

**Appendix A to Hastings Borough Council Income Generation Strategy 2017/18 to
2019/20**

INVESTMENT STRATEGY

Marcus Lawler
Income Generation Manager
mlawer@hastings.gov.uk
01424 451499

Hastings Borough Council
Muriel Matters House
Breeds Place
Hastings Borough Council
East Sussex
TN34 3UY

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1. Introduction

The Income Generation Strategy (IGS) sets out the way forward following HBC's decision to invest in income generating activities, and the strategic outcome it expects to achieve in doing so. In short this is to make a contribution to bridging the funding gap caused by a reduction in central government funding.

This investment strategy defines the parameters designed to guide the Council when deciding to approve an investment in a proposal, or not.

1.1 Early stage strategy

The Council is not new to generating income, but it is now to taking a more formal approach to the issue, based on recognised best practice. With a new Income Generation Strategy defining outcomes and processes, and the investment strategy which enables the Council to make progress towards stated outcomes informs this approach. It has fairly tight parameters which are designed to minimise risk to the Council in the event of commercial failures. It is possible; as the Council learns and gains experience that the investment parameters will need amendment.

Whilst not discarding any viable opportunity to optimise returns this early stage strategy initially concentrates on four areas for further income generation:

- Investment in commercial property.
- Investment in residential property.
- Investment in energy generation.
- A review of fees and charges.

As the Council achieves success with these early stage measures the IGS will be reviewed to include other actions and investments.

1.2 Investment objectives

All investments that HBC will make under the Income Generation Strategy will be primarily focused on achieving a contribution in line with the outcomes laid out in that strategy. The outcomes specified in the main body of the strategy are summarised as:

Financial year	Estimated net contribution from commercial property	Estimated net contribution from residential property	Estimated net contribution from energy generation	Estimated net contribution from income generation*, **
2017/18	£ 88,500	£ 20,600	£ 0	£ 109,100
2018/19	£373,500	£ 59,700	£280,000	£ 713,200
2019/20	£570,000	£146,800	£540,000	£1,256,800

1.3 **Reviews of the investment strategy**

Review of the strategy will take place as follows:

- The Strategy will be reviewed annually by the Income Generation Board
- Performance will be measured to ascertain if the Council will be more, or less flexible when considering investments.
- If the economic environment; legislation; or borrowing rates change.

2. **Ethics**

The Council does not currently have an adopted policy on ethical investment. As investment in income generation is made to support other Council policies (for example the decision to invest in residential property is also in support of the need to bring forward housing in the borough) a special policy is not currently assessed as being required. Ethical considerations are considered when determining whether to approve a new policy, or not.

The Council does acknowledge that the potential for hitherto unforeseen conflicts or new ethical dilemmas may arise from its more formal approach to income generation. Ethics will always play a part when considering an investment opportunity, therefore. The subject of a separate policy on ethical investment will be considered again at the review points of the IGS.

3. **Investment themes**

In theory the Council will consider investment in any type of business (where it meets other criteria such as ethics, or returns) and will consider opportunities in support of existing policies and the five themes outlined in the body of the IGS if they seem attractive. In practice limited resources and capacity mean that it will concentrate on the key themes for the first three years. There is already sufficient diversity in the current portfolio to spread investment risk to allow returns in all areas.

The investment themes that the Council will initially consider (subject to individual business cases) are:

- Investment in commercial property.
- Investment in residential property.
- Investment in energy generation.
- A commercial review of fees and charges.

At the IGS review periods opportunities to include other areas of best practice will be considered.

Each theme is explored in more detail below.

3.1 Commercial property

The Council is already a successful commercial landlord in support of promoting economic success and diversity in the Hastings live-to-work area, and it will build on this success by developing its portfolio to generate an increased contribution.

The Council will invest in opportunities to develop its own portfolio (and potentially acquire development sites), i.e. building houses and/or commercial units. It will also seek opportunities to acquire and hold commercial property for rental.

Further specific details can be found in the report of the Chief Financial Officer, *Land and Property: Commercial Property Investment Strategy* dated July 2017

3.2 Residential property

In order to bring forward opportunities to deliver housing in the most commercial manner the Council will, on occasion rely on the Localism Act. This requires the Council to form a company for this purpose. The formation of a company is an action and output specified in the main body of the Strategy.

The Council aspires to bring forward development sites; hold property for rental on the private sector market; and to be able to receive property from developers as part of regeneration projects.

Further specific details can be found in the report of the Assistant Director Housing and Built Environment, *Hastings Borough Council Housing Company 11 Sept 2017*

3.3 Energy generation

The Council has an estate within which there are opportunities to reduce energy consumption and to generate and sell energy. There are existing powers for the Council to do this; for example: The Sale of Electricity by Local Authorities (England and Wales) Regulations 2010 (SI 2010/1910). The Council will therefore review those opportunities and invest in those which meet the criteria set out in para. 6 the savings available being counted as well as the income potential when measuring success. The types of technologies which will generate revenue and savings include:

- Solar photovoltaic
- Wind
- Storage
- Ground source heat pump

In addition there are opportunities to support community energy projects either through facilitating finance or leasing equipment.

