



LATE REPORTS

Cabinet

Tuesday, 15 January 2019

The following reports were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
6	1 - 10	BUDGET & POLICY FRAMEWORK UPDATE 2019-23	Availability of information	Dan Bates

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
7	11 - 24	PROPOSED GOVERNANCE ARRANGEMENTS FOR INVESTMENT STRATEGY	Consultation on 11 January 2019	David Brown

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
8	25 - 50	DETAILED INVESTMENT STRATEGY PROPOSALS	Consultation on 11 January 2019	Dan Bates

CABINET

Budget and Policy Framework Update 2019/20 to 2023/24 15 January 2019

Report of Interim Head of Financial Services

PURPOSE OF REPORT			
This report provides an update on the Council's budget strategy for 2019/20 and financial outlook up to 2023/24. Specifically, the report considers the budget and council tax proposals for 2019/20.			
Key Decision	X	Non-Key Decision	Referral from Officer
Date of notice of forthcoming key decision	17 December 2018		
This report is public.			

OFFICER RECOMMENDATIONS:

1. That Cabinet make recommendations to Council regarding the Lancaster City Council element of the Council Tax as set out in paragraph 3.4 (option one) of this report which is a 2.99% increase.
2. That Cabinet makes recommendations regarding its initial budget proposals as set out in paragraph 4.3 and appendix one of this report.
3. That the recommendations and proposals in this report be referred to Council on 30 January for initial consideration as well as being presented for scrutiny by Budget and Performance Panel on 22 January, in order that any feedback can be provided to Cabinet at its 12 February meeting.

1 INTRODUCTION

- 1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council's consideration.
- 1.2 The Cabinet meeting on 4 December considered updated estimates with respect to government funding and council tax and the corresponding impact on the revenue budget gap as well as a timetable for completing the budget for 2019/20 and the Medium Term Financial Strategy for 2019/20 to 2023/24. Since that report the Government has released the Provisional Local Government Finance Settlement

and a number of informal meetings have been held between officers and members to consider specific revenue budget proposals for 2019/20.

1.3 This report sets out:

- An update to the estimates in respect of Council funding including Revenues Support Grant, Retained Business Rates, New Homes Bonus following on from the release of the provisional local government finance settlement and the corresponding impact on the budget gap. (section 2)
- Consideration of options for setting the Council's element of the council tax for 2019/20. (section 3)
- A summary of the proposals for achieving a balanced revenue budget for 2019/20. (section 4)
- An update on the work undertaken in respect of the capital programme for 2019/20 and a longer term Capital Strategy. (section 5)
- An update on the development of a Medium Term Financial Strategy which will secure the long term financial resilience of the authority and identify resources to meet the Council's ambitions for the next five years. (section 6)

2 FUNDING UPDATE

2.1 The Council's net revenue expenditure is funded from the following sources:

- Settlement Funding Assessment which is divided into Revenue Support Grant and Localised Business Rates
- New Homes Bonus
- Council Tax

2.2 The Government released the provisional local government finance settlement on 13 December 2018. Next year, 2019/20, is the final year of the Government's four year settlement. A summary of the provisional settlement for Lancaster City Council is provided in table one below.

Table One – Provisional Settlement allocations for Lancaster City Council

	Provisional Settlement	LCC Forecast	Difference	Note
Settlement Funding Assessment	5,844,480	5,844,480	0	i
New Homes Bonus	1,671,662	1,650,100	21,562	
Levy Account Surplus Return	86,600	0	86,600	ii
Total Government Funding	7,602,742	7,494,580	108,162	

Notes

- (i) *Settlement Funding Assessment is made up of Revenues Support Grant (£199,691) and retained rates (£5,644,789).*
- (ii) *The levy account surplus return is a 'one-off' return of surplus resources to local government reflecting the monies which the Government has received from levying rates growth which exceed the amounts they have paid out in respect of business rates safety net payments.*

- 2.3 As table one shows, the provisional settlement allocates £108k more resources than anticipated and this effectively reduces the gap for the 2019/20 revenue budget, as reported to 4 December Cabinet, from £895k to £787k. This revised gap was the effective starting point for the budget considerations.
- 2.4 The Government is currently undertaking a Fair Funding review which will look at how Government Funding is distributed from 2020/21 onwards. Although the Government has not yet released definitive control totals for local government funding from 2020/21, the Treasury's 2018 budget indicated modest planned increases in public spending. However, significant increases in NHS and defence spending are likely to mean that local government might expect a 'cash flat' settlement. Furthermore, it is probable that district councils will receive a decreased share of available funding as social care pressures are prioritised over other areas of local government expenditure.

3 COUNCIL TAX

- 3.1 As part of the provisional finance settlement, the Government published its referendum criteria for council tax. As expected district councils will be permitted to raise their council tax by 2.99% of £5, whichever is higher, without reference to a referendum. Table two below considers the following two options for council tax:

- Option one – an annual 2.99% increase in council tax
- Option two – no increase in council tax

Year	Taxbase (% Annual Increase)	Option One: Annual 2.99% increase in Council Tax		Option Two: No annual increase in Council Tax		Additional Income from 2.99% increase
		Band D	Income	Band D	Income	
2018/19	41,200 (2.23%)	220.36	9,078,832	220.36	9,078,832	0
2019/20	41,400 (0.49%)	226.95	9,395,679	226.95	9,122,904	272,826
2020/21	41,814 (1.00%)	233.73	9,773,376	233.73	9,214,133	559,471
2021/22	42,232 (1.00%)	240.72	10,166,256	240.72	9,306,244	860,266
2022/23	42,654 (1.00%)	247.92	10,574,929	247.92	9,399,235	1,175,971
2023/24	43,081 (1.00%)	255.33	11,000,031	255.33	9,493,329	1,506,973

- 3.2 The budget proposals have assumed an increase of 2.99% in Council Tax. This will raise an additional £272,826. An additional £44,072 will be raised from an increase in the number of properties in the district. The table above also shows the difference, in terms of income, between a 2.99% tax increase and no increase which, over five years, amounts to an additional £1.5m in income if option one, an annual 2.99% increase, is adopted.
- 3.3 Taxbase growth of 0.49% in 2019/20 is lower than was forecast in the MTFS. This has resulted in an additional net budget pressure of £91k.
- 3.3 **The recommendation arising from this report is that the Council on 29 January 2019 agree a 2.99% increase (option one) to level of 2019/20 council tax for the Lancaster City Council element of council tax.** This translates to an annual

increase of £6.59 on a Band D property. It is also recommended that option one is selected for the purposes of completing estimates in the Medium Term Financial Strategy.

4 BUDGET PROPOSALS

4.1 The December Cabinet report set the approach for considering proposals for a balanced revenue budget for 2019/20. Since the report, a number of informal meetings were held with the Cabinet to develop proposals. Additionally, emerging proposals and detailed information on growth bids and savings plans have been discussed with all three political groups. All Councillors received, before Christmas, a pack of information containing growth bids and savings plan proposals.

4.2 Proposals for closing the budget gap of £787k are shown in table three below and are provided in more detail in appendix one.

Table Three Cabinet's Revenue Budget Proposals – 2019/20

	From MTFS	Proposed Changes	Budget Proposal
General Fund Revenue Budget	16,664	-653	16,011
<i>Funded by:</i>			
Revenue Support Grant	-200		-200
Net Business Rates Income	-6,328	-87	-6,415
Council Tax Requirement	-9,487	91	-9,396
Total Funding	-16,015	4	-16,011
Deficit for 2019/20	649	-649	0

Changes

Lower Council Tax Income than forecast in MTFS	91	Slow down in property growth
Levy Account Surplus Return (see para. 2.2)	-87	See para 2.2
Lower NHB than forecast in MTFS	133	Slow down in property growth
Non staff savings	-855	} See appendix one
Planned staff savings	-240	
Reduced income	131	
Staff growth	142	
Non staff growth	36	
Growth funded by reserves	360	
Contributions from reserves	-360	
Budget Gap	0	

4.3 The proposals set out in the table above produce a balanced revenue budget for 2019/20, which forms part of the recommendations of this report. If Cabinet agree the proposal, then it will go forward to the Budget Scrutiny Panel on 22 January 2019 and to Council on 30 January 2019 and then form part of the Budget and MTFS report to the Budget Council Meeting on 27 February 2019.

