

## CABINET - 12TH MARCH 2020

### Report of the Strategic Director of Corporate Services

Lead Member: Councillor Morgan

#### Part A

#### ITEM        APPROACH TO COMMERCIALISATION

##### Purpose of Report

This report sets out the Council's approach to commercialisation and proposed commercial activities in the light of the financial challenges set out within the latest version of the Medium Term Financial Strategy, the aspiration of developing a commercial investment property portfolio outlined within the Capital Strategy, and a general recognition that an increased focus on commercialisation is necessary as part of a wider strategy to protect and enhance front-line services as far as possible and proportionate.

##### Recommendations

That Cabinet:

1. Note the plan to recruit an additional member of staff at Director level (to be known as the **Strategic Director of Commercial Development**) to support the Council's commercialisation agenda and in particular, the process of identifying, evaluating and acquiring commercial investment property.
2. Approve funding of up to £100,000 from the Reinvestment Reserve to fund the salary of the additional Director.
3. Approve the proposed checklist and process steps for the evaluation and acquisition of commercial investment properties, as set out at Appendices A and B.
4. Give delegated authority to the Strategic Director of Corporate Services and the Strategic Director of Commercial Development, in conjunction with the Leader, to make minor amendments to the above process as deemed required and appropriate.
5. Note other actions the Council intends to take to support its commercialisation agenda as outlined in Part B of this report.

## Reasons

1. To ensure that Cabinet are aware of changes to the Council's establishment and the additional resources being directed at the commercialisation agenda.
2. To fund the costs arising from the recruitment of the additional Director for a restricted time period until costs incurred are offset by additional revenues generated from new commercial activity.
3. To provide assurance to Cabinet on the level of due diligence and decision-making control that will be introduced in the evaluation and acquisition of commercial investment properties.
4. To allow minor process refinements to be implemented efficiently in the light of experience.
5. To make Cabinet aware of the actions the Council intends to take to support its commercialisation agenda.

## Policy Justification and Previous Decisions

Generally, this decision would fall under the existing Corporate Plan objectives of 'Delivering Excellent Services'.

Specific decisions and other reports relevant to this paper are as outlined above:

- Approval of the Medium Term Financial Strategy 2020-2023 (Council 20 January 2020, minute 84.2 refers)
- Approval of the Capital Strategy 2020-2023 (Recommended to Council by Cabinet 13 February 2020; scheduled for Council 27 April 2020)
- The new Corporate Strategy 2020-2024 approved by Council on the 24<sup>th</sup> February 2020 includes specific references to commercialisation and commercial property

## Implementation Timetable including Future Decisions and Scrutiny

The decisions above and associated actions will come into effect immediately (subject to Call-in).

This report is available for consideration by the Scrutiny Commission in accordance with standard Council processes.

## Report Implications

The following implications have been identified for this report.

### *Financial Implications*

This report assumes the use of Reinvestment Reserve funding of up to £100,000 to cover the salary of the new Director post in financial year 2020/21.

In subsequent years it is assumed that the additional cost will be covered by additional revenues generated from new commercial activity and that this will be reflected in the budgets for future financial years.

### *Risk Management*

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Overall</b>	<b>Mitigation</b>
Additional revenues generated by commercial activity is not sufficient to justify the new Director salary costs.	Unlikely (2)	Significant (2)	Low (4)	1. Additional costs and revenues will be closely monitored through budgetary and revenue monitoring processes to ensure the new Director post justifies ongoing funding.  2. Should the new post not justify ongoing additional funding then the organisational structure will be reconsidered on a timely basis.

Key Decision:

No

Background Papers:

Medium Term Financial Strategy 2020 – 2023  
(Council report of 20 January 2020)

Capita Strategy 2020/21 (Council report of 24  
February 2020)

Job Profile of the Strategic Director of Commercial  
Development

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## Part B

### Background

#### *Financial landscape*

The latest version of the Medium Term Financial Strategy (MTFS) sets out the projected financial challenges for the financial years 2020/21 to 2022/23 inclusive for the Council's general fund. The MTFS projections suggested that some £6m of reserves would be required to support the general fund budget at existing rates of expenditure, leading to the conclusion that this was not sustainable in the medium and longer term, and that therefore steps must be taken to address the projected funding shortfalls.

