the primary purpose of achieving financial return (for which under current HM Treasury proposals, Public Work Loan Board (PWLB) funding would not be available, although this would not preclude loan funding from other sources). These investments would be set against certain criteria in accordance with The CIPFA Prudential Code, to provide additional long-term revenue stream to support front line services and other Council objectives.

This type of investment is currently not an area the Council would be active on, especially considering the wider impact of Covid-19. However, if the Council chooses to invest in this Category, the CIPFA Prudential Code principles will be followed.

The CIPFA Prudential Code is based upon the principle that Authorities should take relatively low risks when investing public money, and that investment considerations should include; affordability, prudence and proportionality (of the value of held property investment assets relative to the wider investment portfolio).

Achieving a balanced portfolio with an appropriate spread of risk over the long term is desired. This could be achieved through a greater number of property investments with diversification across geographical locations, and across the range of property assets.

The principle of balancing risk whilst maximising the return to the Council will be taken in respect of investment opportunities. As consideration is given to new investment opportunities, properties within the county of Oxfordshire or adjoining counties will be preferred however, if a property meets all the investment criteria (and is being funded by existing equity rather than PWLB borrowing), then the location alone should not preclude consideration where it can be objectively demonstrated that there are multiple benefits, including the improvement or development of Oxfordshire, if supported by the Statutory Officers.

Under the revised terms of the PWLB it is unlikely that local authorities will be able to borrow for investments within Category D. This means that any investments within the category would need to be funded from existing Council resources or capital receipts. The benefits of utilising capital receipts for this purpose will need to be carefully balanced against the funding requirements of the wider capital programme and the benefits of reducing the need to borrow for other investment in assets to support service delivery and infrastructure. Consideration will also be given to maintaining the investment portfolio size, diversity and yield.

## Reporting and Management of Investment Portfolio

All investment activity will be grouped and reported as a single portfolio and reflected in the Council's Capital & Investment Strategy, which requires agreement via the annual budget setting process. As part of this, a new portfolio will be created in the Capital Programme to cover dedicated funding for investments. Investments and returns will be monitored and appropriately balanced across the Investment Categories.

The Investment portfolio will be kept under review on a regular basis by the S.151 Officer and the relevant Director/Head of Service.

The process by which the Investment Portfolio is managed is set out in Annex 1. This management process will be reviewed and updated annually as the Investment Portfolio matures.

## Risks

Investment in property, as with any investment, is not without risk. Specifics include market conditions that may cause the value of an investment to decrease, variable income caused by tenant demand or liquidity as a result of investor demand. The CIPFA Prudential Code identifies the need for ongoing performance and management arrangements which should include procedures to highlight key risks or changes that may affect the security, liquidity and/or yield of the property investment portfolio. CIPFA also provide guidance on the issue of risks in relation to the fair value of the property on the balance sheet, for example where the property value is less than the value of the debt liability.

## Governance

It is proposed that investments in Category D will follow the governance route set out below. Investments in Categories A, B, & C will follow existing governance routes in line with the Council's Constitution and Financial Procedure Rules (FPRs). Categories A & B will require submission of a Capital Business Case or equivalent. However, all categories will be reported annually as part of the Council's Capital & Investment Strategy as part of the governance of the Council's budget setting process.

The property investment market is competitive and needs consistent and responsive decisions if the Council is going to be successful in managing assets in this environment. It is therefore proposed that a Property Investment Advisory Panel (PIAP) is established to act as an advisory body for these initial decisions. The CIPFA Prudential Code requires that Panel members and officers are competent to take decisions to acquire, hold and dispose of land and buildings, and must have sufficient competence to understand and evaluate the advice that they are given. Consequently, appropriate internal and external training will be given to the PIAP so that they can ensure that decisions fall within the CIPFA Prudential Code, the Council's Corporate Strategy, and are based upon the approved investment matrix (see Annex 2). PIAP will then report their recommendations to Cabinet or Full Council in line with current governance, along with appropriate due diligence to support decision-making. PIAP will be made up of:

**Members**

- Leader or Deputy Leader of the Council
- Cabinet Member with responsibility for Finance & Property (if this role is separated, both Members are to attend)
- Leader of the Opposition

**Officers**

- Chief Executive
- Senior Officer with responsibility for Finance (Section 151 Officer)
- Corporate Director for Commercial Development, Assets and Investment
- Monitoring Officer

The primary purposes of PIAP would be two-fold:

- To consider recommendations from Officers regarding the potential purchase of a property asset, prior to submission of a bid. This would include consideration of the associated risk and yield, and the investment evaluation based on the criteria set out. The ultimate consideration would be whether to submit a bid or not, and at what value.

- To consider the results of the due diligence process, (following acceptance of an offer from Council to purchase an asset), with the ultimate consideration of whether to endorse the purchase and proceed to exchange of contracts.

In the exceptional situation that a decision is required outside of the established protocol, an urgent decision can be taken by the Leader and S151 Officer in consultation with PIAP and the Portfolio Holder for Property and reported to the next available meeting of Cabinet. Where a decision is not time-bound they will go via current governance arrangements and be approved by Cabinet or Full Council as required. On approval of this investment strategy the Financial Regulations will be updated to include the delegated authorities set out above.

