City of Westminster

Decision Maker:	Cabinet
Date:	10 February 2020
Classification:	General Release
Title:	Integrated Investment Framework 2020/21
Wards Affected:	All
Policy Context:	To manage the Council's finances prudently and efficiently.
Cabinet Member	Cllr M Caplan, Deputy Leader and Cabinet Member for Finance, Property and Regeneration
Financial Summary:	Implementation of an Integrated Investment Framework will influence investment decisions going forwards and deliver added value to Council services. This report identifies the potential for future improved returns.
Report of:	Gerald Almeroth, Executive Director – Finance and Resources

EXECUTIVE SUMMARY

1. On 18 February 2019, Full Council gave approval to implement a comprehensive strategic integrated investment framework for bringing together and managing all of its investments with the approval of an Integrated Investment Framework.

2. The Council holds £915.1m of short term high grade, cash based investments (as at 31 October 2019), managed under the Treasury Management Strategy, which passes through Scrutiny, Cabinet and Full Council on an annual basis. The Council also owns a significant number of investment properties, currently valued at £472.8m, which are considered as part of the Capital Programme. It also owns various equity shareholdings. In addition, the Council is responsible for managing the Pension Fund which has net assets of £1.5bn, and operates under the Investment Strategy Statement (ISS) set by the Pension Fund Committee.

3. The treasury investments are currently generating a forecast return of 0.92%. The investment properties are currently generating around 4.4%, net of direct costs. The latest current inflation rate as measured by CPI is 1.3% (as at December 2019), and this must be taken into account alongside the current total portfolio yield.

4. This report sets out:

- the Council's strategic objectives in respect of risk management, and its attitude towards investment risk;
- current levels of investment activity;
- an updated Integrated Investment Framework for the Council going forward which seeks to diversify the risk and thus future-proof the Council against possible future economic downturns;
- actions to be taken in connection with implementing this Framework, if agreed.

RECOMMENDATIONS

5. That the Council:

a) approve and implement the Integrated Investment Framework set out in this report;

b) approve that the target for the overall return on Council investments should aspire to match inflation;

c) approve that the benefits of investing in the Pension Fund should be used as a benchmark when evaluating other investments;

d) adopt the asset allocation percentages set out in the Framework and work towards achieving these;

e) agree that the overarching objective of this Framework is to achieve an overall return on Council investments aspiring to match inflation and to reduce costs and liabilities, whilst maintaining adequate cash balances for operational purposes, and not exposing the capital value of investments to unnecessary risk;

f) approve that investments allocated to out-of-borough property developments should be considered individually and should outweigh the benefits of investing in-borough (which can have a number of non-commercial benefits, e.g., place making) and in a diversified property portfolio (acquisitions will be made out of borough only on an exceptional basis). Individual decisions should be subject to Cabinet Member approval;

g) approve that the property and alternative asset allocation should focus on in-borough, with out of borough options being explored on an exceptional basis and subject to Cabinet Member approval;

h) the Investment Executive to implement, monitor and report on the investment strategy.

INTEGRATED INVESTMENT FRAMEWORK

BACKGROUND

6. The Council is responsible for managing its total assets valued at around £3.0bn at 31 October 2019, comprising £1.5bn pension fund, £0.9bn of short-term cash investments and £472.8m of investment property. It is important that the Council is able to take a holistic view of its investment pools and align them with its funding needs and goals. The scale of these figures makes their positive and proactive

financial management very important. Investments held as part of the Council's pension fund are managed under a separate regulatory framework and are outside the scope of this report from the point of view of investment management.

7. In previous years, the Council's Investment Strategy formed part of the Treasury Management Strategy Statement (TMSS) which is developed and updated as part of the Council's Medium Term Financial Plan (MTFP). The TMSS has tended to focus on the policies for placing short-term cash based investments, whilst decisions regarding other types of longer term investment have been considered on an individual basis as opportunities arose.

