Peterborough City Council

Investment Acquisition Strategy

November 2018

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Executive Summary

Under the Local Government Act 2003 and the Localism Act 2011 Local authorities have extensive statutory powers allowing them to invest and to borrow, either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs. On this basis land and property can be acquired, developed or sold.

Local authorities have well established policies and procedures in place for their estate management activities. These do not however include a specific policy governing land and property acquisition, albeit there are a number of policy documents governing more generic capital investment within the public sector. Property investment may be for income generation, for strategic purposes or where there are wider community and economic benefits that can be achieved. This can be achieved by investing and/or developing property within their existing ownership, whether for onward sale or income generation. With the changing climate for local government finance and significant budget pressures in the foreseeable future, local authorities are embracing a more innovative, commercial and entrepreneurial approach to closing the budget gap and the development of a property investment portfolio is one element of this approach.

This strategy sets out the principles, approach and governance for a new enabling policy covering the selective acquisition of property assets within Peterborough and its immediate environs. This approach will have a range of benefits including the generation of income to support Peterborough City Council's revenue budget. The strategy identifies an approach based on the direct ownership and management of property assets, to enable the Council to acquire or redevelop property.

All such acquisitions will be subject to robust appraisal and undertaken in accordance with agreed governance procedures. The regulatory environment and best practice around local authorities investing in property is changing. The Council will need to be aware of this, take a balanced approach to risk and ensure appropriate review and performance arrangements are in place. The strategy sets out the rationale for acquiring properties and the criteria upon which asset selection will be based and reviewed. It also identifies the nature of risk associated with property investment and how the Council can mitigate it. The procedures, criteria and metrics presented through this strategy will be subject to annual review.

Of critical importance in adopting the strategy will be the need for a single point of accountability for the development of an investment portfolio. Equally important is, the ability to intervene in the market in a swift manner, subject to robust business case appraisal and governance, and taking a long term perspective of the portfolio (10 year+).

1.0 Introduction

1.1 The Importance & Nature of Property

Property is a multi-faceted and multi-purpose resource which is used to deliver a broad range of services within the public sector. It can both consume and generate cash. Increasingly it is being recognised in having strategic importance over the long term in supporting community prosperity and vibrancy. It is proposed that the Council holds different property assets for different purposes. In simple terms these fall within four distinct categories. An operational portfolio for service delivery, a surplus portfolio, an investment portfolio (principally for generating income or capital growth) and a strategic portfolio for assets to support corporate priorities such as regeneration and meeting housing need. The operational portfolio consumes cash, the investment portfolio generates cash and the strategic portfolio has long term 'latent value.'

The Council has a vision for a 'bigger and better Peterborough' that grows in the right way - improving quality of life for all its people and communities and creating a sustainable and thriving sub-regional centre which is an exciting place to live in, work and visit; and which is the environmental capital of the UK. How the Council uses its property assets will be a critical underpinning element in meeting this vision. As revenue budget pressures continue to impact on the Council so it will increasingly need to take a strategic perspective on its property assets. To do this means recognising and developing two key dimensions of property – its ability to generate cash (income or capital) and its ability to support wider strategic priorities, such as regeneration and meeting housing demand. Both are important and point to the need to grow and develop the investment and strategic property portfolios. This strategy focusses on the development of the Council's investment and strategic portfolios, and in particular the rationale for acquisition to grow these portfolios.

1.2 The Scope & Purpose of the Strategy

The Council is focussed on investing in property to enhance its financial resilience, safeguard services and to meet regeneration objectives. Adopting a commercial approach will ensure that investment returns, capital growth and long term latent value can be used to meet those objectives.

This strategy is designed to define a broad direction for developing the Council's investment and strategic property portfolios over the long term in order to ensure they are optimised to support the Council's vision for the city. The strategy is not a static document but rather part of a process designed to promote discussion about the nature of, and future direction for the management of the Council's investment and strategic property assets.

The strategy is a practical tool that will:

- Provide a rationale for developing the investment and strategic portfolios.
- Set out governance arrangements covering management of the portfolios.
- Define key objectives and operating principles for day to day management.
- Identify how investment decisions are made (acquisition & review criteria).
- Define an approach to managing risk across its asset holdings.
- Define how the financial viability of the portfolio will be sustained.
- Identify how the performance of the portfolio will be measured.

The strategy takes a medium term planning horizon of over 5 years plus but will be reviewed on an annual basis.

2.0 The Rationale for an Investment Portfolio

2.1 Property as an Investment Class

The Council's approach to investment is to obtain the optimum return while maintaining a proper level of security and liquidity. Property is one of several asset classes the Council can invest in. Other assets will include cash, fixed interest securities (bonds) and shares. An overall approach is required which ensures a degree of diversification in order to balance risk; with cash (held in savings accounts) and bonds having the lowest risk profile, followed by property. The Council needs to periodically review its balance across these asset classes and take a judgement on return versus risk.

