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NORTH HERTFORDSHIRE DISTRICT COUNCIL

COUNCIL

THURSDAY, 6TH FEBRUARY, 2020

SUPPLEMENTARY AGENDA

Please find attached supplementary papers relating to the above meeting, as follows:

Agenda No	Item
6.	**ITEMS REFERRED FROM OTHER COMMITTEES** **(Pages 3 - 62)** Any Items referred from other committees will be circulated as soon as they are available.

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COUNCIL
6 FEBRUARY 2020

PART 1 – PUBLIC DOCUMENT

ITEM 6A

ITEM REFERRED FROM CABINET: 28 JANUARY 2020 – PROPERTY ACQUISITION AND DEVELOPMENT STRATEGY

Extract from the draft Minutes of the Cabinet meeting held on 28 January 2020

The Executive Member for Enterprise and Cooperative Development presented the report entitled Property Acquisition & Development Strategy together with the following appendices:

- Appendix A - Property Acquisition & Development Strategy;
- Appendix B - Property Scrutiny Group (PSG): Terms of Reference;
- Appendix C - Asset Criteria;
- Appendix D - Scoring Matrix;
- Appendix E - Statutory Powers & Provisions.

The Senior Estates Surveyor advised that this was a framework document which included the guiding principles and governance principles.

RECOMMENDED TO COUNCIL: That the Property Acquisition & Development Strategy, including Appendices be approved
.

REASONS FOR DECISION:

(1) To give effect to the Property Acquisition & Development Strategy so NHDC has in place a clear basis for pursuing property opportunities that are for the purposes of its functions or the benefit, improvement or development of its area.

(2) To put in place a framework of robust and practical guiding principles that apply governance and rigorous appraisal to property acquisition and development decisions by NHDC, in order to safeguard the necessary capital expenditure and taxpayers' resources.

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REPORT CONSIDERED BY CABINET AT THE MEETING HELD ON 28 JANUARY 2020

TITLE OF REPORT: PROPERTY ACQUISITION & DEVELOPMENT STRATEGY

REPORT OF THE SENIOR ESTATES SURVEYOR

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR ENTERPRISE AND CO-OPERATIVE DEVELOPMENT

CURRENT COUNCIL PRIORITY: ATTRACTIVE AND THRIVING / PROSPER AND PROTECT

NEW COUNCIL PRIORITY: BUILD THRIVING AND RESILIENT COMMUNITIES / ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

1.1 To seek Cabinet's approval of the Property Acquisition & Development Strategy to Full Council.

2. RECOMMENDATIONS

2.1. That Cabinet recommends approval of the Property Acquisition & Development Strategy, including Appendices, to Full Council.

3. REASONS FOR RECOMMENDATIONS

3.1 To give effect to the Property Acquisition & Development Strategy so NHDC has in place a clear basis for pursuing property opportunities that are for the purposes of its functions or the benefit, improvement or development of its area.

3.2 To put in place a framework of robust and practical guiding principles that apply governance and rigorous appraisal to property acquisition and development decisions by NHDC, in order to safeguard the necessary capital expenditure and taxpayers' resources.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 No reasonable alternative options available.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 NHDC's Political Liaison Board (PLB) was consulted on the draft Strategy on 5th November 2019.

5.2 The Executive Member for Enterprise and Co-operative Development has been regularly updated throughout the drafting of the Strategy.

6. FORWARD PLAN

6.1 This report contains a recommendation on a key Executive decision that was first notified to the public in the Forward Plan on the 14th November 2019.

7. BACKGROUND

7.1 This report introduces the Property Acquisition & Development Strategy with a view to its adoption by NHDC for the next 5 years.

7.2 The report summarises the following key elements of the Strategy:

- NHDC's core goal and objectives for property acquisitions and developments.
- Funding the acquisitions and developments.
- Risk management and governance.
- Due diligence.

7.3 In addressing these key elements, the report presents the framework for the governance and appraisal of NHDC's property acquisition and development decisions.

7.4 Executive Members of the PLB supported the principles of the Strategy. One comment raised advised adding a provision to the Strategy addressing managing potential conflicts of interest. The comment has been acted upon by including a suitable provision early on in the Strategy. The provision requires, from the outset, all those involved in implementing the Strategy, be they Council Members, directors, officers or external advisers, to familiarise themselves with, and abide by, NHDC's Managing Organisational Conflicts in Council Roles & Duties, NHDC's Code of Conduct for Members and NHDC's Employee Conflicts of Interest Policy as appropriate.

8. RELEVANT CONSIDERATIONS

8.1 This report focuses on the Property Acquisition & Development Strategy by setting out NHDC's core goal and objectives for pursuing property acquisitions and developments during the next 5 years. See Appendix A for the Strategy. The Strategy builds on the Commercial Strategy previously adopted by NHDC.

8.2 The Property Acquisition & Development Strategy's core goal is to secure property opportunities that fulfil NHDC's functions or provide benefits, improvement or development of NHDC's area. The goal is expressed through a set of objectives in the Strategy. By way of example, acquiring property in support of a regeneration programme that generates enterprise and employment is one objective.

8.3 It is important the Strategy has a clear goal and set of objectives because these enable NHDC to identify which statutory powers apply to property acquisitions and developments and what funding sources can be deployed.

8.4 It is inevitable that NHDC will need to borrow funds to purchase or develop properties at the scale intended. The Strategy makes clear two important legal restrictions on the deployment of borrowed funds:

(i) NHDC can only use borrowing to acquire or develop property if acquisition or development is for the purposes of any of NHDC's functions or for the benefit, improvement or development of its area.
(ii) NHDC cannot borrow to acquire or develop property only for the purposes of achieving net income.

8.5 These restrictions will limit the properties that NHDC can purchase or develop with borrowed funds, and significantly limit buying properties outside NHDC's district with borrowed funds other than in exceptional cases. However, the legal restrictions do not necessarily preclude NHDC generating a surplus from property acquired or developed pursuant to the Strategy. Indeed a surplus should be considered a suitable recompense for the level of risk being taken on.

8.6 Property acquisition and development offers a range of advantages to NHDC and its community. As well as enabling NHDC to perform its functions or creating benefit, improvement or development of the area, property generally offers stable returns over the longer-term from both rental income and capital value appreciation. Achieving a return on capital is a key requirement in order to ensure that the provision of NHDC's functions or community benefit is sustainable. Property acquisition and development, though, also poses risks. Greater illiquidity is one example of risk. Acquiring and developing property requires careful planning and rigorous evaluation to achieve the core goal and objectives of the Strategy whilst mitigating risk.

8.7 This Strategy establishes a robust framework for the identification and safe delivery of suitable property acquisition and development opportunities, in pursuit of the Strategy's core goal and objectives. It sets out a rigorous risk management and governance process and principles for NHDC to safeguard the capital expenditure on property and protect taxpayers' resources.

8.8 The risk management and governance addressed by the Strategy focuses on four fundamentals of property assets to be appraised prior to spending capital or borrowed funds on property. The four fundamentals are listed below:

(i) Security of capital deployed in acquiring or developing a property asset.
(ii) Security of income generated from the asset.
(iii) Liquidity of asset.
(iv) Management intensity.

8.9 These fundamentals translate as follows:

- Risk of loss of capital.
- Rental income sustainability and growth to ensure capital is used efficiently and viably.
- Cost and time to access the capital through a property disposal.
- Cost and resource implications of managing properties once in NHDC possession.

8.10 The Strategy's risk management and governance requires an appraisal of the yield (return) from properties that are being considered for acquisition or development. Yield gauges a property's ability at meeting the four fundamentals. The Strategy acknowledges no property will simultaneously meet all four fundamentals as they can be mutually exclusive.

8.11 In acquiring and developing property, NHDC will be operating in a highly competitive property market. The Strategy is structured to enable NHDC to pursue suitable properties with the agility and efficacy required in the competitive marketplace.

8.12 An integral component of this agile structure is the Strategy's introduction of the Property Scrutiny Group (PSG). See Appendix B. The PSG comprises a core group of NHDC directors and officers whose main role is to implement the risk management and governance process by:

- Conducting appraisals of property opportunities based on the principles, core goal and objectives of the Strategy.
- Recommending properties to pursue and reject, based on the Strategy.

8.13 The Strategy details the PSG's Terms of Reference, which primarily focus on how the risk management and governance process must be carried out, including:

- The requirement to produce a comprehensive business case on each property acquisition or development recommended by the PSG.

8.14 The final key element of the Strategy is due diligence. This outlines the principles for building a property portfolio which:

- Reinforces the four fundamentals of property assets.
- Is sensibly proportioned and diversified between property sectors to help ensure a balanced portfolio and achieve the Strategy's goal and objectives.

8.15 The Strategy does not attempt to recommend a static target apportionment between the different property sectors in building a portfolio. Instead, it prefers a more agile and reliable case-by-case decision-making process based on the risk-return profile of each property sector at the time an acquisition or development is contemplated.

8.16 The Strategy emphasises reviewing NHDC's property portfolio in the context of both its existing portfolio and NHDC's Investment Strategy. This is to avoid NHDC becoming over-exposed to any one particular property sector and subjecting its capital, or revenue due to loan repayments, to unmanageable risk.

8.17 Continuing the due diligence theme, the Strategy recommends each property opportunity is appraised for selection or rejection based on key qualitative and quantitative asset criteria. Refer to Appendix C. The criteria are placed in a Scoring Matrix where they are assigned a Weighting. See Appendix D. The Weighting is based on the four fundamentals of property discussed earlier and the priority given to them by this Strategy.

8.18 In conclusion, the Strategy establishes a practical framework providing NHDC with clear purpose and rigorous governance and appraisal principles for acquiring and developing property. The Strategy will therefore help fulfil NHDC's duty to safeguard the capital, borrowed funds and taxpayers' resources deployed in future property transactions. Annual reviews of the Strategy will help NHDC to uphold this duty.

9. LEGAL IMPLICATIONS

9.1 The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 sets out functions that should be undertaken by Council, the Executive, or can be undertaken in conjunction with each other. Regulation 4 covers functions that are not to be the sole responsibility of the Executive, in particular:

> (b) …….formulating a plan or strategy for the control of the authority's borrowing, investments or capital expenditure or for determining the authority's minimum revenue provision.

As this is a new Strategy which links to the Capital spend programme of up to £20 million, then it potentially falls under Regulation 4, and it is recommended that this Strategy is considered and approved by Full Council.

9.2 The main statutory powers acknowledged by the Strategy are listed within the relevant documentation, with detail in Appendix E to this report.

