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Meeting of West Berkshire District Council

Tuesday, 3rd July, 2018

Summons and Agenda



WestBerkshire
C O U N C I L

To: All Members of the Council

You are requested to attend a meeting of

West Berkshire Council

to be held in the

Council Offices Market Street Newbury

on

Tuesday, 3rd July, 2018

at 7.00 pm



Andy Day
Head of Strategic Support
West Berkshire District Council

Note: The Council broadcasts some of its meetings on the internet, known as webcasting. If this meeting is webcasted, please note that any speakers addressing this meeting could be filmed. If you are speaking at a meeting and do not wish to be filmed, please notify the Chairman before the meeting takes place. Please note however that you will be audio-recorded.

Date of despatch of Agenda: Monday, 25 June 2018

AGENDA

1. **APOLOGIES FOR ABSENCE**

To receive apologies for inability to attend the meeting (if any).

2. **CHAIRMAN'S REMARKS**

The Chairman to report on functions attended since the last meeting and other matters of interest to Members.

3. **MINUTES**

The Chairman to sign as a correct record the Minutes of the Council meeting held on 08 May 2018. **(Pages 7 - 14)**



Agenda - Council to be held on Tuesday, 3 July 2018 (continued)

4. DECLARATIONS OF INTEREST

To remind Members of the need to record the existence and nature of any personal, disclosable pecuniary or other registrable interests in items on the agenda, in accordance with the Members' [Code of Conduct](#).

5. PETITIONS

Councillors may present any petition which they have received. These will normally be referred to the appropriate body without discussion.

6. PUBLIC QUESTIONS

Members of the Executive to answer the following questions submitted by members of the public in accordance with the Council's Constitution:

(a) **Question to be answered by the Leader of the Council submitted by Mr Stephen Masters:**

"With the delay to implementation of the 'Bin Tax', will council delay the rise in allowances and expenses to minimise and offset the impact of lower revenues?"

(b) **Question to be answered by the Executive Member for Planning, Housing and Waste submitted by Mr Stephen Masters:**

"With the delay to the implementation of the Green waste 'Bin Tax' what impact does council expect this to have on its revenue projections?"

(c) **Question to be answered by the Executive Member for Planning, Housing and Waste submitted by Mr David Marsh:**

"Does the council's contract with Veolia allow residents of West Berkshire to dispose of garden waste in their black bins, as advised by the current portfolio holder at the executive meeting on June 14?"

(d) **Question to be answered by the Executive Member for Planning, Housing and Waste submitted by Mr David Marsh:**

"What financial impact does the current portfolio holder expect as a result of her advice to West Berkshire residents to dispose of garden waste in their black bins free of charge, bearing in mind that the £50 green bin charge that was due to be introduced on 1 July was, or so we were told, going to bring in £900,000 in the financial year 2018/19?"

7. MEMBERSHIP OF COMMITTEES

To agree changes to the membership of Council appointed Committees if necessary.

8. LICENSING COMMITTEE

The Council is asked to note that since the last meeting of the Council, the Licensing Committee met on 08 May 2018 and the 25 June 2018. Copies of these Minutes of this meetings can be obtained from Strategic Support or via the [Council's website](#).



9. PERSONNEL COMMITTEE

The Council is asked to note that since the last meeting of the Council, the Personnel Committee met on 08 May 2018. Copies of the Minutes of this meeting can be obtained from Strategic Support or via the [Council's website](#).

10. GOVERNANCE AND ETHICS COMMITTEE

The Council is asked to note that since the last meeting of Council, the Governance and Ethics Committee met on 08 May 2018. Copies of the Minutes of this meeting can be obtained from Strategic Support or via the [Council's website](#).

11. DISTRICT PLANNING COMMITTEE

The Council is asked to note that since the last meeting of the Council, the District Planning Committee met on 08 May 2018. Copies of the Minutes of this meeting can be obtained from Strategic Support or via the [Council's website](#).

12. OVERVIEW AND SCRUTINY MANAGEMENT COMMISSION

The Council is asked to note that since the last meeting of the Council, the Overview and Scrutiny Management Commission met on 08 May 2018. Copies of the Minutes of this meeting can be obtained from Strategic Support or via the [Council's website](#).

13. JOINT PUBLIC PROTECTION COMMITTEE

The Council is asked to note that since the last meeting of the Council, the Joint Public Protection Committee met on 12 June 2018. Copies of the Minutes of this meeting can be obtained from Strategic Support or via the [Council's website](#).

14. PROPERTY INVESTMENT ADDITIONAL FUNDING (C3572)

Purpose: To agree that the current capital budget for the acquisition of commercial property of £50m, approved as an addendum to the Council's Investment and Borrowing Strategy 2017/18, be extended by an additional £50m to offer a total capital budget of £100m. (Pages 15 - 42)

15. NOTICES OF MOTION

- a) **The following Motion has been submitted in the name of Councillor Jeanette Clifford:**

"Western Rail Access to Heathrow and Third Runway"

This Council believes that West Berkshire is almost perfectly positioned relative to Heathrow Airport, one of the world's premier international airports, carrying 78 million passengers to 204 destinations in 85 countries and two thirds of the UK's air cargo. West Berkshire is close enough to benefit, distant enough to be spared inconvenience.

Furthermore, this Council asserts that the benefits of this relative proximity to Heathrow



Agenda - Council to be held on Tuesday, 3 July 2018 (continued)

will be enhanced by proposed investment in two major infrastructure projects: rail access to Heathrow and the third Heathrow runway. As the time approaches for final decisions to be made about these projects, the Council seeks a clear expression of support from across this Chamber.

This Council has consistently supported a **Rail Link** from the Great Western Main Line to Heathrow Airport because it will bring significant benefits for the residents, businesses, economy and environment of West Berkshire. It backs Thames Valley Berkshire LEP and the Stakeholder Steering Group, co-chaired by Newbury MP Richard Benyon, in championing the link, crucial to Thames Valley Berkshire's growth ambitions.

This Council notes that because of the Link:

- Travel to Heathrow Airport from West Berkshire will be easier and quicker, with direct trains from Reading Station taking only 26 minutes.
- People will choose public transport over road, eliminating CO2 emissions to the equivalent of 30 million road miles a year and reducing congestion on the M4 and other major roads as well as at Paddington Station.
- The UK economy will be boosted by £2 billion with 42,000 new jobs, including apprenticeships, which will benefit our District.

The case for better rail connectivity to Heathrow is strong, whether the airport has two runways or three. However, this council has also consistently supported a **third runway at Heathrow**. West Berkshire businesses will benefit from even better connectivity to markets around the world, West Berkshire residents from new travel opportunities.

This Council invites all Members to record their support in a letter to West Berkshire MPs, Network Rail, the Western Rail Access to Heathrow Stakeholder Steering Group and Heathrow Airport for these two projects that will keep West Berkshire open for business and a make it an even greater place to live, work and learn.

16. MEMBERS' QUESTIONS

There were no Member questions submitted in relation to items not on the agenda.

If you require this information in a different format or translation, please contact Moira Fraser on telephone (01635) 519045.



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Agenda Item 3.

DRAFT

Note: These Minutes will remain DRAFT until approved at the next meeting of the Committee

COUNCIL

MINUTES OF THE MEETING HELD ON

TUESDAY, 8 MAY 2018

Councillors Present: Steve Ardagh-Walter, Peter Argyle, Howard Bairstow, Pamela Bale, Jeff Beck, Dennis Benneyworth, Dominic Boeck, Jeff Brooks, Paul Bryant, Anthony Chadley, Keith Chopping, Jeanette Clifford, Hilary Cole, James Cole, Jason Collis, Richard Crumly, Lee Dillon, Lynne Doherty, Billy Drummond, Adrian Edwards, Marcus Franks, James Fredrickson, Dave Goff, Paul Hewer, Clive Hooker, Carol Jackson-Doerge, Marigold Jaques, Mike Johnston, Graham Jones, Rick Jones, Alan Law, Tony Linden, Mollie Lock, Gordon Lundie, Tim Metcalfe, Ian Morrin, Graham Pask, Anthony Pick, James Podger, Richard Somner, Anthony Stansfeld, Virginia von Celsing, Quentin Webb, Emma Webster and Laszlo Zverko

Also Present: John Ashworth (Corporate Director - Environment), Sarah Clarke (Acting Head of Legal Services), Martin Dunscombe (Communications Manager), Tandra Forster (Head of Adult Social Care), Moira Fraser (Democratic and Electoral Services Manager), Gabrielle Mancini (Group Executive - Conservatives) and Jo Reeves (Principal Policy Officer)

Apologies for inability to attend the meeting: Councillor Jeremy Bartlett, Councillor Graham Bridgman, Nick Carter (Chief Executive), Councillor Sheila Ellison, Honorary Alderman Royce Longton, Councillor Alan Macro, Honorary Alderman Andrew Rowles and Councillor Garth Simpson

Councillors Absent: Councillor Rob Denton-Powell and Councillor Manohar Gopal

PART I

1. Chairman's Remarks

The Chairman welcomed Councillor Jeff Brooks back to the Chamber following the recent by-election in Thatcham.