2.2 The Legal Framework

Councils have the legal power to acquire and hold both commercial and residential property for investment purposes. Historically commercial property could be acquired and operated directly by councils, providing that the clear purpose was investment. If the purpose was to undertake a trading activity, the commercial property would need to be held in a company vehicle. Residential property can be acquired if the assets are being held and operated indirectly through a local authority controlled Special Purpose Vehicle. It can also be held and operated directly where a council has a Housing Revenue Account (HRA). As PCC does not have an existing HRA it may need to reinstate one in order to participate in any significant residential property investment.

Currently local authorities have broadly drawn powers allowing them to invest and to borrow, either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs (s.1 & s.12 of the Local Government Act 2003).

They have also been able to acquire property either inside or outside of their administrative area to support any of their functions, including their investment functions, or otherwise for the benefit, improvement or development of their area (s.120 of the Local Government Act 1972).

Lastly, they have been able to take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions, which would again include their investment functions (s.111 of the Local Government Act 1972).

Under the general power of competence set out in s.1 of the Localism Act 2011 local authorities have also built and managed investment property. In accordance with this Act, councils have all the necessary powers to purchase assets inside or outside of their administrative area and manage them for investment and commercial gain.

However, revised Statutory Guidance on Local Authority Investments issued in April 2018 by Ministry of Housing Communities & Local Government is directed towards curbing local authorities borrowing to invest in commercial property solely to raise revenue. There is a distinction between authorities who are taking on debt for regeneration and meeting local objectives, and those who borrow purely to get a return on investment.

The guidance contains a number of key points:

- A call for transparency and democratic accountability with regard to local authority investment.
- Councils should prepare a new investment strategy each financial year.
- Investments by local authorities can be classified into two main categories:
- investments held for treasury management purposes or other investments.
- Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code 2011.
- They should disclose the contribution that these investments make to the objectives of the local authority to support effective treasury management.
- Local authorities should disclose the contribution that all other investments make towards the service delivery objectives and/or place making. It is for individual authorities to define the types of contribution that investments can make and a single investment can make more than one type of contribution.
- There is a requirement to prioritise security, liquidity and yield in that order of importance when considering investment strategy

- The local authority's reporting should include quantitative indicators that allow councillors and the public to assess a council's total risk exposure as a result of its investment decisions. This should include how investments are funded and the rate of return received. Where investments are funded by borrowing, indicators should reflect the additional debt servicing costs.

This guidance will be supported by new advice to be released by the Chartered Institute of Public Finance and Accounting (CIPFA) before the end of the year. CIPFA issued a statement on Borrowing in Advance of need and Investments in Commercial Properties in October 2018. This statement guards against local authorities 'borrowing more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.' The statement goes on to say that commercial investments including property must be proportionate to the resources of the authority, otherwise they are unlikely to be consistent with the requirements of the Prudential Code or the Treasury Management Code.

2.3 Approaches to Investing in Property

There are a range of approaches to investing in property assets, from on the one hand investing in a commercial property fund, (or real estate investment trust etc.) and on the other hand owning the physical assets – each with its own advantages and disadvantages. The simple diagram below is intended to provide a framework for developing a strategy based on two broad criteria, ownership and management. The proposed positioning of PCC is shown - which favours both direct ownership and direct management of investment property. This is a considered choice of the Council and the respective pros and cons of this strategy are identified.

Pros & Cons of Direct Ownership & Management of Investment Property	
Pros	Cons
Ownership of property assets	Potential over-reliance on investment property to fund essential services
Achieve direct return	Reliance on own expertise
Control over property decisions	Management time & expense
No fund management costs	Relative lack of liquidity

The advantage of PCC's approach is that it will retain direct ownership of the assets with any returns coming direct to the Council. The Council will also retain control over decision making regarding strategy and management of the portfolio, including flexibility as to when to dispose of assets to generate capital.

With this approach the costs associated with other parties holding and managing properties on the Council's behalf are kept to a minimum. Conversely it requires resources to participate in direct property investment and requires a degree of capacity and expertise to manage the portfolio. There can be staff time (and thus cost) tied-up in managing a portfolio and there is a relative lack of liquidity in comparison with other indirect forms of property investment.

When considering direct ownership and management of property the selection of individual acquisitions becomes a critical factor. There are decisions to be made about the property sector and risks in relation to the broad portfolio asset mix, the risk profile of the tenants and the opportunities in the market. At one end of the scale (lower risk but lower opportunity) is a building already let, with a good lease length and tenant; whilst at the other end is a property coming to the end of its lease which is likely to need upgrading / expenditure prior to re-letting.

