8: Non-financial Investment Strategy

Part of the Council's approach of dealing with the twinned pressures of reduced central government funding and growing demand for services has been to drive a more commercial approach within the organisation and to deliver better financial returns from property and asset holdings. In July 2016, the Commercial and Investments (C&I) Committee approved a Commercial Acquisitions Strategy to help develop a strategic approach to commercial acquisitions. This has subsequently been replaced by this Investment Strategy in order to reflect updated statutory guidance.

CIPFA's revised Prudential and Treasury Management Codes 2017 requires from 2019-20 onwards that all local authorities prepare an investment strategy, covering both financial and non-financial assets. The Investment Strategy for financial assets is included within the Treasury Management Strategy; for non-financial assets, it is included here and should provide (in addition to a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services):

- An overview of how the associated risk of non-financial investments is managed;
- The implications for future financial sustainability.

Any commercial acquisition carries with it a degree of risk and as this involves the investment of public funds, the rationale for engaging in such activity should be clear. The Council does not intend to invest in commercial activity for the sake of it but to mitigate against the implications of increasing budgetary pressures. The Council will not meet the financial challenges it faces through transforming services alone. The approach will require a mix of transformation, additional revenue sources, and a reduction in service levels. By focussing resources on the first two, the need to utilise the latter option will be minimised.

As with the rest of the Capital Strategy, all commercial activity will be undertaken in line with the Council's vision of 'making Cambridgeshire a great place to call home'. All commercial activity will therefore be undertaken in order to contribute to the following Priority Outcomes:

- Using our public assets wisely and raising money in a fair and business-like way to generate social return for all citizens of Cambridgeshire.
- Growing financial and social capital place-by-place by stewarding local resources including public, private and voluntary contribution.

This will be achieved through contribution to the following Corporate Strategy theme:

- Developing strength and depth in our commercial activity

Appendix 3 sets out the details of the Council's non-financial Investment Strategy.

Appendix 3: Investment Strategy for Non-financial Investments

Objectives

- Acquire properties that provide long-term investment to support the delivery of the Council's corporate objectives
- Deliver a portfolio which balances risk and rewards aligned to the Council's risk appetite
- Prioritise properties that yield optimal rental growth and stable income
- Protect capital invested in acquired properties

Legal Powers

Power to invest
Pursuant to the powers set out in s.12 Local Government Act 2003, the Council may invest either for *"any purpose relevant to the Council's functions under any enactment", (s. 12(a))* or *"the purposes of the prudent management of its financial affairs" (s. 12(b))*.

The power to invest given in s.12 should in principle include the power to invest in commercial property. However, the power to invest in commercial property must be used either for a purpose relevant to a function of the Council, for example the regeneration of an area, for economic development outcomes, or for the prudent management of the authority's financial affairs. Investing purely to create a return is not viewed as a function of an authority. It is therefore important that the primary objective of the strategy is to support the strategic objectives of the Council. It is also important to ensure that public funds are not exposed to unnecessary or unquantified risk.

In exercising the power to invest under s.12(b) the Council also has regard to the MHCLG Statutory Guidance on Local Government Investments. The Guidance advocates the preparation of an investment strategy which the Council will be expected to follow in its decision making process unless a sensible and cogent reason is articulated for departing from it.

Power to borrow
Section 1 of the Local Government Act 2003 gives each local authority a power to borrow money for:
(a) any purpose relevant to its functions under any enactment
(b) 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))

These powers mirror those in s.12 Local Government Act 2003 referenced above. The powers within the LGA 2003 are not considered wide enough to permit local authorities to borrow to invest purely in order to benefit from a financial return, particularly in light of the revised guidance on Local Government Investments which clearly states that authorities 'must not borrow more than or in advance their needs purely in order to profit from the investment of the extra sums borrowed'. However, the Localism Act 2011 was drafted to encourage councils to develop new and innovative business models. This legislation gives councils the General Power of Competence, which means a local authority has powers to do anything that is "for the benefit of the authority, its area or persons resident or present in its area". The power does not enable an authority to carry out activities that were not permitted by legislation in force before the Localism Act 2011.

