Appendix 3 – 160411 Investment Strategy & Action Plan

DRAFT INVESTMENT STRATEGY

Executive summary

1 Brent's long-term vision, set out in the borough plan, is to

"…make Brent a great place to live and work, where people feel they have opportunities to change their lives for the better."

2 The Brent 2020 programme is integral to delivery of the vision and sets out the council's key priorities for the next four years. These are:

- **Employment & Skills –** to respond to the increase in the working age population and lift people out of poverty and welfare dependency;
- **Regeneration –** to improve the economic, social and environmental conditions in the borough;
- **Business and housing related growth –** to maximise the tax base to support the delivery of core services;
- **Demand management** – to manage down the pressures on needs led budgets; and
- **Raising income through our assets –** to support the delivery of core services.

3 The purpose of the investment strategy is to set the framework through which the capital programme helps to deliver these priorities. It will do this by ensuring that sufficient capital finance is made available to fund strategic investment, provided that investment is:

- **Focused** on delivering the council's key strategic objectives;
- **Sustainable**, providing long-term reductions in the cost of service delivery or net additional income;
- **Based** more on acquiring and enhancing assets for long-term value than on disposing of them for short-term gain; and
- **Supported** by rigorous professional financial appraisal techniques and appropriate financing arrangements.

4 The scale and scope of ambition of the investment strategy is substantial. The current, 2016/2020, capital programme includes investment of £390m, but is largely focused on maintaining existing infrastructure, or enhancing existing provision to meet rising demand, such as the school expansion programme. This new investment strategy will continue to meet such need, but shifts the focus of the council's capital expenditure plans from:

- short term solutions to the **long term public investment** needed to transform the borough and the lives of its residents;

- financing based on short-term asset disposal to long-term borrowing and **prudent use of reserves** to fund asset acquisition and enhancement;
- a loosely coherent set of departmental investment plans to a **co-ordinated and focused** single plan;
- traditional delivery mechanisms and structures to embracing **innovative and agile** corporate structures to help improve delivery; and
- an assumption of minimum risk and minimum return to a strategy based on taking **judicious and properly managed risks** to transform the borough.

5 The initial focus will be on meeting short-term housing need, through the temporary accommodation reform strategy, which seeks to invest £150m in acquiring housing stock to help meet emergency accommodation needs, drive down the long-term mismatch between demand and supply and provide substantial cost reductions. Smaller but nonetheless significant investments in other key service areas are also likely to be necessary in the short-term. These will help to manage demand for core services and so free up resources for other investment.

6 Over the medium to longer term the focus of the investment strategy will shift to ensuring that the opportunities in the borough can be seized. This will include:

- Investment in major development sites to secure the right blend of housing, employment opportunities and transport infrastructure at
    - Old Oak Common;
    - The Wembley and Alperton Housing zones;
    - Opportunity sites like Harlesden, Stonebridge and Willesden; and
    - Delivering planned regeneration in Church End and Bridge Park.
- Revitalising high streets as major retail destinations;
- Considering how to attract more jobs, and more high quality jobs, into the borough;
- Examining the case for investment in heat networks and power generation, including through renewable energy; and
- Strategic property acquisitions to enable future long-term regeneration.

7 Above all, the focus will be on identifying and then seeking to deliver fundamental or ‘game changing’ investments in infrastructure, such as a Crossrail station or university campus within the borough, which would have the potential to transform the long-term economic prosperity of the borough and its residents.

8 The investment strategy is not a set of un-costed spending plans. It is a framework to enable all of the above to happen, in particular to use the council's reserves and prudential borrowing powers in more creative and imaginative ways than before to enable the above to happen. These commitments cannot be entered into lightly. Reserves can only be spent once and borrowing must be repaid with interest. Adopting the strategy therefore means accepting different financial risks and this strategy also sets out how these will be properly managed and mitigated. However, it is important to stress that the investment strategy is a direct response to the changing financial landscape faced by local authorities and that there are also significant risks associated with not adopting this new strategy.

