Agenda

For enquiries on this agenda, please contact:
Jean Cousens tel. 020 8547 5023
e-mail: jean.cousens@kingston.gov.uk

Published on Monday 1 July 2019

Council

Date: Tuesday 9 July 2019
Time: 7:30 pm
Place: The Guildhall, Kingston upon Thames, KT1 1EU

Opening of Meeting
The Mayor will invite her Chaplain to open the meeting.

Emergency Evacuation Arrangements
On hearing the alarm which is a loud siren please leave the building by the nearest available fire exit and assemble by the triangle at the front of the Guildhall. Anyone requiring assistance to evacuate the building should proceed to the refuge areas which are situated outside Committee Room 1 and the Mayor’s Parlour where you will be met by a member of the building management team and assisted from the building.

Presentation of the Mayor’s annual Award for Policing
The Mayor will present the Mayor’s annual ‘Howard Jones’ Policing Award to Police Sergeant Luke McCusker, who has been nominated by his commanding officer for ‘professionalism and dedication in working to ensure the safety and security of the people of Kingston’. The citation will be read out by Chief Superintendent Sally Benatar, the BCU Commander for the South West London Police.

1. Apologies
2. Declarations of Interest
Members are invited to declare any disclosable pecuniary interests and any other non-pecuniary interests (personal interests) relevant to items on this agenda.

3. Minutes
To confirm as a correct record the minutes of the Annual Council meeting held on 14 May 2019.

4. Mayor’s Announcements
5. Petitions

To receive any petitions - members of the Council or a member of the public may present a petition to the Council on a matter in relation to which the Council has powers, duties or which affects the Royal Borough.

6. Motion

In accordance with Standing Order No 8(A)(5), the Council will debate a motion which has been submitted by Members of the Council.

This will alternate, from meeting to meeting, between a motion submitted on behalf of the Administration and a motion submitted on behalf of Opposition Members of the Council.

The following Motion has been received from the Administration:

Proposed by Councillor Mark Beynon
Seconded by Councillor Sam Foulder-Hughes

‘Liberal Democrat Administration Motion: Hate Crime

‘This Council notes:

- hate crime is a scourge on our society, which must be stamped out
- for many minority groups, public spaces such as public transport, have become less safe, with verbal and physical attacks driven by misogyny, homophobia and racism becoming more frequent
- hate crime levels have soared since the UK voted narrowly to leave the European Union in 2016
- there have been 316 recorded hate crimes in Kingston in the last 12 months
- Kingston ran a successful hate crime conference last month
- the Liberal Democrats, unlike the Conservatives, have accepted the All-Party Parliamentary Group working definition of Islamophobia

‘This Council believes:

- discrimination in all its forms and manifestations is not only immoral in itself but also undermines attempts at building the secure, prosperous, and decent society that we all want to live in
- there has been a lack of leadership across the national parties to confront discrimination

‘This Council resolves to:

- continue to work with Kingston Race & Equalities Council (KREC), Kingston Centre for Independent Living (KCIL), and Kingston LGBT network on how we can combat hate crime
- formulate a Tackling Hate Crime policy for Kingston to demonstrate our commitment
- urge central government to reverse recent cuts to the police service in order to restore confidence that people from minority groups are safe on our streets
- continue to work with all religious institutions which are vulnerable to hate attacks
- fly the LGBT flag from the Guildhall during Pride month next year, in accordance with a new flag protocol.’
7. **Questions**

In accordance with Standing Order 6 (1&2) replies will be given to questions of which notice has been given which may be addressed to the Mayor, the Leader of the Council, Portfolio Holders, the Leader of the Opposition, Chairs of the Standing and Neighbourhood Committees and Members representing the Council on Outside Bodies.

8. **Incorporated Company Structure containing a Wholly-Owned Property Investment Company**

To approve the recommendations to Council as made by Finance and Partnerships Committee on 27 June 2019. To seek Council’s approval of the ‘Guildhall Capital’ Business Plan 2019/2020 and approval for the establishment of a Shareholders Committee to provide Council oversight for all RBK company activities in future.

9. **Appointments to Committees, Panels and other bodies**

The Council is **RECOMMENDED** to make the following appointments:

(i) **South London Joint Committee on Waste Disposal**

- Councillor Tim Cobbett (who is currently a substitute) to replace Councillor Liz Green as the second Council member on this Committee.

- Councillor Dave Ryder Mills to be appointed as a substitute for the Joint Committee

(ii) **London Youth Games**

At its meeting on 21 June 2018, the Children’s & Adults’ Care & Education Committee re-appointed Chris Hayes as the Borough’s representative on London Youth Games (LYG) pending of a review by the LYG of its membership and constitution. On 14 June Chris Hayes confirmed that he wished to resign and therefore an alternative representative is to be appointed. The representative does not need to be an elected Member. (Arising from the above LYG review, there was no change to membership arrangements affecting this appointment.) The Liberal Democrat Group Office has been asked to nominate a representative to the London Youth Games

(iii) **Children’s and Adults’ Care and Education Committee**

A Liberal Democrat Member to be nominated to replace Councillor Munir Ravalia on this Committee.

(iv) **SWL Joint Overview and Scrutiny Committee**

A Liberal Democrat Member to be nominated to replace Councillor Munir Ravalia on this Joint Committee.

[The nominee should be a member of the Health Overview Panel]
10. Approval of Member absence

The law provides that where a Council member fails throughout a period of six consecutive months from the date of their last attendance to attend any meetings of the authority then, subject to certain exceptions, they cease to be a member of the authority unless the failure was due to some reason approved before the expiry of that period.

The authority’s approval if not limited in time (and most authorities in giving approval will specify both the reason to which the approval relates and the period for which it will run), lasts until it ceases to have effect because the councillor has resumed attendance, or the reason to which the approval relates no longer applies or the councillors’ term of office has ended.

When ill-health is a reason for absence, it is not always possible to provide a definite time for resumption of attendance. At its meeting on 24 April 2019 the Council approved the absence, on health grounds, of Councillor Fiona Boult until 10 July 2019, as it would potentially be the case by then that Councillor Boult would have been absent from meetings of the Council for six months, on the grounds of ill-health. The Council was advised that, should the request for a further leave of absence be required, this would be submitted to this meeting of the Council.

At the request of the Liberal Democrat Group Office, the Council is requested to approve a further period of 6 months’ absence for Councillor Fiona Boult until 9 January 2020.

11. Waiver of the Community Call-In Procedure on Grounds of Urgency

Under the urgency provisions in the Council’s Community Call in Procedure, community call-in shall not apply to a decision if any delay likely to be caused by the call in process to the implementation of that decision would seriously prejudice the Council’s or the public’s interests. Any decision considered urgent under these provisions must be reported to the next available meeting of the Council, together with the reasons for urgency.

The Finance and Partnerships Committee at its meeting on 27 June 2019 agreed recommendations relating to the Exchange Workspace as follows:

1. the Open Procedure under the Concession Contracts Regulations 2016 (CCR16) be utilised to secure a suitable provider for management and operations of the Exchange Workspace and other workspaces opportunities in the borough as they arise;

2. the Director of Growth be given delegated authority, in consultation with the Portfolio Holder for Finance and Contracts and the Portfolio Holder for Planning Policy and Economic Development, to sign a 25 year head lease (with a break clause at 15 years) between the Council and St George plc for the former Telephone Exchange;

3. the Director of Growth be given delegated authority, in consultation with the Portfolio Holder for Finance and Contracts and the Portfolio Holder for Planning Policy and Economic Development, to grant a 15 year minimum sublease to the preferred workspace operator;

4. the Director of Growth be given delegated authority, in consultation with the Portfolio Holder for Finance and Contracts and the Portfolio Holder for Planning Policy and Economic Development, to enter into a 15 year concessions/management contract between the operator and the Council to define the terms of the management and operations of the Exchange Workspace and other workspaces opportunities in the borough as they arise; and
5. the New Homes Bonus grant monies totalling £789,000 be allocated and expended on the Exchange Workspace project for capital fit out and revenue support subject to successfully procuring a workspace operator.

At the time of publication of this agenda, a request for the waiver of Call-in in respect of the above decision was being progressed and the outcome will be reported to the meeting. The reason for urgency for the waiver of Community Call-in for the above decisions is as follows: The Development Control Committee resolved to grant planning permission to develop the Old Post Office site to redevelop for a mixed use scheme for 319 Homes and 2000 sqm of commercial space. The Section 106 agreement signed in connection with this consent made provision for the Council to exercise an ‘option’ on the lease of B1 office space at the former Telephone Exchange workspace for a period of 12 months prior to practical completion. This was issued by St. George to the Council in October 2018 and therefore the option is due to expire on 12 October 2019. In order to be able to meet the terms of the S106 agreement with regards the Exchange and to have identified a suitable workspace provider willing to offer acceptable financial terms, the Council will need to have commenced the formal tender process by 8 July 2019. Failure to have secured an operator before the cut off date could result in St George exercising their rights under the S106 agreement to market the Exchange opportunity on the open market.

12. Urgent Items authorised by the Mayor

To consider any items which, in the view of the Mayor, should be dealt with as a matter of urgency because of special circumstances in accordance with S100B(4) of the Local Government Act 1972.

13. Exclusion of the Press and Public

The following resolution is included as a standard item which will only be relevant if any exempt matter is to be considered at the meeting for which the Committee wish to resolve to exclude the press and public: To exclude the public from the meeting under Section 100(A)(4) of the Local Government Act 1972 on the grounds that it is likely that exempt information, as defined in paragraph “….of Part I of Schedule 12A to the Act, would be disclosed and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

(*relevant regulatory paragraph to be indicated)

Background Papers held by Democratic Support tel 020 8547 5023

- Relevant Committee Agendas.
An incorporated company structure containing a wholly-owned Property Investment Company

Report by the Director, Growth

Relevant Portfolio Holder: The Leader of the Council

Purpose
To approve the recommendations to Council from the meeting of the Finance and Partnerships Committee on 27 June 2019. To seek Council’s approval of the ‘Guildhall Capital Ltd’ Business Plan 2019/2020 and approval for the establishment of a shareholder Committee to provide Council oversight for all RBK company activities in future.

Recommendations
To resolve that -
1. the recommendations of the Finance and Partnerships Committee on 27 June 2019, as set out on page one of the report attached at Annex 1 to this report are approved;
2. the ‘Guildhall Capital’ Business Plan 2019/2020 attached to this report as exempt Annex 6 is approved;
3. authority is delegated to the Section 151 Officer, in consultation with the Leader of the Council and Opposition spokesperson, to agree the most appropriate longer term financing solutions, as detailed in paragraphs 21 - 23 of this report;
4. an RBK Shareholder Committee is established, in line with the operating arrangements set out in paragraphs 7 - 15 of this report;
5. the Members listed in paragraph 13 are appointed to the Shareholder Committee;
6. arrangements are made to facilitate compliance with the proprietary controls set out in paragraph 26; and
7. future annual business plan revision and any other variation to the Business Plan be approved by the Finance and Partnerships Committee

Benefits to the Community:
Profit for purpose generated from ‘Guildhall Capital Ltd’ will be reinvested in capital projects as outlined in the Council’s investment policy which it revises regularly.

Key Points
A. The Finance and Partnerships Committee at its meeting on 27 June 2019 considered a detailed proposal to establish an RBK incorporated company structure, which contains a wholly owned investment company. The Committee resolved that the recommendations as set out on the first page of the report at Annex 1 are recommended to Council for approval. The full proposals, including the redacted Business Case, are attached to this report at Annexes 1, 2a & 2b, 3, 4 and 5.
B. The Council is also separately asked to approve the following additional matters:
   ● the final ‘Guildhall Capital Ltd Business Plan’ (at exempt Annex 6)
- a new, Shareholder Committee be established within the Council’s Constitutional arrangements
- Member appointments to the Shareholder Committee
- delegation to the Section 151 Officer to agree the most appropriate longer term financing solution for ‘Guildhall Capital Ltd’ in consultation with the Leader of the Council and Opposition spokesperson.
- Arrangements are made to facilitate compliance with the proprietary controls set out in paragraph 26.

**Context**

1. The detailed context relating to the proposal, is set out in the report submitted to the Finance and Partnerships Committee which is attached at Annex 1, together with Annexes to that report which are attached at Annexes 2a, 2b, 3, 4, and 5.

2. The Finance and Partnership Committee agreed that the following seven recommendations be referred to Council:
   1. the establishment of an incorporated company structure which includes a company for the purpose of investment in commercial property, the incorporated structure to be made up of:
      - a holding company
      - a wholly owned investment company (‘Invest Co’) with the Council holding the company for investment purposes;
   2. the ‘Invest Co’ Confidential Business Case at Exempt Annex 1 (now Annex 5);
   3. the process to select directors of the Holding Company and directors of ‘Invest Co’ as set out in the timescale and directors appointment section (ref. paras. 76-79 of Annex 1 to this report);
   4. the establishment of the Shareholders Committee as described in the Governance section of this report (ref. paras. 63 - 69 of Annex 1 to this report);
   5. the revised 2019/20 Investment Strategy and Minimum Revenue Provision (MRP) Policy at Annex 2 (ref. Annex 2a to this report);
   6. that authority be delegated to the Director of Growth, in consultation with the Leader of the Council and Leader of the Opposition, with Trowers and Hamlin LLP to conclude the necessary legal documentation to appoint Board Members to the holding company and ‘Invest Co’ following the process set out in the Timescale and directors appointment section (ref. paras. 76-79 of Annex 1).
   7. that those individual Members or officers who are appointed by the Council to act as directors of these companies are indemnified against potential personal (non-fraudulent) liability, provided such directors have attended training on their legal responsibilities as directors.

The above 7 recommendations are referred to Council within recommendation 1 of this report. [The relevant Annex and page references have been updated above (shown in underlined italics) for easy cross-referencing in this agenda pack.]

3. The use of wholly owned local authority companies as a vehicle to deliver commercial activity is increasingly common. Although, there is not a “one size fits all” model.

4. The model which is recommended to Council having been approved by the Finance and Partnerships Committee has been developed in consultation with the Administration and aims to deliver value for money and to achieve high levels of transparency and accountability to the Council, residents and other stakeholders.
5. The model includes Member representation across all functions and includes the addition of a Shareholder Committee within the Council, which provides the Council with oversight across the whole structure.

6. In addition, there will be non-executive director appointments to provide specific skills and expertise to support the delivery of company objectives.

Proposal and Options
Shareholder Committee

7. Trowers and Hamlins LLP have been appointed to provide legal advice to the Council and have recommended that a Shareholder Committee function is established. The shareholder function can be discharged in a number of ways, for example, through a Shareholder Committee, or a sub-committee.

8. The Council acting in its role as investor of public money is accountable for taxpayers' money and as a shareholder in the company, must have in place clear procedures for evaluating the performance of an investee company and demonstrating value for money.

9. To ensure that the company is delivering against its business plan and where the Council is making an investment in the company with a view to getting a return on its dividend and achieving policy objectives then the Shareholder Committee should; hold the company to account in order to ensure that the Council complies with its fiduciary duty to taxpayers to obtain value for money and ensure that a prudent approach is applied so that the potential risks of any investment opportunity are fully evaluated, taking into account current and anticipated market conditions and comparison with yields on other forms of investment.

10. It is recommended that the Shareholder Committee shall be a Committee of the Council established in accordance with section 101 of the Local Government Act 1972.

11. The Shareholder Committee will set out a clear policy on discharge of its responsibilities.

12. The Shareholder Committee shall consist of five elected Members and will meet the statutory requirements for political balance based on the overall representation of the Groups on the Council. Members will include the Leader of the Council and the Portfolio Holder for Finance. The Section 151 Officer shall be a non-voting advisory member of the Committee.

13. The following Members are nominated to the Shareholder Committee:
   - Leader of the Council - Councillor Liz Green
   - Portfolio Holder Finance - Councillor Alison Holt
   - a Liberal Democrat Member - to be notified
   - a Liberal Democrat Member - to be notified
   - a Conservative Member - to be notified.

14. The terms of reference for the Shareholder Committee are set out below:
   - Receives reports, and timetables public reports to Finance and Partnerships Committee on how the companies are performing against their business plan and any matters which may adversely impact on the progress of the Company's business and affairs.
• Sets out triggers where it will intervene (e.g. refer to Finance and Partnerships, the requirement for reappointment of directors if there is no progress against the Business Plan for say 1 or 2 years, or if the company is dormant)

• Evaluate the impact of the companies.

• Evaluate the companies performance in terms of its return on investment to be delivered to the Council

• Approval of such matters as require the consent of the Shareholder.

• Any recommendation to Council that the Company be wound up.

• Any recommendation to Council of the disposal of the Council’s shares in the Company.

14. The Shareholder Committee will adopt and implement an annual audit framework which requires information from companies in which the Council is a shareholder or has an investment. This information will comprise the annual accounts, reports and statements that are required under the Companies Act 2006.

15. The Committee will normally meet four times per year. Meeting dates will be included in the Municipal Calendar. The Committee will be serviced by Democratic Services. Normal provisions relating to Committee meetings, including Access to Information requirements regarding the publication of agendas and minutes and attendance of the press and public at meetings will apply.

Business Plan

16. The Business Case for establishing ‘Guildhall Capital Ltd’ was considered at Finance and Partnerships Committee on 27 June and is recommended to Council for approval.

17. The ‘Guildhall Capital Ltd’ Business Plan 2019/2020 confirms the company objectives, strategy, the finalised initial funding model, expected financial returns to the Council and the company and governance arrangements.

18. The key change included in the Business Plan is confirmation of the Council’s funding strategy for the initiative. This is set out in detail on pages 3 to 4 of the exempt Annex 6.

19. The Business Plan confirms that ‘Guildhall Capital Ltd’ based upon the strategy outlined, is a viable business proposal.

Consultations

20. Development of the Business Plan and the proposal for the Shareholder Committee has included the following consultation - with:

• the Leader and the Portfolio Holder for Finance

• the Monitoring Officer and the S151 Officer and Chief Executive

• the Corporate Head of Democratic & Electoral Services who provided expert advice to inform the Shareholder Committee proposal.
Financial Implications

21. The Business Plan sets out details of the income stream which is anticipated to be generated through ‘Guildhall Capital Ltd’:

   a. The table on page 4 of the Business Plan forecasts an annual income to the Council of £1.430m generated from the margin from loan funding.

   b. A 20 year ‘Base Case’ Profit and Loss Statement and separate Cash Flow projection for the company are presented in Appendix 1a and 1b to the Business Plan (at Annex 6). This assumes 2% inflation on Costs and 0% increase in annual income.

   c. A 20 year ‘scenario test’ Profit and Loss Statement and separate Cash Flow projection for the company are presented in Appendix 2a and 2b to the Business Plan. This assumes inflation at 2% on costs and an improved position on income growing by 1% annually.

22. Initially the Council will fund the provision of loan and equity financing into the company from short term loan financing accessed from either other local authorities or the Public Works Loan Board (PWLB). Longer term financing solutions will then be considered which will seek to achieve the most appropriate and beneficial mix of funding options as individual assets are acquired.

23. It is proposed that Council delegates authority to the Section 151 officer in consultation with the Leader of the Council and opposition spokesperson to agree the most appropriate longer term financing solution. The Section 151 Officer and the finance team will work with Ashmore Financials and Link, the Council’s Treasury Advisor, to develop the most beneficial approach.

24. Resource implications are also set out in the Finance and Partnerships Committee report attached to this report at Annex 1.