<u>The power to undertake an activity for a commercial purpose</u>
The General Power of Competence may allow the Council to invest in property for a return but this activity is likely to be characterised as an activity for a commercial purpose and cannot therefore be undertaken directly by the authority (s.4 Localism Act 2011). It may be pursued through a company formed for that purpose and being within the meaning of S.1(1) Companies Act 2006. There will be attendant corporation and income tax liabilities which will need to be addressed in a business case. The formation of a company requires the preparation of a thorough and detailed business case and these and other considerations such as the financing of the company and any state aid issues would need to be addressed in that document.

Governance Processes

The decision to invest public funds in commercial property is one that should not be taken lightly. Any investment carries with it a degree of risk and the level of returns are directly proportionate to the risk of the investment made. Whilst it is important to ensure that due and proportionate governance is followed, the market for commercial acquisitions is such that agile decision making is also important. This is particularly the case where the Council wishes to acquire commercial opportunities before they hit the market and thereby avoid bidder competition which tends to escalate the sales price.

There is a fine balance in ensuring appropriate due process has been undertaken whilst not restricting opportunities through overly burdensome governance requirements. As a consequence it will not always be possible for all acquisition proposals to be considered within the democratic cycle of meetings. The C&I Committee has agreed that in order for such proposals to be considered, evaluated and pursued within an agile, yet transparent and accountable, framework, it needs to delegate responsibility via a tiered decision-making process as follows:

Investment/Loan Value	Decision Making Arrangements
£10m or less	Deputy Chief Executive/Chief Finance Officer (CFO) in consultation with Chairman of C&I Committee
Greater than £10m but no more than £25m	C&I Committee Investment Group
Greater than £25m but no more than £50m	C&I Committee
Greater than £50m	GPC

The C&I Investment Group has been created to reflect the proportional representation of the Committee; there are 3 Conservatives Members, 1 Liberal Democrat Member, and 1 Labour Member. The meetings of this Group can also be undertaken virtually if necessary. At times, it may even be too difficult to convene this Group before an initial expression of interest needs to be placed; therefore in this scenario, the Deputy Chief Executive/CFO in consultation with the Chairman and Deputy Chairwoman of C&I Committee is delegated the responsibility to place an initial bid (with the information also circulated to other members of the Group). Any final bid, however, has to follow the delegation as set out above.

Where appropriate, the Council will work with a partner organisation to develop the portfolio in order to ensure the right skills are used and the necessary capacity is generated in order to access market opportunities. The Council has used several professional advisors to date, which has provided access to different opportunities across the market.

All opportunities are reviewed by the Investment Working Group using a robust appraisal process that assesses potential acquisitions for their location, tenancy strength, tenure, lease length, repairing terms and physical condition. This information is reviewed alongside strategic criteria and key ratios and forms the basis of a scorecard to indicate whether investment is worth pursing further. The Council has also contracted investment advisors Redington to provide support and advice to elected members and statutory officers, including delivery of training.

Managing Risk

The structure of the property portfolio has a significant bearing on the portfolios inherent risk and return profile. Therefore a key objective of the strategy is to create diversification within the portfolio in order to manage exposure to the risks of concentrating too much activity in any particular sector. Key risks in the portfolio can be categorised in a number of ways, as follows.

<u>Income Risk</u>
The main risk in a commercial portfolio is tenant vacancies and the resultant loss of income. The costs of holding a vacant property include non-domestic rates, insurance, utilities, security, inspections and management. In addition, there would be the cost of marketing the property, the agent's disposal fees and legal fees for completing the lease documentation for re-letting the premises.

<u>Yield Risk</u>
The aim of the majority of investments is to provide a secure return on income. The Council will manage its commercial property as a single portfolio, ensuring that the collective returns achieved on the investments meet the overall financial target that is set. It is therefore important that any purchasing decisions also contribute positively to the performance of the portfolio, both financially and in minimising the overall risks.

<u>Concentration Risk</u>
Concentration risk can be categorised into a number of constituent risks:

Sector Concentration: The main property sectors are retail, office, industrial and leisure/healthcare. The portfolio will aim to spread its investment across the sectors to limit exposure to any volatility in a particular area. Like geographic diversification, industry diversification must be sensitive to the diversification requirements of the overall portfolio. The value of industrial real estate holdings is sometimes adversely affected by changes in environmental legislation, and such holdings should probably be limited in overall investment portfolios.