8. While the assets are distributed across a range of areas, the complexity of the Council and its funding requirements means that there is a need for the assets to be considered collectively and holistically as, in the aggregate, they represent a very significant pool of resources. More specifically, in view of:

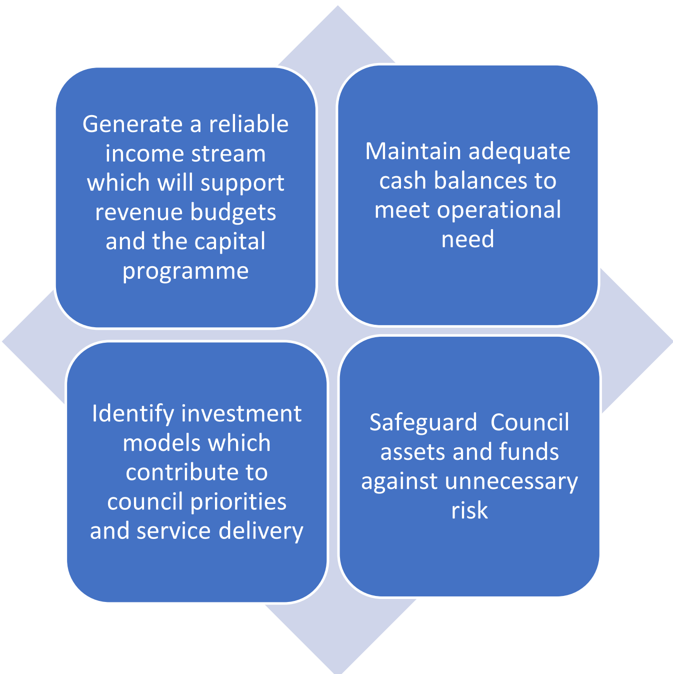
- ➢ the significant value of investments held by the Council;
- ➢ their increasing importance in terms of generating income which supports revenue budgets and capital investment;
- ➢ their potential to add value and contribute towards corporate objectives in their own right,

it was felt appropriate to give this aspect of financial management more detailed consideration and to develop a more integrated approach to investment decision making.

STRATEGIC CONTEXT

9. The Council's key focus is on delivering high quality services within the context of reduced government funding and increased demand for services due to demographic change. The Council also needs to have regard to the longer term, given its moral and legal responsibilities regarding sustainability and stewardship of public assets.

10. The role of investment management is to support service delivery by balancing four key strategic objectives as follows:



11. An appropriate investment strategy which balances the above objectives is therefore key.

12. The Council is exposed to possible future events, such as:

- the potential impact of an economic downturn following the UK's exit from the European Union possibly leading to recession in the UK and increasing demand for Council services;
- more general economic dynamics because of the multiple links that the Council has into the economy through its service and revenue streams;
- increases to CPI inflation, which will place cost pressure on both revenue and capital budgets;
- the pension fund deficit which may result in increased employer contribution rates (although the Council has begun to address this through increased deficit contributions), and recent higher valuations in the equity market have also impacted favourably);
- interest rate changes which could materially impact on the cost of the capital programme;
- Government funding policy changes.

13. Ideally, the investment strategy should be aimed at generating future income to address these longer term risks.

ACCEPTABLE RISK LEVELS

14. An appropriate investment strategy which balances the above objectives consists of one which:

- focuses on investments with a reasonable return based on reasonable risk;
- includes other Treasury opportunities not covered in the TMSS; and
- investigates property investment opportunities.

15. The suggested policy going forward is that the Council will generally seek to obtain the maximum amount of income consistent with an optimum level of risk, and will be willing to accept a lower level of income in exchange for a lower risk product which does not expose the capital value of the investment to potential loss.

16. By more proactive and appropriate management of the Council's investment portfolio, an increased level of income can be achieved, but also ensuring that appropriate security is maintained over the Council's assets.

17. Such investments shall be separately identified in Council records and will be subject to the Council's detailed budget monitoring and review as a result.

CURRENT INVESTMENT ACTIVITY

18. The Council is responsible for managing three investment portfolios:

- the Council treasury investment portfolio of circa £915.1m comprising of short-term cash-based investments generating a forecast return of 0.92%;

- Long-term investments in shareholdings such as Westminster Housing Investments Ltd, portfolio value £27.3m, with an expected rate of return of 5%.

- A property fund partnership (Lettings Fund, portfolio value £21.0m with an expected rate of return of 3.2%.

- the investment property portfolio of £472.8m, generating 4.42% net of direct costs; and

- the City of Westminster Pension Fund of £1.5bn with an assumed long-term investment return of 4.8%.