Alternatively, there may be freehold property which is untenanted but could be redeveloped, providing greater risk but greater opportunity. PCC's strategy will tend towards low risk investments where the covenant strength of the tenant is strong and where there is a good length of lease. There may occasionally be times where PCC may wish to invest in assets it already owns to get a return which would present a low-moderate risk and moderate opportunity. This issue of asset selection is considered in Section 4.4 and Appendix C

2.4 Benefits from Investing Directly in Property

The range of benefits that can arise from investing in property assets are more than simple financial returns, although this will be the prime objective of the portfolio. The table below summarises the range of benefits that can be realised and the combination of these need to be borne in mind when managing the portfolio. The relative priority given to these benefits needs to be considered when deciding on the key objectives.

Benefits from Investing Directly in Property	
Direct Returns	Income
	Capital growth
Multiplier Effects	Supporting growth of key local industries
	Improving confidence in local economy
	Supporting the local planning framework
Indirect Returns	Local job creation
	Increase in NDR (Business Rates)
Strategic Advantages	Key site assembly
	Long term strategic perspective

2.5 Difference between Investment & Strategic Acquisitions

Acquisition opportunities often arise unexpectedly and it is important to be quick to mobilise in order to take advantage of them when they occur. It is therefore important that the Council has an appraisal framework that permits them to respond without delay when opportunities arise, to save time and allow them to compete in a market where competition is fierce and demand outstrips supply. To do this the Council needs to be in a position to assess opportunities in a systematic but timely manner and to understand the nature of the opportunity in terms of its financial or strategic perspective.

A simple scorecard approach to support this initial appraisal is given below. This looks at a set of financial or strategic criteria to determine whether the Council should proceed. It recognises that some assets will be acquired for investment reasons (long term financial returns) whereas other assets will be acquired for strategic reasons (longer term latent value). Some assets will also have a combination of investment and strategic potential.

An initial set of criteria form both financial and non-financial perspectives can be developed to give a simple score to assess whether to proceed. An initial appraisal 'scorecard' is illustrated in Appendix D.

2.6 Risk & Return

At its simplest, a property investment is an investment in land or buildings which has the potential to give the investor a return in the form of rental income and capital growth. Capital growth may come over time by holding the asset and can be maximised through asset management initiatives (for example by re-gearing a lease to obtain a greater length of lease). Risk and return in property investment come both at a market level and from individual asset choice. In practice, property investment can be structured to create a range of different risk / reward profiles from stable bond-like annuity income performance to more volatile equity-like returns. A summary of the main risks and the PCC approach to mitigating these is given in Appendix A.