Legal Implications

25. The precise and final name of the company will depend on availability at the time the company is incorporated.

26. In accordance with section 68 of the Local Government and Housing Act 1989 and the Local Authorities Order (Companies) Order 1995 (as amended) the Council should ensure the following proprietary controls are observed:

   (a) the company shall have mentioned on all relevant documents the fact that it is a company controlled, or, as the case may be, influenced by the Council and naming the Council

   (b) the company shall not:

      ● in respect of the carrying out of any relevant duty, pay to a regulated director remuneration in excess of the maximum amount;

      ● in respect of expenditure on travelling or subsistence in connection with the carrying out of a relevant duty, pay to a regulated director an allowance, or reimburse expenses, in excess of the maximum amount: and

      ● publish any material which the relevant authority would be prohibited from publishing by section 2 of the Local Government Act 1986;
(c) where a director becomes disqualified for membership of the Council otherwise than by being employed by the Council or the company, the company shall make such arrangements as may be necessary for a resolution to be moved for his removal in accordance with section 303 of the 1985 Act;

(d) the company shall provide, and authorise or instruct its auditors to provide to the person who is for the time being the auditor in relation to the accounts of the Council, such information and explanation about the affairs of the company as that person may require for the purposes of the audit of the Council’s accounts; and to any person authorised by Public Sector Audit Appointments Limited, such information as that person or the Commission may require for the discharge of any function under Part III of the Local Government Finance Act 1982.

(e) the company shall provide to a member of the relevant authority such information about the affairs of the company as the member reasonably requires for the discharge of his duties;

(f) the company shall, before it first appoints any person as auditor of the company, obtain Public Sector Audits Appointment Limited’s consent to the appointment of that person; and

(g) the company, which is not an arm’s length company shall, until the expiry of the period of four years beginning with the date of the meeting, make available for inspection by any member of the public a copy of the minutes of any General Meeting of the company.

27. Additional legal implications are set out in the Finance and Partnership Committee Report attached at Annex 1. Trowers and Hamlins LLP have reviewed the content of this report.

Risk Assessment

28. Key Risks and mitigations for ‘Guildhall Capital Ltd’ are set out in the Business Plan at Exempt Annex 6, pages 10-12. The key risks for the Council are set out in the table overleaf:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Impact</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund fails to realise returns due to its nature, structure or management, asset obsolescence over time, void periods.</td>
<td>Fund makes a net loss</td>
<td>Restrictions on portfolio structure, industry and geographic spread, leasehold clauses and net initial yield. Appointment of a professional and commercially sophisticated fund management advisor.</td>
</tr>
<tr>
<td>Change in Administration over investment period resulting in policy change, policy approach or revised commitment to capital investment company</td>
<td>Potential conflict/complication and therefore time delay in asset acquisition/disposal missing optimum financial window for activity.</td>
<td>Corporate structure allows for flexibility in directors, deadlock provisions and withdrawal from fund in agreed circumstances. Holding Company offers flexibility in future investment and share holding.</td>
</tr>
<tr>
<td>Increase in the cost of finance</td>
<td>Cost of borrowing with wider costs exceeds net return resulting in fund making a net loss</td>
<td>Retaining of treasury advisors to apply best rates over investment period. Flexible borrowing in the first three years with a potential for forward fixing as acquisitions progress.</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Reduction in opportunities, including through upturn and competition in market, fund not fully invested.</td>
<td>Reduced income in early years.</td>
<td>Acquisition policy could allow for regional acquisitions as a norm and national acquisitions in extremis</td>
</tr>
<tr>
<td>Tenant default on one or more assets</td>
<td>Short term losses in income from one or more assets reducing Return On Capital temporarily</td>
<td>Make up of fully invested portfolio requires significant level of 'core asset' with strong commercial tenant covenant. Where covenant is weaker, assets are fewer in number and yield is higher commensurate with risk.</td>
</tr>
<tr>
<td>Board of ‘Guildhall Capital Ltd’ does not have the requisite level of ability to make commercial and timely decisions</td>
<td>Decisions taken may be subsequent to other operators taking up opportunity resulting in delay to fund being fully invested and risk to return to capital</td>
<td>Skills assessment of elected Member Non-executive Directors ensures best experience used for the benefit of the company. Board populated further by 3 independent Non-Executive Directors. Board retains advisors on fund management/treasury and the practical acquisition of assets.</td>
</tr>
</tbody>
</table>

**Background papers - None**

Report author, Louise Rawsthorne, Assistant Director Homes and Property, email: [louise.rawsthorne@kingston.gov.uk](mailto:louise.rawsthorne@kingston.gov.uk) tel: 0208 547 6707

**Annexes**

Annex 1 - Finance and Partnerships Report 27 June 2019
Annex 3 - Redacted ‘Guildhall Capital Ltd’ Business Case
Annex 4 - Exempt Trowers & Hamlins legal advice
Annex 5 - Exempt ‘Guildhall Capital Ltd’ Business Case
Annex 6 - Exempt ‘Guildhall Capital Ltd’ Business Plan
Purpose

The purpose of this report is to seek approval from Members to establish a company structure, wholly owned by the Royal Borough of Kingston upon Thames, which will include a holding company and an investment company. The investment company (‘Invest Co’) is to be established for the purpose of investment in commercial property, to generate income returns. These returns will be linked, transparently, to the Council's investment policy which it revises regularly.

Recommendations

To RECOMMEND to Council -

1. the establishment of an incorporated company structure which includes a company for the purpose of investment in commercial property,
   the incorporated structure to be made up of:
   - a holding company
   - a wholly owned investment company (‘Invest Co’) with the Council holding the company for investment purposes]

2. the ‘Invest Co’ Confidential Business Case at Exempt Annex 1;

3. the process to select directors of the Holding Company and directors of ‘Invest Co’ as set out in the timescale and directors appointment section (ref. Paragraphs 63 - 67) of this report;

4. the establishment of the Shareholders Committee as described in the Governance section of this report (ref. Paragraphs 50 - 56);

5. the revised 2019/20 Investment Strategy and Minimum Revenue Provision (MRP) Policy at Annex 2;

6. that authority be delegated to the Director of Growth, in consultation with the Leader of the Council and Leader of the Opposition, with Trowers and Hamlins LLP to conclude the necessary legal documentation to appoint Board Members to the holding company and ‘Invest Co’ following the process set out in the Timescale and directors appointment section (ref. Paragraphs 63 - 67).

7. that those individual Members or officers who are appointed by the Council to act as directors of these companies are indemnified against potential personal (non-fraudulent) liability, provided such directors have attended training on their legal responsibilities as directors.

Benefits to the Community:

‘Profit for Purpose’ generated from ‘Invest Co’ will be reinvested in capital projects as outlined in the Council's investment policy which it revises regularly.
Key Points

A. This report proposes that an incorporated company structure, which is wholly owned by the Royal Borough of Kingston, is established. The structure will include: a Holding Company and a Capital Investment Fund Special Purpose Vehicle (‘Invest Co’). The Council will hold ‘Invest Co’ for the purpose of investment in commercial property.

B. It is proposed that an Elected Member Shareholder Committee, with specific responsibility for oversight of the new company structure is established. Its role will be to give all Elected Members and residents assurance that the Council, in its capacity as shareholder, is monitoring the performance of the companies and maximising shareholder value in accordance with the Council's fiduciary duty to obtain Value for Money. Meetings will be held in public, moving into confidential session when required.

C. Applications for appointment to the company boards will be open to all elected Members, provided there is no personal insolvency. This approach will therefore seek to secure Members with the most relevant skills and appropriate experience for each of the boards. Details on the process are set out in sections 63 to 67 of this report.

D. This report focuses on ‘Invest Co’ which will concentrate its efforts on direct commercial property investment, by acquiring existing buildings on the open market for immediate revenue returns. To support timely and balanced investment, ‘Invest Co’ will acquire properties within a sub-regional area, which includes the Royal Borough of Kingston.

E. The ‘Profit for Purpose’ which is generated from ‘Invest Co’ will be reinvested in capital projects as outlined in the Council's investment policy which it revises regularly.

F. Members are asked to approve the recommendations set out in this report, noting that the final approval for the investment company to commence trading will be subject to a detailed business plan to be presented to Full Council for approval in July 2019.

G. Members are asked to recommend to Council, that formal appointment of directors (as set out in paragraphs 63 - 67), is delegated to the Director of Growth in consultation with the Leader of the Council and the Leader of the Opposition. With Trowers and Hamlins LLP appointed to conclude the necessary legal documentation.

H. The detailed shareholders agreement and formal appointment of Members to the Shareholders Committee will be presented to Full Council for approval in July 2019.

I. If the recommendations set out in this report are approved, a full business plan for ‘Invest Co’ will be placed before Council for consideration on 9 July 2019 before the company commences trading. The full business plan will contain the ‘Wednesbury’ relevant considerations, set out in paragraph 22 of this report. Council must retain an open mind so as not to approve the full business plan should it show that Invest Co would not be viable/achieve the Council’s fiduciary duty to obtain Value for Money.
1. Members included the following statements and commitments in their Manifesto, the extract from the Manifesto is set out below:

*Getting the Finances Right*

“Government austerity means Kingston Council is being forced into commercialisation in order to provide essential services for those who need them most. Whilst it may not be what many would prefer, it is needed to pay for our changing population and ensure our parks and pavements, planning and potholes, leisure and lighting, waste and recycling are sufficiently resourced. Using our ability to borrow money at very low interest rates, we will look to purchase property sites which could also provide a vital revenue stream for the council that can be reinvested in service. We will ensure governance is clear and transparent, with solid due diligence and independent external expert advice before purchasing commercial properties as investments”.

2. The new Corporate Plan sets out the Council’s priorities over the next four years 2019 - 2023 and it is the basis on which the Council will make decisions. The Corporate Plan focuses on three strategic outcomes. The proposal set out in this report supports:

*Strategic Outcome 1:*

*A sustainable approach to new homes, development and infrastructure which benefit our communities, in a well maintained borough.*

*Priority Activity:*

*Actively manage our property portfolio to drive up value, increase income where desirable and improve services for our residents*

3. In addition, and as set out in the Medium Term Financial Strategy (MTFS) the Council no longer receives revenue support grant from central government and needs to find its funding for essential services from maximising the collection of Council Tax, Business Rates and other income and by adopting a more commercial approach to service delivery and asset management.

4. The Capital Strategy and Treasury Management Strategy set out the Council’s investment strategy which includes both capital expenditure plans and the ways in which those will be funded.

5. In September 2017, the Council’s Growth Committee approved a new three strand approach to categorising and managing its property assets. A sum of £68M was included within the Capital Programme for investment in property in February 2018.

*Investment Property*: The Council to act as investor in order to generate sustainable long-term income that can be used to support delivery of Corporate Priorities within the Borough

*Regeneration and Development Property*: The Council to act as a “place shaper” and civic developer to support delivery of new homes, jobs and good growth in the borough. This approach to be aligned with, and be an integral part of, the Council’s key development sites and its approach to Housing Delivery.

*Operational Property*: The Council to act as Corporate and Commercial Landlord in order that its property portfolio supports delivery of corporate goals and objectives and
reduces costs. This approach to be aligned the Council’s Corporate Plan and Medium Term Financial Strategy.

6. Following the May 2018 elections, the new Administration confirmed their support for the three-strand approach to property assets. However, recognising that the economic climate had altered since November 2017, and in light of updated CIPFA guidance, officers were asked to seek advice from commercial property sector experts to understand whether the case for property investment remained viable, and explore and develop an appropriate company structure and governance framework, to support investment.

7. Consequently, officers have been investigating the nature and structure of various delivery vehicle options. As part of this process, external legal, financial and property advice has been procured to inform the decision for selecting the most appropriate model for an investment company to deliver the Council’s objectives. This report sets out the options considered, the recommended structure of the proposed company, the governance framework, taxation and state aid issues and legal advice.

Proposal and Options

8. The Council already has approximately 150 commercial assets let to third parties from which it derives a gross income of approximately £5.4 million per annum.

9. The existing commercial property portfolio presents a number of significant risk factors, which include; 65% of the income derived is from two assets, the assets are all located within the same geographical area, the portfolio is not balanced across a range of sectors and classes.

10. In expanding this investment activity through a new trading company, the objectives are:

   - to make intelligent investment decisions and expertly manage a new fund to ensure income returns are sustainable over the longer term
   - to reduce the geographical risk in current property holdings (currently all held within the Borough) by expanding ownership of new property into the south-east of England geographical area
   - to make a significant revenue contribution into the medium and long term towards the Council's wider regeneration activities.

11. The objective of ‘Invest Co’ is to invest £68m in commercial property to generate long term revenue income streams creating ‘profit for purpose’. A full Confidential ‘Invest Co’ Business Case is attached to this report at exempt Annex 1. A redacted copy of the Business Case is attached at Annex 3.

12. Trowers and Hamlins LLP are appointed to support the Council with legal advice regarding the most appropriate framework for an investment fund vehicle. They have undertaken an appraisal of three models which are suitable and the legal powers on which the Council will need to rely for each model.

13. In summary, the models considered were:

   - an unincorporated model where the joint investment board remains within the Council’s constitutional structure. **Not recommended**
   - an incorporated single special purpose vehicle. **Not recommended**
   - an incorporated group structure. **Recommended.**
The advantages and disadvantages of the recommended model is set out in the legal advice appended to this report at Exempt Annex 4.

14. The recommended model involves the Council setting up their own incorporated company structure which will contain a Holding Company, acting as parent company and an ‘Invest Co’, as subsidiary working name ‘Guildhall Capital Ltd’. In addition, a Shareholders Committee within the Council’s Constitution will provide the oversight function. The incorporated company structure could also hold other vehicles that the Council may wish to establish later for example; housing or regeneration companies, trading companies, limited liability partnerships, community interest companies, etc. The proposed structure is illustrated in the diagram below:

15. This structure affords maximum flexibility for the Councils and is highly resilient to potential political, corporate, constitutional or governance changes. For example; shares in companies can be transferred to other parties (such as another local authority, a combined authority, a private sector investor), assets and potential liabilities are contained within separate legal entities, companies can be wound up in the event of a desired exit and new subsidiary companies can be established relatively quickly to fulfil different objectives. Companies can also be merged in the event that it is felt desirable to amalgamate and or consolidate operations. A group corporate structure with a holding company (and separate subsidiaries as appropriate) is recommended in this report. This approach will enable a range of wider Council objectives to be achieved through a single group structure.

16. Establishing separate subsidiary companies will help ensure clarity of purpose, more focused business plans, increased resilience and better legal compliance in terms of separation of statutory functions, ability to separate commercial from social policy objectives and facilitate, better risk management.

In time, and in the event of further subsidiary companies being added to the
structure, some staff and assets could be held by the Holding Company and should achieve economies of scale provided proper apportionment is made.

Property Implications

17. As with all commercial activities, there are risks associated with the anticipated returns. A Property Investment Strategy which reflects the current property market and risks has been prepared. The Strategy proposes a balanced approach to investment across a range of asset classes and sectors.

18. The Strategy proposes investment across a sub regional area, this is based on historical property trend information which indicates that the quality, quantity and sector spread of assets required to create a balanced portfolio within the timescale for investment.

19. Property purchased by ‘Invest Co’ will be held entirely within the company’ and not held on the Councils balance sheet. At this stage it is not the intention to transfer existing Council property assets into ‘Invest Co’.

Legal Implications

20. The Council appointed Trowers & Hamlins LLP, legal advisers, who have experience of advising local authorities on "profit for purpose" initiatives. Trowers & Hamlins LLP have confirmed that the Council has the legal powers to carry out and give effect to the recommendations as set out in this report. Their legal advice is set out in Exempt Annex 4. to this report.

21. A summary of the legal position is set out below:

22. Local Authorities have general powers to acquire and dispose of land either for the Council's functions or for the benefit of improvement or development of their areas, but when trading or exercising their power of general competence for a commercial purpose (profit) this must be done through a company.

23. The Council also has powers to borrow and on-lend funds for investment provided this is in accordance with the Council's Investment Strategy Government guidance and the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance. Members may be aware that there has been some controversy with regard to the issue of local authorities borrowing to invest in property outside an authority's administrative area.

24. Currently, Government Investment Guidance, legislation and the CIPFA Code combine to stipulate that the Council should not borrow solely for the purpose of purchasing investment properties; but provided the Council conducts full due diligence and is fully transparent in public with regard to its decisions to purchase investment property, particularly outside the Council's administrative area, this may be justifiable on a case-by-case basis, subject to risk analysis and due diligence being undertaken. We would suggest that such due diligence should typically include obtaining a report on the valuation of the relevant property and anticipated market conditions.

25. We would also suggest a value for money comparison as to whether the yield that can be obtained from investing in the particular property compares favourably with other ways in which the Council's funds might be deployed, taking into account, in particular, the relative risk of the proposed investment. It is therefore vital that the
26. We have sought advice from Leading Counsel, James Goudie QC of 11 Kings Bench Walk who has concurred with us as follows, that:

A. The ‘Invest Co’ must itself have to comply with the Public Procurement Rules because it would not be likely to be a 'body governed by public law', for the purposes of the Public Contract Regulations (PCR); (Although see further paragraph 24 below)

B. The Council's funding of the Invest Co must be on a commercial basis, i.e. in accordance with the Market Economy Investor Principle in order to ensure that it does not constitute unlawful state aid; and

C. The Council is not prevented in all circumstances from borrowing funds to invest in the acquisition of properties that deliver a financial return for the Council and may do so if the acquisition has some other purpose, especially if that purpose is the dominant purpose, which may well be the case if the property is in or near the Council's area. However, if the acquisition has only a profit-making purpose, especially if it is well away from the Council's area, then the Council will need to make a special case-by-case justification. Leading Counsel has advised that the special justification is helped if:

   1. the borrowing is demonstrated to be driven by the need to fund a particular project (rather than to plug a general budget gap); and
   2. the project and the Council's expenditure on the project demonstrated to be in accordance with Council policy; and
   3. the borrowing is demonstrated to be in accordance with the Council's financial strategies.

27. The nearer the investment is to the Council's area, the more likely it is that the investment can be demonstrated to benefit the Council in ways that do not solely comprise a return on investment (which would be prohibited by Government Guidance), but when the Council may argue that such borrowing is not purely to profit from the investment, this may then generate inconsistencies with arguing that the property company is not a 'body governed by public law' for the purposes of the PCR.

28. There are a number of considerations that should inform the Council's decision on whether to establish a company. An essential part of the process is a robust Business Case for consideration by Members. The business case required is to be a comprehensive statement as to:

   ● the objectives of the business
   ● the investment and other resources required to achieve those objectives
   ● any risks the business might face and how significant these risks are
   ● the expected financial results of the business, together with any other relevant outcomes that the business is expected to achieve.

29. In preparing the ‘Invest Co’ Business Case, regard has been had to the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 and

30. When exercising any power, the Council must act for a proper purpose and have regard to the usual "Wednesbury" reasonableness principles, its fiduciary duty to obtain value for money and whether the Council's involvement in the CIS would be proportionate and properly balanced against the anticipated benefits as well as the wider interests of the Council's local Business Rate and Council Tax payers. There is nothing in this report which indicates any cause for concern with regard to any of those matters.

**State Aid Advice**

31. The Council will, before trading commences, use the Business Plan to demonstrate its compliance with state aid rules. This prohibits the use of public money to confer a benefit on an undertaking, such as a company, which has the effect of distorting competition in a given market. For example, the granting of low interest loans will be prohibited by state aid rules, therefore the loan agreement between the Council and the company will need to be compliant with such rules amongst other things. Any loan by the Council to the Invest Co should be on the basis of the Market Economy Investor Principle i.e. on terms which are comparable to those that a private sector investor driven solely by commercial considerations would make funding available to the 'Invest Co'.

**Taxation Advice**

32. Initial taxation advice has been sought and a summary of the implications can be found in Section 23 of the Trowers and Hamlin legal advice appended to the Business case. This covers Corporation Tax, Stamp Duty Land Tax and VAT. Final advice will be sought as part of the Business Plan.