19. The Council investment portfolio is set out below.

Type of Investment	Expected rate of return	Value at 31 October 2019 £ million	Value at 31 March 2019 £ million
Short term investments (mostly overnight cash deposits, money market etc.)	0.92%	£915.1	£729.0
Long term investments in shareholdings in controlled companies	5% Average	£27.3	£27.5
Property Fund Partnership (Lettings Fund)	3.20%	£21.0	£21.0
Investment properties	4.40%	£472.8	£472.8
Total		**1436.2**	**1250.3**

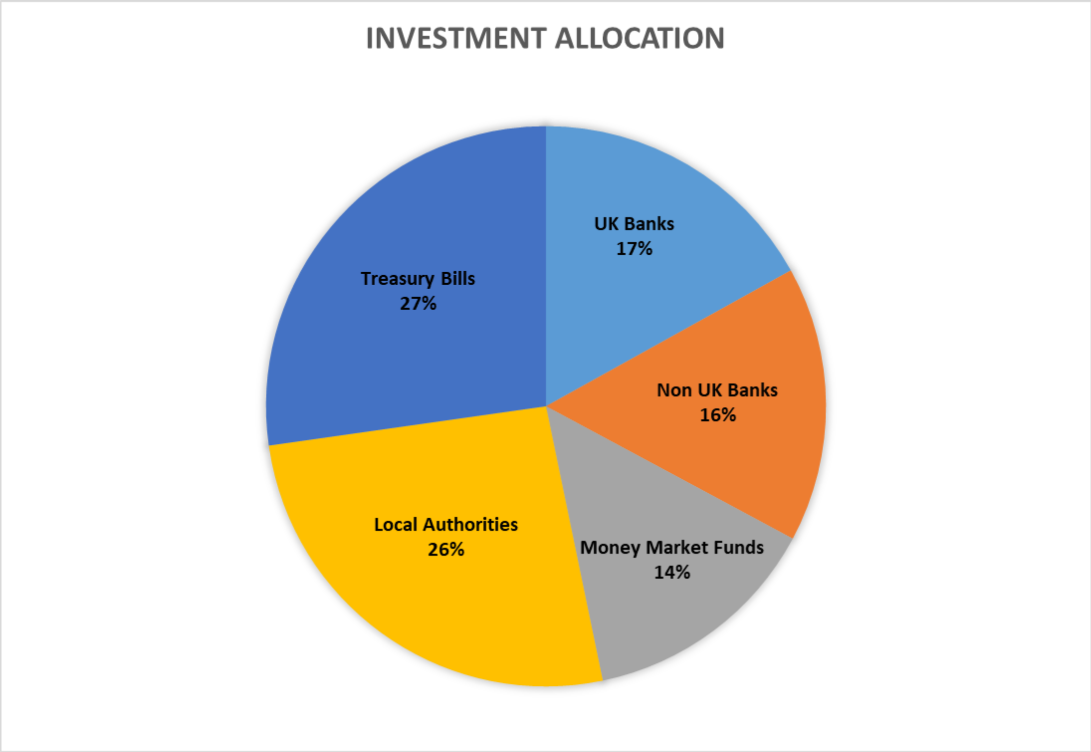
20. The Pension Fund is a separate legal entity and, therefore, its assets cannot fit within the wider investment framework of the Council. However, despite this ring-fencing, the pension fund has a significant second-order impact on the Council's financial position and funding needs, because of the existing deficit in the scheme, and the contribution plan in place to close this deficit.

21. Following the 2019 triennial actuarial valuation, the estimated funding level for the City of Westminster Pension Fund has risen to 100% (80% in 2016). This can be attributed to excellent investment returns during this period with global equities performing particularly well. The funding level for Westminster City Council as an employer has risen by 16% to an 86% in 2019 from 70% in 2016, this is in part due to the Council's deficit recovery payments made to the Pension Fund during this period.

