Public Document Pack

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Dear Councillor

SOUTH HAMS COUNCIL - THURSDAY, 19TH DECEMBER, 2019

I refer to the agenda for the above meeting and attach papers in connection with the following item(s).

Agenda No	**Item**
7.	**Updated Commercial Investment Strategy, Investment Strategy and Capital Strategy (Pages 1 - 46)**
9.	**Political Structures and Governance Review (Pages 47 - 48)**

Yours sincerely

Darryl White
Senior Specialist – Democratic Services

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Appendix A~~B~~ – Updated SHDC Commercial Investment Strategy

This strategy replaces the Council's Commercial Property Strategy which was approved on ~~27th September~~18th July 2019~~8~~. ***The tracked changes show the differences/changes from the Strategy approved in ~~September~~ July 201~~8~~9.***

Overall Objectives:
The Council's Commercial Investment strategy has multiple objectives as stated below:

- To support regeneration and the economic activity of the District
- To enhance economic benefit & business rates growth
- To assist with the financial sustainability of the Council as an ancillary benefit
- To help the Council continue to deliver and/or improve frontline services in line with the Council's adopted strategy & objectives
- Security and Liquidity~~.~~

Desired Outcomes:

The following outcomes are desired by the application of this strategy. Each acquisition or development opportunity will be assessed on its fit with meeting the objectives stated above and should deliver one or more of the following outcomes (benefits):

- ✓ Job creation or safeguarding
- ✓ Health & Wellbeing
- ✓ Town centre regeneration
- ✓ Tourism / Increased footfall
- ✓ Business rate growth
- ✓ Improved asset utilisation
- ✓ Climate change mitigation
- ✓ A minimum net yield return of 2% is targeted. However, in some circumstances, e.g. where community benefits are likely to be achieved, a lower return may be acceptable.

This strategy will be achieved by acquisitions and developments within the South Hams District. This will include the focussed acquisition of existing commercial property assets and the development of new properties which are to be let to third parties. The strategy will also consider investments in the renewable energy sector which will not be constrained geographically (refer to "location" section of this strategy for further detail).

The following four types of investment are recognised in the Statutory Guidance on Local Government Investments (3rd Edition) (SGLGI):

1. Financial investments:

a. Specified investments - generally short term investments (para 31 and 32)

b. Loans - including to wholly owned companies (para 33 and 34)

c. Non-specified investments (e.g. shares) - generally longer term investments (para 35 and 36)

2. Non-financial investments (e.g. property) - non-financial assets, held primarily or partially to generate a profit (para 37 to 40)

As described above, this strategy therefore relates primarily to non-financial investments ie. Property. However, in the case of renewable investments it is possible that they may be classified as Financial Investments – Non specified investments. This strategy recognises that the purchase of Special Purpose Vehicles (SPVs) so as to own, operate or invest in renewable energy generation is a category of investment covered in this strategy.

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Risk

- The risks of acquiring property may be mitigated through the acquisition of assets with secure, long income streams, although this risk will be weighed up against the social and economic benefits of acquisitions to support commerce and trade in the District
- Acquisitions are to be made in a careful and controlled manner, with specific analysis of risk criteria carried out in the 'due diligence' stage prior to the completion of each purchase
- The Council's due diligence procedures are set out in detail in Section 5.3 of the Council's Investment Strategy. The Council's Investment Strategy also sets out Investment Indicators such as Debt to net service expenditure ratio and commercial income to net service expenditure ratio.
- The portfolio will be relatively risk-averse, targeting tenants of strong financial standing and minimum unexpired lease terms of four years at the date of acquisition. However, these criteria will be considered on a case by case basis and can be outweighed in order to meet the strategy objectives
- Risk of loss (Para 41 SGLGI) shall be assessed on a case by case basis as part of the acquisition due diligence and will be a criteria considered throughout the approval process. Risk of loss during the management phase of the investment shall be reported in accordance with the criteria below.
- In accordance with Para 23-25 of SGLGI, quantitative indicators or risk and portfolio performance will be reported to Audit Committee. The frequency of this reporting is anticipated to be every 6 months and will include the following indicators (as applicable):
    - Rental value by property
    - Rental value by tenant
    - Sector split by purchase price
    - Purchase price
    - Rental income profile
    - Tenant lease length
    - Gross Yield
    - Management, Maintenance and Risk Mitigation Reserve (MMRM) value
    - Current value
    - In the case of an SPV, relevant criteria shall be reported depending on the nature of the SPV.

Location:

- Wherever opportunities arise within the District, in order to acquire or develop good properties which achieve some or all of the Council's multiple objectives and desired outcomes as stated above and are deemed as an acceptable risk.
- Where investments in renewable energy are considered, the geographical constraint will not apply. Instead a relative preference of location shall be used, as follows: Within area > Devon Business Rates Pool Area > LEP Area >South West Peninsula > Rest of UK*

  * The UK wide investment area would only be considered subject to further legal advice, but it is included as this strategy recognises that as a result of the national grid, geography is not a barrier to investing in renewable energy for the district.

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Tenant mix:

- Where possible, a mix of tenants will be sought to create a balanced portfolio
- The final decision over the appropriateness of any tenant would be reviewed at the time of acquisition
- SHDC owns a significant number of commercial units already within the District, mainly smaller units and tenants with relatively low credit ratings. This reflects the historic policy of supporting small start-ups which has proved successful and continues to be. Newer acquisitions are likely to be for larger units which may have single tenant occupancy.

Lease length:

- A minimum 4 years unexpired (mean unexpired term for multi-let properties) is preferable, however this is flexible if it helps achieve the strategy objectives
- For multi-let properties, a mix of lease expiry dates are preferred, thereby limiting void risk (unless the property is purchased with a view to re-development)
- Properties would preferably be let to sound tenants on leases with a preference for 'Full Repairing and Insuring' leases for single occupiers and through internal repair obligations and a service charge for multi-let properties.
- There may be overriding community benefit and/or economic reasons to move away from these criterion and these will be considered on a case by case basis.

For all of the above:

The final decision over the definition of "good", "secure", "strong", "long", "careful", "controlled", "acceptable", "balanced" and "risk-averse" will be agreed between the property acquisition advisers (including legal due diligence) and the Officers delegated with the responsibility to conclude the acquisition of the properties. This discretion will be based on both the risk to the capital value of the asset and its' fit with the strategy objectives.

Yield:

- The Council will only acquire properties where the running cost does not require Council subsidy. Per acquisition, a target minimum net yield (an ancillary benefit) of 2.0% is to be sought, after acquisition, management, maintenance, capital repayment and funding costs
- However, the Council may opt to accept a lower net yield return if the community benefits of job creation or safeguarding, tourism, town centre regeneration, business rate growth or effective asset utilisation are deemed more important than a purely financial return

Value & Cost:

- Larger lot sizes are favoured - smaller size properties have disproportionately higher management costs and expose the Council to greater property void risks, but the economic and trade benefits of buying smaller units may outweigh this
- Acquisition costs are forecast not to exceed 7% (Stamp Duty Land Tax (SDLT) / Legal / Agents / Due Diligence). These costs are to be contained within the overall strategy budget

Funding:

- Acquisitions and development initiatives will be funded using predominantly borrowing or any other unallocated or available Council reserve or capital receipt. The Council shall not borrow more than or in advance of need as part of the funding for investments of developments so as to benefit from the investment of the extra sums borrowed (para 46 & 47 SGLGI). There are no circumstances in which the Council would seek to disregard the prohibition on borrowing ahead of need, purely for profit. The investment in renewable energy generation (SPV) would be made with a view to reducing the Council's carbon emissions and to mitigate the climate emergency that has been declared by the Council and many local authorities across the UK.

- Liquidity – Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority will spread its liquidity profile across its portfolio and also have a spread of the sector in which the Council invests. The Council also documents potential exit strategies as part of its due diligence checks.

- This is to be secured on a case by case basis on the most commercially advantageous terms available predominantly through borrowing or any other unallocated or available Council reserve or capital receipt.

- Currently borrowing levels are capped at £60m.
- The borrowing term will not exceed the expected remaining life of the property, but the Council wishes to secure borrowing over a maximum 50 year term. Liquidity will be a factor in determining the amount of rent set aside in the Maintenance Management and Risk Mitigation reserve for each investment. This will be reviewed with the same frequency as the risk reporting procedure set out in this strategy.
- Capital repayments will seek to repay a minimum of 50% of the capital value of any acquired property or borrowing for property development.
- For non specific financial investments the period of the loans shall be linked to either the viable business case of the investment or the asset life whichever is the shortest as determined at the time of acquisition or investment.