Geographical Concentration: The strength of the investment opportunity will dictate the wider locations which may be considered outside of Cambridgeshire, as opposed to location being the driving force. It is important for the Council to understand the future economic viability of localities which will be influenced by a number of local and national economic factors. For example future major transport infrastructure investment could significantly influence the economic viability of an area and therefore the future value of investments in that locality. Engaging the services of an expert will therefore be an essential prerequisite of the strategy.

Property Concentration: Diversifying a real estate portfolio by property type is similar to diversifying a securities portfolio by industry. Different property types cater to different sectors of the economy. For example, office property generally responds to the needs of the financial and services-producing sectors; industrial property to the goods-producing sectors; retail property to the retail sector; and hotels to the travel and tourism sectors, employment growth, and the business cycle. Understanding the return and risk factors attendant to different property types requires understanding the factors affecting each property type's user groups.

Tenure Concentration: The portfolio will be managed to ensure that it contains a broad spread of tenants. This analysis can be driven by credit ratings, nature of business, lease length, and the value of the leaseholds. It is important to evaluate tenant credit ratings according to the senior corporate debt of the lessees. Leases can be compared with regard to their length (including renewal options), which may vary considerably, typically from ten to twenty years.

Due Diligence

The risks associated with a specific investment are mitigated by carrying out robust due diligence of the individual acquisition. This process includes the following activities:

- Valuation
- Market conditions
- Covenant strength
- Terms of leases
- Structural surveys
- Future costs
- Other issues

The Investment Strategy will provide continual evaluation of the investment portfolio to meet the Council's priority to ensure that the investment portfolio is fit for purpose. A larger and more balanced portfolio will help achieve the Council's aim of increasing income to support the delivery of services throughout the County, however a core portfolio of property assets will be sought with a view to diversification on individual assets by sector (industrial, offices and retail), location and risk.

Proportionality

The Council needs to consider the long-term sustainability risk implicit in becoming too dependent on commercial income or in taking out too much debt relative to net service expenditure.

Dependency on Commercial Income
As noted earlier in the strategy, the Council cannot meet the financial challenges it faces through transformation alone and therefore part of the strategy has to be to generate additional revenue resources. However, as mentioned above, there are inherent risks associated with commercial activity and as such the Council will be taking a measured risk approach towards supporting a proportion of its core activity with commercial income. The table below shows the forecast levels of commercial income as a percentage of net service expenditure:

	2019-20 Estimate %	2020-21 Estimate %	2021-22 Estimate %	2022-23 Estimate %	2023-24 Estimate %	2024-25 Estimate %
Commercial income* to net service expenditure	-4.1	-4.2	-4.0	-4.1	-4.0	-3.9

** Commercial income here includes both financial and non-financial income*

Debt relative to Service Expenditure
As part of the process for agreeing the Capital Strategy, GPC currently agrees a debt charges limit at the beginning of the business planning process as a mechanism to ensure that the Council does not overcommit its revenue resources to servicing debt (see Section 12). This could also be reviewed in terms of debt as a proportion of net service expenditure, which is forecast as follows:

	2019-20 Estimate %	2020-21 Estimate %	2021-22 Estimate %	2022-23 Estimate %	2023-24 Estimate %	2024-25 Estimate %
Financing costs to net service expenditure	7.6%	8.9%	8.6%	8.9%	9.3%	9.4%

However, the majority of these costs do not relate to borrowing incurred (or anticipated) for commercial investment, but rather to supporting the Council's service Capital Programme.

Developing the Portfolio

Financial investment options, such as investment in property funds and issuing commercial loans to other organisations are covered by the Treasury Management Strategy. There are two main methods by which the Council can deliver is non-financial investment – through acquisition of property, or through development of its own assets.