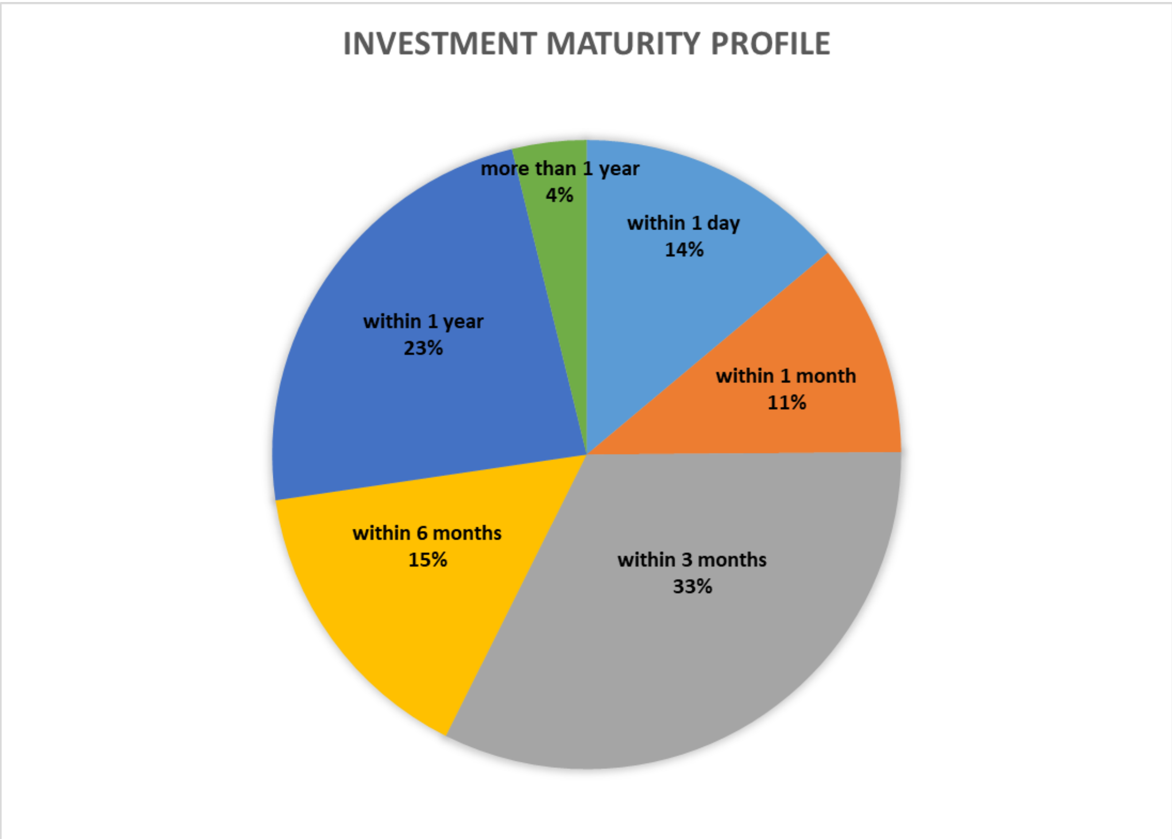
22. The funding of the Pension Fund assumes a long-term annualised rate of return of 4.8% represented in the discount rate used to value the pension fund liabilities. From the Council perspective, as an employer paying into the Pension Fund, any deficit represents a form of borrowing with an interest rate set at the discount rate of 4.8%.

SHORT-TERM INVESTMENTS

23. In line with the current investment strategy, the treasury portfolio of short term cash-based investments with 33% bank based deposits, 26% in local authorities (subject to due diligence on recent external audit reports, past and current expenditure outturn/forecast and current/anticipated position with regard to useable reserves), 14% in money market funds and 27% in Treasury Bills as shown below.



24. The majority of treasury managed investments currently mature within 12 months as shown below.



25. In line with the above, the portfolio is entirely investment grade and heavily biased toward the top end with 14% of investments AAA, 4% AA, 8% AA-, 16% A+, 5% A and 53% being local authority and UK government treasury bill investments.

26. This approach provides flexibility for the Council at very low levels of risk, but tends to result in fairly low returns, currently around 0.92%, and an approach to investment management which focuses on security and liquidity.

INVESTMENT PROPERTY

27. Commercial property investment provides investors with:

- a higher income return than equities, bonds or cash;
- a secure, regular income with income growth prospects to hedge against inflation;
- capital value appreciation;
- asset management opportunities to further increase rental and capital growth;
- an underlying real asset with minimum capital value.

28. However, as with any investment, there are associated risks:

- illiquidity: property is a ‘bricks and mortar’ asset which takes time to sell/buy;
- threat to income security if the tenancy fails and the property cannot be re-let;
- capital depreciation: if the asset is not properly managed and kept in good repair.

29. Geographically, the investment property portfolio is inevitably concentrated within the borough, which self-evidently tends to concentrate the economic risk in one area. Commercial property yields are currently ranging from 4.00% in central London to 4.75% in the regions (see Appendix C). In-house investment property generated 4.4% yield net of costs (excluding capital growth) in 2018/19.

30. Currently, the property investment portfolio is heavily fragmented due to its historical incremental build-up with a heavy concentration in alternative assets (largely car parks) which generates 48% of total income, followed by offices generating 23%, retail generating 16%, industrial generating 8% and residential generating 5%. The car park assets, which provide a steady income stream, offer value added opportunities through potential change of use and redevelopment over time.

