

Executive Decision Report

Investment Opportunities

Decision to be taken by: City Mayor

Executive date: 12th January 2017

Overview Select Committee: 2nd February 2017

Lead director: Director of Finance



City Mayor

Useful Information

- Ward(s) affected:
- Report author: Mark Noble
- Author contact details: 0116 454 4041
- Report version number:

1. **Summary**

- 1.1 The purpose of this report is to propose new ways to invest in local property based projects.
- 1.2 These may help achieve better returns than we receive on cash balances, albeit with greater risk attached.
- 1.3 Any additional income will help the Council's revenue budget.

2. **Recommendations**

- 2.1 It is recommended that the Executive sets out its intention to invest up to:-
 - (a) £10m on investment property;
 - (b) £20m on "new opportunities".
- 2.2 Overview Select Committee is asked to comment as it wishes.

3. **Supporting Information including options considered**

- 3.1 The current low interest environment provides an opportunity to consider how we might invest funds to secure better returns, or to purchase appreciating assets. Such a policy would help balance the Council's overwhelming reliance on cash deposits to generate investment income.
- 3.2 A number of authorities are considering (or have undertaken) investments in commercial property, borrowing money at current record low interest rates. This option is open to us, although it is unlikely we would need to borrow money due to our high level of cash balances. Members are reminded that these cash balances are not the same thing as the Council's reserves, and we will not be spending reserves (unless investments fail to make money).
- 3.3 The Council's proposed treasury strategy (elsewhere on your agenda) will authorise the investment of up to £15m in the Local Authority Property Fund,

which is a professionally managed, pooled fund. We plan to invest £10m in this fund, on a phased basis.

- 3.4 The Council's treasury strategy also sets £20m aside for the existing Local Investment Fund. This is seen as a means of supporting the local economy whilst (hopefully) also securing better returns than the 0.5% we currently earn on our cash balances. Types of investment which might be suitable are:-
- (a) Acquisition of commercial or industrial property;
 - (b) Construction or development of commercial or industrial property;
 - (c) Construction or development of non HRA housing;
 - (d) Acquisition of land for development;
 - (e) Infrastructure provision at key development sites;
 - (f) Loans to businesses.
- 3.5 The Enterprising Leicester Investment Fund has been formally approved under this framework, and is operational. An investment of £4m to create new office space, which will be leased to Hastings Insurance, has been made from within the £20m, and other proposals are being considered.
- 3.6 This paper proposes two additional routes for investment in property, both of which seek to enable the Council to take opportunities which present themselves.
- 3.7 While such investment will hopefully achieve higher returns than are currently available on our cash investments, they inevitably carry a higher degree of risk. It is intended that a report to the City Mayor will be prepared for any individual proposed investment, and the risk of each explained.
- 3.8 In practice, this report is simply a framework document. It is not seeking approval to set up funds or make individual investments. These will be approved on a case by case basis. However, a framework serves a valuable purpose in setting out our aims and ambitions.

4. Investment Property

- 4.1 It is proposed to invest up to £10m in commercial property.
- 4.2 This would support development of the traditional corporate estate fund, by identifying properties on the market (potentially at auction) where financial returns can be made, and potentially regeneration benefits obtained.
- 4.3 As part of the investment property spending review, under-achieving assets are likely to be proposed for sale, with the proceeds reinvested in better

quality assets which support a more balanced portfolio. This proposal can be seen as complementing that approach.

4.4 The criteria to be considered when selecting investments are:-

- (a) Expected return;
- (b) Security of income (e.g. good existing tenants or strong market demand);
- (c) Potential for capital appreciation;
- (d) Fit with target portfolio for Council's commercial property holding.

4.5 It is expected that any property acquired will be managed by Property Services along with the portfolio as a whole.

5. New Opportunities

5.1 It is proposed to invest up to £20m in "new opportunities".

5.2 The aims of this investment are wider than the investment property proposals and seek to take advantage of any opportunities which present themselves to invest in the city and secure a return. Unlike the investment property proposal, it is proposed that the Council's investment will also be expected to secure economic development benefit for the city (apart from commercial property, where there is a long tradition, we would not want to invest in local economic projects for no reason other than a financial return).

5.3 Opportunities might include:-

- (a) Taking a stake in development of commercial property which meets a wider need in the city (e.g. high grade offices or a hotel);
- (b) Acquisition of income earning assets (on a case by case basis) that do not fit readily into the commercial property portfolio.

5.4 There is a degree of overlap between this proposal and the local investment fund, but the focus here is more on responding to opportunities where we can get involved for a return, rather than the much more managed process envisaged by the local investment fund.

5.5 Assessment of opportunities would need to consider:-

- (a) Expected returns on investment;
- (b) Lease conditions;

- (c) Risk (although to some extent keeping all our balances in cash is also a risk);
- (d) Extent of exposure to sectoral risk (e.g. too much money invested in a category which is likely to succeed or fail together);
- (e) Expertise available to manage the investment;
- (f) Options to mitigate risk, such as repaying capital from the income generated;
- (g) Contribution to regeneration objectives.

6. Administrative Considerations

- 6.1 It is envisaged that any proposals to make an investment would be based on a formal decision of the City Mayor in the normal manner, supported by a report (which will include any specialist and financial advice required).
- 6.2 Individual investments would constitute capital expenditure. Under the current delegations to the City Mayor, a maximum of £10m can be authorised on any individual scheme – more than this requires a Council decision.

7. Financial, Legal and other Implications

Financial Implications

- 7.1 This report proposes investment in property assets. While the aim would be to make a return, the possibility of investments losing value needs also to be considered in each case.
- 7.2 Investment in property will be capital expenditure, and hence needs to be financed.
- 7.3 For accounting purposes, funding will be by means of prudential borrowing. This will result in a revenue cost: a charge for interest, and a charge in respect of debt repayment (“Minimum Revenue Provision” or MRP). The Council’s MRP policy is flexible enough to set MRP cost against income arising from an investment (or capital receipt, if an asset is being held for sale).
- 7.4 By financing the expenditure in this way, any loss of value need not be accounted for as an immediate charge to the revenue budget. We would keep paying the MRP and interest. However, clearly income may by this stage be insufficient to meet the cost.
- 7.5 The accounting treatment of each investment will need to be dealt with in the report seeking approval, on a case by case basis.

- 7.6 Whilst the investment will be funded by prudential borrowing, because the Council holds high levels of cash balances it is highly unlikely that any actual borrowing will be required. The interest cost is therefore the interest foregone on our investments (circa 0.5%).

Legal Implications (Kamal Adatia)

- 7.7 The Council has the legal power to make these investments. Case-by-case Executive decision making will be the mechanism by which to make specific investments. Decisions are likely to be “key” in accordance with Article 6 of the constitution, and such decisions will have to be referenced in the plan of key decisions. There exist “general exception” and “special urgency” provisions, if needed, in Part 4B Rules 15 and 16 of the constitution where decisions need to be taken quickly. Commercial sensitivity will also have to be considered on a case by case basis, as will the amenability of decisions to “call-in”.

8. Background Information and other papers

9. Summary of Appendices

None.

10. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)

Yes/No.

11. Is this a “key decision”?

No – individual investments may constitute key decisions.