Tax Implications:
- Due to the Council holding acquired or developed assets, it is not anticipated that there will be any corporation tax or income tax implications from this strategy
- Some properties may be VAT elected, meaning VAT must be charged to tenants. This will be dealt with on a case by case basis and will be covered by the due diligence connected with that acquisition. The Council is able to charge and recover VAT
- Capital Gains Tax would not apply to assets sold from Council ownership
- Where investments in companies (such as SPVs) are made in line with this strategy, all tax liabilities shall remain with the SPV.

Exit Strategy:
- The Council is not looking to actively trade commercial property within the first 5 years of ownership of any acquired property, however this is flexible if required to meet this strategy's objectives
- If it is determined that the most prudent action is to sell an individual asset, this will be considered on a case by case basis and will be acted upon in consultation with Executive Members, the S151 officer and the Head of Paid Service
- It is proposed that the majority of investments shall be non – financial investments (~~all~~ properties) and as such will be held as Council Assets. Investments such as SPVs shall be owned through the purchase of shares. ~~This may change if the Council were to set-up a trading company and it was found to be commercially advantageous for such a vehicle to hold the asset~~

- It is important to note that there would be early repayment charges if borrowing used to acquire or develop a commercial property was to be repaid before the end of the loan term. However, Public Works Loan Board (PWLB) lending is not secured against property, so would not inhibit the asset being traded during the loan period. An alternative asset could be purchased (& held) with any sale receipt.

Governance Arrangements:

- Acquisitions and developments must conform to the adopted commercial investment strategy. Any deviation from the agreed strategy will require Council approval.
- The Council's Senior Leadership Team will initially consider each proposal (development or acquisition of property or renewables) as an initial step and recommend that the proposal proceeds in principle.
- When any decision to proceed with a development or acquisition is being considered, local Ward Members (where applicable) will be briefed at the earliest opportunity and be able to share their views with Executive Members and be consulted before the final decision is made.~~Before a final decision to proceed with a development or acquisition is made, local ward members will be briefed and be able to share their views with Executive Members.~~
- Executive Members, along with the Head of Paid Service and S151 officer, will consider each and every proposal on its own merits and specifically how each proposal meets the Council's multiple objectives and desired outcomes.

Executive Members will consider debt proportionality (the amount borrowed to date against the ~~agreed total borrowing cap~~ net service expenditure ratio) on a case by case basis for each acquisition as part of the decision making process, with information provided to them and the s151 officer, the Head of Paid Service and the Leader of the Council. Investment Indicators are set out within the Council's Investment Strategy. Table 2 of the Council's Investment Strategy shows the aggregate of commercial property income and treasury income as a percentage of the Council's gross service expenditure.

The Council undertakes sensitivity analysis of the interest repayments on its borrowing requirements as a percentage of its available reserves to ensure there is sufficient coverage in the event that rental income is below that forecasted, or if energy prices are below that forecasted in the case of a solar farm. The Council also put 10% annually of all rental income and income from energy prices into a Maintenance, Management and Risk Mitigation (MMRM) Reserve. This is part of the Council's contingency arrangements.

- Officers, working with their specialist advisors in the market will sift opportunities and only present to Executive Members, opportunities that closely meet the Strategy. They will then lead the Executive Members into debate over the specific benefits and risks of each opportunity before the Executive Members make a decision. In this way, risk will be transparent through the process.
- Projects and their outcomes will be kept under constant review by officers and reports to Executive and Audit Committee.

Governance: Development on Council Owned Land

- The Council will delegate the authority and decision making function relating to 'Development on Council Owned Land' to the Executive, assuming that the proposed expenditure complies with the Council approved total borrowing limits.

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- This delegation is to include the granting of associated leases in excess of 15 years as and when required, as recommended by the Assets CoP Lead, on a project by project basis
- ~~In parallel, the Council's Senior Leadership Team (SLT) are required to approve any development.~~
- Any project will be subject to Due Diligence and Legal Searches and occasionally other data as need arises.
- Specialists will be commissioned to act on behalf of the Council to source suitable development and tenant opportunities and manage the due diligence process.
- Officers will provide Members of the Executive with a set of data and an indicative cash flow for each project under investigation. These will aid decision making on whether to proceed or not.

Governance: Commercial Investment Acquisitions within the South Hams or renewables out of area

- The Council will delegate the authority and decision making function relating to 'Commercial Investment Acquisitions in the South Hams' or renewables out of area to the Head of Paid Service and Section 151 Officer, in consultation with Members of the Executive, assuming that the proposed expenditure complies with the Council approved total borrowing limits.
- In the event of three or more Executive Members expressing their opposition to the proposal, then the matter will proceed no further.
- ~~In parallel, the Council's Senior Leadership Team (SLT) are required to approve any acquisition.~~
- Any project will be subject to Due Diligence and Legal Searches and occasionally other data as need arises.
- Assuming the bid remains as per that authorised at the time of sign off, the final sign off prior to exchange and payment of deposit (typically 10%) is made by the S151 officer and Head of Paid Service in consultation with the Leader of the Council. If anything material has changed, the Executive Members will need to vote again in order to proceed.
- This process of delegated authority is required because there is often very little time (a number of days) to secure a bid on a property, especially if it is off market. Off market bids avoid price inflation caused by competing bidders.
- The Executive Members have been made aware that they will be required to process and respond to information similar to that in Appendix B in a very quick timeframe (minimum two working days) so as to provide their decision. They may also be asked to attend meetings on similarly short notice. These meetings may be held virtually to expedite decision making.
- When South Hams District Council acquire a Commercial Investment in line with this strategy, a report will be presented (for noting purposes) to the subsequent meeting of the Executive.

Running / Review

- If the management of acquired or developed assets cannot be managed in-house by existing resources, it will be outsourced to property professionals.
- The cost of this management is to be deducted before calculating the net yield.
- The Executive will receive regular reporting to confirm portfolio composition and performance. Regular portfolio performance reporting will be presented to Audit Committee as required.

Disposal

- Once acquired, decisions relating to the ownership of any acquired or developed properties will be dealt with in-line with the Council's constituted scheme of delegation.

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- Disposal will be considered if the portfolio breaches the approved strategy. Decisions to be made in consultation with Executive Members, the S151 officer and the Head of Paid Service.

Resources:

- The work to filter, appraise and recommend investment and development opportunities will be undertaken within the Assets CoP. This will be supplemented by specific consultant advice as required and associated costs built into the business case for each project.
- The Assets CoP has strong relationships with a number of local and national consultants who will be required to support the projects. Examples of this include (but are not limited to): CCD Properties (development specialists), Arcadis (building technical due diligence), Womble Bond Dickinson (legal due diligence) and Savills (commercial property investment advice).

Risk assessment and due diligence

The Authority assesses the risk of loss before entering into and whilst holding property investments/property opportunities by carrying out appropriate due diligence checks and implementing mitigation measures in managing risk:

- The tenants need to be of good financial standing (this is assessed using Dun & Bradstreet credit rating reports and annual accounts). The number of tenants e.g. sole tenant or multi tenanted will be assessed.
- The property condition such as date of construction and any imminent or significant refurbishment or modernisation requirements (forecast capital expenditure).
- How the property investment or financial, non specified investment meets the Council's multiple objectives as set out in the Council's strategy e.g. Liquidity, renewable energy, economic regeneration, business growth.
- The lease must meet certain standards, such as being in a commercial popular location and have a number of years left on the lease providing a certain and contractually secure rental income stream into the future. Any break clauses will be assessed along with the number of unexpired years, bank guarantees and rent reviews.
- The location will be within the South Hams District Council's boundary as set out in the Commercial Investment Strategy (apart from renewable energy investment which may have a wider geographic spread). The population of the catchment area, the economic vibrancy and known or anticipated market demand as well as proximity to travel infrastructure and other similar properties will be assessed.
- Rental income paid by the tenant must exceed the cost of repaying the borrowed money from the Public Works Loan Board (which is itself funded by the Government). The surplus is then an ancillary benefit which supports the Council's budget position and enables the Council to continue to provide services for local people.
- The gross and net yield are assessed against the Council's criteria.
- The prevailing interest rates for borrowing at the time.
- Debt proportionality considerations.