31. A budget of £120m is included in the Capital Programme for investment schemes to generate additional income towards future Medium-Term Plan savings, and this allocation is due to be approved in March 2020. This is an increase from the current year’s Capital Strategy of £71.9m (originally £100m of which £28.1m had been spent). Schemes funded by this will go ahead if they generate additional income after full due diligence.

32. The Council is focused on delivering best returns from the portfolio, acquiring new assets and redeveloping existing assets will help to achieve this. The property investment strategy is focussed around three elements:

- **Driving income from the current portfolio** – The aim is to increase the portfolio by 2% per annum in net income terms (excluding new acquisitions). This will be achieved through a pro-active Asset Strategy enabling long term deals to be agreed that benefit income outside regular lease events.

- **Streamline and future proof the current portfolio –** This will involve a plan to dispose of poor performing assets (where there is no broader justification for holding them) and a long term strategy for car parks. In addition, there will be investment into the portfolio where there are opportunities to generate further income.

- **Invest in new properties within Westminster –** General principles for investment are detailed below, the investment will be reviewed in the round so not every one of the principles needs to be achieved for an investment to be made:

    - Investment should be focused on diversification of the portfolio, particularly exposure to office, industrial, leisure and private residential markets;
    - New investments should be in excess of £5m to enable the portfolio to increase its average lot size;
    - All assets acquired must be within Borough unless opportunities arise adjacent to existing out-of-borough holdings;
    - New investments should achieve a yield of 5% by year 5;
    - Focus on clusters linked to the Council's long-term regeneration and economic objectives.

LONG-TERM INVESTMENTS

33. Prior to 2004, Councils were only permitted to make loans to, or invest in, other local authorities, the Government, banks or building societies. The introduction of the Prudential Code relaxed these restrictions and gave local authorities the flexibility to invest in much more innovative methods of service delivery and income generation by:

    - establishing, controlling and participating in limited companies trading for profit; and
    - entering into loans and investments with "non-specified" counterparties, including limited companies and not-for-profit organisations.

34. These are classed as non-specified investments under the Ministry of Housing, Communities and Local Government's (MHCLG) statutory guidance for local government investments.

35. No general legal restrictions are placed on the value, length or nature of such investments and the only proviso is that investments are placed in accordance with investment strategies formally approved by members. The City Council's Treasury Management Strategy Statement (TMSS) expressly permits new investments in non-specified institutions. For any such investments, specific proposals will be considered by the Tri-Borough Director of Treasury and Pensions, and approved by the S151 Officer subject to due diligence.

36. Non-specified investments include asset vehicles, such as infrastructure and housing, which offer additional possibilities. As well as generating additional income, they can, in and of themselves, make a contribution to corporate priorities and improve service delivery. They also diversify investment risk away from the banking sector and can offer more flexibility in terms of length of investment and timing of drawdowns.

37. This type of investment is becoming more common in local government with authorities investing in projects to increase low cost and affordable housing, improve transport infrastructure, and support sustainable energy programmes as well as pooled property or equity investments, venture capital funds to support new and growing businesses, bond issues and unit trusts.

38. Such investments typically offer a higher risk adjusted return. However, they also tend to carry more complex risk profiles and attract higher transaction/due diligence costs, and are unlikely to have a published unit price or credit rating. The onus therefore falls on the Council to make its own evaluation of the investment and whether or not to proceed.

39. The Council's current portfolio of non-specified investments is:

	Value at 31 October 2019 £ million	Value at 31 March 2019 £ million	Expected return
Investments in companies controlled or significantly influenced by the Council	27.3	27.5	Nil direct to the Council, profits made are usually reinvested in the business
LGA Loan	20	20.0	3.13%
Supranational	72.7	72.7	0.77%
Property Fund Partnership (Lettings Fund)	21.0	21.0	Annualised 6% over 7-year life of fund
Total	**135.0**	**115.2**	

40. By increasing its holdings in this area, the Council would reduce its reliance on the banking sector and facilitate the move towards a more long-term investment profile, as discussed below.

41. Identifying and investigating individual investment opportunities across multiple markets can be both time consuming and expensive. Therefore, appointing a Fund Manager to manage a "bundle" of separate investments across a range of markets can be cost effective and spread risk by taking assurance on the fund manager's own due diligence processes.