**Financial Implications**

33. The Council has included £68m capital expenditure for further investment in commercial property in the Budget Report 2019/20 to 2022/23. The Budget Report also includes estimated net income forecasts relating to the provision of loan financing into the property company as follows:

- Enterprising Borough - Income from new property investment £310k 2019/20 and £310k 2020/21 (Budget Report page 42 line 84)

34. If a decision is taken to agree the set up of 'invest co' then the £68m capital expenditure budget provision will be replaced with capital loan and equity funding into the company, as and when loans and equity investment are approved by the Council.

35. Under the proposals in this report, the Council will provide loan financing of £57.8m into the company (85% of the total funding requirement) at a commercial interest rate to comply with State Aid regulations and transfer pricing requirements. A further £10.2m of equity investment will be provided by the Council into the company.

36. The business case assumes that the Council will borrow funds to lend into the company and will also borrow funds to use as its equity investment. The difference between the interest rate that the Council can access funds at and the commercial interest rate charged to the company provides a margin which both covers the cost of borrowing needed for the equity investment but also provides an income stream to the Council.
37. Under the base case scenario in the Business Plan, it is assumed that the Council accesses funding from the PWLB for a period of 50 years to fund the loan and equity financing into the company. Under this scenario the net income return to the Council is estimated at £637k per annum over the long term.

38. The Business Case describes a further option for funding, which is a mixture of short term and long term funding, under this scenario income returns to the Council are estimated to be up to £1.4m over the first three years of the arrangement.

39. Officers are exploring the full range of funding options available. The final recommended funding model, which will confirm income returns to the Council will be presented in the Business Plan in July.

40. Advice has been obtained from Link Asset Services, the Councils’ retained treasury advisors as to the most cost effective way to finance the company. Information is included within the ‘Invest Co’ Confidential Business Case which describes the funding options and potential returns.

41. Borrowing will be drawn down by the Council as and when ‘Invest Co’ identifies suitable assets to acquire. This will prevent unnecessary and costly unused funds being held until necessary. At which point the Council will enter into loan agreements with ‘Invest Co’ for each property loan. In addition the Council will take a debenture against each asset purchased by ‘Invest Co’ to secure its lending.

42. The Company will operate in the same way as any other private sector entity driven by the requirement to generate profits, an element of which can be returned to the Council’s General Fund through dividends on the Council’s equity investment.

43. The forecasts in the Business Case indicate that ‘Invest Co’ is a viable business proposition. In the first full year of investment the company is estimated to achieve a surplus after interest and tax of £184k.

44. The one off costs for set up of the incorporated company structure, including associated legal costs are anticipated to be £35k. The annual running costs for the Holding Company, which will be funded from Council budgets, are estimated to be approximately £15k in year one and approximately £10k per year thereafter.

**Investment Strategy and Minimum Revenue Provision Implications**

45. In December 2017, Chartered Institute Finance Public Accountancy (CIPFA) issued updated guidance for Local Authorities in relation to investments. The Ministry for Housing, Communities and Local Government (MHCLG) also issued revised statutory guidance on local government investments and Minimum Revenue Provision (MRP) which is a sum set aside annually to repay debt. The new guidance came into effect on 1 April 2018. The informal commentary to the guidance stated that the revision was made to reflect changes in local authorities’ activities, particularly investment in non financial assets with a primary aim of generating a profit and grant of long term loans to local enterprises or third sector entities as part of regeneration or place making plans. Commercial Property investment is classed as a non financial investment.

46. The requirements in the guidance that most affect commercial property investment are paragraphs 46 and 47. Paragraph 46 says that “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”. Paragraph 47 then goes on to say that where a local authority “chooses to disregard” the CIPFA Prudential Code and the New Guidance by borrowing purely to “profit from the investment of the extra sums borrowed”, it should explain in its Investment Strategy why the authority has “decided not to have
regard to" the New Guidance" or Prudential Code "in this instance", and also set out its policies in managing the extra money borrowed, including management of the risks.

47. Given these changes Leading Counsel's opinion was sought ( by Trowers and Hamlin on the Council's behalf) on the proposal to set up a commercial property company with financing being provided via council borrowing. Advice was specifically sought on whether the loan financing into the company would be considered as 'borrowing in advance of need' and the Council's proposed treatment of the Minimum Revenue Provision given the changes made to that guidance.

48. Leading Counsel has advised that the Council has an important duty to make revenue provision in respect of the financing of capital expenditure. The Council "shall charge to a revenue account" MRP and "may charge to a revenue account" any amount in addition to the MRP.

49. Regulation 28 relates to the calculation of MRP, with a requirement that authorities calculate an amount of MRP "which it considers to be prudent".

50. The Council's intention to make funding available to Invest Co, using borrowings from the PWLB, increases the Council's Capital Financing Requirement ("CFR"). However, the loan repayments made by the Invest Co to the Council will be treated as capital receipts by the Council. They will be applied against the capital expenditure arising from making a loan to the Invest Co.

51. This reduces the Council's CFR. The Council has an obligation to charge MRP to its revenue account in respect of its CFR in a financial year. The only exception to that duty is in relation to borrowing used to finance capital expenditure on "housing assets" as defined, but this exception does not apply to housing stock owned by the Invest Co.

52. As regards MRP for equity investment into the Invest Co, this is permitted to be treated as capital expenditure of the Council, as defined by Regulation 25. However, the Council's CFR will increase by the amount of the borrowed equity investment. The Council is under a duty to make provision for MRP in its revenue budget in relation to this borrowing.

53. The MRP Guidance provides that where the Council incurs capital expenditure financed by borrowing or credit arrangements, the Council should calculate MRP in accordance with Option 3 – the Asset Life Method. Paragraph 47 of the MRP Guidance sets out the maximum values for estimated useful lives for different types of capital expenditure.

54. This includes a life of 20 years for acquisition of share capital. However, the Council intends to provide MRP for this capital expenditure over a period of 50 years. This, in the Council's view, appropriately reflects the life of the underlying assets acquired by the Invest Co.

55. Regulation 28 provides councils with flexibility in how they calculate MRP, provided that the calculation is "prudent". In calculating a prudent provision, local authorities are required to "have regard" to the MRP Guidance.

56. The Council believes that the proposed set aside of MRP for the equity investment into the Invest Co over a 50 year period rather than a 20 year period is "prudent". This is because it matches the life of the underlying assets of the Invest Co.

57. Provided that the Council has regard to the MRP Guidance, there is no prohibition on the Council making MRP provision on a basis that is different from that set out in the MRP Guidance, so long as the MRP is made by the Council and is made on a
basis that is "prudent". However, in departing from the Guidance it would be prudent for the Council to set out in the form of an audit trail, its reasons and the rationale for departing from the MRP Guidance. In this respect and to this extent, it would also be prudent for the Council to review the value of the Council's equity investment into the Invest Co on an annual basis, with a view to taking note of fluctuations, if any, in the value of the Council's investment.

58. Guidance states that the Council’s Annual investment strategy and MRP policy must be revised to include the proposed activity and that these documents should be agreed by Council. The revised investment strategy and MRP policy are shown at Annex 2. The main changes to the documents are confirming the Council’s plans to set up a commercial property company with finance for that company being provided through a mixture of loans and equity investment. The Capital Financing Requirement referred to in the Treasury Strategy already includes the £68m capital expenditure funded by borrowing in 2019/20 so change is required. The MRP policy has been amended to include the Council’s intention to use an estimated useful life for its equity investment of 50 years which is in line with the estimated useful life of the underlying commercial property assets.

59. The s151 Officer is comfortable that the financing arrangements for the company and the Council’s MRP provision is prudent and therefore achievable. The net income projections from the financing arrangement with the company will be kept under review as part of regular budget monitoring reporting.

Resource Implications

60. Leadership and executive support for the incorporated company structure and reporting to the Shareholder Committee will be the responsibility of the Assistant Director Homes and Property, who reports to the Director of Growth.

61. All costs relating to the activity of 'Invest Co' will be paid directly by the company. All services provided by the Council will be secured and paid for through formal Service Level Agreements.

62. There will be a requirement to appoint a Company Secretary and general administrative support for the company structure.

Governance Implications

63. The Holding Company will oversee the performance of 'Invest Co' on behalf of the Council (Shareholders). The Holding Company should review and approve business plans prepared by the companies' boards of directors, ensure the business plan is reviewed on a regular basis and monitor key performance targets and milestones for the year immediately ahead. This is good practice as set out in the framework document for UK Government Investments Ltd.

64. ‘Invest Co’ will be required to report to the Holding Companies against the range of key performance, risk and financial indicators, to be agreed, on a quarterly basis. These indicators will include yield performance, progress against initial investment target and asset profile.

65. Trowers and Hamlin LLP have recommended that a Shareholder’s Committee function is established to ensure that the company is delivering on their business plan and where the Council is making an investment in the company, with a view to getting a return on its dividend then the Shareholder's Committee should be holding the company to account, in order to ensure that the Council complies with its fiduciary duty to taxpayers to obtain value for money. The shareholder function can
be discharged in a number of ways, for example, through a Shareholders Committee, or a sub-committee.

66. Investors of public money and shareholders of companies owned by public bodies are accountable for taxpayers' money and must have in place clear procedures for evaluating the performance of an investee company and demonstrating value for money.

67. Detailed functions, delegations, membership and the timetable for reporting to the Shareholder’s Committee will be presented to Full Council in July 2019 for approval. It is recommended that the Council apply the Statement of Principles of the Institutional Shareholders' Committee in relation to the companies in which the Council is a shareholder and establish a Shareholders Committee which:

- regularly monitors the performance of Council companies;
- establishes timescales to facilitate the regular dialogue with investee companies;
- sets out triggers where it will intervene (e.g. reappoint directors if there is no progress against the Business Plan for say 1 or 2 years, or if the company is dormant);
- evaluate the impact of the company;
- set out a clear policy on discharge of responsibilities;
- timetable public reports back on how the companies are performing against their business plan.

68. The shareholder Committee should also incorporate an annual audit framework’ which seeks information from companies in which the Council is a shareholder or has an investment. This information should at the very least, comprise the annual accounts, reports and statements that are required under the Companies Act 2006.

69. The use of wholly owned local authority companies as a vehicle to increase commercial activity is an increasingly common model, although there is not a “one size” fits all model. This section sets out an overview of the proposed governance framework.

**Communication and Transparency Implications**

70. To support a transparent and open approach to the proposal set out in this report, a dedicated web page will be set up to provide information for residents and other interested parties, on ‘Invest Co’ activities, including asset purchases, directors details and an overview of the purpose and objectives of the Company.

**Consultations**

71. Development of the proposal has included the following consultation:

- with the Leader, the Portfolio Holder Finance and the Leader of the Opposition through two Member Workshops.

72. The Council commissioned advice from ARK property consultancy (Business Case, Company set up and property investment advice), JLL (Property advice), Trowers and Hamlins LLP (Legal, Company Structure and Tax advice) and Link Asset Services (Funding and Treasury advice) to support the development of proposals in this report.

73. The Council’s Monitoring Officer has been consulted and has reviewed the information in this report which is relevant to their statutory role.
74. The Council’s s151 Officer has been consulted and has reviewed the information in this report which is relevant to their statutory role.

75. The Council’s Head of Investment, Risk and Commercial Finance has worked together with ARK property consultancy and Link Asset Services (the Council’s Treasury Advisors) to prepare the financial model appended to this report in the Confidential Business case.

**Timescale and Directors Appointment Process**

76. Following approval of the Business Case and recommendations in this report there will be a range of appointments, advice and approvals required to enable the Shareholders Committee, Holding Company and ‘Invest Co’ to commence trading.

77. The selection of Councillor Board Members for Holding Company and ‘Invest Co’ will be based on a comprehensive skills and experience evaluation process which will seek to appoint Board Members based on their skills and experience. Independent Non-Executive Directors will be appointed through an externally advertised competitive process and will likely attract remuneration. The level of remuneration will be confirmed as part of the recruitment process but likely to be in a range of £10,000 - £12,000 per appointment per annum.

78. The appointment of three Elected Members will be necessary for the Holding Company Board. These positions will not be remunerated but will receive reimbursement of appropriate expenses. The appointment of two Elected Members (non remunerated) and three independent Non-Executive Directors (Remunerated) will be necessary for ‘Invest Co’ Board. The appointment of Elected Members will be necessary for Shareholder Committee.

79. In addition, the following appointments, approvals and activities will be undertaken to ensure that governance and reporting arrangements for the Shareholder Committee, incorporated company structure and ‘Invest Co’ are in place:

- development of a Full ‘Invest Co’ Business Plan 2019/20 which will finalise the parameters for investment and financial projections.
- all company matters, including: articles of association; governance; voting rights; dispute resolution and loan covenants and debenture documents.
- development of the Shareholder Committee functions and membership. Including a Shareholders Agreement.

**Skills and Expertise**

80. To ensure that ‘Invest Co’ holds the required skills and expertise to support delivery of the company’s objectives, the following appointments will be made by the company:

- an experienced private sector Investment Fund Manager and estate management services to provide property investment and fund management expertise.
- procurement of specialist commercial services including; legal, finance, audit, administration/business support and asset acquisition support.

The cost of these services will be funded by the company and are included in the estimated running costs set out in appendix b within the business case.
81. The Council has a fiduciary duty to act as a trustee of tax and public sector income on behalf of tax payers.

82. In making decisions in establishing a company and investing in that entity, the Council should give due consideration to the risks and rewards of those decisions. For example, consideration will need to be given on an appropriate level of return for the risk involved, and that the level of risk and potential cost to the Council has been minimised in the event of a loan default or insolvency of the company.

83. The Council will require the Company to be responsible for ensuring that a risk is quantified, managed and mitigated. The Company will be responsible for regular reporting through the Board of Directors to the Holding Company.

84. The ‘Invest Co’ Business Case contains a full risk register. Some of the key risks to consider will include the following:
- fund fails to realise returns due to its nature, structure or management, asset obsolescence over time, void periods
- change in Administration over investment period resulting in policy change, policy approach or commitment to capital investment
- increase in the cost of finance
- reduction in opportunities, including through upturn and competition in market, resulting in full fund not being invested
- tenant default on one or more assets
- Board of investment fund company does not have the requisite level of ability to make commercial and timely decisions
- change in Government policy preventing such activity to be undertaken by the Council.

85. In addition, the Council should maintain its own separate risk register in relation to the Business Case and the overall company financial model. These risks will be more strategic in nature, rather than operational issues that directly affect the company as a commercial business, and could include:
- its wider exposure to investment activity and the range of markets it relies upon for income
- the proportion of investment income within total income that it relies upon to support service delivery
- the ability and experience of its officer team to provide robust support and day to day oversight/risk analysis of investment activity.

86. In addition to the above, other measures to mitigate risk include:
- the appointment of an experienced Assistant Director and Non-Executive Directors
- ensuring the companies have in place appropriate governance arrangements and procedures and processes consistent with operating in a commercial environment
- robust financial control measures
- strategic oversight of the company by Members and senior officers;
- meetings of Shareholders Committee are public.
87. Initial EQIA screening has been undertaken on the proposal in this report, it has not indicated a detrimental impact and therefore does not require a full equalities impact assessment.

88. The company and its appointed partners will be expected to subscribe to the Equality Act and Public Sector equality duties.

**Health Implications**

88. None arising from the specific recommendations of the report.

**Road Network Implications**

89. None arising from the specific recommendations of the report.

**Environmental & Air Quality Implications**

90. None arising from the specific recommendations of the report

**Background papers** held by report author, Louise Rawsthorne, Assistant Director Homes and Property, email: louise.rawsthorne@kingston.gov.uk  tel: 0208 547 6707

- Counsel Opinion 21st May 2019

**Annexes**

Annexe 1 - EXEMPT Invest Co’ Confidential Business Case  
Annex 3 - Redacted ‘Invest Co’ Business Case  
Annex 4 - EXEMPT Trowers & Hamlins LLP legal advice
SUMMARY
This annex addresses the requirements of the prudential and treasury management codes and sets out the treasury management strategy, borrowing and investment strategies and a policy statement on the minimum revenue provision required for the repayment of debt.

1. INTRODUCTION

1.1 Background
1.1.1 The Council is required to operate a balanced budget which broadly means that income raised during the year will meet planned expenditure. Part of the treasury management operation is to ensure that the cashflow for this is adequately planned, with cash being available when it is needed. Where surplus monies are available these are invested in counterparties or instruments commensurate with the Council's low risk appetite, providing security and adequate liquidity initially before considering investment return.

1.1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These plans provide a guide to borrowing need, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
1.1.5 CIPFA defines treasury management as:

‘The management of the organisation’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’

1.1.6 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately (See Annex 11 to the Main Budget Report for 2019/20).

1.2 Reporting Requirements

Capital Strategy

1.2.1 In 2017 the Prudential Code and Treasury Management Code were revised to include a new requirement for local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

1.2.2 The aim of the capital strategy is to outline the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.3 The capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.
1.2.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.2.5 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

**Treasury Management Reporting**

1.2.6 The Council is required to receive and approve as a minimum, three reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Members before being recommended to the Council. This role is undertaken by the Audit Governance and Standards Committee, which then reports to Full Council. The three reports are:

1. **Treasury Management Strategy and Prudential and Treasury Indicators (this report)** covering:
   - Capital plans (including prudential indicators);
   - Minimum Revenue Provision Policy Statement (how residual capital expenditure is charged to revenue over time);
   - Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - Investment Strategy (the parameters on how investments are to be managed).

2. **Mid Year Treasury Management Report** – This report updates members on the progress of the capital and treasury management positions, amending prudential indicators as necessary and assesses whether the treasury strategy is meeting needs or whether any policies require revision.

3. **Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations after the year end compared to estimates within the strategy.

1.3 **Treasury Management Strategy for 2019/20**

1.3.1 The proposed strategy for 2019/20 covers the following:

**Capital issues**
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.
Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy; and
- creditworthiness policy.

1.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the MHCLG Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Knowledge & Skills
1.4.1 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training is provided for all new members overseeing treasury management and other sessions can be arranged as required.

1.4.2 Officers responsible for treasury management are suitably trained to ensure that the appropriate level of skills and knowledge are available to the Council. Officers and members are also supported through the skills and knowledge provided by the Council's external treasury management advisors, Link Asset Services, Treasury Solutions. However the Council also recognises that responsibility for treasury management decisions remains with itself and ensures that undue reliance is not placed upon its external service providers.

2. CAPITAL PRUDENTIAL INDICATORS FOR 2019/20 TO 2022/23
The prudential code requires the Council to have set a number of forward looking prudential indicators to both support and record local decision making with regard to capital expenditure and treasury management decisions. The full set of indicators is shown in Enclosure 1 to this report. Each is now discussed in turn.

2.1 Capital expenditure
2.1.1 The Council’s capital expenditure plans are the key driver of treasury management activity. The first prudential indicator is a summary of the Council’s capital expenditure plans as detailed in the capital strategy shown in Annex 11 to the main budget report.
2.2 The Council’s net financing need (Capital Financing Requirement)

2.2.1 The second prudential indicator is the Council’s Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council’s indebtedness and, hence, its underlying borrowing need. Any capital expenditure shown within the capital programme in Annex 11 to the budget report, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the minimum revenue provision is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset’s life, and thereby charges the economic consumption of capital assets as they are used.

2.2.3 Current CFR projections are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Financing Requirement (CFR)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>160.402</td>
<td>174.718</td>
<td>183.403</td>
<td>176.198</td>
<td>168.417</td>
</tr>
<tr>
<td>HRA</td>
<td>133.401</td>
<td>138.266</td>
<td>142.913</td>
<td>153.364</td>
<td>153.364</td>
</tr>
<tr>
<td>Commercial Activities / Non Financial Investments</td>
<td>65.073</td>
<td>152.000</td>
<td>152.000</td>
<td>152.000</td>
<td>152.000</td>
</tr>
<tr>
<td><strong>Total CFR</strong></td>
<td>358.876</td>
<td>464.984</td>
<td>478.316</td>
<td>481.562</td>
<td>473.781</td>
</tr>
</tbody>
</table>

2.2.4 The tables above demonstrate the size and scope of commercial activity in relation to the Council’s overall financial position. For the Royal Borough of Kingston Upon Thames this commercial activity relates to planned loan and equity financing into its wholly owned
commercial property company and lease holder property acquisitions for the Cambridge Road Estate Regeneration scheme.

