Appendix 1

Cornwall Council
Investment Programme Strategy

Contents

Investment in Context

The UK Local Authority funding environment is in the process of a significant structural change. Cornwall Council along with other Local Authorities and MHCLG are working on the assumption that the revenue grant will be entirely removed by 2020/21. This will likely mean a long term reduction in the Council's revenue. Alongside the funding pressure, there is an expectation in Government that Local Authorities will become more entrepreneurial.

There has been no consistent response by Local Authorities around the UK to these factors. Local Authorities taking an early lead in addressing the problem have met with varying degrees of success and sufficient time has passed for Cornwall Council to learn the lessons that these early adopters have experienced.

Our financial position is forcing us to look more commercially at our methods of service delivery and the Council has an ambition to be more commercial across Cornwall to ensure its future prosperity.

The strategic response is to create an Investment Programme, to create a return, borrowing funds to invest in local infrastructure. This programme will not only deliver increased revenue for Cornwall Council, it also represents the opportunity to improve the lives of the people of Cornwall by providing affordable housing, space for job creation, commercial enterprise and the accompanying social infrastructure and investing in housing including that is desperately needed.

The Department of Communities and Local Government has an expectation that local authorities should become more entrepreneurial with a view to becoming largely self-financing. The sector response to this has been dramatic. In 2016 Local Authorities invested over £1.2bn on real estate. The House of Commons Public Accounts Committee has noted a reduction in revenue spending on service since 2010-11, whilst capital spending has increased in real terms, the record that in 2014-15 local authorities spent £38.1bn on revenue and £12.3bn on capital (excluding education). Most notable has been change in the purpose of capital spending with authorities increasingly using their capital programme to generate revenue returns rather than solely to provide services. The press have cited the district Council of Spelthorne as a case point. They have invested £377.5m of borrowing into the purchase of a business park.

The House of Commons Public Finances committee reported in November 2016[1] that they were concerned about the changing profile of local authority capital spending. They identified an increasing trend within local authorities to make commercial investments rather than invest in more traditional assets such as libraries and parks. They recognised that this was a response to reduced revenue budgets and the expectation from the Department of Communities and Local Government for authorities to become more entrepreneurial, alongside an expectation that local authorities become largely self-financing.

Concern has been raised about the risks this may pose in particular

- Where authorities lack commercial skills and experience
- The impact of poor commercial decisions on the tax payer

The National Audit Office[2] recognises a trend in local government spending since 2010-11 that has seen the reshaping of capital spending to activities that reduce revenue costs or generates additional income.

In this **context** the proposed investment programme includes a mixture of proposals including commercial acquisitions of land and buildings; as well as direct delivery of homes and workspace. This means that we will be exposed to a range of risks associated with such direct delivery (development risks).

The Local Government Association published a document entitled 'Enterprising Council's Supporting Council's Income Generation Activity', based upon a number of case studies. The Overview and Scrutiny Committee, task and finish group has based some of its research and enquiry day looking at some of these examples. Their report submitted to and as agreed by the main Committee is appended to as well as having influenced this proposal.

The Cabinet on the 26th July 2017 RESOLVED that:

1. *The responsibility of Cornwall Council to promote and support delivery of the Local Plan and Strategic Economic Plan (SEP) be acknowledged and the need for the Council to take a proactive role in delivery of both the housing and jobs objectives, and associated infrastructure as set out in the above referenced documents, be recognised.*

2. Subject to (1) above, the principle of proactive, direct public sector involvement in development and growth to assist in delivering the growth identified in the Cornwall Local Plan be endorsed and accepted.

3. The proactive, direct public sector intervention be delivered through an integrated programme approach supported by proportionate governance and due diligence.

4. In order to inform the programme, existing evidence be reviewed to identify the location; occupancy rates and return on investment of the Council's existing assets to enable a better understanding of where to intervene and the type of workspace required to address Cornwall's future needs through targeted interventions.

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[1] https://publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/708/70802.htm

[2] https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/

5. It be noted that the purpose and effect of this intervention is to ensure that Cornwall benefits from the provision of the creation of sufficient high quality integrated sustainable places with homes, jobs and infrastructure; thereby providing a wider choice of homes and workspace that is not coming forward in the current market.

6. Work be progressed to develop an appropriate investment and delivery programme within Cornwall to achieve these objectives and options for funding mechanisms and providing the programme be prepared for consideration as a part of the Business and Financial Plan process.

7. The Council work with other Government agencies and, specifically, the Homes and Communities Agency and the Local Economic Partnership (LEP) to secure and leverage funds and reduce development risk within the investment programme.

8. An annual report be prepared setting out the proposed annual investment programme in tandem with each year's budget setting.

The Overview and Scrutiny Committee on 1st November 2017 received evidence from;

- The LGA in light of their Enterprising Councils publication
- John Betty, Strategic Director, Economic Growth and Development Cornwall Council
- Andy Brown, Service Director Resources, Cornwall Council – Capital and finance perspective
- Representative from Warrington Council
- Representative from Eastleigh Council
- Representative from Grant Thornton – risk perspective
- Matthew Thompson – Cornwall and Isles of Scilly Local Nature Partnership

The recommendations from the Committee in summary were as follows;

1. The principle of a significant increase in development investment by Cornwall Council, to maximise revenue and deliver benefits to Cornwall that are becoming harder to fund in traditional ways, should be endorsed.
2. The rationale for extra investment must be transparent and flexible, particularly in terms of those projects that do not meet current Treasury Green Book levels of return.
3. The Programme should consist of different types of investments, such as those that will make a commercially viable return and those that achieve desirable outcomes for Cornwall but cover their costs or make smaller returns.
4. The Council must ensure that it has the skills and culture to implement the scale of the agreed programme.
5. Mechanisms for governance and democratic accountability must be in place and understood for the whole programme, with an ability to act quickly on individual projects where necessary.
6. A clear understanding is required of how the socially/economically desirable investments (that cover costs or make small returns) can be funded.
7. An overarching funding package should be created to support the programme.
8. The Council should consider how it can borrow to lend at a good return.
9. Workspace and other economy and environment driven investments must be a key part of the programme.
10. The Programme and practice should ensure it aligns with Cornwall's Environmental Growth Strategy and seek to minimise damaging impacts.

