North Somerset Council

REPORT TO THE EXECUTIVE

DATE OF MEETING: 5TH FEBRUARY 2019

SUBJECT OF REPORT: CAPITAL BUDGET 2019/20 AND MEDIUM-TERM CAPITAL STRATEGY

TOWN OR PARISH: ALL

OFFICER/MEMBER PRESENTING: INTERIM HEAD OF FINANCE

KEY DECISION: YES

RECOMMENDATIONS

The Executive are asked to:-

1) **Note** the capital resource forecast, as per Appendix 1

2) **Recommend to Council for approval the following**;

   i) the Capital Strategy 2019/20 to 2024/25 as per Appendix 1

   ii) an increase to the capital programme of £18.213m for a range of transport, housing, school and social care schemes as per Appendix 2

   iii) the substitution of £5.811m of funding from headroom resources allocated to North South Link with Accelerated Development Funding, once confirmation of the grant funding has been received

   iv) the Commercial Investment Strategy as per Appendix 3

3) **Delegate for approval** the detailed highways schemes to the Executive Member for Strategic Planning, Highways, Economic Development and Housing.

4) **Approve** the continuation of the following Capital Strategy principles;

   i) the principle of directly allocating 90% of certain grants to the school's estate, with the balance being pooled to deliver the wider environment,

   ii) the principle of directly allocating 90% of certain grants to highways maintenance, with the balance being pooled to deliver wider infrastructure and regeneration objectives

5) **Note** the submission of the HIF bid

1. SUMMARY OF REPORT

The capital strategy outlines North Somerset Councils approach to capital investment over the medium to long term, matching service requirements and Council priorities with Asset requirements. The Capital Strategy is closely linked to:

- The Medium Term Financial Strategy (MTFP)
- Corporate Plan
- The Local Transport Plan
- The Capital Budget
- The Treasury Management Strategy
- Asset Management Plans
- Commercial Investment Strategy

2. POLICY

The Prudential Code for Capital Finance in Local Authorities was developed by CIPFA to support local authorities in taking decisions in capital investments. Key objectives within this code are to ensure that local authorities capital investment plans are affordable prudent and sustainable, that treasury management decisions are taken in accordance with good professional practice and that local strategic planning, asset management planning and proper option appraisal are supported.

This guidance was revised in 2017 following a consultation by CIPFA on proposed changes to the framework. This included the introduction of the requirement to approve an annual capital strategy as part of the budget setting process. The purpose being to demonstrate that investment decisions and capital expenditure is in line with service objectives. Changes were also proposed to the prudential indicators and revisions made to the minimum revenue provision. The updated code was issued in December 2017 with a requirement for its implementation in 2019/20.

3. THE COUNCIL'S VISION, PRIORITIES AND LOCAL CONTEXT

<u>Prosperity and opportunity</u>

- Drive growth in North Somerset economy and local jobs
- Ensure that all our town centres are thriving
- Enable young people to fulfil their potential
- Ensure that all our communities share in the prosperity and employment growth

<u>Health and wellbeing</u>

- Enable residents to make healthy choices and promote active lifestyles which reduce ill-health and increase independence
- Support families to give their children the best start in life
- Commission or provide quality health and care services, which deliver dignity, safety and choice

Quality Places

- Enable sustainable housing growth which protects our natural and built environment and the special character of our villages.
- Build and sustain great places to live and visit – vibrant, accessible and safe
- Empower people to contribute to their community and communities to provide their own solution

The population of North Somerset Council is projected to grow from 210,000 people in 2015 to 243,000 by 2031.

There are over 16,000 employers in North Somerset, mostly small businesses, with the vast majority employing less than 10 people.

North Somerset is classified as 'urban with significant rural' by the ONS, with almost 40% of residents living in rural communities or 'rural hub towns' which include Clevedon and Nailsea. Weston-super-Mare is the third largest settlement ibn the West of England with significant expansion planned.

The geography of the area brings risk of flooding, particularly to the 12% of the district on the floodplain. This risk is exacerbated by the likelihood of more frequent extreme weather events as a result of climate change.

The housing Target for North Somerset council has been set at 20,985, new homes between 2006 and 2026.

The number of visitors has been increasing, with over eight million visits to the area in 2014 and visitors spending over £350 million.

4. CAPITAL STRATEGY

Introduction & General Principles for Capital Planning

The purpose of the capital strategy is to link the council's priorities and service requirements with its capital investment decisions. The aim is to provide a clear and concise view of how capital investment decisions and ultimately capital expenditure is financed and how treasury management activities contribute to service delivery and the impact upon future sustainability.

The council currently has a capital programme which totals £125.340m for the 5 year period starting 2019/20, excluding the proposals within this report This includes major infrastructure within North Somerset such as North South Link, Foodworks, Locking Parklands Primary School and MetroWest Phase 1. The Council will continue to work within the confines of limited resources and with its partners to achieve value for money whilst delivering improved outcomes for residents.

There are some general strategic principles underlying capital planning for all services. These are to:

- Integrate capital planning into the council's overall strategic planning, both in general and as part of the Corporate Plan and Budget and

the Long-Term Financial Strategy
- Maximise external funding and supplement this with the Council's own resources where appropriate, especially where external funding supports the Council's priorities
- Procure the use of capital assets where this is affordable and delivers best value for money to the Council, including a robust process for the appraisal and approval of capital projects and programmes
- Work with partners, including the community, businesses and other parts of the public and voluntary sector, whilst retaining clear lines of accountability and responsibility
- Relate capital resources and expenditure planning to asset planning.

Strategic Capital Priorities

The council's vision and priorities have shaped where capital investment has been made. The following projects and initiatives are examples of the council's current strategic priorities:
- Complete delivery of J21
- Complete delivery of a Food and Drink innovation centre
- Deliver Weston town centre regeneration
- Progress Portishead rail links
- Make Weston a university town
- Deliver projects to promote walking and cycling
- Implement a strategic approach to investment

Future strategic priorities:
- Garden Villages Agenda in support of bringing forward future residential developments
- Progress improvements to the M5/ A38 corridor which are needed for major housing growth plans.

Governance

Capital investment decisions are made in accordance with the council's financial regulations. On the 18th of July 2017 the council's financial regulations were updated and approved by full Council. These regulations set out the governance of budget setting, budget monitoring, financial administration and financial controls, as well as the procedure for approving capital expenditure as detailed below.

