

### **Risk management and sound decision making (also called governance)**

#### **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 one of our agents Cushman and Wakefield, by our in-house asset management team and utilising industry-standard information sources such as Dunn and Bradstreet
- 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. This includes 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 has not acquired any assets for investment purposes since 2018 and is not currently intending to do so in the future.

### 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 in line with Financial Regulations and the Scheme of Delegations to Officers. 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 the commercial property market around Heathrow
- two development managers with considerable experience from building residential property in the PRS sector
- a property manager formerly at a commercial fund in the city, and another who has extensive experience of large residential and retail portfolios
- a property account manager who has experience of dealing with commercial property management systems

The Council will ensure that the team continues to grow if the portfolio grows and diversifies. 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— these solicitors have worked with Spelthorne Borough Council since the development of the Elmsleigh centre and Two Rivers shopping centre
- Cushman and Wakefield – commercial acquisition property advisers, who 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
- Dunn and Bradstreet – 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
- Carter Jonas – property consultants dealing with valuations of our portfolios (including the investment portfolio)
- Jones Lang LaSalle – leading commercial retail property advisors

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 have provided induction training for the fresh intake of councillors following the May 2019 elections. Councillors also receive one to one briefings where these are requested.

### **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 needs to include 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).

### **Current position (Cabinet model of governance)**

All potential economic development and regeneration property acquisitions are overseen by a small group of senior councillors and officers including Leader of the Council, Councillor John Boughtflower, one of the Deputy Leaders Councillor Jim McIlroy (with responsibility for Assets) and Cllr Satvinder Buttar the Finance Portfolio Holder. The whole of Cabinet are also briefed on a monthly basis on the development programme,

Councillors are involved at key stages of the process. The Leader, Deputy Leader and Finance Portfolio Holder attend a Property and Investment Committee (PIC) on a regular basis where they are presented with details of potential economic development and regeneration 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. An informed decision is then made by that Sub Committee of Cabinet on whether an economic development or regeneration acquisition/proposal should proceed to the next stage. Those that do go through a further due diligence process is carried out before Cabinet (where required) sign off the acquisition/development and the price/budget. In order to streamline the actual completion process of an acquisition, delegations are given to the Chief Executive, S151 officer, Leader and Finance Portfolio Holder. Economic development or regeneration acquisitions are also capital expenditure and purchases will therefore also be approved by the full Council as part of the Capital Programme.

### **Future position (Committee System)**

Moving forward, the Council is looking to significantly increase transparency around decision making on both future economic development and regeneration investments and our residential development projects which are focused on delivering affordable housing. This includes strengthening governance arrangements at key stages throughout any acquisition or development to ensure the appropriate level of councillor oversight. The aim is to ensure that acquisitions are thoroughly scrutinised, and development projects are kept under review at key 'project gateways' and progress against budgets are monitored. A sub-committee will be set up with Councillors to undertake this critical role with external advisors providing advice where necessary..

This is linked and sits alongside a move away from a Cabinet model of governance to a Committee System, with five service committees plus four other committees

being for administrative and regulatory matters. It is currently proposed that Assets (acquisitions and developments) will be reporting to the Policy and Resources Committee. The Council has recently finished consulting with residents on this proposed move to a Committee System. If approved by Council, this will come into effect from the Annual Council meeting in May 2021. The governance arrangements set out above will continue until this point in time. Any changes as a result of this move will require this capital strategy to be updated 'in year' to reflect this.

**Current arrangements (Cabinet System)**