11. The Council should use the programme to significantly increase the delivery of affordable housing.
12. The direct Housing Development Programme should continue, provided it can be shown to generate a commercial income and /or social benefit for the Council.
13. Joint ventures with delivery partners should be expanded to share risk and to increase investment capacity.
14. The programme must be sustainable in the long term.
15. The new programme should aim to align with and deliver priorities emerging in work being undertaken in many towns.
16. The ability to invest needs careful communication with strong advocates.
17. The Portfolio Holders will be required to attend a meeting of the Economic Development and Growth Overview and Scrutiny Committee in twelve months' time to report back.

The Cabinet on 15th November 2017 RESOLVED that;

In accordance with Cabinet's decision of 26th July 2017, an annual business plan for the Investment Programme will be presented for approval.

The financial assumptions and principles, as set out in Section 11, below, are approved.

The proposed project selection criteria, as set out in Section 10 are endorsed in principle.

The assurance processes that are described in sections 11 and 15 are endorsed.

That projects or programmes within the overall financial scope of the agreed annual investment and delivery plan will be subject to a detailed business case, to be submitted for approval to the relevant Strategic Director/ Portfolio holder/ or Cabinet in accordance with the current Constitution and Scheme of Delegation, or further delegations, as agreed by Cabinet, when the annual investment and delivery plan is approved.

That projects and their associated business case will be in the form of individual projects, subject based programmes or a portfolio of place related projects. Their business cases will be considered in the context of the vision, objectives and financial principles of the overall Investment Programme.

From April 2018, a £2m revenue budget is established to finance the development costs of the investment programme that cannot be capitalised, formed by top slicing the existing capital financing budget.

The provision of transitional funding of up to £2m, for the delivery of existing and previously agreed projects ahead of 31st March 2018 and to be sourced from the Economic Development match fund, is agreed.

The Economic Growth and Development Overview and Scrutiny Committee be asked to consider alternative approaches to governance of the programme which can then be considered by the Constitution and Governance Overview and Scrutiny Committee and Cabinet in due course.

A proactive approach to government and other agencies and partners to seek their investment alongside the Council for the overall benefit of Cornwall and its people be encouraged.

Investment Strategy drivers

The drivers of the Investment Strategy are as follows.

There is a requirement to create additional revenue for Cornwall Council by 2023, to help fund service pressures and to reduce the need for further significant savings within the MTP. This revenue funding will come from the following sources;

- Rental income on social and private rented housing
- Rental income on commercial property
- Council tax on homes
- Investing in businesses
- Investing in energy
- Investing the broader financial market (Opportunities)
- Business rates on workspace
- New homes bonus (although this will reduce over time)
- Interest returns on loans made
- Dividend income on share ownership

There is also a requirement to deliver elements of the strategic plans of Cornwall and Cornwall Council, specifically the Local Plan. For example the Investment Programme will assist Cornwall Council to contribute towards the following targets of the Local Plan by 2030;

- 52,500 new homes
- 704,000 sqm of workspace
- 38,000 new jobs.

Investment Vision

Cornwall Council creating wealth through an investment programme that seeks to grow the economy; improve choice; and assist in the delivery of quality homes and jobs supported by essential infrastructure whilst creating a return to support service delivery.

Principles and Boundaries of Investment in Cornwall

- The Investment Strategy aims to put in place measures designed to offset the substantial cuts that Councils will experience in future years.
- The strategy advocates that the approach is open to all services or elements of services.
- The approach is to select key opportunities and expeditiously deliver them using and enhanced capability and grow confidence and buy in to the Council wide activity.
- The approach will seek to internalise the capability, building capacity and awareness through exposure, learning and applying lessons, celebrating success, creating and

publicising case studies and ensuring the Council is aware of the need to constantly evolve develop and invest in its own future.

- The Investment Programme will operate on an investment portfolio basis, each individual project will contribute to an overall portfolio return and draw from a portfolio borrowing facility.
- The Council is able, and should, make long term investments where the benefits are captured locally, supporting communities and the local economy.
- Projects will make a positive Return on Investment and demonstrate a path to positive social or environmental impacts, judged to be more valuable than shorter term financial return.
- A diverse group of potential investment options is possible and include, but are not limited to;
    - Cornwall Council takes the role of Master-planner and Developer of a large site
    - Direct delivery by Cornwall Council
    - Joint venture arrangements
    - Loans made on a commercial basis
    - Investment in shareholdings of individual companies
    - Other investment vehicles
    - Investment in Opportunities

- Further to this, investments across key Sectors will support a diversified portfolio reducing exposure to risk and creating opportunities.

Links to other strategies and policies

The Investment Programme will be delivered within the existing strategic framework and will seek to deliver into each of the following strategies and plans.

The Cornwall Council 2018 – 2022 Business Plan[3] recognises that to deliver prosperity we need to maximise the potential for economic growth and development in Cornwall, including ensuring that sufficient housing, jobs, transport and infrastructure is provided across Cornwall.

The Cornwall Local Plan 2010 – 2030[4] provides the spatial planning policy framework based on a wide analysis and assessment. It ensures that development takes place in the right areas while safeguarding and improving Cornwall's unique environment and ensure that essential infrastructure is built alongside jobs and homes that create communities and quality places.