Structure

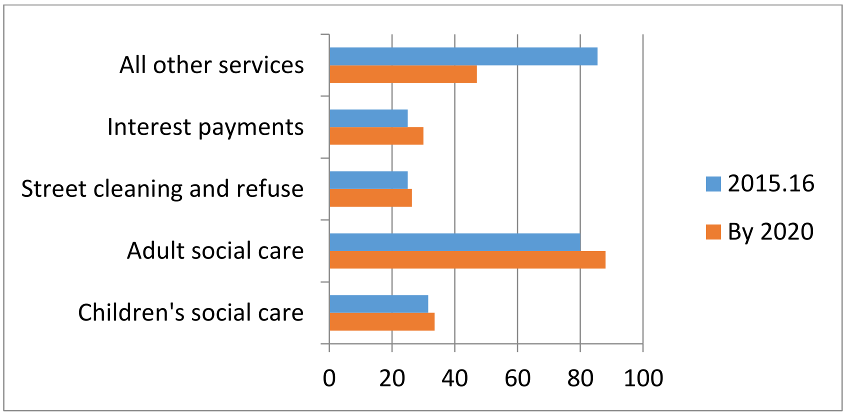
9 The investment strategy has the following components:

a. Context
b. Definition and scope of the investment strategy
c. Strategic context and link to other plans and strategies
d. Investment criteria, financing, risk management and governance
e. Action plan

Context

10 On a like for like basis Brent's funding from central government has been cut by at least half since 2010. Such central funding as remains in 2016 will be cut further and significantly by 2020, and the further re-localisation of business rates will result in councils raising most of their funding locally, rather than relying on national grants as is currently the case.

11 At the same time the inexorable impact of demographic pressures means that more and more of the council's budgets will be consumed by care services for vulnerable adults and children, as demonstrated by the graphic below.



12 Without an investment strategy in place the council will, at best, merely be able to react to these pressures. This would result in a greater and greater proportion of its resources being consumed by supporting its most vulnerable citizens. Protecting these citizens will always be a key priority and a significant spending commitment, but with the localisation of business rates there will need to be a clearer link between the sources of council financing and the services they support. The investment strategy is one of the ways in which the council can preserve a meaningful offer on universal services as part of this.

13 The investment strategy is a key component of the strategy for managing down long-term costs without compromising service quality and one of the key ways in which the council will increase the attractiveness of the borough as a place to do business, bringing in additional resources to support services for those who depend on them and opportunities for those able to take advantage of them.

Definition and scope of the investment strategy

14 Investment is classically defined as:

"…the act of putting money, effort and time into something to make a profit or get an advantage…"

15 Most practical definitions would tend to focus on the words "money" and "profit", as investment is often typically associated with a private sector context. The financial disciplines associated with investment – sound financial analysis, mature pricing of risk and understanding of returns – are wholly relevant and apply to this investment strategy exactly as they would in a private sector context. However, the council, rightly, takes a much broader view of the return on investment to *"get an advantage"*.

16 Advantages are widely defined to meet the council's social objectives and the requirement for a direct financial return. It is the blend of these factors that is critical. If only social objectives are taken into account then the council is delivering services, which is a vital activity but is not investing.

17 However, purely financial investments are excluded as not contributing (directly) to service delivery. The income earned from treasury management (the short-term investment of reserves) is governed through the treasury management strategy statement, considered annually be the audit committee and approved by Full Council. It therefore does not form part of the investment strategy, although officers will continue to see if the risk-adjusted returns can be improved.

18 The management of the pension fund investments is similarly outside the investment strategy. The pension fund could in theory choose to invest in assets to be run by the council, such as a property portfolio. However, any investment good enough to be attractive to the pension fund will in current conditions be more suitable for funding by prudential borrowing, as the liability-matching rate of return for the pension fund significantly exceeds the long-term borrowing rate. In any event the pension fund strategy is to move the assets into the London Collective Investment Vehicle, in order to improve net returns over the medium term. This may help to facilitate broader regional infrastructure investments, but not necessarily directly in Brent.

19 So for the council's purposes the investment strategy is the:

"Buying, building, or otherwise acquiring or enhancing of assets that will contribute to delivery of the council's priorities as set out in the borough plan, deliver social value and generate financial returns, expressed as reductions in current costs and/or significant foreseeable future costs avoided"

Strategic context and link to other plans and strategies

20 Above all, the focus of the investment strategy will be on identifying and then seeking to deliver fundamental or 'game changing' investments in infrastructure, such as a Crossrail station or university campus within the borough, which would have the potential to transform the long-term economic prosperity of the borough and its residents.

21 The investment strategy is underpinned by two other principal strategies, each of which has a specific purpose to enable delivery of aspects of the overall vision. These are the Property & Asset Strategy 2015 to 2019 (dated May 2015) and the long-term Regeneration Strategy 2010 to 2030 (dated 2010).

22 The current Regeneration Strategy has three strategic priorities:

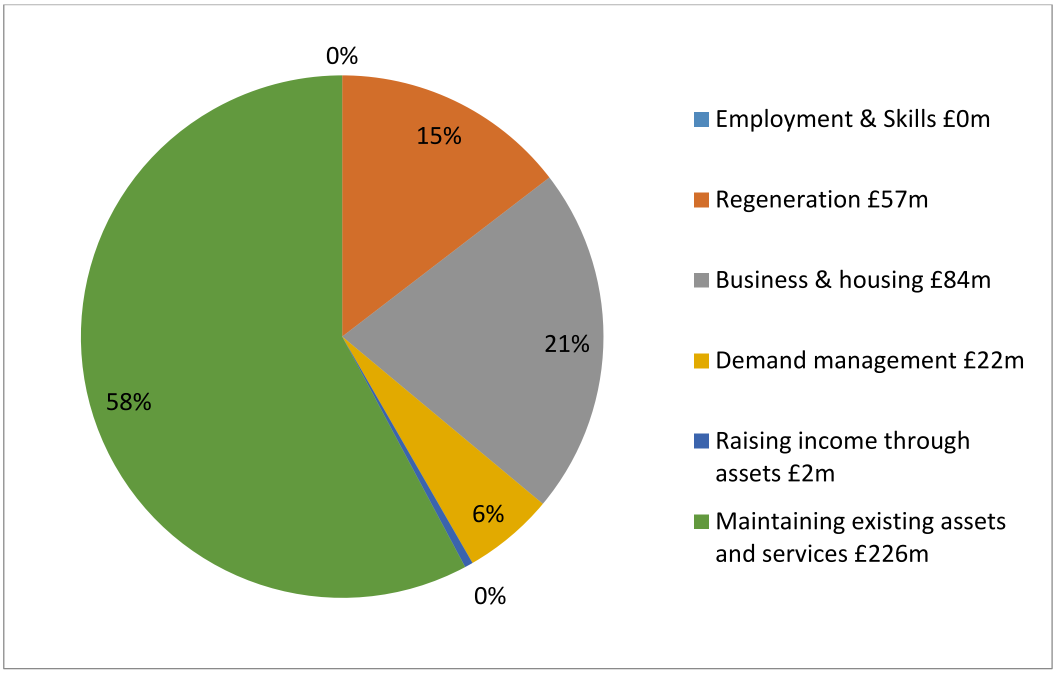
- To deliver transformational change across the borough, focusing primarily on the identified priority areas for investment (Alperton, Burnt Oak, Chalkhill, Church End, Harlesden, North Circular Road, Harlesden, South Kilburn, Wembley);
- To increase employment and income levels of Brent residents concentrating on those most in need; and
- To maximise investment in Brent from the private, public and community sectors in line with our regeneration priorities and ambitions.

23 It is likely that the regeneration strategy will need to be updated to reflect the long-term changes planned to the structure of local authority finance and to reflect the scale and scope of the ambition of this new investment strategy.

24 The Property Strategy is subsidiary to the Regeneration Strategy, and may in time be subsumed by the investment strategy. At present it sets out the geographical focus for property investment, below.

Buy now to reduce CPO cost for regeneration	**Buy now for investment returns**
Church End Stonebridge South Kilburn St Raphael's North Circular Estate	Alperton Harlesden Stonebridge South Kilburn Wembley
Buy assets for future service delivery	**Support regeneration through planning only**
All areas (schools)	Burnt Oak Chalkhill Park Royal

25 The investment strategy links to these existing strategies by providing the guiding principles for the development of the capital programme. This is summarised below, to show how it maps against the council's expressed priorities.