10. FINANCIAL IMPLICATIONS

10.1 Due to legal restrictions in relation to the proposed Strategy, NHDC can only use borrowed funds to purchase properties that are for:

- the purposes of NHDC's functions, or
- the benefit, improvement or development of NHDC's area.

NHDC is precluded from using borrowing to purchase properties that are not for the purposes of NHDC's functions or benefit of its area. These other properties may otherwise provide equally strong or better levels of rental income and financial return.

10.2 Further, the restrictions on using borrowing will significantly reduce NHDC's ability to purchase properties located outside its area. In turn, this will reduce NHDC's ability to diversify its property portfolio, at least by location. Limiting diversification reduces NHDC's ability to spread the risk of its property portfolio by exposing it to the performance of a narrower (locational) market.

10.3 The restrictions, however, do not necessarily preclude NHDC generating a surplus on those properties that it acquires or develops through borrowing for the purposes of its functions or the benefit, improvement or development of its area.

10.4 Property generally offers stable returns over the longer-term from both rental income and capital value appreciation. The latter is achievable on disposal and can only be used for future capital expenditure.

10.5 Capital receipts from property are achieved upon their disposal. The time and cost of disposal depends on the liquidity of property. Realising the capital from less liquid property will take longer and the capital receipt may be suppressed if the property market declines during the marketing period. The higher marketing costs of less liquid property will also need factoring in. These obstacles to disposal will impact on NHDC's plans for recycling the capital realised.

10.6 Acquiring, developing, managing and disposing of properties will incur NHDC costs. Examples are Stamp Duty Land Tax and agent fees.

10.7 Fees and expenses of the external advisers recommended by the Strategy for appraising property opportunities will be incurred. These costs will vary from year to year according to the number and complexity of properties being considered. Funding is currently available from the corporate budget and the general commercial property budget.

10.8 The Investment Strategy (which incorporates the proposed Capital programme) includes an allocation of £20 million of capital funding over 5 years, at £4 million per year. Subject to this being approved by Full Council in February 2020, this will provide the funding for the acquisition and development of property. The phasing of this funding will limit the opportunities for larger investments, unless these take place in later use and make use of carried-forward funding. Specific property acquisitions and developments will require approval in accordance with the limits set out in the Constitution and Financial Regulations.

11. RISK IMPLICATIONS

11.1 The Strategy acknowledges the risks inherent in acquiring and developing property. The main risks include:

- The value of any property may fall as well as rise. NHDC may fail to recoup its initial capital outlay. Value largely depends on market and economic conditions beyond NHDC's control, but for which the Strategy helps prepare NHDC.
- Rental income may reduce or be delayed, for example during tenant voids or upon tenants defaulting on their rent payment obligations in their leases.
- Void periods may incur direct costs to NHDC including business rates, facilities management, repairs and maintenance, insurance and utilities. Such costs may not be balanced by income during void periods.
- Obsolescence or deterioration may incur unexpected capital expenditure for NHDC.
- No suitable properties may be found within NHDC's area.
- NHDC may require additional resources to manage, and report on, a larger property portfolio.
- Change in law or guidance may further limit NHDC's ability to borrow for the purposes of the Strategy.
- Changes to taxation of property.

11.2 The Strategy outlines practical measures to help mitigate risk. These include:

- Acquire across range of property sectors to avoid over-exposure to illiquid property.
- Avoid high yield high risk properties, as likely to signify significant illiquidity.
- Avoid specialist properties and those inflexible for adapting to new tenant markets.
- Avoid acquiring properties subject to onerous conditions or charges.
- Make use of specialist external advice, even though this will cost money up-front

12. EQUALITIES IMPLICATIONS

12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 Some properties presenting themselves as opportunities may not fully comply with the Equality Act 2010, for example regarding disabled persons' needs. The due diligence process outlined by the Strategy will help ensure such issues are identified prior to the acquisition or development of these properties. It may be prudent to conduct equality assessments when making appraisals of property opportunities.

13. SOCIAL VALUE IMPLICATIONS

13.1. The Social Value Act and "go local" requirements do not apply to this report.

13.2 Achieving some or all of the Strategy's objectives has potential to generate social value. For example, acquiring property to support or underpin enterprise, employment and public well-being in NHDC's area.

14. HUMAN RESOURCE IMPLICATIONS

14.1. The Strategy recommends setting up the Property Scrutiny Group (PSG). This will comprise a core group of directors and officers from NHDC.

15. APPENDICES

15.1. Appendix A - Property Acquisition & Development Strategy.

15.2 Appendix B - Property Scrutiny Group (PSG): Terms of Reference.

15.3 Appendix C - Asset Criteria.

15.4 Appendix D - Scoring Matrix.

15.5 Appendix E - Statutory Powers & Provisions.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

17.1. None.

NORTH HERTFORDSHIRE DISTRICT COUNCIL

Property Acquisition & Development Strategy

2020/21 - 2025/26

Introduction

North Hertfordshire District Council's (NHDC) Commercial Strategy outlines the ongoing financial challenges facing the public sector. This Property Acquisition & Development Strategy builds on the Commercial Strategy by setting out NHDC's core goal and objectives for pursuing property acquisitions and developments during the next 5 years. The Strategy's core goal is to secure property opportunities for the purposes of NHDC's functions or property opportunities that provide benefits, improvement or development of NHDC's area. The goal is expressed through a set of objectives in the Strategy. This is part of a continued drive to improve the economic resilience, environmental well-being and social fabric of NHDC's communities.

Property acquisition and development offers a range of advantages to NHDC and its community. As well as the ability to underpin NHDC's functions or the vitality of its district, property generally offers stable returns over the longer-term as it is insulated to an extent from market volatility. Returns are relatively stable since they come from both rental income and capital value appreciation. The latter is realised upon disposal of property and can be used to fund new capital expenditure. Property acquisition and development, though, also poses risks. For example, greater illiquidity makes it harder to access the capital outlay made. Acquiring and developing property requires careful planning and rigorous evaluation to achieve the goal and objectives of the Strategy whilst mitigating risk.

This Property Acquisition & Development Strategy establishes a robust framework for the identification and safe delivery of suitable property acquisition and development opportunities, in pursuit of the Strategy's core goal. It sets out a rigorous governance and appraisal process for NHDC to safeguard the capital expenditure on those opportunities. The Strategy is designed to protect the value of taxpayers' resources.

This Strategy focuses on protecting the long-term security of capital outlay by NHDC, whilst minimising risk to NHDC's capital. The Strategy also aims to help secure positive financial returns wherever possible. The Strategy has regard to the economic, environmental, social and community value of property acquisition and development decisions, for example those that afford NHDC opportunity to influence the amenity and environment of settlements in the district.

The Strategy is structured in a way that enables NHDC to pursue suitable acquisitions and development with the agility and efficacy required in the competitive marketplace. Competition for prime assets is strong, driven by low gilt yields, low borrowing rates and limited new supply.

Finally, this Strategy is aligned with the context of NHDC's Investment Strategy.

Scope of Strategy

The Property Acquisition & Development Strategy focuses on:

- *Direct* acquisitions of property, both buildings and land. *Indirect* acquisitions - be it through property investment funds or property companies - are outside the scope of the Strategy.

- Acquisition of *existing tenanted* properties.

- Acquisition of *value add* opportunities, i.e. properties where additional revenue and/or capital value can be generated from existing properties by:

    - Improved asset management.
    - Repurposing by change of use and conversion.
    - Refurbishment and capital enhancements.
    - Pursuing development potential.
    - Lease regearing*.

- Pursuing value add opportunities for properties already owned by NHDC.

- Acquisitions by *agreement* rather than using compulsory purchase powers.

- NHDC in its capacity as a local authority, not as a trading company.

Statutory powers

The Strategy acknowledges the following important factors:

- The need to identify the relevant statutory powers afforded to NHDC in its capacity of *local authority*, chiefly under the Local Government Act 1972.

- The current restrictions placed on NHDC in pursuing the opportunities of the Localism Act 2011 due to NHDC not having a trading company subsidiary at present.

Appendix 4 outlines the main Acts of Parliament and provisions this Strategy acknowledges.

Conflicts of interest

There is a possibility that those involved in implementing the Strategy may have actual or perceived conflicts of interest, be they Council Members, directors, officers or external advisers. From the outset, all those involved shall familiarise themselves with, and abide by, NHDC's Managing Organisational Conflicts in Council Roles & Duties, NHDC's Code of Conduct for Members and NHDC's Employee Conflicts of Interest Policy as appropriate.

Structure of Strategy

The Strategy addresses eight key aspects of property acquisition and development, as follows:

(1) Property acquisition & development objectives

NHDC's primary objectives for property acquisition and development are shown in Table 1:

Primary objectives	Practical examples
To identify and pursue property acquisitions and developments that….. (1) Underpin or enable any of NHDC's functions and corporate objectives *or* Benefit, improve or develop NHDC's area. (2) Adhere to the principles of the prudent management of NHDC's financial affairs. (3) Generate a net minimum return of 1.5% per annum above financing costs (interest and Minimum Revenue Provision). (4) Contribute to generation of extra revenue.	*Acquisitions and developments that achieve and promote the following outcomes will signify achievement of the primary objectives:* • Supporting economic resilience, environmental sustainability or social fabric of NHDC's town centres (perhaps within a regeneration programme, although noting that substantial redevelopment is likely to be outside the funding allocated). • Supporting enterprise, business rates retention, employment growth, place-making and public well-being in NHDC's area. • Refurbishment or conversion of buildings to enhance rental income, environmental credentials and mitigate holding costs. • Reducing NHDC's revenue costs by acquiring freeholds of rented operational property. • Acquisition of property that provides complementary benefits or value synergies for NHDC's existing property portfolio. • Acquisition of property providing secure, long-term income to match NHDC's long-term spending requirements, financial objectives and corporate strategy.

Table 1: NHDC's property acquisition & development objectives

If a property opportunity demonstrates capacity to deliver NHDC's primary objectives, the opportunity will be accepted for further consideration. If not, the opportunity will be rejected.

(2) Acquisition & development benchmarks

Appraising opportunities prior to acquisition and development, and monitoring their performance post-acquisition, will be conducted against a set of agreed criteria, benchmarks and performance indicators.

Sources of data that will aid this process include:

- Local property agents.
- National property companies.
- Royal Institution of Chartered Surveyors.
- Research by academic institutions.
- Investment Property Databank (IPD).

Because no two properties are identical, data from all sources must be diligently analysed when relating it to a particular property or market. Further, data must not automatically be taken at face value. NHDC will use its property market knowledge and experience and, where necessary, the advice of external independent experts, to sense-check data to ensure accurate appraisals and effective monitoring of acquisitions and developments.

(3) Identifying acquisition & development opportunities

Research

NHDC will look to widen its inclusion on the property mailing lists of local and national property agents and auctioneers. NHDC will build its relationships with the property agency fraternity to increase awareness of potential opportunities.

NHDC will also need to allocate personnel to frequently contact agents and auctioneers and to scour property media and research so opportunities can be assessed in good time. This will assist in formulating realistic, robust and competitive bids for suitable acquisition or development opportunities.

(4) Acquisition & development funding

Funding sources

Aside from grant funding that may be obtained, NHDC's Investment Strategy will decide how acquisitions and developments are funded.

Specific sources of funding might include:

- Central government, for example Homes England*.
- Hertfordshire Local Enterprise Partnership (LEP).
- Local Government Association (LGA) for grant funding independent expertise.
- Collaborative (joint) ventures with other public sector bodies, perhaps through the One Public Estate initiative.
- Joint ventures with housing associations or private sector organisations to share the risk of borrowing (particularly where synergistic value can be tapped).

NHDC can borrow to acquire and develop property for the purposes of NHDC's functions or for the benefit, improvement or development of its area. In its capacity of local authority, NHDC cannot borrow to acquire or develop property only for the purposes of achieving net income. However, this does not necessarily preclude NHDC generating a surplus from property acquired or developed pursuant to the Strategy.

NHDC shall have regard to CIPFA's* Prudential Code* in funding property acquisitions and developments, demonstrating value for money in borrowing and ensuring the security of such funds. To ensure prudent management of its financial affairs, NHDC shall ensure any borrowing costs can be serviced from the additional income generated from assets acquired.

(5) Location of acquisitions & developments

Location scope

As a local authority, section 120 of the Local Government Act 1972 permits NHDC to acquire property by agreement, both inside and outside its area, where the purposes of that acquisition is for:

- any of its functions under this or any other enactment, or
- the benefit, improvement or development of its area.

Further, section 120 permits NHDC, as a local authority, to enter agreements with other local authorities to acquire property on behalf of both or all of them in accordance with arrangements made between them. Those authorities can also make arrangements as to the subsequent occupation and use of the land.

Few opportunities are envisaged to arise *outside* NHDC's area that will underpin or enable its functions and benefit its area. Such opportunities are likely to be limited to those immediately adjacent to NHDC's area. Examples include sites that can be assembled with land already owned by NHDC to promote a viable development or marriage value, for the benefit of NHDC's area.

Suitable property opportunities that do arise outside NHDC's area must be assessed prior to acquisition or development for their advantages and disadvantages. Advantages may include:

- Diversification of risk by acquiring in more than one location.
- Reduced concentration in a single market lessening the chance of NHDC establishing a buyer monopoly market failure.

Disadvantages may include:

- NHDC crowding out another local authority's ability to acquire in its own area.

To help address this disadvantage, collaboration or an alliance agreement between NHDC and other local authorities is encouraged by this Strategy, in accordance with Section 120 of the Local Government Act 1972.

Sequential approach

Where NHDC has a choice of location in which to acquire or develop property, NHDC will prioritise its district. Table 2 on the next page explains this approach further.

A:

NHDC's district

Property acquisitions and developments in NHDC's district prioritised over other locations. Reasons include:

- **Helps stimulate and support the viability and vitality of local areas.**
- **Supports a local economic multiplier effect.**
- **Supports business rates retention for NHDC's district.**
- **Helps reduce property management costs.**
- **Familiarity with local property market strengthens acquisition and development decisions.**

B:

Outside NHDC's district

***Property acquisitions and developments outside NHDC's district will be considered when*:**

- **Opportunities arise for land assembly with NHDC's existing portfolio to enhance function/value/income.**
- **Opportunities arise for joint acquisitions, ventures or partnerships with bodies whose functions or strategic objectives align with those of NHDC, to spread acquisition costs/risk and promote economies of scale. For example:**
  - **Hertfordshire Property Partnership members.**
  - **One Public Estate members.**
- **Opportunities arise to invest in properties that directly/indirectly benefit NHDC's district.**

Table 2: Priority of location

(6) Risk management & governance

Background

As a local authority, NHDC is required to be prudent with its financial resources and funds. Prudence is attained by upholding its treasury management principles. Statutory guidance issued by the Ministry of Housing, Communities & Local Government (MHCLG) has broadened the scope of treasury management principles. NHDC is required to assess the security, liquidity and yield of its capital assets that it holds for purposes other than service delivery.

(A) **Security**: how safe is the underlying capital deployed in an asset. This depends on the susceptibility of assets to value and market condition movements.

(B) **Liquidity**: how easy is it to access the capital. This depends on time to sale, probability of sale and the costs associated with transacting.

(C) **Yield**: the income return on an asset, such as the rental income or interest received from holding a particular asset.

The statutory guidance also now requires a consideration of the full costs of holding assets, including both revenue and capital maintenance. It encourages taking a longer term view of this expenditure, i.e. 10 years and beyond.

Four fundamentals of property assets

To reinforce these principles and guidance, NHDC will appraise the quality of all property acquisition and development opportunities against the following four fundamentals.

- ✓ 1. Security of capital.
- ✓ 2. Security of income: *in real and nominal terms*.
- ✓ 3. Liquidity: *ease and cost of disposal.*
- ✓ 4. Ease of management: *ease and cost of managing and holding assets*.

The yield or rate of return of a property acquisition or development reflects the four qualities listed above. Yield is primarily a function of both capital value and rent. Lower yields generally indicate that an asset attracts a lower degree of risk due to factors which include security and regularity of income. Yield will vary according to the market and nature of asset, including its location, tenant covenant and lease terms.

No property acquisition or development will simultaneously satisfy all four fundamentals; each can be mutually exclusive. NHDC officers and decision-makers will therefore need clarity as to which criterion is most important to NHDC when considering each property opportunity. This decision is influenced by NHDC's objectives outlined earlier in Table 1.

Risk expectations

Notwithstanding risk management and governance, NHDC must be aware that directly acquiring or developing property will always incur risk. Risk takes many forms, such as:

- Property is relatively illiquid compared to alternative assets. It can take a long time to sell and realise the capital invested.

- Turbulent property markets and volatile economic conditions can cause capital value depreciation and failure to recoup initial outlay.

- Costs of acquisition, disposal and management. Most if not all costs, such as transaction costs, are unlikely to be recovered if an acquisition or disposal is aborted.

- Rental income streams may be reduced or interrupted, for example during tenant voids or upon tenants defaulting on their rent payment obligations in their leases.

- Void periods may incur direct costs to NHDC including business rates, facilities management, repairs and maintenance, insurance and utilities. Such costs may not be balanced by income during void periods.

- Inflationary spikes eroding rental income and returns in real terms.

- Building obsolescence and physical deterioration may incur unexpected capital expenditure for NHDC. Examples of events that may lead to these are changes in technology and occupier demands, tenants' failure to honour lease repair obligations, and/or new legislation such as regarding energy efficiency.

- Change in law or guidance may further limit NHDC's ability to borrow for the purposes of the Strategy.

- Changes to taxation of property.

Risk parameters

NHDC should appraise property acquisition and development opportunities yielding a net minimum return of above 12% with extra vigilance as such high yields indicate a high risk opportunity. NHDC should choose to prioritise security of capital and liquidity over yield/return.

NHDC should carefully consider and question the rationale of property opportunities that yield below a net minimum return of 1.5%. The return received should reflect the risks involved and the management required.

Illiquidity is an inherent risk in property acquisitions. Measures that NHDC should take to mitigate this and other risk include:

- Acquire across a range of property sectors. This provides opportunity for NHDC to effect sales in the more liquid sectors should this be necessary.

- Assemble a diversified property portfolio in terms of lot size. This enables NHDC to access a breadth of purchaser types, for example small local investors, listed property companies or institutions.

- Acquire modern properties which are designed by building information modelling (BIM) and fully integrated with technology, for example sensors that measure a building's environmental performance. These will help present a property's full service history more transparently, which is expected to support liquidity.

- Avoid high yield high risk properties, as these are likely to signify significant illiquidity, for example leaseholds with fewer than 80 years unexpired.

- Avoid specialist properties, for example those only suitable for a narrow segment of the occupier market and lacking flexibility to adapt to a wider market without significant capital expenditure.

- Avoid acquiring properties subject to onerous conditions or charges, for example overages or restrictive covenants.

- Make use of specialist external advice.

Risk to NHDC will be assessed both on an individual asset basis and on a cumulative basis which considers the interaction of asset risks on the portfolio.

Contingency funds

By acquiring property, periods will inevitably be encountered when certain properties' rental income is outweighed by their outgoings. Such periods can be expected (for example known lease end date) or unexpected (for example tenant default). Where NHDC receives exceptionally high yields in the early years of an acquisition or development that reflects the risk of a future event then it will consider pooling some of those excess returns into a specific reserve.

NHDC will also consider the risk of reduced income and void holding costs when setting its minimum General Fund balance.

Property Scrutiny Group (PSG)

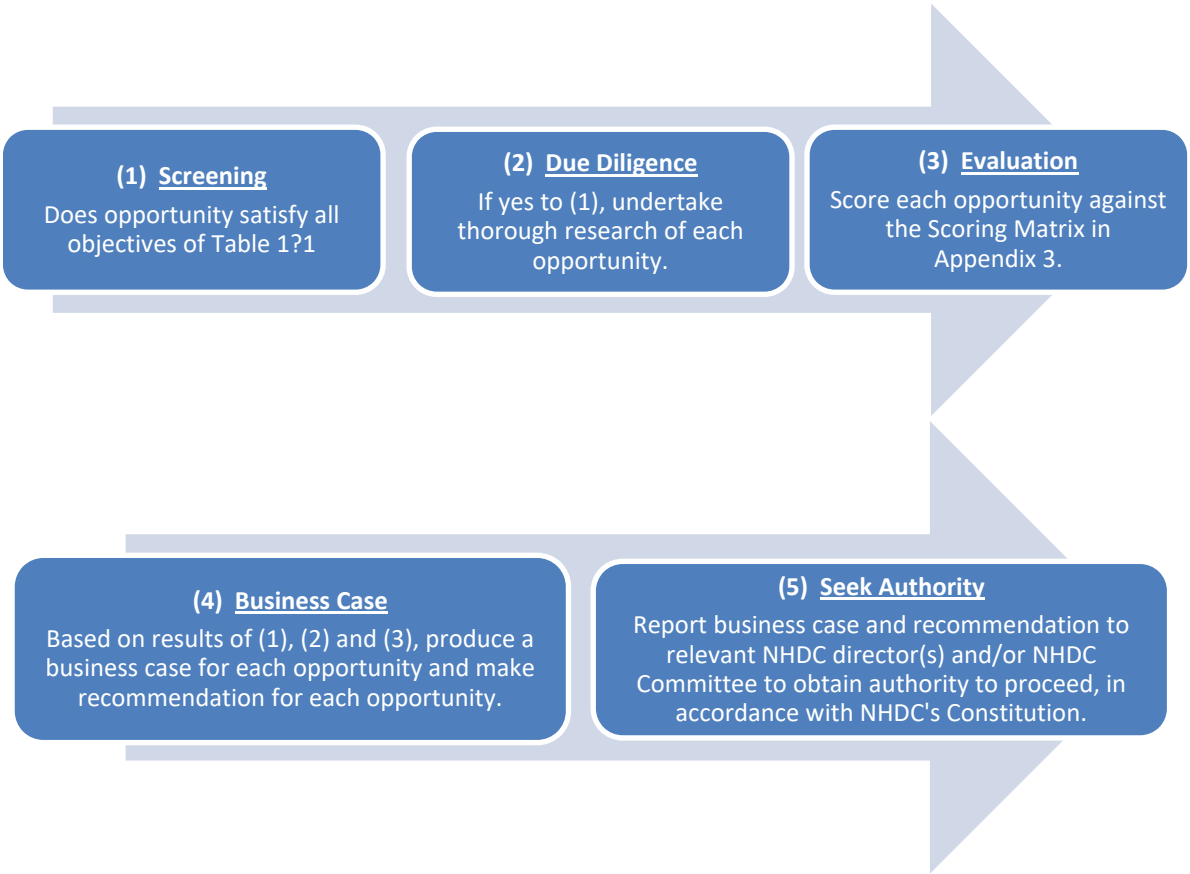
NHDC's PSG will appraise, and make recommendations on, property acquisition and development opportunities. The PSG will base appraisals and recommendations on this Strategy. The PSG will operate within the Terms of Reference of Appendix 1.

The PSG will comprise the following core group of directors and officers from NHDC:

- Service Director: Commercial *(Chair of PSG)*.
- Service Director: Resources *(Deputy Chair of PSG)*.
- Senior Estates Surveyor.
- Commercial Manager.
- Accountancy Manager.
- Contracts & Property Solicitor.

The group will benefit from skills and experience of professionals across the property, commercial, financial and legal spectrum. External advisers with relevant qualifications, skills and experience will be commissioned as required. In time, specific independent advice may be sought on how and which property acquisitions and developments can be pursued and structured to best advantage upon setting up of a Property Company.

The PSG will consider each property acquisition or development opportunity and make recommendations on which to pursue and reject, following the process outlined by Figure 1.



1 All objectives in Table 1 are deemed mandatory by this Strategy.

Figure 1: PSG process & actions

The Service Director: Commercial reserves the right to consult on recommendations of the PSG with other NHDC directors, the Executive Member for Enterprise and Co-operative Development and the Executive Member for Finance and IT.

All recommendations of the PSG to acquire a property or pursue a development will then be reported to the relevant NHDC director(s) and/or NHDC Committee to obtain authority to proceed, in accordance with NHDC's Constitution. If commercially sensitive or personal information must be conveyed to NHDC directors and Committees to enable full consideration of a property opportunity, this must be reported under Part 2 conditions.

This process will be kept under review to ensure it provides the required level of governance for NHDC whilst also allowing sufficient agility to secure suitable opportunities in the competitive property market.

(7) Due diligence*

Property portfolio

NHDC is aiming to build up a property portfolio that reinforces the four fundamentals of property assets discussed earlier – security of capital, security of income, liquidity and ease of management. For risk control purposes, a proportional portfolio should be aimed for. This is one in which overall capital value and rental income is reasonably balanced across a range of property sectors incorporating a range of attributes.

To help ensure proportionality, diversity and minimum risk when building a property portfolio, regard should be made to NHDC's overall investment portfolio, i.e. including non-property assets.

This will help achieve a prudent risk balance between the four fundamentals, and help secure the core goal and objectives of NHDC that are set out in this Strategy. A proportional and diversified portfolio will help insulate NHDC against turbulence in one specific asset type or sector to avoid this disproportionately impacting on NHDC.

In terms of property sectors, acquisitions or developments across the following sectors will ensure a diversified portfolio:

- Light industrial, including:
  - Warehouse & distribution.
- Offices.
- Retail, including:
  - Trade counters.

- Residential, including:
  - Private homes.
  - Affordable homes.
  - Non-cyclical markets, e.g. senior living and student accommodation.

- Alternatives, for example leisure.

Traditionally, the industrial, office and retail sectors have featured significantly in the portfolios of property purchasers and investors, with a fairly even split between all three sectors.

However, this traditional mix is not recommended by this Strategy. In particular, with retail undergoing structural shifts in demand because of competition from e-commerce and changing consumer shopping habits, allocating a high proportion of overall capital outlay to retail would, it is considered, expose NHDC to excessive risk.

Retail acquisitions should be restricted to retail offering consumer convenience and good customer "experience", hybrid retail schemes* and retail affording value add opportunities, combined with regenerative benefits. Retail as part of a mixed development with other uses is possible too.

Good quality, accessible industrial/warehouse units with good tenant covenants are benefiting from a sustained demand in and around NHDC's district. Demand from a better quality tenant base for small to mid-sized industrial, warehouse and delivery hub units is increasing. The shift to online commerce, demand from omni-channel tenants, need for storage and requirement for last-mile logistics space is driving demand. This combined with the limited supply of such units make acquisitions in this sector a reasonable proposition. NHDC should be aware competition for these units from investors is keen as they are increasingly viewing the defensive nature of this asset class as a hedge against economic uncertainty. Further, assets serving the logistics market are not without their own structural challenges such as the rise of autonomous trucks and stock procedures. To accommodate such technological advancements, NHDC may be compelled to spend capital on such assets to maintain their tenant appeal and delay onset of obsolescence.

Regarding residential, it is reasonable to envisage the sustained and growing demand for residential units in and around NHDC's district coupled with supply imbalance make this a sound acquisition or development proposition for NHDC. Residential schemes can make suitable long-term acquisitions by offering relatively secure, stable, long-term often inflation-linked income streams, with limited void risk. However, the high capital prices of residential assets in NHDC's area, together with their relatively onerous management needs, significantly suppress available yields. The higher yields are more often associated with residential property schemes offering value add opportunities, for example development or conversion of under-utilised properties, or those with scope to improve asset management.

In general, assets with potential for long-term income or capital value enhancement via asset management, lease regearing or renewals and/or through development will be considered.

Cautionary note on residential property

Despite the benefits of residential property, this Strategy recommends NHDC acquires or develops residential property with extra caution, particularly if it aims to hold and let out that property. As a local authority, letting out residential property can place NHDC at risk of tenants gaining Right to Buy power over the property. If exercised, such power may require NHDC to dispose property at significant discount* to market value. In addition, NHDC can be placed at risk from residential tenants acquiring freeholds from NHDC under enfranchisement legislation. Further, recent government plans to abolish section 21 notices* of the Housing Act 1988 and "no-fault" evictions should also be noted. These plans, if enacted, are positive for residential tenants by increasing their security of tenure. However, they may leave landlords with less management flexibility and place greater onus on ensuring future tenants provide good covenant. Ultimately though, despite the government plans, landlords will still have the liquidity of their asset protected through the right to recover possession on sale.

Apportionment between property sectors

This Strategy does not recommend a static target apportionment of expenditure across the different property sectors. This is because:

- Property opportunities, particularly higher yielding ones such as value add schemes, will not present themselves to the market at regular or fixed intervals. Some years may see many opportunities, others fewer. NHDC needs to be ready to appraise and pursue suitable property acquisitions or developments as and when they arise.

- Where mixed use opportunities arise, the exact proportion of expenditure between the uses will be different for each scheme, influenced by myriad factors such as specific site conditions, planning conditions and scheme viability.

- Market changes and economic volatility, or changes in NHDC's objectives, can lead to a static target apportionment becoming unfit for purpose. For example, to support the portfolio's resilience in volatile economic conditions, NHDC should give greater priority and weight to counter-cyclical property sectors*, such as alternative sectors, or to "mission-critical"* properties.

- A static target apportionment may, with the passage of time, fail to satisfy or encapsulate all of the security, liquidity and yield governance requirements.

- NHDC's overall investment portfolio, i.e. including non-property assets, may change over time. Recommending a static proportion of expenditure in certain property sectors may lead to disproportional concentration in one sector, exposing NHDC to unmanageable risk levels.

Instead, Figure 2 provides an indicative chart illustrating the risk-return trade off for the various property sectors in NHDC's district at present. The proportion of capital outlay that NHDC decides to place into each property sector, or the priority or weight it assigns to any one sector, cannot be prescribed or reliably predicted by this Strategy. This is a decision that NHDC must take each time it assesses potential acquisition or development opportunities, based on assessing each sector's risk-return profile at the time, in pursuit of the Strategy's objectives.