2.2.5 The Council has provision within its current capital programme for further investment in commercial property (up to a further £68m) this is reflected as an increase in the estimated CFR. However the Council has recently taken a decision to instead set up a wholly owned company for commercial property investment. Under this arrangement the council will provide both capital loan financing and equity investment into the company. This investment will result in an increase in the Capital Financing Requirement which has been built into the estimates within this strategy.

2.2.6 In March 2017 the Council took a decision to progress the regeneration of the Cambridge Road Estate by way of a 50:50 joint venture with a development partner. In 2018 the Council went through a formal procurement process to select a partner, and Countryside Properties Plc were confirmed as preferred bidder at the end of 2018. The Council is now working with Countryside and advisers on the scheme to work through the commercial details of the arrangement. A full report outlining the commercial proposals is due to be considered by Finance and Contracts Committee in March. The estimated CFR currently includes planned capital expenditure on the buyback of leasehold interests on the CRE as part of the regeneration plans.

2.2.7 As plans for the CRE joint venture progresses the estimated CFRs and treasury strategy will be revised accordingly and reported and approved by Finance and Contracts Committee and Full Council if and where necessary.

2.3 Minimum Revenue Provision Policy Statement

2.3.1 Where capital expenditure has been funded through the use of borrowing, the Council is required to set aside an amount from revenue each year to provide for the eventual repayment of this debt. The Council is required to provide an annual policy statement on how the methodology has been implemented. This is set out in Enclosure 2 which has been revised since it was agreed by Council in February 2019. The changes that have been made relate to those connected with the financing of the loan and equity financing into the commercial property company.

2.3.2 There is no requirement for the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made. The HRA business plan will determine how and when the Council can afford to repay the HRA self financing loans of £115.5m which mature between 2028 and 2062.

2.4 Core funds and expected investment balances

2.4.1 The application of resources either to finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Estimates of year-end balances,
for each resource and anticipated year-end cash flow balances are taken into account to establish the likely level of resources available for investment.

3. BORROWING

3.1 Current portfolio position

3.1.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council’s cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council’s capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1.2 The Council’s actual and projected treasury portfolio position is summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the CFR), highlighting any over or under borrowing.

3.1.3 In September 2018, the Council received the remainder (£6.6m) of the total £26.6m interest-free loan facility, for the Cambridge Road Estate regeneration property buybacks.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Debt at 1 April</td>
<td>297.687</td>
<td>298.538</td>
<td>365.763</td>
<td>364.988</td>
<td>361.713</td>
</tr>
<tr>
<td>Expected change in debt</td>
<td>0.851</td>
<td>67.225</td>
<td>(0.775)</td>
<td>(3.275)</td>
<td>(0.775)</td>
</tr>
<tr>
<td>Other long term liabilities at 1 April</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected change in other long term liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Gross debt at 31 March</td>
<td>298.538</td>
<td>365.763</td>
<td>364.988</td>
<td>361.713</td>
<td>360.938</td>
</tr>
<tr>
<td>Capital Financing Requirement</td>
<td>358.876</td>
<td>464.984</td>
<td>478.316</td>
<td>481.562</td>
<td>473.781</td>
</tr>
<tr>
<td>Under / (Over) borrowing</td>
<td>60.338</td>
<td>99.221</td>
<td>113.328</td>
<td>119.849</td>
<td>112.843</td>
</tr>
</tbody>
</table>
Note: The table assumes the loan and equity financing into the new commercial property company is funded by new borrowing, the cost of which is self financing. For other expenditure to be funded by borrowing the council will assess the most appropriate action re undertake new borrowing or use internal resources where available.

3.1.4 Within the above figures the level of debt relating to commercial activities / non-financial investment is:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual debt relating to commercial activity as at 31 March (£m)</td>
<td>52.706</td>
<td>139.633</td>
<td>139.633</td>
<td>139.633</td>
<td>139.633</td>
</tr>
<tr>
<td>Percentage of total external debt (%)</td>
<td>17.65</td>
<td>38.18</td>
<td>38.26</td>
<td>38.60</td>
<td>38.69</td>
</tr>
</tbody>
</table>

3.1.5 At the end of the third quarter 2018/19, the Council had external debt totalling £298.9m with an average annual borrowing rate of 4.0%. Of the total, £211.3m has been borrowed from the Public Works Loan Board (PWLB), and £61.0m from individual banks.

3.1.6 The borrowing from individual banks includes £46m of Lender Option Borrower Option (LOBO) loans held with six counterparties with interest rates in the range 3.75% to 5.50%. These are simple structured loans with no complicated mechanisms, which are present in other LOBOS e.g. inverse floating rate structures. Under these arrangements, the lender has the option to increase rates but, should it do so, the Council can choose to redeem without penalty. Although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so, and will also consider any other options to repay LOBO loans if economically advantageous to do so, following advice from the Council’s treasury advisors.

3.1.7 The Public Works Loan Board (PWLB) continues to be the main source of long term loans for the Council. However, the Council will continue to seek out alternative cheaper options where possible such as the use of LOBO loans or through the Municipal Bonds Agency. The Council continues to benefit from the 20 basis points (0.2%) reduction on the interest rates on loans from PWLB under the ‘certainty rate’ arrangements following the provision of information on the Council’s plans for long-term borrowing and associated capital spending to Government.
3.1.8 A graph showing the maturity profile of the Council’s long term debt as at the end of the third quarter 2018/19 is shown in Enclosure 3. The Council’s loan portfolio will be kept under review to see if savings can be made by further debt restructuring. No restructuring has been undertaken during 2018/19 as market conditions have not been favourable. Any opportunities in the coming year will continue to be explored although this position is not expected to change in the short term.

3.1.9 It has not been necessary for the Council to undertake temporary borrowing during the first nine months of 2018/19. The Council may arrange temporary borrowing in to cover unplanned cash flow shortages. The temporary borrowing limit for 2019/20 will be set at 20% of the Operational Boundary Limit (shown in Enclosure 1).

3.1.10 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes. The Director, Corporate & Commercial reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

3.2.1 The operational boundary. This is the overall limit which external debt is not normally expected to exceed. This would usually be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Commercial Activities</td>
<td>318.803</td>
<td>337.984</td>
<td>351.316</td>
<td>354.562</td>
<td>346.781</td>
</tr>
<tr>
<td>Commercial Activities / Non Financial Investments</td>
<td>65.073</td>
<td>152.000</td>
<td>152.000</td>
<td>152.000</td>
<td>152.000</td>
</tr>
<tr>
<td>Total</td>
<td>383.876</td>
<td>489.984</td>
<td>503.316</td>
<td>506.562</td>
<td>498.781</td>
</tr>
</tbody>
</table>
3.2.2 **The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This is a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils’ plans, or those of a specific council, although this power has not yet been exercised. The Council is recommended to approve the authorised limit as part of the approval of the Treasury Strategy and Prudential Indicators.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Commercial Activities</td>
<td>328.803</td>
<td>347.984</td>
<td>361.316</td>
<td>364.562</td>
<td>356.781</td>
</tr>
<tr>
<td>Commercial Activities / Non Financial Investments</td>
<td>65.073</td>
<td>152.000</td>
<td>152.000</td>
<td>152.000</td>
<td>152.000</td>
</tr>
<tr>
<td>Total</td>
<td>393.876</td>
<td>499.984</td>
<td>513.316</td>
<td>516.562</td>
<td>508.781</td>
</tr>
</tbody>
</table>

3.2.3 To manage interest rate exposure, loans at fixed rates can be arranged up to the authorised limit, whilst those at variable rates are limited to 40% of this level. Exposure levels are monitored on a continuing basis.

3.2.4 Separately, the Council was also limited to a maximum HRA CFR through the HRA self-financing regime. This limit was £149.298m but has now been abolished.

3.2.5 **Maturity structure of borrowing**
These gross limits are set to reduce the Council’s exposure to large fixed sums falling due for refinancing. The indicators that the Council is asked to approve are shown in Enclosure 1.

3.3 **Prospects for interest rates**
3.3.1 Interest rates are dependent on the outlook for inflation which in turn reflects the prospects for the economy. The Bank of England increased base rate to 0.75% in August 2018 when Consumer Prices Index (CPI) was above the 2% target at 2.7%. The Monetary Policy Committee (MPC) took the view that with a falling unemployment rate together with rising labour costs the economy was experiencing little slack. The MPC expect some excess demand
by late 2019 which was forecast to increase over the next 2-3 years. Over the forecast period inflation was expected to remain above target until the third year and that was why the decision was made to increase base rate.

3.3.2 In the Bank of England’s November inflation report the economy was judged to be in balance with forecast GDP averaging 1.75% over the next 3 years. This is marginally higher than the forecast growth in supply capacity at 1.5% which creates the excess demand in the economy and will require further increases in base rate to bring inflation back to target. These increases in base rate will be gradual as base rate is expected to reach 1.4% in quarter 4 2021. The economic forecasts assume that the stock of UK government debt purchased by central bank reserves remains at £435 billion and also the stock of corporate bonds remains at £10 billion.

3.3.3 The Bank of England’s forecasts assume a smooth transition out of the European Union. The MPC has stated that depending on the nature of the UK’s departure, monetary policy could go in either direction. A successful departure would increase business and consumer confidence with a corresponding impact on GDP and inflationary pressures. An unsuccessful departure would likely have the reverse impact except that inflation may increase if Sterling depreciates further.

3.3.4 In the light of these uncertainties Link Asset Services have provided some forecast rates as shown in Table 6 below. Their forecast for base rate is higher than that in the Bank of England’s November report, ending the forecast period at 2.20%. PWLB rates are expected to increase by around 20 basis points per annum from 2020 to end the forecast period 90 basis points higher than January 2019.

**Link Asset Services Interest Rate View**

<table>
<thead>
<tr>
<th>Interest Rates</th>
<th>Current</th>
<th>Forecast</th>
<th>Forecast</th>
<th>Forecast</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Rate</td>
<td>0.75%</td>
<td>0.75%</td>
<td>1.25%</td>
<td>1.50%</td>
<td>2.20%</td>
</tr>
<tr>
<td>PWLB 25yr rate*</td>
<td>2.81%</td>
<td>2.90%</td>
<td>3.20%</td>
<td>3.40%</td>
<td>3.60%</td>
</tr>
<tr>
<td>PWLB 50yr rate*</td>
<td>2.66%</td>
<td>2.70%</td>
<td>3.00%</td>
<td>3.20%</td>
<td>3.40%</td>
</tr>
</tbody>
</table>

3.4 **Borrowing strategy**
3.4.1 Currently the Council’s actual long term borrowing is well below its CFR limit. This difference represents the extent to which the Council has been financing capital investment from internal cash balances. This is a consequence of the Council’s treasury management strategy which manages the Council’s cash flows in an integrated way so that external borrowing arises as a consequence of all the financial transactions of the Council and not simply those arising from capital expenditure. This approach has ensured that debt levels, and the associated revenue costs of financing that debt, have been kept to a minimum. The Director, Corporate & Commercial will monitor interest rates in financial markets and consider necessary action if interest rates appear to be on an upward trend.

HRA Borrowing

3.4.2 A major influence on the Council’s borrowing strategy in the future is the inclusion of significant HRA debt through the settlement payment made to Government under HRA Reform (self financing) in March 2012. The payment totalled £115.5m and significantly increased the level of debt that the Council holds. The HRA business plan determines how and when the Council can afford to repay the HRA debt settlement and the additional borrowing to support the Council’s housing investment programme.

3.4.3 The Council was previously limited to a maximum level of HRA debt called the debt ceiling. This ceiling was set as part of the self financing regime. The ceiling was abolished as part of announcements in the Chancellors Budget.

3.4.4 The Council is applying the two pool option to calculate interest due from the HRA and the General Fund in relation to external loans. This option splits the Council’s borrowing into two pools, one for the General Fund and one for the HRA. Within this arrangement the underlying principles are:

- there is no detriment to the General Fund
- any solution is broadly equitable for both the HRA and General Fund
- the HRA is given a greater degree of independence, certainty and control over its borrowing charges, subject to the overriding corporate interests of the Council

General Fund Borrowing

3.4.5 Long term funding needs have traditionally been met from the PWLB. However, long term fixed market loans rates such as LOBOs can often be below the PWLB rates for the equivalent maturity periods, although it is important that an appropriate balance is maintained between PWLB and this type of market debt in the debt portfolio. This is because LOBO’s are only fixed during the initial primary period of the loan (typically 3 to 5 years) and beyond that the lender has the option to change the interest rate and, should it do so, the Council has the option to
repay the loan. This introduces a level of interest rate risk if the Council has a large proportion of its debt in the form of LOBOs. The current split between PWLB and market loans is 78/22.

3.4.6 The Local Government Association has been working with local authorities to set up a Municipal Bonds Agency. The Council has become a shareholder, having invested in the establishment of the Agency. The Agency is now in operation and is due to be offering loans to local authorities in the near future. It is envisaged that the borrowing rates will be lower than those offered by the PWLB. The Council will consider making use of this new option when it becomes necessary to take on additional external borrowing.

3.4.7 The Council will continue its policy of maintaining a planned and stable maturity pattern for its loans whilst borrowing as cheaply as possible using all available prudent market instruments.

3.4.8 There is one natural maturity of an existing PWLB loan due in the next three years (September 2021). The value of the loan is £2.5m and it has an existing interest rate of 4.50%.

3.5 Policy on borrowing in advance of need
3.5.1 The Council will not generally borrow more than or in advance of, its needs purely in order to seek to profit from the investment of the extra sums borrowed. A proportion of the increase in CFR will be linked to the commercial activity that the authority is carrying out. Future borrowing is planned to take place to support commercial activity which will involve providing loan or equity finance into an entity at an interest rate that reflects the level of risk and will generate an income stream to support self financing and wider investment in the borough through its capital programme.

3.5.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the appropriate reporting mechanisms.

3.6 Debt rescheduling
3.6.1 The Council will continue to look for opportunities to reduce the cost of outstanding debt such as looking at options involving switching from long term to short term debt or refinancing using other sources of loan finance such as LOBOs. Any such exercises will be undertaken in line with the Council’s treasury management strategy and the reasons for any rescheduling will be either to generate cash savings and/ or discounted cash flow savings, helping to fulfil the borrowing strategy for 2019/20 or to enhance the balance of the overall debt portfolio.

4. ANNUAL INVESTMENT STRATEGY
4.1 Current portfolio position
4.1.1 During the first nine months of 2018/19 the Council has had surplus funds available for investment. Available balances totalled £34.3m at the beginning of the financial year and had
risen to £40.2m at the end of December. During the year these funds were available to lend on a temporary basis, with the in year fluctuation largely dependent on the timing of payments, receipt of Council Tax and grants and progress of the capital programme. Interest earned during the period totalled £0.25m and represented a weighted average interest rate earned by the Council of 0.75%. This compares favourably with the average 7 day LIBID (London Interbank Bid Rate) figure of 0.49%.

4.1.2 In 2019/20 the majority of the Council’s surplus cash has been invested in short-term unsecured bank deposits and Money Market Funds.

4.2 Investment policy

4.2.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (Annex 11 to the Budget Report).

4.2.2 The Council’s investment policy has regard to the following:

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

4.2.3 The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return).

4.2.4 In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies robust due diligence comprising minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

4.2.5 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

4.2.6 Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4.2.7 This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. This list is shown in Enclosure 4. This included the categories of ‘specified’ and ‘non-specified’ investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

4.2.8 **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 75% of the total investment portfolio. Under Non-specified investments, the Council will continue to provide revolving credit loan finance to a number of entities controlled or significantly influenced by the Council such as the revolving credit arrangement agreed with Achieving for Children (AFC) by the Royal Borough of Kingston Upon Thames, the London Borough of Richmond upon Thames and the Royal Borough of Windsor and Maidenhead.

4.3 **Creditworthiness policy**

4.3.1 The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard & Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.3.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council therefore uses counterparties within the following durational bands:

- Yellow (AAA rated Government debt or its equivalent) up to 5 years (unlimited monetary amount);
- Purple £20m, up to 2 years;
- Blue £20m, up to 1 year (only applies to nationalised or semi nationalised UK banks);
- Orange £17.5m, up to 1 year;
- Red £15m, up to 6 months;
- Green £12.5m up to 100 days;
All credit ratings are monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Council’s minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of credit ratings, the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council’s lending list.

4.4 UK banks – Ring Fencing

4.4.1 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

4.4.2 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

4.4.3 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the newly-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.5 Approved countries for investments

4.5.1 Other than the UK the Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

4.6 Investment Strategy
4.6.1 Over the last few years the Council has used internal resources where possible to fund capital expenditure through internal borrowing instead of undertaking external borrowing. This has ensured the most efficient use of resources since currently the cost of external borrowing significantly exceeds the level of interest that can be earned on cash investments. However eventually the Council will reach a point whereby internal resources are at the minimum level required to cover fluctuations in the monthly cash flow requirements. In which case any new capital expenditure is likely to be funded by external borrowing. Estimates of the capital financing cost of that borrowing have been included within the medium term financial plan.

4.6.2 Investments are made with reference to core balances and cash flow requirements and the outlook for short term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, if cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

4.6.3 Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19  0.75%
- 2019/20  1.25%
- 2020/21  1.50%
- 2021/22  2.00%

4.6.4 Given the low investment rate environment and the relatively low level of internal resources available for longer term investment the Council will continue to use Money Market Funds that are AAA rated with at least one of the three credit ratings agencies. The Council may also use enhanced money market funds with a minimum AAA fS1 rating or equivalent. It will also use call accounts and notice accounts with approved counterparties for deposits placed directly with institutions to minimise risk.

4.7 Implementation of IFRS 9
4.7.1 As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

4.8 Investment returns benchmarking
4.8.1 The Council will use the 7 day LIBID rate to assess the performance of its investment portfolio.

