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future

creating a prosperous and healthy Torbay

May 2018

Investment and Regeneration Fund Operational Policy

Version 2

Investment and Regeneration Fund Operational Policy

1. Background

The Council has adopted an Investment and Regeneration Fund Strategy as part of its Policy Framework. This Strategy enables the Council to make investments or loans in order to generate additional revenue for the Council or to invest in regeneration opportunities within Torbay to support the delivery of the Council's Economic Strategy or Corporate Plan.

This document sets out the operational policy for the overall management of the Investment and Regeneration Fund and must be read in conjunction with the Investment and Regeneration Fund Strategy. Investments are split into two distinct areas which will be considered separately by the Investment and Regeneration Committee – general investments and regeneration investments.

2. General Investment Opportunities

Minimum Yield Required for new investment opportunities (before costs)	1.50%* above estimated borrowing costs (full MRP interest and capital repayments), or if capital loan - prevailing borrowing rates + 2%* * Yield before any NNDR income assumptions
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The principle of being relatively risk-averse whilst maximizing the return to the Council will be taken in respect of all general investment opportunities, through limiting new investments to properties with minimum unexpired lease terms of five years at the date of acquisition, and with tenants of strong financial standing, where ever possible. Clear consideration will need to be given to yields where investments do not have fully repairing and insuring (FRI) terms or FRI by way of service charge (e.g. meaning that all costs relating to occupation and repairs are borne by the occupier(s) during the lease term to ensure that these costs are recovered).

In respect of the general Investment opportunities, acquisitions of assets will be pursued at a target minimum yield (before costs) of 6.5% and, as a guide to potential risk, yields of 10.0% or more are unlikely to be appropriate for investment. Investments assets producing initial yields in excess of 10.0% are likely to exhibit high risk characteristics, such as very short unexpired leases, or financially weak or insubstantial tenants, or obsolete buildings and would therefore require a higher level of due diligence to be carried out to assess the benefits and risks. Investments with a projected yield of over 10% will be discounted unless officers can demonstrate that risk characteristics are acceptable and avoid very short unexpired leases, financially weak tenants or obsolete buildings.

General investment opportunities will normally be presented to the Investment and Regeneration Committee in accordance with the detailed Business Case template set out at Appendix 1 to this policy in order for the Committee to make an informed decision on the proposal. Officers may bring outline proposals to the Committee where it is felt appropriate to get a steer as to whether further officer time should be invested in developing detailed proposals.

3. Regeneration Investment Opportunities

<p>Minimum Yield target for new Investment Regeneration opportunities (after costs)</p>	<p>0.5%* - after estimated borrowing costs (full MRP interest and capital repayments), or if capital loan – prevailing borrowing rates + 0.5%*</p> <p>In exceptional circumstances where the regeneration benefits are significant, there may be a cost to the Fund of the project; however, such costs are to be met from other new regeneration projects from within the Fund which provide a financial return to the overall Investment and Regeneration Fund. Such proposals will need the agreement of the Head of Finance.</p> <p>* Yield before any NNDR income assumptions</p>
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Regeneration opportunities will be pursued where there is a clear business case demonstrating how they will contribute to the regeneration of Torbay and delivery of the Council’s Economic Strategy or Corporate Plan. These proposals will not be required to achieve the same level of yield as the general Investment purchases and any surplus income after operating, borrowing and MRP costs will be ring-fenced to support both wider regeneration within Torbay and any schemes in which there could be a cost to the Regeneration element of the Investment and Regeneration Fund.

Regeneration Investment opportunities will normally be considered using the two stage process set out at Appendix 2 to this policy. If all relevant information is available, Stage 1 and Stage 2 may be combined to enable the Committee to consider and determine the matter once.

The Committee may consider multiple options for a regeneration investment site provided that at least one option breaks even in the shortest possible time and in any event by no longer than ten years. Consideration will also be given to capitalising initial interest costs to cover the loan payments until sufficient income can be generated to cover the costs in order to assist in making a scheme viable.