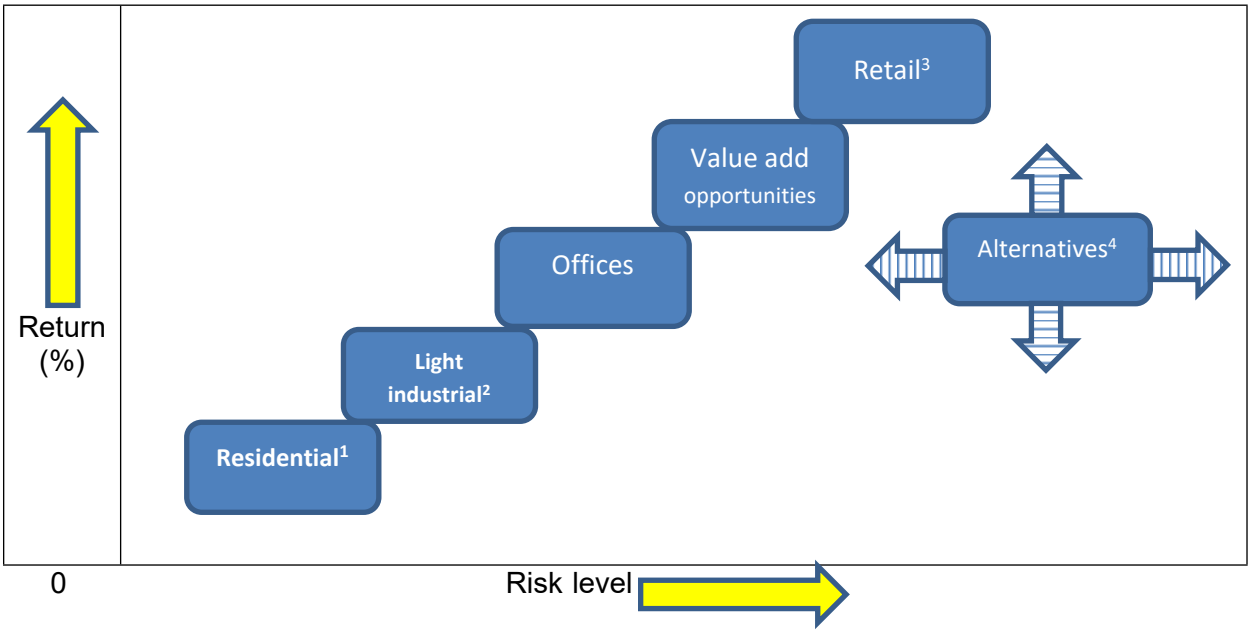


Figure 2: Risk-Return profile of property sectors

1 Primarily refers to private homes, not affordable homes or non-cyclical markets. Disregards Right to Buy risk.
2 Includes warehouse and distribution property.
3 Primarily refers to market town centre-dominant and secondary shopping centres, not trade counters or other retail.
4 Alternatives is a wide category to define, and one often comprising novel property concepts and markets. The risk-return profile of the Alternatives sector is therefore particularly uncertain.

Review of property portfolio

NHDC must frequently review the composition of its property portfolio to ensure it remains proportional and diversified between sectors. The composition should be viewed in the context of NHDC's:

- Existing property portfolio; and
- Investment Strategy.

The purpose is to assess the overall risk-return profile to which NHDC is exposed, in pursuit of the Strategy's objectives. NHDC's existing property portfolio mainly comprises industrial/commercial ground rent investments. These are one of the safest forms of property investment. This allows NHDC a degree of safety margin in acquiring property by providing a stable foundation and balance for an expanding property portfolio.

NHDC should monitor the performance and proportionality of the property portfolio over time and, if necessary, rebalance it in light of market demand and supply movements and their

effect on risk-return. Such movements can be influenced or triggered by a range of factors and stakeholders, including investors, owner-occupiers, tenants, lenders and local/national government. Adjustment of the portfolio will mainly be by property disposals, new acquisitions and lease regearing. Property disposals will be facilitated if the assets have greater liquidity.

Selection criteria

Each property acquisition and development opportunity will be appraised by NHDC against the key qualitative and quantitative asset criteria detailed in Appendix 2, Tables 1 – 9. The criteria are summarised below:

- Location.
- Tenant Covenant.
- Building Performance.
- Lease: Repairing Obligation.
- Lease: Rent Review Mechanism.
- Lease: Length of Occupational Lease.
- Tenure.
- Lot Size.
- Net Minimum Return.

Scoring Matrix

The Scoring Matrix in Appendix 3 enables the relative merits of a property acquisition and development opportunity to be evaluated against the criteria detailed in Appendix 2. The overall score for each opportunity can then be viewed against NHDC's objectives of this Strategy, its benchmarks or alternative opportunities.

Whilst property risk cannot be entirely eradicated, the Scoring Matrix helps to assemble a well balanced and diversified property portfolio across a range of criteria, including location and lot size. In turn, this will support an optimal trade off between risk and return and help NHDC secure the Strategy's objectives.

The Scoring Matrix in Appendix 3 summarises the key property criteria. The overall purpose of the Scoring Matrix is to assess how each opportunity is likely to perform against the four fundamentals of property assets discussed earlier. The four fundamentals are reiterated below, alongside their level of importance in the Matrix:

- ✓ 1. Security of capital
- ✓ 2. Security of income: *real and nominal terms*
- ✓ 3. Liquidity
- ✓ 4. Ease of management.

The asset criteria are assigned a Weighting in Appendix 3. The Weighting scale ranges from 1 (low Weighting) to 4 (high Weighting) and corresponds (inversely) to the level of importance assigned to the four fundamentals, as follows:

1. Security of capital = **WEIGHTING OF 4**.
2. Security of income: *real and nominal terms* = **WEIGHTING OF 3.**
3. Liquidity = **WEIGHTING OF 2.**
4. Ease of management = **WEIGHTING OF 1.**

Where an asset criterion addresses two or more of the fundamentals, it is assigned an additional Weighting according to the level of importance of those other fundamentals.

So, for example, the criterion of *Tenant Covenant* addresses the highest level fundamental of **Security of capital,** plus the second most important fundamental of **Security of income**, plus the third most important fundamental of **Liquidity**, and the fourth most fundamental of **Ease of management.** *Tenant Covenant* is therefore assigned a Weighting of 10 (4 for Security of capital + 3 for Security of income + 2 for Liquidity + 1 for Ease of management).

Further, the Scoring Matrix scores the quality or performance of a property opportunity against each asset criterion. A score of 5 is awarded for those that have "Excellent" quality or performance, down to 1 for "Marginal / Not Acceptable".

The Weighting and the quality score are then multiplied together for each property opportunity. Those opportunities that meet the threshold score weighting of 207 will then progress to be subject to a business case by the PSG.

Property research

Due diligence of properties considered for acquisition or development will include the essential background research and enquiries to fully understand the legal, financial, commercial and constructional circumstances and prospects of each property.

(8) Strategy review

Timeframe & frequency

This Property Acquisition & Development Strategy is aimed at the next 5-year period. The Strategy will be kept under annual review by the PSG during this period, paying particular attention to the following influential factors:

- Material changes in property market dynamics, particularly retail sector.
- Material changes in the economy, such as the Brexit outcome.
- Legislative developments, in particular property energy performance regulations.
- General permitted development rights in Town & Country Planning.
- Advancements in “proptech”, for example use of artificial intelligence to improve the efficiency of pre-acquisition due diligence.
- Changes in NHDC’s objectives.
- NHDC’s staffing resource requirements, to ensure continued effective operational and risk management of an expanding property portfolio.
- The setting up of a trading company subsidiary to NHDC. No such company currently exists but if one was established this may widen the scope of property opportunities that can be pursued.

Glossary

Terms in this Strategy highlighted by an asterisk (*) are defined or explained below.

CIPFA: Chartered Institute of Public Finance and Accountancy.

Counter-cyclical property sectors: Those less exposed to the changing fortunes of the economy.

Discount: Local authority Right to Buy sales averaged a 42% discount from selling price in 2017/18 in the UK, based on latest available data. Source: MHCLG.

Due diligence: An investigation or audit of a potential property acquisition or development to confirm all facts, including the review of financial records. Refers to the research carried out before entering into an agreement or a financial transaction with another party.

Homes England: Homes England is the non-departmental public body that funds new affordable housing in England. Founded on 1st January 2018 to replace Homes and Communities Agency (HCA).

Hybrid retail scheme: Retail property comprised of retailers operating in the bulky goods and food sectors.

Mission-critical properties: Properties whose availability, as a factor of production, is critical to the success of a business. Examples are a manufacturing plant that produces the goods that generate a significant element of the tenant's profits, or a research & development laboratory of a pharmaceutical firm.

Prudential Code: A framework produced by CIPFA supporting local strategic planning, local asset management planning and proper option appraisal. Objectives of the Prudential Code are to ensure capital investment plans of local authorities are affordable, prudent and sustainable.

Regearing (as in lease regearing): A lease regear replaces one lease with a new one, on renegotiated terms. The landlord and tenant are free to do this at any time which may be desirable when the parties' commercial objectives may have altered in recent years.

Section 21 notice: A section 21 notice under the Housing Act 1988 is a "no fault" notice. This means that a landlord of a residential property can ask a tenant to leave after the fixed term of the tenancy has ended without giving a reason.

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APPENDIX 1:

Property Scrutiny Group (PSG): Terms of Reference

Membership

The Property Scrutiny Group (PSG) will comprise the following core group of directors and officers from North Hertfordshire District Council (NHDC):

- Service Director: Commercial *(Chair of PSG)*.
- Service Director: Resources *(Deputy Chair of PSG)*.
- Senior Estates Surveyor.
- Commercial Manager.
- Accountancy Manager.
- Contracts & Property Solicitor.

All members of the PSG will be required to:

- Read NHDC's Property Acquisition & Development Strategy, including appendices, prior to discharging their collective role.
- Where required, appoint external advisers with appropriate qualifications, skills and experience.

Role

General

The PSG will:

- Operate within these Terms of Reference.
- Conduct appraisals of property acquisition and development opportunities based on the principles, core goal and objectives of the Property Acquisition & Development Strategy.
- Make recommendations as to which opportunities to pursue and reject, again based on the Strategy.

All recommendations by the PSG require the agreement of a majority of NHDC officers forming the PSG.

Where there is no supporting majority among PSG members, the Service Director: Commercial shall arbitrate and his/her decision to pursue or reject a recommendation will be final. This Director reserves the right to consult on recommendations of the PSG with other NHDC directors, the Executive Member for Enterprise and Co-operative Development and the Executive Member for Finance and IT.

Production of business case

Where the PSG recommends pursuing an acquisition or development opportunity, the recommendation will be supported by a business case produced by the PSG.

As a minimum, the business case will assess the following:

- Results of due diligence conducted on each property opportunity, including the legal, financial, commercial and constructional circumstances and prospects of each property, and how this affects viability and the four fundamentals of property ownership. Due diligence must consider matters recorded in Land Registry title registers, deeds and terms of purchase.

- Transaction costs (e.g. purchase price, Stamp Duty Land Tax and professional fees).

- Ongoing capital costs of asset (e.g. costs of upgrading or repairing a building during the expenditure horizon, anticipated useful life or holding period).

- Ongoing revenue costs of asset (e.g. borrowing costs, management costs, running costs and holding costs during tenant voids).

- Affordability, including consideration of the Minimum Revenue Provision requirements.

- Opportunity costs of acquisition or development (e.g. the alternative options foregone by deploying capital and revenue on a particular asset).