LIABILITIES AND CASHFLOW NEEDS

42. In order to assess appropriate changes to the treasury portfolio, it is important to consider also the council's liabilities and cashflow needs over time. This is imperative as the purpose of investing the assets is to better match upcoming cashflow needs and also to minimise funding gaps.

43. The Council has a significant capital programme, totaling more than £2.5bn to 2033/34. This will be funded from £1.0bn of external funding, leaving a net funding requirement of £1.5bn. Thus, the need to take liquidity into account is extremely important.

INVESTMENT ALLOCATION

44. The Council's investment portfolio is currently allocated between liquid cash based short-term investments, longer term cash investments for the intention of generating enhanced yield and commercial property, pension investments and equity shareholdings which tend to be held for perpetuity or at least 20 years or more.

45. Achieving liquidity and the necessary cashflow to manage revenue and capital commitments does require a reasonable allocation of short- term investments, with 54% of the cash portfolio maturing within 12 months regarded as reasonable.

46. Therefore, the proposed approach going forward is to move investment allocations towards proposals in the table below, facilitating liquidity in an achievable manner:

Type of investment	Current allocation 31 Oct 2019	Proposed allocation
Short-term investments – under six months	48%	27%
Short-term investments – over six months less than one year	15%	27%
Short-term investments – less than two years		6%
Short-term investments – less than three years		4%
Short-term investments – less than four years		4%
Short-term investments – less than five years		4%
Property	35%	25%
Alternative investments*	2%	3%
Total		100%

*** In the absence of any approval for the placing of Alternative Investments, there is no proposed allocation for these. Should such an opportunity arise and be approved, this will reduce the allocation to short-term investments of less than one year.**

FACTORS IN INCREASING YIELD

47. This has been partially achieved with the following ambitions set out in the TMSS. However, the requirement for liquidity will remain paramount and a revised maturity profile is set out above.

Change	Current situation	Risk	Progress made in 2019/20
Treasury Management			
1. Lengthen the maturity structure from the current average seven months to a target average maturity of two years	By investing in longer maturity assets with same credit quality, some additional yield may be generated.	Going out to longer dated bank deposits beyond 5 years would increase counterparty risk to individual banks, which becomes more of a risk if there is a future financial crisis	At 31 October 2019, £250m of investments are locked for periods of six months to 2 years, with agreed forward deals in place to invest for periods of up to three years.
2. Widen the credit quality of investments by moving from the current average rating of AA to A. This would allow the Council to invest a greater number of instruments with a moderate amount of credit risk (eg corporate bonds) that have maturity beyond one year. Yields tend to be higher to compensate for the higher perceived risk and reduced liquidity	By investing part of the portfolio in single A rate investments, some additional yield may be generated.	By diversifying away from bank deposits, although marginally lower credit rating, this would spread the risk in the event of a future financial crisis.	At 31 October 2019, the treasury investment portfolio had £45m invested in investments with credit ratings A, £145m in A+, £70m in AA-, £40m in AA counterparties and £127m in AAA rated counterparties. Any category of an A grading is known as investment grade and thus high quality.
Investment property			
Adopt a more focused property investment strategy by reducing the number of properties and increasing the lot size to increase efficiency and reduce 7the cost of management and maintenance. Given the added illiquidity of property investment, this only makes sense if the Council can achieve higher yields than the treasury portfolio and meet other objectives such as reducing risk (e.g. inflation) or help meet statutory duties. Therefore, new acquisitions should	Increased net return target of 2%	Adverse property markets may result in a fall in sale value	There have been no significant purchases in year, however there are various investment plans following the implementation of the latest revised property investment strategy

Change	Current situation	Risk	Progress made in 2019/20
target a total return of 5% by year 5. A further objective is the acquisition of suitable properties which will assist in the unlocking or enhancement of regeneration schemes or the achievement of other strategic benefits (not necessarily financial) for the Council.			
Expanding the use of fund structures to deliver specialist functions such as supported living housing, homeless shelters, asylum housing etc. This would meet statutory duties and generate a return.	Yields from public social housing real estate investment trusts (REITs), such as the Real Lettings Fund which the Council is currently invested in are generating returns of 6%	By using a fund structure, this arms-length approach distances the Council from the costs of directly managing such property and investment is secured on the underlying property	During implementation, consideration will be given to additional transaction costs (which may be bid/offer on entry and exit), as well as high management fees and/or the underlying costs of such investments.
Alternative assets			
6. These fall outside traditional investments, such as listed equities and bonds, and include renewable energy pooled funds, infrastructure and commodities.			Currently, these are considered too high risk for the treasury portfolio.
Pension Fund			
7. Pension Fund deficit: pay off entire deficit post 2019 actuarial valuation	This eliminates the interest payable on the pension fund deficit in its entirety, providing contribution and interest savings	Adverse markets in UK and abroad increase pensions deficit notwithstanding the payment made	The Council is proposing to pay all of its pension fund deficit identified in the 2019 triennial actuarial valuation, currently projected to be £132m at 1 April 2021.