4.9 Derivatives
4.9.1 The Council will only consider using derivatives for risk management purposes and would seek additional professional advice including a legal opinion should such a need arise.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STATUTORY PRUDENTIAL INDICATORS (to support the Council’s capital financing requirement)</strong></td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Capital expenditure:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>46,017</td>
<td>130,172</td>
<td>27,012</td>
<td>5,675</td>
<td>5,160</td>
</tr>
<tr>
<td>HRA</td>
<td>16,021</td>
<td>20,920</td>
<td>15,126</td>
<td>23,921</td>
<td>5,470</td>
</tr>
<tr>
<td>Total</td>
<td>62,038</td>
<td>151,092</td>
<td>42,138</td>
<td>29,596</td>
<td>10,630</td>
</tr>
<tr>
<td>Proportion of financing costs to net revenue stream:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund (%)</td>
<td>10.88</td>
<td>11.35</td>
<td>12.15</td>
<td>12.46</td>
<td>12.41</td>
</tr>
<tr>
<td>HRA (%)</td>
<td>17.28</td>
<td>19.40</td>
<td>20.01</td>
<td>20.82</td>
<td>21.22</td>
</tr>
<tr>
<td>Capital Financing Requirement as at 31 March:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>160,402</td>
<td>174,718</td>
<td>183,403</td>
<td>176,198</td>
<td>168,417</td>
</tr>
<tr>
<td>HRA</td>
<td>133,401</td>
<td>138,266</td>
<td>142,913</td>
<td>153,364</td>
<td>153,364</td>
</tr>
<tr>
<td>Commercial Activities</td>
<td>65,073</td>
<td>152,000</td>
<td>152,000</td>
<td>152,000</td>
<td>152,000</td>
</tr>
<tr>
<td>Total</td>
<td>358,876</td>
<td>464,984</td>
<td>478,316</td>
<td>481,562</td>
<td>473,781</td>
</tr>
<tr>
<td>Annual change in Capital Financing Requirement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brought forward 1 April</td>
<td>338,043</td>
<td>358,876</td>
<td>464,984</td>
<td>478,316</td>
<td>481,562</td>
</tr>
<tr>
<td>Carried forward 31 March</td>
<td>358,876</td>
<td>464,984</td>
<td>478,316</td>
<td>481,562</td>
<td>473,781</td>
</tr>
<tr>
<td></td>
<td>20,833</td>
<td>106,108</td>
<td>13,332</td>
<td>3,246</td>
<td>(7,781)</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Authorised limit for external debt</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Non Commercial</td>
<td>328,803</td>
<td>347,984</td>
<td>361,316</td>
<td>364,562</td>
<td>356,781</td>
</tr>
<tr>
<td>Commercial</td>
<td>65,073</td>
<td>152,000</td>
<td>152,000</td>
<td>152,000</td>
<td>152,000</td>
</tr>
<tr>
<td>Total</td>
<td>393,876</td>
<td>499,984</td>
<td>513,316</td>
<td>516,562</td>
<td>508,781</td>
</tr>
<tr>
<td>Operational boundary for external debt:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non Commercial</td>
<td>318,803</td>
<td>337,984</td>
<td>351,316</td>
<td>354,562</td>
<td>346,781</td>
</tr>
<tr>
<td>Commercial</td>
<td>65,073</td>
<td>152,000</td>
<td>152,000</td>
<td>152,000</td>
<td>152,000</td>
</tr>
<tr>
<td>Total</td>
<td>383,876</td>
<td>489,984</td>
<td>503,316</td>
<td>506,562</td>
<td>498,781</td>
</tr>
<tr>
<td>Annual borrowing requirement based on operational boundary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Change</td>
<td>106,108</td>
<td>13,332</td>
<td>3,246</td>
<td>(7,781)</td>
<td></td>
</tr>
<tr>
<td>Upper Limit on investments in excess of 365 days</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Maturity Structure of fixed rate borrowing (Across all years)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 12 months</td>
<td>50%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 months and within 24 months</td>
<td>50%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24 months and within 5 years</td>
<td>50%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 years and within 10 years</td>
<td>70%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 years and above</td>
<td>70%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary Borrowing Limit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20% of the operational boundary</td>
<td>97,997</td>
<td>100,663</td>
<td>101,312</td>
<td>99,756</td>
<td></td>
</tr>
</tbody>
</table>
REVISED ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2019/20

1. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government’s (now the Ministry of Housing, Communities and Local Government’s - MHCLG) Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2017.

2. The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

3. The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year. RBK’s statement is as follows:

“The Council will set aside an amount each year within its General Fund budget which it deems prudent and appropriate, having regard to statutory requirements and relevant guidance issued by MHCLG.”

During 2017/18 the Council undertook a review of its MRP calculation. The review looked in particular at the methodology applied to capital expenditure financed by borrowing before 1 April 2007, unsupported capital expenditure financed by borrowing incurred after 31 March 2007 and the scope for providing exemptions under the MRP policy for commercial property acquisitions.

4. The following revised policy is as follows and is now in place:

- For capital expenditure incurred before 1 April 2007 MRP provision from 1st April 2017 will be determined over the remaining useful life of the assets.
- For unsupported capital expenditure incurred after 31 March 2007, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets starting in the year after the asset becomes operational.
- Where a past overprovision has been identified, the council will spread any resulting reduction in MRP across multiple years
- No MRP will be charged in respect of assets held within the Housing Revenue Account.
- Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21 or when the asset becomes operational.
- No MRP will be charged on expenditure for the Council’s on balance sheet commercial property investment. The properties are held for investment purposes and are managed
on a fully commercial basis. The purchase of these properties will be treated as capital expenditure and will increase the CFR. The Council is holding these properties solely for investment purposes and they are leased to tenants on a fully repairing basis. As the Council has the ability to sell these properties to repay any outstanding debt liabilities related to their purchase, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The market value of the assets will be reviewed on a regular basis and if the asset value significantly decreases, a prudent MRP policy will commence.

- The Council will be establishing a wholly owned commercial property company. Commercial loan financing will be provided into that company by the Council. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the loans advanced and under the terms of the contractual loan agreements are due to be returned in full with interest paid. Once funds are returned to the Authority, the returned funds are classed as a capital receipt, offset against the CFR, which will reduce accordingly.

- The Council intends to undertake borrowing to fund the equity investment into its Commercial Property company. This investment will be used by the company to fund capital expenditure (purchase commercial property) and should therefore be treated as capital expenditure by the authority. The authority’s CFR will increase by the amount of the equity investment. The authority intends to provide for MRP for this capital expenditure over a period of 50 years which reflects the life of the underlying assets of the company in which the equity is invested.
Royal Borough of Kingston upon Thames
Maturity Debt
at 31 December 2018
# Schedule of Approved Instruments

<table>
<thead>
<tr>
<th>Colour (and long term rating where applicable)</th>
<th>Money and/or % Limit</th>
<th>Time Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks &amp; Building Societies yellow</td>
<td>Unlimited</td>
<td>5yrs</td>
</tr>
<tr>
<td>Banks &amp; Building Societies purple</td>
<td>£20m</td>
<td>2 yrs</td>
</tr>
<tr>
<td>Banks -Building Societies orange</td>
<td>£17.5m</td>
<td>1 yr</td>
</tr>
<tr>
<td>Banks (part nationalised) blue</td>
<td>£20m</td>
<td>1 yr</td>
</tr>
<tr>
<td>Banks &amp; Building Societies red</td>
<td>£15m</td>
<td>6 mths</td>
</tr>
<tr>
<td>Banks &amp; Building Societies green</td>
<td>£12.5m</td>
<td>100 days</td>
</tr>
<tr>
<td>Banks &amp; Building Societies No colour</td>
<td>Not to be used</td>
<td>Not to be used</td>
</tr>
<tr>
<td>Limit 3 category – Council’s banker (where “No Colour”)</td>
<td>No Colour</td>
<td>£10m</td>
</tr>
<tr>
<td>DMADF</td>
<td>UK sovereign rating</td>
<td>unlimited</td>
</tr>
<tr>
<td>Local authorities</td>
<td>n/a</td>
<td>£10m per entity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fund rating</th>
<th>Money and/or % Limit</th>
<th>Time Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds LVNAV AAA</td>
<td>£10m per fund</td>
<td>liquid</td>
</tr>
<tr>
<td>Ultra-Short Dated Bond Funds with a credit score of 1.25 Dark pink / AAA</td>
<td>£10m per fund</td>
<td>liquid</td>
</tr>
<tr>
<td>Ultra-Short Dated Bond Funds with a credit score of 1.50 Light pink / AAA</td>
<td>£10m per fund</td>
<td>liquid</td>
</tr>
</tbody>
</table>
Revised Kingston Capital Strategy

Introduction

1. In 2017 the Prudential Code and Treasury Management Code were revised to include a new requirement for local authorities to prepare a capital strategy report which will provide the following:

   ● a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
   ● an overview of how the associated risk is managed
   ● the implications for future financial sustainability

2. The aim of the capital strategy is to outline the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The capital strategy is reported separately from the Treasury Management Strategy Statement with non-treasury investments being reported through the former.

3. The strategy sets out in detail the recommended capital programme for the next four years for approval by Full Council. It also includes summarised information up to 2029/30 to show the full quantum of expenditure commitments over the medium term. The strategy sets out the long term context in which capital expenditure, investment and resourcing decisions are made to contribute towards the achievement of key objectives and priorities.

4. Further work will be undertaken in future years to stretch the horizon of the capital programme review process to provide a more developed view of capital expenditure requirements beyond four years in line with other key strategies such as the Asset Management Plan and Housing Revenue Account Business Plan.

Influences on Capital Strategy

Internal Influences

5. The 2019-23 Kingston Corporate Plan is being considered at Finance and Contracts Committee on 14 February and more detail can be found in those papers.

6. The 2019-23 Kingston Corporate Plan “Making Kingston Better, Together” details the councils visions, strategic outcomes and priority activities set against the outcomes. The plan provides a framework for the decisions the council needs to make and how to prioritise and allocate available resources.

Three strategic outcomes are identified in the plan:

   ● A well maintained borough with a sustainable approach to growth and development which benefits our communities.
● A safe borough with diverse and vibrant communities which help to shape local priorities through participatory democracy.
● Healthy, independent and resilient residents with effective support to support those who need it most.

There are a range of core Council strategies that sit underneath the Corporate Plan and provide detail of activity in particular service areas these include:

● Customer Access Strategy
● Digital Strategy
● Health and Well-Being Strategy
● Children and Young People Strategy

External Influences

7. There are a range of external influences which also feed into the capital planning process including shaping capital expenditure priorities and influencing the level of capital resources available to fund the programme.

8. **London Plan and Mayor’s Transport Strategy (MTS)** - the Mayor’s London Plan sets out the strategic direction for London including the allocation of housing targets (therefore establishing growth patterns) and infrastructure investment. The new London Plan, which is currently being considered by an independent Inspector, doubles housing growth expectations for the borough to 13,600 homes over the next decade and introduces ‘Opportunity Area’ status for much of the borough. This also includes jobs growth, particularly an increase in office provision in Kingston Town Centre. The London Plan and MTS note the importance of the investment in Crossrail 2 which has 10 stations in Kingston, although the scale of delay and cost over-runs associated with the opening of the Elizabeth Line will significantly hinder this investment. Other infrastructure projects are set out in Kingston’s Direction of Travel, jointly published by the Mayor and RBK in 2016.

9. **Local Economy** - the level of resources available to fund the capital programme are affected by the local economy. Payments through the Community Infrastructure Levy (CIL) and S106 are directly linked to development together with values achieved for capital receipts from the sale of council owned vacant land or buildings. The level of right to buy receipts are affected by the local housing market and government housing policy.

10. **Austerity** - The Council’s capital investment ambitions are made against a backdrop of austerity and significant central government funding reductions. It is therefore vital that the Council’s capital strategy ensures that assets are utilised in the most appropriate way to deliver corporate objectives, meet statutory requirements and
sustain core infrastructure but also support the delivery of savings or income generation in the revenue budget.

11. **Shared Services** - the Council has a number of established partnerships in place for the delivery of shared services with other local authorities. The most relevant in terms of capital expenditure programmes include the shared IT & environmental services with the London Borough of Sutton and the South London Waste Partnership (SLWP) which is a partnership of four London boroughs (Kingston, Sutton, Merton & Croydon) for the delivery of improved and cost effective waste management services.

12. **Commercial Activity and Further Ambition** - The Council has purchased two commercial properties in the last 18 months following opportunities identified within the local Kingston market. These properties are currently held on the Council’s balance sheet as investment properties. The income from these properties covers the capital financing costs related to the financing of the acquisitions and has released savings into the Council’s revenue budgets which has contributed to the income and savings targets that the Council has needed to and continues to need to achieve.

13. Since then the Council has taken a decision to set up a company structure wholly owned by the Council. This includes a holding company and an investment company. The purpose of the investment company is to invest in a range of commercial property to generate a return. A total initial investment of £68m has been agreed with the Council providing loan financing and equity financing into the company for these purchases. The provision of financing into the company has already been built into the four year capital programme pending the development of a full business case to support a decision by Council as to whether to proceed with the set up of the company. The business case assumes that the loan and equity financing into the company will be funded by external borrowing. Sufficient provision has been built into both the operational boundary and authorised limit as part of the Council’s prudential indicators so no further changes are needed.

**Capital Budget Setting / Prioritisation**

14. Each year the Council reviews its capital expenditure plans and priorities for the next four years in order to agree a capital programme. This is undertaken alongside the revenue budgeting process in order that the impact of both is considered.

15. As part of the annual capital budget setting process services are required to complete a capital bid request form with details of the capital expenditure that they require. These forms are required to be completed for all new schemes, for existing schemes which are uncommitted (i.e. have not incurred expenditure and are not contractually committed) and for all rolling programmes of expenditure including growth to existing rolling programmes.
16. Each year a cross service officer review group is brought together to review, challenge and score bids submitted by Directorates for capital expenditure over the next four year period. The criteria against which the bids are scored are as follows:

- The scheme delivers revenue savings
- The scheme is driven by transformation; workforce and smart place
- The scheme is required for essential works or maintenance
- The scheme has the ability to lever in match funding to partially fund the scheme
- The scheme when delivered meets community needs

17. Officers submitting the bid are asked to state which of the five criteria the capital expenditure satisfies. Each bid can satisfy more than one criteria. Each criteria is weighted by the review group and bids are scored 1-5 against the criteria that applies to them. An overall score for each scheme is achieved by adding up the individual weighted scores against each individual criteria. Schemes are then ranked according to their total scores. These scores are then used to draw up a prioritised list for consideration by the Corporate Resources Panel (CRP) which is a group of senior officers including the Chief Executive, Director of Corporate & Commercial and Director of Growth who provide oversight of the capital programme. If there are further questions on any particular schemes, the review group can undertake a more in depth review session with key officers.

18. Separate member review and challenge of capital bids, capital resources and prioritisation was then provided through a specific Capital Star Chamber session.

19. This prioritisation process supports the Council in making decisions about which schemes to progress, especially when capital resources are limited.

**Capital Resources**

20. Capital resources available to fund the capital programme are reviewed annually as part of the wider capital programme review process. This includes a review of projected capital receipts from the disposal of council assets, available resources from government or third party grants, S106, Community Infrastructure Levy (CIL), right to buy receipts and sums set aside in reserves.

21. Property assumptions feed into this review in terms of asset use and the planned disposal of surplus assets. In terms of the Housing Revenue Account (HRA) assumptions within the Business Plan are reviewed such as sums available in the Major Repairs Reserve (MRR), numbers of RTB sales which affects the levels of resources available through the general Right To Buy (RTB) sum, allowable debt, and net RTB receipts.

**Revenue Implications from Capital Schemes**
22. Services are required to identify and record any potential revenue implications from capital schemes as part of the capital bidding process. These are then taken into consideration during the scheme prioritisation process and reflected in the medium term revenue budgets were necessary.

**Capacity to Deliver Schemes**

23. The capacity to deliver capital schemes is initially assessed through the capital programme review bidding process. Services are required to highlight key risks for the scheme and capacity would be part of this assessment. The finance team also have close contact with project managers delivering schemes. Any capacity issues are highlighted and followed up through the in year capital monitoring processes to find appropriate solutions.

**Governance**

24. The Finance and Contracts Committee have oversight of the capital programme with the capital budget, in year monitoring and outturn position all being considered during the year. The Finance and Contracts Committee review and approve the capital programme before it is finally approved by Full Council. The Strategic Housing and Planning Committee consider the HRA Business Plan.

25. Council approval of the programme gives an allocation to budget managers in the capital programme. Separate approval is required for any significant changes to the profiling or nature of that spend in year in line with financial rules set out in the Council's financial regulations.

26. Once approved the programme is managed by officers and reported to Finance and Contracts Committee on a quarterly basis. Key issues are any reported under or over spends projected for schemes together with changes in the profiling of spending over the four year budget period. For projects that are forecast to overspend or for new projects within a financial year officers are required to present a paper to the Corporate Resources Panel (CRP) prior to seeking committee approval. In all cases the impact of scheme outcomes including timings are assessed and in the case of projected scheme overspends options to reduce the additional expenditure are considered including re-engineering or scaling back projects or trying to secure third party external funding to reduce the pressure on scheme budgets.

27. In all events the Council will continually look to ensure that quarterly projections are as accurate as possible and a rigorous process is applied to ensure that budget managers are made accountable and the appropriate approvals are obtained (as referenced to the financial regulations) for any changes to the Council agreed four year programme.

**Strategic Property Management**
28. Work is underway to develop a new approach to the way in which the Council invests in, and manages its assets. This will include a new Property Strategy and Property Management Plan, it is anticipated that these documents will be presented to Members for approval during 2019/20.

29. The Strategy will describe the way in which the Council will approach investment and management of its property portfolio which consists of commercial, operational and social value properties. Key priorities for the property service during 2019/20 are:

- Invest in new commercial property and invest in new property projects, to create additional income to support the regeneration of local areas.
- With public sector partners, we will identify opportunities where our property and land can be shared and re-developed to reduce our overheads and improve customer outcomes and services
- Review the operational property estate and its management to reduce costs and ensure that the way in which it is used supports the Council's priorities
- Review the social value/community element of the property estate to create a sustainable approach and maximise social value outcomes

Commercial Property Acquisitions

30. In June 2017 Growth Committee took the decision to acquire the freehold interest of Kings Place and Conquest House, it was added to the capital programme at Treasury Committee later that month. In September 2017 Growth Committee approved the acquisition of the leasehold interest of Kingsmill Business Park and it was added to the capital programme at Treasury Committee in October 2017. Together these properties achieve a gross annual income of £3.4m which is approx 2.5% of the council's gross revenue budget.

31. As part of the 2018/19 budget setting process Council approved a capital budget for a Property Investment Programme, of £36m in 2018/19 and £32m in 2019/20. The budget for 2018/19 has since been rephased to 2019/20. As explained in para 12 the Council has since taken the decision to set up a wholly owned investment company for the investment of commercial property. The Council will provide loan financing into the company on commercial terms including a state aid compliant interest rate and equity investment. The capital provision within the capital programme for the direct purchase of commercial properties will be instead used for the provision of capital loan and equity financing into the company.

32. The business case assumes that the council will use external borrowing through the Public Works Loan Board (PWLB) to provide the loan financing into the company. The difference between the interest rate at which the Council can access funds from the PWLB and the commercial interest rate into the company will produce a margin for the Council. This margin will be partially used to finance the equity investment into the company but also used to support the borrowing costs of capital expenditure programmes and projects across the borough as part of the Council's capital programme.
Possible risks for the Council

33. Property investment has its own specific risks, the principal ones being property risks, financial risks and corporate risks. The arrangements set out in this policy are designed to help minimise these risks.

a) Property Risks – the property market is cyclical and is affected by the wider economic environment. There are also property risks that are specific to a building due to its location, condition and quality of tenants. Mitigation proposed in this policy for these risks include diversifying the portfolio (portfolio mix) to include investments that perform differently over the economic cycle. The evaluation criteria, diversity of location, due diligence tests, approval processes and accountability for implementation are also proposed to address property specific risks.

b) Financial Risks – the primary financial risks are borrowing levels, interest rates movement, ongoing ability to service debts, the general investment market conditions and its effect on rental income. For existing on balance sheet commercial property investments a special reserve has been created and a funding strategy that allocates debt and all associated costs to these commercial property investments so that the net revenue benefits to the Council are transparent and can be benchmarked. For the loans into the commercial entities including the commercial property company there is a risk of payment default. This is mitigated through regular monitoring of the financial position of entities where it is providing loan financing, assessing their ability to repay any outstanding debt. Annual reporting is also required as part of the loan agreements that are in place. This should provide an early warning of any potential issues and the Council then has the ability (through the loan arrangements) to work with the entity to find solutions to prevent a loan default.

c) Corporate Risks – effective operational delivery requires staff with the requisite expertise, effective arrangements for asset management and the recognition of the reputational risks that can come from inappropriate tenants, and from legal and environmental breaches.