<u>Acquisition</u>
The Council is looking to acquire both freehold and long-term leasehold properties, engaging the services of commercial property experts in order to identify appropriate market opportunities. Where appropriate, the Council will also make use of advisors to undertake robust due diligence and complete sale documentation. Ongoing management arrangements for the Council's first acquisition have continued with the incumbent outsourced operator, who have expertise in student accommodation management and marketing. It is anticipated that facilities management and marketing arrangements for the other acquisitions will also be outsourced. The Council has acquired properties with relatively secure or straightforward tenures mitigating the scale of proactive management required and arrangements are overseen by the internal team of commercial property surveyors.

The benefits of this approach are:
- revenue is generated from the point of acquisition
- risks are mitigated with proper due diligence
- reasonable levels of liquidity
- management costs are relatively low.

However, the Cambridgeshire market generates relatively low returns due to competition and security of tenure which may mean looking further afield to generate higher returns. Initially, there was a concentration risk until the Council was able to develop a diverse portfolio across property type, sector and tenure; however, geographical concentration risk still exists as all purchase have been made in County.

As a relatively new investor in this area of activity, the Council has initially taken a relatively low risk approach to acquisitions in order to develop a sound real estate investment portfolio. This has reduced the level of return that can be generated initially; longer-term it is proposed to target an average portfolio yield of 6% by 2024-25. Where an individual opportunity does not deliver a 6% yield (either initially or longer-term) but it is felt to still have potential, the investment will still be reviewed by C&I Committee, taking into account any other supporting factors such as reduction of concentration risk. The types of investment in this area include:

- Best property for the sector in an ideal location, with long-term income from high quality tenants where yields are equal to or slightly above prime for the sector. Rental yield (financial return on the capital investment as a percentage) will be lower than the general market, but capital and rental growth should be steady and medium/long-term risk of void periods and tenant default is reduced.
- Properties similar to those above, but in slightly less favourable locations, with shorter leases and lesser tenant covenant strength, where returns will be appropriate for the sector and risk. Rental yields in this area will be slightly higher, reflecting the increase in risk.

The Committee's long-term aim is for around 75% of the overall acquisitions portfolio to be comprised of these lower-risk properties. The remaining 25% will be comprised of specialist sector investments such as hotels, public houses, student accommodation, and health care facilities; these will be considered on merit, but do not form part of the core search criteria. Given the depreciating specialist infrastructure and changes in trends, such assets may require substantial future capital expenditure in order to maintain the value of the interest; the risk from this will be fully explored and understood before purchase. Residential property provides a good income diversifier given its limited correlation to commercial property and returns have been stable over the long term, although the level of tenant and property management will be carefully considered and allowed for in all appraisals. The returns on this element of the portfolio will be varied, but should in principle be at the upper level or above the returns of the low risk acquisitions.

<u>Development</u>

The Council can either carry out development itself, such as with the Council's Commercial Energy Investments, or enter into an agreement with a developer to fund all or part of a development. This could be enacted as a direct commercial arrangement with a developer or could be delivered via a joint venture (JV) arrangement. This would require risk and reward arrangements to be established. In a JV scenario the level of risk would mirror the level of reward that each partner would derive; this would normally be 50:50, however other scenarios could also be developed. If the Council develops the investment itself and simply seeks a provider to construct to a defined specification, the provider does not share any of the benefits – but neither does it share any of the risks.

The benefits of this type of commercial arrangement are that the developer could bring skills that the Council does not hold internally. The investment should deliver a premium over and above straight investment, however it therefore carries with it proportionately greater risk. Selecting the right development partner is therefore essential for success.

Self-development would bring greater financial rewards and would ensure that the Council remains in control of the development. However the Council may need to invest to ensure that it has the right skills and capacity to manage such an investment programme, as these do not necessarily currently exist extensively within the Council.

The disadvantages are that revenues are only accrued once the development has been completed. Land acquisition and other costs will be incurred long before any revenue stream commences. There is very low liquidity during construction and diversification of portfolio would be low. The self-development route would expose the Council to procurement and construction risks which would need to be mitigated by the 'buying in' of the appropriate and necessary skills.

Delivery

The commercial investment portfolio will need to be developed over time to avoid the concentration risks set out earlier in this report. This will ultimately result in a balanced portfolio of investments across sectors and geographical locations. A core portfolio of property assets has been sought with a view to diversification on individual assets by sector (industrial, offices, retail and leisure), location and risk. The Council now owns four properties in four different sectors which has helped to mitigate against sector, property and tenure concentration risk, however geographical risk still remains, albeit the properties have been acquired from different locations around (or just outside) the County. In addition, the Council already has several energy schemes under development.