<u>Infrastructure and Investment Board</u>

The Infrastructure and Investment board provide recommendations to the Executive with regards to developing the Capital Strategy, the council's Asset management plan, the disposal programme and disposal policies as well as reviewing the s106 programme. The board are also responsible for monitoring and developing best practice in capital investment, disposals and asset management. Priorities are based on corporate priorities with options and investment appraisal based on the need to optimise investment and use of assets.

Each directorate has nominated representatives on the board which is currently chaired by the Interim Head of Finance.

Capital Programme Approvals

The approval of spend for inclusion within the capital programme is on a two-stage basis. With business cases approved by the Infrastructure and Investment board before decisions are then approved and signed off depending on the value of the project:

- Less than £0.50m - Director and S151 approval
- Greater than £0.50m and less than £1.0m – Director, S151 and Executive member
- Greater than £1.0m and less than £5m – The Executive
- Greater than £5m – Council

Council and the Executive

Council and the Executive are the key democratic decision-making bodies as per the Council's constitution. The Council approves the key policy documents and the capital programme as part of the Council's Policy and Budgetary Framework. The Executive recommends priorities, policy direction and the capital programme to the Council for approval. The Executive also approves new inclusions to the capital programme in line with the scheme of delegation and the financial regulations.

5. CAPITAL PROGRAMME

Introduction and General Principles

The financing of the council's capital requirements are met through several key documents including the Medium Term Financial Plan (MTFP), the Capital Programme and the Treasury Management Strategy. The MTFP sets out the revenue implications of any capital investment decisions, whilst the capital programme specifically looks at how capital resources are used to finance capital expenditure. The treasury management strategy is concerned with the management of financial resources to optimise liquidity and security whilst minimising the net cost of borrowing. It also sets the limits for long term borrowing and the Councils policy for the repayment of unsupported borrowing, the Minimum Revenue Provision (MRP).

Both the MTFP for the period 2019 to 2023 and the Treasury Management Strategy for 2019/20 have been reported to the February 2019 Council. Whilst the proposed Capital Programme for 2019/20 to 2023/24 can be found in appendices 2.

Capital Resources

When planning for the capital investment programme the council looks ahead beyond a single year and aims to forecast into the medium-term. The previous capital programme report, which was approved in February 2018, identified a capital resource forecast covering the period 2017/18 to 2022/23, of some £191.82m.
The revised forecast of capital resources for 2018/19 to 2023/24 now totals **£183.617m**, based on the latest assumptions, as set out in **Figure 1 below**.

Figure 1: Revised capital resource forecast as at February 2019:

Capital Income	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	TOTALS £000
Non ring-fenced grants	17,773	27,923	7,953	7,953	7,953	7,953	**77,508**
Non ring-fenced resources	10,966	1,600	525	2,220	2,220	2,220	**19,751**
Ring-fenced grants	12,250	34,314	29,596	0	0	0	**75,178**
Ring-fenced borrowing	0	0	0	0	0	0	**0**
Developer contributions	2,198	2,000	2,000	2,000	2,000	0	**10,198**
Total Capital Income	**43,187**	**65,837**	**40,074**	**12,173**	**12,173**	**10,173**	**183,617**

As noted above, it is important to recognise that these are only forecasts and are subject to risks, which increase the further ahead we project.

‘Headroom’ Resources

A large proportion of the capital resources identified above have already been allocated to approved projects. In addition, some of the ring-fenced grants and borrowing are only available for specific projects. If these projects are not undertaken then the funding will be withdrawn. This is a similar situation for many of the S106 receipts which can only be used for specific purposes.

Once these allocations are removed from the resource figure above, the balance available in each of the years is shown in below **Figure 2**:

Figure 2: ‘Unallocated’ five year capital resource forecast as at February 2019:

Capital Resources	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	TOTALS £000
Total Capital Income	43,187	65,346	39,583	12,173	12,173	10,173	**182,635**
Less approved or ring-fenced	36,117	70,772	43,081	11,035	11,035	9,035	**181,075**
Remaining Capital Resources	**7,070**	**-5,426**	**-3,498**	**1,138**	**1,138**	**1,138**	**1,560**

At the start of the 2018/19 financial year the projected balance of ‘headroom’ or unallocated capital resources was £2.166m. Over the past year, the Investment & Infrastructure Board (I&I) have considered the forecast capital resources for the next 5 years alongside the requirements for project funding. The Board have recommended various projects for approval by the Executive during the year, which has resulted in the allocation of headroom resource to these projects, and a consequence the headroom resources has reduced to £1.560m.

At the September 2018 Council £5.811m from headroom resources, including £4m of funding previously earmarked to fund the Development Company, was temporarily re assigned to North South Link until such time that an alternative funding source was obtained. Discussions are now underway regarding the award of Accelerated Development Funding in support of housing growth in the Locking Parklands area with Homes England. These discussions are expected to be concluded in early February and are expected to result in the award of £9.6m towards supporting infrastructure, including North South Link.

Council are asked to approve the switching of funding on this project from headroom resources for Accelerated Development Funding, subject to a signed grant agreement.

The I&I Board are therefore not recommending any additional allocations from this headroom balance within this report and will continue to monitor resources to ensure that the forecast levels are at least maintained, if not increased.

The forecast balance of £1.560m includes future asset sales, forecasted to be received in 2021/22 and 2022/23 which if not received, would require additional or replacement funding sources to be identified.

It is proposed that the resources are allocated as per the proposed investments in the capital programme in **Appendix 2.**

Capital Expenditure

The expenditure proposed in this report relates both to existing and new assets over the next 5 years and adds to expenditure previously approved by both the Executive and Council from a range of funding sources prior to and including the period 9 corporate monitor. This has been summarised in the table below.

Figure 3: Proposed Capital Programme:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	TOTALS £000
Existing Approvals	74,591	35,049	15,700	0	0	125,340
New Approvals	11,054	7,159	0	0	0	18,213
Total Proposed Capital Programme	**85,645**	**42,208**	**15,700**	**0**	**0**	**143,553**

6. COMMERCIAL INVESTMENT STRATEGY

The council's draft commercial investment strategy was approved by Council in July 2017 and updated in January 2019 following advice provided by Montagu Evans. The purpose being to acquire a portfolio of investments which generate a steady income and provide capital appreciation whilst contributing to the alleviation of service pressures and contribute to regeneration.