- Security, liquidity and yield (yield considering transaction costs and any rental concessions).

- Proportionality of the acquisition or development relative to NHDC's existing property portfolio, its Investment Strategy and revenue budget, and how acquisition/development impacts risk exposure.

- Revenue generation and growth from an acquisition (rental income).

- Anticipated capital receipts and capital value movements from an acquisition (e.g. when sold on).

- Resources and expertise to manage acquisitions and developments to generate optimal outcome.

- Risk of loss to NHDC of entering into each property acquisition or development. This assessment should consider several variables throughout the expenditure horizon, anticipated useful life or holding period of the property, including:

    - Purchase price or initial capital outlay (including all directly attributable costs).
    - Fair Value movements and the security that Fair Value provides against loss.
    - Rent level projections.
    - Frequency and length of income voids, including rental concessions like rent-free periods.
    - Tenant financial health and risk of defaults.
    - Level of competition/supply from other schemes and influences on that supply, for example barriers to entry.
    - Tenant demand and influences on demand.
    - Maintenance costs.
    - Property taxes (including VAT).
    - Letting costs.
    - Costs of any borrowing - for example interest rate movements.
    - Management fees.
    - Future refurbishment, component replacement or reconfiguration costs.
    - Mitigation measures - for example tenant guarantors or rent deposits.

  A sensitivity analysis to model the effect of movements in value and expenditure is recommended.

- Advantages and disadvantages of acquiring or developing property where the opportunity to do so is located *outside* NHDC's area.

Asset performance monitoring & assessment

The PSG is responsible for monitoring the performance of NHDC's assets following their acquisition or development. The PSG will agree and monitor performance targets and limits for each property and for the property portfolio. As a minimum, these should focus on achievement of the Strategy's objectives, together with focusing on security, liquidity and yield.

The PSG will assess the risk of loss before entering into, and whilst holding, property assets by cash flow modelling the income and expenditure profile of each asset.

This assessment requires continual monitoring of rental income and the lifecycle costs to maintain that income, in order to assess the ongoing security and yield of each asset. The ongoing revenue costs of each acquisition or development will be assessed against the asset's future projected revenue generation to ensure the acquisition or development can achieve the net minimum rate of return.

The PSG will subject the cash flow model to a range of stress tests to check the financial resilience of acquisitions or developments. The resilience will be influenced by the criteria set out in the Scoring Matrix outlined in the Property Acquisition & Development Strategy.

Performance of assets acquired or developed will be appraised and evaluated against benchmark purchases of other stakeholders active in the market, and against market research or commentary.

Fair Value measurements undertaken by the Senior Estates Surveyor and/or external advisers will form a component of the acquisition and monitoring process.

The Senior Estates Surveyor and/or external advisers will inform the PSG of changes in market conditions that pose a risk to the ongoing security, liquidity and yield of assets.

Reporting

All recommendations of the PSG to acquire a property or pursue a development will be reported to the relevant NHDC director(s) and/or NHDC Committee to obtain authority to proceed, in accordance with NHDC's Constitution.

After a property is acquired or development completed, the Service Director: Resources will record the following:

- The contributions each acquisition and development makes in delivering the objectives set out in Table 1 of the Property Acquisition & Development Strategy. This explanation shall reference the Strategy's core goal and objectives, in the context of NHDC's corporate objectives and plans.

- Information to enable quantitative assessment of NHDC's risk exposure resulting from acquisition or development. This is likely to include operating costs and tenant voids.

- Achievement or progress against performance targets and limits for each property or portfolio.

- The assessment by the PSG of the risk of loss to NHDC of entering into each property acquisition or development, detailed earlier.

Contingency & exit planning

The PSG will decide upon measures to address the following issues:

- Risks that arise that may prevent property that is in NHDC's possession from continuing to underpin or enable achievement of NHDC's functions or the benefit, improvement or development of its area.
- Reductions in rental income, for example, due to tenant voids and defaults.
- Delays and costs in securing rental uplifts, for example due to landlord-tenant disputes arbitration.
- Falls in Fair Values.
- Optimum exit strategy. Issues to be addressed here, include:
    - Disposal method to realise best value, or effect the quickest/least cost disposal. Examples are auction or private treaty.
    - Apportionment of lot sizes to achieve optimum disposal price.
    - Capital expenditure to improve marketability of assets, for example to reverse obsolescence or dilapidations.

Strategy review

The PSG is responsible for reviewing the Property Acquisition & Development Strategy annually and updating the Strategy every 5 years.

Frequency of PSG meetings

- *When new opportunities arise*: Property opportunities will be grouped for consideration by the PSG, where appropriate.
- *When performance monitoring & assessment of assets is conducted*: Feedback on the monitoring of assets acquired or developed will take place at least on every annual anniversary of the acquisition or development completing.

Circumstances may dictate more frequent meetings, for example when market events or economic conditions materialise that pose risk to NHDC's properties.

Professional opinion

Acquisition and development opportunities may arise that meet the core goal, objectives and asset criteria of the Property Acquisition & Development Strategy but which may be incompatible with NHDC's objectives outside the Strategy, such as ethical policies. In these circumstances, the PSG will be permitted and required to use its collective professional opinion, judgement and discretion when forming its recommendations on whether or not to pursue acquisition and development opportunities.

Advice & evidence resources

The PSG's appraisals and recommendations will be supplemented by advice from independent external advisers, by other NHDC officers, and by consultation with NHDC's Asset Management Group (AMG), should the PSG members require. Information and evidence cited by the PSG will include:

- Valuations, market appraisals, market commentary and research data.
- Building surveys.
- Lease reviews.
- Energy Performance Certificates.
- Planning advice.
- Searches, including Land Registry investigations.
- Credit agency ratings and references from banks, accountants and previous landlords for assessing rent payment and rent arrears track records, as well as tenant covenant.

External advisers and AMG members are permitted to attend meetings of the PSG and their advice can be incorporated into recommendations of the PSG.

External advisers will be rotated on a 5-yearly basis to uphold quality of advice. Advisers may be retained for longer than 5 years if PSG members agree such extended retention outweighs the potential downsides. External advisers will be required to:

- Sign a confidentiality agreement.
- Read NHDC's Property Acquisition & Development Strategy, including appendices, prior to carrying out their instructions.
- Sign a letter of engagement confirming their understanding and acceptance that they will advise NHDC in the capacity of a local authority where the prime purpose is to deliver statutory services to local taxpayers.

Detailed matters of cost and procurement in commissioning external advisers are outside the scope of these Terms of Reference and the Strategy. These matters will be addressed prior to commissioning external advisers and their attendance at the PSG meetings.

APPENDIX 2:

Asset Criteria

Asset Criteria

Each property acquisition and development opportunity will be appraised by NHDC against the key qualitative and quantitative criteria detailed in Tables 1 – 9 below. Please note the criteria of Tables 2, 4, 5 and 6 do not apply to freehold acquisitions with vacant possession. Care is advised to ensure any decisions made based on the criteria are compatible with the Strategy's core goal and objectives.

Asset criterion	Category	Quality	Details
Location	Inside NHDC's district	Excellent	Underpins or enables any of NHDC's functions; **and** For benefit, improvement or development of NHDC's area. Acquisition or development secured **with** collaboration of NHDC and other local authorities.
	Outside NHDC's district	Very Good	Underpins or enables any of NHDC's functions; **or** For benefit, improvement or development of NHDC's area. Acquisition or development secured **with** collaboration of NHDC and other local authorities.
	Outside NHDC's district	Good	Underpins or enables any of NHDC's functions; **and** For benefit, improvement or development of NHDC's area. Acquisition or development secured **without** collaboration of NHDC and other local authorities.
	Outside NHDC's district	Acceptable	Underpins or enables any of NHDC's functions; **or** For benefit, improvement or development of NHDC's area. Acquisition or development secured **without** collaboration of NHDC and other local authorities.
	Outside NHDC's district	Marginal/Not Acceptable	Limited, deferred or no underpinning/enabling of any of NHDC's functions; **or** Limited, deferred or no benefit, improvement or development of NHDC's area. Acquisition or development secured **with or without** collaboration of NHDC and other local authorities.

Table 1: Location

Points to consider:

- Location and position will influence the strength and sustainability of underlying occupational demand for property.
- Highly accessible, highly prominent property well served by amenities and infrastructure and close to complementary properties will score higher against this asset criterion than property in more peripheral positions. The former should attract a stronger and more sustained occupier demand than the latter.

Asset criterion	Category	Quality	Details
Tenant Covenant	Single tenant with strong & resilient financial strength	Excellent	Tenant Covenant strength is appraised in terms of financial strength and resilience, and risk of business failure. Credit and Company Reports and, where appropriate, references will be utilised to assess Tenant Covenant.
	Single tenant with good & resilient financial strength	Very Good	
	Multiple tenants with strong & resilient financial strength	Good	
	Multiple tenants with good & resilient financial strength	Acceptable	
	Single/Multiple tenants with average or poor financial strength	Marginal/Not Acceptable	

Table 2: Tenant Covenant

Points to consider:

- Tenant Covenant will influence the security of rental income from property.
- A tenant with a strong and resilient financial strength should mean fewer rent defaults, fewer void periods and lower associated property holding costs. A strong covenant may also support the capital value of the asset and prospects for capital appreciation, for example an anchor tenant.
- To minimise management, single tenant assets will be prioritised over multiple tenanted ones.
- *Note:* Depending on the tenant mix and quality of tenant covenants, multiple tenanted assets may provide NHDC with a better hedge against tenant default and better protection of income streams, compared to single tenant assets. However, management of multiple tenanted assets is more intensive, costly and current resources prohibit the associated increased level of management. As NHDC's property portfolio expands, cost economies may permit investment in expanding manage resource so NHDC can enjoy the superior income security of multiple tenanted assets at no significant additional management cost to single tenant assets. At this point, it may be warranted for multiple tenanted assets to be prioritised above single tenant assets, and realign with the priority given by this Strategy to security of income of assets over management. NHDC should therefore keep Table 2's ordering of categories under review and be prepared to reprioritise.
- An element of tenant covenants operating in counter-cyclical markets should ideally be considered to maximise the robustness of the occupier base and resilience of rental income stream.
- In appraising tenant covenant, consideration of options available to call on tenant guarantors should be considered.