3.0 Strategic Context for the Strategy

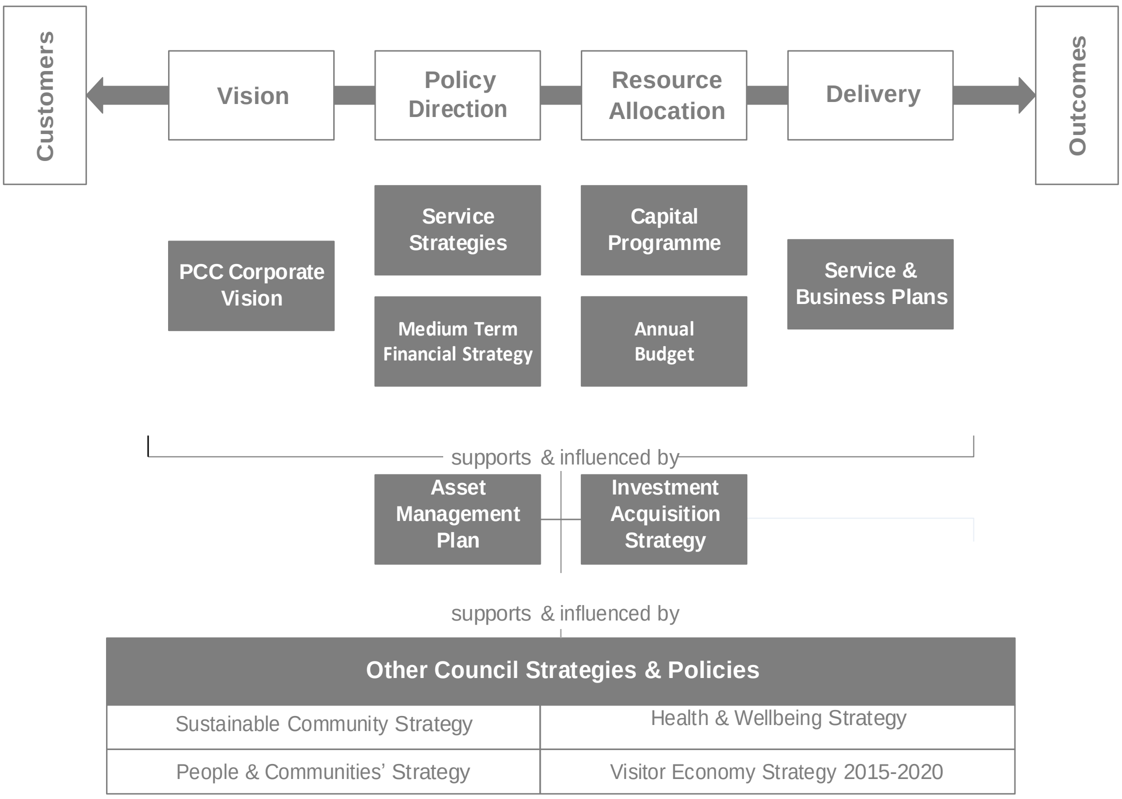
3.1 Overall Context

This strategy is set within the context of broader changes in the operating context for local government. The most impactful of these is the move towards a 'self-funding' model for local government as traditional sources of central government funding are reduced (as in the case of the Revenue Support Grant) or possibly withdrawn. This profound change in the funding basis of local government is prompting the need for councils to explore new ways of generating income to support their revenue budgets.

It is also encouraging councils to become more entrepreneurial and to invest in commercial property with a view to generating stable long term income. This strategy is designed to help support the delivery of council services in the future and allow councils to have more influence in shaping the local economy.

3.2 Key Council Strategies & Policies

This property investment strategy does not exist in isolation. It is related to the Council's wider corporate and service strategies and in particular the Council's Medium Term Financial Strategy.
This strategy underpins the overall management of the Council's property portfolio, the broad framework for which is articulated through the Council's Asset Management Plan (AMP). Whereas the AMP sets the context and direction for management of the portfolio as a whole, which includes operational and surplus property, this strategy is focused on the property assets the Council holds for investment or strategic purposes.



3.3 Resource Context

Over the medium term PCC is seeking to address the potential revenue gap from changes to local government through a range actions. There will be a renewed focus on innovation and efficiency with a view to mitigating and

controlling service demand, maximising funding and expanding commercial income.
A key strand of the action will be in placing a greater focus on income generation. This will be reflected in the Acquisition Strategy and AMP, both through leveraging existing commercial property assets and investment acquisition. The Council has agreed an initial capital allocation of £70m in order to grow its portfolio with an emphasis on acquiring income bearing assets or strategic assets which may have long term latent value.

Whilst no specific income target has been set there is an expectation that there will be a significant and sustained growth in income from property as a contribution to bridging an identified funding gap in the Council's revenue budget.

3.4 Market Outlook

3.4.1 National

Commercial property returns tend to be linked to national economic performance and to the relative prosperity of the economy. The short term outlook is therefore likely to be generally a positive one but also potentially turbulent given that the implications of Brexit are not yet clear. How the national economy will perform over the long term cannot be guaranteed.

The investment portfolio does however need to be seen over the longer term, as reactions to short term market changes can distort yields which are likely to be more stable if viewed over a greater timeframe. In this context it will be important to balance a one year budget cycle and any expenditure required for this with the longer term perspective that is required for investment management of either a commercial or residential portfolio.

The changing nature of the economy, globalisation the growth in home-working, automation and the use of artificial intelligence (AI) may yet have unforeseen impacts on the demand for different types of buildings. As businesses strive to become more agile many are seeking shorter lease lengths than was historically the case or regular break options so they can react quickly to change. Increasing use of artificial intelligence and automation will change the demand for commercial space over time. Currently there is a very strong demand for industrial and warehouse space, driven to some extent by a change in consumer shopping habits. The trend for internet shopping is also impacting on demand for more traditional retail space. The outcome of such trends and the speed at which they are developing is ever-changing so a degree of forward thinking is required in terms of the portfolio strategy.

The conventional wisdom of retaining a balanced portfolio (between industrial, office and retail) to mitigate risk is therefore shifting and to optimise overall returns from investment a new portfolio balance may be required. This may also necessitate a greater emphasis on residential development where long term demand has proven to be very stable.

In the current climate with rates of return on cash reserves very low (typically between 0.5% and 2.0%) property still presents an opportunity for better returns and also has a potential for significant capital growth over the long term.

3.4.2 Local

It will be important for the Council to understand the local property market and its outlook over the medium term. This should include the city and its immediate surroundings and also the Cambridge area because of emerging working relationships across the authorities and its strength as a technology centre.

A local market report for Peterborough published in September 2018 by Savills identified a strong demand for residential and commercial property in Peterborough. This demand is being driven by strong population and economic growth in the area. Whilst demand for accommodation is strongest in the commercial and residential sectors, it is strong across all sectors.

The Savills *"Peterborough: A growing city"* report highlights that whilst the area is responding to strong residential demand and a healthy land supply, high levels of development are still required to meet housing need.

Both the adopted and emerging local plan targets for Peterborough are well in excess of 1,200 homes each year.

The largest share of housing supply will be on the city fringe with planning consent granted for 5,300 homes at Great Haddon. The residential market therefore offers a long term investment opportunity for the City Council as this land supply comes on stream.

The industrial market has benefitted from a shift towards online retailers, many of whom have established large distribution centers in the city. Due to strong demand, vacancy rates are at a historic low. Attracted by strong rail and road links, Amazon, Debenhams and Ikea have established large scale distribution centers in Peterborough. At present, there is just one unit of 100,000 sq.ft of industrial space available within a 50 mile radius of Peterborough and the opportunity exists to take advantage of second hand units to undertake refurbishments to bring poor quality stock up to standard. It is a similar picture in the office market with low vacancy rates creating upward pressure on rents.

4.0 Managing the Portfolio

4.1 Aims & Objectives

As this is the Council's first Investment Acquisition Strategy it is important to explicitly state the aims and objectives in developing a property investment portfolio. These are summarised in Appendix B along with basic operating principles for the portfolio. The overall aim has a dual purpose, both to create a financial return and to promote local economic prosperity, however these objectives may sometimes conflict. There is a risk that the pursuit of socio-economic aims through for example supporting job creation, may dilute the purely financial goals. However there should also be many opportunities where these objectives can be aligned.

4.2 Operating Principles & Governance Arrangements

In order to manage the portfolio effectively it is important to have a set of explicit operating principles which include a clear rationale for holding each asset and an understanding of the expectations, (financial or otherwise) for managing it. To do this the Council has a set of basic operating principles as shown in Appendix B and a simple framework for assessing the portfolio in terms of acquisition, performance and disposal.

In practice this will mean making judgements around the acquisition and disposal of assets, the portfolio structure, portfolio mix, holding period for individual assets and the performance of the portfolio. A framework for assessing individual assets and the portfolio as a whole is given in Appendix C.

- Acquisitions & Disposals – The management of the portfolio will from time to time require the acquisition and disposal of individual assets. These must be undertaken in accordance with the Council's financial procedures, but will need to be expedited to take advantage of investment opportunities.

- Development – the Council will seek to invest in developing commercial property assets or land which is already within their ownership either using internal resource or in partnership with existing suppliers, subject to a robust business case.

- Portfolio Structure – the Council will seek to create a balanced investment portfolio that provides long term rental returns and capital growth. A core portfolio of property assets will be sought with a view to diversification in individual assets by sector (industrial, offices and retail), location and risk.

- Portfolio Mix – the Council will take an opportunity led approach to investments but seek to maintain a balance between different assets types (office, industrial and retail assets) with a guideline approach of maximum of 50% of any type. Given that the portfolio is relatively small and a single transaction can adjust the balance significantly this is only seen as an initial guideline. The Council will seek to avoid investing in specialist asset types (such as hotel & leisure) or distressed property requiring extensive capital expenditure which would necessitate a higher risk investment strategy.

- Holding Period – The Council will determine a 'holding period' for each property at the point of acquisition. This is so that provisions can be made where a property is likely to need refurbishment in the future and to ensure a formal periodic review of the rationale for holding individual assets.

- Measuring Performance – Individual assets and the whole portfolio will need to be subject to periodic performance assessment.

A set of clear, simple governance arrangements will be required which will allow speedy intervention in the market whilst also ensuring consistency with financial regulations and robust business case appraisal. An outline of these is given in Appendix E.

4.3 Day to Day Portfolio Management

Effective day to day management of the portfolio is critical to its overall performance. This management needs to happen at both a strategic and operational level.

The key activities include:

At a strategic level:

- Annual refresh of strategy and measurement of performance.
- Effective financial management including rent collection.
- Effective void management and marketing.
- Identifying new investment opportunities.
- Minimise management costs associated with direct ownership.
- Ensure there is a regime of planned maintenance and statutory compliance where PCC manage.

At a property level:

- Preparation of strategies for individual properties.
- Identifying opportunities to add value for example by refurbishing premises or regearing leases.
- Identifying 'marriage value' arising from acquisition of adjoining properties.
- Identifying properties for disposal where performance prospects are poor.
- Ensuring premises are secure and safe and are regularly inspected.