SCRUTINY

48. An investment task force was set up to ensure that the Council made best use of its resources and ensure value for money was being achieved in its investment strategy. The task force contains both Council Members and Officers and meets biannually.

OVERALL INVESTMENT TARGET

49. The overarching objective of this Framework is to move towards increasing income generated from Council investments aspiring to match inflation in a full year.

(compared with the current forecast return of 0.92%), whilst maintaining adequate liquid cash balances for operational purposes and not exposing the capital value of investments to unnecessary risk.

50. However, because of the current and future liquidity requirements of the capital programme and the approval, procurement and due diligence processes reference the higher return generating options, the impact in the short term (during 2019/20) has been a more modest return.

GOVERNANCE

51. Innovation within the financial services industry leads to a constantly changing market and the availability of new asset classes, products and financial instruments. The Council needs to be able to operate more flexibly, and make decisions more quickly, in order to benefit from the opportunities presented by this environment and to successfully implement the changes outlined above.

52. The implementation, management, monitoring and reporting of this Integrated Investments Framework operates, being approved by Full Council with specific investment decisions that require such action being delegated to the Cabinet Member for Finance, Property and Regeneration after due diligence and advice from the Executive Director - Finance & Resources and Tri-Borough Director of Treasury and Pensions.

53. Day-to-day aspects of treasury management function will continue to be delegated to officers in the same way that they are at present, but the Integrated Investment Framework will:

- enhance the effectiveness of decision making;
- embed a good risk culture that encompasses appropriate due diligence, option appraisal and an atmosphere of open debate;
- ensure that a holistic approach is taken towards managing the Council's portfolio.

54. The implementation, monitoring and reporting will continue to be delegated to the Investment Executive. The Investment Executive will comprise:

- the Cabinet Member for Finance, Property and Regeneration and the Chair of the Audit and Performance Committee;
- the Executive Director – Finance & Resources, Tri-Borough Director of Pensions and Treasury, and the Director of Property and Investments;
- the Chief Executive and the Executive Director GPH as necessary.

55. The Investment Executive will meet quarterly, supplemented with ad hoc calls and meetings in times of need of change.

56. Key information will be reported to Members on a quarterly basis through the investment reports.

57. Given the complexity of this important area, the Council will need to rely on independent experts and advisors. The Council currently engages two investment advisors who:

- provide advice on the current investment market and recommend new products in which to invest;
- benchmark the Council’s performance and identify any areas where there is scope for improvement.

DUE DILIGENCE

58. Due diligence is any process undertaken to:

- investigate a business or person prior to signing a contract;
- record the reasons behind an investment decision;
- demonstrate that the Council is acting responsibly and has adequately assessed the balance between risk and reward.

59. Due diligence should be undertaken on all investments in a consistent manner, albeit proportionate, in terms of the value and complexity of the financial instruments being considered, and their relative impact on the Council’s finances as a whole.

60. For a simple instrument such as a corporate bond, for example, a few paragraphs summarising risks and expected rewards, together with analysis from an advisor would suffice. A more complex product might require specialist assistance, comprehensive risk analysis and work undertaken to monitor and re-assess risks and performance regularly.

61. The Council has developed a framework for undertaking due diligence which promotes consistency and rigour whilst, at the same time, allowing for flexibility and a proportionate approach. It is based around the “6 Ps” principle as set out in Appendix A.

62. Whilst this framework does not rule out in principle any specific type of investment, all proposals will be considered in terms of:

- reputational risk to the Council;
- environmental, social. ethical and sustainability considerations.

OPTION APPRAISAL

63. An important aspect of due diligence is assessing the value for money offered by a new investment. Option appraisal will be undertaken for all new investments as part of the due diligence process, on a proportionate basis that reflects investment value, expected duration, and anticipated level of risk. It will be:

- outcome focused;
- structured around the key questions set out in Appendix B;
- take non-financial benefits into consideration where relevant.