Funding

Section 5 and Appendix 2 of the main Capital Strategy detail how capital expenditure can generally be funded. Not all types of funding, however, can be used to fund non-financial investment; the main sources are revenue/reserves, capital receipts, borrowing, and occasionally, Government grants.

Revenue/Reserves

Given the Council's overall financial position, this would require further savings to be identified within the revenue budget to the same value as the charge; therefore this funding route is not a realistic option for the Council

Capital Receipts

The Council's current surplus asset policy is to repurpose non-operational property to generate a revenue return where possible, rather than dispose of the asset to generate a receipt. However, in the last 18 months the Council has set up its own housing company, This Land, to develop some of the Council's surplus estate, which in turn also generates capital receipts for the Council at the point where assets are sold to the company. The Council has therefore decided to use these specific receipts, currently forecast to generate around £113m, to fund the Council's commercial investment programme. These receipts could instead be used to fund the non-commercial investment aspects of the Council's Capital Programme; therefore there is an opportunity cost of using the receipts to fund commercial investment (which is equivalent to the revenue cost that would have been incurred should the commercial investment have been funded by borrowing).

Borrowing

As with borrowing for any capital project, both the interest cost and an MRP charge would need to be covered by revenue payments (see Section 12). However, there are additional restrictions in place with respect to borrowing to fund both financial and non-financial investment – MHCLGs Statutory Guidance on Local Government Investments states that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums bowed. If an authority exceptionally choose to do so, then it needs to clearly explain why it has disregarded the guidance.

The Council anticipates that the core element of its commercial investment will be funded by capital receipts. However, it is likely that this will not be sufficient to support the Council's plans regarding expectation of the level of commercial income that will be used to support the Council's revenue budget over the medium term. Therefore, it may be necessary for the Council to take a measured risk towards using borrowing to fund some element of the Council's commercial investment, whilst also developing the Council's capital place-by-place.

Property Management

Management of Property

Properties with fully repairing and insuring leases shall be sought as a preference for investment, in order to minimise the cost of management and maintenance. Exceptions could be made for properties that are purchased for specific development or planning reasons. In order to minimise management overheads, use of an external property management firm would be considered to handle the day to day operational issues with the portfolio, particularly for properties which are outside the County.

Tenure

Assets acquired with tenants in place may be subject to sub-leases granted within the security of tenure provisions of the Landlord and Tenant Act 1954. This may be less attractive if assets are purchased for future development possibilities as ending the tenancies will require the

Council to satisfy one of the grounds under the Act to take back possession. Conditions of tenure will therefore be a further important consideration in any investment decision.

Realising the Investment

There may be a need in the future to dispose of property investments. This may happen because of the need to return the investment to cash for other purposes, or it could be due to poor financial performance of a particular property, etc. So, while it is likely that the majority of investments will be held for the medium to long-term in order to achieve the required return and to justify the cost of the acquisition, it is important to understand the opportunities to dispose of any investment at the outset. Therefore, as part of the investment decision, consideration must be given to the potential ways in which the Council could "exit" from the investment, such as sale to another investor, sale for redevelopment, etc. An investment would only proceed where there is a clear exit strategy, should it be required.

Current Portfolio

Acquisition:	Brunswick House	**Date of Acquisition:**	26/07/18
Service Objectives	Diversify and increase income streams to the county council, protecting frontline services notwithstanding reducing government grant and rising demand. Supporting sustainable and well managed student accommodation, held in local ownership in Cambridge, one of the world's leading student cities. There is significant undersupply of purpose built student accommodation in the city with 44% of students unable to access purpose built accommodation.	**Assessment of Risks**	Constructed in 2012, the property was acquired in good condition, marketed to students under a higher/premium end. The principal financial risk relates to occupancy levels (demand for student housing). Demand for student accommodation in Cambridge is expected to remain strong. The nature of the student property market in Cambridge is that quality of student experience is a key aspect of the offer alongside, and indeed in many cases ahead of, pricing.

