

Strategic Property Investment Parameters

Spelthorne Borough Council currently invests in property for one of three primary reasons:

- Revenue generation
- Social investment, and
- Strategic purposes

1. Revenue Generation

1.1 Purpose

To deliver additional ongoing income to support the revenue budget to:

- a. Offset funding reductions from external sources (central government and the county council) and other budgetary pressures, and
- b. Aspirationally to go beyond that to increase the quality and quantity of services we deliver to the residents of Spelthorne.

Our aim is that the Borough Council becomes financially self-sufficient.

Net income generated is calculated net of all costs associated with the investment, including interest, provisions to cover refurbishment and possible future rent-free/void periods, external professional fees etc.

These investments are intended to deliver a surplus to be used to support the provision of services but can carry significant risk. Approximately 5% target gross return dependent upon covenant.

At this margin a small loss can have a disproportionate negative effect.

We therefore need to have clear guidelines and underwriting criteria.

1.2 Investment Guidelines

- i. We will always undertake thorough due diligence to ensure that the Council understands the risks associated with a particular proposed acquisition and how those risks are mitigated.
- ii. Preference is given to investing within borough, or in an adjoining area that is economically important to Spelthorne (for example Heathrow / areas immediately south of Staines Bridge). Properties outside this preferred area should represent a lower risk and higher return.

This is because:

- a. local investment ensures that we are best placed to know all the facts surrounding a property, its history, potential developments in the area etc. and, as the planning authority, the borough can optimize the benefits that provides, and

- b. any loss-mitigating exit strategy that may be required and that may result in a change of use or conversion of the investment from profit-making into a non-profit-making social investment (e.g. conversion from rented offices to emergency, social or affordable housing) will benefit residents of Spelthorne i.e. the taxpayers who are funding the investment. Variation from this requires a better return to mitigate above considerations.
- iii. We have a clear view of the asset security curve.
- iv. We have a clear exit strategy, fully costed, at the various critical points in the investment (lease break points etc.).
- v. We do not attempt to second-guess what a tenant may do in the future. We always rely solely on the contractual obligations and plan for the worst-case scenario.
- vi. We do not make speculative investments for revenue-generation purposes. The properties should ordinarily be complete, free of any ongoing redevelopment work and occupied by creditworthy tenants with a minimum of 10 years' lease remaining.
- vii. Any exposure to interest rate fluctuations must be mitigated. We will ordinarily only borrow at fixed interest rates.
- viii. Once completed (funding drawn down and purchase completed), the funding arrangements for investment should require only minimal supervision or intervention, avoiding technically complex, long-term refinancing exercises (e.g. bond issues, dependence on future refinancing) or dependence on external professionals or professional, specialist knowledge from councilors or officers (who may well have left the Council by the time the decision-making point arrives).
- ix. We do not invest in incomplete builds, conversions, etc unless a water tight pre-completion occupier lease is in place
- x. We will not normally invest in retail units, unless it forms part of a wider potential regeneration scheme.
- xi. We do not engage with sellers or tenants who may present a significant reputational risk
- xii. The credit rating of all incumbent tenants is to be understood, recorded at the time, and must be sufficiently strong for the level of investment. We aim for primarily "Blue Chip" covenants.
- xiii. We do not engage in high-risk / high-reward investments.
- xiv. We do not invest in properties that have a material flood risk (1/100 years or more frequent) unless robust flood mitigation has been designed in.

2. Social Investments

2.1 Purpose

To deliver projects that improve quality of life for our residents, such as emergency, social and affordable housing, community infrastructure and well-being projects, flood prevention and flood relief infrastructure.

These investments do not have to generate additional income/profits but must provide the taxpayer with value for money (a legal requirement on the council)

and should be self-financing (although exceptions may be made if the social benefit warrants a small subsidy from taxpayers' money).

2.2 Conditions of investing

- i. Some element of speculation may be inevitable and acceptable (e.g. building affordable housing when the housing market is subject to market pressures).
- ii. We do not ordinarily invest outside the borough (these social investments are designed to benefit the residents/taxpayers of Spelthorne). Consideration will be given for investments nearby where we can ensure Spelthorne residents benefit.
- iii. Any exposure to interest rate fluctuations must be mitigated. We will ordinarily only borrow at fixed interest rates.
- iv. Once completed (funding drawn down and purchase completed), the funding arrangements for investment should require only minimal supervision or intervention, avoiding technically complex, long-term refinancing exercises (e.g. bond issues, dependence on future refinancing) or dependence on external professionals or professional, specialist knowledge from councilors or officers (who may well have left the Council by the time the decision-making point arrives).
One exception to this is the ongoing operational management of rented/leased (social or affordable) accommodation and emergency housing. Where practical, these ongoing responsibilities may be transferred to the Council's wholly-owned property company, Knowle Green Estates Ltd..
- v. We do not engage with sellers or tenants who may present a significant unmitigated reputational risk.
- vi. We do not invest in properties that have a material flood risk (1/100 years or more frequent) unless robust mitigation measures designed in unless robust flood mitigation has been designed in.
- vii. Social investments are not an alternative to proper funding and provision by the County Council of infrastructure and services that the County Council is required to provide. Spelthorne does not intend these social investments by the Borough Council to alleviate the financial and social responsibilities borne by the County Council.
- viii. In all cases the Council will structure investments to give maximum control, financial and social benefit to itself and Spelthorne residents and priority will be given to retaining ownership and receipt of revenue.

3. Strategic purposes

3.1 Purpose

To augment either Revenue Generation or Social Investments, for example to increase the value of an existing asset value by "marriage" or where it facilitates or enhances another project / investment covered above.

Investment criteria and funding to be in accordance with relevant purpose and criteria.

Cllr Tony Harman, Cabinet Member for Finance, Spelthorne Borough Council.
and Cllr Ian Harvey, Leader of the Council and Council Policy co-ordination,

Note:

The Council will pay due attention to prevailing laws, statutory regulations and Chartered Institute of Public Finance and Accountancy guidance and best practice recommendations. The Government on 10th November issued several consultations on the statutory parameters for local authorities' investment activity. Once the Government confirms in the New Year the final guidance we will need to review and update this document.