64. Option appraisal should focus on the opportunity costs of the investment and a comparison against returns offered by other products or opportunities realistically available, rather than achievement of a “theoretical” rate of return.

FINANCIAL AND LEGAL IMPLICATIONS

65. This report identifies the potential for improved returns aspiring to match inflation in a full year compared with the current forecast return of 0.92%. Approval and implementation will result in an integrated framework for managing the Council's investment portfolio which supports improved returns and a more effective contribution to Council priorities and services.

66. Legal Services had been involved in a review of the proposed Framework to ensure that it complied with all legislative requirements and was consistent with the Council's existing Constitution, terms of reference and scheme of delegation.

BACKGROUND PAPERS

Council

2019/20 Treasury Management Strategy

2018/19 Statement of Accounts

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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Tel: 0207 641 4136

Email: ptriggs@westminster.gov.uk

APPENDIX A – DUE DILIGENCE FRAMEWORK

1. The Council has developed a framework for undertaking due diligence which promotes consistency and rigour whilst at the same time allowing for flexibility and a proportionate approach. It is based around the “6 Ps” principle as set out below:

Powers

a) What legal powers is the Council relying on to make the investment being proposed;

b) Has legality been considered in terms of the underlying nature of the activity, as well as the instrument or vehicle itself?

c) Have capital financing and MRP requirements been considered?

Permission

2. Does the Council need permission from the Secretary of State or anyone else before progressing this investment e.g.,

a) Members – and if so who (committee with delegated authority, cabinet or full Council)

b) Chief Officer if delegated decision making powers apply

c) Consultation with the public or staff may be a legal requirement

d) Does the proposal involve legal negotiations with a contractor or 3rd party?

Policy

a) Does the proposal fit within the Council’s policy objectives in terms of what it is trying to achieve?

b) If not does the proposal need to go to Full Council for approval?

Payment

a) How is the proposal to be funded both in terms of initial and ongoing costs (i.e. is there a budget – revenue and capital)

Procurement

a) Has the proposal been subject to the Council’s procurement procedures?

b) Does it need to go through formal tendering or does it need a waiver?

c) Are there any State Aid or EU implications?

Press

a) Might the Council be exposing itself to criticism?

3. Whilst not all of the above considerations will apply to every investment scenario, this framework will be applied in principle to every investment proposal, with results reported to Members for consideration.

APPENDIX B – OPTION APPRAISAL

1. Option appraisal should be structured around the following questions:

Key questions	Issues to consider
How is the proposal to be funded in terms of initial and ongoing costs?	Is there an existing budget or is virement required? Does the proposal provide any added value to the Council in terms of improved efficiency, budget savings or reduced costs?
What is the opportunity cost of using up these cash resources?	What is the expected length of the investment period? What additional costs are there (transaction costs, due diligence etc.) in addition to the capital investment itself? Does the expenditure count as a capital transaction under capital accounting regulations? If so what are MRP/CFR implications?* Is there an exit strategy? Will this involve additional costs? Is there a risk of permanent impairment in the capital value of the investment?
Does the proposal link to corporate objectives and statutory services?	If so how does it compare to the cost of achieving similar outcomes? Will this delivery option increase or decrease outcome or cost risk?
Is the proposal solely to generate income?	What key assumptions and sensitivities are contained in the financial model? * What are best, worst and medium case scenarios? How do these compare to other investment opportunities within the same investment allocation?
What transaction, professional and management costs need to be considered?	Consider for example: Independent advice and "experts" Legal fees/stamp duty Tax, audit, accountancy, secretarial Officer time in attending meetings etc.

* To promote consistency when evaluating potential investments, any MRP set aside requirements for property or alternative investments will be calculated using the annuity method rather than on a straight line basis.

APPENDIX C - Prime yields for commercial property

	Sep 2018	Sep 2019
West End offices	3.25%	3.75%
City Offices	4.00%	4.00%
Offices M25	5.00%	5.00%
Provincial Offices	4.75%	4.75%
High Street Retail	4.50%	5.00%
Shopping Centres	5.25%	5.50%
Retail warehouse (open A1)	5.50%	6.25%
Retail warehouse (restricted)	5.75%	6.50%
Food stores	4.50%	4.75%
Industrial distribution	4.25%	4.25%
Industrial multi-lets	4.00%	4.00%
Leisure Parks	5.25%	5.75%
Regional Hotels	4.25%	4.25%

Source: Savills