Vision 30[5] is the Cornwall and Isles of Scilly Local Enterprise Partnership Strategic Economic Plan 2017 – 2013 and it sets out the economic route map for Cornwall until 2030. In an

[3] http://www.cornwall.gov.uk/media/31517040/cc-business-plan-final.pdf

[4] http://www.cornwall.gov.uk/media/22936789/adopted-local-plan-strategic-policies-2016.pdf

[5] https://www.cioslep.com/assets/file/Vision%202030/Vision-30.pdf

environment where unemployment is low but wage levels and productivity are also low, it focuses on a productivity-led approach to economic prosperity.

Cornwall's Environmental Growth Strategy 2015 – 2065[6] recognises the vital role that the environment plays in Cornwall, its life and future prosperity. It recognises that it provides distinct economic opportunities for new activities and in the revitalisation of existing industries.

Connecting Cornwall: 2030 is Cornwall's third Local Transport Plan[7] which sets out the long term strategy framework for transport in Cornwall. The Plan seeks to provide connectivity and capacity to enable the growth identified in the Local Plan to be accommodated.

In its document '10 opportunities'[8] the Cornwall and Isles of Scilly Local Enterprise Partnership has identified 10 sectors in Cornwall and the Isles of Scilly that offer opportunities for public and private organisations to co-invest, drive business growth and help transform the UK economy.

Key Aims and Objectives

The overarching **AIM** of the strategy is to create a positive return for Cornwall Council that will support further borrowing and contribute to the Councils spending plans to sustain priority outcomes in the local community in the future.

This entails developing a programme of work that includes a process for identifying potential opportunities, applies a methodology to further develop those opportunities, has a structure in place to ensure those opportunities are nurtured and supported and has the resources, governance and mandate to deliver the aim of the strategy.

It is also key to developing clearer commissioning intentions, outputs and outcomes and medium to long term interventions across all major services. These intentions can then be monitored and managed. The strategy also seeks more innovative approaches to delivery, intends to challenge existing approaches with the clear intent of setting a dynamic trajectory towards 2020.

The objectives identified are:

- To promote and support the delivery of the Cornwall Local Plan and Strategic Economic Plan using proactive & direct public sector involvement to assist in the delivery of the growth required to meet Cornwall's needs
- Generate a programme approach that is underpinned by a financially sustainable model
- Make long term investments where the benefits are captured locally supporting communities and the local economy
- Investments provide a return to the Council that justifies the risk and borrowing costs

[6] https://www.cornwall.gov.uk/media/24212257/environmental-growth-strategy_jan17_proof.pdf

[7] [7] https://www.cornwall.gov.uk/media/3626988/LTP3-Executive-Summary-proof-310311.pdf

[8] https://www.cioslep.com/vision/10-opportunities

- Develop a diverse investment programme that allows cross subsidy across the programme to balance social, economic and environmental outcomes
- Stimulate the market ; giving confidence to private sector investors
- Address market failure
- Maximising the opportunity from the public estate
- Seeking external funding opportunities and maximising leverage
- Explore Cornwall's future opportunities supporting research and development.
- Maintain Cornwall's reputation for delivery and strong relationships with Government and key partners
- To work with the construction industry to explore ways to improve the supply chain and to promote innovation
- Economic benefits captured locally (i.e. Local labour schemes, use of local SME contractors and apprenticeship/training schemes
- A greater range of choice of homes for local people to meet a range of housing needs, especially those unable to buy a home
- Reduce fuel poverty - energy efficient homes and workspace that are cost effective to heat
- High quality homes and places that are designed to promote the health, wellbeing and quality of life aspirations of local residents
- Effective community engagement in shaping places
- High quality workspace that meets existing and future need
- Strengthen Cornwall Council's reputation with residents, staff, partners, local businesses, customers, and the wider markets and investors as a dynamic 'savvy' Council that is able to work quickly to ensure success, becoming the area where people want to come and invest.
- Use the commercial, financial and delivery knowledge developed through the programme to create sustainable competitive advantage

Creating the right environment

Careful consideration will be given to creating the right environment within the Council to nurture innovative ideas and develop them into robust project proposals. This will involve the following activities:

- Culture and capability review
- Provision of training to support the strategy
- A communications campaign to draw ideas in from staff and generate new ideas now and into the future
- Delivering an understandable and easily achievable framework for the development of new opportunities
- Capturing lessons learnt when encountered, analysing them and playing them back to the team to ensure they are applied and learnt
- Adopting a portfolio, programme and project management approach to the delivery of the strategy
- Stopping projects that do not meet the requirements of the strategy or are diverting essential resources

- Ensuring that new investment proposals have the right support from the organisation to enable success
- Building relationships with Local Organisations
- Attendance at relevant industry events
- Creating a coordinated continuous review of opportunities through development across Cornwall
- Understanding the full suite of benefits that an investment delivers not only in terms of homes, jobs and sqm but also the financial implications of each decision ie increased council tax, new homes bonus etc. With this also comes the negative aspect of increased service requirements etc. All financial appraisals must be conducted with full knowledge of the positive and negative outcomes.
- Creating the right knowledge bank of information available to the Council in relevant sectors and key geographical areas to nurture growth across Cornwall.

Culture & Capability

There will increasingly be a need for the culture of the Council to actively be looking for additional opportunities without losing focus upon their existing customer base and the quality of service delivery. Services will strive to be fit to compete and fit to market, even if they do not currently provide services externally and services making positive financial contributions and taking investment opportunities will become the norm within Cornwall Council. Our staff will actively be involved in seeking out potential for, reviewing and creating new opportunities, making investments and delivering a culture that will have the reputation for being aware, willing and able to operate in a commercial manner. This capability will only make the Council generally more able to conduct its day to day business better and provide cost effective services for the residents of Cornwall.

We will have an understanding of our abilities, knowing what we can deliver and what we cannot, supported by a clear understanding of where it is desirable to be able to increase our capabilities and where we do not wish to and why. We will have an understanding of our portfolio of external investment, their offerings and understand not only which ones offer greater return than others but also what our approach going forward needs to be.