	Inward economic investment: directly and indirectly supportive to jobs in the education sector, a key industry in the County's economy.		At the point of acquisition there were additional risks arising from tenancy terms and correction of a construction deficiency at the property under warranty; these were outlined in Committee reports and have subsequently been mitigated or resolved through remedial works and novation arrangements.
Advisors / Market Research	Property Consultants, Carter Jonas, were engaged to appraise the investment opportunity – conducting market research and valuing the property in view of demand, planning conditions, future prospects and condition. Legal advisors, Birketts LLP, dealt with the conveyancing and transaction, providing advice on legal issues arising from Property, Construction, Tax, Commercial, Planning and Employment. Brunswick House is staffed on a day-to-day basis and marketed by HomesforStudents, who operate 15,000 student rooms across the country with a strong reputation for student experience, welfare and security. The property is managed for the Council by Homes for Students who handle all day to day management on a contract running to	**Liquidity / Exit Strategy**	There are no plans to sell currently. The acquisition was not funded by borrowing; however, if required, the property could be sold. There was an active market for the property when it was acquired, and the property market in Cambridgeshire has strong foundations and resilience. Should student accommodation become less viable the Council would investigate alternatives such as residential apartments or accommodation for elderly people.

	2021. Should this contract not be renewed an alternative manager would be procured to continue running Brunswick House as student accommodation.				
If funded by borrowing, why was this required?	N/A		**Explanation of why the Statutory Guidance on local Authority Investments and the Prudential Code have not been adhered to**	N/A	
Cost (£m)	**Funded by Borrowing (£m)**	**Total Interest Costs (£m)**	**Annual Income (£m)**	**Annual Costs (£m)**	**Annual Net Return (£m)**
39.5	-	-	2.4 initially	0.5 initially	1.9 initially
Payback Period (Yrs)	**Net Income Yield (%)**	**Return on Investment (%)**	**Total Return over 25 Years (£m)**	**Internal Rate of Return (%)**	**Net Present Value (£m)**
16.4	4.8 increasing to 6.1	69.6	66.9	4.4	8.3
Additional Investment (£m)	**Current Value (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		
The Council is looking to establish a sinking fund with at least 1%	39.5	N/A	Asset has not yet been valued at market value as this will be done in during the 2019/20 accounts process. Council policy means assets are not revalued until the year after acquisition.		

of net income in order to maintain and improve the property.			

Acquisition:	Cromwell Leisure Park	**Date of Acquisition:**	24/05/2019
Service Objectives	Diversify and increase income streams to the county council, protecting frontline services notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the leisure sector, supporting the local economy. This is the only cinema in Wisbech, creating both a significant draw into the town and leisure provision opportunity across the Fenland/west Norfolk/south Lincolnshire sub region. Provides geographic diversity to the portfolio by investment into the most deprived district in the County.	**Assessment of Risks**	Risks include the reliance on rent from the food and beverage market which has experienced a recent downturn. The investment market for leisure is also quiet at present so there may be a liquidity risk if the Council needed to sell the property. There is also poor drafting and potential shortfall for the two current restaurant leases which may result in some losses but this risk is time limited as new leases would be drafted correctly.
Advisors / Market Research	The Council commissioned Carter Jonas to produce a purchase report which examined the local area, cinema brands, food and	**Liquidity / Exit Strategy**	There are no plans to sell currently.

	beverage markets, the property itself and the relevant surveys and the current leases and service charges. Legal advice on the lease was also obtained from Mills and Reeve LLP.		There are 4 units, one of which is vacant. The existing tenants are the Light Cinema, who have a tenancy running to 2039 with a break at 2029; Prezzo Plc with a lease running to 2039 with a break at 2029 and the Restaurant Group (UK) Ltd with a lease running to 2039 and a break option at 2029. In the event of any of the tenants vacating new tenants would be sought. It is most likely that the cinema would remain a cinema given that it's fitted out for this purpose and given the lack of local competition. Other leisure uses would be the most likely alternatives to a cinema but would require fitting out. Similarly the restaurants are likely to remain as restaurants given the lack of local competition, the proximity of a cinema attraction and also the Tesco supermarket nearby. The Council also has the option to sell the property.
If funded by borrowing, why was this required?	The Investment Strategy is clear that the level of income generation being targeted by the Council is unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin	**Explanation of why the Statutory Guidance on local Authority Investments and the**	N/A This is an in county acquisition, supporting the leisure sector in Fenland.