Specific details be subject to a report of the Income Generation Manager and Sustainability Policy Officer, *An Energy Transformation for Hastings to be considered by the Income Generation Board in September 2017, and thereafter by Cabinet.*

3.4 Fees and charges

HBC already uses its existing powers to recover some of the costs of providing services to the residents and businesses of the borough. Examples of the type of service the council charges for include: parking; crematorium services; waste collection; allotments; etc. The council has a Fees and Charges Strategy which lays out the process for the setting of charges, and the legal basis for doing so.

It is within the remit of the Council to set the level of fees and charges by determination of the appropriate portfolio holder, thereby recovering some or all of its costs. Many diverse factors come into play when deciding the level at which costs are recovered (for example the Council may decide to not recover all its costs for social, or economic development reasons). In the current financial climate the Fees and Charges Strategy will be re-visited so that the Council recovers a higher percentage of its costs.

Each Service which collects fees and charges will further review the charging position against:

- Accurate cost of service delivery
- What customers are willing to pay for a service?
- What the market (other relevant local authorities) is charging?
- What concessions need to be considered to prevent hardship?
- How a rise might affect Corporate Priorities?
- What costs might be incurred to levy fees and charges (equipment; human resource; etc.)?

It is acknowledged that such reviews may require additional resources to complete, and then take action upon. The Council has an Invest to Save budget against which bids can be made, for this purpose.

3.5 Trading

Although this does not form one of the core themes for this early stage strategy opportunities to trade may be identified.

In the course of discharging its statutory and other functions the Council creates commercial opportunities. The Council will consider investing in mechanisms to capture those opportunities. The types of opportunities are numerous but could include activities such as:

- Operating concessions ourselves.
- Acting as our own debt recovery agent.
- Staging pay-to-use events such as open air cinema.

4. Quantum of investment risk

The Council's risk quantum will be defined as the total amount of capital invested in projects where there are significant revenue related benefits; plus any interest due on loans the council has taken to fund a particular project or other liabilities incurred; less the valuation of any assets held by the project. The Council will always seek, where possible first charge over assets in projects it is funding (where those projects are being conducted through a trading company).

The risk of these investments manifests itself as the Council's exposure to risk vs. income. The Treasury Management Policy lays out the Council's position and deals with the Minimum Revenue Provisions that must be made to mitigate that risk.

5. Investment risk profiles by theme

In selecting these themes to concentrate our investment strategy on (but not excluding other opportunities) it is possible to profile the Council's exposure to investment risk through defining what parameters are acceptable in each category; and by defining the Council's maximum exposure to each type of investment. Further details can be found in the theme reports referred to in para.3

5.1 Commercial and residential property

Property normally enjoys a high residual value in the event of a commercial failure in that the property being held can be sold to mitigate losses on the investment. Clearly, in the case of some developments and refurbishments the total invested may be more than the open market value. This situation may arise as the Council makes an investment decision based on revenue (which is its investment objective).

5.2 Fees

Investment in rescheduling and receiving fees will be in market testing and quantifying true costs (as described at para. 3.4) and these will not be recoverable if proposals for new or adjusted fees and charges are not carried through.

5.3 Energy

Any investment in energy generation includes the purchase of equipment which has a residual resale value. In addition equipment which is Microgeneration Certificated has a resale value as the revenue streams are then fixed for 20 years. The revenue derived from these projects is extremely secure.

5.4 Trading

It is more difficult to quantify the investment risk as the variety of potential opportunities is vast. When opportunities are identified individual business cases will be produced and assessed in light of the current financial position, and the impact on current resources and priorities.

6. Returns on investment by theme

If opportunities to deploy the full amounts contained within the appropriate reports, the following annual results can be achieved:

Theme	Maximum investment	Average net return	Estimated annual contribution
Commercial property	£29m	1.97%	£570,000
Energy generation	£6m	9%	£540,000
Residential property*	£15m	1.65%	£247,800

This assumes that all the investments are made through borrowing. This may not be the case if the Council has other opportunities such as capital receipts; grants; etc.

*The returns here relate only to the revenue generated from properties purchased for let on the private market. Returns may be better on Capital receipts through regeneration projects (such as the proposed sports hub); or from development of existing or acquired sites (such as Harrow Lane). Also shows figures at year 8; the return improves over times as the loan amortises.

7. Conclusion

The Council has the means to partially address the funding gap and generate the revenue targets at para.1.1. Income Generation will be an iterative process and its strategies will develop as the Council learns from its experiences.