5 CAPITAL PROGRAMME

- 5.1 A full review of the General Fund Capital Programme has been undertaken, at officer level, covering both schemes within the existing programme and new capital project proposals.
- 5.2 Officers have put together summary business cases for all new capital bids, which looked at outcomes, risks and link to the Council's corporate ambitions. Schemes were appraised by officers using a scoring matrix which took into consideration:
- Statutory and regulatory background
 - Contextual fit against the four key corporate priorities
 - Contribution to the key principles of the 'Funding the Future' Strategy
 - Risk profile
 - Impact of project outcomes on key stakeholders

The results of this exercise are shown at appendix two.

- 5.2 The scores in appendix two are indicative only in order to give members an initial relative assessment of the strength of each bid. A low score might indicate a bid which is not yet fully complete. In some cases, low scoring bids have been returned to their sponsor to seek more information which might enable a higher score to be assessed.
- 5.3 It is proposed to undertake some informal sessions with Cabinet in order to more closely consider the capital programme for 2019/20 and a Capital Strategy to cover the next five years and beyond prior to bringing specific recommendations to the February Cabinet ahead of the Budget Setting Council on 27 February 2019.

6. MEDIUM TERM FINANCIAL STRATEGY

- 6.1 The revision of the Medium Term Financial Strategy is progressing well and will be considered at the Budget Setting Council. The revision of the MTFS will be important and timely in order to provide sound financial planning processes to underpin the new Council's ambitions following the May election. Key considerations of the MTFS include:
- Balancing a positive outlook in supporting Council ambitions with the requirement to secure long term financial resilience of the organisation. The incorporation of the Funding the Future Strategy and associated plans will ensure that the Council can seek returns from capital investment and new ways of working whilst managing risk and promoting good governance.
 - Incorporation of recent CIPFA guidance in respect of Capital Strategies and prudential borrowing so that the Council makes affordable, prudent and sustainable capital investment decisions to support ambitions.
 - A thorough review of the Reserves Strategy to ensure an adequate level of reserves to balance longer financial sustainability with the deployment of surplus reserves towards Council ambitions. Specific consideration will be given to the Business Rates Reserve to ensure that balance is sufficient to manage future system risks but that any surplus balances are identified for members to consider how they might be deployed.

- 6.2 A full update on the Housing Revenue Account budget and financial outlook will be considered alongside the revenue budget including options to ensure that the service's 30-year business plan is viable and that its ongoing budget is balanced, whilst delivering value for money to tenants. This update will be reported to the 12 February Cabinet.

7 DETAILS OF CONSULTATION

- 7.1 As in previous years, planned public drop-in events, the usual high level consultation with relevant stakeholders on the budget will be undertaken prior to Budget Council in February. More specific consultation may be required depending on the budget savings options being considered. Consultation on council housing matters will be undertaken through the District Wide Tenants' Forum.

8 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 8.1 Regarding the budget strategy, Cabinet may approve the proposals as set out, or require changes to be made to the suggested approach. The overriding aim of any budget setting process is to approve a balanced budget by statutory deadlines, allocating resources to help ensure delivery of the Council's corporate and service ambitions. The proposed approach is in line with that broad aim and any changes that Cabinet puts forward should also be framed in that context.
- 8.2 In term of the actual budget position, this report puts forward a balanced budget. If Cabinet agrees the budget then it will form their proposal to Budget Scrutiny Panel on 22 January 2019 and to Council on 30 January 2019. These meetings, in turn, will inform the final budget proposal to be considered by Council on 27 February 2019.

RELATIONSHIP TO POLICY FRAMEWORK

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.

FINANCIAL IMPLICATIONS

As set out in the report.

SECTION 151 OFFICER'S COMMENTS

The section 151 Officer (as Interim Head of Financial Services) has produced this report as part of his responsibilities.

LEGAL IMPLICATIONS

Legal Services have been consulted, but at this stage there are no legal implications arising.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to add.

BACKGROUND PAPERS

Cabinet report on budget proposals on 4
December 2018

Medium Term Financial Strategy 2018 to
2022

Contact Officer: Daniel Bates

Telephone: 01524 582117

E-mail: dbates@lancaster.gov.uk

Appendix One – Cabinet’s Revenue Budget Proposals – 2018/19

Budget Gap		787	As set out in paragraph 2.3	
Savings				
MRP savings	(310)		Lower level of capital expenditure to be funded from borrowing.	
Refuse / Recycling	(203)		Additional round budgeted for 2019/20 not yet needed.	
Inflation Savings	(213)		Removal of annual inflationary allowance from multiple non-staff budgets.	
Additional Car Parking Income	(35)		Extra car parking income due to increased activity.	
Reduction in R&M expenditure	(39)		Reduction in repairs and maintenance expenditure.	
Other savings	(55)		Number of small savings.	
Total Non Staff Savings		(855)		
Planned staff savings		(241)	To be delivered by increasing the vacancy allowance (£111k) and via restructures (£130k)	
Reduced Income				
Car Park / Garden Waste Charges Freeze		131	No increases to car park fees or garden waste collection fees in 2019/20.	
Staff Growth				
Legal	47		More legal support particularly in the area of property and planning.	
ICT	22		Two new apprentices to cover service desk and project support.	
HR	20		Temporary support to undertake a number of HR / restructure projects.	
Health & Housing	34		Staff support to co-ordinate Council's approach to food and fuel poverty	
Marketing	19		Staff support to economic development marketing initiatives.	
Total Staff Growth		142		
Non-Staff Growth				
Fibre Network	10		To commission work alongside partners to significantly improve broadband coverage in the district.	
CCTV	23		Extend CCTV service beyond initial pilot stage.	
ASB team	3		To extend the Anti Social Behaviour Service beyond its original two year pilot (part funded by HRA).	
Total Non Staff Growth		36		
Growth to be funded from Reserves				
Economic Growth Initiatives	145		Including Business and Skills support (£40k), Place Marketing (£75k), Local Wealth Building (£10k) and contribution to LSCER (£20k).	
Zoo extension	25		Upfront investment to extend and enhance zoo facilities – payback period under 4 years.	
Bin Sensor Pilot	11		To implement bin sensors so bins only emptied when full reducing costs – payback period under 2 years.	
Grassland Management Study	35		Review of 3,500 areas of grass to inform more effective ways to manage grass cutting – payback period under 4 years.	
Lancaster VIC	69		Move Lancaster VIC to Musuem – payback period under 3 years.	
Friend of Parks	75		Support to groups to assist with projects in local parks.	
Total Growth to be funded from Reserves		360		
Contribution from Reserves		(360)		
Budget Gap if all proposals accepted		0		

Appendix Two – Capital Bids with officer group scores

New (N) / Existing (E)	Scheme	Score	Cost	Source of funding
N	Caton Road Flood Relief Scheme	62.0	847	unsupported borrowing
E	Vehicle Replacement Programme	55.0	4,991	unsupported borrowing
N	Vehicle Maintenance Unit Plant	45.0	75	reserves
E	ICT Infrastructure	44.5	285	reserves/unsupported borrowing
E	ICT Desktop Renewals	44.5	258	reserves/unsupported borrowing
N	Williamson Park	41.0	1,000	unsupported borrowing
E	ICT Telephony	39.0	200	unsupported borrowing
E	MAAP - Improving Streets	39.0	124	reserves/unsupported borrowing
E	City Museum Boiler	37.5	125	unsupported borrowing
E	Queen Victoria Memorial	37.5	250	unsupported borrowing
E	ICT Civica Financial & Civica Pay	37.0	258	unsupported borrowing
N	Canterbury Avenue Flood Relief Scheme	37.0	0	grant
E	Canal Quarter	34.5	550	unsupported borrowing
E	Energy Efficiency - Williamson Park Boiler	34.0	311	unsupported borrowing
E	Hale Carr Cemetery	33.0	132	unsupported borrowing
E	Empty Homes	33.0	101	reserves
N	Solar Installation SALC Phase 1	33.0	685	unsupported borrowing
N	Structural Repairs to 1 Lodge Street	31.5	358	unsupported borrowing
E	Royal Albert Playing Field Pavilion	30.0	82	unsupported borrowing
E	Demolition of Outbuildings at Edward Street	28.0	109	unsupported borrowing
E	Cable Street Christmas Lights	27.5	24	reserves/unsupported borrowing
E	Lancaster Town Hall Second Lift	25.0	622	unsupported borrowing
E	Happy Mount Park Pathways	25.0	112	reserves
E	Half Moon Bay Car Park	22.5	60	unsupported borrowing
E	Palatine Recreation Ground	22.0	125	unsupported borrowing
N	Parks & Open Spaces	20.5	150	unsupported borrowing
E	Lancaster Town Hall Phase 3	19.0	485	unsupported borrowing
E	Palatine Hall	19.0	122	unsupported borrowing
E	Heysham Gateway – Tanks Demolition/Removal	15.0	479	reserves/unsupported borrowing

CABINET

**Proposals for the Governance Arrangements for
Investment Decisions
15 January 2019**

Report of Monitoring Officer

PURPOSE OF REPORT			
To provide a proposal for the governance of investment decisions for Cabinet to consider if it is appropriate to refer to full council.			
Key Decision	X	Non-Key Decision	
		Referral from Cabinet Member	
Date of notice of forthcoming key decision		3 December 2018	
This report is public.			

RECOMMENDATIONS OF COUNCILLORS BLAMIRE AND HANSON

- (1) The draft council report in Annex A be referred to full council for approval.

1.0 Introduction

- 1.1 Lancaster City Council is proposing to consider opportunities for commercial property investments. The commercial timetable for investments is often competitive and fast moving. The proposed arrangements are designed to allow Lancaster City Council sufficient flexibility in respect of delegated authority to enable proper evidence led scrutinised decisions to be made in a timely manner. This is working within the current constitution.
- 1.2 The report also proposes further policy development to allow delegated decision making by an individual cabinet member and officers. If the current in principle proposals are accepted by Council additional detailed policy proposals will need preparing for Cabinet to make a further recommendation to Council to amend the constitution.

2.0 Proposal Details

- 2.1 The details are provided in the attached draft report. Cabinet is required to make these policy proposals to Council for approval. If Council agree the principles it will require Cabinet and Scrutiny will finalise the detailed policy and procedure
- 2.2 The primary changes relate to the process adopted for making decisions. The proposed process is set out in the attached draft report for Council. It provides for a much earlier engagement between officers and Cabinet Members and Scrutiny. This will allow Members to be fully briefed and aware of proposals before being asked to make decisions. The key element to the reducing the timescales is to ensure members are fully conversant with the proposals and any concerns or additional information

required by Members is resolved at an early stage. It is anticipated that earlier involvement of the Scrutiny function will also permit the benefit of cross party perspectives contributing to the decision and avoiding unnecessary 'call in'.

- 2.3 This If the changes prove successful, Cabinet may then choose to ask officers to prepare additional policy proposals to amend the constitution to provide for delegations to individual cabinet members and officers.

3.0 Details of Consultation

- 3.1 Officers have provided a series of briefing session on the funding for the future strategy which have been open to all members. In respect of the commercial investment strategy, Briefing have been made available to cabinet, Scrutiny with an invitation to all members. A workshop open to all members held on the 11 January 2019 after which the attached report was updated. A questionnaire was also provided to all members and announced at the December 2018 council meeting.
- 3.2 In the event Council approves the policy concept the underlying process or procedure rules should be considered and agreed. If any alteration to either cabinet or scrutiny procedure rules are required, it will then return to Council for approval together with any further proposals for additional delegations.

4.0 Options and Options Analysis [including risk assessment]

	Option 1: Approve	Option 2: Not Approve
Advantages	Creates the opportunity for commercial investment decisions to be made	No change
Disadvantages	None	No change
Risks	New system of working which may increase risk	No effective commercial investment occurs

5.0 Officer Preferred Option (and comments)

- 5.1 Approve the attached paper to full Council

RELATIONSHIP TO POLICY FRAMEWORK

This proposal will relate directly to the Medium Term Financial Strategy and the implementation of the funding the future programme

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Human Resources, Sustainability and Rural Proofing)

None

LEGAL IMPLICATIONS

The proposals are within the constitution, and will require procedures to be refined by the relevant committees. Any additional proposed delegations to individual cabinet member or officers will require constitutional amendments to Article 7.

FINANCIAL IMPLICATIONS <p>There are no direct financial implications associated with the governance process. However, property investments will require borrowing in order to make a financial return. The yield calculation within the Property Investment Strategy is designed to ensure that financial implications from any property investment are captured.</p>	
OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces: <p>This proposal supports the generation of commercial opportunities arising from the regeneration directorate.</p>	
SECTION 151 OFFICER'S COMMENTS <p>The Section 151 Officer has been involved in the drafting of this paper.</p>	
MONITORING OFFICER'S COMMENTS <p>The Monitoring Officer has been involved in the drafting of this paper.</p>	
BACKGROUND PAPERS 	Contact Officer: David Brown Telephone: 01524 58 2000 E-mail: dbrown@lancaster.gov.uk Ref:

DRAFT REPORT FOR COUNCIL

APPENDIX 1

Proposals for the Governance Arrangements for Investment Decisions 30 January 2019

Report of the Leader of the Council

PURPOSE OF REPORT

To provide a proposal for the governance of investment decisions for Council to consider for approval.

This report is public.

RECOMMENDATIONS OF THE LEADER

- (1) Council approves the delegation of investment decisions to the leader in accordance with the policy framework set out in the Medium Term Financial Strategy.
- (2) Council notes the further proposed Constitutional change to allow delegations to Cabinet Member and Officers.
- (3) Council approves the principles and outline process in Appendix A, B, C and D.
- (4) Council requires Scrutiny Committee to consider and approve the detailed scrutiny process and recommend any changes to the procedure rules.
- (5) Council requires the Overview and Scrutiny Committee to consider a work programme to include i) review the effectiveness and outcomes of any individual decision ii) carry out a review of the investment portfolio. Such review to make any recommendations for improvement to the decision making or governance by January 2020.

1.0 Introduction

- 1.1 The City Council has a key decision limit of £50,000. The effect of this is to allow a key decision to be 'called in' by members through the route of scrutiny.
- 1.2 The City Council has delegated amounts in excess of this limit to the Leader and to officers to facilitate the daily activities of the council. These decisions are made in accordance with policy and budget set by full council. To permit this for commercial property investment, Council will need to be confident the approach is appropriate and then agree to amendment of Article 7 at paragraph 7.09 to allow key decisions to be taken by an individual cabinet member. Council is asked to note this in anticipation of a future paper which may amend the constitution.
- 1.3 The commercial investment strategy will be undertaken in accordance with the policy set by council. This paper is to approve the delegation to the Leader to act in accordance with the investment strategy contained within the Medium Term Financial Strategy, as and when it is approved by full Council and to require the creation of the detailed process and to consider any changes need to the procedure rules of any relevant committee.

2.0 Proposal Details

- 2.1 Full council will set a policy framework for the delegation of decision making. This will be set out in the Medium Term Financial Strategy (MTFS). The Property Investment Strategy will be considered and approved by Council as part of the MTFS.
- 2.2 The Leader will have delegated authority to make these decisions.
- 2.3 This sits within the existing constitutional framework but Council will be aware that operationally it reduces the length of the processes we have adopted. The most significant proposal does not require any amendment of the constitution but a change in methods of working between Cabinet and Scrutiny. In the event this process is impacted by some constitutional limitation subsequent changes that can be addressed as the process develops.
- 2.4 The delegation to the leader will be exercised by Cabinet, which will be the decision making body for all decisions.
- 2.5 It is proposed in the future the Leader will (subject to Council decision in the future) delegate to the Cabinet Portfolio Holder for Finance, in consultation with the Chief Executive and agreement of the Section 151 Officer and Monitoring Officer, authority to approve decisions up to £5 million. This will require amendment to Article 7.09 of the Constitution to allow individual cabinet members to make property investment decisions.
- 2.6 If this is successful, the Leader will consider future policy proposals to Council for the delegation to the Chief Executive, in agreement with the Section 151 Officer and the Monitoring Officer, any decision up to £1 million.

3.0 Details of Consultation

- 3.1 Officers have provided a series of briefing sessions on the *Funding the Future* strategy which have been open to all members. In respect of the commercial investment strategy, briefings have been made available to Cabinet and Scrutiny before Christmas with an invitation to all members. A workshop open to all members was held on the 11 January 2019, after which this report was updated. A questionnaire was also provided to all members and announced at the 19 December 2018 council meeting. Analysis on the 7 January 2019 indicated only 3 responses.
- 3.2 The briefing sessions, workshop and survey all indicated a desire for early involvement of scrutiny (pre-decision) as members indicated they could add value by informing a decision rather than an after-the-event critique.
- 3.3 At the workshop on the 11 January 2019 members had the opportunity to work through the investment matrices and scoring systems. In general, members indicated they approved the approach of a scoring matrix to assess the viability of any proposal, the yield matrix to confirm the likely return, and the social value scoring to give clarity over any benefits to the district.
- 3.4 Members also made a number of suggestions for addition information and changes to the matrix. The feedback was recorded but of particular note was the desire to have clarity that the proposal was within the framework, e.g. ethical, geographical and environmental. Members requested additional evidence to be provided in the

matrices in respect to particular market segments. This included information of wider sector performance, local and national competition, and for retail product lines/market and exit proposals.

- 3.5 Members also requested the yield and social value documents should provide greater clarity on additional benefits that may accrue such as business rates, impact on a high street frontage, employment, skills creation, community impact and how this would be measured.
- 3.6 When considering the use of Scrutiny, there were no unanimous views but some areas of consensus emerged. Firstly, in respect of any individual investment proposal, the need to act within a market, it was felt the early involvement of scrutiny in the process could be helpful. This may involve the chairman or other members of scrutiny being consulted at early stages of any proposal. It was also suggested for an investment decision, that a Cabinet and Scrutiny briefing could be combined and members could be free to ask officers questions allowing for the Scrutiny perspective to be incorporated prior to any individual decision being made by Cabinet. Scrutiny will need to consider the appropriate person to put forward to engage with this process.
- 3.7 Some members felt the matrix scoring system was positive and fact-led, therefore the reasons for just checking the scoring were limited and the use of call- in would have limited value, and Scrutiny members could be better engaged earlier in the process rather than causing delay. There was no clear consensus for removing call-in for any individual decision, but there were proposals which, when scrutiny had been properly consulted and involved, the prospect of 'call-in' in any particular case was reduced and in cases of urgency may be waived. (Constitution part 4, Rules of Procedure, Section 5 (17))
- 3.8 This approach was closely linked to members indicating that risk for a proposal eg voids, retail sector, needed to be clearly articulated and the mitigation of those risk made clear for Scrutiny.
- 3.9 It was also clear from the workshop that members felt the opportunity to review actual performance on any decision and the overall performance of any investment portfolio was extremely important. Scrutiny will have a clear role in that process of review which is why inclusion in the work programme is suggested. This will inevitably lead to proposals to sell investments and that procedure will also need to be considered.
- 3.10 The principles set out in Appendix A are based upon the responses and feedback of members who have participated in the consultation. If Council is minded to agree those principles it will be for Cabinet and Scrutiny to developed the detailed policy and rules of procedure to give effect to those principles.

4.0 Options and Options Analysis [including risk assessment]

	Option 1: agree the approach	Option 2: Do nothing
Advantages	Allow the investment policy to be implemented.	No increase in risk.
Disadvantages	Investments can be volatile.	The <i>Funding the Future</i> gap is not met.
Risks	The Council may not make the expected return and may place capital at risk.	Managed decline in service provision.

- 4.1 The overall policy framework will be included in the Medium Term Financial Strategy and will be set by Council and the investment decisions will be made within that framework. The purpose of this is to ensure the resources allocated by Council are used for their intended purpose, are properly accounted for, achieve best value and are within the risk profile agreed by Council. The decision must be evidence-led and members must approve the investment strategy and the assessment tools, yield calculator, assessment matrix, social outcome matrix.
- 4.2 The future proposal for the transactions to be delegated to the Cabinet member is designed to allow for flexibility in decision making. The delegation is permissive, meaning that, where appropriate, the Cabinet Member may wish to refer the matter to Cabinet.
- 4.3 The values attached to the future policy proposals to delegate decision making are suggested at a level to allow for a realistic valuation and progress on smaller proposals, as these investments will usually involve a land transaction in a commercial setting and the values are usually higher. The proposal for a lower limit of £1 million will ensure only the most modest proposals are delegated to officers in the future, limiting risk and liability on officer only decisions.

5.0 Officer Preferred Option (and comments)

- 5.1 If Council wishes to pursue the investment strategy it will need a method of implementing that policy.

<p>RELATIONSHIP TO POLICY FRAMEWORK</p> <p>This is design to facilitate the implementation of the Medium Term Financial Strategy and to facilitate Funding the Future.</p>
<p>CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Human Resources, Sustainability and Rural Proofing)</p> <p>None</p>
<p>LEGAL IMPLICATIONS</p> <p>The proposals are within the constitution, and will require procedures to be refined by the relevant committees. Any additional proposed delegations to individual cabinet member or officers will require constitutional amendments to Article 7.</p>
<p>FINANCIAL IMPLICATIONS</p> <p>There are no direct financial implications associated with the governance process. However, property investments will require borrowing in order to make a financial return. The yield calculation within the Property Investment Strategy is designed to ensure that financial implications from any property investment are captured.</p>
<p>OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:</p>

This policy will be developed and led by the Regeneration Team

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been involved in the drafting of this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been involved in the drafting of this report.

BACKGROUND PAPERS

Contact Officer: Monitoring Officer
Telephone: 01524 58 2000
E-mail: dbrown@lancaster.gov.uk

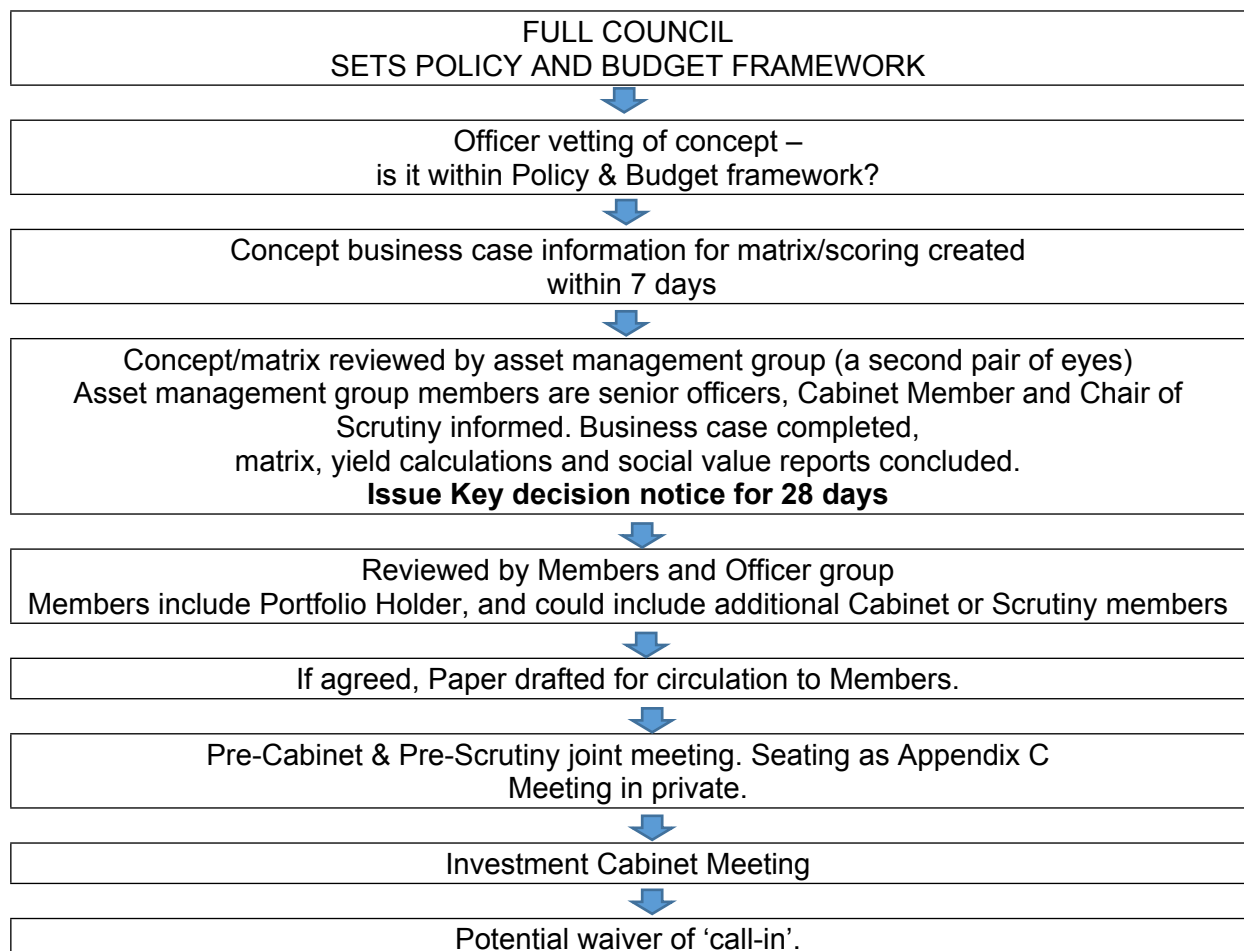
Governance Principles

1. Cabinet and Scrutiny will work within the existing constitutional arrangements and make such future recommendation for amendments as required.
2. Cabinet will take all reasonable steps to ensure the process in Appendix B, which is designed to operate within the existing Constitutional framework, is used.
3. Key Decision notices will be issued as soon as reasonable practicable, however this recognises that some proposals and Key Decision may be withdrawn before a decision is required.
4. Cabinet and Scrutiny will hold meetings in a timely manner and, if necessary, outside of the scheduled meetings.
5. The Portfolio Member or Leader and/or other Members of Cabinet will attend and participate in early business case meetings to assist in developing the scoring matrices for any individual investment decision. The Cabinet Members will work with any Scrutiny Members attending.
6. Cabinet will facilitate the engagement of Scrutiny in joint pre-Cabinet/Scrutiny briefing sessions on investment proposals. The meetings will be in private and will allow sufficient time for the merits of the investment proposal to be considered.
7. The subsequent Cabinet report will state if the proposal has been supported at pre-scrutiny.
8. Cabinet and Portfolio Members will give serious and proper consideration to references, reports and recommendations from Scrutiny. In particular recommendations for amendments to the scoring matrices and investment strategy, which will be properly considered when the decision is made.
9. The objective of Cabinet is to work within the policy framework and make robust evidence-led decisions. To achieve this, Cabinet will develop a process and amend any procedure rules necessary to facilitate a robust independent, flexible and timely process for investment decisions.
10. Scrutiny has no executive powers. It must therefore work by probing, investigating, enquiring, encouraging, persuading, reporting and recommending. The relationship between Scrutiny and the Cabinet is not adversarial. Council has set the policy (and where the decision is clearly within the policy framework) the role of Cabinet and Scrutiny is to facilitate the decisions. To this end the scrutiny of individual decisions to invest on any individual proposal may be less helpful than a scrutiny role of reviewing performance over time and suggesting improvements to scoring and strategy. Scrutiny may choose to waive 'call in' in cases of urgency and if it considers any individual decision has been appropriately considered.
11. The functions of Scrutiny in the investment process are to:
 - i) contribute to the development of policies and strategies of the Council.

- ii) ensure the implementation of best value including the programme of individual investment reviews, and investment portfolio review.
 - iii) to suggest improvements to the governance and management of individual decisions and the investment portfolio.
 - iv) to facilitate the will of Council by ensuring the best investment decisions are made.
12. Scrutiny should not be used to block, delay or frustrate the legitimate will of the Council or Cabinet.
13. Scrutiny recommendations to Cabinet must be supported with evidence.
14. Scrutiny Chairmen and/or other Members will attend and participate in early business case meetings to assist in developing the scoring matrices for any individual investment decision. They will work with any Cabinet or Portfolio Members attending. Scrutiny and B&PP will consider the most appropriate members to attend.
15. Scrutiny will engage in pre-cabinet/scrutiny briefing sessions on investment proposals where Scrutiny committee can test the proposal against the background of the information they have already seen and their knowledge of local circumstances and they are also able to bring a cross party perspective to investment issues. The result of this process is more likely to be a soundly based proposal, which has the support of Scrutiny and can then be reported to the Cabinet with a recommendation for approval. This significantly reduces the risk of conflict and delay.
16. Scrutiny will consider performance information, such as how does the matrix scoring relate to actual outcome? It will assist Cabinet in setting performance indicators. The role of Scrutiny is to expose poor performance in the investment, to celebrate excellent performance and to challenge targets which are either unrealistic or not sufficiently ambitious by reference to the matrices or *Funding the Future* proposals.
17. The objective of Scrutiny should always be to identify opportunities for improvement beyond what is already planned. To achieve this, Scrutiny will develop a process and amend any procedure rules necessary to facilitate a robust independent, flexible and timely process.

Appendix B

Draft Process chart



Time elapsed between proposal and decision 35 days. Additional time depending on call-in.

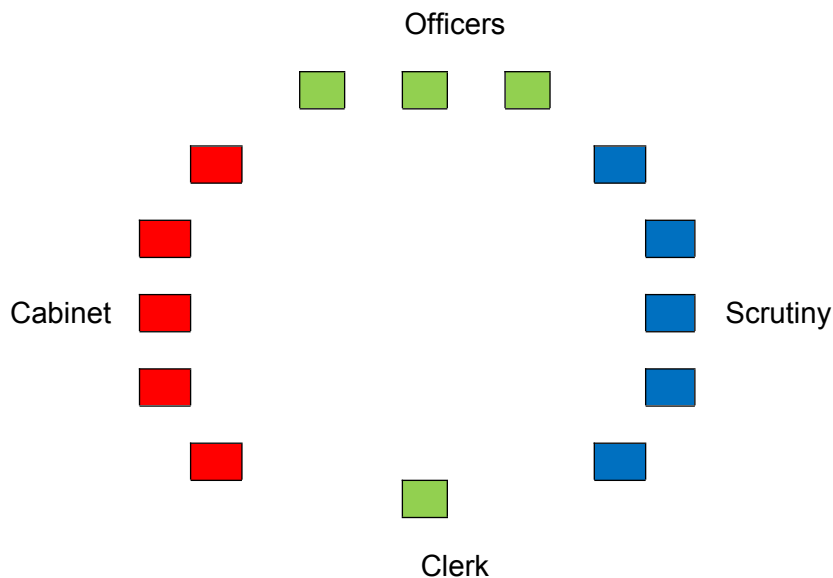
INVESTMENT CABINET AND SCRUTINY BRIEFING

Principles for scrutiny to be effective – must have relevant information and must be sufficiently engaged to add value.

Suggestions for the round table Cabinet/Scrutiny Briefing :

1. This pre-briefing must be sufficiently in advance to make any meaningful changes to the proposal.
2. Cabinet and Scrutiny members to sit at the same time in private.
3. Cabinet receives the paper. Officers are present to answer questions and inform debate.
4. Leader invites Scrutiny to ask questions of officers and debate issue. Leader asks Scrutiny if they wish to make any observations.
5. Cabinet, having considering their own questions and having listened to Scrutiny questions and debate and having considered any representations from Scrutiny, make a decision whether this should go forward and whether any changes need to be made.
6. Scrutiny indicates if it are content and call-in waived – officers may proceed and Cabinet report will state Scrutiny engagement.

Layout



CABINET

Report of Regeneration Manager

PURPOSE OF REPORT			
To consider the investment proposal in respect of []			
Key Decision	X	Date of Notice of Forthcoming Key Decision	[Insert date published]
This report is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972			

(1) [Insert recommendation 1]

1.1 [Insert brief description of the investment opportunity]

2.1 [Insert an analysis of the score and substantiation of any comments]

[Insert an explanation of projected yield and underlying assumptions]

[Insert where this sits in the spread of investment on the 6 primary investment sectors, and the balance of risk using yield as an indication for a) whole portfolio and b) the balance within the sector. Include information on other risk elements e.g. voids or sector specific concerns]

[The added value to the authority by way of economic growth, return in jobs etc.]

11.0 Options and Options Analysis [including risk assessment]

	Option 1: Asset acquisition/disposal	Option 2: Do nothing
Advantages		
Disadvantages		
Risks		

RELATIONSHIP TO POLICY FRAMEWORK

[Not an excluded investment or similar]

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)

[Insert conclusion of impact assessment]

LEGAL IMPLICATIONS

[Insert Legal Implications before submitting to Legal Services]

FINANCIAL IMPLICATIONS

[Insert Financial Implications]

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:

[Insert Other Resource Implications]

SECTION 151 OFFICER'S COMMENTS

[Insert Section 151 Officer comments prior to Management Team]

MONITORING OFFICER'S COMMENTS

[Insert Monitoring Officer comments prior to Management Team]

BACKGROUND PAPERS

Framework for Budget and Policy

Contact Officer: Richard Crompton**Telephone:** 01524 582000**E-mail:** rcrompton@lancaster.gov.uk**Ref:**

CABINET

Detailed Investment Strategy Proposals 15 January 2019

Report of Interim Financial Services Manager

PURPOSE OF REPORT			
To consider the Property Investment Strategy to consider if it is appropriate to refer to full council.			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date of notice of forthcoming key decision	3 December 2018		
This report is public.			

RECOMMENDATIONS OF COUNCILLORS HANSON AND WHITEHEAD

- (1) That the draft Council report in Appendix 1 be referred to full council for approval.

1.0 Introduction

- 1.1 Lancaster City Council is proposing to consider opportunities for commercial property investments. This report considers the Property Investment Strategy. The principles of the strategy were considered and approved by Cabinet on 18 December 2018. A workshop on the strategy was attended by a number of members on 11 January 2019. A separate report on governance arrangements is included on this agenda.

2.0 Proposal Details

- 2.1 The details are provided in the attached draft strategy (Appendix 1). Cabinet is required to make these policy proposals to full council for Council to approve.

3.0 Details of Consultation

- 3.1 Officers have provided a series of briefing session on the *Funding the Future* strategy which have been open to all members. A briefing was held on the Property Investment Strategy in December and a workshop in January.

4.0 Options and Options Analysis [including risk assessment]

	Option 1: Approve	Option 2: Not Approve
Advantages	The prospect of long term financial resilience to help maintain the provision of good quality council services	None
Disadvantages	New ways of working and adapting reasonably quickly to new approaches.	A series of hard and unpalatable decisions will need to be taken on cuts and service reductions.
Risks	Commercial property investment brings some risks and these are covered in some detail in this report.	Potential financial instability delivery of services being reduced.

5.0 Officer Preferred Option (and comments)

- 5.1 Option 1 Is the preferred option as the development of a robust Property Investment Strategy is the next logical step following the agreement by Cabinet to the principles of the *Funding the Future* Financial Resilience Strategy. Cabinet is asked to consider the approval of the attached paper to full Council.

RELATIONSHIP TO POLICY FRAMEWORK

This proposal will relate directly to the Medium Term Financial Strategy and the implementation of the Funding the Future programme

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Human Resources, Sustainability and Rural Proofing)

None

LEGAL IMPLICATIONS

In accordance with section 120(1), Local Government Act 1972, the Council has the power to acquire any land where it is for the purposes of (a) any of its statutory functions or (b) for the benefit, improvement or development of its area.

If the Council decides to dispose of land, there is a legal requirement to obtain best value (with very limited exceptions)

Depending on the nature of the particular type of property concerned, there may be other statutory requirements or procedures to be undertaken before any acquisition, appropriation or disposal of land.

In addition to this the General Power of Competence, introduced by the Localism Act 2011, permits a local authority exercising the general power:

.... to do it in any way whatever, including—

- (a) power to do it anywhere in the United Kingdom or elsewhere,
- (b) power to do it for a commercial purpose or otherwise for a charge, or without charge, and
- (c) power to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.

This would mean the Council would have to set up a company to manage property purely for financial gain if it decided to exercise the general power.

FINANCIAL IMPLICATIONS

Property investments will require borrowing and will make a financial return. The yield calculation within the strategy is designed to ensure that all financial implications from any property investment are captured.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:

This proposal supports the generation of commercial opportunities arising from the regeneration directorate.

SECTION 151 OFFICER'S COMMENTS

This is a report of the Section 151 Officer.

MONITORING OFFICER'S COMMENTS

The Monitoring officer has been involved in the drafting of this paper.

BACKGROUND PAPERS

Cabinet paper (18 December 2018) on
property investment principles

Contact Officer: Dan Bates

Telephone: 01524 582138

E-mail: dbates@lancaster.gov.uk

Ref:

DRAFT REPORT TO COUNCIL

APPENDIX 1

Property Investment Strategy 30 January 2019

Report of the Portfolio Holder for Finance

PURPOSE OF REPORT

To consider the Property Investment Strategy for approval.

This report is public.

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD

- (1) That Council approves the Property Investment Strategy included as Appendix A.

1.0 Introduction

- 1.1 The Cabinet meeting on 4 December 2018 approved the principles of the overarching financial resilience strategy, *Funding the Future* and their incorporation into the Medium Term Financial Strategy. On from this on 18 December, Cabinet approved the key principles of the Property Investment Strategy.
- 1.2 One of the key pillars of the financial resilience strategy is 'investing for a return or to reduce costs' which looks to careful risk managed investment in commercial property in order to make a net yield which contributes to the net revenue budget. This reports sets out the principles that will be included in the Council's Property Investment Strategy.
- 1.3 A number of informal sessions on the Property Investment Strategy have been held with members and, on 11 January 2019, a workshop testing out the key strategy principles was well attended by members.
- 1.4 A separate paper covering the governance arrangements for the Property Investment Strategy is included on this Council agenda.

2.0 Proposal Details

- 2.1 The Property Investment Strategy is included as Appendix A to this report.
- 2.2 A separate report on the governance arrangements for this strategy is considered on this agenda and if agreed, these arrangements will be included within and appended to the strategy.

3.0 Details of Consultation

- 3.1 Officers have provided a series of briefing sessions on the *Funding the Future* strategy which have been open to all members. In respect of the Property Investment Strategy, briefings have been made available to Cabinet and Scrutiny before Christmas with an

invitation to all members. A workshop open to all members was held on the 11 January 2019, after which the strategy was updated.

- 3.2 At the workshop on the 11 January 2019 members had the opportunity to work through the investment matrices and scoring systems. In general members indicated they approved the approach of a scoring matrix to assess the viability of any proposal, the yield matrix to confirm the likely return and the social value scoring to give clarity over any benefits to the district.
- 3.4 Members also made a number of suggestions for additional information and changes to the matrix. The feedback was recorded but of particular note was the desire to have clarity that the proposal was within the framework, e.g. ethical, geographical and environmental. Members also requested additional evidence to be provided in the matrices in respect to particular market segments. This included information of wider sector performance, local and national competition, and for retail product lines/market and exit proposals.
- 3.5 Members also requested the yield and social value documents provide greater clarity on additional benefits that may accrue such as business rates, impact on a high street frontage, detail on any social impact such as employment and how this would be measured.
- 3.6 Member feedback has been incorporated into the appended documents.

4.0 Options and Options Analysis [including risk assessment]

	Option 1: Approve	Option 2: Not Approve
Advantages	The prospect of long term financial resilience to help maintain the provision of good quality council services	None
Disadvantages	New ways of working and adapting reasonably quickly to new approaches.	A series of hard and unpalatable decisions will need to be taken on cuts and service reductions.
Risks	Commercial property investment brings some risks and these are covered in some detail in this report.	Potential financial instability delivery of services being reduced.

5.0 Officer Preferred Option (and comments)

- 5.1 Option 1 Is the preferred option as the development of a robust Property Investment Strategy is the next logical step following the agreement by Cabinet to the principles of the *Funding the Future* Financial Resilience Strategy

6.0 Appendices

- 6.1 The strategy document and appendices are appended to this report as follows:

- Appendix One – Property Investment Strategy
- Appendix Two – Yield Calculator
- Appendix Three – Risk Matrix
- Appendix Four – Outcomes Matrix

RELATIONSHIP TO POLICY FRAMEWORK

This is design to facilitate the implementation of the Medium Term Financial Strategy and to facilitate *Funding the Future*.

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Human Resources, Sustainability and Rural Proofing)

None

LEGAL IMPLICATIONS

The Council has the legal power to acquire, use and dispose of land principally under the Local Government Act 1972 and other Acts which give the Council powers to acquire land for a particular purpose.

In accordance with section 120(1), Local Government Act 1972, the Council has the power to acquire any land where it is for the purposes of (a) any of its statutory functions or (b) for the benefit, improvement or development of its area.

If the Council decides to dispose of land, there is a legal requirement to obtain best value (with very limited exceptions)

Depending on the nature of the particular type of property concerned, there may be other statutory requirements or procedures to be undertaken before any acquisition, appropriation or disposal of land.

In addition to this the General Power of Competence, introduced by the Localism Act 2011, permits a local authority exercising the general power:

.... to do it in any way whatever, including—

- (a) power to do it anywhere in the United Kingdom or elsewhere,
- (b) power to do it for a commercial purpose or otherwise for a charge, or without charge, and
- (c) power to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.

This would mean the Council would have to set up a company to manage property purely for financial gain if it decided to exercise the general power.

FINANCIAL IMPLICATIONS

Property investments will require borrowing and will make a financial return. The yield calculation within the strategy is designed to ensure that all financial implications from any property investment are captured.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:

This policy will be developed and led by the Regeneration Team

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer is the author of this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted in the drafting of this report and has no further comments
--

BACKGROUND PAPERS	Contact Officer: Dan Bates
--------------------------	-----------------------------------

Cabinet paper (18 December 2018) on property investment principles.	Telephone: 01524 58 2000
---	---------------------------------

	E-mail: dbates@lancaster.gov.uk
--	--

Lancaster City Council

Property Investment Strategy

2019 – 2024

1.0 Introduction

- 1.1 This Property Investment Strategy has been developed for the period 2019 to 2024 to reflect the aspiration in *Funding the Future* and the Medium Term Financial Strategy (MTFS) to seek a return from commercial property investments in order to contribute to the revenue budget and protect service provision.
- 1.2 This strategy is designed to provide a framework for Lancaster City Council to compete in that market on an equal footing enabling the acquisition of properties for investment at pace whilst ensuring that governance processes are in place, full assessments are made and risks are minimised.

2.0 Background

- 2.1 The Council recognised, some time ago, that it needed to move towards a more commercial way of operating if it was to move towards its aim of being more financially independent. To that end, the Council agreed its *Funding the Future* strategy as part of the MTFS – a four pillared approach to challenge existing budgets around outcomes, seek efficiencies, consider more commercial approaches to service delivery and invest for a return.
- 2.2 In order to deliver the Property Investment Strategy as well as other aspirations with respect to capital investment and property management, a Corporate Asset Management Group (CAMG) has been constituted with representation from Regeneration, Property, Finance and Legal.
- 2.3 The CAMG, or whichever arrangement supersedes it in due course, has the responsibility for overseeing the development of this investment strategy and, subsequently, for monitoring the performance of the investments at an aggregate level (i.e. the overall performance of the portfolio against an agreed benchmark of performance).
- 2.4 This Strategy is to be agreed by the Council and will set the strict parameters within which property investment activity will take place. These parameters are designed to ensure that investments are ethical, that all risks are assessed and managed and that effective due diligence takes place in establishing the financial business case as well as any link to corporate priorities. Governance and management arrangements are covered in section 5.

3.0 Strategy Objectives

- 3.1 This Strategy forms part of the *Funding the Future* plan within the Medium Term Financial Strategy which aims to secure the financial sustainability of Lancaster City Council and provide a good level of resources to meet corporate priorities in spite of significant funding reductions. As such, the objectives outlined below focus on building a risk managed, balanced property portfolio to deliver a financial return to the General Fund Revenue Budget.
- 3.2 The key objectives of the Strategy are to:
 - Acquire properties that provide long term investment in accordance with the Councils corporate and financial objectives,
 - Maximise return whilst minimising risk through the management processes as outlined in this strategy,
 - Prioritise properties that yield optimal rental growth and stable income, Protect capital invested in acquired properties,
 - Develop a governance framework that enables the Council to move at a timely pace in line with the market.
 - Build a balanced property investment portfolio

4.0 **Investment Principles and the Decision Making Process**

- 4.1 In order to maximise returns from investment whilst minimising risk, each investment proposal will be subjected to a detailed review which will include:
- Full Gross and Net Yield Calculation including scenario analyses
 - Risk Assessment Matrix
 - Outcomes Matrix

Yield Calculator

- 4.2 The yield calculator is included as appendix one to this strategy. It covers total costs of acquisition, income from rental of the property and all expenses associated with holding the property including the cost of borrowing and a provision to repay the borrowing. The appendix details the rigour that will be adopted in completing the financial information and the importance of ensuring not only that the information is complete and accurate but the need to consider scenarios in which income may fall or expenditure increase to ensure that the property holdings can endure downturns in economic conditions.
- 4.3 The results from the yield calculator will be used to compare returns with other properties in the portfolios and industry benchmarks in order to assess the relative attractiveness of return.

Risk Assessment Matrix

- 4.4 The risk assessment matrix is included as appendix two to this strategy. It will ensure that every potential acquisition is scored against a number of factors which reflect the relative risks and mitigations of holding each asset. Each of the factors will be weighted and scores will be assigned according to pre-agreed definitions of what constitutes low and high risk. Every proposition would have to achieve a minimum score in order to satisfy the requirement to minimise the risk to the Council of holding the property.
- 4.5 The majority of factors will be assessed on a five point scale (set out in appendix two) from excellent to poor; these are summarised in paragraphs 4.10 to 4.19. Paragraph 4.6 deals with those proposals in which the Council will not invest on ethical grounds. Additionally, there are two binary assessments; paragraphs 4.7 and 4.8 detail how only proposals based inside the Council's area will be considered and paragraph 4.9 outlines that only proposals that maintain a balance portfolio will be considered.

Exclusions

- 4.6 There are a number of types of tenants that the Council would not want to support, on ethical grounds, with respect to property investments. The list below, which will be reviewed, outlines those sectors in which the Council will not invest:
- Tobacco production
 - Animal exploitation
 - Armaments
 - Environmentally damaging practices
 - Bookmakers
 - Human Rights Abuse / Oppressive regimes
 - Pornography

Property Location

- 4.7 A number of local authorities have invested outside of their boundaries as this provides an increase in the opportunities for acquiring good yields. However at this early stage, it is recommended that the authority focusses its efforts on properties inside the Lancaster City Council boundaries. Once a balanced portfolio is achieved, members might choose to extend these boundaries to cover wider areas such as LEP boundaries and this is something which will be reviewed when the Strategy is refreshed each year.
- 4.8 The Government has expressed concerns about commercial property investments outside of an authority's boundaries and this strategy's focus on local properties will not be subject to any risks of potential Government sanctions on out of area investments.

Portfolio Strategy

- 4.9 There are six recognised types of property investment. These are retail, industrial, commercial, food and beverage, office and other. In order to ensure that the authority is not over exposed to any one sector, a limit of 30% exposure, both in terms of property value and rental income, will be set. No future investments will be considered where they take the portfolio exposure over these limits.

Additional evidence should be provided in each proposal with respect to particular market segments. This should include information on wider sector performance, local and national competition, and for retail product lines/market and exit proposals.

Location - Micro

- 4.10 This factor is designed to assess the quality of the individual location with regard to the property use. This will change according to the property sector. For example, excellent links for a retail proposal would cover footfall where a central city centre location might be deemed excellent whereas for an industrial location, proximity to transport links might be assessed as more important. As there is a degree of subjectivity to this assessment, the proposal will be scored by the Capital Strategy Group

Tenant Covenant

- 4.11 This is an assessment of the financial strength of the tenant which will be undertaken using a recognised company search agency. The assessment will be objective as it will use the search agency's independent risk scoring.

Building Quality

- 4.12 This factor is designed to assess the quality of the building. A building which is new or recently refurbished scoring highly. As there is a degree of subjectivity to this assessment, the proposal will be scored by the Capital Strategy Group. Any refurbishment costs to improve the scoring would have to be factored into the yield calculator.

Lease Term

- 4.13 This factor is designed to measure the longevity of the income to the council with longer lease terms scoring more highly. The assessment will be based on a Weighted Average Unexpired Lease Term (WAULT) calculation and as such is objective.

Tenants Repairing Obligations

- 4.14 This factor is designed to determine the authority's responsibility and liability for property repairs with a higher score attributable to those properties where all responsibilities are passed to the leaseholder. This is an objective assessment which will be made by the Monitoring Officer or nominated representative.

Rent Review Mechanisms

- 4.15 This factor is designed to determine the robustness of the rent review process where more regular rent reviews based on open market rental values scoring more highly. As this will be specified in the lease, the assessment will be made by the Monitoring Officer or nominated representative.

Occupational Demand

- 4.16 This factor is designed to determine demand for the property. It will usually be determined by external advice and will be assessed by the Capital Strategy Group.

Management Intensity

- 4.17 This factor measures the number of tenants that the Council will deal with for each property with lower number of tenants, and therefore less complexity, scoring more highly. This is an objective criteria and will be assessed by the Monitoring Officer or nominated representative based on the number of leases issued.

Liquidity

- 4.18 This factor considers the attractiveness of the property to other investors if the Council was to seek to dispose of the property. As it is a partially subjective assessment, the authority will seek independent external advice which will be assessed by the Capital Strategy Group.

Tenure

- 4.19 This factor considers the tenure of the property with freehold and long leaseholds scoring more highly. This is an objective criteria which will be clear from the property deeds and as such the assessment will be made by the Monitoring Officer or nominated representative.