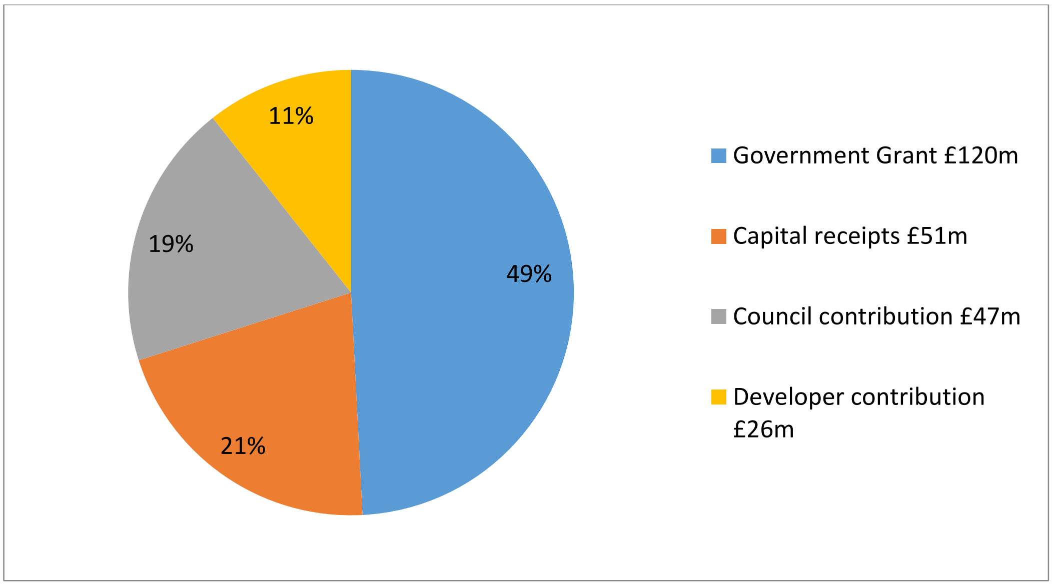


26 Of course, these classifications include an element of subjective judgement. Many aspects of the capital programme deliver against more than one priority. Major investments in existing assets and services, like the £97m school building programme, also contribute to the key priorities, but have been classified as maintaining existing assets and services for these purposes.

27 The point of the chart above is to illustrate the strategic point, that the capital programme is currently focused on only a small number of the council's priorities. It is the case that a significant element of the capital programme will always be concerned with the existing assets, and it is also true that the delivery of some priorities tend to depend on revenue finance more than they do on capital finance; arguably this could be said to be true for employment and skills services.

28 However, by developing an investment strategy the council has the opportunity to shift this focus and identify new ways to deliver its priorities.

29 This point is reinforced by an analysis of the funding of the capital programme, as set out below. (This analysis excludes the HRA, which is essentially financed from tenants' rents, RTB receipts and leaseholder contributions)