4.4 Acquisition, Review & Disposal Criteria

Appendix C identifies a range of criteria that will be used in the acquisition of properties. The same criteria for selecting acquisitions can also be used for asset review. All assets will be reviewed on a periodic basis to ensure that the criteria in Appendix C are still met and in light of any wider portfolio considerations. It is recommended that a 'holding period' is identified for assets when first acquired which should act as a guide for subsequent disposal. Such an approach allows for the portfolio to be refreshed on a regular basis and promotes a long term perspective for portfolio management. Individual assets identified for disposal will follow the same governance procedures.

4.5 Performance Management

The performance indicators for the portfolio should be based on industry benchmark standards. These should be measured at an individual property and whole portfolio level with indicative targets set for each. A simple set of initial performance measures are presented in Appendix F. This is an evolving framework which will be need to be developed as the portfolio grows, especially given the changing regulatory and best practice environment identified in Section 2.2.

The return on investment (or property yield) is perhaps the single most important performance indicator and this should be judged against IPD (Investment Property Database) which is generally considered to be the most authoritative benchmarking index. Property should be considered as a long term investment and whilst its value can fluctuate in the short term due to specific circumstances, it will tend to provide stable long term returns. A degree of judgement will need to be used in evaluating the portfolio performance which will need to take into consideration the long term perspective.

5.0 Implementation

5.1 Action Plan

- The lead officers with accountability for managing the investment portfolio will be the Head of Growth and Regeneration and the Corporate Director of Resources.

- Governance: as detailed in Appendix E, the Corporate Property Officer will have delegated authority to approve investments up to a level of £20 million. For opportunities which are in excess of £20m a Cabinet Member Decision Notice would need to be completed.

5.2 Implementation Considerations

Effective and successful management of an investment portfolio requires a combination of skills including, but not restricted to building surveying, valuation, market intelligence, legal, financial and property management. It will also require specific senior officers to be accountable and appropriate capacity to ensure there is adequate focus on the portfolio.

5.3 Monitoring Arrangements

It is important to measure the overall progress in the management of the investment portfolio. Whilst property will be held for the medium to long term, there needs to be monitoring over shorter timescales to measure performance and the impact of any actions, such as building improvements. The portfolio will be kept under review by:-

- PCC head of property and financial director. NPS Property Consultants are to advise and seek agreement to decisions on specific actions (e.g. acquisitions or disposals).

- An annual report on performance of the portfolio, with the report based on a set of performance indicators as suggested in Appendix E.

- Formal review of each asset holding at least every two years using the acquisition and review criteria set out in Appendix C.

- Informal leader briefings by the joint venture property team as required.

Appendix A – Summary of Risks and PCC Approach to Mitigation

Risk	PCC Approach to Mitigation
Costs - Abortive costs, including legal costs, survey fees, officer time, may all be incurred in abortive transactions including costs for initial feasibility investigations.	PCC will adopt a 'whole portfolio' view of costs and accept risk associated with occasional abortive costs whilst also undertaking due diligence to reduce the likelihood of these.
Market forces - Fluctuation in demand and supply and in the wider economy may see the value of assets and income rise and fall, with a risk that the Council may not recoup the original amount invested in full.	To limit this risk due diligence will be followed for all transactions. PCC will adopt a 'whole portfolio' and medium term (10 year +) view of its investment to mitigate the potential losses from one individual investment asset.
Competition – Where the local market is very strong (for example Cambridge), there will be increased competitive activity for limited supply of high quality investment property. This means that the Council are likely to be one of several bidders for available assets.	PCC will adopt procedures which will allow them to compete in the market but with appropriate governance procedures covering the necessary delegated authority and decision making.
Liquidity - The process of buying and selling investment property is fairly lengthy (e.g. an investment disposal will usually take between 3 to 6 months from heads of terms to completion), making it a more illiquid than other asset classes such as equities or bonds.	PCC will manage the portfolio by adopting the Institute of Public Finance (IPF)'s best practice advice contained in "Readiness for sale - A guide for streamlining commercial property transactions". Furthermore PCC will identify a recommended 'holding period' for each investment which will be aligned with the strategic aim of long term income.
Opportunity - The availability of property stock for investment in the Council's administrative area may be limited. As the Council seeks to grow the portfolio it may at times be frustrated by a lack of opportunity.	To counter this PCC will seek out as many appropriate opportunities as possible, build relationships and communicate to the market the Council's requirement and ability to perform.