The strategy provides guidelines to aid investment decisions and create a balanced portfolio with weightings by sector and target yields above the cost of financing. Each investment is considered by the Property Investment Board (PIB) before seeking approval from Council under its own terms of reference.

Figure 4: Commercial investments:

	Value of Investment £000	Net Income per annum £000
North Worle District Centre	40.0	0.400
Sovereign Centre	31.0	0.550
Total Commercial Investments	**71.0**	**0.950**
Unallocated	29.0	
Total Capital Budget	**100.0**	

Figure 5: Financing of Commercial Investments:

	Long Term Borrowing £000	Long Term Lease £000
North Worle District Centre	40.0	0.0
Sovereign Centre	10.0	21.0
Total Commercial Investments	**50.0**	**21.0**

<u>Governance</u>

Recommendations on commercial investments are made by the Property Investment Board (PIB) in line with the agreed strategy. Its board members include the Leader, the Executive Member for HR, Asset Management, Capital Finance and Transformation, the Chief Executive, the S151 officer and the monitoring officer. Commercial investments are also capital expenditure and purchases will therefore be approved as part of the normal approval process for the capital programme.

7. RISK MANAGEMENT

Figure 6: Key Capital Strategy Risks

	Risk area	Risk Score Before Mitigation			Potential mitigation	Risk Score After Mitigation		
		P	I	S		P	I	S
1	Level of capital grants not as estimated, or discontinued.	4	5	20	Maintain good track record in delivery of projects, and effective links with LGA & other networks.	3	5	15
2	Level of capital grants affected by alternate uses of the grant following NSC prioritisation process.	4	4	16	Consider presentation of prioritisation process and use NSC non earmarked resources for alternate uses.	3	3	9
3	LTP Performance Reward grant not achieved at expected level.	2	3	6	Ensure criteria met and total spend at full govt grant level i.e. re-prioritise NSC element only.	2	3	6
4	Reduction in the level of Schools Mtce grant as schools transfer to academies, leaving those with possibly worse than average condition.	4	4	16	Effective monitoring of position and likely financial impact. Asset management planning to prioritise available funding.	4	3	12
5	Right to Buy Receipts lower than estimated	3	2	6	Effective monitoring and liaison with Alliance Homes.	3	2	6
6	Not achieving required capital receipts, or delay in receipts being achieved.	3	3	9	Maintain schedule – challenge ownership of council assets and only include lower risk disposals within projections.	3	3	9
7	Developer contributions may not meet full development needs.	5	5	25	Introducing new Community Infrastructure Levy, prioritisation of needs and additional funding sources.	4	4	16
8	Major Transport/ Infrastructure projects do not achieve full approval for funding	2	5	10	Maintain good track record in delivery of projects, and effective links with LEP.	1	5	5
9	Deterioration of currently held assets if sufficient funding not available e.g.	5	5	25	Asset management planning to prioritise available funding, and rationalisation of existing assets.	4	4	16

	schools, roads, offices, leisure assets etc							
10	Potential increase in revenue costs if DFG spend insufficient.	4	3	12	Effective monitoring of position and likely financial impact. Links with Better Care Fund.	3	3	9
11	Impact on revenue costs if insufficient capital investment	5	3	15	Asset management planning to prioritise available funding	4	3	12
12	All resources for 5 years allocated, leaving nothing for projects which may not be ready yet.	4	4	16	Maintain headroom and encourage early development of pipeline projects	3	3	9
13	Project overspends within the overall programme may result in insufficient funding.	4	4	16	Effective monitoring of position and likely financial impact, holding of project contingencies within budgets and re-prioritisation where necessary.	3	4	12

Key: P = Probability / I = Impact / S = (Risk) Score

These risks will continue to change and evolve over the coming months and we will adapt the risk register and mitigation accordingly.

8. EQUALITY IMPLICATIONS

N/A

9. CORPORATE IMPLICATIONS

NA

10. OPTIONS CONSIDERED

NA

14. AUTHORS

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15. BACKGROUND PAPERS

Appendices
1 – Capital Strategy
2 – Capital Programme
3 – Commercial Investment Strategy

Each service has developed their own strategy in line with the Corporate Plan which sets out service priories over the next few years and identifies the services resource requirement, shaping the capital resources required in the capital programme to fund new assets and maintain existing ones. The capital strategy is therefore shaped by each service and set out in several key strategic documents.

Existing Assets

The suitability and condition of the council's existing assets to meet service requirements are reviewed through:

- **Corporate asset management plan** – The ongoing maintenance requirements of the council's main offices at Town Hall and Castlewood are managed through the Corporate Asset Management Plan and as per the September 2016 Executive report http://apps.n-somerset.gov.uk/cairo/docs/doc27556.pdf

  This includes portfolio management, estate management, energy efficiency and regeneration strategy

- **Highways asset management plan** – The Highways Asset Management Strategy sets out the process of asset management and the strategy for maintaining the council's highways infrastructure. The document sets out the principles for investment in the major asset types including carriageways, street lighting and traffic management and highways structures.

  http://www.n-somerset.gov.uk/wp-content/uploads/2018/07/highways-asset-management-strategy.pdf

  For investment in the management of highway assets we take an asset management approach. This balances the need to repair life expired roads/ assets in poor condition with more preventive measures which extend the life of existing assets. We use surveys to provide information on the condition of assets and supplement this with data relating to road safety, traffic volumes, community facilities, customer complaints etc to help determine the final priority of resources. We complete an annual self-assessment for the Department for Transport which checks our approach against 22 criteria. Our most recent assessment showed that we were a level 3 authority for asset management which is the highest level possible.

New Assets

- **Schools programme** –Education Provision in North Somerset ~ A Commissioning Strategy 2018 – 2021 is the policy base for local decisions in relation to school place planning and the school's capital programme. This strategy was approved by the council's Executive in September 2018 following a period of public consultation - http://www.n-somerset.gov.uk/wp-content/uploads/2018/09/Education-Provision-in-North-Somerset-a-commissioning-strategy.pdf The document provides the strategic overview of how North Somerset Council, acting as the local 'Children's Champion', and working in partnership with others, will secure sufficient suitable education and training to meet the reasonable needs of all children and young people in its area. The council works with its partners (schools, academies, health and care professionals) with the aim of securing sufficient places for children and young people resident in North Somerset.

