

Title of meeting: Cabinet / City Council

Date of meeting: 3rd July / 7th July 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 presents the Investment Property Strategy 2015/16 - 2019/20 and seeks to create a £30m Property Investment Fund resourced from prudential borrowing, that will enable the Council to exploit commercial property acquisition opportunities, 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 agree the following recommendations:
- i. Acknowledge and endorse the Investment Property Strategy 2015/16 - 2019/20, attached at appendix 1 to be used as a guide to investments.
 - ii. Empowers the Corporate Asset Development Board to recommend and reject the purchase of investments including the sanctioning of formal offers and counter offers (due to the need for timely decision making in this type of industry and the need to respond to opportunities quickly).
 - iii. Agrees to give delegated authority to the Director of Property and the Director of Finance & Section 151 Officer, taking advice from the City Solicitor, and in consultation with the Leader of the City Council and the Cabinet Member for PRED, to approve the completion of investment purchases. This to be conditional upon the City Council approving the budget pursuant to 2.2 below.

2.2 That Cabinet recommends to the City Council that:

Authority is delegated to the Director of Finance and Section 151 Officer in consultation with the Leader of the Council and the Cabinet Member for PRED to:

- i. Amend the Corporate Capital Programme to create a Property Investment Fund of up to £30m financed from Prudential borrowing in 2015/16 and future years, to acquire additional investment property.
- ii. Borrow as required for investment property purchases subject to a robust financial appraisal approved by the Director of Finance & S151 Officer that meets the criteria contained within the Property Investment Strategy 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.

3. Background

3.1 As part of the Financial Strategy presented to Council on 12 November 2013, and reiterated in the Budget Report on 10 February 2015, it was recognised and agreed that the Council would seek to become less dependent on Central Government grant.

3.2 One of the routes to achieving this was to become a more entrepreneurial Council and seek to exploit commercial property acquisition opportunities with a view to generating long term rental income streams, in order to support the delivery of Council services in the future as well as have more influence over how the Council shapes the local and sub-regional economy.

3.3 Full Council approved the sum of £100,000 to be released from the MTRS Reserve to establish a Property Investment Strategy and fund appropriate property acquisition costs. This included the appointment of an Investment & Acquisitions Surveyor, to identify potential investment opportunities and assess their likely financial returns.

Property Investment Strategy

3.4 The Property Investment Strategy 2015/16 - 2019/20 (Appendix 1) focuses on the acquisition of property as an investment and sits within the wider Corporate

Asset Development Strategy and aims to provide a viable and sustainable framework for the acquisition of property investments.

3.5 The purpose of the strategy is to set out:

- The Council's objectives for acquiring property investments
- The criteria for identifying appropriate investment acquisitions
- The risks to the Council of such activity and how they might be managed
- The acquisition process (governance arrangements).

3.6 The Local Government Act 1972 gives the Council powers to acquire any property or rights which facilitate, or is conducive or incidental to, the discharge of any of its functions.

3.7 It is recommended that Members acknowledge and endorse the Property Investment Strategy 2015/16 - 2019/20, as set out in Appendix 1 to be used as a guide to investments.

3.8 Officers will prepare and present an annual report to Cabinet on the effectiveness of the Property Investment Strategy 2015/16 - 2019/20.

Property Investment Fund

3.9 The existing acquisition approval process requires funding to be allocated in accordance with the Council's democratic timetable on a site by site basis. This can be a time consuming process and is likely to result in a number of potentially lucrative investment opportunities being missed.

3.10 As an entrepreneurial Council, it is essential that we are able to respond more promptly, in order to exploit any commercial property acquisition opportunities that may arise.

3.11 As a result, it is recommended that a new scheme, Property Investment Fund, be added to the Capital Programme 2015/16, with a scheme value of £30m against which investment property acquisitions can be funded. It is also recommended that when setting the Council's Capital Programme in the future, an allocation for such purchases is also included as standard, similarly funded from prudential borrowing.

3.12 Access to the funding and approval to complete any acquisitions will require the completion of a robust financial appraisal approved by the Director of Finance & S151 Officer that meets the criteria contained within the Property Investment Strategy 2015/16 - 2019/20.

3.13 In order to ensure that we are 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 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 robust financial appraisal and in accordance with the Property Investment Strategy 2015/16 - 2019/20.

Capacity to deliver

3.14 The work will call upon the following skills areas:

- a) Building surveys
- b) Valuations (including valuation review)
- c) Environmental/constraints
- d) Legal and financial

3.15 In order to complete the necessary due diligence on purchase and actions necessary to complete purchases and sales, an appropriate resourcing strategy will need to be agreed with the directorate-leads in which the internal expertise currently sits.

4. Reasons for recommendations

4.1 Full Council on 10 February 2015, approved the Financial Strategy that recognised that the Council would seek to become less dependent on Central Government grant. One of the routes to achieving this was to become a more entrepreneurial Council and seek to exploit commercial property acquisition opportunities with a view to generating long term rental income streams, in order to support the delivery of Council services in the future as well as have more influence over how the Council shapes the local and sub-regional economy.

5. Equality impact assessment (EIA)

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

6. Legal implications

6.1 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.

6.2 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.

7. Finance comments

- 7.1 The Council's investment portfolio which contains a variety of property types and tenures, currently returns a gross annual revenue income stream of approximately £5.75 million per annum within the PRED portfolio.
- 7.2 This report seeks to set an ongoing Property Investment Strategy which allows the Council to adopt a much more 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.
- 7.3 It must be recognised that, as discussed in the report, any request to draw down on the requested £30m Property Investment Fund will 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.
- 7.4 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 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 in paragraph 3.12, and in accordance with the Property Investment Strategy 2015/16 - 2019/20.

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Signed by:

Appendices:

- 1 - Investment Property Strategy 2015/16 - 2019/20

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

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

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Signed by: