

Report subject	Capital Investment Strategy (Non-Treasury) 2020-2025
Meeting date	18 March 2020
Status	Public Report
Executive summary	<p>The Bournemouth, Christchurch & Poole Capital Investment Strategy (Non -Treasury) 2019-2022 (CIS) was approved by the Shadow Authority Executive Committee on 12 February 2019 prior to the creation of BCP Council on 1 April 2019.</p> <p>The revised strategy has been updated to reflect the new Corporate Strategy and investment ambition of Bournemouth Christchurch and Poole (BCP) Council.</p> <p>The strategy sets out the basis by which the Council wishes to assemble and hold a portfolio of investments assets that reflect its values and priorities in order to;</p> <ul style="list-style-type: none"> • promote the financial health of the organisation by generating a target return across the portfolio; • make a positive contribution to the current or future delivery of services, in terms of scope, quality or cost; • contribute towards a Sustainable Environment; • deliver socio-economic benefits to the town; and/or • create Dynamic Places through strategic regeneration or redevelopment opportunities. <p>It provides a means of developing alternative sources of income to offset cuts to Council spending arising as a consequence of the Government's austerity programme and to provide a degree of protection to frontline services.</p> <p>The CIS approved by the Shadow Authority referenced not only investment assets but other legacy authority assets which generated an income such as finance leases and ground rents, however these will fall within the business as usual estate management remit of the Council and will be managed in accordance with the BCP Council Corporate Asset Management Plan.</p> <p>The investment portfolio has therefore been realigned to consist of only the key assets acquired or held solely for investment purposes</p>

	<p>and includes legacy Bournemouth, Christchurch & Poole assets and it is appropriate to provide an updated financial projection.</p> <p>A financial appraisal attached in Appendix B focuses on the current position in relation to the two largest multi-tenanted investments within the portfolio, Mallard Road Retail Park and Wessex Trade Centre.</p>
Recommendations	<p>That Cabinet:</p> <p>Approves the Capital Investment Strategy (Non-Treasury) 2020-2025 attached to this Report at Appendix A.</p>
Reason for recommendations	<p>The purchase of investment assets assists with the management of sound finances and increases the Council asset base, providing a legacy for future generations.</p> <p>It is appropriate that this Strategy is refreshed to ensure it aligns with the new BCP Council Corporate Strategy and reflects the current investment ambitions of the organisation.</p>
Portfolio Holder(s):	Cllr Mark Howell, Deputy Leader and Portfolio Holder for Regeneration and Culture and Cllr David Brown, Finance
Corporate Director	Bill Cotton, Corporate Director of Regeneration and Economy
Report Authors	Sarah Longthorpe, Strategic Projects and Investment Manager
Wards	Council-wide
Classification	For Decision

Background

1. Bournemouth Borough Council and Borough of Poole Council had separate Investment Strategies as part of their Corporate Asset Management plans. Christchurch Borough Council had neither an Investment Strategy nor Corporate Asset Management Plan.
2. Pending Local Government Reorganisation (LGR) a BCP Capital Investment Strategy 2019-2022 (Non-Treasury) known as the CIS, was drafted to align the legacy authorities investment criteria and ambition. This was approved by the Shadow Executive Committee on 12 February 2019 as part of the approval for the Shadow Authority's MTFP 2019-2021 and Budget 2019/20.

3. This strategy has now been revised to reflect BCP Council's investment ambition and the objectives of the Corporate Strategy and is intended to cover the period from 2020 -2025.
4. A copy of the proposed revised Capital Investment Strategy (Non-Treasury) 2020-2025 is attached at Appendix A.
5. This strategy should be viewed in the context of the Council's Corporate existing fixed asset base, which had a combined value of £794.2 million as at 31 March 2019, this includes legacy Council investment assets. The new BCP Corporate Asset Management Plan will provide the framework for the management of the Corporate Estate with decisions taken in accordance with the Councils financial regulations.
6. The CIS focuses on investment assets only, not the wider Corporate Estate portfolio and builds on the effective asset management arrangements that have been embedded by the legacy Councils through the adoption of the Corporate Property Strategy and Asset Management Plans, and follows the guidance provided by both Chartered Institute of Public Finance and Accountancy (CIPFA) and the Royal Institution of Chartered Surveyors (RICS).
7. The previous CIS approved by the Shadow Authority referenced other legacy authority assets which generated an income such as finance leases and ground rents. Each legacy authority viewed what constituted an investment asset slightly differently and for consistency purposes these will now fall within the business as usual estate management remit of the Council and will be managed in accordance with the BCP Council Corporate Asset Management Plan.
8. As a result the Investment Portfolio has been realigned to consist of only the key assets acquired or held solely for investment purposes and includes legacy Bournemouth, Christchurch & Poole assets. Assets within the portfolio will be reviewed regularly to determine the suitability of their inclusion. The current investment portfolio is detailed by value and sector in Appendix 1 of the CIS.
9. There are two sections to the CIS;
Section 1 – Property Investment (Commercial & Residential)
Section 2 – Property Development
10. Section 1 deals with commercial and residential property investment as an integral part of the Council's asset management function and is aligned with the medium term financial planning of the Council which requires the Council to diversify the revenue base by securing alternative sources of income to better support the budget position. The financial objectives are only part of the rationale for acquiring investment property assets. An acquisition should also support other key corporate plan objectives such as economic development or regeneration.
11. Section 1 also supports the early delivery of the Council's strategic housing ambitions through the acquisition of a portfolio of private rented sector residential properties. The Strategy will only apply to the Council's General Fund, with the Housing Revenue Account (HRA) assets being managed separately.
12. Section 2 covers circumstances where the Council purchases investment development opportunities which give the Council ownership of land or buildings in support of the delivery of the Council's strategic aims and objectives.

13. Both sections of the CIS share a commonality of purpose but the principles and risk profile under which they each operate are different and will be explored separately under each section.
14. An Investment Panel acting in an advisory capacity only will consider investment opportunities in accordance with this strategy. It is proposed the panel consist of the Chief Executive, Section 151 Officer, Monitoring Officer, Corporate Property Officer (currently the Chief Executive), Director for Regeneration and Economy, Director Development and be attended by the Leader of the Council, Deputy Leader of the Council and the Cabinet Members with the responsibility for Corporate Estates and Finance, or their nominated substitutes. Other officers may attend at the invitation of the Chair.
15. The Investment Panel will be chaired by the Chief Executive.
16. When considering investment or disposal opportunities, the Investment Panel will adopt a triple bottom line evaluation approach to consider the economic, social and environmental impacts. These impacts will be considered as part of the overall business case to ensure opportunities contribute towards a sustainable environment and deliver socio-economic benefits to the conurbation. This evaluation method will also assist the Council to identify any human resources, equality, sustainability and public health implications.
17. This evaluation will form part of the overall business case presented for consideration when the necessary approvals are sought.
18. The Investment Panel was consulted on this Strategy at their meeting on 7th February 2020 and approved its content.

Options Appraisal

19. To not approve the Strategy. The Council could continue to rely on the use of the existing strategy approved by the Shadow Authority, however this would not align with the objectives of the new Corporate Strategy and does not match the ambitions and aspirations of the new council.

Summary of financial implications

20. The principle of investment in all types of property assets is to ensure investment is undertaken prudently at all times. Each acquisition including the funding strategy will be considered on a case by case basis and will be subject to separate Corporate Property Offer, Cabinet or Council approvals in accordance with the Financial Regulations.
21. As per item 14, opportunities for acquisition or disposal will be recommended by the Investment Panel based on consideration of the economic impacts such as the projected income costs and resulting contributions to the MTFP, the debt profile and the risk profile as well as the social and environmental impact.
22. All decisions to acquire or dispose of investment assets will be made in accordance with the Financial Regulations of the Council.
23. The existing CIS included appropriate provision for voids and bad debts. The amendments to this strategy leave these arrangements unchanged. The Investment Panel is responsible for making recommendations on the level of this provision.

24. The CIS is consistent with the Council's ambitions. However, it should be acknowledged that innovative and enterprising approaches are not without risk. These risks will need to be fully appraised via the due diligence process outlined in the CIS before any transactions are concluded.
25. The CIS is fully compliant with 2018 Ministry of Housing, Communities and Local Government (MHCLG) Investment guidance, including investment indicators and the CIPFA Prudential Code as outlined in Appendix 5 Financial Overview and Indicators of the CIS.
26. It is recognised that each legacy Council reported on the performance of their individual Investment portfolios, focusing on their individual high value multi-tenanted investments and it is therefore now appropriate to provide an update in relation to the realigned BCP Investment portfolio. The two key multi tenanted investments within the Portfolio are Mallard Road Retail Park and Wessex Trade Centre. A financial appraisal in Appendix B outlines the position as at 31 December 2019 in relation to these assets.

Summary of legal implications

27. Various statutory powers exist which enable a local authority to acquire property, or interests in property, including for the purposes of investment. These powers include specific treasury management powers relating to investment, for which specific Guidance exists, and wider powers to invest for the purposes of regeneration and creation of economic growth for example. In addition, the Localism Act 2011 provides a general power of competence enabling local authorities to undertake activities for which a specific power may not have previously existed.
28. Specific legal advice will be considered in respect of each proposed investment as the legal implications of each proposal will be different. The proposed governance structure ensures that legal officers will be engaged in the process and that decision making will be in accordance with the legal and constitutional requirements.

Summary of human resources implications

29. There are no human resource implications associated with the approval of this strategy.
30. The Investment Panel governance structure outlined in section 4 of the CIS remains unchanged.

Summary of sustainability impact

31. The Council has signed up to the climate change emergency and as such it is critical that decision makers consider the sustainability and environmental impact of their decision. An Environmental Impact Assessment will be completed for each investment proposal and reported on a case by case basis.

Summary of public health implications

32. The public health implications of each investment proposal will be considered and reported on a case by case basis.

Summary of equality implications

33. An Equality Impact Needs Screening Tool has been completed and this shows that there is no direct impact in terms of equalities in updating the CIS. Indirectly,

however, it is likely to have a positive effect as income from investment assets will be used to underpin essential services, often provided to the most vulnerable in the BCP area. There may also be a positive impact if future investments deliver non-financial, socio economic benefits. An equality assessment will be undertaken for each investment opportunity and any such benefits will be detailed in future Cabinet reports considering such investment proposals.

Summary of risk assessment

34. An initial risk assessment has been completed and shows the principles set out in the CIS to be high risk. This is principally due to the large sums of money involved with implementing the strategy and the risk of adverse media coverage. The specific risks associated with investing in property are documented within Appendix 4 of the CIS, along with the arrangements to monitor and manage that risk.
35. The strategy envisages a degree of flexibility in the Council's appetite for risk to enable the Investment Panel to consider assets with a higher risk/reward profile where these are balanced by secure income flows elsewhere in the portfolio. At all times the Panel will need to ensure that the blended risk profile over the portfolio falls within prudent limits.
36. It should be noted that there is the potential for considerable reputational risk if investments under-perform. In an extreme case, an individual asset could produce a shortfall of income compared to the Council's borrowing costs and be a financial drain on the council's revenue budgets. There is also a financial risk since this could impact on the Council's credit rating, meaning that future borrowing becomes more expensive. Whilst the Investment Panel will need to ensure full financial due diligence is completed on individual investment proposals and be as certain as it can be about the merits of its recommendations, it is not possible to eliminate these risks entirely. However, the risk is mitigated through a larger portfolio, where any under-performing assets will generally be balanced against those performing well, so that the overall returns from the portfolio make a positive contribution to the council's Medium Term Financial Plan (MTFP).
37. There is a risk of adverse media coverage since there may be a perception that the Council is diverting financial resources away from direct service provision. However, using prudential borrowing to support asset investments does not affect the Council's ability to progress other projects so long as these asset investments are, overall, entirely self-financing. It will also have a positive impact on the MTFP. This risk will be mitigated by press releases explaining the strategy of the Council and the resulting benefits of the investment.
38. The investment portfolio will need to be managed effectively in a commercial environment by reacting quickly to secure opportunities and deliver services that meet the expectations of tenants. Dedicated staff with commercial experience are critical to mitigating this risk.

Background papers

MTFP 2019-2021 and Budget 2019/20 which includes the Capital Investment Strategy 2019-2022 approved by the Shadow Executive Committee.

<https://democracy.bcpCouncil.gov.uk/mgAi.aspx?ID=478#mgDocuments>

Appendices

Appendix A - Capital Investment Strategy (Non-Treasury) 2020-2025

Appendix B - Investment Portfolio Summary Financial Appraisal