In response to the financial challenges, the MTFS and the latest iteration of the Council's Capital Strategy (Capital Strategy 2020/21, due to be approved at the Council of 24 February 2020), both identify commercialisation, and in particular the generation of income through investment in commercial property, as a principal mitigation approach that the Council intends to adopt. Given the scale of likely funding shortfalls (maybe of the order of £3m in 2022/23) it is clear that commercial income must be generated in both a timely manner, and at a quantum that will provide significant support to general fund budgets.

#### *Prioritising commercial activities*

There are in theory a wide range of commercial investments that the Council could make, some of which may be more appropriate than others.

The Council's overarching objective is to provide public services in line with its duties and powers as a district council to the residents of Charnwood. Commercial activities are undertaken with a view to supporting this objective, and in particular, to supplement the Council's revenue streams in order that services to the public may be enhanced or maintained as far as possible. The latest version of the Medium Term Financial Strategy (referred to above) set out the likely scale and timing of financial challenges facing the Council in the short and medium term. Although the precise quantum and timing of these challenges is inevitably somewhat speculative it is clear that if commercial activities are to contribute significantly to their mitigation then:

- Income needs to be achievable at a scale that makes a difference

- Income needs to come on stream at significant scale within a relatively short time (realistically within the 2020/21 financial year)

There are also other factors relating to risk, opportunities, and the internal skills and capacity available to the Council. Taking into account these factors, and the requirement for commercial income to be achievable at scale and in the short term, allowed the following criteria to be derived when assessing potential commercial opportunities.

*Criteria for considering the range of commercial opportunities*

1. Can income be generated at scale?
2. Can income streams be developed (at scale) within the next financial year?
3. Can the income streams be delivered with relative certainty?
4. Are there significant financial risks associated with the opportunity?
5. Is there a track record within the Council – or other local authorities – which demonstrate the opportunity is viable?
6. Does the Council have any commercial advantage in addressing an opportunity compared to the private sector (or – potentially – neighbouring local authorities or other public bodies)?
7. (Conversely) is the Council at a commercial disadvantage compared to existing players in the market who may have existing brands, infrastructure or track record of service delivery?
8. Could the private sector respond to the Council entering the market by competing aggressively – eg. through price competition - such that an initial or extended period of trading losses might ensue?
9. Does the Commercial opportunity come with significant legal or regulatory risk?
10. Does the Council have skills and capacity within the existing workforce that enable the delivery of the commercial opportunity?
11. Could the Council easily access skills and capacity from the employment / interim / consultancy markets that enable the delivery of the commercial opportunity?
12. Are there political or ethical reasons which may constrain the Council's ability to provide services on a commercial basis?

Other factors may also be considered depending on the specific opportunity being assessed.

Based on experience from other local authorities, commercial property investment was identified as a type of activity that would meet the above criteria, with the assessment set out below.

*Commercial property investment – assessment against commercial opportunity criteria*