Capital allocations come to the council from a range of sources including: Basic Need; Targeted Basic Need; s106 contributions/Community Infrastructure Levy (CIL) and Free School Bids. The Department for Education (DfE) may also allocate bespoke funding for priority areas as national priorities dictate. Whilst the Local Authority (LA) receives a Maintenance Allocation to cover urgent health and safety and condition needs of Community and Voluntary Controlled (VC) schools, and Voluntary Aided (VA) schools have been supported by the Locally Coordinated Voluntary Aided Programme (LCVAP), all schools have earmarked Devolved Capital paid to them to meet the improvement needs of their sites. Smaller academies/academy chains can bid for funds from the Academies Condition Improvement Fund whilst larger academy chains qualify for School Condition Allocations.

- **ICT replacement programme** – New software, ICT hardware and network requirements are identified through the ICT replacement programme in collaboration with the council's partnership with Agilisys.

- **Major projects** - Investment in major projects are drawn from the priorities identified in the Corporate Plan and Joint Local Transport Plan. These have been tested at a strategic level against plan objectives and also for deliverability and an initial value for money assessment. In many cases, investment in major projects requires external funding bids and so the criteria for these also influences the order in which projects are bought forward. The largest projects, particularly those above £5M are assessed in detail for value for money, following criteria set by Government, and a cost benefit ratio (BCR) is calculated to measure the return on investment (Benefits/ costs). Government determines that a BCR above 2 provides "high" value for money and is typically used as the minimum threshold for which projects will be funded. For large projects costing less than £5M a BCR is also frequently generated but often using a cheaper and more proportionate methodology. All of the major project currently being promoted or delivered by the council have a BCR above 2.

- **Better Care Fund** - An annual capital grant is received from Government to resource Disabled Facilities Grants (DFGs) and Social Care capital projects, as part of the Better Care Fund arrangements. DFGs fund adaptations to homes to support disabled people to live independently and their award is mandatory, subject to eligibility criteria being met. The resource requirements for DFGs is therefore demand led. Subject to the demand for DFGs a range of social care capital projects could be supported through the Government grant, including investment in new supported housing, assistive technology and other aids and adaptations. The council's Housing with Support Strategy and Housing Strategy set out priorities for investing in new supported housing

In order to prioritise future capital projects and develop the capital programme, the I&I Board need to turn the corporate plan priorities into a capital strategy, from which the capital programme priorities will be established.

New Approvals

In the last few months, the Investment & Infrastructure Board have considered the main areas requiring capital investment, and are recommending the following:

Schools Investment

We are currently in receipt of Schools Basic Need grant and Schools Capital Maintenance grant, with 90% of these grants being allocated directly to our school estate for refurbishment and expansions, along with other funding sources such as S106 contributions and specific grants.

The other 10% of these grants has been pooled with other resources in order to deliver the wider environment and achieve better outcomes (e.g. roads and other infrastructure serving the schools, and community halls that fulfil school needs etc).

Similarly 10% of the capital maintenance grant has also been pooled and prioritised across the whole asset base, in order to ensure maximum effectiveness of the use of these resources.

Where school buildings remain the responsibility of the council and essential works e.g. health and safety works, need to be progressed, if these cannot be covered within the 90% of resources available, then funding for these works will be considered against the overall prioritisation of these and other council projects.

Figure 1: Basic Need Grant:

Basic Need Grant Allocations	2018/19 £000	2019/20 £000	2020/21 £000	**TOTALS £000**
100% of Allocation	10,372	21,270	1,300	**31,642**
90 of Allocation for Schools	**9,335**	**19,143**	**1,170**	**28,478**

Figure 2: Capital Maintenance Grant:

Capital Maintenance Grant Allocation	2018/19 £000	2019/20 £000	2020/21 £000	**TOTALS £000**
100% of Allocation	TBA	TBA	TBA	**0**
90 of Allocation for Schools	**TBA**	**TBA**	**TBA**	**0**

At this time we do not yet have figures for Capital Maintenance for future years, although it should be noted that this grant will reduce as more schools become academies.

As can be seen in para 3.3 above, some of these grants have already been allocated to approved projects. Further work is now underway to identify and cost the next set of prioritised schools projects from within the remaining funding allocations and once this work is complete the additional projects will need approval to be added into the capital programme.

Baytree Special School Relocation

The council had agreed to work with the Inspiration Futures Trust to submit a Free School bid for a replacement Baytree Special School. Baytree Special School was to convert to academy status. The Trust is being disbanded but the need for an expanded and replacement Baytree Special School site is now critical. The council will need to cover the c£11.5m cost of a new school to meet the demand for existing and new pupils with the most complex of needs. This new provision, that will provide fit for purpose facilities for new pupils and help, over time, to reduce the need for expensive 'out of district' placements will need to be funded from our basic need allocation now that the opportunity for alternative government assistance is no longer available. The current Baytree Special School site will be retained and used to provide the extra places needed for pupils with more moderate learning needs, helping to meet the demand from North Somerset 's growing population. Whilst this will secure both primary and secondary places, the cost per place of specialist places far exceeds the cost per pupil place normally allocated for mainstream provision.

The forecast cost of £11.572m will be funded predominantly from the Basic Need allocation in both 2018/19 and 2019/20 with £0.0.42m in S106 funding. At this stage approval is sought for the pre-construction stage only. A separate approval at a later date will be required for contractual award and location.

The Executive is asked to recommend to Council for approval a £1.0m increase to the capital programme in 2019/20 for the pre-construction of Baytree Special School.

Breach Classes

Approval of £0.3m is sought for Breach classes to meet deficit in school places, where permanent demand is not sustainable or where sufficient resources to create permanent solutions are not available in 2019/20. This will be funded from the Basic Need Grant allocation.

The Executive is asked to recommend to Council for approval a £0.3m increase to the capital programme in 2019/20 for Breach Classes.

Schools Capital Maintenance

The 2019/20 Schools Capital Maintenance grant has not yet been announced. However, as this is affected by other factors including transfers to academy status, we are expecting this to be a lower allocation than in previous years. An 'in principle' budget is recommended for approval in the programme but will need to be amended once the figure is confirmed. This is currently estimated to be in the region of £0.381m.