	a funding approach which relies on borrowing.		**Prudential Code have not been adhered to**		
Cost (£m)	**Funded by Borrowing (£m)**	**Total Interest Costs (£m)**	**Annual Income (£m)**	**Annual Costs (£m)**	**Annual Net Return (£m)**
7.0	7.0	4.9	0.7 initially	0.2 initially	0.5 initially
Payback Period (Yrs)	**Net Income Yield (%)**	**Return on Investment (%)**	**Total Return over asset life (50 Years) (£m)**	**Internal Rate of Return (%)**	**Net Present Value (£m)**
17	10.1 falling to 7.8	206.0	29.1	6.0	5.3
Additional Investment (£m)	**Current Value (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		
0.4	7.0	N/A	Asset has not yet been valued at market value as this will be done during the 2020/21 accounts process. Council policy means assets are not revalued until the year after acquisition.		

Acquisition:	Superstore Site, Newmarket Road	**Date of Acquisition:**	15/08/2019
Service Objectives	Diversify and increase income streams to the county council, protecting frontline services notwithstanding reducing government grant and rising demand.	**Assessment of Risks**	Risks are reduced by having a single tenant who is financially sound and trading in a prime area of Cambridge. The BNP Paribas Acquisition Report identifies a potential risk in the lease where Tesco have a “Substitution Clause”. Tesco could serve

	Inward economic investment: directly supportive to jobs in the retail sector, supporting the local economy. Site provides the largest supermarket within 2 miles of the city centre and benefits from both considerable scale (e.g. extensive car parking) and diversification opportunities. It is a key selling point for both local residents and also college and university inhabitants and the prospering tourist market. Site is let on a number of continuous leases; the Council believes there is strong residual value in the event the tenant leaves and a replacement is needed, or there is opportunity to completely redevelop the site.		notice to replace the Newmarket Road property with another subject to the replacement complying with terms outlined in the BNP Paribas report (i.e. an investment of equivalent standing). BNP Paribas are of the view that due to the strong levels of trade enjoyed by Tesco at the property, the chances of a trigger event occurring are very low and accordingly don't feel the clause presents a risk to the long leasehold owner.
Advisors / Market Research	BNP Paribas Real Estate provided an acquisition report which included information about the location and accommodation, a lease and income overview and a market commentary and value assessment. The Council also commissioned Birketts LLP as legal advisors for this transaction and to consider in detail the terms of the leases.	**Liquidity / Exit Strategy**	There are no plans to sell currently. Tesco's current lease is due to expire in December 2029, however they do have the option to renew for further periods. There is a risk that Tesco may decide to not renew their lease in the future and stop trading from the Newmarket Road site. Whilst it is perceived unlikely in the short to medium term, if this decision was taken by Tesco in 2029, we would explore re-letting the

<table>
<tr><td></td><td colspan="2"></td><td></td><td colspan="2">property to another retailer who would be interested in leasing the whole site. Alternatively, we could explore reconfiguring the existing unit and site to create smaller individual units which could be rented out on a long-term basis. A third option would be to consider a residential led re-development of the site, given the option to purchase the freehold interest for a nominal amount.

The Council also has the option to sell its interest in the property, particularly given the location and tenure on this site.</td></tr>
<tr><td>If funded by borrowing, why was this required?</td><td colspan="2">TBC</td><td>Explanation of why the Statutory Guidance on local Authority Investments and the Prudential Code have not been adhered to</td><td colspan="2">N/A</td></tr>
<tr><td>Cost
(£m)</td><td>Funded by Borrowing
(£m)</td><td>Total Interest Costs
(£m)</td><td>Annual Income
(£m)</td><td>Annual Costs
(£m)</td><td>Annual Net Return
(£m)</td></tr>
<tr><td>54.5</td><td>5.2</td><td>2.7</td><td>2.5 initially</td><td>0.1 initially</td><td>2.4 initially</td></tr>
<tr><td>Payback Period
(Yrs)</td><td>Net Income Yield
(%)</td><td>Return on Investment
(%)</td><td>Total Return over asset life (50 Years)
(£m)</td><td>Internal Rate of Return
(%)</td><td>Net Present Value
(£m)</td></tr>
<tr><td>20</td><td>4.6 rising to 5.6</td><td>167.9</td><td>150.8</td><td>4.8</td><td>35.4</td></tr>
</table>