	<b>Criteria</b>	<b>Comments</b>	<b>RAG rating</b>
1	Can income be generated at scale?	Yes (assuming that sufficient investment funding is made available)	<b>G</b>
2	Can income streams be developed (at scale) within the next financial year?	Yes – if properties are acquired with an existing tenant (as is envisaged) then income streams commence immediately	<b>G</b>
3	Can the income streams be delivered with relative certainty?	Yes – these can be calculated with reference to existing tenants	<b>G</b>
4	Are there significant financial risks associated with the opportunity?	Yes – in that the level of investment required is substantial and there are no guarantees in respect of ongoing income  However – although losses are possible (and we would expect to minimise these through due diligence and appropriate professional advice) it is unlikely that a large proportion of an individual investment would be lost as investment is in an underlying physical asset (in contrast to many financial instruments)  Going forward the risk of losses on individual properties is mitigated as the overall portfolio of investment properties increases	<b>A</b>
5	Is there a track record within the Council – or other local authorities – which demonstrate the opportunity is viable?	Yes – a large number of local authorities have successfully developed commercial property portfolios	<b>G</b>
6	Does the Council have any commercial advantage in addressing an opportunity compared to the private sector (or – potentially – neighbouring local authorities or other public bodies)?	Yes – compared to the private sector the Council has a lower cost of capital (which can be demonstrated by the Council's ability to access funding through the Public Works Loan Board)	<b>G</b>
7	Is the Council at a commercial disadvantage compared to existing players in the market who may have existing brands, infrastructure or track record of service delivery?	The Council will need to develop a track record with agents and prospective vendors of completing major transactions but the track record of other local authorities does suggest that this issue is not insurmountable	<b>G</b>
8	Could the private sector respond to the Council entering the market by competing aggressively such that an initial or extended period of trading losses might ensue?	Not considered a significant issue – in the short term income is protected through the tenancy agreement	<b>G</b>
9	Does the Commercial opportunity come with significant legal or regulatory risk?	The Council will need to clear as to the legal basis on which proper is being acquired but this is an issue managed by other local authorities	<b>G</b>
10	Does the Council have skills and capacity within the existing workforce that enable the delivery of the commercial opportunity?	The Council has some skills but limited additional capacity outside current business as usual activity	<b>A</b>
11	Could the Council easily access skills and capacity from the employment / interim / consultancy markets that enable the delivery of the commercial opportunity?	We believe that skills and capacity can be acquired externally (and some has already been accessed)	<b>G</b>
12	Are there political or ethical reasons which may constrain the Council's ability to provide services on a commercial basis?	Not considered a significant issue – although tenant business activity will need to be considered as part of the due diligence within the acquisition process	<b>G</b>

Based on the above it was concluded that investment in commercial property is an appropriate initial approach in respect of commercial income generation.

This does not preclude other commercial activity, and the Council remains open to superior opportunities identified, but does reflect that the Council's internal capacity to pursue other opportunities is limited.

### *Skills and capacity*

When entering into new forms of activity generally, and specifically, in respect of commercial activities and investment in commercial property, having the skills and capacity to undertake that activity successfully maximises the chances of success and minimises the risks involved.

It is apparent that whilst the Council has some capability within the existing establishment it does not possess the core skills and experience required for the identification and evaluation of commercial property investment opportunities, and certainly does not have the capacity to generate an income-generating commercial property portfolio, or develop other income generating commercial opportunities at the scale or pace required given the financial challenges faced by the Council. It is also worth noting that the current draft budget for 2020/21 and MTFS projections for 2021/22 and 2022/23 assume additional income generation from commercial property investment of £150,000, £150,000 and £300,000 respectively, and without additional resource generating even these relatively modest sums would prove challenging.

In considering in more detail the type of skills required, and the role that is required within the Council, it is clear that:

- The skills are 'high value' within the employment market – meaning that a relatively high salary will be required to attract a suitable candidate
- The role would need to be one which is senior within the staffing structure as it will require a natural gravitas to provide assurance to members and senior colleagues as the Council develops this new activity

The Job Profile has been developed for the new role with these factors in mind and has been evaluated in line with the Council's standard process. The job has been graded at JNC D, which is a Director level role, covering Scale Points 62 to 65 (thereby attracting a salary at 2019/20 rates in the range £67,326 to £72,373).

The Job Profile for the new Director is designed to have a strategic income generation role with a relatively light involvement in existing functional and operational matters. However, it has been considered appropriate to brigade the Council's existing property and procurement teams (currently forming part of the Finance & Property Service) within the new Directorate as existing capability within these teams will be required to support the expanded commercialisation agenda, which in addition to commercial property investment will (amongst other matters) also cover potential opportunities within the Council's existing asset portfolio and seek to maximise cost savings through procurement processes. An informal consultation with employees affected by the change in reporting lines has already taken place.

The creation of the new role and the other related changes to the establishment can be completed under existing delegated authority given to the Chief Executive in his role as head of paid service.

In future, as is the case for all Directorates and Services, the new structure may subsequently evolve but at present all that is envisaged is a change in reporting lines.

