

Appendix 4 - Statutory Guidance on Local Authority Investments: Checklist relating to Investment Property

Checklist taken from CIPFA Prudential Property Guidance 2019, Annex B

Please note that the statutory Guidance focuses on the contents of the Council's Investment Strategy and not on the due diligence for individual transactions. The latter is covered by processes set out in the Property Investment Strategy approved by Cabinet in July 2019, including a decision checklist for proposed acquisitions

Guidance	How the City Council has addressed it
<p>Definitions</p> <p>'Investments' are defined in paragraph 4 to include: "... all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property ...".</p>	<p>BCC has followed this definition</p>
<p>Transparency and democratic accountability</p> <p>At least one investment strategy should be prepared for each financial year (paragraph 15), approved by full council before the start of the relevant year (paragraph 16).</p> <p>Material changes to the strategy should be presented to full council before the changes are implemented (paragraph 17).</p> <p>The strategy should be publicly available on the authority's website (paragraph 18).</p>	<p>The Council has approved a Service and Commercial Investment Strategy as part of the Financial Plan 2019+ (Appendix Q). This will be revised and approved annually as part of the budget approval by full Council. The Strategy covers property investments as well as financial investments. In support of the Strategy, Cabinet in July 2019 approved a detailed Property Investment Strategy with advice from CBRE.</p>
<p>Contribution</p> <p>The contribution that other investments (those not held for treasury management purposes) make towards service delivery objectives and/or the authority's placemaking role should be disclosed, according to types of contribution defined by the authority (paragraph 22).</p>	<p>The Service and Commercial Investment Strategy sets out the main and secondary contributions made by all its financial and property investments. The Investment Property portfolio's main contribution is towards the finances of the authority, but</p>

	economic and community benefits are a secondary objective which will be taken into account in decisionmaking.
<p>Use of indicators</p> <p>Paragraph 23 requires the investment strategy to include quantitative indicators that will allow members and the public to assess the authority's total risk exposure as a result of its other investment decisions, covering how investments are funded and the rate of return received. If the investments are made with borrowed cash, the indicators used should reflect the additional debt servicing costs taken on.</p> <p>The indicators used are at the authority's discretion and will reflect local risk appetite and capital and investment strategies. Indicators used should be consistent from year to year (paragraph 24).</p> <p>Indicators should allow assessment of the risks and opportunities of other investments over their payback period and (where funded from borrowing) the repayment period of the loans taken out (paragraph 25).</p>	<p>The Council's Service and Commercial Investment Strategy includes indicators of:</p> <ul style="list-style-type: none"> • Budgeted commercial property gross income compared with Council net budget (to assess proportionality) • Borrowing against £50m bridging facility • From 2020+ an indicator of commercial property value will be included, compared with outstanding borrowing to fund commercial property, and including an overall investment limit
<p>Security, liquidity and yield</p> <p>Paragraph 28 requires for treasury management investments that a balance of security, liquidity and yield is achieved based on the authority's risk appetite and the contributions made by the activity.</p>	<p>Not directly applicable (treasury management only) – although security, liquidity and yield remain important to the Council's Property Investment Strategy.</p>
<p>Security</p>	<p>This seems to request a comparison of fair value against purchase cost. Most of the Council's property portfolio was purchased many years ago and the purchase price is unknown (and almost certainly less than current value). This can be monitored for</p>

<p>The investment strategy should include the following disclosures:</p> <ul style="list-style-type: none"> • where the fair value of the investment property provides sufficient security against loss, a statement that a fair value assessment has been made in the last 12 months and the underlying asset provides security for the capital investment (paragraph 38) • where fair value is insufficient to provide security against loss, detail of mitigating actions taken or proposed (paragraph 39) • Where a loss is recognised in the fair value of a non-financial investment as part of the year end accounts and audit process, an updated strategy should be presented to full council detailing the impact of the loss on security and any revenue consequences arising (paragraph 40). 	<p>new purchases, although a proper comparison would be more complex than described. The Investment Property Board will regularly monitor market value and investment returns, and will seek to manage the portfolio as a whole on a balanced asset allocation approach, recognising that different properties will have different risks and will respond differently to market conditions. The 2020+ Investment Strategy will explain that new property investments may have an initial loss due to transaction costs and stamp duty (as explained in the CIPFA Guidance).</p>
<p>Assessing risk of loss</p> <p>Paragraph 41 recommends that the investment strategy should set out the approach to assessing risk of loss before entering into and while holding other investments, in particular:</p> <ul style="list-style-type: none"> • how the market that the authority is competing in has been assessed, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements • whether – and, if so, how – a local authority uses external advisors (treasury advisers, property professionals, etc) • how the quality of external advice is monitored and maintained • to what extent, if at all, risk assessment is based on credit agency ratings • where credit ratings are used, how frequently they are monitored and the procedures for action if they 	<p>The Service Investment Strategy 2019+ sets out the Council's investment risk appetite as relatively low, particularly for investments which are being financed by borrowing. It then summarises the ways the Council seeks to manage risk in relation to financial and property investments.</p> <p>In relation to individual property investments, the Property Investment Strategy approved by Cabinet in July 2019 sets out more detailed policies and criteria for assessing and managing risk, including an investment decision guide template to be used for purchases as part of the executive decision report.</p> <p>Property Investment advisers are retained to advise on the portfolio.</p> <p>Credit scores for tenants will be reviewed</p>

