

Business Development Opportunities

Report to:	South Hams Executive
Date:	2nd February 2017
Title:	Business Development Opportunities
Portfolio Area:	Cllr Michael Hicks, Business Development, Strategy & Commissioning
Wards Affected:	All
Relevant Scrutiny Committee:	Overview & Scrutiny Panel
Approval and clearance obtained:	Yes
Urgent Decision:	N/A
Date next steps can be taken:	Recommendation to full Council
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Recommendations: That the Executive RECOMMEND to Council:

1. That a Member working group is set-up to work with officers on any project or initiative linked to income generation, investment strategy or efficiency improvement opportunities, for future consideration by the Council

1.0 Executive Summary

- 1.1 On December 8th 2016 and January 5th 2017, officers invited Members to a workshop to discuss the finance and investment principles upon which they could bring forward income generation, investment strategy or efficiency improvement opportunities, for future consideration by the Council
- 1.2 This report sets out some of the information presented to Members at that session and based on Member feedback, recommends that a working group is formed, whereby Members will work in conjunction with officers to analyse the Member feedback and progress and prepare opportunities for consideration by the Council

2. Background

- 2.1. During 2015/16 the Councils reviewed their priorities and Members from both Councils agreed that their top priority was to achieve financial sustainability. Both Councils also stated that they did not want to see a reduction in the level and quality of the services delivered to their communities.

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- 2.2. The Council's adopted Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling five year timeframe to 2021/22 which helps ensure that resources are aligned to the outcomes in Our Plan. The following table illustrates the predicted budget gap from 2017/18 onwards as reported to Executive on 2nd February 2017:

	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
Budget gap/(surplus)	374,654	224,050	Nil	10,722	16,413
CUMULATIVE BUDGET GAP OVER THE FIVE YEARS TO 21/22					£625,839

- 2.3. The above means that over the period to 2021/22 the above amounts need to be found by way of savings or additional income generation, based on the current financial modelling.
- 2.4. A variety of investment instruments are available to the Local Authority market. In addition to the notice accounts and fixed term deposits available from UK and overseas banks, it is also possible for the Council to invest, for example, in UK Government Gilts, bond funds and property funds or in commercial and residential property. These alternative instruments would either require the Council to tie up its cash for significantly longer periods, thus reducing liquidity, or would carry a risk of loss of capital if markets go down.
- 2.5. The Council's policy therefore has hitherto been not to invest in these more risky and less liquid forms of investment. However, a variety of factors suggest that now may be an appropriate time to reconsider that approach, including:
- (a) The perception of increased risk in bank deposits as a result of a reduction in confidence that the Government would again bail out a failing bank.
 - (b) A growing UK economy that could support a more positive outlook for other forms of investment.
 - (c) A challenging SHDC budget outlook that would benefit from the achievement of additional investment income.
- 2.6. Officers have therefore considered a variety of different forms of investment and have concluded that investment in a commercial property fund or commercial property could be the way forward initially, as part of a balanced investment portfolio. UK Gilts and corporate bond funds could still face a challenging environment, whereas the commercial property market stands to benefit from forecast growth in GDP of in excess of 2% per annum over the next few years. UK Gilts are currently returning a yield of around 1%, whilst reasonably low risk equities generate around 3%.

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- 2.7. Market analysis by local property agent Vickery Holman in 2016 has found the following investment yields:

	Residential	Industrial	Office
Oct 2007	3.0%	6.25%	5.75%
Oct 2012	7.0%	8.50%	8.00%
Oct 2014	6.0%	7.50%	7.75%
Jan 2016	5.0%	6.50%	7.00%

- 2.8 However, there are risks that should not be discounted. The capital value of any property can go down as well as up, and therefore the capital redeemed at the end of the investment could be less than the sum initially invested. There are also charges that would need to be met; acquisition, disposal, management, etc. In any case, it is anticipated that such an investment would comfortably outperform the current investment returns achieved by the Council – 0.5% is forecast in the MTFS as an average for 2017/18 rising to 1.0% by 2021/22.

3.0 Recommendation to set-up an “Invest to Earn” working group

To help officers develop their thinking on bringing forward income generation and efficiency proposals, it is suggested that a working group be set-up. It is envisaged that this group would be formed of four elected Members and would (as need dictated), meet with an equivalent WDBC working group from time to time. It would be called the "Invest to Earn Working Group" and would work in conjunction with officers on any project or initiative linked to income generation, investment strategy or efficiency improvement.

- 3.1 Working group Members will provide input and engage/act as advocates with the wider membership on proposals. Members will suggest, consider and evaluate proposals and help officers to shape these, agreeing parameters, criteria and ultimately assist with building credible business cases for presentation and approval at the appropriate Council committee. A suggested terms of reference is shown in Appendix 1.
- 3.2 The selected working group Members will initially review the output of a Member survey, which followed the Finance & Investment principles workshop, held on December 7th 2016 and January 5th 2017. These workshops highlighted the financial outlook for the Council and the potential options that the Council could pursue to contribute towards closing the predicted budget gaps.
- 3.3 The presentation shared by officers, which formed the basis of the workshops has previously been circulated to all SHDC Members. A summary of the Member Survey will be circulated to all SHDC Members once Members have been given enough time to respond.

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4.0 Options available and consideration of risk

- 4.1. Members could opt to follow the recommendation or opt to reject this recommendation.
- 4.2. The Council has for many years adopted a very cautious and prudent approach to treasury management. Lending has only been made to banks and building societies which have strong credit limits and meet the criteria set by the Council, using information published by the three major credit rating agencies. This policy has been maintained in the knowledge that putting security before liquidity or yield does impact on the income being generated from these investments.
- 4.3. Any proposal brought forward to Executive and Full Council for decision will consider the specific risks applicable to that opportunity.

5.0 Proposed Way Forward

- 5.1 It is proposed that if the Council approve this report's recommendations, officers will arrange an initial meeting with the selected group Members to agree a forward plan.
- 5.2 It is envisaged that the initial focus of the group will be to consider (in priority order):
- A singular or series of significant capital investment(s) in commercial property using prudential borrowing;
 - Agreeing a balanced investment strategy
 - Using the Council's existing funds and/or assets and/or acquiring new assets to derive income and community benefits;
 - Other income generation and efficiency opportunities
- 5.3 A report to Executive will follow whenever a proposal can be progressed, before being brought to Full Council for decision.

6.0 Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/ Governance	Y	Setting up a working group requires Council approval.
Financial	Y	Setting up a working group does not create any financial impact. The work of the group is welcomed and any investment has the potential to provide a significant increase in investment income that could contribute towards closing the predicted budget gaps highlighted in the Council's published Medium Term Financial Strategy.
Risk	Y	The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.

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		The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines. The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Executive.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	Not Applicable
Safeguarding	N	Not Applicable
Community Safety, Crime and Disorder	N	Not Applicable
Health, Safety and Wellbeing	N	Not Applicable
Other implications	N	Not Applicable

Supporting Information

Appendices:

Appendix 1 – Draft Terms of Reference for Invest to Earn Member Working Group

Background Papers:

- MTFs, presented to Executive Committee September 15th 2016
- Revenue & Capital Budget Proposals Report – 2017/18, presented to Executive Committee December 15th 2016
- Budget Proposals Report – 2017/18, presented to Executive Committee February 2nd 2017

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted	n/a