The Executive is asked to recommend to Council for approval in 'principle' a £0.381m increase to the capital programme in 2019/20 for Statutory Compliance.

Highways Investment

The council previously made a commitment to spend £8m pa on highways for 5 years and this continues to be met through both capital and revenue investment in the road infrastructure. In line with the above policy for schools related grant funding, some 90% of the Local Transport Plan, (LTP) grant has been allocated directly to highways, whilst 10% has been pooled in order to fund the delivery of wider infrastructure and regeneration objectives although some of which, will involve investment in highway infrastructure.

At present only indicative allocations of LTP grant are known for 2019/20 onwards and these have been included within the current programme – the final allocations will be confirmed in the Spring of 2019 and will be updated in the Programme at that time.

As in previous years, the Executive are asked to delegate approval of the detailed highways schemes to the Executive Member for Strategic Planning, Highways, Economic Development and Housing.

Corporate Asset Management Plan.

The identified requirements of the council's Asset Management Plan (AMP), were reported to the executive on the 6th of September 2016 with the result that £400k p.a. of funding was 'provisionally' approved from headroom resources and included within the Programme, subject to further reports on the detailed programme.

The programme is currently under review with a view to centralising all repairs and maintenance budgets. **It is recommended that this budget remains provisionally approved until proposals have been presented to and approved by the I&I board.**

Better Care Fund, including Disabled Facilities Grants

Funding for Disabled Facilities Grants continues to be included within the Better Care Fund, (BCF) arrangements and as such they have particular requirements, which includes approval of the use of funding through the Health and Well-Being governance arrangements. The grant conditions require the funding is only spent on Disabled Facilities Grants and Social Care capital projects. As a result it would not be possible to re-direct such grants to other areas of spend and means that we therefore propose to continue to allocate 100% of this capital funding directly to Disabled Facilities Grants and Social Care projects.

The BCF capital allocation has not yet been announced for 2019/20, but the council expects to receive a similar increase to that in 2018/19 of about 8.6% - which would result in a forecast allocation of £2m. The current MTFP report includes an assumption that, as per last year, £300k of this BCF allocation will be utilised for capitalised spend on Aids and Adaptations in 2019/20 and will therefore need to be included within the capital programme. This will leave a balance of £1.7m to meet the projected demand for DFG's of some £1.5m with the remainder to be allocated towards other social care capital projects and any excess resource requirement for DFG's, depending on the emerging pressures and priorities.

It should also be noted that NHS England are in the process of reviewing the Better Care Fund and alternative business models with an announcement due to be made in the new year.

The Executive is asked to recommend to Council for approval a £0.300m increase to the capital programme in 2019/20 for £300k towards Aids and Adaptations and, and that once the total BCF allocation for 2019/210 is confirmed, to include £1.5m of this within the capital programme for DFG's, with the balance being earmarked for other social care projects and/or any emerging DFG pressures requiring separate approval at a later date.

Repurchase of Leasehold Properties 2019/20

There is a requirement under the terms of the leases of the council's sheltered accommodation to buy back the properties in certain circumstances. This repurchase is usually self-financing using the proceeds of the onward sale of the properties. A reserve is held to even out any cash flow issues that may arise from this process.

The Executive is asked to recommend to Council for approval a £1.50m increase to the capital programme in 2019/20 for Repurchase Leasehold Properties funded from capital receipts following the sale of properties.

MetroWest Phase 1

The Development Consent Order for MetroWest Rail Phase 1 is expected to submitted in April and will be reported separately to the February Council where approval will be sought to submit the application. Council is asked to approve a budget of £4.491m to support post submission costs during the examination period of the application. During this period costs could result from the imposition of requirements on the project by the planning inspectorate or through a legal challenge to the process.

This will be funded through the remaining MetroWest contingency of £4.491m funded from headroom resources until approval of LGF funding has been approved for draw down. A budget of £7.159m for 2020/21 is also sought in support of the DCO application. Approval will again be conditional on the ability to draw down the remaining LGF allocation.

A separate report will be reported to Council regarding MetroWest Rail Phase 1 regarding the budget and the DCO application.

The Executive is asked to recommend to Council for approval a £4.491m increase to the capital programme in 2019/20 and a provisional allocation of £7.159m in 2020/21 for MetroWest Rail Phase 1. This will be funded initially from the MetroWest contingency in headroom resources until approval of LGF funding has been received and subject to a separate report to Council.

A371 Safer Roads

The A371 is a road risk reduction scheme on the A371 between the Airport roundabout, Weston-Super-Mare and the A368 junction in Banwell. The route has been identified by the Road Safety Foundation as one of the 50 'A' roads where the risk of collisions causing deaths or serious injury is highest. To improve the safety of this section of A' road the DfT have awarded North Somerset Council with £0.982m of Grant funding towards road safety improvements.

The Executive is asked to recommend to Council for approval a £0.982m increase to the capital programme in 2019/20 for the Safer Roads scheme.

Winterstoke Road Bridge

Winterstoke Road bridge was built in 1943 to service an aeroplane factory during the second world war and is currently the responsibility of the MOD. The bridge is life expired and it is no longer economic to repair the bridge with replacement being the necessary course of action if the route is to be maintained. The bridge is located in an industrial area where a large number of heavy goods vehicles benefit from the use of carriageway. As a result it was necessary to impose a 7.5T weight restriction in December 2018 for the safety of highway users.

It has been estimated that a replacement bridge will cost in the region of £13m. Discussions are progressing with the MOD regarding the funding of a replacement bridge and an initial commitment of £7m has been made to progress the scheme. At this stage approval is sought to progress the design work until the remaining funding has been secured to minimise the risk of closure. This will be initially funded from the LTP programme until agreement has been reached with the MOD.

The Executive is asked to recommend to Council for approval a £0.400m increase to the capital programme in 2019/20 for the Wintersoke Road Bridge design.

Existing Approvals

It should also be noted that one scheme of note has recently been approved by the December 2018 Executive for inclusion within the 2019/20 Capital Programme.

North South Link

Following the September 2018 Council report an additional £8.530m was approved for addition into the capital programme and funded from a variety of sources, including £5.811m from headroom resources.