## Implementation Plan

Although the Property Investment Strategy will enable the Council to respond to opportunities as they arise, there is also a need to continue to develop a programme of planned investment projects linked particularly to Type A investments. Following adoption of this strategy there will likely be a need to resource and forward fund elements of this work. There are also key interdependencies with the evolving Property Strategy that will need to be worked through in order to align activities that impact staff and operational sites.

## Annex 1

## Management of Investment Portfolio

The Investment portfolio is managed in-house by the Property Investment Manager, reporting to the Director for Property, Investment & FM, and the Head of Estates.

The portfolio is managed in two distinct parts, dealing with Investment and Regeneration opportunities separately:

1. Investment Opportunities – Category A & D properties that meet the criteria as set out in the approved investment matrix (See Annex 2) and deliver a financial return to the Council.
2. Regeneration Opportunities – Category B properties that deliver primarily regeneration benefits to the area.

As the Property Investment Portfolio grows in size and the number of property transactions per annum increases, it may be necessary in time, to agree in consultation with the Head of Legal Services, the appointment of a suitable Firm/s of solicitors to provide investment property acquisition services. In addition, it will be necessary to agree with the Head of Procurement the method of payments of Investment Agent introductory fees for Category B & D properties.

# Annex 2

## Commercial Investment Property Scoring Matrix

| Scoring Criteria | Score | 4 | 3 | 2 | 1 | 0 | Initial | Weighted Score |
|---|---|---|---|---|---|---|---|---|
| | Weighting Factor | EXCELLENT/ VERY GOOD | GOOD | ACCEPTABLE | MARGINAL | UNACCEPTABLE | Unweighted Score | |
| **Location** - In County / Adjacent to County | 20.0 | Prime | Good | Secondary | Tertiary | Remote | | 0 |
| **Tenure** | 15.0 | Freehold | 150+ year unexpired with no landlord controls | 150+ year unexpired with minimal landlord controls | Lease under 150 years | Lease under 100 years | | 0 |
| **Tenancy** | 10.0 | Single tenant with strong financial covenant | Multiple tenants with strong financial covenant | Single tenant with good financial covenant | Multiple tenants with average financial covenants | Tenants with poor financial covenant strength | | 0 |
| **WAULT** (Weighted Average Unexpired Lease Term) | 10.0 | 20 years + | 15 years + | 10 years + | 5 years + | Less than 5 years | | 0 |
| **Repairing Liability** | 5.0 | FRI and/or Recoverable via Service Charge | 75% + of leases on FRI | 50% + of leases on FRI | Internal repairing in good condition, Cap Ex required | Internal Repairing in poor condition, Cap Ex required | | 0 |
| **Rental Analysis** | 15.0 | Significantly under rented (excellent prospects for future rental growth | Under rented (good prospects for future rental growth) | Rack rented (limited prospects for rental growth) | Rents will fall on lease expiry within 5-10 years | Rents will fall on lease expiry within 3-5 years | | 0 |
| **Capital Value Analysis** | 15.0 | Excellent prospects for future capital growth | Good prospects for future capital growth | Future capital growth likely to be in line with average market returns | Future Capital growth likely to underperform average market returns | Poor prospects for future capital growth | | 0 |
| **Management Resources** | 10.0 | Minimum. Single tenant | Minimum. Fully let, no more than 3 tenants | Active. Value Add Opportunity | Active. Well managed to date | Active. Historical lack of management | | 0 |
| | | | | | | | | |
| **(Max score = 400, min accpetable score =200)** | | | | | | | | 0 |
| | | | | | | | | |
| | | | | | | **Percentage score of max (anything over 50% is deemed acceptable providing minimum yields are met)** | | 0% |

# Annex 3

## Active Investment / Development Projects

1) Active Investment / Development projects

| Property | Site Area |
|---|---|
| Aston, North Farmhouse | N/A |
| Benson, Watlington Road | N/A |
| Bicester, Little Wretchwick Farm | N/A |
| Chipping Norton, Strategic Development Area (inc Tank Farm and residual land at Rockhill Farm) | 36ha |
| Eynsham Garden Village (Evenlode Farm) | 28ha |
| Eynsham West, (Litchfield Farm) | 15.55ha |
| Faringdon, Youth Centre and Highway Depot to rear | 0.29ha |
| Kidlington, The Moors, Former May’s Builders Yard | 0.29ha |
| Oxford, Former Blackbird Leys Pool | N/A |
| Oxford, Land at Iffley Mead (adjoining Iffley Academy) | 2.04ha |
| Oxford, Lanham Way (former depot site) | 0.32ha |
| Oxford, Northfield Hostel | 0.70ha |
| Fritwell, Land at Fewcott Road | 0.32 ha |
| Henley, Bridleway adjoining Gillotts School | N/A |
| Oxford, Lakefield Road, Littlemore | 0.44ha |
| Oxford, Speedwell House | N/A |
| Stanford-in-the-Vale, Stanford Quarry, adjacent to A417 & B4508 | 19.57ha |
| Wheatley, Access Route to Oxford Brookes University | N/A |
| Woodstock, Former Library | |

2) For Information purposes only – a list of operational properties that are currently being considered for alternative investment purposes

| Property | Site Area |
|---|---|
| Oxford, Rewley Road Fire Station | N/A |
| Oxford, County Hall | N/A |