5. Financial Assumptions

Financial returns are modelled over a medium-term horizon of five to ten years, based on proposed offer prices, to determine the acceptability of each investment, and can be compared against general market forecasts. Internal Rate of Return (IRR) calculations will be carried out to model the expected cash flows from each investment. The anticipated returns can be modelled on different bases to reflect the range of risks applicable in each case, to ensure that forecast returns properly reflect the measured risks. In this way a Business Case is put together to support each recommended property acquisition.

Appendix 1

Business Case for Investment Opportunities

1. Investment Name and Address
2. Strategy Objective
 - 2.1 “Investments – Yield”
 - 2.2 “Investments – Tax Base”
 - 2.3 “Other” for example “Investment- loans & co investment”
3. Compliance with Strategy Objective – Non-Financial:
 - Sector and target assets
 - Location
 - Building specification
 - Management and maintenance obligations
 - Lease arrangements
 - Quality of tenants
4. Compliance With Strategy Objective – Financial (Completion of Appendix with commentary as below):
 - Purchase price with an independent valuation
 - Estimated exit value and proposed timescale for disposal
 - Building survey results
 - Rental income assessed over asset life linked to assessment of future market trends of both the asset sector and location
 - All costs
 - Estimated voids
 - Finance Table

A	Purchase Price	£			
B	Purchase costs at ??%/A	£			
C	Total Purchase Price (A+B)	£			
D	Initial Annual Rental Income	£			
E	Gross Initial Yield (D/C)	%			
F	MRP at ??%/C	£			
G	Asset Management Costs (normally 0.25%/A)	£			
H	Net Income after all costs (D-F-G)	£			
I	Net Initial Yield (H/C)	%			
J	Average Net Yield Years 1-10	%			
K	Asset Life (Years)				

- Costs including stamp duty, legal fees, survey fees, letting costs
- Management and maintenance obligations
- Diversity – how this investment fits in with existing investments and loans by sector

5. Legal Issues (to Include):

- Review of title and ownership
- Liabilities and restrictions

6. Risk Assessment

- Economic and Property Market
- Asset-specific –e.g. location, building quality, length of lease, financial strength of tenant, rent payable
- Environmental and regulatory
- Reputational

7. Recommendation

8. Review

- Head of Finance
- Monitoring officer

Business Case for Regeneration Investment Opportunities

Stage 1 – Outline Proposal

1. Investment Name and Address
2. Link to Economic Strategy or Corporate Plan
3. Local benefits
4. Risk to the Council of not pursuing regeneration investment opportunity
5. Indicative cost of purchase including costs of borrowing with indicative financials (see table below).

A	Purchase Price	£			
B	Purchase costs at ??%/A	£			
C	Total Purchase Price (A+B)	£			
D	Initial Annual Rental Income	£			
E	Gross Initial Yield (D/C)	%			
F	MRP at ??%/C	£			
G	Asset Management Costs (normally 0.25%/A)	£			
H	Net Income after all costs (D-F-G)	£			
I	Net Initial Yield (H/C)	%			
J	Average Net Yield Years 1-10	%			
K	Asset Life (Years)				

- Costs including stamp duty, legal fees, survey fees, letting costs, Management and maintenance obligations

6. Investment and Regeneration Committee Decision
 - (a) Support, in principle, for detailed business case to be developed and presented to a future meeting or
 - (b) No further action.

6. Review
 - Head of Finance
 - Monitoring officer

Stage 2 – Detailed Business Case

1. Investment Name and Address
2. Detailed Business Case to include:
 - (a) indicative tenant(s)/income stream
 - (b) pre-lets
 - (c) risk register
 - (d) key milestones
 - (e) updated costings, including level of contingency and
 - (f) development details (including drawings, if available)
3. Legal Issues (to Include):
 - Review of title and ownership
 - Liabilities and restrictions
4. Risk Assessment
 - Economic and Property Market
 - Environmental and regulatory
 - Reputational
5. Recommendation
 - (a) to commit to invest; or
 - (b) no further action.
8. Review
 - Head of Finance
 - Monitoring officer