#### *Financing the new Director post*

It is ultimately envisaged that the additional cost arising from the new appointment will be covered by additional revenues generated from new commercial activity and that this will be reflected in the budgets for future financial years. However, in the initial phase of the new structure it is inevitable that costs will be incurred until the anticipated additional revenue comes on stream. It is therefore proposed that Reinvestment Reserve funding covering up to one-year's salary of the new role (£100,000 including on-costs) will be made available to cover these costs.

#### *Evaluating the risk of commercial investment property acquisitions*

There is no doubt that there is risk involved in investing in commercial property and this can never be totally eliminated. There are case studies noted in the media where local authorities have invested extremely large amounts in relation to their size, or have made poor investment choices. In reality, these decisions number far fewer than successful decisions, despite their prominence. Normally, an element of confidentiality will apply to this activity; transparency is encouraged but not to the extent of overt press releases or social media announcements particularly during the commercial negotiations.

Other local authorities who have proved very successful in developing their commercial property portfolios, including some of those neighbouring Charnwood, such as Rushcliffe and Ashfield. Key to this success is possessing the right skills and experience, as discussed previously in this report. This is not only in the purchase of the properties but also the ongoing management of the portfolio.

#### *Summary of initial evaluation checks and subsequent acquisition process for commercial property*

Every active investment entity (public or private) will have a strategy guiding their purchase decisions. Within this strategy, there will be a set of red-line criteria that should guide the selection of investment opportunities. While some Local Authorities use a grading system/matrix to evaluate opportunities, these can cloud judgement and incorrectly assess the appropriateness of an investment opportunity. It is proposed that the Council would adopt a set of binary choice criteria (Yes/No) in the initial evaluation – if these conditions are not satisfied, the opportunity should not be examined further. The purpose of these criteria are to mitigate risk by ensuring that the most fundamental

aspects are agreeable upfront and will not put the Council at unnecessary risk in the short, medium or long term. These criteria are:

1. Is the property single-let (i.e. one tenant in occupation) or let to a small number of tenants only (a small number of multiple tenants may be acceptable in the case of, say, an attractive office block opportunity)?
2. Is the tenant financially strong and stable as determined by an independent market assessor, such as Dun & Bradstreet?
3. Is the lease for the property full repairing and insuring, with clear and distinct obligations on the part of the tenant?
4. Does the financial model and cashflow appraisal of the investment meet the net return target within 0.5% less at a minimum? (*With a net return target of 3.5%, this would be 3.0%*)

If the answer to these four questions is “yes”, then appraisal of the opportunity should continue. The criteria mitigate/eliminate large swathes of risk in commercial property investment, and they will naturally narrow down options to those that are highly sought after.

In addition to the above, more detailed evaluation criteria are applied to each opportunity on a case by case basis, such as location, tenure, condition and rent reviews.

Further details of the initial evaluation criteria and assessment approach are set out in the checklist at Appendix A.

In the event that a successful opportunity presents itself, having satisfied the criteria, further due diligence is undertaken:

- Detailed research is conducted on the tenant, their market, their business, any financial pressures or advantages and performance (this will include an assessment of any moral or ethical issues)
- Legal and Surveying experts review the lease and title to determine obligations, rights, risks and opportunities.
- A property inspection is undertaken to both view the building and its location/condition, but also to speak with the tenant’s senior management to pose questions or verify findings of the tenant research conducted earlier.

If the outcomes of this exercise are again satisfactory, a report is compiled and presented for discussion with Senior Officers (i.e. the Head of Paid Service, The Section 151 Officer and the Monitoring Officer the Strategic Director of Commercial Development and others as appropriate). During this discussion, findings are presented and identification of further risks or concerns takes places. This process will repeat until no further risks are found, all risks have been mitigated as much as possible and the senior officers believe the opportunity presents a good investment.

If the stage is successful, Members are presented with the opportunity and briefed with the updated report. The same critical review process noted with officers is repeated to allow the Leader/Deputy Leader to arrive at a considered decision whether to bid for the property.

If satisfied, authorisation to bid is sought from the Leader/Deputy leader. If granted, a bid is prepared, based on the financial modelling undertaken in the first instance. Parameters including price ceilings are established and the overall bid strategy is discussed. A formal bid will then be submitted.

If a bid is accepted, further due diligence is undertaken:

- Surveys of the property are commissioned of external experts to provide Building Inspection Reports, Building Reinstatement Valuation, Environmental Surveys and Measured Survey and others as appropriate.
- Solicitors are engaged to undertake the due diligence of the legal pack (to include searches, enquiries, contract negotiation, statutory compliance checks) and conveyancing.

If at any point issues or elements of the opportunity are uncovered that cannot be resolved or run contrary to the Council's ethics, values or abilities, the acquisition will be abandoned. Officers will comment on any ethical considerations and issues identified as part of the report to the Leader / Deputy Leader.

These processes have been successfully implemented by other local authorities and which we believe can be easily adapted for use within the Council. Drawing on the experience of other local authorities a list of process steps, has been developed in line with the principles above and attached as Appendix B.

In the course of Charnwood experience, custom and practice may develop (for example in the list of appropriate attendees at decision-making stages) so this report recommends delegated authority for the Strategic Director of Corporate Services or Strategic Director of Commercial Development, in conjunction with the Leader, to make minor amendments to the evaluation checklist and acquisition process as deemed required and appropriate.

### *Governance versus process*

In strict governance terms, following the approval of changes to the Council's financial regulations at Council (24 February 2020), the decision to purchase a commercial property can (and can only) be delegated to an individual Member. The decision record – which will be in the format of a standard Delegated Decision – will therefore record the approval of either the Leader, or Deputy Leader, to whom decision making authority will be delegated.

However, recognising the potential significance of commercial property transactions, the acquisition process requires that a decision making group will be convened that

will include two Cabinet Members, at least one of whom must be either the Leader and Deputy. In general this will comprise of the Leader and Deputy but in the case where one is unavailable then an additional cabinet member will be invited to attend. As noted above, this decision-making group will usually also include the Head of Paid Service, Section 151 Officer, Monitoring Office, and Strategic Director of Commercial Development, and be furnished with relevant appraisals and the results of due diligence work. A record of the meeting and supporting documents will be retained on file to provide an audit trail and enable Scrutiny and Audit to review completed transactions.

#### *Interim arrangements*

The Council may wish to progress commercial property investment opportunities prior to the appointment of the Strategic Director of Commercial Development. In this interim period the Council will obtain professional advice from Ashfield District Council that will fill shortfalls in skills and capacity and the formal responsibilities of the Strategic Director of Commercial Development referenced in the process steps within this report and appendices will be undertaken by the Strategic Director of Corporate Services.

#### *Other commercial activity planned*

Other activity will be directed through the Commercial and Enterprise Board which has objectives to develop and implement a commercial enterprise strategy covering commercial property investment, reviews of assets and fees and charges and options around opportunities to invest in residential developments. It is also envisaged that actions will include training for existing staff to develop commercial awareness and skills across all areas of the Council.

#### Appendices

Appendix A – Commercial investment property- opportunity evaluation checklist

Appendix B – Commercial investment property evaluation and completion process

# **APPENDIX A**

## **INVESTMENT PROPERTY OPPORTUNITY EVALUATION CHECKLIST**

**Version 1.0  
28 February 2020**

Initial draft: February 2020

### *Initial binary choice criteria*

It is proposed that the Council would adopt a set of binary choice criteria (Yes/No) in the initial evaluation – if these conditions are not satisfied, the opportunity should not be examined further. The purpose of these criteria are to mitigate risk by ensuring that the most fundamental aspects are agreeable upfront and will not put the Council at unnecessary risk in the short, medium or long term. These criteria are:

1. Is the property single-let (i.e. one tenant in occupation) or let to a small number of tenants only (a small number of multiple tenants may be acceptable in the case of, say, an attractive office block opportunity)?
2. Is the tenant financially strong and stable as determined by an independent market assessor, such as Dun & Bradstreet?
3. Is the lease for the property full repairing and insuring, with clear and distinct obligations on the part of the tenant?
4. Does the financial model and cashflow appraisal of the investment meet the net return target within 0.5% less at a minimum? (*With a net return target of 3.5%, this would be 3.0%*)

If the answer to these four questions is “yes”, then appraisal of the opportunity should continue. The criteria mitigate/eliminate large swathes of risk in commercial property investment, and they will naturally narrow down options to those that are highly sought after.

In addition to the above, more detailed evaluation criteria are applied to each opportunity on a case by case basis. These are set out in the matrix below.

Criteria	Excellent	Very Good	Good	Marginal	Poor	Actual/Notes	Comments or Definitions	Scoring out of	Scoring Actual
Location	Major Prime	Macro Prime	Major Secondary	Macro Secondary	Tertiary			20	
Tenant Covenant (D&B Rating)	FS: 5A-4A Risk: 1	FS: 3A-2A Risk:1	FS: 1A Risk 1	FS: A Risk: 2	FS: B-H Risk: >2			10	
Rent Reviews	Upward Only - Index linked	Upward Only - Index linked, Collar & Cap	Open Market (Upward only)	Fixed	Turnover rents			10	
Break Clauses	None	15 years til break	10 Years until break	5 years until break	< 5 years			10	
Lease Length	15+ years	15 to 10 years	10 to 7 years	7 to 5 years	< 5 Years			10	
Tenure	Freehold		Long Leasehold (125 Year Min) & Peppercorn	Long Leasehold (80-125 Years) & Peppercorn or annual rents less than £1000	Leasehold (50-80 Years) or annual rents more than £1000			10	
Net Yield (%)	5%+	5% to 4%	4% to 3.5%	3.5% to 2.5%	<2.5%			10	
Age/State of Repair	New & Well Built	New & Small Refurbish	Old and No Works Needed	??	Old & Needs Repair or Chance of Further issues			4	
Survey results of BIR	All green	All green with less than 5% Yellow	All green with less than 15% Yellow	As good with no more than 3% Red	More than 7% Red			4	
EPC	A-B	C	D	E	F-G			4	
Estimated Planned/Preventative Maintenance	Full Repair and Insuring			Internal Repairing Only (Recoverable)	Landlord Repairs			4	
Future Lettability and Alternative Use	Re-let			Re-let or redevelopment	Limited			4	

Note issues relating to moral or ethical issues will be considered during the process but have not be established as a scoring mechanism.

# **APPENDIX B**

## **INVESTMENT PROPERTY ACQUISITION PROCESS**

**Version 1.0**  
**28 February 2020**

Initial draft: February 2020

## Process and Responsibilities for Commercial Property Investment

As a process, the investment portfolio will require work from various services within Charnwood Borough Council due to the complex nature of property selection, evaluation and acquisition. Adhering to this process will minimise risk and ensure adherence to Statute and the Prudential Code.

This document should be read alongside the Investment Property Acquisition process map found at the end of this document.

### Stage 1 – Identification Stage

Stage 1 may be repeated several times in identifying suitable properties for purchase. The steps required help to ensure that only suitable properties are brought forward as potential investments. The due diligence undertaken here includes, and is not limited to, the tenant covenant, location, the overall market, assessment of risks and the details within the lease.

Step	Element	Document(s) Involved	Responsibility
1	<b>Opportunity identified</b> - This can be either by way of direct research by Charnwood employees or by outside approach from agents. Once a property is identified, an initial financial investment model is produced to determine if the minimum income target can be met.	<ul style="list-style-type: none"> <li>Property Brochure</li> </ul>	Strategic Director of Commercial Development
2	<b>Min NIY possible?</b> - The initial financial appraisal outlines the yield that would be obtained with the target of achieving at least 3.5% net initial yield (NIY). All evaluation is done on the basis of external borrowing from the PWLB at the rates current on the given day.	<ul style="list-style-type: none"> <li>Financial appraisal</li> </ul>	Strategic Director of Commercial Development
3	<b>Collate available documents and send to finance and legal</b> – Title(s) and Lease(s) may not be available in the first instance for every opportunity.	<ul style="list-style-type: none"> <li>Brochure</li> <li>Financial appraisal</li> <li>Dunn and Bradstreet reports</li> <li>Titles and Leases</li> </ul>	Strategic Director of Commercial Development
4a	<b>Preliminary Finance due diligence</b> – Finance will examine the appraisal and credit reports to determine if there is any reason not to proceed; these reasons will be documented and circulated.	<ul style="list-style-type: none"> <li>Record of issues (email or otherwise)</li> </ul>	Head of Financial Services
4b	<b>Preliminary Legal due diligence</b> – Legal will examine the available documents (and undertake their own research) to determine if there is any reason not to proceed; these reasons will be documented and circulated.	<ul style="list-style-type: none"> <li>Record of issues (email or otherwise)</li> </ul>	Legal Services Manager
5	<b>Inspect Property</b> – Officers will undertake a visual inspection of the property and surrounding area. This	N/A	Strategic Director of