Asset criterion	Category	Quality	Details
Building Performance	Modern or recently refurbished with nominal capex required	Excellent	Building Performance is appraised on a building's exterior and interior quality, including structural fabric, services (such as mechanical & electrical) and energy performance (such as standard of insulation or efficiency of heating systems). All relevant surveys, including Energy Performance Certificates (EPCs), will be consulted to assess Building Performance.
	Good quality with capex not likely to be required until 20 years+	Very Good	
	Good quality with capex not likely to be required until 10 years+	Good	
	Good quality with capex not likely to be required until 5 years+	Acceptable	
	Low quality, older style or non-compliant, with capex likely to be required within the next 5 years	Marginal/Not Acceptable	

Table 3: Building Performance

Points to consider:

- Buildings requiring minimal capital expenditure will help limit service charges, and necessitate fewer occupier voids and occupier inconvenience whilst essential work is carried out.

- Buildings with modern specifications and flexibility and adaptability of construction and layout will be sought. Such buildings will facilitate future-proofing to allow them to respond to fluctuating market, economic and social trends, and to offset obsolescence.

- Sustainability and occupier wellbeing will also be considered under the umbrella of Building Performance as these factors are likely to increasingly influence an asset's performance over coming years.

- Ultimately better building performance helps sustain occupier demand by tapping into key changing social and economic factors, such as demographics and e-commerce growth. In turn, this helps secure long-term rental income and reduces capital expenditure.

- Buildings that perform better in terms of energy efficiency will also assist NHDC in pursuing green environmental and climate change policies.

Asset criterion	Category	Quality	Details
Lease: Repairing Obligation	FRI or effective FRI	Excellent	The nature of the lease repairing obligation will be ascertained by thoroughly reading the lease and any associated documents that may vary or supplement the lease, e.g. deeds of variation or licences.
	IRI – landlord costs 100% recoverable	Very Good	
	IRI – landlord costs partially recoverable	Good	
	IRI – landlord costs not recoverable	Acceptable	
	Landlord responsible	Marginal/Not Acceptable	

Table 4: Lease: Repairing Obligation

Points to consider:

- A Full Repairing & Insuring (FRI) lease places the responsibility for all external and internal maintenance, repairs, decorations and insurance of a property onto the tenant. Under an FRI lease, the landlord has no repairing or insuring liability. An effective FRI lease places the same responsibilities on the tenant but the landlord carries out the works (or commissions them) and is reimbursed for the costs via a service charge levied on the tenant.

- An Internal Repairing Insuring (IRI) lease is where the tenant is responsible only for internal maintenance, repairs, decorations and insurance confined to the internal parts of the property occupied by that tenant. Under an IRI lease, the landlord is responsible for maintenance, repairs, decorations and insurance for the exterior of a property, the structure and the common parts. The landlord's costs may be recoverable from the tenant through a service charge and the arrangements will be contained in the lease. IRI leases are normally granted where buildings are in multiple occupation.

- FRI leases or effective FRI leases will be prioritised over leases that narrow the tenant's repairing obligation.

Asset criterion	Category	Quality	Details
Lease: Rent Review Mechanism	Upwards only, open market, uncapped, short hypothetical term of 5 years or less	Excellent	The nature of the lease rent review mechanism and clause(s) will be ascertained by thoroughly reading the lease and any associated documents that may vary or supplement the lease, e.g. deeds of variation or licences.
	Upwards only, open market, uncapped, hypothetical term of 5 – 7 years	Very Good	
	Upwards only, Retail (or Consumer) Price Index (RPI/CPI) linked, uncapped	Good	
	Upwards only, open market, capped, short hypothetical term of 5 years or less or Upwards only, Retail (or Consumer) Price Index (RPI/CPI) linked, capped	Acceptable	
	Upwards and downwards, open market, uncapped but collared, hypothetical term of 7 years or less	Marginal/Not Acceptable	

Table 5: Lease: Rent Review Mechanism

Points to consider:

- Assets subject to leases allowing maximum rental growth potential in line with open market growth and inflation will be favoured over those which constrain rental income growth.
- All leases should be thoroughly read before acquiring an asset, with particular focus on:
  - The hypothetical term to be assumed by lease rent review clauses. Hypothetical terms should ideally mirror the lease length demanded by the current tenant market for each property.
  - The assumptions and disregards contained in the rent review clauses. For example, if a clause assumes the property can only be used for a narrow range of uses, or disregards the buildings on the site, this is likely to suppress the rental income growth achievable at rent reviews. Such detail may also suppress the capital value of the property realisable on disposal.

Asset criterion	Category	Quality	Details
Lease: Length of Occupational Lease	20 years+	Excellent	The length of occupational lease will determine the longevity of rental income stream. Generally, the longer the term, the more secure the asset.
	Between 15 and 20 years	Very Good	
	Between 10 and 15 years	Good	
	Between 5 and 10 years	Acceptable	
	Less than 5 years or vacant	Marginal/Not Acceptable	

Table 6: Lease: Length of Occupational Lease

Points to consider:

- Assets subject to long occupational leases will be favoured by NHDC as they provide stable income over a sustained period of time to help match the long-term ongoing costs of NHDC in fulfilling its functions and providing frontline services.

- Such assets are sought after by institutional investors to match their long-term obligations to provide pension and insurance funds. Demand for these assets will therefore be intense, particularly as the availability of long-term property investment opportunities in the current property market is reducing.

- Care will need to be taken to investigate whether occupational leases contain tenant break options and the conditions for exercising those options. It is now commonplace in the current market for tenants to require breaks after 3 years or fewer years.

- Security of tenure can increase the appeal of shorter leases to property buyers. This is because, depending on market conditions, such security can command higher rents from tenants.

- However, security of tenure can be less appealing for property buyers where they intend to redevelop, convert, asset manage or otherwise materially alter a property, for example to increase rental income and/or capital value. Sitting tenants may present obstacles to those intentions being implemented. The Landlord and Tenant Act 1954, Part II, and associated case law, requires landlords to meet certain conditions before being able to terminate leases of tenants with security of tenure. Meeting such conditions and lease termination cannot be guaranteed and will involve expense and delay before landlords can implement their intentions for the property.

Asset criterion	Category	Quality	Details
Tenure	Freehold	Excellent	Freehold promotes liquidity, safety of recouping money spent on the asset, and the strength of the asset as security for borrowing. Generally, leaseholds below 80 – 90 years offer less good security for borrowing funds and are less easily assignable/marketable (poorer liquidity) than a long leasehold or freehold interest.
	Long Leasehold of 125 years+	Very Good	
	Leasehold between 100 and 125 years	Good	
	Leasehold between 50 and 100 years	Acceptable	
	Leasehold less than 50 years	Marginal/Not Acceptable	

Table 7: Tenure

Points to consider:

- Property generally appreciates in capital value over the long-term. Acquisitions of freehold, virtual freeholds or long leaseholds will help NHDC benefit from the upturns in the property/economic cycle to compensate for the downturns, and thereby help sustain its functions.

- Purchase of freeholds of properties that are mission-critical to tenants, followed by leasing back to those tenants (sale & leaseback by the tenant), should be given greater consideration for NHDC's portfolio to support the defensive nature of the portfolio's balance.

- Acquisitions should be investigated for any ground rent or other outgoings for which NHDC may be responsible following acquisition.

- If NHDC is taking on an assignment of an existing leasehold interest, the ground rent review clause may have been devised several years ago and lack clarity or commercial business sense in the modern market. Such clauses can be a source of costly and time-consuming disputes. This point should be investigated by legal advisers prior to acquisition.

- The ability to assign and sub-let leasehold interests should be investigated by legal advisers prior to acquisition. Ideally, the ability should be unfettered, i.e. assignment and sub-letting should not be subject to NHDC first having to satisfy pre-conditions or penalties, which could be costly, onerous or incur delay for NHDC. Whilst Landlord and Tenant legislation legislates against unreasonable pre-conditions and penalties, the matter still requires investigating to reduce the chances of encountering disputes.

- Similar comments apply to investigating leasehold interests for the ability to implement change of use and to apply for planning permission.

- Consider the implications of the recently introduced leases standard under International Financial Reporting Standard 16 (IFRS 16). IFRS 16 requires lessees to bring most leases onto the balance sheet from 2019.

Asset criterion	Category	Quality	Details
Lot Size	Between £3 million and £5 million	Excellent	Single acquisitions in the range of £3 million to £5 million are prudent. They will promote a proportional and balanced diversity of capital outlay spread, security of capital, and help limit management costs.
	Between £2 million and £3 million or £5 million and £7 million	Very Good	
	Between £1 million and £2 million or £7 million and £10 million	Good	
	Between £0.5 million and £1 million or £10 million and £15 million	Acceptable	
	Less than £0.5 million or Greater than £15 million	Marginal/Not Acceptable	

Table 8: Lot Size

Points to consider:

- Spending significant funds in a single high value lot carries the potential opportunity cost of preventing the pursuance of a wider range of other assets.

- Conversely, spending smaller funds in numerous smaller value lots may give rise to onerous management issues and costs.

- A balanced risk acquisition and development strategy is likely to be achieved by acquiring several lots priced at between £3 million and £5 million. Spending on this lot size will help avoid the more crowded segments of the property market, with the lower segment targeted by private wealthy individuals, and the higher segment targeted by institutional investors.

- Conflict may arise between the priority Lot Size and the requirement for a proportional property portfolio, both outlined by this Strategy. For example, acquiring an office Lot in the ideal range of £3 million and £5 million may result in a disproportional share of the portfolio being represented by the offices sector. This may create an over-reliance on the offices sector, exposing NHDC to too much risk. Lot Size should therefore not be considered in isolation; it should be considered in the context of the effect on proportionality of portfolio.

Asset criterion	Category	Quality	Details
Net Minimum Return	6.00% to 12%	Excellent	A net minimum return of 1.50% per annum above financing costs (interest and Minimum Revenue Provision) is NHDC's target net minimum rate of return. Assets producing a net minimum return of below 1.50% per annum will need to demonstrate other benefits to NHDC if they are to be considered further, e.g. supporting regeneration of towns within NHDC's district. Assets producing a net minimum return of above 12% will need to demonstrate benefits to NHDC to be considered further.
	5.00% to 5.99%	Very Good	
	3.00% to 4.99%	Good	
	1.50% to 2.99%	Acceptable	
	Less than 1.50% or Above 12%	Marginal/Not Acceptable	

Table 9: Net Minimum Return

Points to consider:

- Net Minimum Return is based on the asset income received and projected less the associated costs. Income can factor in rent concessions, for example rent-free periods. Associated costs include acquisition costs such as Stamp Duty Land Tax and professional fees, the cost of borrowing (where appropriate) and the Minimum Revenue Provision (MRP) regulatory requirements. The net figure (income received minus costs) as a proportion of the capital sum initially spent indicates the return.