Councillor Quentin Webb thanked Members for the honour of representing them as their Chairman for the past two years. He explained that his role had resulted in him attending many functions where he had tried to uphold the best possible conduct and dignity on all occasions.

He thanked the Vice Chairman, Councillor Carol Jackson-Doerge, and the past Chairmen who had deputised for him and supported him at the 150 functions he and they had attended. He stated that it had been a pleasure to attend the many organisations, local authorities, charities and schools that he and his escort, Councillor Marigold Jaques, had been invited to.

The Chairman commented that he had been fortunate to meet many dedicated people who were providing valued services to those they cared about and he wanted to thank them all. He made particular mention of the numerous citizenship ceremonies that he had the honour of attending. He thanked the Registrar and Shaw House staff and Officers for the perfect organisation and welcoming family friendly atmosphere they created.

The Chairman thanked Jude Thomas for the fantastic support that she had afforded him over the past two years. He noted the vast amount of administration and communications that went into supporting the civic duties the Chairman undertook. He also acknowledged

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the support he received from the wider Democratic Services Team as well as Officers from across the Council.

The Chairman stated that his attendance at many functions had been enhanced and made more enjoyable by being accompanied by his escort, close friend and colleague Councillor Marigold Jaques. He commented that her guidance, help and assistance could not be underestimated and he was very grateful for all she had done to support him.

The Chairman stated that the memories and kindness that had been extended to him during the events and functions would always be treasured. He wished the next Chairman well.

2. Presentations

Prior to the presentations starting Councillor Graham Jones welcomed his friend and adversary Councillor Jeff Brooks back to the Chamber. He commented that the fact that Councillor Brooks had been made an Honorary Alderman was evidence of the respect he engendered across the Chamber.

Councillor Jones thanked Councillor Quentin Webb for the hard work and dedication he had put into the role of Chairman over the past two years.

Councillor Lee Dillon also thanked the Chairman for his past two years in office and thanked him for the fair way he had conducted Council meetings over that time. He stated that Councillor Webb had represented the Council with extreme pride.

The Chairman made a presentation to Councillor Tony Linden who had achieved 30 years' service to the Council.

Councillor Graham Jones explained that Councillor Linden had served the Council in two separate stints from 1983 to 1995 and then again from 2000 to the present day. During that time he had served on numerous Committees and had chaired the Health Scrutiny Panel and the Licensing Committee. He thanked Councillor Linden for all his hard work over the thirty years.

Councillor Emma Webster paid tribute to her fellow Ward Member for all the work that he had done. She commented that he was a seasoned campaigner who could be relied upon to campaign for the party across the District as well as helping out the party in neighbouring authorities. She stated that he was a hard working Ward Member and she was grateful for his support.

Councillor Linden thanked Councillors Jones and Webster for their kind words. He stated that he had enjoyed his years of service and thanked his fellow Members and Officers for their support.

3. Election of Chairman for the Municipal Year 2018/19 (C3334)

The Motion was proposed by Councillor Emma Webster and seconded by Councillor James Fredrickson that Councillor Carol Jackson-Doerge be elected Chairman of the Council for the Municipal Year 2018/19. There were no further nominations.

Councillor Emma Webster in proposing Councillor Carol Jackson-Doerge for the role of Chairman stated that she was a passionate community campaigner who had fulfilled the role of Vice-Chairman admirably. Councillor Webster commented that it was apt that, in the centenary year that women were given the vote, the Council appointed a woman as their first citizen.

Councillor Ian Morrin commented that he had spoken to members of the community to get their impression of Councillor Jackson-Doerge. The feedback that he received was

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that she was a councillor who demonstrated great warmth and pride in her community. In addition to being a councillor she was also involved with the parish council, the church, community events and was a school governor. As a new councillor she had 'shown him the ropes' and shown him the hidden parts of the ward and had a great knowledge of various aspects of the Council. On a personal note and on behalf of Burghfield he was proud to propose her for the role of Chairman.

RESOLVED that Councillor Carol Jackson-Doerge be elected as Chairman of Council for the Municipal Year 2018/19.

The Chairman read and signed the Declaration of Acceptance of Office. Councillor Carol Jackson-Doerge thanked the Council for electing her and Councillors Webster and Morrin for their kind words. She stated that it was an honour and a privilege to serve the Council especially as she had served as Vice-Chairman for three years. She stated that she would continue to encourage residents to get involved in politics. She would use her skills to promote West Berkshire as a good place to live and work and demonstrate that the District was open for business. She would endeavour to follow in the footsteps of the highly respected councillors that had held the position before her.

The new Chairman thanked Councillor Webb for the great support he had shown her and commented that they had worked well together and she would endeavour to follow in his footsteps. Councillor Jackson-Doerge also paid tribute to Councillor Jaques for the support she had given the Chairman over the past Municipal Year.

4. **Appointment of Vice-Chairman for the Municipal Year 2018/19 (C3335)**

The Chairman requested nominations for the position of Vice-Chairman of Council for the Municipal Year 2018/19. In response to this request Councillor Peter Argyle was nominated by Councillor Hilary Cole and the nomination was seconded by Councillor Jeanette Clifford. There were no further nominations for the position of Vice-Chairman.

Councillor Hilary Cole stated that she was delighted to propose Councillor Argyle for the role. She noted that he had served as Chairman on two occasions with great enthusiasm and dedication and she therefore was confident that he would provide great support for the new Chairman.

He was first elected in 1997 and had served on a range of Committees. He had shown especial commitment to and interest in education and had served on the Berkshire Adoption Panel for many years.

Councillor Jeanette Clifford stated that Councillor Argyle was 'the best of men'. Throughout his years as a councillor he had shown a deep commitment to all children but especially those in care. When she had first been elected as a councillor, Councillor Argyle, the then Chairman, had welcomed all new councillors with great warmth and his gentle words and advice had been greatly received. Councillor Argyle was well known for his commitment to fair play and his infectious laugh. She was confident that the new Chairman and Vice Chairman would make a great team.

RESOLVED that Councillor Peter Argyle be appointed as Vice-Chairman of Council for the Municipal Year 2018/19.

The Vice-Chairman read and signed the Declaration of Acceptance of Office. Councillor Peter Argyle thanked the Council for electing him and Councillors Cole and Clifford for their kind words. He stated that he would do his utmost to fulfil the role to the best of his ability. He thanked Councillor Jackson-Doerge for all the work she had undertaken as Vice Chairman during the previous Municipal Year.

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5. Minutes

The Minutes of the meeting held on 1st March 2018 were approved as a true and correct record and signed by the Chairman.

6. Declarations of Interest

There were no declarations of interest received.

7. Appointment of the Executive by the Leader of the Council for the 2018/19 Municipal Year (C3336)

Councillor Graham Jones announced the appointment of Members to the Executive for 2018/19 as follows:

Leader of the Council and Strategy	Graham Jones
Deputy Leader, Planning, Housing and Waste	Hilary Cole
Health and Wellbeing, Leisure and Culture	Dominic Boeck
Adult Social Care	Graham Bridgman
Finance, Transformation and Property	Anthony Chadley
Highways and Transport, Environment and Countryside	Jeanette Clifford
Children, Education & Young People	Lynne Doherty
Community Resilience & Partnerships	Marcus Franks
Economic Development and Communications	James Fredrickson
Corporate Services	Rick Jones

Councillor Graham Jones thanked the Executive for their hard work over the previous Municipal Year. He explained that he had opted to refresh some of the portfolios to better align them to Council activity. He had also created a new portfolio for Economic Development to ensure that this vital issue was woven into all Council activity.

Councillor Graham Jones also paid tribute to his Deputy Leader, Councillor Hilary Cole, who had worked tirelessly following the passing of Councillor Roger Croft. Councillor Jones also paid tribute to Councillor Croft who was still greatly missed.

8. Appointment of and Allocation of Seats on Committees for the 2018/19 Municipal Year (C3337)

The Council considered a report (Agenda Item 9) concerning the appointment and allocation of seats on Committees for the next Municipal Year and sought to agree the Council's Policy Framework for 2018/19 as set out in paragraph 6.1 of Appendix A.

MOTION: Proposed by Councillor Graham Jones and seconded by Councillor Lee Dillon:

That the Council:

- (1) "notes that under Paragraph 8 of the Local Government (Committees and Political Groups) Regulations 1990, notice has been received that the Members set out in paragraph 1.1 of Appendix B to this report are to be regarded as Members of the Conservative and Liberal Democrat Groups respectively.
- (2) agrees to the appointment of the various Committees and to the number of places on each as set out in paragraph 2.2 of Appendix B (Table A).