Step	Element	Document(s) Involved	Responsibility
	inspection informs the creation of the Briefing note and the Evaluation Matrix.		Commercial Development
6	<p><b>Appraise property against matrix and write briefing note</b> – Taking feedback received from Legal and Finance in conjunction with other sources, the Briefing note and risk assessment are completed and the Evaluation matrix is completed. These documents encapsulate the meaningful aspects of the work thus far and are prepared in order to submit the property for consideration by the Leader / Deputy Leader.</p>	<ul style="list-style-type: none"> <li>• Briefing note</li> <li>• Evaluation Matrix</li> </ul>	Strategic Director of Commercial Development
7	<p><b>Meet with leadership to present and obtain authority to make and offer</b> – a meeting will held to table the property as an option and discuss the findings of work to date. Normal attendees (at a minimum) are The Chief Executive Officer, the SD Commercial Development, SD Corporate Services and Monitoring officer. After the meeting, and if agreed, the Leader will formally give approval to offer on the property. A maximum offer is approved after discussion; although opening offers are always placed below.</p>	<ul style="list-style-type: none"> <li>• Authority to bid</li> </ul>	Strategic Director of Commercial Development
8	<p><b>Place offer</b> – After receiving approval, offer letters are drafted, approved and submitted to the vendor’s agent. The offer letter contains Charnwood’s offer and terms, such as:</p> <ul style="list-style-type: none"> <li>• The proposed time for signed Decision Records, surveys, completion</li> <li>• Conditions to be included in the Heads of Terms (HoT), such as receipt of a full legal pack before the process starts.</li> <li>• Exclusivity from agreed HoT.</li> </ul> <p>An accepted offer is notified normally by telephone and is followed by receipt of an email with Draft HoT attached.</p>	<ul style="list-style-type: none"> <li>• Offer letter</li> </ul>	Strategic Director of Commercial Development

## Stage 2- Conveyancing Stage

This stage begins once a bid has been accepted for an investment property. The ongoing due diligence in the first stage would also be brought forward to mitigate risks. Further analysis of the tenant, the building, the lease etc, are evaluated to ensure risk is mitigated.

Step	Action	Document(s) Involved	Responsibility
9	<b>Agree the Heads of Terms</b> – After reviewing the received Draft Heads of Terms and making any required amendments, the revised Heads of Terms are returned to the vendor’s agent. This process will repeat until both parties are satisfied that the Heads of Terms reflect the agreed position, at which point they are formally approved by both sides. These will then be sent to the SD Commercial Development and the Monitoring officer.	Draft HOT	Strategic Director of Commercial Development
10	<b>Make contact with Vendor’s solicitors; receive and verify Legal pack</b> – Once received by Legal, the appointed solicitor will make contact with the Vendor’s solicitor via email or phone to indicate that they are representing Charnwood in the transaction. Charnwood Legal will provide the necessary details for receipt of the legal pack; upon receiving the Legal pack, the Charnwood’s solicitor will verify its contents and raise any queries with the other side’s solicitor whilst awaiting instructions from the Commercial Property team following a signed Decision Record from the Leader.	N/A	Legal Services Manager
11a	<b>Instruct surveys (external)</b> – After agreeing Heads of Terms, quotes will be sought for conducting building surveys of the property in question. Generally, the property brochure provided at the beginning of the process is provided to at least three Survey firms, with the deadline by which inspections and reports must be completed and received by Charnwood (this element of the process has a 10 working day time limit from the date of Agreed Heads of Terms being received). Quotes are generally received within 24 hrs and the quote that represents best value for money (taking price, quality and time into account) is selected.	N/A	Strategic Director of Commercial Development
11b	<b>Write Urgency Notice / Report for the Delegated Decision Record</b> – An urgency notice is required for these transactions which must be signed by the Chair of the Scrutiny Committee. The Leader, or delegated person, is obligated to contact the Chair to explain the details of the transaction prior to gaining a signature. An urgency notice is required due to the Decision being Key and the constrained timeframe for the process to be completed.	Urgency notice Decision Report draft	Strategic Director of Commercial Development