Discussions are underway regarding the award of Accelerated Development Funding in support of housing growth in the Locking Parklands area with Homes England. These discussions are expected to be concluded in early February and are expected to result in the award of £9.6m towards supporting infrastructure, including North South Link.

The Executive are asked to recommend to Council the approval of the switching of funding from headroom resources for Accelerated Development Funding, subject to a signed grant agreement.

Street Lighting

On the 4th of December a report was presented to the executive to approve £4.7m for inclusion within the capital programme associated with the replacement of street lamps with a more energy efficient technology and to the council's existing stock of high risk street light columns nearing the end of life. This will be funded via unsupported borrowing and repaid over a period of 2 years with work due to commence in November 2019.

Tropicana Phase 3 Electric Supply

An increased power supply is sought at the Tropicana from its current 150 KVA to 400 KVA to appeal to major event organisers and attract additional investment. The proposal also supports the bid made to the Coastal Communities Fund for an arena on the site.

Approval for £0.149m has been received and funded from revenue resources generated on site.

Summary of Recommended Projects for Inclusion in the Capital Programme

The tables below summarise the recommendations as detailed within the above paragraphs, and also provides information in respect of the associated capital funding sources.

Figure 3: Increases to the Capital Programme:

Additions to the Capital Programme	2019/20 £000	2020/21 £000	2021/22 £000	**TOTALS £000**
Full Approval				
Baytree Special School Feasibility	1,000			**1,000**
Breach Classes	300			**300**
Disabled Facilities Grant	1,500			**1,500**
Aids and Adaptations Allocation	300			**300**
Re Purchase Leasehold Properties	1,500			**1,500**
A371 Safer Roads	982			**982**
Winterstoke Road Bridge Design	400			**400**
Full Approval Total	**5,982**	**0**	**0**	**5,982**
In Principle Allocation (subject to further approval stages)				
MetroWest Rail Phase 1	4,491	7,159		**11,650**
Social Care Projects/ DFG pressures	200			**200**
Statutory Compliance	381			**381**
In Principle Allocation Total	5,072	7,159		**12,231**
Total Additions to the Programme	**11,054**	**7,159**	**0**	**18,213**

Figure 4: Funding of the Increases to the Capital Programme

Funding of the Capital Programme Additions	2019/20 £000	2020/21 £000	2021/22 £000	**TOTALS £000**
Earmarked Grants	9,554	7,159		**16,713**
Unsupported Borrowing	0			**0**
Earmarked Capital Receipts	1,500			**1,500**
Total Additions to the Programme	**11,054**	**7,159**	**0**	**18,213**

Figure 5: Total Proposed Capital Programme

Capital Programme	2019/20 £000	2020/21 £000	2021/22 £000	**TOTALS £000**
Existing Approvals	74,591	35,048	15,700	**125,340**
New Approvals	11,054	7,159	0	**18,213**
Total Capital Programme	**85,645**	**42,208**	**15,700**	**143,553**

Future Approvals

Several schemes may be progressed over the coming months with several bids having been submitted and awaiting outcomes. These have been excluded from the capital programme and will be reported separately at the appropriate time to the Executive or Council.

Banwell Bypass and New W-S-M Secondary

A bid is in the process of being completed to access funding from the Housing and Infrastructure Fund (HIF) via the Homes and Communities Agency to support the cost of new physical infrastructure along the Banwell bypass. Including new schools and roads in support of housing growth in the area.

The bid will also include a proposal to support the cost of a new secondary school following the development of Weston Villages and the pressures on secondary school places in the area.

Weston to Clevedon cycle Route

A bid is currently being prepared for funding of £0.65m towards the cost of installing a cycle route between Clevedon and Weston-Super-Mare from the Regional Development Agency and the Department of Environment Fisheries and Rural Affairs. The route will connect the two towns with 1.4 kilometres of traffic free cycling and walking path ways via the area west of the M5 over the river Yeo.

Whilst there are several projects being considered to meet the council's regeneration aspirations, these are in the early stages of development, and as such, are not yet in a position to be recommended for inclusion within the capital programme. It is expected that some of these projects may come forward to the Executive for approval during the financial year.

Garden Villages

Following Executive approval in February 2016 and in September 2018 several sites were identified to be brought forward for residential development. As alternative to land after planning consent has been awarded alternative delivery methods such as partnerships or joint ventures are being explored. With the aim of speeding up delivery, meeting the targets of the joint special plan and sharing gains from the development of the sites in addition to that of a traditional land receipt.

Coastal Communities Bid

A full business case is being developed to seek funding of £1.1m from the Coastal Communities Fund for the cost of redeveloping and increasing capacity at the Tropicana. If successful the funding would enable the council to establish the Tropicana as a regional year-round arts, creative and entertainment hub, offering a diverse and successful range of theatre, music, educational and events programming, alongside seasonal attractions.

Prudential Indicators

The Prudential Code was updated in 2017 following consultation with local authorities to improve the transparency of investment decisions. Changes to the code include the requirement to produce a Capital Strategy and the inclusion of prudential indicators within the report to allow the reader to understand overall debt levels in conjunction with the capital programme and investment decisions and how this will be repaid. Whilst this is a good change, it should be noted that some of this information in also included within the Treasury Management Strategy report, considered elsewhere on the agenda. It is proposed that future reports combine both Capital and Treasury decisions.

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

Due to decisions taken in the past, the council currently has £199m borrowing at an average interest rate of 4.18% and £106 m treasury investments at an average rate of 1.07%.

Borrowing Strategy

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

Projected levels of the council's total outstanding debt (which comprises borrowing and leases) are compared with the capital financing requirement.

Figure 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement (£m)

	31/3/2018 Actual	31/3/2019 Forecast	31/3/2020 Budget	31/3/2021 Budget	31/3/2022 Budget
Debt (incl. leases)	164	207	238	280	288
Capital Financing Requirement	174	216	243	280	288

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the council expects to comply with this in the medium term.

Affordable borrowing limit

The council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Figure 7: Prudential Indicators: Authorised limit and operational boundary (£m)

	2018/19 Limit	2019/20 Limit	2020/21 Limit	2021/22 Limit
Authorised limit – borrowing	184	219	269	278
Authorised limit – leases	55	55	55	55
Authorised limit – total external debt	**239**	**274**	**324**	**333**
Operational boundary – borrowing	178	211	258	267
Operational boundary – leases	50	50	50	50
Operational boundary – total external debt	**228**	**261**	**308**	**317**

It is estimated that the current forecast level of long term borrowing for 2018/19 will be £207m (PWLB £156m, Ex Avon loan Debt £13.4m and £37.6m)

Investment strategy (Treasury)

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

The council’s policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the council may request its money back at short notice.