- The life and condition of the property is assessed by a valuer and the borrowing is taken out over the life of the asset. The amount of management and maintenance charges are assessed as well as the ease of in-house management. 10% of all rental income (or an amount as deemed prudent) is put into a Maintenance ~~and~~ Management and Risk Mitigation Reserve to cover any longer-term maintenance issues.
- The potential for property growth in terms of both revenue and capital growth will be assessed.
- The risks are determined by the property sector e.g. office, retail, industrial, associated with specific properties and the mix of sectors within the Council's portfolio.
- Details of acquisition costs e.g. stamp duty land tax, legal costs
- The documented exit strategy for a purchase/new build.
- The legal and technical due diligence checks will also identify any specific problems such as anomalies in the title deed, restrictive use classes, indemnities, local competition, construction or refurbishment requirements.
- The Council engages the use of external advisors to assist in undertaking elements of the due diligence checks such as technical, legal, accounting, property and taxation advice.
- The Council undertakes sensitivity analysis of the interest repayments on its borrowing requirements as a percentage of its available reserves to ensure there is sufficient coverage in the event that rental income is below that forecasted. This ensures that the Council has the available reserves to enable service delivery to be maintained in the short to medium term, whilst alternative solutions are implemented.

Appendix B

Updated Investment Strategy Report 2019/20

(The attached shows the suggested changes/amendments to the Investment Strategy approved in March 2019)

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1. Introduction

1.1. The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments**).

1.2. This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the Government in January 2018 and focuses on the second and third of these categories. This strategy was approved by Council in March 2019 and is being updated in December 2019, to reflect the opportunity for the Council to purchase shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation.

~~1.2.~~

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2. Treasury Management Investments

2.1. The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £40m and £29m during the 2019/20 financial year.

2.2. Contribution

2.2.1. The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

2.3. Further details

2.3.1. Full details of the Authority's policies and its plan for 2019/20 for treasury management investments are covered in a separate document, the treasury management strategy (Appendix C).

3. Service Investments: Loans

3.1. Contribution

3.1.1. The Council does not currently have investments assisting local public services, such as making loans to local service providers or to local small businesses to promote economic growth or to subsidiaries that provide services. However, it may do so in the future if required.

3.1.2. The Council does not currently make loans to employees (e.g. car loans).

3.2. Security and Liquidity

3.2.1. If loans were to be made in the future, they would remain proportionate to the size of the Council.

3.2.2. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 is currently nil. Should the Council make any loans in the future, this will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

~~3.2.2.~~3.2.3. Liquidity – This is set out in further detail in Section 5.

3.3. Risk assessment

3.3.1. The Authority will always assess the risk of loss before entering into and whilst holding service loans. Should the Council make service loans in the future, risk assessment will take various forms, for example assessing the nature and level of competition, assessing how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements. Where necessary, the Council will also engage use of external advisors.

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~~3.3.1.~~3.3.2. The Council is currently undertaking due diligence work on the opportunity for the Council to purchase shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation. This business case would also involve the Council entering into a loan in 2020/21 at a commercial rate with the Special Purpose Vehicle. This will be set out within the Council's Investment Strategy for 2020/21 (presented to Full Council in February or March 2020).

4. Service Investments: Shares and Bonds

4.1. Contribution

4.1.1. The Council has approved to make a £50,000 investment in the South West Mutual Bank which takes the form of shareholding in the bank with the purpose of encouraging local economic growth.

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~~4.1.1.~~4.1.2. The Council is currently undertaking due diligence work on the opportunity for the Council to purchase shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation.

~~4.1.2. The Council is also proposing to make a £25,000 investment in a 10 year investment bond being offered by the Dartington Trust. It is proposed to finance this from the Business Rate Pilot gain as the investment is supporting the local economy. The money raised will support the new vision for the Dartington Hall, the secured bond is offering 4.3% interest per annum, payable twice a year.~~

4.2. Security

4.2.1. One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, an upper limits on the sum invested in shares has been at set £12,050,000.

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4.2.2. ~~The Dartington Trust bond is being backed by freehold property owned by the Dartington Trust and is secured by a loan agreement.~~

Category of company	31.3.2019 actual			2019/20
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Local business (South West Mutual Bank)	-	-	-	£50,000
Purchase shares in a Special Purpose Vehicle (SPV) so as to own, operate or				12,000,000

invest in renewable energy generation				
~~Dartington Trust 10 Year Bond~~	~~£25,000*~~	~~-~~	~~-~~	~~£25,000*~~
TOTAL	-	-	-	~~£75,000~~ £12,050,000

~~*At the time of writing this report, it was not known whether the amount for the bond offer for the Dartington Trust would be paid prior to 31st March 2019, or in the next financial year 2019/20. Therefore, the amount has been shown in both financial years to cover both scenarios.~~

4.3. Risk assessment

4.3.1. As it does for service loans, the Council also assesses the risk of loss before entering into and whilst holding shares.

4.3.2. Paragraph 5.3 sets out a more detailed approach to assessing risk.

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- Risk of loss (Para 41 SGLGI) shall be assessed on a case by case basis as part of the acquisition due diligence and will be a criteria considered throughout the approval process. Risk of loss during the management phase of the investment shall be reported in accordance with the criteria below.

- In accordance with Para 23-25 of Statutory Guidance on Local Government Investments, quantitative indicators or risk and portfolio performance will be reported to Audit Committee. The frequency of this reporting is anticipated to be every 6 months and will include the following indicators (as applicable):
  - Rental value by property
  - Rental value by tenant
  - Sector split by purchase price
  - Purchase price
  - Rental income profile
  - Tenant lease length
  - Gross Yield
  - Management, Maintenance and Risk Mitigation Reserve (MMRM) value
  - Current value
  - In the case of an SPV, relevant criteria shall be reported depending on the nature of the SPV.

~~4.3.1.~~

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4.4. Non-specified Investments (e.g. shares)

4.4.1. Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance, as set out in 4.2.1, being the investment in the South West Mutual Bank and the purchase of shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition. Investments in the CCLA are no longer classified as a non-specified investment.

~~4.4.1.~~

4.5 Liquidity – This is set out in further detail in Section 5.

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5. Commercial Investments: Property

5.1. Contribution

5.1.1. The Council invests in local commercial property which is held solely to earn rentals, which will be spent on local public services. As at 31st March 2019 the Council held one investment property at Lee Mill.

5.1.2. In addition, South Hams DC owns a number of commercial units industrial units, office accommodation, the site in Lee Mill within the District valued at £28.5 million at 31/3/2018.

5.1.3. The Council leases various parcels of land and buildings to external organisations. This reflects the historic policy of supporting small start-ups which has proved and continues to be successful.

5.1.4. During 2017/18, a review of existing assets resulted in the site in Lee Mill which is currently leased to a supermarket being reclassified in from Property Plant and Equipment to Investment Properties, with effect from 31 December 2017. This was based on the view that the site is now held solely to earn rentals, i.e. for a commercial objective, and as such should so be reclassified. This decision was also informed by external advice which was obtained independently. The 2017/18

Annual Statement of Accounts shows the value of this property at £12.53m.

5.1.5. In September 2018 the Council endorsed the principle of a Commercial Property Strategy with expected capital expenditure of up to £60 million, which includes multiple objectives: (a) to support regeneration and the economic activity of the Council (b) to enhance economic benefit (c) to grow business rate income (d) to assist with the financial sustainability of the Council as an ancillary benefit and (e) to help continue deliver and/or improve frontline services in keeping with its adopted strategy and objectives. At the date of writing this report, the Council had made nil investments in such commercial property. £11.9 million of commercial property investment is anticipated to be undertaken in 2019/20.

5.1.6. An updated Commercial Investment Strategy is also presented to Council on 19th December 2019, to enable the purchase of shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation.

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Table 1: Property held for investment purposes in £ '000s

Property	Actual	31.3.2018 actual		31.3.2019 expected	
	Purchase cost	**Gains or (losses)**	**Value in accounts**	**Gains or (losses)**	**Value in accounts**
Lee Mill – Investment Property	4,400	-	12,530	-	12,530
TOTAL	4,400	-	12,530	-	12,530

5.2. Security

5.2.1. In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

5.2.2. A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2018/19 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to Full Council detailing the impact of the loss on the security of investments. This will include any revenue consequences arising therefrom, for example, from a change in MRP policy.

5.3. Risk assessment

5.3.1. The Authority assesses the risk of loss before entering into and whilst holding property investments by carrying out appropriate due diligence checks and implementing mitigation measures in managing risk:

- The tenants need to be of good financial standing (this is assessed using Dun & Bradstreet credit rating reports and annual accounts). The number of tenants e.g. sole tenant or multi tenanted will be assessed.
- The property condition such as date of construction and any imminent or significant refurbishment or modernisation requirements (forecast capital expenditure).
- How the property investment or financial, non-specified investment meets the Council's multiple objectives as set out in the Council's strategy e.g. liquidity, renewable energy, economic regeneration and business growth.
- ~~How the property investment meets the Council's multiple objectives as set out in the Council's strategy e.g. economic regeneration, business growth.~~
- The lease must meet certain standards, such as being in a commercial popular location and have a number of years left on the lease providing a certain and contractually secure rental income stream into the future. Any break clauses will be assessed along with the number of unexpired years, bank guarantees and rent reviews.
- The location will be within the South Hams District Council's boundary as set out in the Commercial Property Strategy. The population of the catchment area, the economic vibrancy and known or anticipated market demand as well as proximity to travel infrastructure and other similar properties will be assessed.
- Rental income paid by the tenant must exceed the cost of repaying the borrowed money from the Public Works Loan Board

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(which is itself funded by the Government). The surplus is then an ancillary benefit which supports the Council's budget position and enables the Council to continue to provide services for local people.

- The gross and net yield are assessed against the Council's criteria.
- The prevailing interest rates for borrowing at the time.
- Debt proportionality considerations.
- The life and condition of the property is assessed by a valuer and the borrowing is taken out over the life of the asset. The amount of management and maintenance charges are assessed as well as the ease of in-house management. 10% of all rental income is put into a Maintenance and Management Reserve to cover any longer-term maintenance issues.
- The potential for property growth in terms of both revenue and capital growth will be assessed.
- The property sector e.g. office, retail, industrial will assist in deciding on the risks associated with specific properties and the mix of sectors within the Council's portfolio.
- Details of acquisition costs e.g. stamp duty land tax, legal costs
- The documented exit strategy for a purchase/new build.
- The legal and technical due diligence checks will also identify any specific problems such as anomalies in the title deed, restrictive use classes, indemnities, local competition, construction or refurbishment requirements.
- The Council engages the use of external advisors to assist in undertaking elements of the due diligence checks such as technical, legal, accounting, property and taxation advice.

- The Council undertakes sensitivity analysis of the interest repayments on its borrowing requirements as a percentage of its available reserves to ensure there is sufficient coverage in the event that rental income is below that forecasted. This ensures that the Council has the available reserves to enable service delivery to be maintained in the short to medium term, whilst alternative solutions are implemented.

Liquidity

5.3.2. Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority will spread its liquidity profile across its portfolio and also have a spread of the sector in which the Council invests. The Council also documents potential exit strategies as part of its due diligence checks.

5.3.3 Liquidity will be a factor in determining the amount of rent set aside in the Maintenance Management and Risk Mitigation Reserve for each investment. This will be reviewed with the same frequency as the risk reporting procedure set out in the Council's Commercial Investment Strategy.

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6. Loan Commitments and Financial Guarantees

6.1. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.

6.2. The Council is committed to making future payments to cover its pensions liability. The Pensions Reserve for the net defined benefit liability was £51.4m at 31/3/2018.

6.3. As stated in Note 35 of the 2017/18 Statement of Accounts – Contingent Liabilities - at the time of the transfer of the Council's housing stock in 1999, wide warranties were given to South Hams Housing (now Liverty) on staffing, environmental and other issues, to safeguard the housing company if any of the main assumptions on which the transfer price was calculated, turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Due to the uncertainties surrounding any potential claim on this contingent liability, it is not practicable to make an estimate of the total value of liabilities (if any).

6.4. The Council is currently undertaking due diligence work on the opportunity for the Council to purchase shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation. This business case would also involve the Council entering into a loan in 2020/21 at a commercial rate with the Special Purpose Vehicle. This will be set out within the Council's Investment Strategy for 2020/21 (presented to Full Council in February or March 2020).

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7. Debt Proportionality

7.1 The Authority is partly dependent on profit generating investment activity to achieve a balanced revenue budget. Table 2 below shows the extent to which the expenditure planned to meet the service delivery objectives and place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan.

7.2 Should it fail to achieve the expected net profit, the Authority's contingency plans for continuing to provide these services are/would be assessed at the appropriate time and this may involve the temporary use of reserves in the short term. The Council undertakes sensitivity analysis of the interest repayments on its borrowing requirements as a percentage of its available reserves to ensure there is sufficient coverage in the event that rental income is below that forecasted. This ensures that the Council has the available reserves to enable service delivery to be maintained in the short to medium term, whilst alternative solutions are implemented.

The Council set an upper limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million. Interest payments at 2.5% would equate to 16.4% of available reserves. At an interest rate of 3%, interest payments would equate to 19.7% of available reserves (Appendix E to the Budget Proposals report for 2019/20 – Council 21 February 2019).

Table 2: Proportionality of Investments

	2017/18 Actual	**2018/19 Forecast**	**2019/20 Budget**	**2020/21 Budget**	**2021/22 Budget**
Gross service expenditure	£54,038,718	£43,112,128	£42,691,186	£43,319,321	£43,673,123
Treasury income	£140,882	£193,000	£183,000	£183,000	£183,000
Commercial property income	£195,000	£645,000	~~£645,000~~ £717,443	~~£722,192~~ £1,173,822	~~£1,404,667~~ £2,003,964
Proportion	0.62%	1.94%	~~1.94~~2.11%	~~2.09~~3.13%	~~3.64~~5.01%

The table shows in 2019/20 that the aggregate of commercial property income and treasury income equates to ~~1.94~~2.11% of the Council's gross service expenditure. This is projected to increase to ~~3.64~~5.01% by 2021/22.

8. Borrowing in Advance of Need

8.1. Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority plans to borrow for its Commercial Investment Strategy in its local area as detailed earlier in this report. The Authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired rental income or borrowing costs increasing are explained in section 5.3 Risk Assessment.

8.2. This is to be secured on a case by case basis on the most commercially advantageous terms available predominantly through borrowing or any other unallocated or available Council reserve or capital receipt. The Council shall not borrow more than or in advance of need as part of the funding for investments of developments so as to benefit from the investment of the extra sums borrowed (para 46 & 47 SGLGI). There are no circumstances in which the Council would seek to disregard the prohibition on borrowing ahead of need, purely for profit. The investment in renewable energy generation (SPV) would be made with a view to reducing the Council's carbon emissions and to mitigate the climate emergency that has been declared by the Council and many local authorities across the UK.

~~8.1.~~

9. Capacity, Skills and Culture

9.1. Statutory Officers and Members

9.1.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for recommending capital expenditure, borrowing and investment decisions to Members.

9.1.2. The ~~Group Manager of Business Development is a qualified Project Manager and Accounting Technician, with a RICS (Royal Institute of Chartered Surveyors) Accredited degree in Estates Management, incorporating Investment and Development. In addition, the Group Manager for Business Development also has 15 years of banking/lending experience, having worked on multi-million pound asset investment, disposal and development projects.~~ Strategic Director for Place and Enterprise is a Chartered Civil Engineer with 16 years of experience and also holds a MSc in Construction Law.

9.1.3. The Chief Executive has a MSc in Leadership of Public Services (2009) from UWE (Bristol Business School) and an IoD (Institute of Directors) Certificate of Directorship in 2016. In addition, the Chief Executive has been involved in the oversight of the Councils' interests (as shareholder) in its wholly owned companies when working as a Director for a Unitary Council.

9.1.4. The Strategic Finance Lead (S.151 Officer) is a Chartered Accountant (ICAEW) with 15 years of experience of being a S151 Officer (Chief Finance Officer). In addition, the Strategic Finance Lead holds a BSc in Mathematics and has previously worked in the private sector for accountancy firms.

~~9.1.4.~~9.1.5. The Monitoring Officer is a qualified solicitor with 20 years public sector experience and private practice prior to that.

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~~9.1.5. The Head of Assets Practice is a Chartered Civil Engineer with 16 years of experience. In addition, the Head of Assets holds a MSc in Construction Law.~~

9.1.6. The Estates Specialist is a Chartered Surveyor, qualified for over 13 years, with an Estate Surveying degree. In addition they are a Registered Valuer.

9.1.7. 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 (see 9.2.2)

9.1.8 External treasury management training was offered to all Members in November 2018 to ensure Members have up to date skills to make capital and treasury management decisions. In addition some internal training events on the Council's Medium Term Financial Strategy were organised in the year. The Council's Members Services are consulted when organising all training in order to maintain training and development plans for Councillors.