The following activities will be undertaken in order to create a culture and capability appropriate to manage the Investment Programme.

Training will be developed and then made available to appropriate staff and members. This training will cover topics such as the aims and objectives of the Investment Programme, the process by which projects are considered for the Investment Programme and the process by which projects are managed through their lifecycle. Training will also cover basic investment principles to allow staff and members to gain a working knowledge of the returns and financial appraisal techniques that will be applied. The nuances of these investments will need to be catalogued and recorded to enable lessons to be learnt over time.

In order to embed the culture of the Investment Programme into daily working lives, the objectives of the Investment Programme will be included in objective setting within the performance management process, where appropriate achievement of the objectives will be recognised in the rewards scheme.

The management of the Investment programme will require an on-going resource base with suitably qualified staff in roles that will need to be scoped and job descriptions created. The Investment Programme represents a significant development for Cornwall Council and cannot be delivered as a sub-set of other responsibilities, it requires dedicated staff members.

Further to this the correct, accurate and timely availability of commercial information will be key to the success of the programme. A coordinated approach from the Economic Development Service, LEP and an external investment partner will deliver economic and potential investment insight into Cornwall which can be used to determine future investment sectors. The key sectors for investment are seen at Appendix 2.

The Benefits

Taking the approach outlined in the strategy is seen to be the most appropriate for Cornwall Council as it offers a number of key benefits, many of which have already been covered but include:

- Providing real tangible opportunity to invest in Cornwall and its future
- Providing real tangible contributions to the Medium Term Financial Strategy
- Staff development in the form of new skills which can be acquired and can be transferred to other opportunities internally
- Raising standards in the market, generating income and creating competitive market advantage
- Enhancing Cornwall Council’s reputation in the market
- Transforming the Council into an innovative and commercially knowledgeable environment

Example Opportunities

A number of projects have already been started or are in the course of being started, in accordance with individual existing approvals. The following is a list and brief description of some of these proposals, to show the geographical spread and the type of project which will be considered as part of the overall Investment Programme:

- Housing Development Programme two sites under construction for 113 homes at Tolvaddon and St Lawrence Bodmin.
- Investment in commercial space for the food and drink sector in Bodmin.
- Truro Northern Access Road.
- Hayle Harbour; negotiations to acquire the harbour and harbour side land parcels for the purpose of a regeneration scheme.
- Hayle Marine Renewables Park commercial development extension.
- Maudlin Farm, Liskeard, for the purpose of providing homes.
- Treliever, Falmouth; discussions with the universities about the provision of business space, in the medium term in accordance with the proposed Local Plan allocation.

- Carrick House; we have acquired the whole site and are developing a project for a significant city centre redevelopment and regeneration in the context of a strategy for the City Centre and the Truro and Kenwyn Neighbourhood Development Plan.
- Liskeard Cattle Market; acquisitions for land assembly and investment in commercial space for a town centre redevelopment.
- Carlyon House, St Austell; acquisitions for land assembly for redevelopment.
- Pool Innovation Centre; acquisition and promotion of workspace.
- Pydar Regeneration

Organisation wide activity

The Investment Programme will undertake the following high-level activities in order to fully embed the programme in the organisation;

- Creation of project assessment and monitoring processes
- Portfolio management tools to be researched
- Culture and capability review
- Communications plan
- Training & Development plan
- Business development strategy

Appendix 1 Statutory Guidance on Local Government Investments

STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS(3rd Edition)

Issued under section 15(1)(a) of the *Local Government Act 2003* and effective for financial years commencing on or after 1 April 2018

POWER UNDER WHICH THE GUIDANCE IS ISSUED

1. The following Guidance is issued by the Secretary of State under section 15(1)(a) of the *Local Government Act 2003.* Under that section local authorities are required to "have regard" to "such guidance as the Secretary of State may issue".

DEFINITION OF TERMS

2. In this guidance the ***2003 Act*** means the *Local Government Act 2003.*

3. **Local authority** has the meaning given in section 23 of the *2003 Act.* To the extent that this guidance applies to parish councils and charter trustees (see paragraph 11) a reference to a local authority includes those councils and trustees.

4. The definition of an **investment** covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

5. For the avoidance of doubt, the definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party. The term does not include *pension funds* or *trust fund investments,* which are subject to separate regulatory regimes and therefore are not covered by this guidance.

6. A **credit rating agency** is one of the following three companies: • Standard and Poor's;
• Moody's Investors Service Ltd; and
• Fitch Ratings Ltd.

7. For the purposes of this guidance a **loan** is a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment.

8. The **Treasury Management Code** means the statutory code of practice issued by CIPFA: *"Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition".*

9. The **Prudential Code** means the statutory code of practice, issued by CIPFA: *"The Prudential Code for Capital Finance in Local Authorities, 2017 Edition".*

10. The **Capital Strategy** is the strategy required by the updates to the Prudential Code and Treasury Management Code.

APPLICATION

Effective date

11. This guidance applies for financial years commencing on or after 1 April 2018. It supersedes all previous editions of the Statutory Guidance on Local Authority Investments.

12. Strategies presented to Council or equivalent before 1 April 2018 but relating to 2018-19 and future financial years do not need to include all of the additional disclosures required by this edition of the guidance should it not prove practical or cost effective to do so. If a local authority chooses not to include the new disclosures in its 2018-19 Strategy, it must include the disclosures in full in the first Strategy presented to full Council or equivalent after 1 April 2018.

Local authorities

13. This guidance applies to all local authorities in England.

14. This guidance applies to parish councils and charter trustees, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year. Where a parish council or charter trustee expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance.

KEY PRINCIPLES

Transparency and democratic accountability

15. For each financial year, a local authority should prepare at least one Investment Strategy ("the Strategy"). The Strategy should contain the disclosures and reporting requirements specified in this guidance.

16. The Strategy should be approved by the full council. For authorities without a full Council, the Strategy should be approved at the closest equivalent level. The
Secretary of State recommends that the Strategy should be presented for approval prior to the start of the financial year.

17. Where a local authority proposes to make a material change to its Strategy during the year a revised Strategy should be presented to full council or equivalent for approval before the change is implemented.

18. The Strategy should be publicly available on a local authority's website. Where a parish council or charter trustee does not maintain its own website, they should post a public notice detailing how local residents can obtain a copy of the Strategy, free of charge.

19. Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, a Treasury Management Strategy in line with the requirements of the Treasury Management Code, or any other publicly available document, the disclosures required to be included in the Strategy can be published in those documents instead of in the Strategy.

Contribution

20. Investments made by local authorities can be classified into one of two main categories: • Investments held for treasury management purposes; and Other investments.

21. Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code. They should disclose that the contribution that these investments make to the objectives of the local authority is to support effective treasury management activities. The only other element of this Guidance that applies to treasury management investments is the requirement to prioritise Security, Liquidity and Yield in that order of importance.

22. Local authorities should disclose the contribution that all other investments make towards the service delivery objectives and/or place making role of that local authority. It is for each local authority to define the types of contribution that investments can make and a single investment can make more than one type of contribution.

Use of indicators

23. The Strategy should include quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. This should include how investments are funded and the rate of return received. Where investment decisions are funded by borrowing the indicators used should reflect the additional debt servicing costs taken on.

24. Local authorities should consider the most appropriate indicators to use, given their risk appetite and capital and investment strategies. Whilst this guidance does not prescribe specific indicators or thresholds, the indicators used should be consistent from year to year and should be presented in a way that allows elected members and the general public to understand a local authorities' total risk exposure from treasury management and other types of investment.

25. Where a local authority has entered into a long term investment or has taken out long term debt to finance an investment the indicators used should allow Councillors and the general public to assess the risks and opportunities of the investment over both its payback period and over the repayment period of any debt taken out.

Security, Liquidity and Yield

26. A prudent investment policy will have two underlying objectives:

- **Security** – protecting the capital sum invested from loss; and
- **Liquidity** – ensuring the funds invested are available for expenditure when needed.

27. The generation of **yield** is distinct from these prudential objectives. However, this does not mean that local authorities are recommended to ignore potential revenues. Once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with these priorities.

28. When entering into treasury management investments, local authorities should consider security, liquidity and yield in that order of importance.

29. When entering into other types of investments local authorities should consider the balance between security, liquidity and yield based on their risk appetite and the contribution(s) of that investment activity.

Security

Financial Investments
30. Financial investments can fall into one of three categories:

- **Specified investments**;
- **Loans**; and Other **Non-specified investments**.

Specified Investments

31. An investment is a specified investment if all of the following apply:

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is not a long term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option.
- The making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended].*
- The investment is made with a body or in an investment scheme described as high quality (see paragraph 33 or with one of the following bodies paragraph 33 or with one of the following bodies:

  i. The United Kingdom Government;
  ii. A local authority in England or Wales (as defined in section 23 of *the 2003 Act*) or a similar body in Scotland or Northern Ireland; or
  iii. A parish council or community council.

32. For the purposes of paragraph 32 the Strategy should define high credit quality. Where this definition incorporates ratings provided by credit rating agencies paragraph 42 is relevant.

Loans

33. A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

34. Local authorities can make such loans whilst continuing to have regard to this guidance if they can demonstrate in their Strategy that:

- Total financial exposure to these type of loans is proportionate;
- They have used an allowed "expected credit loss" model for loans and receivables as set out in International Financial Reporting Standard (IFRS) 9 *Financial Instruments* as adopted by proper practices to measure the credit risk of their loan portfolio;
- They have appropriate credit control arrangements to recover overdue repayments in place; and The local authority has formally agreed the total level of loans by type that it is willing to make and their total loan book is within their self-assessed limit.

Non-specified investments
35. A non-specified investment is any financial investment that is not a loan and does not meet the criteria to be treated as a specified investment.

36. For non-specified investments (i.e. those not meeting the criteria in paragraph 31), the Strategy should:
• Set out procedures for determining which categories of investments may be prudently used (and where these procedures involve the use of credit ratings, paragraph 32 is relevant).
• Identify which categories of investments have been defined as suitable for use.
• State the upper limits for the maximum amounts both individually and cumulatively that may be held in each identified category and for the overall amount held in non-specified investments and confirm that investments made have remained within those limits.

Non-financial investments
37. As defined in paragraph 4 of this guidance non-financial investments are non-financial assets that the organisation holds primarily or partially to generate a profit. Where a local authority holds a non-financial investment, it will normally have a physical asset that can be realised to recoup the capital invested. Local authorities should consider whether the asset retains sufficient value to provide security of investment using the fair value model in *International Accounting Standard 40: Investment Property* as adapted by proper practices.

38. Where the fair value of non-financial investments is sufficient to provide security against loss, the Strategy should include a statement that a fair value assessment has been made within the past twelve months, and that the underlying assets provide security for capital investment.

39. Where the fair value of non-financial investments is no longer sufficient to provide security against loss, the Strategy should provide detail of the mitigating actions that the local authority is taking or proposes to take to protect the capital invested.

40. Where a local authority recognises a loss in the fair value of a non-financial investment as part of the year end accounts preparation and audit process, an updated Strategy should be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk Assessment
41. The Strategy should state the local authority's approach to assessing risk of loss before entering into and whilst holding an investment, making clear in particular:

- How it has assessed the market that it is/will be competing in, the nature and level of competition, how it thinks that the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements.
- Whether and, if so how, a local authority uses external advisors be they treasury management advisors, property investment advisors or any other relevant persons.
- How the local authority monitors and maintains the quality of advice provided by external advisors.
- To what extent, if at all, any risk assessment is based on credit ratings issued by credit ratings agencies.
- Where credit ratings are used, how frequently they are monitored and the procedures for taking action if credit ratings change.
- What other sources of information are used to assess and monitor risk.

Liquidity

42. For financial investments that are not treasury management investments or loans the Strategy should set out the procedures for determining the maximum periods for which funds may prudently be committed and state what those maximum periods are and how the local authority will stay within its stated investment limits.

43. For non-financial investments the Strategy should set out the procedures for ensuring that the funds can be accessed when they are needed, for example to repay capital borrowed. It should also state the local authority's view of the liquidity of the investments that it holds, recognising that assets can take a considerable period to sell in certain market conditions. Where local authorities hold non-financial investment portfolios they can choose to assess liquidity by class of asset or at a portfolio level if appropriate.

Proportionality

44. Where a local authority is or plans to become dependent on profit generating investment activity to achieve a balanced revenue budget, the Strategy should detail the extent to which funding expenditure to meet the service delivery objectives and/or place making role of that local authority is dependent on achieving the expected net profit. In addition, the Strategy should detail the local authority's contingency plans should it fail to achieve the expected net profit.

45. The assessment of dependence on profit generating investments and borrowing capacity allocated to funding these should be disclosed as a minimum over the life-cycle of the Medium Term Financial Plan. However, an assessment of longer term risks and opportunities is recommended.

Borrowing in advance of need

46. 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.

47. Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:

- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and
- The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

Capacity, skills and culture

48. The Strategy should disclose the steps taken to ensure that those elected members and statutory officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the local authority and to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

49. The Strategy should disclose the steps taken to ensure that those negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

50. Where appropriate the Strategy should comment on the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.

ANNEX A – INFORMAL COMMENTARY ON THE STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

Power under which this Guidance is issued [paragraph 1]

1. The **Local Government Act 2003**, section 15(1), requires a local authority "...to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify...".

2. The guidance on investments in the main part of this document is issued under section 15(1) of the 2003 Act and authorities are therefore required to have regard to it. This part (**Annex A**) contains an informal commentary ("the commentary") on the Statutory Guidance.

3. Two codes of practice issued by the *Chartered Institute of Public Finance and Accountancy* (CIPFA) contain investment guidance which complements the MHCLG guidance. These publications are:
• *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*
• *The Prudential Code for Capital Finance in Local Authorities*

4. Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the *Local Authorities* (*Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] as amended.*

Objectives in updating the Guidance

1. The 2nd edition of this Guidance, which was issued in 2010, reflected concerns raised by the CLG and Treasury Select committees as part of their enquiries into the financial crash of 2007-8. The key areas of focus were:

• The practice of investing for yield, especially in Icelandic Banks;
• The need for transparent investment strategies; and
• The use of Treasury Management advisors.

6. The changes made to the 3rd edition of this Guidance reflect changes in patterns of local authority behaviour. Some local authorities are investing in non-financial assets, with the primary aim of generating profit. Others are entering into very long term investments or providing loans to local enterprises or third sector entities as part of regeneration or economic growth projects that are in line with their wider role for regeneration and place making.

7. In addition, the National Audit Office and the Public Accounts Committee have raised a number of concerns about local authority behaviour that this guidance aims to address. These are:

• Local authorities are exposing themselves to too much financial risk through borrowing and investment decisions;
• There is not enough transparency to understand the exposure that local authorities have as a result of borrowing and investment decisions; and
• Members do not always have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.

Effective Date [paragraphs 11-12]

8. This Guidance applies from 1 April 2018. It supersedes all previous editions of the Guidance.

9. The Guidance requires local authorities to produce a number of additional disclosures. Many local authorities already produce these as part of internal reporting and risk management procedures. However, if these disclosures are not currently produced, then local authorities do not need to prepare them in full for Strategies presented to full Council or

equivalent before 1 April 2018. Those local authorities who do not include the required disclosures in their 2018-19 strategies, should present them for approval the first time the relevant Strategy is updated or superseded.

Local Authorities [paragraphs 12-13]
10. This Guidance applies to all local authorities, who hold or during the next financial year intend to hold financial or non-financial investments, solely or in part to generate revenue income.

11. It applies to parish councils whose investments exceed the thresholds set out in paragraph 14. The decision to lower the financial threshold for parish councils has been taken in recognition that some parishes have begun to engage in commercial ventures. As parish councils tend to be fairly small and to obtain a greater percentage of their funding directly from council tax payers than other types of local authority, it is right that they demonstrate that they have carefully considered the expertise that they need to manage the risks arising from their strategy.

Transparency and democratic accountability [paragraphs 15-19]
12. The Government believes that local authorities need to be better at explaining “why” not just “what” they are doing with their investment activity. That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

13. The additional disclosures required by the Guidance should be included in a single document presented to full Council or the equivalent. Although the Guidance refers to an Investment Strategy, providing that all of the disclosures are easy for interested parties to find and are in or linked from a single document, a separate Strategy does not need to be prepared. The Strategy should be updated at least annually.

14. Subject to the provisions in paragraph 35 and 36 of the commentary, local authorities can exclude specific non-financial investments from the required disclosures on grounds of commercial confidentiality. The Government expects that non-disclosure on grounds of commercial confidentiality will be an exceptional circumstance. A local authority should only determine that it would breach commercial confidentiality to include an investment in the disclosures on receipt of appropriate professional advice, using the same criteria as would be used to exclude the public from a Council meeting. Local authorities should reassess whether the commercial confidentiality test is met every time a new Strategy is presented to full Council or the equivalent.

15. Under Regulation 17 of *The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012* as amended overview and scrutiny committee members have right of access to any confidential information relating to any decision by any committee or any member of the executive of their council. Nothing in this Guidance has the power to override this regulation.

16. Assets that generate revenue income solely through fees and charges for discretionary services levied under Section 93 of the *Local Government Act 2003* should not be classified as non-financial investments for this purpose.

17. If disclosures are already produced in another document that is publicly available then a local authority can provide a link to the disclosures from the Strategy rather than reproducing them. The exception is disclosures contained in the Statutory Accounts, which do not meet the requirements of this Strategy. This is because local authority statutory accounts can be complex and difficult for users who are not familiar with local government accounting to

understand and statutory accounts are prepared to a higher level of materiality than local authorities should use for internal risk management.

Contribution [paragraphs 20-22]
18. Local authorities may have several different objectives, when deciding to acquire an asset. If an asset is not solely held for yield, then a local authority may have a different risk appetite or be willing to accept a lower return than it otherwise would.

19. Each local authority should determine how it categorises different types of contribution, and each investment can have more than one type of contribution. A non-exhaustive list of types of contribution include: • Yield/profit
• Regeneration
• Economic benefit/business rates growth
• Responding to local market failure
• Treasury management

20. Where a local authority classifies an investment as contributing to regeneration or local economic benefit, it should be able to demonstrate that the investment forms part of a project in its Local Plan.

Use of indicators [paragraphs 23-25]
21. Local authorities should present a range of indicators to allow members and other interested parties to understand the total exposure from borrowing and investment decisions. The indicators should cover both the local authority's current position and the expected position assuming all planned investments for the following year are completed. The indicators do not need to take account of Treasury Management investments unless these are expected to be held for more than 12 months.

22. The Guidance requires local authorities to develop quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. We recommend that, the indicators in the table below are used. Where local authorities have a different risk appetite or different expectation of returns depending on the contribution(s) each type of investment makes, they should consider presenting the indicators, classified by type of contribution or risk appetite.

Debt to net service expenditure (NSE) ratio	*Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*
Commercial income to NSE ratio	*Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.*
Investment cover ratio	*The total net income from property investments, compared to the interest expense.*
Loan to value ratio	*The amount of debt compared to the total asset value.*
Target income returns	*Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.*
Benchmarking of returns	*As a measure against other investments and against other*

	council's property portfolios.
Gross and net income	*The income received from the investment portfolio at a gross level and net level (less costs) over time.*
Operating costs	*The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.*
Vacancy levels and Tenant exposures for non-financial investments	*Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.*

Appendix 2

UK Standard Industrial Classifications (SIC) of Economic Activities'

The following are seen as the higher level taxonomy of indicators with each indicator breaking down into a number of sub indicators:

Section A	-	Agriculture, Forestry and Fishing
Section B	-	Mining & Quarrying
Section C	-	Manufacturing
Section D	-	Electricity, Gas, Steam, and Air conditioning supply
Section E	-	Water Supply; Sewerage, Waste Management and remediation activities
Section F	-	Construction
Section G	-	Wholesale and Retail Trade; Repair of Motor Vehicles and Motor Cycles
Section H	-	Transportation & Storage
Section I	-	Accommodation and Food Services Activities
Section J	-	Information and Communication
Section K	-	Financial and Insurance Services
Section L	-	Real Estate Activities
Section M	-	Professional Scientific and Technical services
Section N	-	Administrative and Support Services Activities
Section O	-	Public Administration and Defence, Compulsory Social Security
Section P	-	Education
Section Q	-	Human health and Social Work Activities
Section R	-	Arts, Entertainment and Recreation
Section S	-	Other Service Activities
Section T	-	Activities of Households as employers
Section U	-	Activities of Extraterritorial Organisations and Bodies

The Following are seen to be relevant to the development of Cornwall from the point of view of Cornwall Council:

Section A - Agriculture, Forestry and Fishing
Section B - Mining & Quarrying
Section C - Manufacturing
Section D - Electricity, Gas, Steam, and Air conditioning supply
Section F - Construction
Section I - Accommodation and Food Services Activities
Section J - Information and Communication
Section R - Arts, Entertainment and Recreation
Section M - Professional Scientific and Technical services
Section L - Real Estate Activities

The following taxonomy depicts the Section and Subsection Indicator codes for the Sections applicable to Cornwall:

A. Agriculture, Forestry and Fishing	A.01 Crop and animal production, hunting and related service activities
	A.01.5 Mixed farming
	A.03 Fishing and aquaculture
B. Mining and Quarrying	B.08 Other mining and quarrying
	B.08.1 Quarrying of stone, sand and clay
	B.09 Mining support service activities
C. Manufacturing	C.10 Manufacture of food products
	C.11 Manufacture of beverages
	C.13 Manufacture of textiles
	C.14 Manufacture of wearing apparel
	C.15 Manufacture of leather and related products
	C.26 Manufacture of computer, electronic and optical products
	C.31 Manufacture of furniture
D. Electricity, Gas, Steam and Air Conditioning Supply	D.35 Electricity, gas, steam and air conditioning supply
F. Construction	F.41 Construction of buildings
	F.41.2 Construction of residential and non-residential buildings
	F.42 Civil engineering
	F.42.1 Construction of roads and railways
	F.42.2 Construction of utility projects

H. Transportation and Storage	H.51 Air transport
	H.51.1 Passenger air transport
	H.51.2 Freight air transport and space transport
	H.52 Warehousing and support activities for transportation
	H.52.1 Warehousing and storage
I. Accommodation and Food Service Activities	I.55 Accommodation
	I.56 Food and beverage service activities
J. Information and Communication	
L. Real Estate Activities	L.68 Real estate activities
M. Professional, Scientific and Technical Activities	M.73 Advertising and market research
	M.74 Other professional, scientific and technical activities
	N.77 Rental and leasing activities
O. Public Administration and Defence; Compulsory Social Security	O.84 Public administration and defence; compulsory social security
	O.84.1 Administration of the State and the economic and social policy of the community
	O.84.2 Provision of services to the community as a whole
	O.84.3 Compulsory social security activities
Q.87 Residential care activities	Q.87.2 Residential care activities for learning disabilities, mental health and substance abuse
	Q.87.3 Residential care activities for the elderly and disabled
	Q. Human Health and Social Work Activities

Appendix 3

1 Cornwall Investment Opportunities - Introduction

1.1 This appendix to the overall Investment Strategy proposes a framework for the Council to purchase pre-constructed or pre-let assets that will provide an immediate return – these can be defined as 'dry' assets for the purposes of this report. The aim is to provide a more balanced approach around risk for the overall programme as these investments would provide an immediate return to offset medium term developments.

1.2 Investment opportunities as described above typically present themselves through introductions or adverts and at short notice meaning a decision must be made quickly and the purchase funds must be in place and available to pay on completion.

1.3 Examples of larger portfolios may include residential accommodation, retail parks, large retail units, prime office buildings, industrial parks and portfolios of conventional multiple assets spread across Cornwall. Investment opportunities will comply with the ethical and social values of the Council and the Investment Programme Strategy.

1.4 Such investments usually require significant capital to purchase but offer a more secure mid to long term revenue or development opportunity. 'Off market' (or pre advert) opportunities often provide the best return whilst advertised opportunities can generate more competition causing prices to rise as a consequence.

1.5 In both of these instances it is imperative to act with speed, rejecting unsuitable opportunities quickly or, when the investment is of interest and meets our criteria, that due diligence and the purchase process is carried out in a timely fashion. If the Council isn't able to demonstrate the ability to move quickly then it is unlikely that similar opportunities will be offered again.

1.6 To operate successfully in the investment field clarity is required around the type of product/s targeted, the minimum acceptable rate of return, the minimum or maximum price you are prepared to pay along with quick access to decision makers and financial resources whilst recognising our legal duty as a council to ensue best value.

1.7 Confirmation and agreement is required on the parameters that will be used along with the criteria listed in the Investment Programme Plan. The parameters will be the subject of a futher report.

1.8 Once these parameters are set it will be beneficial to instruct an Investment Surveyor to source properties, or land that fits within the Council's agreed criteria. The most successful investors build up a reputation in the market through performance and the more respected you become the more you are introduced to products of quality and quantum.

1.9 The Investment market is quite small nationally and so deal facilitators tend to know each other and are able to identify opportunities ahead of any market process.

1.10 The timescales for these opportunities is usually around six weeks. In order to meet these tight timescales it is proposed that Cabinet, agree an initial sum of £7m in capital to acquire assets within the framework set out in the Investment Programme Strategy Appendix 3.

1.11 Once the overall sum for this specific investment pot is agreed each dry asset would need to meet the criteria set out in the Investment Programme Strategy Delegated authority to purchase the asset would rest with the Strategic Director for Economic Growth and Development, in consultation with the Portfolio Holder for Resources, the Section 151 Officer and the Monitoring Officer.

2 ACTIVE PORTFOLIO MANAGEMENT

2.1 Given the existing commercial real estate assets within the council, active portfolio management will be focused on investing in properties that will balance the existing commercial estate asset classes to diversify the current risk, and secondarily to work with the CASS Commercial Estate to support the improvement of the current commercial estate performance in line with investment programme and Corporate Landlord model.

3 THE INVESTMENT POLICY

3.1 Each investment decision on investment will be considered in the context of the overall estate portfolio and not in isolation, and the overall Investment Strategy will also incorporate the objective to drive towards achieving an acceptable level of risk by balancing purchases to reduce any existing commercial property overdependence to revenue return.

3.2 The main aim of building the real estate investment portfolio will be to achieve balanced sustainable, risk-adjusted financial returns in the best interest of the programme.

4 INVESTMENT PROCESS

4.1 Investment opportunities identified through the Investment Strategy will be continually reviewed to take into account ever-changing market conditions and developing trends, and also to identify and take advantage of new opportunities.

Each opportunity will be scored against the investment criteria (at 9) below needing to meet a scoring threshold of 16 out of 30 to proceed.

5 ORIGINATION

5.1 Investment Opportunities will be identified from multiple sources, in-house, through strategic partnerships as well as via a network of leading institutions and partners and the Investment Surveyor when instructed.

5.2 When pre-screening potential real estate investments, we will consistently assess whether the deal should enter the pipeline. The factors analysed at this stage include:

- Fit with our strategy regarding industry, region and deal size
- High-level investment thesis
- High-level risks

6 EVALUATION

Current market intelligence suggests that viable assets are available in Cornwall and the programme would be looking at acquiring assets that meet the strategic fit and measure up against the four weighted criteria set out below and as agreed in the Cornwall Investment Programme Plan.

6.1 In line with other Councils who are operating within similar markets proposed set criteria would normally include:

- Minimum percentage of return on capital - Yield

- Use Class of the property – Retail, Office, Industrial, Mixed Use etc.
- Lease profile - the quality of tenants and the length of leases remaining
- Cost – agreed maximum and minimum opportunity cost
- A Balanced Portfolio – identifying gaps in the overall strategy spreads market risk across the portfolio.

6.2 In 2019 is it proposed that the Opportunity Led fund is commenced with a total capital budget of £7m.

7 RISK MANAGEMENT RATING

7.1 The Investment Programme will be implementing a comprehensive risk management framework that adheres to international best practices.

7.2 The risks to which the investment programme is exposed can be categorized as Investment Operational risks.

8 Cornwall Investment Criteria

8.1 Purpose: To define the key financial performance indicators that will be assessed when considering Investment Opportunities.

8.2 Scope: Cornwall Investment Opportunities are intended to primarily generate a return of at least 3.5% net, after capital financing costs, back to the Council.

8.3 Any opportunity considered must complete and pass the scoring criteria as outlined in the appendix 2c of the Investment Programme business plan.