Figure 8: Treasury management investments (£m)

	31/3/2018 Actual	31/3/2019 Forecast	31/3/2020 Budget	31/3/2021 Budget	31/3/2022 Budget
Short-term investments	56	50	50	50	50
Long-term investments	10	10	10	10	10
TOTAL	**66**	**60**	**60**	**60**	**60**

Governance

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and senior staff, who must act in line with the treasury management strategy approved by Council. Reports on treasury management activity are presented to the audit and accounts committee. The audit and accounts committee is responsible for scrutinising treasury management decisions.

Liabilities

In addition to debt of £199m detailed above, the council is committed to making future payments to cover its pension fund deficit (valued at £232.7m).
Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by finance and reported to audit and accounts committee. New liabilities are reported to Audit and Accounts Committee and recommendations made to Council.

Revenue Budget Implications

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

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

	2017/18 forecast	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Financing costs (£m)	15.40	13.22	11.88	12.89	14.78	15.86
Proportion of net revenue stream	11.25%	8.54%	7.75%	8.46%	9.79%	10.31%

Knowledge and Skills

The council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.
Where council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The council currently employs Arlingclose Limited as treasury management advisers and Montague Evans as property consultants. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

COMMERCIAL INVESTMENT STRATEGY APPENDIX 3

Introduction

The original version of this document was prepared by Montagu Evans for North Somerset Council (NSC), its officers and its Members, for consideration at the Property Investment Board (PIB) meeting on 4th December 2017. The original version has now been reviewed and updated for approval by the PIB meeting on 15th January 2019.

The recommendations contained in this reviewed strategy meet the requirements of NSC as detailed in the documentation issued under Appendix One to the Invitation to Tender for the appointment of Investment Consultants, including draft investment criteria contained within the report to Council dated 18 July 2017 but also pick up subsequent discussions at PIB meetings.

The strategy continues to be two-limbed which considers:

i) a traditional property investment strategy, suitably diversified in terms of sectors, geography, lot size and yield profile, and with asset-specific guidelines to be displayed in sector-specific investment criteria checklists; and

ii) an inward investment strategy that is underpinned by the characteristics of Limb i but which considers with a greater degree of flexibility, investments within the geography of North Somerset Council's jurisdiction.

For the purposes of this strategy, the initial portfolio size for Limb i is £50m. Limb ii will be characterised by the particular opportunities presented to it. However, for the purposes of this strategy, it is assumed a total portfolio size of up to £100m is required given the specific assets currently under review. Assets under consideration for Limb i will be subject to an investment criterion matching matrix. These will provide a quick reference checklist of characteristics such as whether a property is let on FRI terms, flood risk and covenant strength. These matrices are attached at Appendix 1 for reference. Potential investments under Limb ii will additionally be subject to a wider, extra-investment business case which considers value-add characteristics such as regeneration, job creation and economic development.

The two limbs of the strategy are not mutually exclusive. Principally, they seek to serve the same purpose: creating alternative revenue sources for NSC in the context of diminishing central government grants and the 2020 target of self- sufficiency. They also seek to achieve the concurrent objective of capital appreciation during the hold period through active asset management.

The difference is the activity of the two limbs, with Limb i being relatively passive and seeking investments that can be held for a period before ultimately being traded, subject to asset performance, whereas Limb ii would likely involve more active asset management and will include in the portfolio opportunities to invest directly within the NSC jurisdiction into assets which are well-known to the council and which could carry longer term strategic value.
This would also carry a secondary benefit of enabling NSC to deliver on wider ambitions such as regeneration, public realm improvements and spatial-planning initiatives. However, as per the 'Background' section of Appendix A, this secondary benefit would

be a separate entity to the overall aim of deriving income and capital value appreciation through ownership of real estate.

Where yields are referenced in this strategy, they are net of purchaser’s costs and exclude the cost of debt.

Investment Guidelines Limb i

These guidelines are designed to aid investment decisions and create a balanced portfolio which manages risk through diversification, careful selection and recommendation of assets and active management of the portfolio, rebalancing as necessary to reflect changing market conditions.

The investment guidelines expand on the inherent flexibility outlined in NSC’s original guidelines.

The portfolio will be actively managed to ensure it retains a suitable level of diversification to maintain its defensive position. Quarterly updates will be provided to PIB detailing the performance and current weighting. Similarly, each new investment recommended to PIB will include a model illustrating how it will impact the portfolio balance to ensure that oversight and clarity is available to NSC at both regular and ad hoc intervals.

Limb i Structure

Category	Target Weighting	Target Yield	Asset Profile
Prime	50% (£25m)	5%+	Let on medium to long leases to good covenants. Well located, good quality assets. High liquidity. Preference for long-let accommodation but not essential. *Example*: Single-let *DHL industrial warehouse let for 15 years with RPI-linked uplifts.*

Good Secondary	50% (£25m)	6%+	A mixture of long and short across single or multi-let assets with a variety of tenant profiles. Good asset management opportunities to increase value. Medium-to-high liquidity. *Example: Well-let, multi-tenanted town centre office with varying lease expiry dates and some asset management opportunities.*

Sector Weightings

Sector	Target Weighting	Asset Profile
Industrial, Warehouses and Logistics	40% (£20m)	Includes both single let and multi let industrial estates, logistics warehouses and trade parks.
Retail Warehouses/Supermarkets/ High Street. Leisure schemes such as hotels, restaurants etc.	40% (£20m)	Solus warehouses or small terrace/park. High Street units in regional centres or strong secondary towns. Small in town or out of town supermarkets such as Sainsbury's Local or Aldi.
Offices, Alternatives and Other	20% (£10m)	Single let or multi let in strong regional centres with low physical obsolescence. This could further include alternative assets such as solar farms or petrol filling stations.