A comprehensive Members Induction Programme, following the District Council Elections in May 2019 was~~has been~~ organised, this included~~s~~ specific financial and treasury management training which ~~will be~~was undertaken as part of the induction. External treasury management training will be offered to all Members by March 2020. The purpose of this training is to ensure elected Members involved in the investments decision making process have appropriate capacity, skills and information to enable them to: 1. take informed decisions as to whether to enter into a specific investment; 2. to assess individual assessments in the context of the strategic objectives and risk profile of the local authority; and 3. to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

9.2. Commercial deals

9.2.1. The Council's negotiating team includes the ~~Group Manager for Business Development~~ Strategic Director for Place and Enterprise and the S.151 Officer, who are both members of the Senior Leadership Team. Both Officers are aware of the core principles of the prudential framework and of the regulatory regime within which Local Authorities operate. The S151 Officer has ~~These officers have~~ attended specific treasury management training courses around the new MHCLG Guidelines on investments and the accounting treatment.

9.2.2. Where Council staff do not have the knowledge and skills required, use is made of external advisors and consultants that are specialists in their field. The appropriate expertise is always resourced in relation to any financial, legal and asset related due diligence required. A list is shown below:-

- Savills - Property agents
- JLL – Property and technical consultants
- CCD Properties Limited - Development specialists
- Arcadis – Building Surveyors and Engineers
- Everose – Technical advisers (renewable energy)
- Womble Bond Dickinson –– Solicitors
- TLT - Solicitors
- Link Services – Treasury Management advice
- Arlingclose – Treasury Management advice
- APSE (Energy) – Local Government advisors
- KPMG – Financial advice (renewable energy)

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9.2.3 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.

9.3. Corporate governance

9.3.1. The Council has corporate governance arrangements to ensure transparency, accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values. The Head of Finance Practice invited bids for capital funding from all service areas, for a new capital programme during July 2018 on the strict proviso that all bids must go towards meeting a strategic priority. All capital bids received were ranked against a prescribed priority criteria set out in the bid process. The submitted capital bids have been assessed against the categories in each priority. Priority 1 categories include meeting strategic priorities and statutory obligations (e.g. Health and Safety, DDA etc) and other capital works required to ensure the existing Council property assets remain open. For the purpose of this report, Priority 2 categories link to good asset management whereby the capital work proposed would either generate capital/revenue income or reduce revenue spending.

10. Investment Indicators

10.1. The Authority has set the following quantitative indicators to allow elected Members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

10.2. Total risk exposure

10.2.1. The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 3: Total investment exposure in £ '000s

Total investment exposure	**31.03.2018 Actual**	**31.03.2019 Forecast**	**31.03.2020 Forecast**
Treasury management investments	42,762	32,500	32,500
Service investments: Shares and Bonds (see section 4.2 for details)	-	-	~~75~~50
Purchase shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation (see 4.2 for details)**			12,000
Capital investments: Commercial Property – new capital expenditure*	-	-	11,866
TOTAL INVESTMENTS	**42,762**	**32,500**	**~~44,441~~56,416**
Commitments to lend	-	-	-
Guarantees issued on loans	-	-	-
TOTAL EXPOSURE	**42,762**	**32,500**	**~~44,441~~56,416**

*Capital investments relate to areas such as capital expenditure on investment properties
** Some of this expenditure will move into 2020-21 due to the timing, but for completeness the maximum amount is included above and to include sufficient headroom in the Indicators.

10.3. How investments are funded

10.3.1. Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 4: Investments funded by borrowing in £ '000s

Investments funded by borrowing	**31.03.2018 Actual**	**31.03.2019 Forecast**	**31.03.2020 Forecast**
Commercial investments: Property (new capital expenditure)	-	-	11,866
Purchase shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation.			12,000
TOTAL FUNDED BY BORROWING	**-**	**-**	**~~11,866~~23,866**

10.4. Rate of return received

10.4.1. This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 5: Investment rate of return (net of all costs)

Investments net rate of return	**2017/18 Actual**	**2018/19 Forecast**	**2019/20 Forecast**
Treasury management investments	0.33%	0.59%	0.56%
Service investments: Shares **	-	-	-
Commercial investments: Property*	1.56%	5.15%	5.19~~5~~%
ALL INVESTMENTS	0.33%	0.59%	0.56%

**This relates to the one investment property which is held by the Council at Lee Mill.*

*** Any income from shares is likely to be in 2020/21*

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Table 6: Other investment indicators

Indicator	**2017/18 Actual**	**2018/19 Forecast**	**2019/20 Forecast**
Debt to net service expenditure ratio	0.00%	61.11%	166.31~~259.4~~%
Commercial income to net service expenditure ratio	2.34%	7.18%	8.12~~7.30~~%
Interest cover ratio (this indicator shows the ratio of income from commercial property investments compared to the interest expense incurred by them)*	N/A	N/A	454.08%~~N/A~~

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*The Council ~~currently~~ owns one investment property at Lee Mill and there is no borrowing or interest payments associated with this investment property

Debt will be repaid through the Council's Minimum Revenue Provision policy. For example, for commercial investment, debt will be repaid on an Annuity method over the Asset Life.

Appendix C

Updated Capital Strategy Report 2019/20

(The attached shows the suggested changes/amendments to the Capital Strategy approved in March 2019)

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1. Introduction

1.1. This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability. This strategy was approved by Council in March 2019 and is being updated in December 2019, to reflect the opportunity for the Council to purchase shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation.

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2. Capital Expenditure and Financing

2.1. Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In Local Government this includes spending on assets owned by other bodies and loans and grants to other bodies, enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in the year.

2.2. The Council has incurred £7.8m capital expenditure in 2018/19 to date and may incur further capital expenditure by the end of the year. The Council has approved a Capital Programme for 2019/20 of £15.291 million which consists of £3.425 million of general fund services and £11.866 million for Commercial Property Strategy investments. In addition there is a further recommendation to Council (on this agenda) on Community Housing capital expenditure.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ '000s

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
General Fund services	4,179	8,932	3,425	2,190	1,480
Community Housing	0	385	8,386	50	
Capital investments*	0	0	11,866	12,864	631
TOTAL	**4,179**	**9,317**	**23,677**	**15,104**	**2,111**

*Capital investments relate to areas such as capital expenditure on investment properties.

2.3. The main General Fund capital project to which the Council is currently committed is Leisure Investment of £6.3m. The Council is being reimbursed by the leisure contractor for the borrowing of the Leisure Investment and the income has already been factored into the Medium Term Financial Strategy. In terms of slippage, £3.2m of capital expenditure approved for 2018/19 will be spent in 2019/20 (this is for all Council capital projects within the Capital Programme).

2.4. The Council also plans to incur up to £60m of capital expenditure over the medium to longer term if it fulfils the development and acquisitions outlined in its Commercial Property Strategy, which was agreed at Full Council on 27 September 2018 – see links below.

http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=151&MId=1136&Ver=4

2.5. A Commercial Development Opportunities Report was taken to Executive on 13th December 2018 detailing the proposed schemes in the 2019/20 strategy. The proposed capital expenditure in Table 1 above was put before the Joint Development Management Committee and Overview and Scrutiny Panel on 24th January 2019 for their views. This was further considered by the Executive on 7th February and on 21st February 2019 Full Council approved the 2019/20 Capital Programme of £15.291 million. In addition there is a further recommendation to Council (on this agenda) on Community Housing capital expenditure of £8.386m.

2.6. All items in Table 1 which are also in the Capital Programme for 2019/20 are based on budgeted estimates and will be subject to the normal project appraisal procedures as required under the Council's Assets Strategy

2.7. Governance

2.7.1. The Head of Finance Practice invited bids for capital funding from all service areas, for a new capital programme during July 2018 on the strict proviso that all bids must go towards meeting a strategic priority. All capital bids received were ranked against a prescribed priority criteria set out in the bid process. The submitted capital bids have been assessed against the categories in each priority. Priority 1 categories include meeting strategic priorities and statutory obligations (e.g. Health and Safety, DDA etc.) and other capital works required to ensure the existing Council property assets remain open.

2.7.2. Priority 2 categories link to good asset management whereby the capital work proposed would either generate capital/revenue income or reduce revenue spending. A capital bid that will enable rationalised service delivery or improvement is also considered a Priority 2 category to meet the Council's aims and objectives.

2.8. Financing

2.8.1. All capital expenditure must be financed, either from (i) external sources (government grants and other contributions), (ii) the Council's own resources (revenue contribution, reserves and capital receipts) or (iii) debt (internal borrowing and borrowing from third party lenders such as the Public Work Loans Board). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ '000s

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
(i) External sources	1,079	1,387	2,760	1,190	930
(ii) Own resources	2,356	2,408	3,495	550	550
(iii) Debt	744*	5,522	17,422	13,364	631
TOTAL	**4,179**	**9,317**	**23,677**	**15,104**	**2,111**

*Debt in 2017/18 was internal borrowing for leisure investment – external PWLB debt of £5.49 million was taken out in 2018/19 following the Council decision in March 2018.

2.9. The projected debt for 2019/20 also relates to borrowing for waste and cleansing procurement (approved by Council in December 2018 as part of the report on Frontline Services) and potential borrowing from the PWLB for projects shown in the South Hams Commercial Developments Report. In addition there is a further recommendation to Council (on this agenda) on Community Housing capital expenditure.

2.10. Debt is only a temporary source of finance, since loans must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ '000s

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Own resources					
- MRP	0	0	254	334	629
- Use of capital receipts	0	0	0	0	0

The Council's full MRP statement is shown below:

2.11. Minimum revenue provision (MRP) policy statement

2.11.1. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2003 states that 'A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent'. The provision is made from revenue in respect of capital expenditure financed by borrowing or credit arrangements.

2.11.2. With all options MRP should normally commence in the financial year following the one in which expenditure was incurred. Regulation 28 does not define 'prudent'. However MRP guidance has been issued, which makes recommendations to authorities on the interpretation of that term. Authorities are legally obliged to 'have regard' to the guidance.

2.11.3. The first recommendation given by the guidance is to prepare, before the start of each financial year, an annual statement of the policy on making MRP in respect of that financial year and submit this to Full Council for approval.

2.11.4. The guidance aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

The MRP policy to be adopted is as below:-

Borrowing	**MRP Methodology**
Commercial Property acquisition (Borrowing of up to £60 million)	***Annuity Method (over the 50 years)*** Under this calculation, the revenue budget bears an equal annual charge (for principal and interest) over the life of the asset by taking into account the time value of money. Since MRP only relates to the 'principal' element, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing average PWLB rates. For two commercial property investments it is proposed to repay MRP based on 50% on the annuity method over the 50 year life (the assets will be regularly maintained), and 50% will be paid on maturity of the loan from either sale of the asset (a capital receipt) or through refinancing of the debt. The position will be regularly monitored. If at any point in time the valuation of the asset falls below the open market value then the MRP policy will be revisited.

Borrowing	MRP Methodology
Waste Fleet, Leisure Investment	**Asset Life Method** MRP is charged using the Asset Life method – based on the estimated life of the asset. This option provides for a reduction in the borrowing need over approximately the assets' life. For Leisure Investment, MRP will be charged in the year after the asset has become fully operational.

2.12. The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £17.2m during 2019/20.

Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ '000s

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
General Fund services	646	6,168	5,914	5,660	5,406
Community Housing*	0	0	7,016	7,016	0
Capital investments	0	0	10,406	23,691	23,947
TOTAL CFR	**646**	**6,168**	**23,336**	**36,367**	**29,353**

*****Although the total capital expenditure for Community Housing is in the region of £8.5m, it is anticipated that Homes England capital grant and S106 contributions will fund some of this expenditure.

2.13. Asset management

2.13.1. To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place.

2.14. Asset disposals

2.14.1. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans to third parties for capital expenditure and investments also generate capital receipts. The Council estimates to receive nil capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ '000s

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Asset sales	33	600	0	0	0
Loans repaid	0	0	0	0	0
TOTAL	33	600	0	0	0

3. Treasury Management

3.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically more cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

3.2. At 31st March 2018, the Council had no external borrowing but had internally borrowed (i.e. used its own resources in lieu of external borrowing) £744,000 for the leisure investment. The temporary internal borrowing was replaced by a series of loans for £5.49m from the Public Works Loans Board (PWLB) in May 2018 for the Leisure Fusion contract investment. Other borrowing requirements (i.e. non commercial property strategy) include those for community housing which are not funded through Homes England capital grant or S106 contributions (This is a recommendation to Council on this March 2019 agenda).

3.3. The Council currently has £35m treasury investments earning an average rate of around 0.59% which are expected to fall to £31m at 31/3/2019.

3.4. Borrowing strategy

3.4.1. The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore will seek to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

3.4.2. Projected levels of the Council's total outstanding debt which comprises borrowing is shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ '000s

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
Debt	0	5,490	22,912	36,276	29,891
Capital Financing Requirement	646	6,168	23,336	36,367	29,353

3.4.3. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term. In 2021/22 the debt is slightly higher than the CFR by £0.538m but this is only a short term position as the gross debt will reduce in 2022/23.

3.5. Affordable borrowing limit

3.5.1. The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year and to keep it under review. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit.

In view of the Council's intended commercial property strategy, the Council obtained independent external advice on the total amount of borrowing that would be acceptable for the District Council based on the Council's own financial status. The report on the advice is confidential, the advised maximum limit of £75 million is incorporated into the Prudential Indicator for the Authorised Limit. This limit takes into account the proposed commercial property strategy of up to £60m and £15 million for other borrowing requirements including borrowing for community housing schemes.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £'000s

	2018/19 limit	**2019/20 limit**	**2020/21 limit**	**2021/22 limit**
Authorised limit – total external debt	**14,000**	**75,000**	**75,000**	**75,000**
Operational boundary – total external debt	**9,000**	**70,000**	**70,000**	**70,000**

3.5.2. Further details on borrowing are in the treasury management strategy (Appendix C).

3.6. Investment Strategy

3.6.1. Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.6.2. The Council's policy on treasury investments is to prioritise security and liquidity over yield, i.e. to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely including in collective investment schemes (pooled funds whose underlying assets are company shares, bonds, property etc.) one example of which is the CCLA Local Authorities' Property Fund in which the Council is invested, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £'000s

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Short-term investments	42,762	31,000	29,000	29,000	29,000
Longer-term investments	-	1,500	3,500	3,500	3,500
TOTAL	**42,762**	32,500	32,500	32,500	32,500

3.6.3. Further details on treasury investments can be found in the treasury management strategy (Appendix C).

3.7. Governance

3.7.1. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Strategic Finance Lead (S151 Officer) and finance staff (where appropriate), who must act in line with the treasury management strategy approved by Council. Semi-annual reports on treasury management activity are presented to the Audit Committee which is responsible for scrutinising treasury management decisions.

4. Investments for Service Purposes

4.1. The Council has approved making a £50,000 investment in the South West Mutual Bank which takes the form of shareholding in the bank. ~~The Council is also proposing to make a £25,000 investment in a 10 year investment bond being offered by the Dartington Trust. It is proposed to finance this from the Business Rate Pilot gain as the investment is supporting the local economy.~~ Other than this, the Council does not currently have investments assisting local public services, such as making loans to local service providers or to local small businesses to promote economic growth or to subsidiaries that provide services. However, it may do so in the future if required. In light of the public service objective, the Council would thus be willing to take more risk than with treasury investments, however the objective would be for such investments to break even after all costs (Council Minute 43/18).

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4.2 The Council is currently undertaking due diligence work on the opportunity for the Council to purchase shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation. This business case would also involve the Council entering into a loan in 2020/21 at a commercial rate with the Special Purpose Vehicle. This will be set out within the Council's Investment Strategy for 2020/21 (presented to Full Council in February or March 2020).

~~4.1.~~

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4.2. Governance

4.2.1. Decisions on service investments are made by the relevant service manager in consultation with the Strategic Finance Lead (Section 151 Officer) and must meet pre-approved criteria and limits. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

5. Current and Proposed Commercial Activities

5.1. South Hams DC owns a number of commercial units industrial units, office accommodation, the site in Lee Mill (see 5.3 below) within the District valued at £28.5 million at 31/3/2018.

5.2. The Council leases various parcels of land and buildings to external organisations. This reflects the historic policy of supporting small start-ups which has proved and continues to be successful.

5.3. During 2017/18, a review of existing assets resulted in the site in Lee Mill which is currently leased to a supermarket being reclassified in from Property Plant and Equipment to Investment Properties, with effect from 31 December 2017. This was based on the view that the site is now held solely to earn rentals, i.e. for a commercial objective, and as such should so be reclassified. This decision was also informed by external advice which was obtained independently. The 2017/18 Annual Statement of Accounts shows the value of this property at £12.53m.

5.4. Commercial activity generates net income each year after all costs, but it also exposes the Council to normal commercial risks. In 2017/18 rental income net of direct operating expenses was £165,000 and is expected to be £634,000 in 2018/19. The increase is due to the reclassification in 5.3 (Lee Mill). The risks are managed by the Council's Senior Leadership Team and the Council's Assets team who engage specialist advisors where appropriate. The Council has a comprehensive due diligence check list which is completed before any commercial property acquisitions are made.

5.5. **The Council's Commercial Property Strategy**

5.5.1. With the withdrawal of Government funding, the Council recognises it will need to generate additional income (as an ancillary benefit) to be able to carry on delivering the current range of services.

5.5.2. In September 2018 the Council endorsed the principle of a Commercial Property Strategy, which includes multiple objectives: (a) to support regeneration and the economic activity of the Council (b) to enhance economic benefit (c) to grow business rate income (d) to assist with the financial sustainability of the Council as an ancillary benefit and (e) to help continue deliver and/or improve frontline services in keeping with its adopted strategy and objectives.

5.5.3. Details of this strategy can be found in the report taken to Full Council on 27/9/2018.

http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=151&MId=1136&Ver=4

5.5.4. This strategy, which is expected to be predominantly funded through prudential borrowing, has two strands. The first is development on Council-owned land, the second is commercial property acquisition in South Hams.

5.5.5 A report on the projects within the South Hams that were Commercial Development Opportunities was presented to the Executive on 13th December 2018. (Minutes E.62/18)

http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=149&MId=1259&Ver=4

5.5.6 The projects set out within the report are:

i) A new build development in Kingsbridge which would be let to a major UK hotel operator on the former Rope Walk Resource Centre Site, providing year around visitor accommodation.

ii) An office development on a brown field site, for a well-established architect practice wishing to invest and grow in Totnes.

iii) The acquisition of approx. 10 acres of commercial land in Sherford to provide for future commercial expansion of business within or re-locating to the South Hams.

iv) Construction of 7 no. chalet style beach huts at Beesands to provide beach front tourist accommodation in the heart of the village, combined with the provision of a new play park facility.*

v) The construction of a single additional deck of car parking at Shadycombe Car Park, to provide approx. 30 new parking spaces in the centre of Salcombe.

vi) Provision of a discount supermarket in central Ivybridge, alongside car park improvements providing no net loss of car parking spaces.

vii) Construction of 5 Employment units in Batson and a Workshop for the Harbour Authority to work from that is fit for purpose and future proofed.

viii) Dartmouth Health and Wellbeing Hub

*(Note in the Capital Programme Monitoring report for Quarter 2, it is recommended that the capital budget for developing beach huts be removed, following further clarity from the Joint Local Plan which means that this project is unable to proceed).

5.5.7. Due diligence and risk assessment will be undertaken and a business case produced for each development or acquisition opportunity, when identified. It will also be assessed on meeting the above objectives and on delivering one or more of the following outcomes: job creation or safeguarding; health and wellbeing; town centre regeneration; tourism / increased footfall; business rate growth; improved asset utilisation.

5.5.8. A minimum net yield return of 2% is being targeted. However, in some circumstances, e.g. where there is a community benefit, a lower return may be acceptable. The Council will put in place contingency plans should expected yields not materialise.

5.5.9. Other borrowing: A report was presented to the Executive in March 2019 which recommends to Council (to be considered in March 2019) to approve £8.5 million for community housing schemes within the South Hams, to build out four community housing schemes delivering 55 residential units. This borrowing, in aggregate with other borrowing, will not exceed the Authorised Limit and Operational Boundary in 3.5 above.

5.5.10 An updated Commercial Investment Strategy is also presented to Council on 19th December 2019, to enable the purchase of shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation.

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5.6. Governance

5.6.1. Commercial developments on Council owned land: There are multiple projects (see 5.5.6) being worked on by officers that meet the criteria set out in the strategy and decisions on progressing and committing borrowing or funding to these projects is a delegated function of the Executive.

5.6.2. For commercial acquisitions, governance and decision making is detailed in Section 3 of the Commercial Property Strategy.

5.6.3. Property and most other commercial investments are also capital expenditure; purchases and development will therefore also be approved as part of the capital programme.

5.7. Risk management

5.7.1. The Council accepts there is higher risk on commercial investment than with treasury investments. Financial risk will be weighed up against the social and economic benefits of the investment. The principal risk exposures include vacancies resulting in a disruption or fall in income streams, fall in capital value which is either site-specific or due to general market conditions, deterioration in the credit quality of the tenant. These risks will be managed, for example by having an appropriate tenant mix for small start-ups where the creditworthiness tends to be lower, targeting tenants with strong financial standing for larger units or, where there is single occupancy, having long unexpired leases on the date of acquisition.

Debt Proportionality

5.7.2. The commercial property strategy considers the risks of investment and the Council has engaged Treasury Management advisors to analyse the level of debt proportionality to the Council's finances (e.g. levels of reserves, asset base and level of interest costs as a percentage of income). Commercial property acquisitions expand the Council's balance sheet and interest costs will form a higher percentage of locally derived income. It would absorb a high level of reserves if there are shortfalls in or disruption to the income stream required to meet the additional expenditure.

Sensitivity analysis on the level of debt interest against the Council's level of reserves was considered as part of the Medium Term Financial Strategy and as part of the budget proposals for 2019/20. In order that commercial investments remain proportionate to the size of this Council, borrowing for the Commercial Investment Property Strategy is subject to an overall maximum limit of £60m. Within this £60m upper limit, capital expenditure of and borrowing before 30th April 2019 is capped at £30m.

5.8 The Council set an upper limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million. Interest payments at 2.5% would equate to 16.4% of available reserves. At an interest rate of 3%, interest payments would equate to 19.7% of available reserves (Appendix E to the Budget Proposals report for 2019/20 – Council 21 February 2019).

6. **Liabilities**

6.1. In addition to the current debt of £5.49m detailed above, the Council is committed to making future payments to cover its pensions liability. The Pensions Reserve for the net defined benefit liability was £51.4m at 31/3/2018.

6.2. As stated in Note 35 of the 2017/18 Statement of Accounts – Contingent Liabilities - at the time of the transfer of the Council's housing stock in 1999, wide warranties were given to South Hams Housing (now Liverty) on staffing, environmental and other issues, to safeguard the housing company if any of the main assumptions on which the transfer price was calculated, turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Due to the uncertainties surrounding any potential claim on this contingent liability, it is not practicable to make an estimate of the total value of liabilities (if any).

6.3. Governance

6.3.1. Decisions on incurring new discretional liabilities are taken by Heads of Practice in consultation with the Strategic Finance Lead (S.151 Officer). The risk of liabilities crystallising and requiring payment is monitored as part of budget monitoring and reported quarterly.

6.3.2. Further details on liabilities can be found in Note 35 of the 2017/18 Statement of Accounts. https://www.southhams.gov.uk/article/3769/Annual-Accounts

7. **Revenue Budget Implications**

7.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Financing costs (£m)	(140,882)	(60,358)	717,322	1,176,326	1,299,745
Proportion of net revenue stream	(1.7)%	(0.7)%	8.1%	13.4%	14.3%

Further details on the revenue implications of capital expenditure are included in the 2019/20 Revenue Budget.

7.2. Statement on Sustainability

7.2.1. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future.

7.2.2. With no external debt at 31st March 2018, the Council is starting from a low base when comparing interest costs with income and reserves. It is anticipated that debt funded acquisitions will generate additional revenue above the capital funding costs. Based on reserves of £11.4m (£1.8m unearmarked and £9.6m earmarked), as shown in Appendix E of the Budget Proposals 2019/20 report to Council, an increase in debt to £75m will result in debt interest costs being equivalent to 16.4% of reserves (assuming an interest rate of 2.5%). Should average the average rate rise to 3%, then debt costs will be 19.7% of reserves. These costs do not include MRP which will also need to be considered.

7.2.3. The Strategic Finance Lead (S151 Officer) is satisfied that the proposed capital programme is prudent, affordable and sustainable and it is fully integrated with the Council's 2019/20 Medium Term Financial Strategy, Treasury Management Strategy and Investment Strategy and other strategic plans. The Capital Strategy is compiled in line with the requirements of the 2017 CIPFA Prudential Code and 2017 Treasury Management Code. The risks associated with the Commercial Property Strategy are covered within the Investment Strategy.

7.2.4 The delivery of the individual capital schemes on the plan is directly linked to the original approval of the capital project supported by each project having a project lead who is responsible for the delivery of the project (appropriate skills, contracting, planning etc.) and the subsequent achievement of the objectives of that project.

7.2.5 Members, via the Executive meetings receive quarterly budget monitoring reports on the Council's Capital Programme. Through these updates, which are driven by the requirement of financial reporting, Members can review and challenge the delivery of projects and any changes to both the timing and expenditure of the capital project.

7.2.6 If subsequent to the capital project being completed there are variations to the income expected to be generated from that asset, this will be reported as a variance in the quarterly budget monitoring reporting and if ongoing will be included in the following year's revenue budget proposals.

7.2.7 The Council's Senior Leadership Team has oversight for the delivery of and challenge to the Capital Strategy and Capital Programme.

Affordability

7.2.8 Affordability is critical in applying the capital strategy and approving projects for inclusion in the capital programme. This is mostly demonstrated by a report on the project being presented to Executive/Council for approval supported by a business case identifying the expenditure and funding, appraisal of alternative options and the risks and rewards for the approval of the scheme.

7.2.9 All projects need to have a clear funding source. If external funding such as an external grant is to be used, there needs to be a clear funding commitment.

7.2.10 Affordability of each project needs to be clear, not only for the funding of the capital spend, but also to cover any ongoing costs of the operation and funding of that capital spend.

7.2.11 Where borrowing is to be used the affordability is of greater importance and the affordability has to include the interest costs of that borrowing and the provision for the repayment of the borrowing (MRP). This repayment is matched to a prudent asset life and any income streams estimated to fund this asset must be sustainable. The rules around the governance of this borrowing are outlined in the Prudential Code (as summarised above).

7.2.12 At no stage should the asset value be lower than the value of outstanding debt unless there is a clear plan to mitigate that shortfall or to sell that asset.

Risks

7.3.1. The risks associated with a significant Capital Programme and a significant level of borrowing can be mitigated through all capital projects being supported by a business case, having adequate project management and/or project boards, suitable skills for the delivery of the project, tax planning, cash flow, clear operational plan for the use of the asset, security and due diligence on loans and purchases, use of external advice where appropriate, project contingencies, full tender process and regular and transparent reporting to Members.

7.3.2 There are clear links from the capital strategy to both the treasury management strategy, prudential indicators, authorised borrowing limits and the revenue budget. These are also subject to review and oversight by Members at the Audit Committee and Council. For any new borrowing, and this is a greater risk as the value of borrowing increases, this does increase the Council's overall liabilities that will need to be repaid in the future.

7.3.3. In addition, this increases the Council's level of fixed interest and repayment costs that it will incur each year. This is currently increasing by 2022 and could be up to a borrowing liability of £29.9m (see Table 6) and ongoing financing costs of the borrowing of approx. £1.48m by 2021/22. This is a clear risk that all Members need to be aware of.

7.3.4. However this risk for assets is mitigated by a robust business case and a MRP that will repay the borrowing costs over a (prudent) asset life. Any variations from this are set out in the MRP Policy (See section 2.11.4). Any variation in expected income is an issue, however given the wide range of operational assets and different income streams this helps to mitigate this risk.

7.3.5 As outlined above in the position statement, investment properties are a different type and level of risk. Risk arises from both variations in income streams (tenant non-renewal etc.) and from asset values (impact economic conditions and retail trends etc.). The Council has established a clear strategy, criteria and a governance route for these purchases which has included member training, second opinion on asset values, due diligence, site visits, surveys etc.

7.3.6 There are risks (and rewards) associated with the purchase of this type of assets, therefore all Members need to have sight of and understand the risks and rewards inherent in these commercial investments(development opportunities).

- 7.3.7 Risk of loss (Para 41 SGLGI) shall be assessed on a case by case basis as part of the acquisition due diligence and will be a criteria considered throughout the approval process. Risk of loss during the management phase of the investment shall be reported in accordance with the criteria below.

- In accordance with Para 23-25 of Statutory Guidance on Local Government Investments, quantitative indicators or risk and portfolio performance will be reported to Audit Committee. The frequency of this reporting is anticipated to be every 6 months and will include the following indicators (as applicable):
  - Rental value by property
  - Rental value by tenant
  - Sector split by purchase price
  - Purchase price
  - Rental income profile
  - Tenant lease length
  - Gross Yield
  - Management, Maintenance and Risk Mitigation Reserve (MMRM) value
  - Current value
  - In the case of an SPV, relevant criteria shall be reported depending on the nature of the SPV.

Knowledge and Skills

8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for recommending capital expenditure, borrowing and investment decisions to Members.

1.1.1. 8.2 The ~~Group Manager of Business Development is a qualified Project Manager and Accounting Technician, with a RICS (Royal Institute of Chartered Surveyors) Accredited degree in Estates~~

~~Management, incorporating Investment and Development. In addition, the Group Manager for Business Development also has 15 years of banking/lending experience, having worked on multi-million pound asset investment, disposal and development projects.~~ Strategic Director for Place and Enterprise is a Chartered Civil Engineer with 16 years of experience and also holds a MSc in Construction Law.

8.3 The Chief Executive has a MSc in Leadership of Public Services (2009) from UWE (Bristol Business School) and an IoD (Institute of Directors) Certificate of Directorship in 2016. In addition, the Chief Executive has been involved in the oversight of the Councils' interests (as shareholder) in its wholly owned companies when working as a Director for a Unitary Council.

8.4 The Strategic Finance Lead (S.151 Officer) is a Chartered Accountant (ICAEW) with 15 years of experience of being a S151 Officer (Chief Finance Officer). In addition, the Strategic Finance Lead holds a BSc in Mathematics and has previously worked in the private sector for accountancy firms.

8.5 ~~The Head of Assets Practice is a Chartered Civic Engineer with sixteen years of experience. In addition, the Head of Assets holds a MSc in Construction Law.~~The Monitoring Officer is a qualified solicitor with 20 years public sector experience and private practice prior to that.

8.6 The Estates Specialist is a Chartered Surveyor, qualified for over 13 years, with an Estate Surveying degree. In addition they are a Registered Valuer.

8.7 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. The appropriate expertise is always resourced in relation to any financial, legal and asset related due diligence required. A list is below:-

- Savills - Property agents
- JLL – Property and technical consultants
- CCD Properties Limited - Development specialists
- Arcadis – Building Surveyors and Engineers
- Everose – Technical advisers (renewable energy)
- Womble Bond Dickinson ~~-~~– Solicitors
- TLT - Solicitors
- Link Services – Treasury Management advice
- Arlingclose – Treasury Management advice
- APSE (Energy) – Local Government advisors
- KPMG – Financial advice (renewable energy)

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8.8 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.

8.9 External treasury management training was offered to all Members in November 2018 to ensure Members have up to date skills to make capital and treasury management decisions. In addition some internal training events on the Council's Medium Term Financial Strategy were organised in the year. The Council's Members Services are consulted when organising all training in order to maintain training and development plans for Councillors. A comprehensive Members Induction Programme, following the District Elections in May 2019 ~~has been~~was organised, this included~~s~~ specific financial and treasury management training which was~~will be~~ undertaken as part of the induction. External treasury management training will be offered to all Members by March 2020.

8.10 The purpose of this training is to ensure elected Members involved in the investments decision making process have appropriate capacity, skills and information to enable them to: 1. take informed decisions as to whether to enter into a specific investment; 2. to assess individual assessments in the context of the strategic objectives and risk profile of the local authority; and 3. to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

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Development Management Committee Substitutes – Draft Protocol

Background:

At its meeting on 19 December 2019, the Council decided that, initially for a trial period for the remainder of the 2019/20 Municipal Year, Group Leaders be given the ability to nominate Substitute Members (from the Overview and Scrutiny Panel membership only) to serve on the Development Management (DM) Committee.

Appointed Substitute Members:

Cllr O'Callaghan (Lib Dem Group);

Cllr Reeve (Conservative Group);

Cllr Smerdon (Conservative Group);

Cllr Spencer (Conservative Group);

Cllr Thomas (Lib Dem Group);

Protocol:

1. Appointed Substitute Members for the DM Committee must have attended the appropriate Member Planning Training sessions (to the satisfaction of the Head of Practice Development Management) before they can take part in the planning decision-making process. Appointed Substitute Members will also be expected to attend planning training refresher sessions as and when they are provided;

2. A Substitute must be appointed from the same political group as the Member who is unable to attend the Committee meeting and must be appointed from the membership of the Overview and Scrutiny Panel;

3. To enable their attendance at the DM Committee Site Inspections, the Leader of the Political Group concerned must give notice in writing to Democratic Services by 12 noon on the Friday before the Committee meeting is held. The Substitute Member will then be invited to attend the site inspections in advance of the Committee meeting;

4. A Substitute must be appointed for the duration (and not part) of a meeting;

5. A Substitute will have full voting rights at DM Committee meetings;

6. With regard to a deferred application, as long as a Substitute Member has viewed the extract of the webcast when the planning application was first considered (or was in

attendance at the Committee meeting in a non-voting capacity), the Substitute Member will be able to take part in the debate and vote at the meeting when the application is re-considered;

7. At the start of any meeting for which a substitution has been arranged in accordance with these Rules, the Democratic Services representative at the meeting shall announce that the absent Member apologises for his/her absence and that the named Member has been appointed to serve as their substitute.