Step	Action	Document(s) Involved	Responsibility
	<p>The Report for the Delegated Decision Record is the briefing note written earlier with the addition of Recommendations, Implications, Reasons for Urgency, and Exemptions, as per the standard Charnwood report format. Once a draft is produced by the SD CD, it is circulated to Legal and Finance for review/amends until it is finally complete and approved by all parties.</p> <p>Then the Leader, Chief Exec and the SD CM and SD CS will meet to review the report and answer any remaining questions. Once the Leader is satisfied, the EDR is signed by the Leader and forwarded to Democratic Services, along with the report. A copy of both should also be supplied to Legal for the case file.</p>		
12a	<p><b>Notify other side of the DR</b> – Once the DR is signed, an email should be sent to the other side’s solicitor noting that the DR has been signed, meaning that the purchase is officially approved.</p>	N/A	Legal Services Manager
12b	<p><b>Instruct legal</b> – The Asset Manager will complete the official instructions for Legal to undertake the conveyancing process.</p>	N/A	Strategic Director of Commercial Development
13	<p><b>Conveyancing process</b> – The conveyancing process is distinctly different for every property purchase, given the unique circumstances that each purchase presents, though each has common activities, i.e. examining titles, searches and queries, contract/Lease examination and amendment, etc.</p>	N/A	Head of Financial Services
14	<p><b>Determine level of borrowing and source / Option to tax (if applicable)</b> – Finance will determine the level of borrowing need for the purchase as well as whether this should be internal or external borrowing. Finance work closely with their Treasury Management Advisers. They will seek advice to determine whether it is preferable to externally borrow now and risk the cost of carry i.e. interest payable being greater than the interest payable or whether it is best to borrow internally or temporarily if affordable.</p> <p>If the property is being sold as a Transfer of a Going Concern (TOGC), finance will complete a form to Opt to Tax the property (VAT 1614A). When granted by HMRC, VAT must be paid and passed to HMRC on rents, but VAT will not apply on the purchase of the property. If for whatever reason the purchase does not complete then this can be rescinded by simply informing the HMRC.</p>	N/A	Strategic Director Corporate Services

Step	Action	Document(s) Involved	Responsibility
15	<b>Arrange Insurance</b> – Once the Surveys have been returned, the values provided therein by the Surveyor will be passed to Finance to arrange appropriate insurance cover for the property, with the date of commencement to be the completion date.	N/A	Head of Financial Services
16	<b>Secure funds</b> – Having previously determined the source of funding, Finance will take steps to secure the funds in anticipation of making payment.	N/A	Head of Financial Services
17	<b>Transfer payment</b> – Once Legal is satisfied that completion can occur, the solicitor will notify Finance that the money can be transferred. Funds will be transferred <u>no later than 1700hrs on the day prior to completion</u> . Failure to meet this deadline risks incurring additional costs in penalties as noted in the sale contract.	N/A	Head of Financial Services
18	<b>Complete</b> – At the agreed date/time, Charnwood 's solicitor and the Vendor's Solicitor will carry out the completion process.	N/A	Legal Services Manager

### Stage 3 - Post-completion Stage

After completion, work remains to complete the entire process before day-to-day management begins.

Stage	Action	Document(s) Involved	Responsibility
19	<b>Post completion</b>	N/A	(Corporate Support)
20	<b>Authorise Stamp Duty payment to HMRC</b>	N/A	Strategic Director of Commercial Development
21	<b>Update Budget</b> – The budget will be updated at the next available opportunity to include the expected Rental Income, Minimum Revenue Provision and Interest Payable, if applicable.	N/A	Head of Financial Services
22	Present decision record to next available Council meeting.	Report	Strategic Director of Commercial Development