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- (3) agrees to the allocation of seats to the Political Groups in accordance with section 15(5) of the Local Government Act 1989 as set out in paragraph 3.4 of Appendix B (Table B).
- (4) the number of substitutes on Committees and Commissions be as set out in paragraph 4.1 of Appendix B (Table C).
- (5) in respect of the District and Area Planning Committees, the substitute Members are all drawn from Members representing wards within the Committee's area who are not appointed to the Committee. Where substitutes attend the District Planning Meeting they need to be drawn from the same Area Planning meeting as the Member they are substituting for.
- (6) the Council approves the appointment of Members to the Committees as set out in Appendix C and notes the appointments set out in Appendix D which are in accordance with the wishes of the Political Groups.
- (7) the Council, in accordance with Regulation 4, Schedule 3 of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000, and the Local Authorities (Functions and Responsibilities) (England) (Amendment No.2) Regulations 2008, agrees the Council's Policy Framework for 2018/19 be as set out in paragraph 6.1 of Appendix B and that any appropriate amendments be made to the Council's Constitution (Paragraph 2.5.2) should this be necessary.
- (8) the Council, in accordance with Regulation 5, Schedule 4 of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000, approves that all other plans, policies and strategies requiring approval and not included in the approved Policy Framework be delegated to the Council's Executive.
- (9) the Council agrees that Paragraph 2.6.5 of Article 6, setting out the Executive Portfolios, be amended to reflect any changes made by the Leader of the Council at the Annual Council meeting.
- (10) the appointment of two non-voting co-opted Parish/Town Councillors and one non-voting substitute Parish/Town Councillor be made to the Governance and Ethics Committee namely Barry Dickens (co-opted non-voting Parish Councillor), Geoff Mayes (co-opted non-voting Parish Councillor) and Jane Langford (substitute co-opted non-voting Parish Councillor).
- (11) the appointment of two Parish/Town Councillors is made to the Governance and Ethics Committee's Advisory Panel namely Tony Renouf and Bruce Laurie.
- (12) re-appoint three Independent Persons namely Lindsey Appleton, James Rees and Mike Wall.
- (13) agrees the revised membership of the Health and Wellbeing Board as set out in paragraph 9.1 of Appendix B.
- (14) authority be delegated to the Monitoring Officer to make any changes required to the Constitution as a result of the appointments to Committees."

Councillor Graham Jones commented that some minor amendments were needed in respect of Appendix D. Councillors Dominic Boeck and Keith Chopping had stood down from the Joint Consultative Panel and had been replaced by Councillors Graham Bridgman and Rick Jones. The Standards and Effectiveness Group had also been disbanded.

Councillor Lee Dillon in seconding the report welcomed the new Chairman to the role.

The Motion was put to the meeting and duly **RESOLVED**.

9. Adjournment of the Meeting

RESOLVED that the meeting of Council be adjourned to enable the various Committees to determine their Chairmen and Vice-Chairmen.

The meeting was adjourned at 7.42pm.

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10. **Recommencement of the Meeting**

The meeting was reconvened at 7.51pm.

11. **Monitoring Officer's Annual Report to the Governance and Ethics Committee - 2017/18 Year End (C3323)**

The Council considered a report (Agenda Item 12) which updated Members on local and national issues relating to ethical standards and drew attention to any complaints or other problems within West Berkshire.

MOTION: Proposed by Councillor Keith Chopping and seconded by Councillor Jeff Beck.

That the Council:

- (1) "notes the content of the report;
- (2) agrees to circulate the report to all Parish/Town Councils in the District for information."

Councillor Keith Chopping in introducing the item reported that following the enactment of the Localism Act 2011 a number of changes were made to the Standards Regime. It was agreed that the Monitoring Officer would produce an annual report for the Governance and Ethics Committee and that it would be presented to Full Council at the Annual meeting. The report would also be circulated to all Town and Parish Councils. The report identified a number of key issues. He noted that one dispensation was granted during 2017/18. During 2017/18, 16 formal complaints were received by the Monitoring Officer. Fifteen of these complaints were about parish councillors and one complaint was about a district councillor. This was an increase on the number of complaints received in the previous year 2016/17 when only three complaints were received. However, the figure represented only a slight increase on the average number of complaints received per annum since 2009/10.

Councillor Chopping reported that although there had been a significant rise in the number of complaints since the previous year, there had been a number of related complaints. Councillor Chopping highlighted that three of the five complaints received in quarter two related to issues arising at a parish council, all four complaints received in Quarter 3 pertained to the same incident and three of the complaints received in quarter 4 related to the same issue. No further action was taken on ten of the complaints following the initial assessment. One complaint was withdrawn, one complaint was referred for investigation and four of the complaints were still being processed.

Councillor Chopping reported that a hearing had taken place in January 2018 in respect of a complaint received in 2016/17 (NPC1/17) which had been subject to an investigation. It was resolved by the Governance and Ethics Committee that a number of breaches of the parish councils' Code of Conduct had occurred.

Councillor Chopping drew Members' attention to the fact that the number of gifts and hospitality invitations recorded by Members remained very low. He reiterated the comments made by the Monitoring Officer that the number of complaints received in respect of alleged breaches of the Members' Code of Conduct during 2017/18 remained relatively low. It was therefore reasonable to conclude that standards of ethical conduct were high across West Berkshire at both District and at Parish / Town Council levels.

Councillor Jeff Beck explained that the role of the Governance and Ethics Committee was to keep Councillors 'on the straight and narrow'. He thanked the Monitoring Officer and her colleagues for all the work they put into this area of work.

The Motion was put to the meeting and duly **RESOLVED**.

12. Updated Strategy for use of Capital Receipts (C3452)

The Council considered a report (Agenda Item 13) which updated the Council's Strategy for flexible use of capital receipts taking into account actual receipts in 2016/17 and 2017/18 and the actual and forecast costs of projects planned to be funded from capital receipts.

MOTION: Proposed by Councillor Anthony Chadley and seconded by Councillor Jason Collis.

That the Council:

- (1) "agrees that £3.06m of spend on activities and projects to transform Council services set out in this report should be funded from the total capital receipts available for this purpose;
- (2) agrees that the balance of £561,000 available capital receipts be transferred to the Council's Transformation Reserve to be allocated to future eligible projects by Budget Board."

Councillor Anthony Chadley in introducing the report reminded Members that as part of the 2015 Local Government Spending Review, the Government provided Councils with the flexibility to use Capital Receipts received in the financial years 2016/17, 2017/18 and 2018/19 to fund transformation and restructuring of services in order to achieve efficiencies and revenue cost savings. The 2018/19 settlement extended this flexibility for a further three years to 2021/22.

Councillor Chadley explained that capital receipts of £3.62m were available from the sale in 2016/17 and 2017/18 of Council assets. To date £3.06m of this sum had been spent or committed to date on projects to help transform Council services in order to achieve revenue savings. The details were set out on page 50 of the paperwork. It was proposed that the remaining £561k be transferred to the Transformation Fund to fund additional transformation projects, subject to approval by Budget Board.

Councillor Chadley reminded Members about the comments he had made at the March Council meeting where he stated that 'The Council's Transformation Fund was used wisely and was not to be used to offer sweeteners to residents. The Council would not make promises that appeared to offer a better result for residents but in the long term would leave them worse off. The Council would continue to investigate how it could generate new income, i.e. new money to pay for real costs. Every pound, every penny of the Transformation Fund would be used wisely with the aim of multiplying the pot, not throwing it away on short term, ill thought out 'vote winners.'

Councillor Jason Collis thanked Councillor Chadley for his stewardship of the Council's financial affairs.

Councillor Lee Dillon commented that he supported transferring the balance to the Transformation Fund but that the balance would now stand at £1.1m. He felt that some of this funding should be spent on issues that affected residents and should not be seen as political giveaways. At the March Council meeting he had proposed using some of the Transformation Fund to reduce the payments for residents for the green waste collection from £50 to £25 per annum which would benefit residents.

Councillor James Fredrickson stated that the £3m had been used to protect front line services. The Administration's proposals provided a pragmatic and effective solution to provide services that the residents relied on the most.

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Councillor Chadley thanked Councillor Dillon for his support to transferring the balance of the capital receipts into the Transformation Fund. He reassured everyone that the funding would be used to deliver real transformation.

The Motion was put to the meeting and duly **RESOLVED**.

13. **Licensing Committee**

The Council noted that, since the last meeting, the Licensing Committee had not met.

14. **Personnel Committee**

The Council noted that, since the last meeting, the Personnel Committee had met on 7th March 2018.

15. **Governance and Ethics Committee**

The Council noted that, since the last meeting, the Governance and Ethics Committee had met on 23rd April 2018.

16. **District Planning Committee**

The Council noted that, since the last meeting, the District Planning Committee had not met.

17. **Overview and Scrutiny Management Commission**

The Council noted that, since the last meeting, the Overview and Scrutiny Management Commission had met on 10th April 2018.

18. **Joint Public Protection Committee**

The Council noted that, since the last meeting, the Joint Public Protection Committee had met on 19th March 2018.

(The meeting commenced at 7.00pm and closed at 8.05pm)

CHAIRMAN

Date of Signature

Property Investment Additional Funding

Committee considering report: Council on 3 July 2018

Portfolio Member: Councillor Anthony Chadley

Date Portfolio Member agreed report: 5 June 2018

Report Author: Richard Turner

Forward Plan Ref: C3572

1. Purpose of the Report

1.1 This report proposes the current capital budget for the acquisition of commercial property of £50m, approved as an addendum to the Council's Investment and Borrowing Strategy 2017/18, be extended by an additional £50m to offer a total capital budget of £100m.

2. Recommendations

2.1 The Council resolves:

- (1) To approve the additional £50m to the Property Investment Strategy (set out in appendix B) as an addendum to the Council's Investment and Borrowing Strategy 2018/2019 for the purposes of acquiring additional property assets.
- (2) To approve the recommended limits for external debt to include this additional £50m investment for 2018/19 and the following two financial years as shown below in comparison with the agreed level for 2017/18:

New Recommended Limits for External Debt		
	Authorised Limit £m	Operational Boundary £m
2017/18 Approved	226	216
2018/19 Proposed	283	273
2019/20 Proposed	289	279
2019/20 Proposed	293	283

- (3) To delegate to the Head of Legal Services in consultation with and having received agreement from the Property Investment Board to purchase investment property in accordance with the above Strategy up to a maximum of £15m per transaction;
- (4) To delegate to the Head of Legal Services in consultation with and having received agreement from the Property Investment Board to dispose of property in accordance with the above Strategy up to a maximum of £15m per transaction.

3. Implications

- 3.1 **Financial:** Additional borrowing to increase the current capital allocation for the purposes of commercial property acquisition from £50m to £100m.
An anticipated additional income (above the current level of £1m from 20/21) of £700k from 21/22 and £1m from 22/23.
- 3.2 **Policy:** The existing Property Investment Strategy remains unchanged.
- 3.3 **Personnel:** Temporary additional resource is in place within Property Services to assist with the acquisition process and this resource will continue to be required. This is allowed for within the acquisition costs.
- 3.4 **Legal:** Please refer to Appendix B Supporting Information.
- 3.5 **Risk Management:** Although the additional £50m of capital is to be invested in the same form of investment vehicle (commercial property), this risk is mitigated through:
1. It is anticipated that by continuing to comply with the Property Investment Strategy, across a larger property portfolio, risk will be further spread and thus be slightly reduced;
 2. Compliance with the criteria within the Property Investment Strategy;
 3. Strict governance through the Property Investment Board;
 4. Legal due diligence on all properties prior to acquisition and
 5. Financial mitigation through holding 5% (circa £140,000 pa) of income as a risk fund for periods of voids.
- Risk and its mitigation is discussed in more detail in this report, appendix B and the process flowchart in appendix D.
- 3.6 **Property:** This proposal will extend the current acquisition period by approximately one year, requiring the continued input of Property Services. Property Services are responsible for the ongoing management of the portfolio once invested.
- 3.7 **Other:** None identified

4. Other options considered

- 4.1 The preferred option is to increase borrowing sufficient to offer a total capital budget of £100m. The alternative option would be retain the capital budget currently approved of £50m.

Executive Summary

5. Introduction / Background

- 5.1 On 9th May 2017 the Council considered a report which set out a formal policy for the acquisition of commercial investment properties. The Council received a report on 1st March 2018, as part of a formal planned periodic review, an amended Property Investment Strategy. The current strategy is attached in appendix C.
- 5.2 The council has now achieved exchange or completion on a total of £39m of commercial property. Once fully invested, the £50m portfolio is expected to offer net surplus income of £1m per year from 19/20 (£0.5m – 18/19).

6. Proposal

- 6.1 The Council's published Medium Term Financial Strategy indicates that further savings and other income proposals will be required for the next 2 years totalling £8.3m whilst assuming a 2% increase in council tax each year.
- 6.2 Meeting these savings targets are becoming increasingly difficult year on year with ever increasing demand for our services particularly in the social care area. This additional commercial investment will assist in meeting these targets whilst managing associated risk as part of a balanced portfolio in accordance with the Property Investment Strategy.
- 6.3 With the strategy in place and operating well, formal processes and governance in operation and the support of both the in-house teams (principally Property Services and Legal Services) and procured property agents (Montagu Evans), the Property Investment Board has discussed the opportunity to increase the capital budget to enable the acquisition of a larger property portfolio.
- 6.4 This report proposes the current £50m, approved as an addendum to the Council's Investment and Borrowing Strategy 2017/18, be extended by an additional £50m to offer a total capital budget of £100m.
- 6.5 The budget will be managed in accordance with the Property Investment Strategy in the same way it is currently managed and there is no proposed amendment to the strategy, its processes or the governance for the acquisition (and disposal) of commercial property.
- 6.6 Slow economic growth in 2017 continued into 2018, attributed to slowdown in manufacturing and sharp decline in construction but is expected to improve through 2018; real earnings are up for the first time in over a year; unemployment at its lowest since 1975; inflation is down; interest rates are expected to rise later this year and possibly into next (depending on conditions).
- 6.7 Although external risks exist in the wider economy it is not expected to adversely impact commercial property demand from tenants.
- 6.8 Clearly, this further significant loan commitment of £50m and interest payable of circa £1.25m pa will need servicing from the rental receipts from the acquired properties before any expected surplus income can be returned to the Council.

- 6.9 In the event of rental streams from these acquisitions not covering these loan debt charges then alternative funding sources would have to be found along with covering any reduction in value of assets due to unforeseen factors. However, it is considered that risks associated with this further investment can be appropriately managed for a Council of this size and scale, and will be kept under regular review.
- 6.10 The consideration of and mitigation of risk is an intrinsic part of the acquisition and property management process and includes:
- (1) Compliance with the criteria in the Property Investment Strategy including, spreading the portfolio across sectors (eg: industrial, retail, offices), maximum lot size of £15m, limit of £750,000 (approx. 25%) of the rent derived from any single tenant, and limits within geographical regions, all intended to spread risk across a diverse portfolio.
 - (2) Governance of acquisitions is through a Property Investment Board (PIB), consisting of five members (three officers and two Executive Members), which acts to scrutinise proposed acquisitions and recommend progression, subject to due diligence prior to delegated sign off by the Head of Legal Services. Decisions are based on unanimous decision by the members of PIB.
 - (3) Throughout the different stages of the acquisition process, an individual acquisition is subject to scrutiny which offers opportunity to reject the property. The flowchart in appendix D shows the process and the number of properties assessed to date.
 - (4) Each property is subject to a due diligence process both in terms of property condition and legal due diligence on ownership matters and lease terms with the tenants.
 - (5) Provision has been made in the investment for the retention of a risk fund in the region of £140,000 per year for use in the event of a void period.

7. Conclusion

- 7.1 It is proposed to continue the good progress being made with property investment acquisitions by increasing the fund available to £100m to enable the net income generation to increase from £1m in 19/20 to £1.7m in 20/21 and £2m from 21/22.

8. Appendices

- 8.1 Appendix A – Equalities Impact Assessment
- 8.2 Appendix B – Supporting Information
- 8.3 Appendix C – Property Investment Strategy (revised)
- 8.4 Appendix D – Property investment process flowchart
- 8.5 Appendix E – Graphs: real earnings, employment growth

Equality Impact Assessment - Stage One

We need to ensure that our strategies, policies, functions and services, current and proposed have given due regard to equality and diversity as set out in the Public Sector Equality Duty (Section 149 of the Equality Act), which states:

- “(1) A public authority must, in the exercise of its functions, have due regard to the need to:**
- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;**
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; this includes the need to:**
 - (i) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;**
 - (ii) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;**
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it, with due regard, in particular, to the need to be aware that compliance with the duties in this section may involve treating some persons more favourably than others.**
- (2) The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.**
- (3) Compliance with the duties in this section may involve treating some persons more favourably than others.”**

The following list of questions may help to establish whether the decision is relevant to equality:

- Does the decision affect service users, employees or the wider community?
- (The relevance of a decision to equality depends not just on the number of those affected but on the significance of the impact on them)
- Is it likely to affect people with particular protected characteristics differently?
- Is it a major policy, or a major change to an existing policy, significantly affecting how functions are delivered?
- Will the decision have a significant impact on how other organisations operate in terms of equality?
- Does the decision relate to functions that engagement has identified as being important to people with particular protected characteristics?
- Does the decision relate to an area with known inequalities?
- Does the decision relate to any equality objectives that have been set by the council?

Please complete the following questions to determine whether a full Stage Two, Equality Impact Assessment is required.

What is the proposed decision that you are asking the Executive to make:	To agree the increase in borrowing to enable the capital increase of £5M for the acquisition of commercial property.
Summary of relevant legislation:	Local Government Act 1972 Local Government Act 2003 Localism Act 2011
Does the proposed decision conflict with any of the Council’s key strategy priorities?	No
Name of assessor:	Richard Turner
Date of assessment:	16 April 2018

Is this a:		Is this:	
Policy	Yes/No	New or proposed	Yes/No
Strategy	Yes/No	Already exists and is being reviewed	Yes/No
Function	Yes/No	Is changing	Yes/No
Service	Yes/No		

1 What are the main aims, objectives and intended outcomes of the proposed decision and who is likely to benefit from it?	
Aims:	To generate new long term revenue income streams
Objectives:	To purchase investment properties and manage those properties to achieve the aims.
Outcomes:	To achieve new revenue income for the benefit of operational services of WBC.
Benefits:	To bring more certainty of budget and self sufficiency for the benefit of West Berkshire residents.

2 Note which groups may be affected by the proposed decision. Consider how they may be affected, whether it is positively or negatively and what sources of information have been used to determine this. (Please demonstrate consideration of all strands – Age, Disability, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion or Belief, Sex and Sexual Orientation.)		
Group Affected	What might be the effect?	Information to support this

Age	None	
Disability	None	
Gender Reassignment	None	
Marriage and Civil Partnership	None	
Pregnancy and Maternity	None	
Race	None	
Religion or Belief	None	
Sex	None	
Sexual Orientation	None	
Further Comments relating to the item:		

3 Result	
Are there any aspects of the proposed decision, including how it is delivered or accessed, that could contribute to inequality?	Yes/No
Please provide an explanation for your answer:	
Will the proposed decision have an adverse impact upon the lives of people, including employees and service users?	Yes/No
Please provide an explanation for your answer:	

If your answers to question 2 have identified potential adverse impacts and you have answered ‘yes’ to either of the sections at question 3, or you are unsure about the impact, then you should carry out a Stage Two Equality Impact Assessment.

If a Stage Two Equality Impact Assessment is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the [Equality Impact Assessment guidance and Stage Two template](#).

4 Identify next steps as appropriate:	
Stage Two required	No
Owner of Stage Two assessment:	N/a
Timescale for Stage Two assessment:	N/a

Name: Richard Turner

Date: 16th April 2018

Please now forward this completed form to Rachel Craggs, Principal Policy Officer (Equality and Diversity) (rachel.craggs@westberks.gov.uk), for publication on the WBC website.

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Property Investment Additional Funding – Supporting Information

1. Introduction/Background

- 1.1 On 9th May 2017 the Council considered a report which set out a formal policy for the acquisition of commercial investment properties. The Council received a report on 1st March 2018, as part of a formal planned periodic review, an amended Property Investment Strategy. The current strategy is attached in appendix C.
- 1.2 The council has now (as at 22 May 2018) achieved exchange or completion on a total of £39m of commercial property.
- 1.3 It is expected that once fully invested the council can expect to achieve the planned annual income budget of £1m from 19/20 (£500,000 for 18/19).
- 1.4 This report proposes the current £50m, approved as an addendum to the Council's Investment and Borrowing Strategy 2017/18, be extended by an additional £50m to offer a total capital budget of £100m.
- 1.5 The Council's published Medium Term Financial Strategy indicates that further savings and other income proposals will be required for the next 2 years totalling £8.3m whilst assuming a 2% increase in council tax each year.
- 1.6 Meeting these savings targets are becoming increasingly difficult year on year with ever increasing demand for our services particularly in the social care area. This additional commercial investment will assist in meeting these targets whilst managing associated risk as part of a balanced portfolio in accordance with the Property Investment Strategy.

2. Supporting Information

- 2.1 On 9th May 2017 the Council considered a report (C3283) which set out a formal policy for the acquisition of commercial investment properties that would provide a balanced investment portfolio from which the Council could derive a long term, sustainable revenue stream. Council resolved:
 - (1) To approve the Property Investment Strategy as an addendum to the Council's Investment and Borrowing Strategy 2017/2018.
 - (2) To delegate to the Head of Legal Services in consultation with and having received agreement from the Property Investment Board to purchase investment property in accordance with the above Strategy up to a maximum of £10 million per transaction.
 - (3) To delegate to the Head of Legal Services in consultation with and having received agreement from the Property Investment Board to dispose of property in accordance with the above Strategy up to a maximum of £10 million per transaction.

- (4) To delegate to the Head of Finance and Property in consultation with the Portfolio Holder for Property, authority to appoint suitable consultants in accordance with the Contract Rules of Procedure (Part 11 of the Constitution).

2.2 The strategy is subject to a planned periodic review. The Property Investment Strategy presented to Council on 9th May 2017 was reviewed and a report was considered at Council on 1st March 2018 (C3401), which resolved to:

- (1) Adopt the revised Property Investment Strategy (West Berkshire Council – Property Investment Strategy (revised), January 2018);
- (2) Delegate to the Head of Legal Services in consultation with and having received agreement from the Property Investment Board to purchase investment property in accordance with the above Strategy up to a maximum of £15m per transaction;
- (3) Delegate to the Head of Legal Services in consultation with and having received agreement from the Property Investment Board to dispose of property in accordance with the above Strategy up to a maximum of £15m per transaction.

2.3 A copy of the current Property Investment Strategy is attached in Appendix C.

2.4 Following report to Council in May 2017, the council has been conducting acquisitions of commercial property, and we have exchanged or completed on a total of £39m of properties of the £50m capital budget (including costs and fees), which is on-line or ahead of the original estimated period of twelve to eighteen months to achieve full investment.

2.5 The original business case conveyed an expectation that once fully invested, the council can expect to achieve a net surplus income of £954,280 and an income budget from 19/20 of £1,000,000 has been set (£500,000 for 18/19). With good progress in acquisitions a check has been carried out, which confirms that this remains a realistic and achievable expectation.

2.6 The risks associated with the acquisition of commercial property are managed in the following manner:

- (1) Through acquisition of property strictly in accordance with the Property Investment Strategy (see appendix C), which reduces risk through the acquisition of a balanced portfolio by:
 - (a) Limiting the size of any single acquisition to £15m;
 - (b) Limiting the acquisition in any single sector to 40% (35% for offices);
 - (c) Limiting the exposure to any single tenant income to £750,000 per annum;
 - (d) Limiting the total invested in any region (the Property Investment Strategy allows for investment in regions throughout England and also includes Scotland & Wales as a region);
 - (e) Acquiring properties with tenants having a Dunn & Bradstreet covenant of 5A1.

- (2) Scrutiny of each property is conducted at several stages of the acquisition process. The flowchart in appendix D indicates the stages, each of which offers opportunity to either progress, seek additional information or reject the property. This also offers an indication of the number of properties scrutinised to date through this process.
 - (3) Governance of acquisitions is through a Property Investment Board (PIB), consisting of five members (three officers and two Executive Members), which acts to scrutinise proposed acquisitions and recommend progression, subject to due diligence prior to delegated sign off by the Head of Legal Services. Decisions are based on unanimous decision by the members of PIB.
 - (4) All acquisitions are managed by the WBC Property Services team, which makes use of both in-house resource, specialist property agents (Montagu Evans), and the WBC Legal Services team for all legal due diligence.
 - (5) To minimise the period for voids, properties acquired are on the basis that there is a reasonable length of unexpired lease with the existing tenant, to offer infrequent need for negotiations to renew leases or marketing for new tenants.
 - (6) To further minimise the risk of voids, Montagu Evans are appointed to both strategically manage the invested portfolio, and conduct property management (rent collection, building condition, etc.) which create early discussion on the medium to long term goals for properties and the leases within the portfolio.
 - (7) The income expected to be derived from the invested commercial property portfolio, has been modelled on the basis of a number of costs and allowances. This includes the allocation of a risk fund at 5% (circa £140,000 pa) of the annual gross income, for periods of void properties.
- 2.7 Although, WBC is acting to mitigate risk to protect the income from commercial property, it is acknowledged that there are external risk factors which have the potential to impact this income.

Offering comment on matters related to the wider economy and predictions is notoriously difficult (even for the economists) but the following is both data and views expressed:

- (1) Economic growth and employment
 - (a) Economic growth slowed in 2017, with growth of 1.8% down from 1.9% in 2016 and the slowest annual growth since 2012. This has continued into 2018, with the economy growing by just 0.1% down from 0.4% in the previous quarter.

However in its February Inflation Report the Bank of England forecast UK GDP to expand by 1.7% in 2018, compared to a previous forecast of 1.5% in November. Growth in 2019 is expected to be 1.8% compared to a previous forecast of 1.7%.
 - (b) Economic slowdown can be attributed to a sluggish manufacturing sector and sharp fall in construction with the ONS showing a fall of 2.7% in March 2018, the biggest fall since 2012.