- The return reflects the quality of an asset as determined by its location, tenant covenant, building performance, lease terms (including repair responsibility, rent review mechanism and length), tenure and property type/market. Generally, the lower the return, the higher the quality of an asset. In turn, a lower return indicates greater security of capital, greater security of income/growth prospects, better liquidity and easier/lower cost management of that asset.

- NHDC should carefully consider and question the rationale of property opportunities that produce a net minimum return of below 1.5%.

- Assets yielding a net minimum return of above 12% indicate that the security or payback of NHDC's capital outlay on that asset may be at risk. Such acquisitions will only be accepted by NHDC if they stand up to rigorous appraisal.

- Not all properties produce a fixed rental income. Some are subject to turnover rent leases. These often (but not always) comprise a fixed base rent as a percentage of market rental value (commonly 80%) and an additional rent linked to the tenant's turnover (over a period). The turnover rent is rarely guaranteed because it depends on the tenant achieving certain thresholds of turnover. The turnover rent will be subject to change as it will be influenced by a wide range of factors, such as the performance of the market in which the tenant operates. Further, obtaining a full, accurate and verifiable record of a tenant's turnover may be difficult. Further still, disputes may arise between landlord and tenant, especially if the lease is not explicit or contains ambiguity as to how the turnover rent is defined or the triggers for its implementation.

- Turnover rent leases could therefore expose NHDC to uncertainty of income stream and be management intensive. Being a function of income level and security, yield can be significantly influenced by turnover rent leases. In appraising the net minimum return of a property opportunity that is subject to a turnover rent lease, NHDC must bear in mind that the return applicable at purchase may not give a reliable indication of the asset's long-term quality. Such properties are particularly vulnerable to returns changing in a short space of time. The income uncertainty and management cost need factoring in to the return assessment.

- In assessing return or the purchase price to pay for properties that are subject to turnover rent leases, NHDC could adopt several approaches. For example, erring on the side of caution, NHDC may disregard the turnover element and solely consider the base rent. Alternatively, NHDC may take a more risky approach by assuming or forecasting an average turnover rent achievable, perhaps based on past turnover trends achieved by the tenant. The assessment must be adapted on a case-by-case basis. It will depend on factors specific to each property, particularly tenant covenant.

- In assessing return or purchase price, consideration should also be made to other factors affecting income security and growth prospects. Examples are tenant break clauses and rent concessions, such as rent-free periods.

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APPENDIX 3:

Scoring Matrix

Asset criteria	Weighted Score	Excellent	Very Good	Good	Acceptable	Marginal / Not Acceptable
		5	4	3	2	1
Location	**10**	Inside NHDC's district *(see details in Appendix 2)*	Outside NHDC's district *(see details in Appendix 2)*	Outside NHDC's district *(see details in Appendix 2)*	Outside NHDC's district *(see details in Appendix 2)*	Outside NHDC's district *(see details in Appendix 2)*
Tenant Covenant	**10**	Single tenant with strong & resilient financial strength	Single tenant with good & resilient financial strength	Multiple tenants with strong & resilient financial strength	Multiple tenants with good & resilient financial strength	Single/Multiple tenants with average or poor financial strength
Building Performance	**6**	Modern or recently refurbished with nominal capex required	Good quality with capex not likely to be required until 20 years+	Good quality with capex not likely to be required until 10 years+	Good quality with capex not likely to be required until 5 years+	Low quality, older style or non-compliant with capex likely to be required within the next 5 years
Lease: Repairing Obligation	**6**	FRI or effective FRI	IRI – landlord costs 100% recoverable	IRI – landlord costs partially recoverable	IRI – landlord costs not recoverable	Landlord responsible
Lease: Rent Review Mechanism	**7**	Upwards only, open market, uncapped, short hypothetical term of 5 years or less	Upwards only, open market, uncapped, hypothetical term of 5 – 7 years	Upwards only, Retail (or Consumer) Price Index (RPI/CPI) linked, uncapped	Upwards only, open market, capped, short hypothetical term of 5 years or less or Upwards only, Retail (or Consumer) Price Index (RPI/CPI) linked, capped	Upwards and downwards, open market, uncapped but collared, hypothetical term of 7 years or less
Lease: Length of Occupational Lease	**9**	20 years+	Between 15 and 20 years	Between 10 and 15 years	Between 5 and 10 years	Less than 5 years or vacant
Tenure	**6**	Freehold	Long Leasehold of 125 years+	Leasehold between 100 and 125 years	Leasehold between 50 and 100 years	Leasehold less than 50 years
Lot Size	**5**	Between £3 million and £5 million	Between £2 million and £3 million or £5 million and £7 million	Between £1 million and £2 million or £7 million and £10 million	Between £0.5 million and £1 million or £10 million and £15 million	Less than £0.5 million or Greater than £15 million
Net Minimum Return	**10**	6.00% to 12%	5.00% to 5.99%	3.00% to 4.99%	1.50% to 2.99%	Less than 1.50% or Above 12%
MAXIMUM WEIGHTED SCORE:		**345**	**276**	**207**	**138**	**69**
THRESHOLD SCORE WEIGHTING SET @ 207						

Scoring Matrix

APPENDIX 4:

Statutory Powers & Provisions

Statutory Powers & Provisions

NHDC must identify and deploy the correct statutory power(s) to pursue a property acquisition or development opportunity. The primary Acts of Parliament and their provisions acknowledged by the Property Acquisition & Development Strategy are outlined in this Appendix.

Section 111 Local Government Act 1972:

- Provides that without prejudice to any powers exercisable apart from this section but subject to the provisions of this Act and any other enactment passed before or after this Act, a local authority shall have power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions.

Section 120 Local Government Act 1972:

- Permits NHDC, as a local authority, to acquire land (including buildings) by agreement for the purposes of:

    - any of their functions under this or any other enactment, or
    - the benefit, improvement or development of their area,

  whether situated inside or outside NHDC's area.

- Where two or more councils acting together would have power to acquire any land (including buildings) by agreement by virtue of this section, one of those councils is permitted to acquire the land on behalf of both or all of them in accordance with arrangements made between them, including arrangements as to the subsequent occupation and use of the land.

Section 1 Localism Act 2011:

- Confers on local authorities a general power of competence:

    - a local authority has power to do anything that individuals generally may do.

    - to do it in any way whatever, including:

        - power to do it anywhere in the United Kingdom or elsewhere,

        - power to do it for a commercial purpose or otherwise for a charge, or without charge, and

        - power to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.

Section 4 Localism Act 2011:

- Set outs limits on doing things for commercial purpose in exercise of general power:
    - The general power confers power on a local authority to do things for a commercial purpose only if they are things which the authority may, in exercise of the general power, do otherwise than for a commercial purpose.
    - Where, in exercise of the general power, a local authority does things for a commercial purpose, the authority must do them through a company.
- Defines "company" as:
    - a company within the meaning given by section 1(1) of the Companies Act 2006, or
    - a society registered or deemed to be registered under the Co-operative and Community Benefit Societies and Credit Unions Act 1965 or the Industrial and Provident Societies Act (Northern Ireland) 1969.

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COUNCIL
6 FEBRUARY 2020

PART 1 – PUBLIC DOCUMENT

ITEM 6B

ITEM REFERRED FROM CABINET: 28 JANUARY 2020 – REVENUE BUDGET 2020-2021

Extract from the draft minutes of the Cabinet meeting held on 28 January 2020

The Executive Member for Finance and IT presented the addendum report entitled Revenue Budget 2020/21 together with the following appendices:

- Appendix A - Financial Risks;
- Appendix B - Savings and Investments;
- Appendix C - General Fund Estimates;
- Appendix C - General Fund Estimates (addendum).

The Leader of the Council introduced the referral from the Finance, Audit and Risk Committee meeting held on 20 January 2020 regarding the Revenue Budget and drew attention to the recommendations to Cabinet.

The following Member took part in the debate:

- Councillor Sam North.

RESOLVED:

(1) That the decrease in the 2019/20 working budget of £187K, as detailed in table 6 be approved:

(2) That the carry-forward of £88K of budget into 2020/21, as detailed in table 6 be approved.

RECOMMENDED TO COUNCIL:

(1) That the transfers from reserves to the General Fund as detailed in 8.4.3 to 8.4.4 be approved:

(2) That the forecast savings target for future years be noted and the approach to balancing the budget, as detailed at Paragraph 8.9.4 be confirmed;

(3) That the position on the Collection Fund and how it will be funded be noted:

(4) That the position relating to the General fund balance and that due to the risks identified a minimum balance of £2.45 million is recommended be noted;

(5) That the saving and investments as detailed in Appendix B be approved;

(6) That a net expenditure budget of £15.124m, as detailed in Appendix C be approved;

(7) That a Council Tax increase of £5 for 2020/21 for a band D property, with other increases pro rata for this (as per the Medium Term Strategy) be approved.

REASON FOR DECISIONS:

(1) To ensure that all the relevant factors are taken into consideration when arriving at the proposed Council Tax precept for 2020/21;

(2) To ensure that Cabinet recommends a balanced budget to Full Council on 6 February 2020.

(Take with Item 8)

COUNCIL
6 FEBRUARY 2020

PART 1 – PUBLIC DOCUMENT

ITEM 6C

ITEM REFERRED FROM CABINET: 28 JANUARY 2020 – INVESTMENT STRATEGY

Extract from the draft Minutes of the Cabinet meeting held on 28 January 2020

The Executive Member for Finance and IT presented the report entitled Investment Strategy (Integrated Capital and Treasury) together with the following appendices:

- Appendix A - Investment Strategy;
- Appendix A1- Full Capital Programme;
- Appendix A2- New Capital Schemes.

RECOMMENDED TO COUNCIL:

(1) That the Investment Strategy (as attached at Appendix A), including the capital programme and prudential indicators be adopted:

(2) That the four clauses in relation to the Code of Practice on Treasury management (as detailed in paragraphs 8.11 to 8.16) be adopted.

REASONS FOR DECISIONS:

(1) To ensure that the capital programme meets the Council's objectives and officers can plan the implementation of the approved schemes;

(2) To ensure the Council's compliance with CIPFA's code of practice on Treasury Management, the Local Government Act 2003, statutory guidance from the Ministry of Housing, Communities and Local Government and the CIPFA Prudential Code. As well as determining and managing the Councils risk appetite in respect of investments.

(Take with Item 9)

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