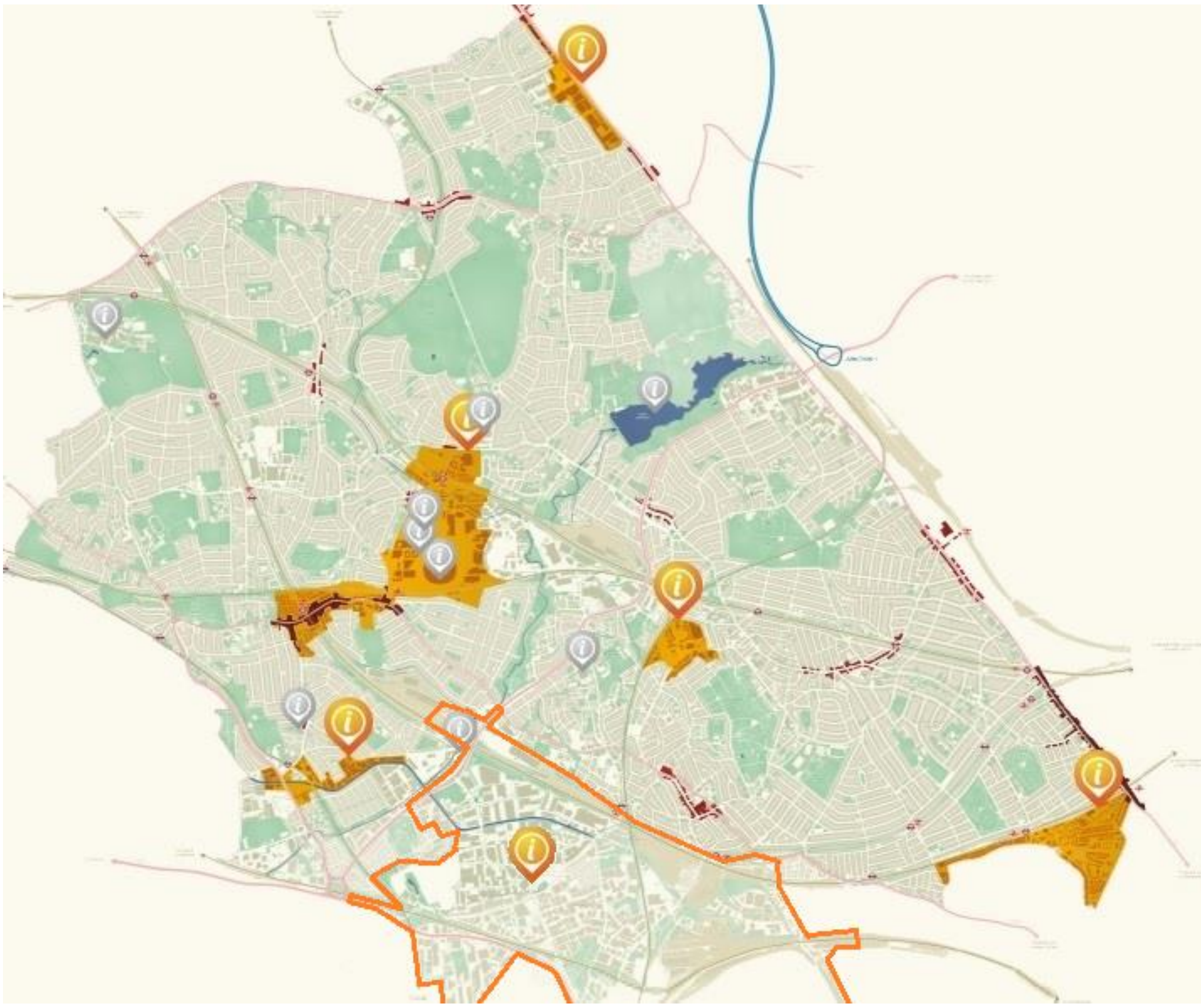


30 In summary, half of the existing general fund capital programme is financed by government grant, which cannot be controlled by the council. Nearly another quarter comes from capital receipts, which will not be generated in the future unless the council invests in them now. Both these sources of finance are therefore expected to decline over the short to medium term.

31 Therefore it will only be by growing future CIL contributions from developers and finding sustainable debt financed revenue contributions based on long-term cost reductions that the council will be able to afford a meaningful long-term capital programme. In the future the investment strategy will help the council to change the balance of its capital programme from its current heavy focus on maintaining existing assets to developing and acquiring new infrastructure.

32 The chart below show the map of the current major investment opportunities in the borough and hence where the opportunities to increase CIL financing and deliver key priorities are greatest.

Growth Areas



Burnt Oak/Colindale Growth Area	Burnt Oak/Colindale is identified as a growth area for around 2,500 homes by 2026, on sites arranged along the axis of Edgware Road, the A5 corridor on the boundary between Brent and Barnet, in between Burnt Oak and The Hyde Town Centres.
Wembley Growth Area	Wembley is one of the largest regeneration projects in the country. According to the Mayor of London it can accommodate approximately 11,500 new homes and 10,000 new jobs through the development of sites along Wembley High Road and the land around Wembley Stadium.
Church End Growth Area	Church End is being promoted for mixed use regeneration, set around the economic revitalisation of the local centre. Around eight hectares of brownfield land will provide space for approximately 800 new homes by 2026, supported by social and physical infrastructure works.
Alperton Growth Area	12 hectares of land adjoining the canal in Alperton has been identified as being suitable for transformation providing 1,600 new

	homes as well new business and employment opportunities on adjacent land protected for industrial uses by 2026.
South Kilburn Growth Area	The South Kilburn Regeneration Programme will take 10 to 15 years to complete and will transform the area, creating a vibrant community that stands the test of time. The regeneration will deliver 2,400 new high quality homes, improved open spaces, new shops, new health facilities and a new school.
New opportunity areas	Old Oak Common represents a key opportunity for the council to influence major development to deliver strategic objectives. There will be further opportunities, for example around Willesden, to invest to kick-start development

33 Initially the investment strategy will have to work with this map: in time the intention is to re-draw it.

Investment criteria, financing, risk management and governance

34 The overarching principles of the investment strategy flow from the analysis above. These are that the council will invest:

- in **sustainable infrastructure**, with a particular focus on seeking investment returns in the identified priority areas;
- to deliver **socially valuable** objectives; and
- in order to **reduce long-term costs** to the taxpayer.

