

Title of meeting: Cabinet / City Council

Date of meeting: 3rd December / 8th December 2015

Subject: Property Investment Strategy

Report by: Director of Property

Wards affected: All

Key decision: Yes

Full Council decision: Yes

1. Purpose of report

- 1.1 This report seeks additional prudential borrowing in the financial year 2015/16 to further support the Councils commercial property investment activity in line with the aims and objectives in the Investment Property Strategy 2015/16 - 2019/20.
- 1.2 Expansion of the financial capacity of this fund will enable further property acquisition in 2015/16, with a view to generating long term rental income streams to support the delivery of Council services in the future and reduce dependence on Government grant.

2. Recommendations

- 2.1 That Cabinet recommends to the City Council that:
- i. The Director of Finance & S151 Officer be authorised to amend the Corporate Capital Programme, Property Investment Fund by adding an additional £20m financed from Prudential borrowing in 2015/16, to acquire additional investment property.
 - ii. That any unutilised borrowing ability within the Property Investment Fund in 2015/16 be automatically carried forward into 2016/17.

3. Background

- 3.1 The Property Investment Fund was approved by Full Council on the 7th July 2015.

3.2 At the time of writing approximately £22m of the initial £30m allocation is being invested in two sizable commercial assets which are anticipated to produce a combined unleveraged return of 6.1%, or 1.6% after borrowing costs.

3.3 In order to further improve the Council's return, officers would like to extend the Property Investment Fund by an additional £20m to enable further property investment to be pursued in the current financial year.

4 Equality impact assessment (EIA)

4.1 An EIA has been undertaken for investment property purchases and there is no adverse effect.

5. Legal implications

5.1 The Council is empowered to buy and sell land pursuant to section 120 of the Local Government Act 1972. Section 1 of the Local Government Act 2003 provides a power to the Council to borrow for the purposes of any enactment

5.2 In order to lawfully implement the investment strategy, each proposal (including the funding strategy for purchases) should be reviewed as part of a decision to purchase or sell, and tested for value for money, and regulatory compliance.

5.3 The Council is able to invest in the manner contemplated here, under section 12 of the Local Government Act 2003, and may borrow to do so. There is an overriding duty toward prudent management of risk, and officers, including the Council's section 151 officer owe a fiduciary duty in relation to given transactions.

5.4 Given the limited nature of the investment work, the current levels do not suggest that the Council is engaged in commercial investment work, though this matter would need to be reviewed as this project develops: concluding that it is commercial work, would necessitate a conduct of business through a company.

6. Finance comments

6.1 This report seeks to build on the success of the initial commercial asset purchases, and requests further borrowing approval to allow the Council to continue to adopt a proactive and commercial approach to managing its investment property portfolio, with a view to increase the income to the Council and reduce its dependence on Government grant.

6.2 It should be noted that any request to draw down on the additional £20m requested, will continue to require the completion of a robust and detailed financial appraisal approved by the Director of Finance & S151 Officer, that not

only delivers best value but also meets the criteria contained within the Property Investment Strategy 2015/16 - 2019/20 and has proper regard to the following:

- The relevant capital and revenue costs and income resulting from the investment over the whole life of the asset.
- The extent to which the investment is expected to deliver a secure ongoing income stream.
- The level of expected return on the investment.
- The payback period of the capital investment.

6.3 In order to ensure that the Council is able to compete responsively in this market, the ability to react to a favourable financial appraisal is essential, and as a result it is recommended that delegated authority continues to be given to the Director of Property and the Director of Finance & Section 151 Officer, in consultation with the Leader of the City Council and the Cabinet Member for PRED, to approve the completion of investment purchases upon the completion of a financial appraisal as set out above, and in accordance with the Property Investment Strategy 2015/16 - 2019/20.

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Signed by:

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Property Investment Strategy report - Full Council 7 th July 2015	web

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by: