Rushcliffe Borough Council	**Corporate Governance Group** **24 July 2018** **Treasury Management Outturn 2017/18**

Report of the Executive Manager – Finance and Corporate Services

1 Summary

1.1 The purpose of this report is to summarise the transactions undertaken during the 2017/18 financial year as part of the Treasury Management function.

1.2 During the year the Corporate Governance Group received the half-yearly treasury management update report on 5 December 2017 and a training session from the Council's treasury advisors, Arlingclose, which was well received by Members across the Council.

1.3 The report also provides information on the Council's commercial investment activity as it embraces the new CIPFA Code ensuring there is both transparency and scrutiny in terms of both treasury and asset investment decision making.

2 Recommendations

2.1 It is recommended that the report is agreed by the Corporate Governance Group.

3 Reasons for Recommendation

3.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Finance in Local Authorities (the Prudential Code).

4 Supporting Information

Treasury Management

Prudential Indicators Summary

4.1 During 2017/18 the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year are as follows:

Prudential and treasury indicators	**2016/17 Actual £000**	**2017/18 Estimate £000**	**2017/18 Actual £000**
Capital expenditure	18,364	22,535	9,816
Capital Financing Requirement	9,563	14,336	9,300
Investments	(33,903)	(12,000)	(23,982)

4.2 The approved capital programme for 2017/18 was £22.535 million, with a further £114,000 accelerated from 2018/19. Actual expenditure against the approved programme was £9.816 million, with carry forwards of £12.175 million approved by Cabinet on 12 June 2018 and there were savings totalling £658,000. The reduction in the investment balance between years reflects the increase in investment asset acquisitions.

Capital Expenditure and Financing

4.3 The Council undertakes capital expenditure on both its own long-term assets and on grants that can be capitalised under statute (capital payments to third parties). These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc) which has no resulting impact upon the Council's borrowing need; or
- If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

4.4 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed:

	2016/17 Actual £000	**2017/18 Estimate £000**	**2017/18 Actual £000**
Capital Expenditure	**18,364**	**22,535**	**9,816**
Less Financed by:			
Capital Receipts	(3,538)	(15,277)	(6,455)
Capital Grants	(3,525)	(3,886)	(2,119)
Reserves	(1,233)	(689)	(505)
Increase in Borrowing Need	**10,068**	**2,683**	**737**

The Council's Overall Borrowing Need

4.5 The Council's underlying need to borrow for capital expenditure is called the Capital Financing Required (CFR). The CFR represents the net capital expenditure in 2017/18 and prior years that has not yet been paid for by revenue or other resources.

4.6 Part of the Council's treasury management activity is to organise the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be through utilising temporary cash resources within the Council (internal borrowing) or sourced through borrowing from external bodies, for example, the Public Works Loan Board (PWLB).

4.7 Where a positive CFR exists, the Council is required by statute to make an annual charge called the Minimum Revenue Provision (MRP) to reduce the CFR based on the life of the relevant assets. This provision effectively raises cash to either help repay loans or replenish internal borrowing

4.8 The total CFR can be reduced by:

- The application of additional resources (such as unapplied capital receipts); or
- Charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision (VRP).

4.9 For 2017/18 the Council decided to set the MRP at £1m mainly to recover internal borrowing for the Arena.

4.10 The Council's CFR for 2017/18 represents a key prudential indicator and is shown below. The table shows that the additional borrowing need of £737,000 in 2017/18 has given rise to a reduction in the CFR of £263,000, after deducting the MRP of £1m.

Capital Financing Requirement (CFR)	**2016/17 Actual £000**	**2017/18 Actual £000**
Opening Balance	**(505)**	**9,563**
Add: unfinanced Capital Expenditure (per above)	10,068	737
Less: MRP/VRP	0	(1,000)
Closing Balance	**9,563**	**9,300**

Net Borrowing, CFR, Authorised Limit and Operational Boundary

4.11 The borrowing activity is normally constrained by prudential indicators for net borrowing, the CFR and by the Authorised Limit for external debt.

4.12 The authorised limit is the "affordable borrowing limit" required by section 3 (1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited and was set at £31m.

4.13 As the Council did not need to resort to external borrowing during 2017/18 these indicators are not applicable

4.14 Similarly, the Council is required to set an operational boundary, which is the expected borrowing position of the Council during the course of the year. The operational boundary is not a limit and actual borrowing can be either below or over the boundary subject to the authorised limit not being breached. The Operational Boundary was set at £26m, however, no borrowing was undertaken.

The Ratio of Financing Costs to Net Revenue Streams

4.15 This compares net financing costs (borrowing costs, including interest foregone from the use of cash balances less investment income) to net revenue income. This indicator shows how the proportion of net income used to pay for financing costs is changing over time and is negative as a result of investment yields exceeding borrowing costs.

	2016/17 Actual £000	2017/18 Estimate £000	2017/18 Actual £000
General Fund	-3.04%	-2.15%	-2.46%

Incremental Impact of Capital Investment Decisions

4.16 This is an indicator of affordability that shows the incremental impact of capital investment decisions on Council Tax. The indicator identifies the revenue costs associated with the capital programme for a particular year.

	2016/17 Actual £	2017/18 Estimate £	2017/18 Actual £
Increase in Council Tax – Band D	2.14	-13.50	-6.58

Upper Limits for Fixed and Variable Rate Exposure

4.17 The purpose of these indicators is to allow the Council to manage the extent to which it is exposed to changes in interest rates:

	2017/18 Limit	2017/18 Actual
Fixed		
Upper Limit for Fixed Interest Rate Exposure on Debt	100%	N/A
Upper Limit for Fixed Interest Rate Exposure on Investments over 1 year	25%	10%
Upper Limit for Fixed Interest Rate Exposure on Investments up to 1 year	100%	22%
Variable		
Upper limit for Variable Interest Rate Exposure on Debt	100%	N/A
Upper Limit for Variable Interest Rate Exposure on Investments	100%	88%

Upper Limit for Total Principal Sums invested over 1 year

4.18 This limit is intended to contain the exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any investments made. If an investment had to be repaid before its natural maturity date due to cash flow requirements then, if market conditions were unfavourable, there would be an adverse impact on the Council.

	2017/18 Limit £000	2017/18 Actual £000
Upper Limit for Total Principal Sums Invested over 364 days	3,625	3,000

Treasury Position at 31 March 2018

4.19 The Council's debt and investment position is managed by the treasury team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities in line with the approved treasury strategy. Procedures and controls to achieve these objectives are established through the Member reporting detailed in paragraph 23 of the treasury strategy and through officer activity detailed in the Council's Treasury Management Practices. The following table details the Counterparties that the Council had placed investments with at the end of 2017/18.

Financial Institution	Amount £000	Length of Investment	Interest Rate
CCLA Property Fund	2,114,599	Ongoing	4.58%
Royal London Cash Plus Fund	1,005,930	Ongoing	0.42%
Newcastle City Council	3,000,000	4 years	2.04%
Thurrock Council	1,000,000	3 months	0.45%
BlackRock	52,128	MMF/Call	0.39%
Federated	2,106,435	MMF/Call	0.45%
HSBC	333,629	MMF/Call	0.28%
Invesco	309,897	MMF/Call	0.42%
Standard Life	2,996,638	MMF/Call	0.46%
CCLA Property Fund	273,923	MMF/Call	0.46%
Santander	2,083,307	Call	0.40%
Bank of Scotland	4,004,762	32 day notice	0.57%
Barclays	970,248	32 day notice	0.52%
Santander	13,674	31 day notice	0.30%
Santander	820,157	60 day notice	0.35%
Handelsbanken	2,873,446	35 day notice	0.35%
Residual MMF/Call Account balances eg Aviva, Bank of Scotland etc	23,081	MMF/Call	0.2% to 0.4%
Total Investments /Average Interest Rate	**23,981,854**		**0.68%**

The strategy for 2017/18

4.20 The expectation for interest rates within the strategy for 2017/18 anticipated that short term money market rates would remain at very low levels and that the Bank Rate would remain at 0.25%. The Council continued with the prudent investment of the treasury balances to achieve the objectives of security of capital and liquidity of its investments whilst achieving the optimum return on investments. The continuing instability of the market resulted in restrictions remaining on which counterparties investments could be placed with, which affected the level of interest that could be achieved from investments. Given the impact of 'Bail-in' legislation the Council continues to diversify its investment portfolio.

Investment Rates and Outturn Position in 2017/18

4.21 The Bank Rate increased from 0.25% to 0.50% on 2nd November 2017 and short term money market rates also remained at very low levels which continued to have a significant impact on investment income. Whilst the Council continues to ensure investments are secure the Council is proactively looking to maximise its rate of return. The overall rate of return on investments for the year was 0.68% which compares with the budgeted rate of 0.35%. This improved return together with underspend on the capital programme has resulted in an increased return on investments of £283,500 against a budget of £271,900.

4.22 The Council's investment policy is governed by the annual Treasury Management Strategy approved by Council on 2 March 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, for example, rating outlooks and credit default swaps information. The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

4.23 The Council's longer term cash balances comprise primarily of revenue and capital resources, although these will be influenced by cash flow considerations and the need for working balances and contingencies. The Council's core cash resources are detailed in the following table and confirm that whilst the Council has delivered a capital programme and has to operate with an increasingly constrained revenue budget, its reserves and balances remain in a healthy position given the on-going financial challenges going forward.

Balance Sheet Resources	**31 March 2017 £000**	**31 March 2018 £000**
General Fund Balance	2,604	2,604
Earmarked Reserves	10,215	10,532
Usable Capital Receipts	13,929	8,168
Capital Grants Unapplied	54	108
Total	**26,802**	**21,412**

Conclusion – Treasury Management

4.24 Overall the Council has successfully achieved its objectives of ensuring investments were held with relatively secure counterparties; ensuring there was sufficient liquidity to operate efficiently and enable the delivery of objectives; and achieve the maximum yield on investment returns possible within the constraints placed upon the Council.

ASSET INVESTMENT STRATEGY

Overview

4.25 The Government and CIPFA have recently issued new guidance on Treasury Management activity, which particularly focuses on the role of longer term investments specifically held to make a commercial return. The Council's Asset Investment Strategy falls within this definition.

4.26 This section of the report reviews the current position and the issues that influenced the Asset Investment Group's future approach to investments.

Investments 2017/18

4.27 During 2017/18 the Asset Investment Group agreed to proceed with two new investments. An investment of £1.917m in Bardon was completed on 2nd October 2017, and reported to CGG on 5 December 2017.

4.28 On 29 March 2018 the Council acquired an investment in Finch Close for £925,000. Details of the investment appraisal are attached at Appendix A, and can be summarised as follows:

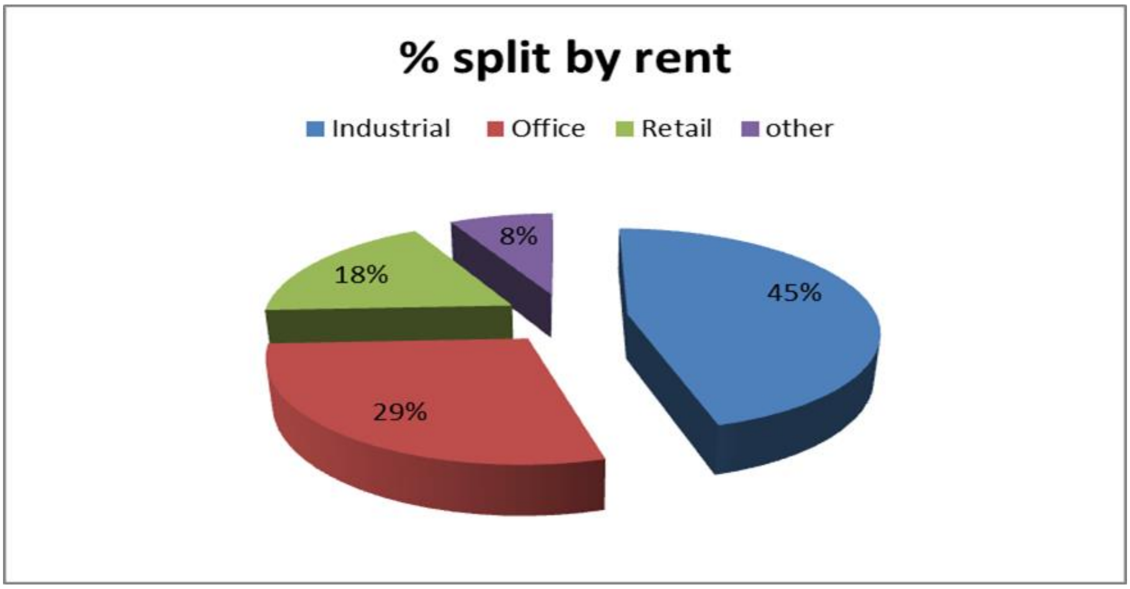
- Comprises office and warehousing space off Lenton Lane, Nottingham
- A 93 year remaining long leasehold tenure in a solid, prime location
- Annual rental income of £66,500
- 100% funding from available internal resources
- An expected net present value of £0.45m after 40 years
- A corresponding internal rate of return of 5.18%

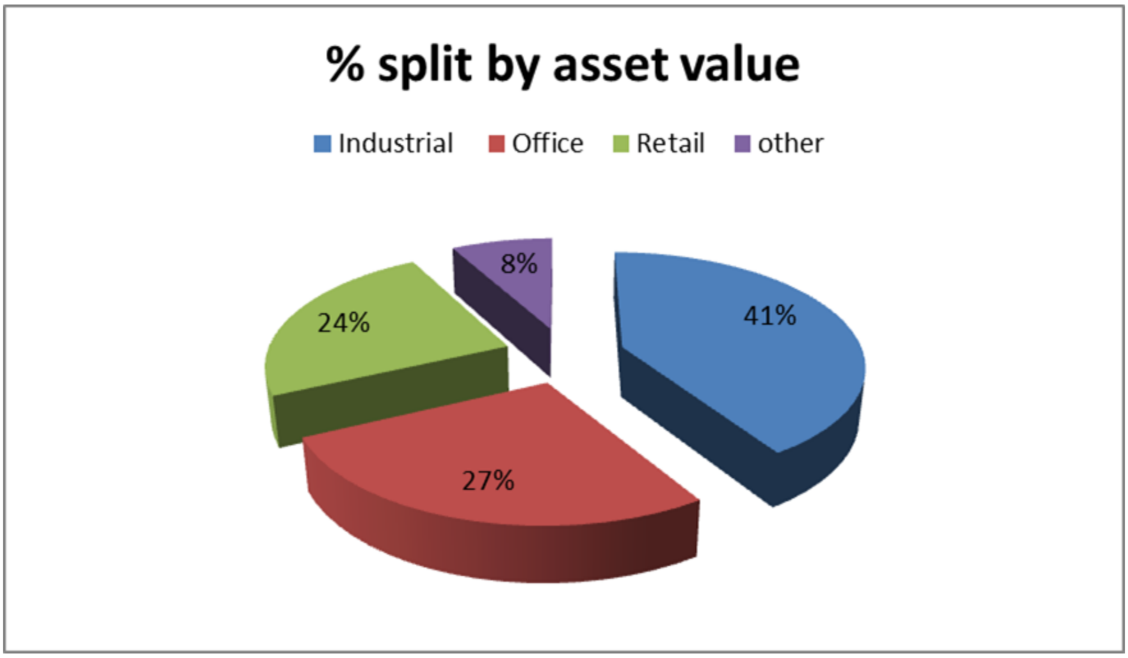
Current Position

4.29 In terms of the Asset Investment Strategy and the fund the table below exemplifies the current position and significant work undertaken primarily by the Property, Legal and Finance teams. Currently £7.548m remains outstanding from the original £20m allocation.

Total (including associated costs)	Returns		2017-18	2018-19	2019-20	2020-21	2020-21	2021-22
£2,700,000	4.31%	NCCC Loan (interest)	69,003	107,750	116,370	116,370	116,370	116,370
£1,372,495	5.03%	Trent Boulevard (Co-op)		69,000	69,000	69,000	69,000	69,000
£934,000	7.12%	Finch Close		66,500	66,500	66,500	66,500	66,500
£1,917,000	6.26%	Bardon	50,000	120,000	120,000	120,000	120,000	120,000
£2,500,000	6.48%	Cotgrave - New Offices		12,000	40,000	40,000	40,000	40,000
		Cotgrave- Ind Units		122,000	122,000	122,000	122,000	122,000
£1,278,000	5.48%	Trowell		25,000	70,000	70,000	70,000	70,000
1,750,000	4.86%	Ind Units Moorbridge		0	25,000	85,000	85,000	85,000
12,451,495	**5.53%**	**Totals**	**119,003**	**522,250**	**628,870**	**688,870**	**688,870**	**688,870**
£7,548,505	**5.50%**	**Outstanding balance**		**477,750**	**415,168**	**415,168**	**415,168**	**415,168**

4.30 If we look at the Council's overall property portfolio (this obviously excludes the loan to NCCC) there is a good spread of risk (classifying by the rental earned or the asset value), as depicted below:


% split by rent
Industrial
Office
Retail
other
8%
18%
45%
29%


% split by asset value
Industrial
Office
Retail
other
8%
24%
41%
27%

4.31 From the above there is more investment in the industrial sector given much of the property investment has been about economic growth and regeneration within the Borough, as well as generating an income stream.

4.32 In terms of risk in relation to the Council's budget the following extract from the Council's Capital and Investment Strategy 2018/19 demonstrates that whilst property income is important for the Council's budget; there is not an over emphasis upon property income and there are other income streams. Taking into account Business rates and Council Tax the 25% stated below halves to around 12.5% of income.

Commercial Investment income and costs

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Commercial Property Income	(1,027)	(1,629)	(1,933)	(1,971)	(2,005)	(2,013)
Running Costs	360	314	326	326	326	326
Net Contribution to core functions	(667)	(1,315)	(1,607)	(1,645)	(1,679)	(1,687)
Interest from Commercial Loans	(87)	(108)	(116)	(116)	(116)	(116)
Total Contribution	(754)	(1,423)	(1,723)	(1,761)	(1,795)	(1,803)
Sensitivity:						
+/- 10% Commercial Property Income	103	163	193	197	201	201
Indicator:						
Investment Income as a % of total Council Income	15.0%	22.5%	25.4%	25.2%	25.5%	25.6%

The Way Forward

4.33 The Council's original intention was to look at generating around £1m of additional property rental income to help bridge the anticipated budget deficit. Around 66% of this will have been achieved based on the current activity profile. The Asset Investment Group considered whether the Council should now be even more selective with a view to looking at investing in other projects which may give a longer lead in-time given the following risks and opportunities:

a) There is much risk in the property market and the recent issues concerning both high street shops (Debenhams, House of Fraser, Marks and Spencers etc) and restaurants (Carluccio's, Jamie Oliver) will no doubt have a domino effect;

b) Experience gained from investigating investment proposals demonstrated the benefit of local knowledge and seeing tenants. If we can invest in our own assets with greater knowledge and gain a similar return, this is a strategy carrying less risk;

c) The new CiPFA Treasury Code restricts borrowing to finance property acquisitions outside of the Borough purely for commercial reasons; and

d) There are a number of opportunities where we will require our own resources (both direct financial resource and our own staff commitment). For example potential investment in West Bridgford and Cotgrave.

4.34 The issue with deferring the investment (or waiting for returns that are not immediate) is that there is an immediate pressure on the revenue budget. Options to mitigate this risk include the following:

a) Use of reserves for a couple of years (at least) –around £0.5m;

b) A more optimistic view surrounding business rates assumptions for the budget (ie assume the ‘baseline’ rather than the ‘safety net position’ – this will give us around £500k for 2 years dependent on the risks surrounding business rates appeals and particularly the power station). Everything being equal this is an approach we could take there are national reforms of business rates and the Fair Funding review which will impact on future resources for local authorities.;

c) Focus on other income streams / efficiencies to bridge the gap.

Conclusion

4.35 In the light of the issues identified above the Asset Investment Group have agreed that there is a refocusing of the Asset Investment Strategy, with the aim of funding Borough Council projects and gaining financial returns as well as wider socio-economic benefits. This is not to say the Council will not consider future asset investments. Accepting in the short term we may have to draw on reserves if other efficiencies are not identified (given the lead-in time in delivering projects). This will be considered and reported as part of the MTFS 2019/20 budget process and to report on in financial reports in 2018/19.

5 Risk and Uncertainties

The report covers many treasury risks including counterparty and interest rate risk.

6 Implications

6.1 Finance

Financial implications are covered in the body of the report.

6.2 Legal

Compliance with the Local Government Act 2003.

6.3 Corporate Priorities

Efficient treasury management enables the Council to achieve its corporate priorities.

6.4 Other Implications

None.

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Background papers Available for Inspection:	Statement of Accounts 2017/18; Treasury Management Strategy 2017/18; Treasury Management 6 Month Monitoring Report 2017/18
List of appendices (if any):	**Glossary of Terms** **Appendix A** – Investment Appraisal, 4 Finch Close, Lenton Lane

Glossary of Terms

Money Market Funds – these funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks.

CCLA Property Fund - this a local authority property investment fund. The property fund is designed to achieve long term capital growth and a rising income from investments in the commercial property sector.

Covered Bonds – these investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means they are exempt from bail-in.

Pooled Funds – shares in diversified investment vehicles consisting of different investment types including banks, equity shares and property, these funds have the advantage of providing wide diversification of investment risks

APPENDIX A

Investment Appraisal

4 Finch Close, Lenton Lane

Background

On 30 January 2018 the asset Investment Group agreed to progress this bid, with agreement to go no higher than £1.1m. Initially we bid £975k and subsequent to this we challenged the rental level and therefore the value of the asset; resulting in a final offer being accepted of £925k and the rental reducing to £66,500 (was £69,600). To protect the rental stream and give greater certainty a ‘cap and collar of 3% and 1% respectively’ has been agreed at the 5 yearly rent review period rather than a market rent review. Below gives some analysis of the impact of the changes compared to our original assumptions.

Commentary

4 Finch Close Lenton Lane, Nottingham, has a single tenant Snowdon Healthcare, trading as Baby Start, trading products – the business looks to assist with fertility.

Some contextual analysis is provided below together with some sensitivity analysis surrounding assumptions on inflation and rental increases. Using 100% Council resources the analysis identifies a positive net present value (for the central case) of around £0.45m after 40 years and an internal rate of return after financing costs of 5.18%. Typically Government Green Book projects aim for 3.5% IRR.

To complete, highlight the applicable box and 50% of answers should be in Excellent, Good or Satisfactory - to be appraised alongside the contextual information in tab 2

PROPERTY	**4 Finch Close, Lenton Lane, Nottingham, NG7 2NN**
PROPERTY TYPE	**Office with warehouse**
TENANT	**Snowden Healthcare Ltd**

ASSESSMENT CRITERIA	**Excellent / very good**	**Good**	**Satisfactory**	**Marginal**	**Uncertain**
Tenancy strength	Multiple tenants with strong financial covenant	Single tenant with strong financial covenant	Single or multiple tenants with good financial covenant	Tenants with average financial covenant	Tenants with poor financial covenant strength
Lease length and break (for main tenants/income)	>15 years	11 - 15 years	10 - 8 years	7 - 5 years	<5 years or vacant (unless reflected in price)
Rate of Return - % rent against capital	>8%	7%-8%	5%-7%	3%-5%	<3%
Portfolio mix (asset type is balanced in portfolio - no more than x% of portfolio)	<50%	50%-60%	>60%-70%	70%-80%	>80% of portfolio
Property Sector & Risk	Industrial (lower risk)	Office (lower-mid risk)	Warehouse Retail (med risk)	Retail, Leisure (higher risk)	Residential (not part of investment strategy)
Void (after Lease end including marketing, fit out and rent free)	0-9 months	9-12 months	12-18 months	18-24 months	>18 months
Location	Prime	Not prime but in established location	Secondary	Remote from other developments	Isolated, undeveloped area, limited infrastructure links
Tenure	Freehold	Lease >200 years	Lease 100 - 199 years	Lease 75 - 99 years	Lease <75 years
Repairing terms links to Building quality	Full repairing & insuring	Interal repairing 100% recoverable	Internal repairing partially recoverable	Internal repairing non recoverable	Landlord
Building Quality/Age	<10 years	10-20 years	21-30	31-35	>35
Rental Growth	within 1 year	within 2-5 years	within 6-7 years	within 8-10 years	>10 years
Purchase Price	<£2m	Between £2m and £3m	Between £3m and £4m	Between £4m and £7m	>£7m
Proximity to Borough	within Borough	within Nottinghamshire	within East Midlands	within the Midlands	National
Energy Rating (2018 legislation can't let with F/G assessment)	A/B	C	D	E	F/G

CONTEXTUAL INFORMATION

PROPERTY			
Address	4 Finch Close, Lenton Lane, Nottingham		
Location/Situation (ie what is nearby)	Solid prime nottingham location located off the ring road; strong local business and retail area Home to many of the city's quality marque Car Dealerships (eg Ferrari and Maserati, Sytner for BMW and Mini and Stratstone for Porsce		
Description of Asset (ie age, layout, construction, services, car park)	High quality recently refurbished two storey office with ancilliary accommodation at the front with warehousing and further stores to the front and rear. Steel portal frame with brick and insulated sheet cladding Gas fired central heating, LED lighting, double glazed aluminium windows, intruder and fire alarms and monitored CCTV, high quality kitchen and toilets 3 phase electricity in the warehouse, single electric roller shutter door with gas space heating, with a maximum useable height of 5.95m 26 parking spaces, fenced and landscaped with two vehicle entry points		
Size/site area	854m2 (9,192sq ft)		
Planning ie use/class	B1		
Conditions of sale	Not known		
COSTS	**Total Capital Purchase costs**	**Total Annual Revenue Costs**	**Total Annual Income**
Purchase price	£925,000		
Purchase costs ie SDLT, legal, agents, survey fees	£60,125		
Refurbishment costs	£0		
Borrowing costs/Capital costs		£3,700	
Business Rates		£0	
Management costs & Sinking Fund		£3,325	In-house mgmt
Service charge apportionment		£0	
Rent/Income			£66,500
Total	£985,125	£7,025	£66,500
Net Annual Profit			£59,475
Life Costs ie current condition	In good condition with refurb in last 1-2 years. Tenant specific fit out may mean costs to relet if vacant		
Yield	6.80%		
Return on Investment (years)	17		
IRR			
Rental growth	After year 5		
Opportunity to add value (ie lease/tenant mgmt, regearing, building changes)	No		
Other costs			

LEASE TERMS	
Tenure ie Freehold/Leasehold	125 year lease - 93 years remaining
Tenant/Tenant Mix	Single tenant, Snowdon Healthcare but trading as Babystart; a healthcare company developing and selling products to enable fertility.
Tenant covenant strength	Good - gold rating with Red Flag Credit Scoring
Lease term & breaks	10 years, no breaks
Rent review & terms	At year 5, upwards only, 1% collar, 3% cap
Key lease conditions ie alienation	Not known
Cashflow risk ie to rents	If tenant goes into administration or at year 10
Void ie current/expected	12-18 months
Lease type ie FRI (repairing obligation)	FRI

OTHER	
Economic Factors ie market commentary	Solid prime nottingham location; strong local business and retail market Home to many of the city's quality marque Car Dealerships (eg Ferrari and Maserati, Sytner for BMW and Mini and Stratstone for Porsche.)
Potential uses/alternative uses	None currently
Benefits	Good covenant, good lease term remaining of 10 years, with upwards only rent reivew at year 5, recently refurbished property, strong location, low purchase price and rent provide limited cashflow risk
Risks	Bespoke fitout/refurbishment for existing tenant, could require capital investment to relet, no EPC and not viewed so more information needed
Liquidity	
Local economic benefits	
Local Search info	
Delivery Model ie set up a new company, JV, with another Council	

Summary	Stong investment in a prime Nottingham location. Sale and leaseback with 10 years remaining and upwards only rent review at year 5. Risk regarding tenant specific fit out and question over reason behind sale and leaseback. Overall appears to be a solid investment.

Sensitivity Analysis

1. The following assumptions have been made ranging from worst, central to best case scenarios:

Sensitivity	**Best (pa)**	**Central (pa)**	**Worst (pa)**	**Rationale**
Inflation for management costs and repairs	1.7%	2.0%	2.3%	Central case being Government inflation target
Inflation on rent and asset value; rent review 5 yearly	3%	2.0%	1%	Linked to ‘cap and collar’
Vacancy factor	Assume 18 months vacancy at year 5, 10 etc			

2. Using the above assumptions and assuming disposal in Year 40 gives a positive Net Present Value ranging from £993k to £41k and an internal rate of return ranging from 3.69% to 6.53%.