Management - The portfolio may have the risk of void periods or tenants may default on rent payment. Voids create holding and re-letting costs; if they persist for prolonged periods these costs can be significant.	Active portfolio management will be undertaken by PCC during the holding period to anticipate and reduce such risks where possible.
Capacity & Expertise - Management of an investment portfolio requires specific skills, expertise and capacity. Direct ownership and direct management means this can be resource intensive. As the portfolio grows, so the management burden will grow.	This specific issue along with knowledge of the local market opportunities will be critical. PCC will identify a 'lead officer' with appropriate expertise to provide a focus on the investment portfolio.
Reputation - How the Council acts to intervene in the market and deals with day to day management of its properties and tenants will have an impact on the Council's overall reputation.	PCC will seek to adhere to 'best practice' in all its transactions and ensure effective regular liaison with tenants. Reviews of individual assets and the portfolio as a whole will identify any works required to protect or enhance the fabric of buildings which may be needed in order to re-let a void property.
Regulatory Compliance - The Council should ensure it operates within the applicable regulatory framework and regularly takes steps to review that framework.	PCC will act in accordance with appropriate statutes and in line with current financial regulations and 'best practice' including the Chartered Institute of Public Finance and Accounting (CIPFA) Prudential Code, CIPFA's treasury management guidance for local authority funds and the Department for Communities and Local Government (DCLG) statutory guidance on local authority investment.

Appendix B – Summary of Aims, Objectives & Operating Principles

Aim

To acquire and manage investment property (the investment portfolio) in order to support the Council's revenue budget and its priority in ensuring the economic prosperity and well-being of Peterborough.

Objectives

- To acquire property that can provide long term income and capital growth.
- To maximise returns whilst minimising risk through sound property selection and effective governance.
- To prioritise investment towards property that can provide strong stable long term income.
- To maintain and enhance the condition of property to ensure long term income
- strength and income growth.

Operating Principles

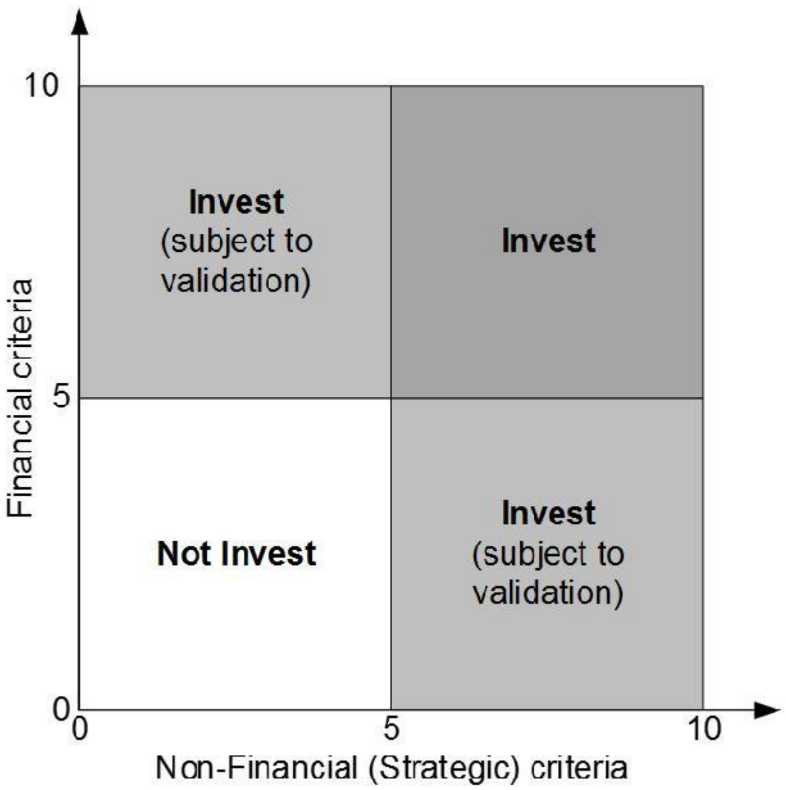
- The Council will retain direct ownership of all its investment property assets.
- The Council will undertake the management of the investment portfolio in-house
- (as a landlord) or with established suppliers / joint ventures.
- The geographical operating scope of the portfolio will be restricted to
- Peterborough City Council's administrative area and its immediate surroundings.
- The council will seek to retain a 'balanced' portfolio through its mix of asset types and lease lengths with emphasis on industrial, office and retail uses.
- To minimise management and risk, preference will be for single occupancy investments although multi-let properties may be considered.
- Preference will be for full repairing and insuring (FRI) terms or FRI by way of service charge, meaning that all costs relating to occupation and repairs are borne by the tenant(s) during the lease term.
- There will be an annual portfolio review with an executive summary report to the Audit Committee which will examine the portfolio's performance and allow for strategic decision making.