Additional Investment (£m)	Current Value (£m)	Gain (+) / Loss (-) (£m)	Revenue implications of reported loss / Mitigating action
0	54.5	N/A	Asset has not yet been valued at market value as this will be done in during the 2020/21 accounts process. Council policy means assets are not revalued until the year after acquisition.

Acquisition:	Kingsbridge Centre, Peterborough	**Date of Acquisition:**	21/08/2019
Service Objectives	Diversify and increase income streams to the county council, protecting frontline services notwithstanding reducing government grant and rising demand. Inward economic investment: directly supportive to jobs in the industrial sector, supporting the local economy. Whilst this investment is out of County, it is very much located in an area that is intrinsically linked to the Cambridgeshire local economy. Investment also provides opportunity to diversify the portfolio into the industrial/manufacturing sector.	**Assessment of Risks**	Well specified, freehold, self-contained distribution warehouse; originally designed as 5 industrial units, enabling split up and flexibility upon re-letting. The building is extensively fitted out by both occupiers to suit operational needs. One of the tenants is wedded to the building, with significant sunken costs and upgraded power supply, making it difficult for the business to relocate operation. Both tenants have long income to strong covenant ratings with guaranteed rental performance to Oct 2025 and no arrears. There is an acute shortage of available 'oven ready' supply, with the All Industrial void rate the lowest it's been in over a decade and no

<table>
<tr><td></td><td colspan="2"></td><td></td><td colspan="2">new speculative development of large warehouses on the horizon.

Watts Environmental Phase 1 report concludes a low to medium environmental risk. This is satisfactory for a building in its current industrial use.</td></tr>
<tr><td>Advisors / Market Research</td><td colspan="2">DTRE provided an acquisition report which included information about the location and accommodation, a lease and income overview and a market commentary and value assessment.

Legal advice was obtained from Birketts LLP.</td><td>Liquidity / Exit Strategy</td><td colspan="2">There are no plans to sell currently, however if required, the property could be sold. There was an active market for the property when it was acquired, and the industrial sector is currently very tight due to lack of supply.</td></tr>
<tr><td>If funded by borrowing, why was this required?</td><td colspan="2">The Investment Strategy is clear that the level of income generation being targeted by the Council is unlikely to be supported by capital receipt funded investment alone. The strong yield of this asset is likely to underpin a funding approach which relies on borrowing.</td><td>Explanation of why the Statutory Guidance on local Authority Investments and the Prudential Code have not been adhered to</td><td colspan="2">This is an out of County acquisition, supporting the industrial sector in Peterborough. Whilst it is out of County, it is very close geographically to the County border and is therefore inextricably linked with the local Cambridgeshire economy.</td></tr>
<tr><td>Cost

(£m)</td><td>Funded by Borrowing
(£m)</td><td>Total Interest Costs

(£m)</td><td>Annual Income

(£m)</td><td>Annual Costs

(£m)</td><td>Annual Net Return

(£m)</td></tr>
<tr><td>12.3</td><td>12.3</td><td>6.4</td><td>0.7 initially</td><td>0.2 initially</td><td>0.6 initially</td></tr>
</table>

Payback Period (Yrs)	Net Income Yield (%)	Return on Investment (%)	Total Return over asset life (50 Years) (£m)	Internal Rate of Return (%)	Net Present Value (£m)
20	5.9 rising to 7.5	213.5	45.5	5.4	10.8
Additional Investment (£m)	**Current Value (£m)**	**Gain (+) / Loss (-) (£m)**	**Revenue implications of reported loss / Mitigating action**		
0	12.3	N/A	Asset has not yet been valued at market value as this will be done in during the 2020/21 accounts process. Council policy means assets are not revalued until the year after acquisition.		