

# INVESTMENT STRATEGY – PROPERTY INVESTMENT

## Introduction

An Investment Strategy for the governance and making of property investment decisions was agreed by council in September 2019 and was subsequently considered as part of the budget process for 2020/21 and 2021/22. This strategy sets out the investment framework, under which the Council can undertake investments which are expected to contribute both directly and indirectly to the strategic plan and the achievement of Oxfordshire Fair Deal Alliance's priorities including tackling inequality, improving health and wellbeing and taking action to address the climate emergency.

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 remain a focus. The investment strategy is intended to enhance the financial resilience and social value delivery of the Council by enabling investments which:

- increase income from existing assets; and/or
- increase capital growth;
- secure new sources of income.
- support frontline service provision
- Explore opportunities for social value

There is also a Duty on the council to ensure best value for its assets. In addition opportunities to leverage, carbon reduction/neutrality initiatives should also be explored.

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 and to contribute to the achievement of the Oxfordshire Fair Deal Alliance's priorities. The Council will consider the social value of investment opportunities when making its decisions. Similarly, investments can also support the development of new delivery models for the benefit of residents, businesses, and visitors. The Council will also 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 change.

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 leverage further investment or combine with other private or public sector partners to achieve specific regeneration and growth objectives.

The 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. These may be achieved through the capital programme or various investment vehicles which offer a range of diverse options to generate income. Each investment opportunity will be evaluated against stringent financial criteria to ensure each delivers gross income and/or social value/carbon neutral aspirations whilst taking consideration of the costs of operating, including lending and acquisition.

## **Statutory Framework**

The Department for Levelling Up, Housing and Communities (DLUHC) 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. DLUHC 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. Local Authorities cannot borrow from the Public Works Loans Board (PWLB) to fund commercial investments where return is the primary reason for the investment.

## **Investment Objectives**

The Council's investment objectives are defined as follows:

- To support growth, regeneration and help deliver the Council's strategic priorities;
- To reinvest income in line with agreed financial targets to ensure growth of a balanced and diverse property portfolio that will maximise long term returns/income;
- 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 availability of capital receipts whenever property assets within the Investment Portfolio are sold to provide funding that can be used to support the capital programme in accordance with the council's Capital Programme Financing Principles.

## **Existing Property Investment Portfolio**

The Council has an existing property portfolio made up of property assets and Treasury Management investments.

Treasury Management Investments include £26.6m (as at 30 November 2021) invested in property via a strategic pooled fund. In addition to this the council is investing £5.0m in the Resonance Supported Homes Fund which is expected to deliver up to 25 units of supported living accommodation in Oxfordshire for people with learning disabilities and autism.

As at 31 March 2021 £26.3m was held in direct investment properties held for rental returns or capital appreciation. These include :

- 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 £17.6m. 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 £8.7m.

## Investment Categories

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

A	B	C	D
Maximise use of and value (both financial and social) of Council owned assets (land & buildings) linked to the Council's forthcoming Property Strategy – Capital expenditure	Investments for service delivery are taken or held primarily and directly for the delivery of public services (including regeneration and local infrastructure) or in support of joint working.	Property Investments made in accordance with the Treasury Management Strategy, including cash, money market funds, property funds, bond funds, equities and multi asset classes	Investments for commercial purposes, which generate a commercial return (yield) – normally 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 Council's property rationalisation programme and agile working strategy will help to drive this type of investment.

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.<sup>1</sup> 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. The Councils approach to agile working will be key to this.

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 income.<sup>2</sup> 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 priorities;
- Non-financial gains where inward investment can create/maintain jobs or prevent local market failure;

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<sup>1</sup> The majority of these receipts will not be realised until at least 2024 onwards.

<sup>2</sup> Or in some case, increase a capital receipt which could then be reinvested.

- 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.
- Investments in funds that create a supply of properties to meet service needs.

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. Public Work Loan Board (PWLB) funding is available for the acquisition of Category B properties if necessary, subject to affordability.

### **Category C**

The Council already has a portfolio of investments as part of its Treasury Management activities (of which £26.6m 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 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 Public Work Loan Board (PWLB) funding is not 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.

To date the council has not entered into any Category D investments. However, if the Council chooses to invest in this Category in future, 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).

Local Authorities may not use PWLB 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. 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.

## **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**

- 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 Head of Services, Estates, Assets & Investment, reporting to the Director for Joint Property.

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

The table below sets out the criteria that will be used to assess decisions about commercial investment property. These include location, tenure, tenancy, an assessment of unexpired lease term, repairing liability, rental and capital value as well as the level of management resources required and social value.

Scoring Criteria	Score	4	3	2	1	0	Initial Unweighted Score	Weighted Score
	Weighting Factor	EXCELLENT/ VERY GOOD	GOOD	ACCEPTABLE	MARGINAL	UNACCEPTABLE		
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	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
Social Value	10.0	Excellent prospects for enhancing social value	Good prospects for enhancing social value	Potential for enhancing social value in the short to medium term	Potential for enhancing social value in the long term	No identified prospects for enhancing social value		0
(Max score = 440, min acceptable score =220)								0
						(anything over 50% is deemed acceptable providing minimum yields are met)		0%

1) Active Investment / Development projects

<b>Property</b>	<b>Site Area</b>
Aston, North Farmhouse	N/A
Banbury, Greenwood Centre	0.25 ha
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
Headington, Maltfield House	N/A
Henley, Chilterns End	0.96 ha
Kidlington, The Moors, Former May's Builders Yard	0.29ha
Oxford, Land at Iffley Mead (adjoining Iffley Academy)	2.04ha
Oxford, Guydens Farm / Northfields	15.62 ha
Oxford, Northfield Hostel	0.70ha
Henley, Bridleway adjoining Gillotts School	N/A
Oxford, Lakefield Road, Littlemore	0.44ha
Oxford, Speedwell House	N/A
Wallingford, Winterbrook Lane	N/A
Wheatley, Access Route to Oxford Brookes University	N/A
Woodstock, Former Library	N/A

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

<b>Property</b>	<b>Site Area</b>
Oxford, Rewley Road Fire Station	N/A
Oxford, County Hall	N/A