- (c) Continued uncertainty over Brexit, with unsettled business environment may have corresponding impact on UK real estate, albeit the fundamentals in terms of occupational markets are sufficiently robust to limit any impact.
 - (d) Average earnings including bonuses rose by 2.8% in the three months to February 2018 with real earnings growth back in positive territory for the first time in over a year (see graph in appendix E).
 - (e) Unemployment fell by 16,000 to 1.42 million in the three months to February 2018, representing the lowest unemployment rate since 1975 (source: ONS).
 - (f) The biggest growth in employment is anticipated in Professional scientific & Technology, Administrative & Support but good growth is also estimated in Construction and the Wholesale & Retail trades (see graph in appendix E).
- (2) Inflation & consumer spending
- (a) UK inflation (CPI) fell to 2.5% in March, down from 2.7% in February and the lowest rate in a year.
 - (b) Predicting interest rates seems to have the biggest failure rate on the part of economists, but current prediction of some is for the base rate to rise at least once in 2018 (likely to be in August) based on the information in early May 2018. This note was drafted soon after the date of the Monetary Policy Committee vote to retain the base rate at 0.5% which then was almost immediately countered by comment from Governor, Mark Carney hinting that in the event of a 'disorderly' Brexit, the rate may be cut!
 - (c) The increase in wages, coupled with the level of inflation offers assistance with consumer confidence, but is still confused by uncertainty on Brexit (although the deadlines between 2019 and 2021 may be sufficiently distant to minimise concerns), house prices and interest rates makes for a confused consumer.
- (3) On balance it is anticipated that consumer confidence will increase, coupled with continued low unemployment, and growth in employment in some sectors will continue to contribute to an occupational market to maintain demand for commercial property leases and investors.
- 2.8 The investment model created to support the Property Investment Strategy, enabling a net surplus income of £1m pa from 19/20 is based on loans from the Public Works Loans Board (PWLB) at 2.53%. Future increases in PWLB rates will impact the net return.
- 2.9 The proposed increase of the capital allocated for the acquisition of commercial property from £50m to £100m will increase the borrowing commitment of council.
- 2.10 The Council's new limits for external debt to include this additional £50m investment for 2018/19 and the following two financial years are shown below in comparison with the agreed level for 2017/18:

New Recommended Limits for External Debt		
	Authorised Limit £m	Operational Boundary £m
2017/18 Approved	226	216
2018/19 Proposed	283	273
2019/20 Proposed	289	279
2019/20 Proposed	293	283

- 2.11 Clearly, this further significant loan commitment of £50m and interest payable of circa £1.25m pa will need servicing from the rental receipts from the acquired properties before any expected surplus income can be returned to the Council.
- 2.12 In the event of rental streams from these acquisitions not covering these loan debt charges then alternative funding sources would have to be found along with covering any reduction in value of assets due to unforeseen factors. However, it is considered that risks associated with this further investment can be appropriately managed for a Council of this size and scale, and will be kept under regular review.

3. Options for Consideration

- 3.1 The preferred option is to increase the current capital budget of £50m by an additional £50m, offering a total budget of £100m, to be expended in accordance with the agreed Property Investment Strategy.
- 3.2 To retain the current budget of £50m, without any increase. This is expected to be fully invested by the end of the calendar year 2018.

4. Legal Implications

- 4.1 Specific powers relating to setup of the Property Investment Strategy:
- (1) Sections 1 and 12 of the Local Government Act 2003 affords the Council broad powers allowing it to invest and to borrow, in each case either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs.
 - (2) Under Section 120 of the Local Government Act 1972 the Council may also acquire property by agreement located either inside or outside of their district for the purposes of any of their functions, including their investment functions, or otherwise for the benefit, improvement or development of their area.
 - (3) Under section 111 of the Local Government Act 1972 the Council may also take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions, which would again include their investment functions.

- (4) Under section 1 of the Localism Act 2011, the General Power of Competence (GPC) the Council is allowed to invest in property or to hold property assets for a return and if this is essentially an activity for a commercial purpose then it cannot be undertaken directly by the Council under section 4 of the Localism Act 2011 but would need to be carried out through a company.
- (5) In exercising its powers under Section 1 and 12 of the Local Government Act 2003 the Council should have regard to DCLG Guidance on Local Government Investments (Guidance). The Guidance advocates the preparation of a prudent investment policy which the Council will be expected to follow in its decision making process unless a sensible and cogent reason is articulated for departing from it. The Guidance defines a prudent investment policy as having two objectives: achieving first of all **security** (protecting the capital sum from loss) and then **liquidity** (keeping the money readily available for expenditure when needed) followed by **yield**.

4.2 In relation to investment and borrowing functions (see 2.22(1) above) the Council needs to ensure that any actions in connection with the property investment are reasonable and proportionate and for proper purposes consistent with the Council's prudential regime and its investment strategy. Investment decisions also need to be taken mindful at all times the Council's fiduciary duties to ensure the sound management of public finances.

4.3 Legal due diligence will be required on all property acquisitions to include a review of title and ownership and searches and enquiries of the vendor in order to ascertain relevant liabilities and restrictions connected with the subject property. The results of the legal enquiries and any associated risks should be considered prior to any decision to enter into contract.

4.4 On any sale of an investment property the Council will be required to obtain best consideration in accordance with s123 of the Local Government Act 1972. Usually this will be achieved by placing the property onto the open market or otherwise in respect of a sale agreed off market, demonstrating by way of professional valuation that it is achieving no less than market value for the property.

5. Proposals

5.1 The council is progressing well with the acquisition of commercial property, in accordance with its Property investment Strategy and is reaching full investment slightly ahead of programme. Assessment of the acquired properties demonstrates we expect to achieve the income stated in the original business case and agreed income budgets for 18/19 and 19/20.

5.2 With the strategy in place and operating well, formal processes and governance in operation and the support of both the in-house teams (principally Property Services and Legal Services) and procured property agents (Montagu Evans), the Property Investment Board has discussed the opportunity to increase the capital budget to enable the acquisition of a larger property portfolio.

5.3 It is proposed that the current budget of £50m be increased by £50m to offer a total budget of £100m.

5.4 The increase by £50m offers an amount that is both manageable in the context of the volume of properties, an amount which remains suited to the structure of the Property Investment Strategy, will bring forward property types and values which PIB has knowledge and experience of dealing with.

5.5 The Council’s published Medium Term Financial Strategy indicates that further savings and other income proposals will be required for the next 2 years totalling £8.3m whilst assuming a 2% increase in council tax each year. This additional commercial investment will assist in meeting these targets whilst managing associated risk as part of a balanced portfolio in accordance with the Property Investment Strategy.

5.6 A growing number of local authorities are adopting a strategy for the acquisition of commercial property. Below are some examples of LAs and their capital budgets:

(1)	Adur & Worthing	£125m
(2)	Bracknell Forest	£90m
(3)	Brentwood	£100m
(4)	Canterbury	£83m
(5)	Cherwell	£200m
(6)	East Hampshire	£200m
(7)	Eastleigh	£200m
(8)	London Borough of Bexley	£120m
(9)	London Borough of Bromley	£250m
(10)	Northumberland	£318m
(11)	Portsmouth	£110m
(12)	Shropshire	£100m
(13)	Spelthorn	£500m
(14)	Surrey County	£298m
(15)	Surrey Heath	£150m

5.7 This proposal is formed on the basis of the original business case, the strict criteria and risk management contained within the strategy and the strong progress with acquisition of the portfolio.

5.8 Additionally, based on the strategy of offering a balanced portfolio it is anticipated that in terms of managing risk across the portfolio, the proposal offers a further spread of risk across a larger portfolio.

5.9 The budget will be managed in accordance with the Property Investment Strategy in the same way it is currently managed and there is no proposed amendment to the strategy, its processes or the governance for the acquisition (and disposal) of commercial property.

5.10 This would offer a revised income proposal as follows:

18/19	Year 1	£500,000
19/20	Year 2	£1,000,000
20/21	Year 3	£1,700,000
21/22	Year 4	£2,000,000

6. Conclusion

- 6.1 Following the approval of the Property Investment Strategy in May 2017 (and its revision in March 2018), the acquisition process is advancing slightly ahead of programme with almost 80% of the capital budget invested within the first year and income expected to be on-line with agreed budgets.
- 6.2 It is proposed to take the opportunity to increase the capital budget for property investment from the current approved £50m to a total of £100m.

7. Consultation and Engagement

- 7.1 Montagu Evans – the council’s appointed property agents for acquisitions, strategic management and property management.
- 7.2 Savills – economic statistical data and graphs for appendix E.

Background Papers: West Berkshire Council – Property Investment Strategy (revised)

Subject to Call-In:

Yes: No:

As the item is due to be referred to council for final approval

Strategic Aims and Priorities Supported:

The proposals will help achieve the following Council Strategy aim:

MEC – Become an even more effective Council

The proposals contained in this report will help to achieve the following Council Strategy priority:

MEC1 – Become an even more effective Council

Officer details:

Name: Richard Turner
Job Title: Property Services Manager
Tel No: 01635 503653
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West Berkshire Council - Property Investment Strategy (revised)

Prepared by
Dean Fischer, Property Services

January 2018

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Introduction

This document has been prepared by Dean Fischer on behalf of West Berkshire Council (WBC).

This document supersedes the original Investment Strategy, prepared by JLL during March 2017, and adopted by WBC on 9th May 2017. Embedded within the original strategy was a mechanism to review and revise every twelve months, so as to ensure that WBC commercial property portfolio is tightly aligned to WBC's investment objectives.

Whilst the JLL strategy has provided a robust launch point, it has become evident that there is a need to fine-tune the investment framework so as to suitably empower the WBC Property Investment Board (PIB), ensure increased exposure to appropriate opportunities, enhance flexibility during acquisition and underpin the portfolio's long term performance.

Mindful of the above, WBC requested its appointed property consultants, Montagu Evans (ME), to review and revise the existing strategy where appropriate, so as to ensure exposure to a wider range of suitable properties, whilst creating a defensive, balanced commercial property investment portfolio, from which to derive a long term, sustainable revenue stream.

The WBC portfolio will seek to invest in the region of £50m which will likely equate to 8-12 properties in total (dependent on lot sizes).

Yields referred to in this report (unless otherwise stated) are net of purchase costs and exclude the cost of debt.

Core Objectives

Set out below are the core objectives of the investment strategy:

- To invest in good quality commercial property to generate a sustainable and predictable income return
- To acquire standing commercial property investments which generate an immediate income, through being let on commercial terms, or from properties which are contracted to be let
- The desired income yield (return) to provide a clear margin over the cost of capital, in a form which is sustainable, and has the potential to increase through future rental growth
- An even balance of risk and return is achieved through portfolio diversification

- To acquire investment grade properties possessing characteristics that retain liquidity and preserve capital (notwithstanding market movement)

Investment Strategy

The strategy is defined in two sections:

Section 1 – details the revised core strategic investment policy to be adopted by WBC.

Section 2 – an Aide Memoir of the investment framework to be referred to by the appointed Investment Advisor (ME) and the PIB.

Section 1 – Investment Policy

The WBC property investment framework is structured according to the following core principles:

- Acquisitions to be made in direct commercial real estate
- UK wide target market (to include WBC area)
- Generally, investments to be purchased freehold, with good and assignable legal title. Leaseholds considered where held under long leases (100 years plus) at a peppercorn rent
- To acquire institutional grade income producing investments, let on conventional lease terms and secured against good to strong covenants (Dunn & Bradstreet rating 3A1 – 5A1)
- Target portfolio net yield of 6.0% (once fully invested)
- Asset level internal rate of return (IRR) averaging not less than 5.0% p.a. over an assumed 5 year hold period
- No investment in speculative development
- No investment in areas within Flood Zone 3 or with a high land contamination risk

Section 2 – Investment Guidelines

This section provides a ‘hand-rail’ which will help guide the decision making process when assessing investment opportunity. Its principles are to create a defensive and balanced commercial property investment portfolio with intrinsic risk diversification.

Portfolio Structure

Categories	Target Weighting	Target Yield	Asset Profile
Prime	60%	6% or lower	Net yield of 6% or lower, established location, very strong tenant covenant, unexpired lease term of 9 ¹ years or more
Good Secondary	40%	6% or higher	Net yield of higher than 6%, good location, strong tenant covenant, unexpired lease term commensurate with prevailing market conditions

Sector Weightings

Sector	Target Weighting	Asset Profile
Industrial/Warehouse	Up to 40% (£20m)	Logistics hubs, light industrial, trade parks
Retail	Up to 40% (£20m)	Small supermarkets, restaurants, retail warehouses, shops
Offices, Alternatives and Others	Up to 35% (£17.5m)	Offices, business parks, hotels, cinemas, petrol stations, wind farms

¹ Note 9 years to allow access to stock which has recently been let on a ten year term so will have slightly less than ten years after allowing for marketing and legal process.

Asset Risk Diversification – Guidelines

Attribute	Why	Risk/Solution
Lot Size – up to £15m	Generally, no single asset should be over 40% (£15m) of the fully invested portfolio by value.	<p>Risk - Exposure to single asset.</p> <p>Solution - by acquiring only longer income lots with a minimum 9-10 years unexpired lease term and a tenant covenant of 5A1 on the Dunn & Bradstreet rating.</p>
Income risk – exposure generally restricted to circa. £750k per tenant per annum	<p>Manages income risk and security through tenant diversification and lease length.</p> <p>Provides the potential to acquire a stable, long income asset around which to structure a portfolio of complementary assets.</p>	<p>Risk - Exposure to tenant failure, voids and potential negative cash flow.</p> <p>Solution – investment will be subject to the tenant having a Dunn & Bradstreet rating of 5A1 and with a minimum unexpired term of 9-10 years.</p>
<p>Location:</p> <ul style="list-style-type: none"> • South East up to 60% (£30m) • South West & Midlands up to 35% (£17.5m) • North up to 35% (£17.5m) • Scotland & Wales up to 35% (£17.5m) 	Spread of risk through investment diversification in different micro-locations	<p>Risk - Over exposure to locational risk where negative impacts of weak or low growth could affect total performance.</p> <p>Solution - Focus on dominant SE market to increase exposure to suitable defensive investment opportunities.</p>
Sector (retail/office etc.) No more than 40% held in a specific sector at any time	To create greater portfolio balance with different sectors holding different risk v return profiles	<p>Risk - Over exposure to an under-performing sector.</p> <p>Solution - Focus on dominant SE market to increase exposure to suitable defensive investment opportunities</p>

<p>Regional Weighting No more than 40% (60% in SE only) held in a specific region at any time</p>	<p>To provide a spread of risk to balance performance from regional spread. Different regions within the UK often perform (grow) at different rates and at different times within an economic cycle</p>	<p>Risk - Exposure to regional under-performance through lower economic growth.</p> <p>Solution - Focus on dominant SE market to increase exposure to suitable defensive investment opportunities.</p>
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Quarterly & Annual Review

During November 2017 ME were instructed by WBC to review the overall strategy to ensure its suitability and resilience in relation to the size of financial resource committed and the prevailing market conditions. The basis of that review forms the backbone of this document. The investment criteria, guidelines and performance will remain under regular review.

As good practice, quarterly and an annual reviews between WBC and ME will be held so as to ensure that the portfolio does not under-perform the market or its risk profile increase due to changes in both the macro and micro-economic position around the real estate market.

This will provide WBC with a clear understanding of the portfolio’s position and management, its risk and return profile and any latent value that can be driven out through strategic asset management.

A regular review of the five year cash flow is important to understand any future working capital requirements, as well as assessing the accuracy of the predicted rental income.

The quarterly and annual strategy review will cover:

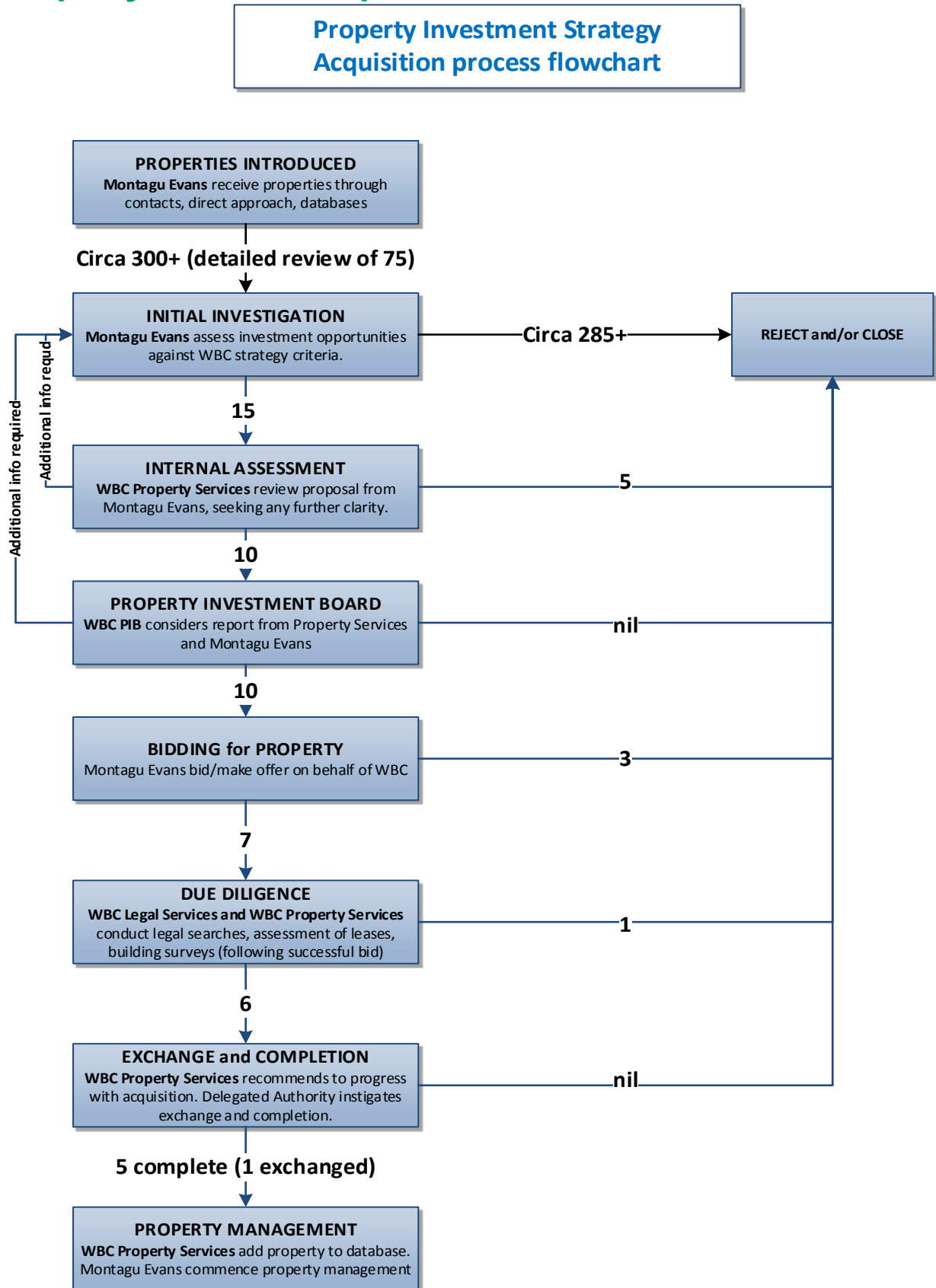
Quarterly	Annual
<p>Investment:</p> <ol style="list-style-type: none"> 1. Brief market update – investment trends, activity and forecasts 2. Brief update on the occupational markets 3. Review of current investment strategy 4. Report on performance of the 	<p>Investment:</p> <ol style="list-style-type: none"> 1. Market update on investment trends, activity and forecasts 2. Update on the occupational markets 3. Review of current investment strategy 4. Re-confirm investment criteria

<p>portfolio and individual assets</p> <ol style="list-style-type: none"> 5. Provide a review of portfolio activity and the added value created over the previous quarter 6. Update Work/Hold/Sell asset designation 	<p>and asset target weightings</p> <ol style="list-style-type: none"> 5. Identify any re-alignment required to match market changes and forecasts 6. Benchmarking the existing portfolio and asset level investment returns 7. Report on performance of the portfolio and individual assets 8. Report on any KPI or performance criteria 9. Provide annual property business plans to evaluate added value opportunities 10. Provide a review of portfolio activity and the added value created over the previous 12 months 11. Update five year cash flow forecast 12. Update Work/Hold/Sell asset designation
<p>Management:</p> <ol style="list-style-type: none"> 7. Report on portfolio management performance including rent collection rates, bad debt provision and service charge reconciliations 8. Advise on all critical lease dates, break options, rent reviews and lease expiries 9. Report on any health and safety incidents and insurance claims 10. Report on dilapidations claims and status 11. Capital expenditure requirements over the preceding quarter 	<p>Management:</p> <ol style="list-style-type: none"> 13. Report on portfolio management performance including rent collection rates, bad debt provision and service charge reconciliations 14. Advise on all critical lease dates, break options, rent reviews and lease expiries 15. Report on any health and safety incidents and insurance claims 16. Report on dilapidations claims and status 17. Capital expenditure requirements over the preceding 12 months

Portfolio Valuation

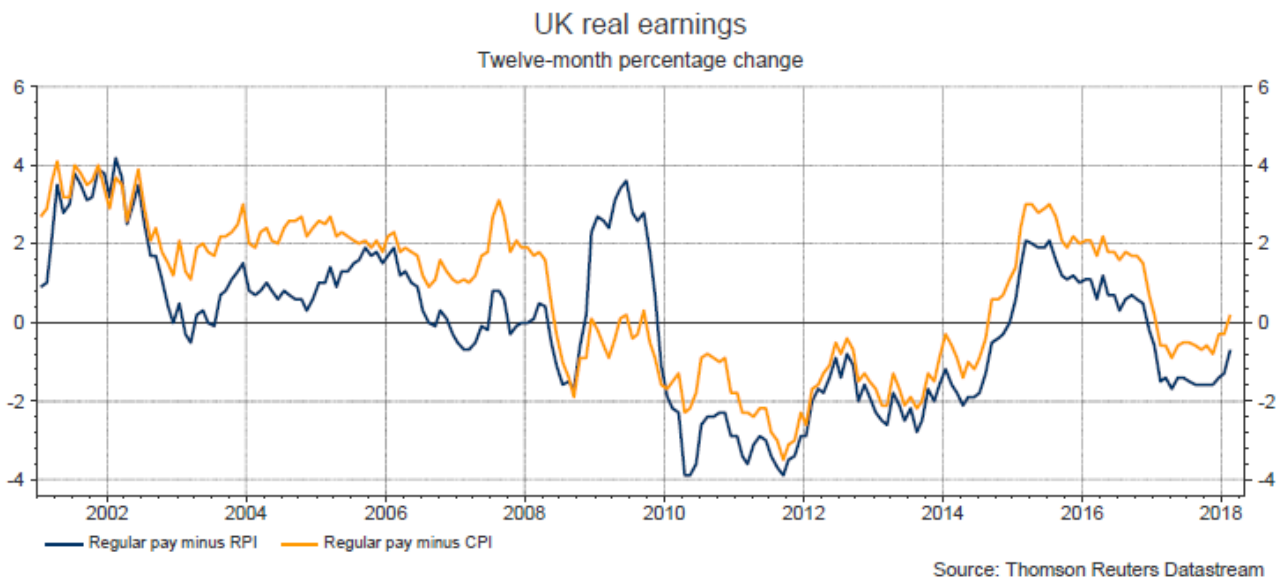
An annual external valuation is to be undertaken to enable WBC to benchmark the property portfolio/asset performance as well as ensure that current book values are in line with prevailing market values.

Property Investment process flowchart



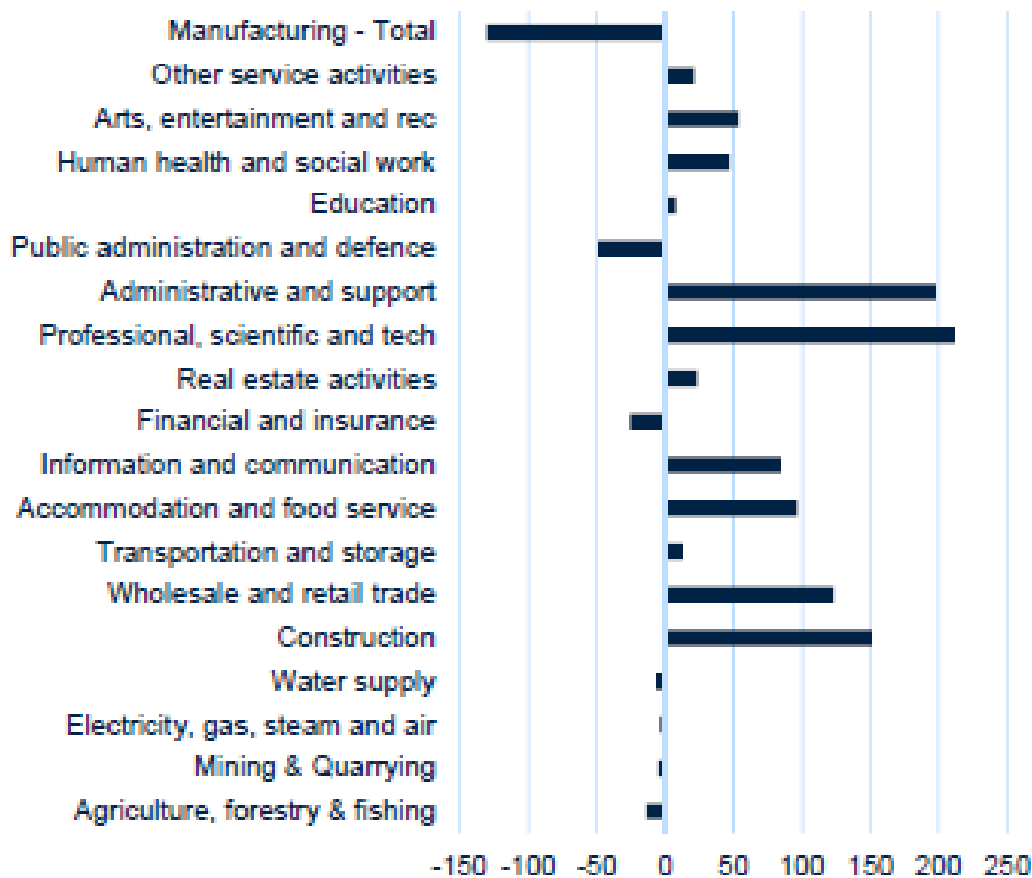
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Growth in real earnings



Change in employment

Change in employment 2018-2022 ('000 jobs)



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