35 Not all of the investments proposed will meet all of these principles. Generally speaking, anything that reduces long-term costs sufficiently will be pursued, provided of course that it does not fundamentally contradict the council's overarching values. Financial returns on investment will also be considered in the round, to allow for a degree of cross-subsidy where appropriate, and as part of this the council will explicitly take into account the tax returns from growing the business and council tax bases, and the relative merits of each.

36 The fundamental underlying principle is that investments must demonstrate the ability to meet financing costs and contribute to the repayment of principal over a suitable period of time. Without this, the investment strategy cannot be self-sustaining. It is also essential that the right blend of risk and reward is adopted in investment decisions. If an unduly risk averse approach is taken then very few investments will pass

the investment hurdle: the council's resources will be protected but the opportunity to transform the borough will be lost. Equally, an unduly risky approach could lead to unduly speculative investments passing the investment hurdle: a flurry of activity may generate short-term improvements but will not be financially sustainable in the medium to long-term.

37 Defining the required return on investment is a Member decision. Whilst it presents as a technical decision, in reality it reflects the balance of risk and reward that Members endorse. To further this, each individual significant investment decision will require explicit Cabinet authority to ensure that appropriate Member oversight is retained.

38 To achieve this in practical terms a number of technical criteria will need to be satisfied on each investment decision. The precise definitions of these are delegated to the Chief Finance Officer to adjust from time to time as may be necessary, with the initial set of assumptions set out in Annex One. This delegation is necessary to ensure that updated assumptions on, for example, interest rates, inflation and the many other technical details required to complete proper investment appraisal can be adjusted promptly to suit current market conditions.

39 As part of this the council will need to develop a more mature attitude to investment risk. The council is investing taxpayers' money. It follows that investment should only go ahead once proper due diligence tests have been carried out. The purpose of these tests is to ensure that:

"The investment promises a service and financial return that is commensurate with the level of risk being taken on, and that appropriate measures are in place to contain those risks"

40 The council will seek to build the capacity to deliver the investment strategy in house. This is particularly true of the financial expertise required to model and stress test complex business cases. However, where appropriate and where explicitly agreed by the Chief Finance Officer, external expertise will be sourced in order to protect the taxpayers' interests.

41 The financing of the investment strategy will be considered corporately. It will not be possible to prioritise investments according to corporate priorities if departments are able to ring-fence assets, sites or financing to specific projects. Appropriate officer-led governance arrangements exist around the capital programme to ensure that this is the case for assets and sites, and the capital investment panel is providing an effective means of promoting and challenging investment proposals.

42 However, to date the council has previously operated on a basis of departmental decision making around reserves. Whilst this has facilitated some tactical service decisions it is not a satisfactory basis for a long-term investment strategy. Accordingly, a full review of the reserves has been carried out.

43 This has shown that the departmental approach was in some cases leading to an overly prudent approach to reserve management. By centralising these it will be possible to create a new investment and risk management reserve of £12m to help deliver and de-risk the investment strategy. Important as this step is it must be seen in context: it can pump prime some investments and provide an element of de-risking, but will not avoid the need for significant borrowing to deliver the strategy.

44 This then creates the need for significantly enhanced risk management arrangements. The council will be open to more innovative corporate structures, such as the creation of new legal entities, in order to deliver the strategy. This requires enhanced risk management arrangements, but also a more mature acceptance of risk.