Outcomes Matrix

- 4.20 The outcomes matrix is included as appendix three to this strategy. This provides an analysis of any outcomes and impacts that will be delivered by property acquisition. Outcomes should be reconcilable to corporate plan priorities and importantly be measurable both before and after the acquisition so that the benefits accruing can readily be identified.
- 4.21 Practically, there may be an inverse relationship between the finance and outcomes tests. The Council may choose to accept a lower yield where an investment is capable of delivering favourable outcomes in respect of its priorities.

5.0 Processes and Governance

- 5.1 Commercial investment proposals will usually be developed by the Regeneration Team who will be required to complete the assessment appendices for yield, risk and outcomes. All assessments will be considered by the Capital Strategy Group which comprises the Assistant Chief Executive, Monitoring Officer, Section 151 Officer (and/or nominated representatives) as well as representatives from the Property and Regeneration teams. The meetings will be open to the Portfolio Holders for Regeneration and Finance and the Chair of Overview and Scrutiny.

- 5.2 Governance processes are set out in appendix four (appendix to be added following consideration by Cabinet on 15 January 2019).
- 5.3 All formal decisions made will be formally recorded and supporting information held for subsequent scrutiny.
- 5.4 A separate monitoring of the effectiveness of the Property Investment Strategy will be incorporated into the quarterly financial and performance monitoring processes.

Appendices

Appendix One – Financial Yield Calculator

Appendix Two – Risk Matrix

Appendix Three – Outcomes Matrix

Appendix Four – Governance arrangements (to follow once considered by Cabinet on 15 January 2019)

Appendix 1 - Yield

Property: Illustration Only

PURCHASE COSTS	
Property Purchase Price	3,000,000
Stamp Duty	0
Valuation Fees	3,000
Survey Fees	10,000
Legal Fees	3,000
Refurbishment Fees	
Other Purchase Costs	
Total Purchase Cost	<u>3,016,000</u>

PROPERTY INCOME	
Annual Rent	225,000
Service Charge	0
Total Annual Income	<u>225,000</u>

PROPERTY EXPENSES		
MRP	2%	60,320
Interest Charge	2.99%	90,178
<u>Landlord Costs</u>	-	
Repairs and Maintenance		
Ground Rent		0
Insurances		0
Utilities payable by Landlord		0
Other Landlord Costs		5,000
Void Allowance	5%	<u>11,250</u>
		<u>166,748</u>

GROSS YIELD	7.46%
--------------------	--------------

NET YIELD	1.94%
------------------	--------------

NET CASH	£58,252
-----------------	----------------

Appendix 2 - Risk Management Tests

Portfolio Strategy Context	Does the acquisition take the exposure of the whole portfolio to over 30% in either of the six sectors: - retail - office - food and beverage - industrial - hotel - other	
	YES	NO
	Proposal to be scored using risk matrix below.	Over exposure to one of the six sectors. Proposal cannot proceed without a review of existing portfolio to ensure that Council is not over exposed to any one sector.
How will this be assessed?	Proposal document will be required to provide specific detail on location and assess advantages and disadvantages with respect to property sector (retail/industrial/food and beverage/office/hotel/other). This is a partially subjective assessment and will be challenged by the Capital Strategy group. Particular reference will be given for proposals on wider sector performance, local and national competition, and, for retail, product lines and the relative current and anticipated future strength of that retail sector.	
Who will assess?	Capital Strategy Group	

Location - Micro	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Excellent links	Good links	Reasonable links	Poor links, but prospects of improvement	Location with limited benefit
How will this be assessed?	Proposal document will be required to provide specific detail on location and assess advantages and disadvantages with respect to property sector (retail/industrial/food and beverage/office/hotel/other). This is a partially subjective assessment and will be challenged by the Capital Strategy group.				
Who will assess?	Capital Strategy Group				

Tenant Covenant	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Excellent financial covenant	Strong financial covenant	Good financial covenant	Poor but improving financial covenant	Poor financial covenant
How will this be assessed?	The financial covenant of the tenant (s) will be assessed using an external search company which will provide us with a company report on the financial health of the company. The scoring will be based on the search company's assessment of financial health and is therefore objective.				
Who will assess?	Section 151 Officer or nominated representative based on externally produced score				

Building Quality - State of Repair	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	New, modern or recently refurbished	Good quality, no spend required for 20+ years	Good quality but spend required in 10-20 years	Spend required in 5-10 years	Tired, Spend required in next 5 years
How will this be assessed?	The quality of the building assessment is partly subjective and so will be challenged by the Capital Strategy Group. The submission should detail any improvement/refurbishment works that will improve the score and the cost of any such works, and the cost of any ongoing maintenance requirements, will be incorporated into the yield calculator.				
Who will assess?	Capital Strategy Group				

Building Quality - EPC Rating	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	A/B	C	D	E	F/G
How will this be assessed?	The EPC is an externally calculated and accredited rating and as such is objective. The Capital Strategy Group will seek confirmation of the rating.				
Who will assess?	Capital Strategy Group				

	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
Lease Term	Greater than 15 years	Between 10 and 15 years	Between 6 and 10 years	Between 2 and 6 years	Under 2 years
How will this be assessed?	The assessment will be based upon a Weighted Average Unexpired Lease Term calculation which provides an objective assessment of the number of guaranteed years of rental income until the end (or break clause) within the lease.				
Who will assess?	Section 151 Officer or nominated representative based on accepted calculation				

	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
Tenants Repairing Obligations	Full repairing and insuring	Full repairing and insuring - partially recoverable	Internal repairing	Internal repairing - partial recovery	Landlord responsible
How will this be assessed?	The lease terms will allow this to be an objective assessment to be made by the Council's legal representative.				
Who will assess?	Monitoring Officer or nominated representative based upon final lease				

	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
Rent Review Mechanisms	Open Market Rental Value every 5 years		Consumer Price Index/Retail Price Index		No proper review mechanism
How will this be assessed?	The lease terms will allow this to be an objective assessment to be made by the Council's legal representative.				
Who will assess?	Capital Strategy Group based upon advice from the Monitoring officer.				

	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Demand from many tenants	Demand from a few tenants, but low number of competing buildings	Reasonable prospect of securing new tenants	Poor demand	Landlord responsible
Occupational Demand					
How will this be assessed?	The occupation demand is partially subjective but the proposal should seek to include external advice with respect to the level of demand. The Capital Strategy Group would seek to rely on any such external advice in coming to its assessment of the proposal.				
Who will assess?	Capital Strategy Group based upon any independent expert advice offered.				

	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	1-2 tenants	3 -5 Tenants	5 - 9 tenants	10 - 15 tenants	16 plus tenants
Management Intensity					
How will this be assessed?	This is an objective assessment based upon the number of leases included within the proposal. As such the assessment will be made by the Council's legal representative.				
Who will assess?	Monitoring Officer or nominated representative based upon number of leases issued				

	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Lot size and sector attractive to investors	Lot size not attractive to investors but sector is	Lots size attractive to investors but sector is not	Generally unattractive	Attractive to niche investors only
Liquidity					
How will this be assessed?	This is a more subjective criteria and a such the assessment should, where possible, seek external independent advice with respect to lot size and attractiveness				
Who will assess?	Capital Strategy Group based upon any independent expert advice offered.				

Tenure	Excellent	Good	Acceptable	Marginal	Poor
	5	4	3	2	1
	Freehold	Long leasehold 125+ years / peppercorn ground rent	Lease between 100 and 125 years / peppercorn ground rent	Lease between 50 and 100 years	Lease less than 50 years and/or high ground rent
How will this be assessed?	This is an objective criteria that will be clear from lease paperwork.				
Who will assess?	Monitoring Officer or nominated representative based upon information held within lease agreement.				

Appendix 3: Outcomes

Example: Conversion of previously empty shop unit to 3 retail units (Illustration only)

Outcomes and Impact Matrix

Council Priority:

A Thriving and Prosperous Economy

Success Factor:

Outcomes:

The likely achieved short-term and medium-term effects from the commercial investment

Measures: before

Measures: after

--

Impact

The likely longer term effects produced, directly or indirectly, from the commercial investment

Measures: before and after

--

Social Value Outcomes

This matrix should capture all of the non financial benefits accruing from the potential property investment. Reference should be made to the Council's 'Ambitions' Corporate Plan and any other strategic plan arising from the Ambitions plan (eg. Economic Growth strategy). This matrix should provide a good level of clarity on additional benefits that may accrue such as business rates, impact on a high street frontage, detail on any social impact such as employment and how this would be measured.