Appendix C - Acquisition & Review Criteria for Investment Assets

Criteria	Scoring 1 Poor	 2 Marginal	 3 Acceptable	 4 Good	 5 Very good	Score
Location	Tertiary	Micro Secondary	Major Secondary	Micro Prime	Major Prime	1-5
Tenancy Strength	Tenants with unstable or poor financial covenant	Multiple tenants with good financial covenant	Multiple tenants with strong financial covenant	Single tenant with good financial covenant	Single Tenant with strong financial covenant	1-5
Tenure	Lease less than 20 years	Lease between 20 & 50 years	Lease between 50 & 125 years	Lease 125 years with option to buy freehold	Freehold	1-5
Lease Length	Less than 2 years or vacant	Between 2 & 4 years	Between 4 & 7 years	Between 7 & 10 years	Greater than 10 years	1-5
Repairing Terms	Landlord	Internal repairing – non recoverable	Internal repairing – partially recoverable	Internal repairing – 100% recoverable	Full repairing & insuring	1-5
Physical Condition	In a poor state of repair with significant liabilities	In a poor condition with some repairs required	In a reasonable condition with limited repairs required	In a good condition with only limited repair issues	Fit for purpose, well maintained with no outstanding repairs	1-5
Note: This is an initial framework which will be updated and refined in use. The exact criteria and scoring approach is subject to review				**Maximum Score**		**30**

Appendix D – Initial Investment Appraisal 'Scorecard'

Financial Criteria	Strategic Criteria
Does the net yield exceed PCC agreed target?	Does the investment support local community vibrancy?
Is the location classified as major prime, micro prime or major secondary?	Will the investment support local job creation or retention?
Is the property freehold or have a lease in excess of 150 years?	Will it facilitate strategic site assembly / increase scope for intervention?
Is the lease an 'operating lease' so all income can be treated as revenue?	Will it support improvement in infrastructure?
Can it be let on full repair & insuring terms or with 100% recovery of internal repairs?	Will it support local place shaping in line with PCC objectives?
Is the occupier's lease length greater than 5 years?	Does it support equity of prosperity & opportunity across Peterborough?
Is there a single tenant with good or strong covenant?	Does it support anti-poverty or deprivation policies?
Does the location reflect good potential for rental growth & high letting prospects	Will it support education, skills or apprenticeship policies?
Does the asset improve the balance of the PCC portfolio (risk management)?	Is it in a specific priority area for regeneration or growth?
Does the asset have good market exit (sales) prospects?	Does it contribute to better balance within and between 'places'?



Appendix E – Governance Arrangements

The Council will acquire assets where it can demonstrate:

- An investment return can be generated
- Value can be added to existing assets held by the Council
- There is a strategic benefit from acquiring the assets.
- A contribution to the maintenance of a balanced commercial property portfolio.

All acquisitions will be assessed through a robust business case and with particular reference to the cost, benefit, impact and risk of the property. How it relates to the Council's corporate objectives and its assessment against the acquisition and review framework (See Appendix C) will also be key. In all cases an independent valuation will be obtained by a member of the Royal Institution of Chartered Surveyors to ensure that the transaction represents market value.

Acquisitions and disposals relating to the commercial portfolio, whilst needing to be consistent with the Council's financial strategy, will need to be completed quickly. This is even more likely to be in the case of acquisition, as securing a good investment will require the ability to respond and act quickly to secure it ahead of the competition.

Acquisitions and disposals will, under the Council's Rules of Financial Governance require consultation with and agreement of the Section 151 Officer. In all cases, they will need to be supported by a financial appraisal setting out all the financial and budgetary implications. Under the Council's practice of delegated authority nominated senior officers along with the Corporate Property Officer can approve acquisitions or disposals subject to a maximum value of £20M. Acquisitions over this value will be identified as 'key decisions' and included in the Council's standard processes around key decisions.

Appendix F – Performance Measures

Indicator	Target	Actual
Rate of Return	5% - 8%	
Revenue Growth (over 5 years)	To be defined	
Capital Growth (over 5 years)	To be defined	
Management & Ownership Costs (as a % of gross income)	To be defined	
Average portfolio score under 'Acquisition & Review Criteria'	20+	

Below is a list of further possible performance indicators that could be used to measure the performance of the portfolio.

Debt to net service expenditure (NSE) ratio	*Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*
Commercial income to NSE ratio	*Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.*
Investment cover ratio	*The total net income from property investments, compared to the interest expense.*
Loan to value ratio	*The amount of debt compared to the total asset value.*
Target income returns	*Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.*
Benchmarking of returns	*As a measure against other investments and against other council's property portfolios.*
Gross and net income	*The income received from the investment portfolio at a gross level and net level (less costs) over time.*
Operating costs	*The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.*
Vacancy levels and Tenant exposures for nonfinancial investments	*Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.*

References

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Localism Act 2011

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