Asset Risk Diversification Guidelines

Attribute	Why	Risk if attribute not present
Lot Size - Up to £15m	If investing £50m no single asset should be over 30% of the portfolio by value	Exposure to single asset risk
Income Risk – exposure restricted to maximum £750,000 for any one tenant	Manages income risk and security through tenant diversification and lease length	Exposure to tenant failure and voids
Sector - No more than 40% held in a specific sector at any time	To create greater portfolio balance with different sectors holding different risk v return profiles	Over exposure to an under-performing sector

Lot size is proposed to remain at £15m. It is recognised that 30% exposure on a single lot is a high weighting however, the rational is to give NSC better access to relevant stock in the market. In general, experience has shown that private wealth funds and local authority investment funds tend to operate in the sub-£10m lot size. This has led to instances of overly competitive bidding which in turn drives price rises and yield compression, reducing the value in the stock. The larger investors, many of whom are institutional in nature, broadly operate in the market for stock over £15m, which we do not believe is appropriate for this limb of the investment strategy. The consequence is that there is an opportunity to operate in the £10-£15m lot size which is reasonably supplied but is not as competitive.

Keeping the lot size to £15m necessarily requires the exposure on the single tenant rent to remain at £750,000 which would equate to £15m lot size at a 5% yield (before costs).

In order to reflect the risk profile the investment fundamentals of such an investment should be particularly risk averse. The tenant covenant strength would be of at least 5A1 on the Dunn & Bradstreet (D&B) rating, which is accepted, preferred covenant rating system in the UK property investment industry. For an opportunity where the income profile matches this, the unexpired contracted lease term would need to be at least ten years to break dates or lease expiry.

Regional Weighting

The south-east is the more defensive region in which to invest. However, it is noted that current NSC guidelines seek to weigh heavily in the West of England with a strong preference for within the North Somerset Council area. Below are suggested target weighting for the portfolio although different regions, and indeed different areas within those regions, have particular sector strengths that would make assets suitable for the NSC portfolio. Consequently, it is recommended that diversification is sector specific as well as region-specific. Doing so enables risk to be managed while allowing for a weighting in favour of the West of England. The following is a guide to enable flexibility and details *maximum* weighting per region rather than target weighting. Preference will always be for investments to be made within North Somerset.

Region	**Maximum Weighting**
West of England	Up to 60% (£30m)
South East	Up to 60% (£30m)
Midlands and North	Up to 35% (£17.5m)
Scotland & Wales	Up to 35% (£17.5m)

Sector-Specific, Asset-Specific Guidelines

The original asset-specific guidelines outlined under 'Types of Investment and Criteria' within Appendix A of the ITT should be incorporated into sector-specific investment criteria checklists (attached as Appendix 2) which sits alongside the above diversification initiatives. For a property to qualify for submission to PIB, it would need to satisfy all or at least the vast majority of these criteria.

Investment Guidelines Limb ii

Limb ii of the Property Investment Strategy concerns itself specifically with investments within the NSC geographical area.

The criteria for this aspect of the strategy are suggested to comprise:

Geography	Within NSC jurisdiction
Sector	Retail, Leisure, Industrial, Logistics (note that Office is currently excluded)
Lot Size	Case-by-case
Yield	Target 5.5%+
Lot Selection Subject to:	i) Investment Business Case ii) Regeneration/Economic Development Business

Properties in this limb of the fund should be subjected to a second level of Business Case beyond simple investment. The rationale is to ensure that the risks and opportunities of these investments are fully explored in the context of the stakeholders in these schemes being situated within NSC's boundary. It is envisaged that it would consider matters such as business rate generation, job creation, facilitation of Local Plan aims and objectives, opportunities to take advantage of existing NSC property holdings adjacent or nearby and potential to encourage private sector investment.

COMMERCIAL PROPERTY ASSESSMENT MATRIX FOR LIMB I OF NORTH SOMERSET COUNCIL INVESTMENT STRATEGY

RETAIL / OFFICES / INDUSTRIAL		
ASSESSMENT CRITERIA	**PRIME**	**GOOD SECONDARY**
Yield	**5% +**	**6%+**
Minimum balance of covenant strength	Well let with a number of national retailers in place	Well let with preferably at least 1 national or major retailer in place
Income Length	National retailers with minimum of 5+ years unexpired as an absolute minimum. Other retailers with average of 3+ years unexpired.	National retailers with minimum of 5+ years unexpired. Other retailers with average of 3+ years unexpired.
Service Charge Provision & Management	All in order and in place. Service charge provision must be adequate.	All in order and in place. Service charge provision must be adequate.
Leasing	Fully or substantially let	Full or substantially let carrying some void or potential void
Location- Prime/Secondary/Tertiary	Strong town centre or OOT retail locations.	Good town centre or OOT retail locations.
Immediate Income	Yes	Yes
Tenure	Freehold or virtual freehold (at a peppercorn or low ground rent)	Freehold or virtual freehold (at a peppercorn or low ground rent)
Flood Risk - this will be asset-dependent	Flood Zone 1 / 2	Flood Zone 1 / 2
EPC	E+	E+
Target Portfolio Structure	Target Weightings	Target Weightings
Geographic Diversification	Locational Diversification Guidelines	Locational Diversificaiton Guidelines
Sector Diversification	Sector Diversification Guidelines	Sector Diversification Guidelines
Income Diversification	Income Diversification Guidelines	Income Diversification Guidelines
Lot size	£3m - £15m	£3m - £15m

NSC STRATEGY - INVESTMENT GUIDELINES

PORTFOLIO STRUCTURE

Categories	Target Weighting	Target Yield
PRIME	50%	5%+
GOOD SECONDARY	50%	6%+

SECTOR WEIGHTINGS

Sector	Target Weighting
Industrial / Warehouse	40%
Retail: warehouses,	40%
Offices, alternative and other	20%

INVESTMENT STRATEGY REQUIREMENTS

Lot Size Income	£3-15m
Risk	Limit of 30% **(£750,000pa)** of portfolio income from one tenant
Income	Only assets producing an immediate income
Regional	Limit of 60% of portfolio both in the West and South East of England, with a limit of 35% both in the Midlands/North and Scotland/Wales.
Sector IRR	Exposure to any single sector limited as
Flood Risk	outlined in Sector Weightings table above.
Contamination	5%+ per annum
Tenure	Flood Zone 1 and 2 only but regard is to be had to
	flood defences in place for strong opportunities No
	areas with a high land contamination risk
	Freehold or long leases at peppercorn / low rent