Four Year Capital Programme - 2019/20 to 2022/23

33. The capital programme sets out the Council’s plans for the acquisition and improvement of assets over the next four years. The General Fund existing programme as at month 8 from 2019/20 onwards consists of £152.978m already approved for ongoing projects as set out in the table below.
### Existing General Fund Capital Programme

<table>
<thead>
<tr>
<th>Programme</th>
<th>2019/20 £000s</th>
<th>2020/21 £000s</th>
<th>2021/22 £000s</th>
<th>Total £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools Building Programme</td>
<td>5,727</td>
<td>5,913</td>
<td>0</td>
<td>11,640</td>
</tr>
<tr>
<td>General Fund Property Programme</td>
<td>12,979</td>
<td>8,382</td>
<td>900</td>
<td>22,261</td>
</tr>
<tr>
<td>Property Acquisition Programme</td>
<td>68,000</td>
<td>0</td>
<td>0</td>
<td>68,000</td>
</tr>
<tr>
<td>Environment Programme</td>
<td>2,061</td>
<td>180</td>
<td>0</td>
<td>2,241</td>
</tr>
<tr>
<td>Highways Programme</td>
<td>3,889</td>
<td>3,304</td>
<td>2,332</td>
<td>9,525</td>
</tr>
<tr>
<td>Housing General Fund Programme</td>
<td>20,367</td>
<td>1,440</td>
<td>1,440</td>
<td>23,247</td>
</tr>
<tr>
<td>ICT Programme</td>
<td>2,100</td>
<td>2,165</td>
<td>1,500</td>
<td>5,765</td>
</tr>
<tr>
<td>Regeneration Programme</td>
<td>10,299</td>
<td>0</td>
<td>0</td>
<td>10,299</td>
</tr>
<tr>
<td><strong>Total Current Programme</strong></td>
<td><strong>125,422</strong></td>
<td><strong>21,384</strong></td>
<td><strong>6,172</strong></td>
<td><strong>152,978</strong></td>
</tr>
</tbody>
</table>

34. It is proposed to add £18.198m over 2019/20 to 2022/23 to the General Fund capital programme for new projects or additions to existing projects or rolling programmes. This will be supplemented by any slippage approved as part of the closing of the 2018/19 accounts. In addition new projects may be added during the year. The new programme and total combined programme is summarised below with further detail on additions to the programme in Enclosure 1.

### Additions to Capital Programme

<table>
<thead>
<tr>
<th>Programme</th>
<th>2019/20 £000s</th>
<th>2020/21 £000s</th>
<th>2021/22 £000s</th>
<th>2022/23 £000s</th>
<th>Total £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools Building Programme</td>
<td>500</td>
<td>2,500</td>
<td>0</td>
<td>0</td>
<td>3,000</td>
</tr>
<tr>
<td>General Fund Property Programme</td>
<td>4,640</td>
<td>2,405</td>
<td>45</td>
<td>430</td>
<td>7,520</td>
</tr>
<tr>
<td>Property Acquisition Programme</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Environment Programme</td>
<td>337</td>
<td>1,315</td>
<td>50</td>
<td>50</td>
<td>1,752</td>
</tr>
<tr>
<td>Highways Programme</td>
<td>1,247</td>
<td>0</td>
<td>0</td>
<td>2,190</td>
<td>3,437</td>
</tr>
<tr>
<td>Housing General Fund Programme</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>990</td>
<td>990</td>
</tr>
<tr>
<td>ICT Programme</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Total Additions</strong></td>
<td><strong>6,723</strong></td>
<td><strong>6,220</strong></td>
<td><strong>95</strong></td>
<td><strong>5,160</strong></td>
<td><strong>18,198</strong></td>
</tr>
</tbody>
</table>
35. It is proposed to adjust allocations of budgets down by £2.283m over 2019/20 to 2022/23 within the General Fund capital programme relating to rolling programmes. This is to better reflect the historic and anticipated spend within individual programmes.

<table>
<thead>
<tr>
<th>Adjustments to Existing Capital Programme</th>
<th>2019/20 £000s</th>
<th>2020/21 £000s</th>
<th>2021/22 £000s</th>
<th>2022/23 £000s</th>
<th>Total £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highways Programme</td>
<td>-649</td>
<td>-142</td>
<td>-142</td>
<td>0</td>
<td>-933</td>
</tr>
<tr>
<td>Housing General Fund Programme</td>
<td>-450</td>
<td>-450</td>
<td>-450</td>
<td>0</td>
<td>-1,350</td>
</tr>
<tr>
<td>Total Adjustments</td>
<td>-1,099</td>
<td>-592</td>
<td>-592</td>
<td>0</td>
<td>-2,283</td>
</tr>
</tbody>
</table>

Total capital programme

<table>
<thead>
<tr>
<th>Total Capital Programme</th>
<th>2019/20 £000s</th>
<th>2020/21 £000s</th>
<th>2021/22 £000s</th>
<th>2022/23 £000s</th>
<th>Total £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools Building Programme</td>
<td>6,227</td>
<td>8,413</td>
<td>0</td>
<td>0</td>
<td>14,640</td>
</tr>
<tr>
<td>General Fund Property Programme</td>
<td>17,619</td>
<td>10,787</td>
<td>945</td>
<td>430</td>
<td>29,781</td>
</tr>
<tr>
<td>Property Acquisition Programme</td>
<td>68,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>68,000</td>
</tr>
<tr>
<td>Environment Programme</td>
<td>2,398</td>
<td>1,495</td>
<td>50</td>
<td>50</td>
<td>3,993</td>
</tr>
<tr>
<td>Highways Programme</td>
<td>4,487</td>
<td>3,162</td>
<td>2,190</td>
<td>2,190</td>
<td>12,029</td>
</tr>
<tr>
<td>Housing General Fund Programme</td>
<td>19,917</td>
<td>990</td>
<td>990</td>
<td>990</td>
<td>22,887</td>
</tr>
<tr>
<td>ICT Programme</td>
<td>2,100</td>
<td>2,165</td>
<td>1,500</td>
<td>1,500</td>
<td>7,265</td>
</tr>
<tr>
<td>Regeneration Programme</td>
<td>10,299</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>10,299</td>
</tr>
<tr>
<td>Total Current Programme</td>
<td>131,046</td>
<td>27,012</td>
<td>5,675</td>
<td>5,160</td>
<td>168,893</td>
</tr>
</tbody>
</table>
36. The capital programme shown above is provided in detail in Enclosure 1 to this annex. The programme consists of externally funded and internally funded projects. The externally funded expenditure stands at £35.422m in 2019/20, £9.824m of this relates to the Go Cycle programme; part of the £32m investment in the borough from TfL for this project.

37. The internally funded programme consists of rolling programmes of work and separate stand alone projects delivered in order to repair and improve the Council’s assets. A number of new bids for expenditure have been presented by officers with the relevant professional knowledge for their service area and of the assets required to deliver that service. Bids have been reviewed by an officer group, Corporate Resources Panel and members as part of the Star Chamber process. The inclusion of these bids is affordable within the overall funding available.

38. Every Council is required to prepare a schedule of Prudential Indicators in respect of the capital budget to demonstrate that capital investment is prudent, sustainable and affordable. These are being reported to Finance and Contracts Committee on 14 February as part of a separate Treasury Strategy Annex (Annex 12) to the main budget report.

Externally Funded Expenditure

Education

39. Basic need grant allocations of £2.4m for 2019/20 have been confirmed by the Education and Skills Funding Agency (ESFA), the allocation for 2020/21 has been confirmed as zero. As such it is thought that the Council shouldn’t expect to receive any further basic need funding in the foreseeable future. The government therefore expects that any new school places are delivered through free schools or expansions funded by the ESFA, although it remains a Council responsibility.

40. Unallocated Basic Need grant from 2018/19 as at period 8 has been reprofiled to support future capital projects as set out in Enclosure 1 to this annex. Planned works include the rebuilding and expansion works at Burlington School, due to be considered by the Children’s and Adults’ Care and Education Committee in 2019/20.

41. Works to maintain school buildings is funded from the capital maintenance grant received annually from government, works are funded on a priority basis. We have anticipated grant of £0.8m in schools maintenance grant however this will not be confirmed by the ESFA until March 2019.

42. A schools grant allocation for provisions for pupils with Special Educational Needs and Disabilities (SEND) was announced in 2017/18 and is providing £0.563m per
year across 2018/19 to 2020/21, additional funding of £0.392m has been provided in 2019/20 from the DfE.

Transport for London
43. Transport for London (TfL) grant funding is only confirmed annually and based on specific projects. Once allocations are announced and the split between capital and revenue projects detailed the corresponding budgets will be added to the capital programme. TfL have confirmed the boroughs allocation for the 2019/20 financial year. Royal Borough of Kingston upon Thames is £1.309m of which £0.435m is revenue funding and £0.1m is allocated for the Local Transport Fund.

44. Further TfL funding for the Go Cycle programme is also included in the capital programme with current projections showing £9.824m 2019/20. The timing of this funding between years will be subject to review as projects progress.

45. In December 2018 TfL published their Business Plan for the period 2019/20 to 2023/24 setting out how TfL will continue to invest in vital transport improvements in London and deliver the Mayor's Transport Strategy, against a backdrop of some significant financial challenges. Funding for other schemes including Bus Priority and Cycling and LIP Liveable Neighbourhoods are expected in March.

Disabled Facilities Grant
46. Disabled Facilities Grants are funded by the Ministry of Housing, Communities & Local Government to make adaptations to disabled residents homes. Additional grant was awarded in January 2019 and is reflected in the existing capital programme for 2018/19.

GLA Loan
47. The GLA have made a £25m interest free loan to RBK to support the cost of the buyback of leasehold properties as part of the Cambridge Road Estate Regeneration programme. The loan will be paid back by the Joint Venture vehicle for delivering project.

<table>
<thead>
<tr>
<th>Summary Externally Funded Projects</th>
<th>2019/20 £000s</th>
<th>2020/21 £000s</th>
<th>2021/22 £000s</th>
<th>2022/23 £000s</th>
<th>Total £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Capacity Grant</td>
<td>263</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>263</td>
</tr>
<tr>
<td>Devolved Formula Capital</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disabled Facilities Grant</td>
<td>840</td>
<td>840</td>
<td>840</td>
<td>840</td>
<td>3,360</td>
</tr>
<tr>
<td>Education Funding Agency - Basic Needs</td>
<td>3,515</td>
<td>5,000</td>
<td>0</td>
<td>0</td>
<td>8,515</td>
</tr>
<tr>
<td>Education Funding Agency - Devolved Grant</td>
<td>955</td>
<td>563</td>
<td>0</td>
<td>0</td>
<td>1,518</td>
</tr>
<tr>
<td>Environment Agency</td>
<td>0</td>
<td>400</td>
<td>0</td>
<td>0</td>
<td>400</td>
</tr>
</tbody>
</table>
### Internally Funded Expenditure

#### Rolling Programmes

48. Rolling programmes of expenditure ensure that assets are replaced or maintained in an appropriate and timely fashion. This represents a significant underlying, ongoing capital expenditure pressure for the council to continue business as usual. Each year the cost of rolling programmes is approximately £4.2m.

49. As part of the annual capital programme review services are required to submit capital bids for all rolling programmes including the continuation of programmes into the fourth year of the budget (currently 2022/23) and any growth over and above normal levels of provision over the four year budgeting period. These programmes are then assessed against the criteria set out in paragraph 16 along with any new capital schemes to ascertain whether these schemes are targeted at key priority areas and whether planned expenditure is at appropriate levels.

50. The general fund property programme has a rolling programme of £0.4m per annum to carry out improvements and major repairs across the Council's property portfolio.

51. The ICT programme has two rolling programmes of expenditure; the technology investment fund at £1.2m per year and the ICT capital maintenance programme at £0.3m per year. These programmes enable the Council to support service...
transformation and efficiency and replace and upgrade key equipment as required. It is proposed to roll this programme forward one more year, adding £1.5m to the programme in 2022/23.

52. The highways programme has two rolling programmes; street lighting renewal at £0.44m per year and highways maintenance at £1.75m per year. The street lighting column replacement programme has been revised following the capital challenge sessions, this is reflected in the adjustments to existing programme table.

53. The Housing general fund programme has a rolling programme of £0.15m for discretionary grants per annum, this budget has been revised as part of the capital challenge sessions and is reflected in the adjustments to existing capital programme table.

The table below summarises the rolling programmes of work.

<table>
<thead>
<tr>
<th>Internally Funded Rolling Programme</th>
<th>2019/20 £000s</th>
<th>2020/21 £000s</th>
<th>2021/22 £000s</th>
<th>2022/23 £000s</th>
<th>Total £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Property Rolling Programme</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>1,600</td>
</tr>
<tr>
<td>Technology Investment Fund</td>
<td>1,200</td>
<td>1,164</td>
<td>1,200</td>
<td>1,200</td>
<td>4,764</td>
</tr>
<tr>
<td>ICT Capital Maintenance Programme</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>300</td>
<td>1,200</td>
</tr>
<tr>
<td>Highways Capital Maintenance Programme</td>
<td>1,750</td>
<td>1,750</td>
<td>1,750</td>
<td>1,750</td>
<td>7,000</td>
</tr>
<tr>
<td>Street Lighting Column Replacement Programme</td>
<td>440</td>
<td>440</td>
<td>440</td>
<td>440</td>
<td>1,760</td>
</tr>
<tr>
<td>Discretionary Grants</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>600</td>
</tr>
<tr>
<td>Total Internally Funded Rolling Programme</td>
<td><strong>4,240</strong></td>
<td><strong>4,204</strong></td>
<td><strong>4,240</strong></td>
<td><strong>4,240</strong></td>
<td><strong>16,924</strong></td>
</tr>
</tbody>
</table>

One-off projects

---

**Annex 2a**
54. Additions to the programme are included for specific projects where there is an essential need for works, they are on an invest to save basis or where they are sufficiently advanced to be the subject of a separate committee report. Details of the entire capital programme are set out in Enclosure 1.

55. Projects of a significant value (usually over approximately £500,000) should all be subject to committee approval in their own right prior to implementation and their inclusion in the programme represents in principle approval of the funding only.

**Capital Financing**

56. A summary of the proposed funding of the proposed general capital programme 2019/20 to 2022/23 is shown below. £68m for loan and equity finance into the commercial property company is included in the borrowing figure for 2019/20. This will form a non-financial investment (loan to the new company).

<table>
<thead>
<tr>
<th>Capital Financing</th>
<th>2019/20 £000s</th>
<th>2020/21 £000s</th>
<th>2021/22 £000s</th>
<th>2022/23 £000s</th>
<th>Total £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>90,916</td>
<td>16,822</td>
<td>1,863</td>
<td>1,348</td>
<td>110,948</td>
</tr>
<tr>
<td>External Funding</td>
<td>37,143</td>
<td>7,153</td>
<td>840</td>
<td>840</td>
<td>45,976</td>
</tr>
<tr>
<td>Community Infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy</td>
<td>260</td>
<td>260</td>
<td>260</td>
<td>260</td>
<td>1,039</td>
</tr>
<tr>
<td>Reserves</td>
<td>15</td>
<td>65</td>
<td>0</td>
<td>0</td>
<td>80</td>
</tr>
<tr>
<td>Flexible Capital Receipts</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>3,000</td>
</tr>
<tr>
<td>Land Appropriation</td>
<td>838</td>
<td>838</td>
<td>838</td>
<td>838</td>
<td>3,350</td>
</tr>
<tr>
<td>Capital Receipts</td>
<td>1,125</td>
<td>1,125</td>
<td>1,125</td>
<td>1,125</td>
<td>4,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>131,046</strong></td>
<td><strong>27,012</strong></td>
<td><strong>5,675</strong></td>
<td><strong>5,160</strong></td>
<td><strong>168,893</strong></td>
</tr>
</tbody>
</table>

57. Funding can take place from a number of resources including borrowing, capital receipts, grants, reserves, external contributions and contributions from the revenue budget.

58. When projects are financed by borrowing they impact on the revenue budget through capital financing (interest) costs and money set aside for the repayment of debt. If capital receipts within the Council's General Fund are realised and applied to the capital programme, the cost to the revenue budget is reduced.
Housing Revenue Account Business Plan

59. The Council’s 30 year HRA Business Plan sets out plans for maintaining and investing in, its housing stock of 4,599 rented and 1,588 leaseholder properties. Each year the 30 year housing revenue account business plan is reviewed to take account of any changes to factors including reflecting changes to housing policy, economic assumptions such as building cost inflation and interest rates and changes to local conditions such as stock condition and levels of RTB sales.

60. The HRA Programme of capital expenditure over the next four years 2019/20 to 2022/23 is £65.4m. Overall the HRA capital programme is set to improve existing HRA assets, increase supply with the support from the building homes for Londoners GLA grant funding and to address a programme of planned works to estates and other demand driven projects. Further detail is shown in Enclosure 5. This is to be funded by a range of different sources. £20.498m Major Repairs Reserve, £19.141m of borrowing, £5.933m RTB receipts, £9.5m GLA Homes for Londoners grant, £6.364m allowable debt element from RTB receipts and £4m leaseholder contributions.

61. The existing HRA capital programme reflects the position as at month 8. One amendment has been made to the figures to reflect the rephasing of an existing project following discussion with the service. The budget for Major Capital Works (formerly SCS/Keystone - Renewals) now better reflects the anticipated spend over the period.

<table>
<thead>
<tr>
<th>Existing HRA Capital Programme 2018-19 to 2021-22</th>
<th>2018/19 £000s</th>
<th>2019/20 £000s</th>
<th>2020/21 £000s</th>
<th>2021/22 £000s</th>
<th>Total £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Homes</td>
<td>4,193</td>
<td>1,000</td>
<td>0</td>
<td>0</td>
<td>5,193</td>
</tr>
<tr>
<td>Other Projects</td>
<td>1,986</td>
<td>6,831</td>
<td>2,772</td>
<td>2,372</td>
<td>13,961</td>
</tr>
<tr>
<td>Statutory Compliance</td>
<td>1,184</td>
<td>650</td>
<td>650</td>
<td>650</td>
<td>3,134</td>
</tr>
<tr>
<td>Asset Improvements</td>
<td>1,691</td>
<td>3,600</td>
<td>2,550</td>
<td>1,445</td>
<td>9,286</td>
</tr>
<tr>
<td>Health &amp; Safety</td>
<td>185</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>335</td>
</tr>
<tr>
<td>Housing Conversion</td>
<td>577</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>1,777</td>
</tr>
<tr>
<td>Refurbishment</td>
<td>270</td>
<td>270</td>
<td>270</td>
<td>270</td>
<td>1,080</td>
</tr>
<tr>
<td>1-4-1 Developments</td>
<td>5,935</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5,935</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,021</strong></td>
<td><strong>12,801</strong></td>
<td><strong>6,692</strong></td>
<td><strong>5,187</strong></td>
<td><strong>40,701</strong></td>
</tr>
</tbody>
</table>

Proposed additions to HRA capital programme and proposed total programme.
The funding for this programme of works is shown in the following table.

<table>
<thead>
<tr>
<th>HRA Capital Programme Funding 2019-20 to 2022-23</th>
<th>2019-20 £000s</th>
<th>2020-21 £000s</th>
<th>2021-22 £000s</th>
<th>2022-23 £000s</th>
<th>Total £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leaseholder Receipts</td>
<td>407</td>
<td>1,593</td>
<td>1,000</td>
<td>1,000</td>
<td>4,000</td>
</tr>
<tr>
<td>RTB Receipts</td>
<td>2,882</td>
<td>3,052</td>
<td>0</td>
<td>0</td>
<td>5,933</td>
</tr>
</tbody>
</table>
Major Works to Council Housing Stock

62. Following the end of the Better Homes grant funding, ongoing works to Council Properties are being funded through the Major Repairs Reserve (MRR) funding of £20.498m and allowable debt sums retained from Right to Buy receipts of £6.364m. In addition leaseholder contributions of £4m are expected to cover the cost of the works programme to leaseholder units. The Major Repairs Reserve is increased each year by the level of depreciation charged on existing assets. An outline housing capital programme of stock repairs and improvements for 2019/20 to 2022/23 is shown above for the first four years on the basis of the Housing Revenue Account Business Plan. The full 30 year view as per the business plan is shown in Annex 10 Enclosure 5.

New Build Programme

63. The Council is planning to undertake a programme of new build development on small sites across the borough. This work will be carried out within the HRA so in some cases will involve a land appropriation of general fund land across to the HRA which has been taken into consideration in the general fund and HRA capital financing requirements (CFRs) referred to the Treasury Strategy in Annex 12. The new build programme is to be funded by a mixture of GLA building homes for Londoners grant and HRA borrowing.

Right to Buy (RTB) Receipts

64. Under the new RTB arrangements introduced for 2012/13 the Council signed up to an agreement with Government for the use of net RTB receipts for the provision of new housing. It is estimated that a further £5.933m of net RTB receipts will have been retained through that agreement by the end of 2022/23. This can be used as direct provision to social landlords as a contribution of up to 30% towards the cost of the provision of affordable units or as a contribution to council affordable unit delivery or acquisition.

HRA Borrowing Headroom Cap
65. Under HRA Reform a ceiling was set for the level of borrowing that the HRA would be able to undertake to support the HRA business plan. This ceiling was set at £149.298m for Kingston. The Council took out a loan to meet the self financing payment set to effectively ‘buy out’ of the subsidy system. This totalled £115.5m.

66. As part of Budget 2018 Government announced plans to remove the HRA borrowing cap. This was subsequently implemented through revisions to capital regulations brought in during October 2018. In practice this means there is no longer a cap on the level of borrowing that the HRA can undertake, however the usual considerations such as affordability, quantum etc need to be carefully considered.

67. In March 2017 the Council took a decision to progress the regeneration of the Cambridge Road Estate by way of a 50:50 joint venture with a development partner. In 2018 the Council went through a formal procurement process to select a partner, and Countryside Properties Plc were confirmed as preferred bidder at the end of 2018. The Council is now working with Countryside and advisers on the scheme to work through the commercial details of the arrangement. A full report outlining the commercial proposals is due to be considered by Finance and Contracts Committee in March.

Capital Risk Management

68. There are a number of risks surrounding the capital programme, which inevitably increase at a time of economic uncertainty. These risks are reviewed and managed as part of the capital programme review process, in year capital monitoring and specific project and risk management arrangements for larger schemes.

Cost Overspends / Project Timescale Slippage

69. In the initial stages of development, major capital projects will have significant uncertainties. For example these may relate to the planning process, the views / interest of stakeholders who must be consulted, ground conditions, or the cost of refurbishing or demolishing existing buildings (e.g. the cost of asbestos removal). As such all major projects contain a defined contingency provision. The level of this contingency is set with reference to the type of project, it’s complexity and risk items identified on the risk register. Typically new build projects are allocated a lower contingency of an average 2.5 to 5% and refurbishment or alternation projects an average of 3.5 to 7% depending on contract value.

70. Once a scheme begins spend and timescales for completion are monitored as part of the monthly capital programme monitoring processes.

Capital Receipts
71. The Council has continued to ensure regular review in terms of its assumptions for
the inclusion of new capital receipts into the programme, particularly given the
difficulty around some of the sites. Each year planned capital receipts are reviewed
by the property and finance teams in terms of values, timescales and any known risk
factors that need to be taken into account.

Borrowing Costs
72. A provision for the revenue costs of future prudential borrowing within the capital
programme has been made within the revenue budget. This allocation has been
derived using estimates for interest rates over the coming four year period. There is a
risk that interest rates rise above these estimates affecting the cost of this borrowing.
This risk will be managed through the Council’s Treasury Management Strategy
ensuring that the cost of borrowing to the Council is minimised.

Cost Price Inflation
73. There is increased uncertainty about the cost of projects due to potential changes in
the cost of materials and labour arising from changes in the value of the pound
relative to other currencies.

School Place Expansion
74. The level of basic need funding available for future school expansions is limited.
Government has progressively reduced the grant available which restricts the
council’s ability to deliver any required expansion.

Reduction in Value of On Balance Sheet Commercial Property Investment
75. The market value of properties is ascertained annually as part of the production of
the statement of accounts. Commercial Property investments are intended to be
holdings for the medium to longer term. Risk management mitigation includes active
management such as the review of the performance of individual properties to feed
into longer term disposal or refurbishment or reprovision decisions. The Council has
an earmarked reserve in place to assist with any investment needed in commercial
property properties. Despite an MRP exemption for on balance sheet commercial
investment there is also the ability within revenue budgets to start MRP provision.

Non Repayment of Loans by Third Parties
76. The Council undertakes regular monitoring of the financial position of entities where it
is providing loan financing, assessing their ability to repay any outstanding debt.
Annual reporting is also required as part of the loan agreements that are in place.
This should provide an early warning of any potential issues and the Council then
has the ability (through the loan arrangements) to work with the entity to find
solutions to prevent a loan default.
The business case for the investment in commercial property within a Council owned incorporated group structure

REDACTED VERSION

JUNE 2019
Contents

1.0 Introduction .................................................................................................................. 2
2.0 The Business Objectives.............................................................................................. 2
3.0 Options Analysis – Commercial Property Investment .............................................. 4
4.0 The Power to Trade and General power of Competence (See full legal advice in appended to the covering report to this business case) .................................................. 6
5.0 Anticipated Business Returns ..................................................................................... 7
6.0 Financial Strategy ......................................................................................................... 8
7.0 Investment Strategy and Portfolio Mix – Asset ‘Type’ and Asset ‘Class’ ....................... 8
8.0 Risk Mitigation ............................................................................................................. 9
9.0 Comparing returns with other investment opportunities .......................................... 10
10.0 Corporate Structure Legal Advice (See full legal advice appended to the covering report to this business case) ................................................................................. 10
11.0 Appointment of Council Directors and preventing conflicts of interest ................. 13
12.0 Shareholder’s or Investor’s Committee ..................................................................... 13
13.0 VAT Implications for the various entities within the group ....................................... 17
14.0 Summary and Conclusions ....................................................................................... 17
Glossary of terms ................................................................................................................ 19
Appendix A – 'Guildhall Capital Ltd' - High level Financial Summary Year 1 of full investment .................................................................................................................. 20
Appendix B – Summary Risk Register (To be read in conjunction with Section 8.0)........ 20
Appendix C – Company Director Role Profiles ................................................................ 20
  • C1 – Holding Company Board Director Role Profile ..................................................... 20
  • C2 – 'Guildhall Capital Ltd’ Board Director Role Profile ................................................ 20
1.0 Introduction

1.1 The purpose of this business case is to provide a comprehensive appraisal of the objectives, risks, expected financial returns, options considered and the resourcing of a commercial property investment enterprise, working title, ‘Guildhall Capital Ltd’. In preparing the business case, regard has been had to the statutory guidance on the power in Local Authority Act 2003 and the Local Authority (Best Value Authorities) (Power to Trade) (England) Order 2009.

1.2 In developing this business case advice has been specifically commissioned from specialist advisors in the field;

- Trowers and Hamlin LLP – Legal advice (vires, structures, state aid and taxation)
- James Goudie QC – Vires and the specific implications of recent CIPFA guidance on Council trading activity and the treatment of Minimum Revenue Provision (MRP)
- Jones Lang Lasalle (JLL) – Investment Strategy
- Link Treasury Services – The Council’s financial strategy and treasury management approach
- ARK Consultancy Ltd – Oversight and management of the project, the drawing together of this business case and any future business plan.

2.0 The Business Objectives

2.1 Whilst the notion of commercial property investment may not be what many would prefer, the Council has accepted that such income can make a strong financial contribution. The Council already has approximately 150 commercial assets let to third parties from which it derives a gross income of £5.5 million per annum. In expanding this investment activity through a new trading company, ‘Guildhall Capital Ltd’, the Council considers its objectives to be;

- To make intelligent investment decisions and expertly manage a new fund to ensure income returns are sustainable over the longer term
- To reduce the geographical risk in current property holdings (currently all held within the Borough) by expanding ownership of new property into the south-east of England geographical area
- To make a significant financial contribution into the medium and long term towards the Council’s regeneration activities and capital projects as laid out in it’s Investment Policy and updated from time to time.

2.2 The different types of investment properties (or asset classes) to be targeted could include retail (albeit this is not the strongest of asset classes at present), industrial, hotel, leisure, office, and warehouse assets. The rationale for such commercial assets being targeted is;
The residential investment market whilst emerging, has yet to establish itself as an institutional asset class. Avoiding residential also mitigates conflicts with the councils housing responsibilities and policies.

Applying a mix of asset classes, outside the Councils boundary, not only mitigates risk in the portfolio but makes earlier safe investment more likely.

Strong risk-adjusted returns: Over time, commercial real estate has produced strong returns with low volatility compared to other investment classes. *(Table 1)*

**Table 1 - Over time, commercial real estate has produced strong returns with low volatility compared to other investment classes**

![Graph showing returns over time](image)

Source: IPD/JLL research

Large range of purchasing opportunities: Commercial real estate is the third-largest investment class, giving investors a wide range of strategies and opportunities.

Real Returns: Commercial real estate provides long term real returns set against inflation.

Recession: Commercial real estate has been found to be income positive during periods of recession *(Table 2).*
3.0 Options Analysis – Commercial Property Investment

3.1 In considering how RBK might undertake property investment in future, the strengths and weaknesses of three potential options have been considered. These are;

- Option A – Stand still with existing assets
- Option B - Continuing with further investment (on balance sheet and within Borough as now)
- Option C - The setting up a wholly owned company for the purposes of wider geographical investment.

### Option A – Stand still with existing assets

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Simplest of all options with no further acquisitions</td>
<td>• Additional income budgeted for in the MTFP from additional assets won’t be achieved requiring operational savings to be made elsewhere</td>
</tr>
<tr>
<td>• Council remains in direct control without additional governance</td>
<td>• Recent analysis shows that the current RBK portfolio &lt;REDACTED DETAIL&gt;</td>
</tr>
<tr>
<td>• No further acquisitions mean current risks and rewards continue subject to market conditions and asset management</td>
<td>• Assets can be managed in-house without in depth commercial expertise</td>
</tr>
<tr>
<td>• No ongoing strategy for acquisitions required although asset management strategy will be required to maintain value</td>
<td>• Potential for some disposals and asset management improvements but unlikely to return substantial rewards beyond those already being achieved.</td>
</tr>
<tr>
<td>• Assets can be managed in-house at low cost.</td>
<td></td>
</tr>
</tbody>
</table>
## Option B – Continue with further investment (on balance sheet and within Borough as now)

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Simple approach consistent with activity already undertaken</td>
<td>• Not possible to legitimately buy outside of borough creating a geographical risk in the portfolio</td>
</tr>
<tr>
<td>• Council remains in direct control without additional governance structures being required</td>
<td>• Continued reliance on external acquisition support will be required directly funded by the Council</td>
</tr>
<tr>
<td>• Council reliant on in-house team with consultancy support to create business case for each purchase</td>
<td>• Public procurement rules apply to all support contracts</td>
</tr>
<tr>
<td>• Can, and has been undertaken quickly without overarching strategy on portfolio outcomes</td>
<td>• Decision making on individual asset acquisitions is slower meaning that only certain assets are targetable</td>
</tr>
<tr>
<td>• Officers retain control of the process without a company structure to service</td>
<td>• Recent analysis shows that the current RBK portfolio derives &lt;REDACTED DETAIL&gt;</td>
</tr>
<tr>
<td>• Geographical boundary is restricted to Kingston</td>
<td>• Exit from project <em>in extremis</em> can only be achieved by selling assets rather than company shares</td>
</tr>
<tr>
<td>• Returns can be higher given the higher risk being taken.</td>
<td>• Investment business cases considered by officers and members who may not have specific expertise in commercial property.</td>
</tr>
</tbody>
</table>

## Option C – The setting up a wholly owned company for the purposes of investment

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Business plan is in place, reviewed annually, and provides a strategic framework for all future asset acquisition</td>
<td>• Buying property for a return is a risk and losses are always possible</td>
</tr>
<tr>
<td>• Allows for acquisition outside of RBK boundary</td>
<td>• Companies are seen by some commentators as being too remote in governance terms</td>
</tr>
<tr>
<td>• Non-executive directors with specific talent in the business stream can be appointed to support the delivery of the business plan</td>
<td>• Rewards are generally lower reflecting the lower risk compared with other options</td>
</tr>
<tr>
<td>• Councillors sitting on the Board develop business expertise which can transfer to other projects</td>
<td>• More complex structure than buying directly on balance sheet</td>
</tr>
<tr>
<td>• Council remains in control always through a robust governance structure</td>
<td>• Structure requires executive support to maintain effective operation</td>
</tr>
<tr>
<td>• Board can appoint property expertise to drive out value from the portfolio</td>
<td>• Conflicts can arise with councillor/officer director appointees where those conflicts are not managed effectively.</td>
</tr>
</tbody>
</table>
• The outcome portfolio is agreed at business plan stage, so risks are mitigated through targeted acquisitions
• Procurement advantages - Company can be structured to operate outside of public procurement rules giving it a market competitiveness
• Risk in the portfolio is reduced through a spread of assets, sectors, and geography
• Exit from the project can be achieved through sale of shares rather than the assets themselves
• Is arguably a more ‘professionalised approach’ to asset buying akin to pension fund activity
• Quick acquisition and decision-making process consistent with the marketplace.

3.2 Consideration of each of these options against the objectives laid out in paragraph 2.1 have led to the conclusion that Option C should be the approach to be explored further in this business case. Even if this Option was adopted as the primary way forward the Council will still own its current portfolio which it might choose either to expand or contract as local opportunities arise and good asset management dictates. The consideration of Option C is therefore not an option that overrides all others but could be argued to compliment it after risks have been considered.

4.0 The Power to Trade and General power of Competence (See full legal advice in appended to the covering report to this business case)

4.1 The Council has two general powers granted under legislation that it may use to set up a company. Namely, the general power of competence contained within section 1, Localism Act 2011 (the 2011 Act) and the power to trade contained within section 95, Local Government Act 2003 (the 2003 Act).

4.2 Power to Trade - As stated above, section 95 Local Government Act 2003 gives the Council the power to trade but is subject to restrictions contained within Regulation 2 of the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 (the 2009 Order).

4.3 The 2009 Order states at Regulation 2 that "a best value authority" (such as the Council) is authorised to do, for any commercial purpose, anything which it is authorised to do for the purpose of carrying out its ordinary functions and will be required to prepare a business case supporting the exercise of the section 95 power and the council must approve this. The 2009 Order goes on to state that a best value authority shall recover the costs of accommodation, goods, services, staff or any other
thing that it supplies to a company in pursuance of any agreement or arrangement to facilitate the exercise of the power to trade.

4.4 **General power of competence** Local authorities have the power to do anything that an individual may do in accordance with section 1 of the 2011 Act. This is referred to as the "general power of competence", and a local authority may use this power for its own purpose, a commercial purpose or/and for the benefit of others. This power is however, subject to a number of limitations, including "pre-commencement limitations"; which confirms that any legal restrictions, prohibitions or limitations that existed prior to 18 February 2012 (when the 2011 Act came into force) will remain in force.

4.5 Whilst the provisions of section 1 of the 2011 Act as noted above provide the general power of competence, section 4 (2) 2011 Act states that where a local authority wants to exercise the general power for a commercial purpose, it must use a company. This has been reinforced by subsequent case law.

4.6 Section 2 of the 2011 Act limits the general power of competence where it 'overlaps' with a power which predates it. This means that where the Council relies on the general power of competence and there is the same power which pre-dates it and is subject to restrictions, then the general power of competence will be subject to these restrictions. An example of this is section 95 Local Government Act 2003, which gives the Council the power to trade, but is subject to restrictions contained within regulation 2 Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 (the **2009 Order**).

4.7 Reviewing both the power in the 2009 Order and the 2011 Act, Trowers and Hamlins LLP recommend that the general power of competence under section 1 of 2011 Act is used, establishing the company in accordance with section 4 of the 2011 Act. Whilst the requirement of a business plan is specific to the 2009 Order, it is of course prudent for the Council to prepare this in advance of setting up each company to show that the Council has given due regard to all relevant considerations.

5.0 **Anticipated Business Returns**

5.1 The business case has considered forecasts that show that the UK commercial property yields are anticipated to remain steady over the coming years in a range across all property. Individual classes of assets vary but follow a similar path. *(Table 3).*
Table 3 - Yield forecasts are anticipated to remain steady over the coming years

Source JLL June 2018

5.2 The expected company returns from the initial £68 million investment portfolio are:

- **<Redacted Figure> % net initial yield**
  - This represents the aggregated entry price of the portfolio of assets when fully invested
  - Net yield is defined as net of purchase costs including stamp duty and professional fees
  - Individual assets will show different return profiles ranging either side of the target initial yield reflecting varying risk profiles
  - The portfolio would be anticipated to contain between <REDACTED FIGURES> properties.

- **<Redacted Figure> net distribution**
  - This represents the indicative distribution yield to the Council net of all costs including finance
  - There are no income growth assumptions made as this is implicit in the purchase yield.

6.0 **Financial Strategy <Redacted Section>**

7.0 **Investment Strategy and Portfolio Mix – Asset ‘Type’ and Asset ‘Class’**

7.1 The timing, type and mix of investment acquired will be dependent upon both market conditions and opportunity. Whilst this business case sets out the initial investment criteria, it should be recognised that the investment strategy must be kept under review (annually) so that material changes in occupational markets or emerging investment markets may be accessed and decisions taken to exit or enter these. Over time therefore the initial makeup of the portfolio of assets will change.

7.2 JLL has been engaged to provide strategic investment advice and, in doing so, have categorised suggested portfolio’s individual assets into three principal asset types. *(Table 7)* The types are:
• **Core** - These assets are lower yielding, lower risk with limited added value

• **Core Plus** – These are higher yield, higher risk, but with added value opportunities

• **Opportunistic** – These are high risk but come with greater reward and are often development led.

*Table 7 - Target split recommended by JLL for the fund once fully invested*

<REDACTED TABLE 7>

7.3 Each of the categories has a ‘profile’ which has led to this weighting assessment. The profile for each of the three types, including liquidity considerations, is summarised as follows; <REDACTED LIST>

7.4 Beyond this asset type, balance in the portfolio is also achieved through a mix of asset classes. Although available opportunities determine the final portfolio and mix, JLL has considered how the fully invested fund asset allocation could be targeted. *(Table 8).* The principal asset classes targeted for investment are <REDACTED LIST>

7.5 The targeted geography is an area covering <REDACTED>. This offers the best opportunity of establishing a balanced portfolio swiftly and safely with a wider pool of assets available. JLL analysis shows that in the last two years Kingston Borough in isolation has seen 25 major commercial property transactions with a value of £285 million. The target area for this business case however has achieved 864 transactions in the same time frame with a value of £10.1 Billion.

*Table 8 – Sample asset class allocation for the fund once fully invested*

<REDACTED TABLE 8>

8.0 **Risk Mitigation**

8.1 There are, as with all commercial investments, risks associated with returns. The financial case should be read alongside the risk register in Appendix B, *(Table 9)* and *(Table 10)* below.

8.2 The investment criteria have been set specifically to mitigate risk in the portfolio. *(Table 9)* highlights the key investment criteria and the outcome associated with each risk should that attribute not be present.

*Table 9 – Investment Criteria Risk Mitigation*

<REDACTED TABLE 9>

8.3 In addition, there are other individual asset attributes which impact on business case risk and if not mitigated might have an indirect impact on performance over time. *(Table 10)* below identifies these.
8.4 There has been significant speculation in the financial press over the past months that CIPFA guidance will be strengthened to restrict, as far as possible, this type of investment activity using borrowing. Previous guidance has reminded Council’s about the restrictions of ‘borrowing in advance of need’ to invest in commercial ventures, although stopped short of restricting this activity in its entirety. Counsel advice has been sought on the current position a written opinion upon which has been supplied separately to this business case but should be read in conjunction with it.

9.0 Comparing returns with other investment opportunities

9.1 This investment decision is made against a background of historic low interest rates which, in part, has made the option for gearing these types of investments that much more attractive. This however won’t be the case even in the medium term and returns will be lower now than they might have been just a year or two ago.

9.2 The Council has been using cash balances to internally borrow for its capital programme as opposed to using more expensive external borrowing. This has driven the level of cash balances down. Any remaining cash balances are largely used for cashflow purposes and as such are kept relatively short dated and largely overnight. There are not therefore significant existing investments to compare this opportunity with. The Council does however hold small sums with Royal London and has invested in commercial property ‘on balance sheet’.

9.3 For comparison, as of June 2019, indicative yields for various other investments (including current investments already being funded by the Council) are identified in Table 11.

9.4 The Council acquired both Conquest House, an office and associated retail asset and Kingsmill, a mixed-use business and industrial asset in the Borough in 2017. These deliver gross yields of <REDACTED FIGURES>. The net return yielded to the Council after borrowing costs for each are <REDACTED FIGURES>. This business case indicates a slightly lower net yield at <REDACTED FIGURE> arguably reflecting the lower spread of risk in the investment.

10.0 Corporate Structure Legal Advice (See full legal advice appended to the covering report to this business case)

10.1 Local Authorities have general powers to acquire and dispose of land either for the Councils functions or for the benefit or improvement or development of their areas, but when trading or exercising their power of general competence for a commercial purpose this must be done through a company.
10.2 Trowers and Hamlin LLP have been appointed to support the Council with legal advice regarding the most appropriate delivery and governance framework for a Capital Investment Fund Company and other companies that the Council may want to set up in future.

10.3 The proposal is that the Council sets up a wholly-owned company ‘Holdco’ or parent company (working name RBK Holdings Ltd) that would hold shares in this and other subsidiaries it might set up in future. Day to day oversight of the holding company would be undertaken on behalf of the Council by a Shareholders Committee populated by members of the Council. Table 12 shows a graphic representation of the structure.

10.4 Although this structure seems at first sight to be complex, in fact it affords maximum flexibility for the Council and is highly resilient to potential political, corporate, constitutional or governance changes. This is because shares in companies can be transferred to other parties (such as another local authority, a private sector investor, employees), assets and potential liabilities are "hived off" within separate legal entities, companies can be wound up in the event of a desired exit and new subsidiary companies can be established relatively quickly to fulfil different objectives. If not trading for ‘public purpose’ there can be procurement advantages and companies can also be merged if it is felt desirable to amalgamate/consolidate operations.

![Diagram of structure]

Table 12

10.5 **Incorporated group structure** – The suggested structure is a group corporate structure with a holding company and separate subsidiaries and is considered the most appropriate given the multiplicity of objectives RBK wishes to achieve. This, they advise, will help ensure clarity of purpose, more focused business plans, increased resilience and better legal compliance in terms of separation of statutory functions, the ability to separate commercial from social policy objectives and facilitate risk management.
10.6 **Public procurement implications for the proposed structure** - RBK will be familiar with the public procurement rules in the form of the UK Public Contracts Regulations 2015 (PCR) which implement the European Public Procurement Directive 2014. This means that the Council (as a contracting authority) and any company classified as a "body governed by public law" must generally advertise in OJEU and competitively tender public contracts for supplies, services, works, works concessions and services concessions above the relevant applicable contract value thresholds unless a specific exemption can be proven.

10.7 It is possible to establish a Council owned or controlled company which is not a "body governed by a public law" and hence the company does not itself need to comply with the PCR. "A body governed by public law" is defined in PCR Regulation 2(1) as an entity which has the following characteristics: -

(a) established for the specific purpose of meeting needs in the general interest, not having an industrial or commercial character;

(b) having legal personality; and

(c) having any one of the following characteristics: -

(i) **financed**, for the most part, by the State, regional or local authorities (e.g. the Council), or other bodies governed by public law; and/or

(ii) subject to **management supervision** by those authorities or bodies; and/or

(iii) having an administrative, managerial or supervisory **board, more than half of whose members are appointed by the State**, regional or local authorities (e.g. the Council), or by other bodies governed by public law.

10.8 If the relevant company were to meet the requirements (as set out in (a), (b) and any one of (i) or (ii) or (iii) (c) above) of a body governed by public law, then that company would be considered to be a ‘contracting authority’ and would have to advertise and competitively tender for its works, service and supply contracts in OJEU and follow the PCR.

10.9 In terms of the recommended structure, a holding company could be established as a "body governed by public law" and hence subject to the PCR. The holding company could then hold the property investment subsidiary which is established for commercial purposes/having commercial character (and therefore is not a body governed by public law and not subject to the PCR). This would leave the company with the advantage of having the same legal position in procuring services as its market competitor.
11.0 Appointment of Council Directors and preventing conflicts of interest

11.1 Elected members who act as Council-appointed company directors would not be entitled to remuneration above and beyond normal members' allowances. It would be advisable and is proposed within the emerging business case for the venture, to appoint one or more non-executive directors to the boards who have relevant experience in the relevant business sectors: i.e. commercial property investment, if they are not elected members they can receive remuneration.

11.2 The Council's participation in a company inevitably gives rise to governance issues to ensure adequate checks and balances to ensure public money is being wisely spent and there is reasonable accountability and transparency in relation to the company's business whilst not unduly hampering the company's need to act commercially.

11.3 Council-appointed directors (especially if they are officers and above all, if they are elected members) should be aware that their position as company director can place them in a position of potential personal or professional conflict of interest with their duties as an employee/elected member of the Council.

11.4 Company directors are under a personal statutory duty to act in the best interests of the company (rather than the interests of the entity who appointed them or any individual shareholder) and company directors may sometimes be under confidentiality obligations pursuant to non-disclosure agreements in respect of company transactions. This can put an individual who is a Council-appointed director in a difficult position.

11.5 Typical examples are where that individual who is a company director is also involved in making decisions or recommendations about planning applications (for example either as a member of the development control committee or an officer advising that committee). Where such an individual has a conflict of interest then this can lead to potential personal and (in the case of a disclosable pecuniary interest) criminal liability.

11.6 Training will be given by the Council's legal advisors to all new Directors as part of an induction process prior to any trading commencing.

12.0 Shareholder's or Investor's Committee

12.1 The potential for establishing a Shareholder's Committee has been explored to replace the Holding Company function and provide day to day oversight of trading company activity.

12.2 Although this could ensure that the company is delivering on its business plan and holds the company/companies to account for a return on the Council's investment, it could also extend the practical process for investment and make the company less competitive in the marketplace. In addition, the role could, in the process, be conflated with the Council's role as a commissioner or purchaser of services from the
company which is separate and, in some instances, may even potentially conflict with the shareholder/investor role.

12.3 The Council in its capacity as shareholder is subject to various duties and responsibilities including monitoring the performance of the companies it holds shares in and minimising any loss of shareholder value. Investors of public money and shareholders of companies owned by public bodies are accountable for taxpayers' money and must have in place clear procedures for evaluating the performance of an investee company and demonstrating value for money.

12.4 The following table *(Table 13)* summarise the points covered in this report into three options and then by advantages and disadvantages. The options are:

- Shareholders Committee and Direct Council subsidiary model
- Holding Company with subsidiary model
- Holding Company with subsidiary model and oversight Shareholders committee.

<table>
<thead>
<tr>
<th>Option 1 - Shareholders Committee and subsidiary model</th>
<th>Option 2 - Holding Company with subsidiary model</th>
<th>Option 3 - Holding Company with subsidiary model with oversight Shareholders Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td><strong>Advantages</strong></td>
<td><strong>Advantages</strong></td>
</tr>
<tr>
<td>Council maintains responsibility for approving capital financing for the investment and approving its business plan annually. Shareholder Committee has direct control over the company appoints/dismisses all Directors. Could be considered by observers to exact the control that should be expected over a Council owned commercial entity.</td>
<td>Council maintains responsibility for approving capital financing for the investment and approving its business plan annually. Council has direct control over the holding company and appoints/dismisses all Directors. The Holding Company is not constituted as a Council Committee so can act upon its authority under the approved business plan swiftly and maintain commercial advantage. A Holding Company could be established as a &quot;body governed by public law&quot; and hence subject to the PCR.</td>
<td>Council maintains responsibility for approving capital financing for the investment and approving its business plan annually. Council has direct control over the holding company and appoints/dismisses all Directors. The Holding Company is not constituted as a Council Committee so can act upon its authority under the approved business plan swiftly and maintain commercial advantage. A Holding Company could be established as a &quot;body governed by public law&quot; and hence subject to the PCR.</td>
</tr>
</tbody>
</table>
and hence subject to the PCR. The holding company could then have its investment subsidiary which is established for commercial purposes/having commercial character (and therefore is not a body governed by public law and not subject to the PCR).

A Shareholders Committee, ‘the eyes and ears’ of the Council coupled with a commercial Holding Company to enact the approved business provides governance oversight and commercial purpose with clearly defined responsibilities.

### Disadvantages

| Shareholder Committee will be responsible and has direct control for releasing funds as assets for acquisition arise. The nature of its role as both a Council Committee and commercial lead may cause conflict for those sitting on it. The necessary governance surrounding Council Committees may inevitably result in delays in the commercial process and put the trading company at a trading disadvantage. | A Holding company with direct oversight for the Council might not be considered by observers to exact the control that should be expected over a Council owned commercial entity despite directors being elected members. | More complex than options one and two with increased levels of reporting. Possible duplication. |

**Table 13**

12.4 It is proposed therefore that the Council does appoint a Shareholder Committee but instead of *replacing* the Holding Company function, is put in place by the Council to provide regular oversight in a manner that may be less effective if undertaken by full Council itself. The structure allows for strong oversight by a Shareholders Committee, the release of trading funds by a Holding Company to the Capital Investment Fund Company when needed, but at the same time allows this company to undertake its activities promptly and compete in its chosen market.
12.5 The Council’s Shareholders Committee would be an ‘eyes and ears’ Committee, populated by elected Members only constituted as other Committees of the Council and appointed to as per the Council’s constitution. The Committee would adopt the Institutional Shareholders’ Committee’s Statement of Principles in relation to the companies and establish a work programme which:

- Regularly monitors the performance of all Council companies
- Establishes timescales to facilitate the regular dialogue with investee companies
- Sets out triggers where it will intervene (e.g. reappoint directors if there is no progress against the Business Plan for say 1 or 2 years, or if the company is dormant)
- Evaluate the impact of the company
- Set out a clear policy on discharge of responsibilities
- Timetable public reports on how the companies are performing against their business plan.

12.6 The Council should ensure this Committee incorporates an annual audit framework which seeks information from companies in which the Council is a shareholder or has an investment. This information should at the very least, comprise the annual accounts, reports and statements that are required under the Companies Act 2006.

12.7 The Holding Company will be populated solely by directors who are also elected Members.

12.8 The selection of Directors will be based on a comprehensive skills and experience evaluation process which will seek to appoint based on skill and experience. Ideally all elected members would be considered for these roles if they have an interest, the aim being to select competent Directors from the widest pool to maximise the opportunity for trading success. It might also be appropriate to select a company secretary (although not a legal requirement) from SLT to support the Board. This shouldn’t however be an officer holding a statutory role.

12.9 It is anticipated that the following appointments will be necessary for the Holding Company Board; (A role profile developed for the role is attached as Appendix C1)

- Three Elected Members
- A member of the senior officer team to provide executive support.

12.10 The following appointments will be necessary for the ‘Guildhall Capital’ Company Board; (A role profile for the role is attached as Appendix C2)

- Two Elected Members from the Council
- Three Independent Non-Executive Directors with specialist commercial property experience (Remunerated).
13.0 VAT Implications for the various entities within the group

13.1 The Council benefits from a favourable VAT regime which is not applicable to Holdco or the subsidiaries. Trowers were asked to comment on the VAT implications for each entity within the group.

13.2 In broad terms, Trowers would expect the subsidiary investing in commercial property to be in a full VAT recovery position i.e. it should be able to recover all of the VAT it incurs on land acquisitions, construction, fees etc. This is on the basis that it opts to tax each property it acquires which is common for commercial property. They would also expect it to be able to acquire most let properties without paying VAT under the transfer of going concern provisions (which should save SDLT as SDLT is payable on the purchase price plus VAT).

14.0 Summary and Conclusions

14.1 This business case, in summary, indicates reasonable returns, once fully invested of up to £1.4m in earlier years depending on the financing strategy progressed which compares favourably with existing and alternative investments, after reasonable mitigations in risk associated with the venture. The variable, as with all geared investments, is the cost of borrowing, treatment of MRP and equity. The various options for this are presented in Section 6.0 of this business case. With low borrowing costs (albeit rising) and access to finance, the conditions are currently reasonably favourable for such an investment although not as advantageous as they were only a year or two ago.

14.2 This business case is predicated on appointing experienced and remunerated non-executive directors to the trading Board, with a track record in the commercial property industry. The strength of the outcome will be based upon the competent and professional future management of the fund, robust acquisition choices and a coherent process for acting and acquiring assets quickly once identified. The appointment of acquisition support and a fund manager would be undertaken by the appointed Board and that Board appointed through a robust skills audit and external selection process.

14.3 The appropriate balance of political membership, executive support and independent non-executive directors is a key decision in ensuring optimum performance. Should this business case be approved the next stage is the development of a specific business plan for approval by Council, based upon this business case, which will be the fixed basis upon which the company will be delegated to trade. The target for commencing trading is from September 2019.

- An agreed financing model with cashflow forecasts
- Specific taxation advice
- Skills audit process and the appointment of Directors
- Final review of Risk and Business Strategy prior to trading
- Governance, delegations and risk/performance reporting policies
• A linking of the financial returns generated with wider projects as outlined in the Council’s investment policy
Glossary of terms

**All risks yield** - The return an investor seeks, after costs, taking account of all aspects of the property, and economic assumptions. Essentially the reciprocal of “Years Purchase” – the number of years’ nominal rental income needed to recover purchase price x 100%.

**Balanced Portfolio** – These are the assets that the company will hold in a variety of sectors, such as retail, industrial, office for example. The mix ensures that no one asset will place undue risk on the portfolio as a whole.

**Book Value** – The value of an asset as held on the Council’s balance sheet and reviewed each year.

**Capital Invest Fund Company** – This is the investment company that will own assets on behalf of its owner RBK Council.

**FRI Lease** - Tenant is fully responsible for repairs, insurance and all property costs i.e. landlord receives rent and need not deduct anything whilst lease is in place. Repairs and maintenance are recovered via a service charge for multi-let properties.

**Internal Rate of Return (IRR)** - A return calculation or projection based on a cash flow of income streams and costs over a set period. Generally calculated on a 5 or 10-year basis, with specific assumptions on value growth, costs and occupancy.

**Lot Size** – The price that would be paid for an individual asset.

**Net Equivalent Yield** - A time weighted average return (allowing for acquisition costs) interpolating between net initial yield and net reversionary yield. A useful tool to contrast assets with differing rent review patterns.

**Net Initial Yield** - The return to an investor after allowing for deduction of acquisition costs – namely property advisors, legal fees and stamp duty.

**Net Reversionary Yield** - The return that will accrue to an investor in the future on the basis of an expected rental increase (due to rise in the market) after allowance for acquisition costs.

**Upwards only rent review** - Rents are reviewed at intervals during the lease, often 5 years – even if the market rental value has fallen, the rent payable is in lockstep – it cannot go down, only up if the market has risen.

**Weighted Average Unexpired Lease Term (WAULT)** – The average remaining life of leases within the portfolios.

**Yield** – The income returns from a property in ownership. The calculation is Annual Income received, divided by Property Value, multiplied by 100 (expressed as a percentage).
Appendix A – 'Guildhall Capital Ltd' - High level Financial Summary Year 1 of full investment

Appendix B – Summary Risk Register (To be read in conjunction with Section 8.0)

Appendix C – Company Director Role Profiles

- C1 – Holding Company Board Director Role Profile
- C2 – ‘Guildhall Capital Ltd’ Board Director Role Profile
REDACTED APPENDIX A - High level Financial Summary Year 1 of full investment

REDACTED APPENDIX B - Summary Risk Register
# APPENDIX C1 – Holding Company Board Director Role Profile

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Skills/Knowledge/Experience</th>
<th>Behaviours</th>
</tr>
</thead>
</table>
| To act on behalf of Royal Borough of Kingston upon Thames and support the activities in, and hold the trading Boards to account, for the activities approved by the Council in subsidiary business plans. | ♦ Knowledge of property, regeneration and asset management and the Council's asset and investment ambitions.  
♦ Ability to formulate short and long-term objectives for the company.  
♦ Ability to scrutinise, critically appraise and approve business plans and provide constructive challenge in their development.  
♦ Ability to agree annual budgets for both revenue and capital expenditure and approve necessary policy that drives the outcomes set within the business plan and underlying strategies.  
♦ Ability to review and monitor performance data and ensure that management information provided is sufficient to enable the parent Council to be confident in its investment.  
♦ Ability to understand effective controls and risk management.  
♦ Ability to enhance the reputation and image of the company by representing it as an ambassador at key events both internally and externally. | ♦ To uphold the values and objectives of the company and its parent Council and maintain an understanding of its role in providing support for delivering asset and investment strategy ambitions.  
♦ Uphold core policies including the code of conduct, delegated authorities and financial regulations.  
♦ Ensure an understanding of the constitutional and legislative powers as they relate to the company and act within them.  
♦ Contribute and share responsibility for Board decisions, including a duty to exercise reasonable care, skill and independent judgement.  
♦ Prepare for and attend meetings any training sessions and other events.  
♦ Attend and participate in reviews linked to individual performance and that of the whole Board.  
♦ Declare any relevant interests and avoid conflicts of interest.  
♦ Respect confidentiality of information.  
♦ Uphold the adopted code of Governance. |
APPENDIX C2 – ‘Guildhall Capital Ltd’ Board Director Role Profile

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Skills/Knowledge/Experience</th>
<th>Behaviours</th>
</tr>
</thead>
</table>
| Undertake property investment activity on behalf of the shareholder and in doing so generate a revenue income to be used to support the front-line service ambitions of the Royal Borough of Kingston upon Thames. | ✷ Knowledge of property sector investment and ability to critically appraise investment opportunities and the returns and risks inherent in such investments. *  
✦ Ability to drive business direction as set by the group parent company, formulate short and long-term objectives for successful commercial property investment. *  
✦ Ability to drive the future development of the business plan and provide constructive challenge to the group parent company setting it.  
✦ Ability to agree annual budgets for both revenue and capital expenditure and approve necessary policy that drives the outcomes set within the business plan and underlying strategies.  
✦ Ability to review and monitor property asset performance data and ensure that management information provided is sufficient to enable the group parent company to be confident in its investment. *  
✦ Ability to ensure a framework of prudent and effective controls, which enable risk to be identified, assessed and managed.  
✦ Ability to enhance the reputation and image of the company by representing it as an ambassador at key events both internally and externally. | ✷ To uphold the values and objectives of the company and its owners and hold an understanding of its role in providing profit for public service purpose.  
✦ Uphold core policies including the code of conduct, delegated authorities and financial regulations  
✦ Ensure an understanding of the constitutional and legislative powers as they relate to the company and act within them.  
✦ Contribute and share responsibility for Board decisions, including a duty to exercise reasonable care, skill and independent judgement.  
✦ Prepare for and attend meetings any training sessions and other events  
✦ Attend and participate in reviews linked to individual performance and that of the whole Board.  
✦ Declare any relevant interests and avoid conflicts of interest  
✦ Respect confidentiality of information  
✦ Uphold the adopted code of Governance |

*Desirable for Council Elected Member Directors but Essential for externally appointed Directors
By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.
By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted
By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted