
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

Appendix A

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.