

Risk management and sound decision making

Risk management

In order to ensure the council's investments are as safe as possible we have employed a range of robust due diligence techniques including:

- Evaluation of the tenant by our agents Cushman and Wakefield, by our in-house asset management team and utilising industry-standard information sources such as Standard and Poor's
- This includes modelling over the 50 year funding period future capital expenditure needs relating to the assets and identifying and quantifying potential void periods
- The Council model models the impact of tenant failure and when necessary secures parent company guarantees from tenants.
- Second opinions are taken on all of the above work by Deloitte to give the Council further reassurance
- The Council models financial projections on a basic and worst-case scenario
- Following acquisition there is ongoing management of the property and monitoring of key financial metrics and performance metrics by qualified asset managers including the appointment of appropriate qualified asset management firms particularly with the larger multi-tenant buildings.
- The Council has set aside money from investments to establish sinking funds to cover worst-case scenarios and also planned future voids (i.e the periods between one tenant leaving and the next occupying) and rent free periods at end of term and refurbishment works

All this is in accordance with good asset management practice.

Diversification – spreading the risk

In any commercial property portfolio it is important to achieve a level of diversification in order to ensure that, “not all the eggs are in one basket”.

Portfolio can be diversified by:

- property type e.g. office, residential, industrial or retail
- sector e.g. pharmaceutical, media, fin-tech et cetera
- geography e.g. south-east, national or international

It can be seen from the Council's portfolio that it is heavily weighted towards south-east office market although the tenant mix is diversified. The council will keep under review its investment parameters and the needs to properly ensure a diversification of its assets particularly in light of changes to the economy which may emerge following the exit of United Kingdom from the European Union

Skills and expertise

Another feature of good risk management is to have professionally qualified, experienced staff in sufficient numbers that they can look after the acquisitions of investments, the development of properties and ongoing asset management.

Prior to 2016 the council had a small internal team which was focused on the needs of a typical municipal portfolio since that time the focus of the team has shifted considerably and the resources which are being put into it have also been increased. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant (CIPFA, ICAS) with 29 years' experience. The strengthening of this team has come from funding, management set-asides from investment income itself, and we have focused on bringing in individuals with significant commercial experience.

There is now an 11 strong asset management team including:

- a manager of the property unit formerly employed by BAA and with considerable expertise in their commercial property market around Heathrow
- a development manager with considerable experience from building residential property in the PRS sector
- the property manager formerly at a commercial fund

The Council will ensure that the team continues to grow and is currently in the process of recruiting to a further three new property posts. It has also added further resources to its in-house finance team and legal team to support this acquisition and development activity. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, encourages its professional staff to undertake ongoing continuous professional development.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field which it can rely on including:

- Clyde and Co— the council's solicitors have worked with Spelthorne Borough Council since the development of the Elmsleigh centre and two rivers shopping centre
- Cushman and Wakefield – the councils lead town centre and property advisers, Cushman and Wakefield have worked with the council since the development of the Elmsleigh Centre and the two rivers shopping centre
- Arlingclose Limited– a leading treasury management consultancy
- Landid – asset managers of our portfolio in Slough Hillingdon and Uxbridge
- Standard and Poor's – A financial services company which has been brought in to provide ongoing credit assessments of our commercial tenants
- Deloitte – well-known accountants and auditors provide a second opinion on valuation and other aspects of advice. They provide independent triangulation on the robustness of approach and on tenants' financial health

This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

We also seek to ensure that our councillors' knowledge on our approach to investments both treasury management and commercial is appropriately maintained. The Finance Portfolio Holder attends quarterly briefings with Arlingclose our Treasury Management advisers. We have run sessions on our property investment approach for members of our Overview and Scrutiny Committee and we will provide induction training for the fresh intake of councillors following the May 2019 elections.

Governance

As a council we need to ensure that we consider all opportunities in a managed way, and that we do so as transparently as we can (bearing in mind we are making commercially sensitive decisions). This process includes both officers and councillors (who at the end of the day are the people who are accountable to the electorate and need to ensure the council spends its money wisely).

All property acquisitions are overseen by a small group of senior councillors and officers including Leader of the Council, Councillor Ian Harvey, who has a background in property investment and Councillor Howard Williams, the Finance Portfolio Holder, whose background is in corporate finance.

Councillors are involved at key stages of the process. The Leader and Finance Portfolio Holder attend an Investment and Property Committee on a regular basis where they are presented with details of potential acquisitions and development schemes. This is also attended by the Chief Executive, the Deputy Chief Executive who is also the S151 officer and the Property and Development Manager. (It should be noted that a large number of acquisitions are discarded by officers before reaching this stage). An informed decision is then made by that Committee on whether an acquisition/proposal should proceed to the next stage. Those that do go through a further due diligence process before Cabinet sign off the acquisition/development and the price/budget. In order to streamline the actual completion process, delegations are given to the Chief Executive, S151 officer, Leader and Financer Portfolio Holder. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the Capital Programme.