<p>change</p> <ul style="list-style-type: none"> • what other sources of information are used to assess and monitor risk. 	<p>as part of acquisitions due diligence, where available.</p>
<p>Liquidity</p> <p>For non-financial investments, the strategy should disclose:</p> <ul style="list-style-type: none"> • the procedures for ensuring that the funds can be accessed when they are needed • the authority's view of the liquidity of the investments that it holds, recognising that assets can take a considerable period to sell in certain market conditions, assessed by class of asset or at a portfolio level if appropriate (paragraph 43). 	<p>The Service and Commercial Investment Strategy says that liquidity risks will be managed by the Investment Property Board and through the £50m limit on new investments. The Property Investment Strategy approved by Cabinet in July 2019 contains more detailed procedures and criteria.</p>
<p>Proportionality</p> <p>If plans feature dependence on profit-generating investment activity to achieve a balanced budget, paragraph 44 requires the strategy to:</p> <ul style="list-style-type: none"> • detail the extent to which funding of service delivery objectives is dependent on achieving the expected net profit • set out contingency plans should the authority fail to achieve the expected net profit. <p>Paragraph 45 requires that the assessment should as a minimum cover the life cycle of the medium-term financial plan, but recommends assessment of longer-term risks and opportunities.</p>	<p>BCC's Strategy includes an indicator of proportionality, namely the proportion of the General Fund Net Budget which is represented by gross service and commercial investment income (identifying investment property income separately). This is currently in the 4% to 5% range which is considered to be a prudent proportion of net revenues.</p> <p>Investment income is monitored and managed as part of normal monthly revenue budget monitoring and management actions.</p>
<p>Borrowing in advance of need</p> <p>Paragraph 46 declares a prohibition on borrowing more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.</p> <p>If this prohibition is disregarded, and the authority borrows or has borrowed purely to profit from the investment of the extra sums borrowed, the</p>	<p>The Strategy and the Council's budget includes a 'bridging loan' of up to £50m which is there to cover any short term timing differences between approved property sales and approved property purchases. There is no intention to increase the size of the investment property portfolio on a long term basis</p>

<p>investment strategy should explain:</p> <ul style="list-style-type: none"> • why the authority has decided not to have regard to the Investments Guidance or to the Prudential Code • the authority's policies in investing the money borrowed, including management of the risks, eg not achieving the desired profit or borrowing costs increasing 	<p>through the use of borrowing, where the Council's purpose is purely to profit from the investment of the sums borrowed.</p>
<p>Capacity, skills and culture</p> <p>Paragraph 48 requires that the investment strategy should disclose the steps taken to ensure that members and officers involved in investments decision making have appropriate capacity, skills and information to:</p> <ul style="list-style-type: none"> • enable them to make informed decisions as to whether to enter into a specific investment • assess individual assessments in the context of the strategic objectives and risk profile of the authority • enable them to understand how the quantum of these decisions have changed the overall risk exposure. <p>Paragraph 49 requires the strategy to disclose the steps taken to ensure that those negotiating commercial deals are aware of the core principles of the Prudential Framework and of the regulatory regime within which the authority operates.</p> <p>The strategy should comment as appropriate on the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the authority's corporate values.</p>	<p>BCC's Strategy sets out several avenues for training for members and officers, including regular treasury management training from the Council's treasury and investment advisers, training on commercialism, and training to members and officers supporting the Cabinet Committee – Group Company Governance. Specific training on Investment Property is being planned with the Council's property advisers, CBRE.</p> <p>Officer training relating to investment property is planned and monitored through continuing professional development for RICS and CIPFA professionals. Oversight of training for officers and members forms part of the terms of reference of the newly established Property Investment Board. These arrangements will be reported more fully in the next Strategy revision.</p> <p>The brief to the Council's forthcoming Property advisers will make reference to the need to be aware of the Prudential Code and Government Guidance.</p>