45 In all of this the level of delegation to officers will be kept under close review. Member oversight will be essential to effective delivery of the strategy, with the right balance to be struck vital. Key strategic decisions must be taken in Council and at Cabinet as to the overall strategy and to authorise individual tranches of investment, with the right officer-led governance and reporting mechanisms underneath to enable effective oversight and control. In summary:

- **Council** will set the overall capital programme and budget and policy framework, as part of each year's budget-making meeting, including the overall scale of the investment programme and the appetite for risk;
- **Cabinet** will sign of each individual investment or packages of investments;
- **Scrutiny** and **Audit** will provide oversight and challenge;
- **Officers** will ensure that decisions are implemented effectively, with sound risk management; and
- **The Chief Finance Officer** will ensure that high professional standards in investment appraisals are maintained.

Annex One
Technical investment criteria

Principles

1. Investments will only be approved if they can demonstrate that they can pay the financing costs associated with them had the funding been provided on a prudential borrowing basis.

2. Investments will only be approved if they can demonstrate that they can repay the principal associated with funding them through prudential borrowing over an appropriate period of time.

3. Investments will only be approved if they can demonstrate additional financial benefits, whether in reductions to current costs, reasonably foreseeable costs avoided or, exceptionally, realistically probable long-term asset appreciation.

4. Investment appraisals must include sufficient costs for the ongoing maintenance and upkeep of council owned assets and will not be approved without these.

Detailed technical criteria

Long-term borrowing costs – 4%
Long-term inflation rates – 2%
Major repairs – 0.8% of works costs
Discount rate (where appropriate) – 3.5%
Asset lives – normally 25-40 years with exceptions where appropriate, e.g. transport fleet
Principal repayment – matched to asset lives
Build costs (where appropriate) – scheme specific

For housing development

Voids – 5%
Bad debts – 2.5%
Rental income – 1% p.a. reduction until 2020, thereafter reversion to CPI plus 1%
Management agent fee – 2.5%; or
Management costs - £650 to £1,200 per unit p.a.
Maintenance costs - £1,260 to £1,565 per unit p.a.

Action plan

Short-term actions (within one year)	**Responsible officer**	**Milestones**	**Outcomes**
Finance and support the initial temporary accommodation reform plan	Chief Finance Officer	Finance purchase of the initial £10m PRS acquisition portfolio – May 2016	TA reform plan kick-started
		Establish finance for the balance of the PRS acquisition portfolio – June 2016	Larger-scale PRS acquisition enabled
		Subject to Cabinet agreement, finance Knowles House and other PRS development	Newer more suitable and cost-effective accommodation developed
		Establish separate company structure within which the TA reform plan can be managed	Effective delivery of TA reform plan
Improve delivery of the capital programme	Strategic Director, Resources	Revised governance arrangement in place – May 2016	Investment objectives achieved on time and within budget
		Milestone report to Cabinet – October 2016	
		Milestone report to Cabinet – February 2017	
Review balance of capital and revenue expenditure	Chief Finance Officer	Complete identification of all services where capital investment is in principle feasible and report accordingly – July 2016	Comprehensive understanding of balance of funding
		Individual service reviews completed – October 2016	
		Revised capital programme agreed – February 2017	Clear delivery plans in place and aligned to strategic priorities
Finance acquisition of key community assets	Chief Finance Officer	Ensure that priority investments for community benefit are brought forward – December 2016	Urgent priorities delivered

Medium-term actions (within two to three years)	**Responsible officer**	**Milestones**	**Outcomes**
Review financing arrangements for South Kilburn regeneration	Chief Finance Officer	Full cash flow revised – December 2016	Options for changing balance of risk and reward considered
		Implications of different MRP policies brought forward – February 2017	
		Options for changing ownership and risk presented – May 2017	
Develop energy company and/or community energy supply options, initially in the Wembley and South Kilburn areas	Strategic Director, Resources	Initial options paper – July 2016	New service model in place at lower cost and carbon footprint
		Corporate and financing model proposed – December 2016	
		Investment appraisal – July 2017	
Identify future development opportunities to capitalise on rising land values, perhaps at Willesden Green	Strategic Director, Resources	Options reviewed – July 2016	
Secure opportunities to promote business growth	Strategic Director, Regeneration & Environment	Options reviewed – September 2016	
Long-term actions (in four years or more)	**Responsible Officer**	**Milestones**	**Outcomes**
Acquire a strategic property portfolio	Strategic Director, Resources		
Deliver Housing Zones	Strategic Director, Regeneration & Environment		
Secure strategic objectives at Old Oak Common	Strategic Director, Regeneration & Environment		