
Property Investment Strategy

Committee considering report:	Overview and Scrutiny Management Commission
Date of Committee:	14 January 2020
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed report:	31 December 2019
Report Author:	Richard Turner
Forward Plan Ref:	n/a

1. Purpose of the Report

- 1.1 To offer information sufficient to allow the Overview and Scrutiny Management Commission to consider and discuss the effectiveness of the Council's Property Investment Strategy so far and influence its review. The OSMC will scrutinise what has happened so far and the risks and returns.

2. Recommendation(s)

- 2.1 Giving regard to the impact on the Property Investment Strategy due to recent CIPFA guidance and changes to the PWLB borrowing rate, as well as consideration of the future wider investment potential in alternative sectors such as housing and environmental solutions, consideration needs to be given to any further progression with commercial property investment of the remaining £37.6m of the £100m budget.

3. Implications

- 3.1 **Financial:** The Property Investment Strategy has a capital budget of £100m of which WBDC has spent £62.6m on commercial property. This investment has brought net income of circa £1.153m in 19/20 but future years may be impacted by any void assets.
- 3.2 **Policy:** The Property Investment Strategy was approved by full Council on 9th May 2017 and revised version approved by Council on 3rd July 2018. The 2018 version remains current.
- 3.3 **Personnel:** The Property Services Team is responsible for the management of both the acquisitions and ongoing management of the commercial portfolio.
- 3.4 **Legal:** The business case for the commercial property investment included the legal basis upon which WBDC is able to invest, using its powers within legislation.

3.5 **Risk Management:** The Property Investment Strategy is created on the basis of offering a balanced portfolio, intended to spread risk across the portfolio. Additionally the acquisition process and governance, as well as detailed legal and property due diligence prior to acquisition ensure strong scrutiny to manage risk.

With recent changes in CIPFA guidance and increases in PWLB borrowing rate, this will impact the future approach to commercial property and the risks versus benefits.

3.6 **Property:** The commercial properties invested to date are held by the Council and managed by its Property Services Team within the normal business of the estate management.

3.7 **Other:** None identified.

4. Other options considered

4.1 Continue with the strategy in its current form retaining the £100m capital budget.

This is effectively a 'do nothing' option, but is unlikely to be acceptable as a viable option as it risks non-compliance with latest CIPFA guidance on investment and on that basis is unlikely to receive the support of the 151 Officer. Also further remodelling would need to be carried out using increased borrowing rates, influencing expected revenue income;

4.2 Continue with the strategy amended to reflect both the CIPFA Guidance and current market, retaining the £100m capital budget.

This is likely to result in the current UK wide investment being restricted to acquisitions within West Berkshire only, reducing the potential for acquisition, and requiring amendment to the acquisition criteria to offer best chance of success;

4.3 Cease further investment, and retain and manage the current £62.4m property portfolio and associated income.

This removes the risk associated with any future acquisitions and restricts future activity to the management of the portfolio. Amendment would be required to any MTFS income levels originally planned to be derived from commercial property alone;

4.4 Withdraw entirely from the commercial property investment sector, disposing of the nine assets currently owned by WBDC, freeing up capital released to alternative investment models.

This risks the revenue income stream that the invested portfolio currently offers the council. Although over time with both likely capital value increase in the assets as well as repayment of the capital, the estate will hold future capital receipt potential, in the short term the council has held the assets disposal at this time may result in a negative financial outcome.

Executive Summary

5. Introduction / Background

- 5.1 Traditionally local authority property acquisition has been for the direct purpose of operational delivery of services. However increasing financial pressures combined with significantly reduced resources meant that West Berkshire Council needed to consider the potential opportunities available to it to generate new revenue income streams through property investment.
- 5.2 The proposal for West Berkshire District Council (WBDC) to invest in commercial property for the purposes of deriving revenue return was explored through a Corporate Programme project during 2016, resulting in formal proposal being approved by full Council on 9th May 2017 as part of the Council's investment and borrowing strategy 2017/18.
- 5.3 With an initial capital budget of £50m agreed in May 2017, which increased to a total of £100m with Council approval on 3 July 2018, the council has invested a total of £62.624m to date in commercial property.
- 5.4 The current Property Investment Strategy is based on the core principles of direct investment of UK wide freehold assets with institutional tenant covenants having a Dun and Bradstreet rating 3A1 to 5A1 to achieve a 6% yield once fully invested (£100m).
- 5.5 The acquisition of an individual property is in accordance with criteria ensuring the portfolio is spread across asset categories (Prime and Secondary), sectors (industrial, retail, offices, alternatives), locations (south east, south west/midlands, north, Wales/Scotland) as well as no asset price greater than £15m and no single tenant having a total rent greater than £750k per year.
- 5.6 Following the commencement of the Property Investment Strategy in May 2017, and increased budget in July 2018, WBDC has spent a total of £62,624,000 and has acquired the following properties:

Acquired	Property	Tenant	Price #	Rent
25/10/17	Terminus Rd, Eastbourne	Lloyds Bank	£2.900m	£3,696,437
20/3/18	High St, Lincoln	Ernest Jones	£5.665m	
31/3/18	Cleveland Gate, Guisborough	Aldi/Iceland	£6.048m	
27/4/18	3 The Sector, Newbury	Cirrus/Edward Sc	£9.759m	
27/4/18	4 The Sector	VACANT	£8.000m	
13/7/18	Dudley Port, Tipton	Rontec	£3.510m	
24/7/18	Bath Rd, Chippenham	Wincanton	£9.200m	
13/12/18	Discovery Hs, Nottingham	Computerland	£6.545m	
04/3/19	High St, North Allerton	Sainsbury's	£7.050m	

* 4 The Sector - The vendor is paying WBDC in lieu of rent for the vacant building until 31 March 2020 via an Escrow payment, drawn down quarterly. From April 2020 cost liabilities are with WBDC.

NOTE – The ‘Price’ figures in the table above is the acquisition price net of any stamp duty, fees, surveys and other acquisition costs

5.7 Based on no further acquisitions and assuming that 4 The Sector remains vacant during financial years 2020/21 and 2021/22, projected income is summarised as follows:

	19/20	20/21	21/22
Original Budgeted income (£100m fully invested by 2020/21)	£1,500,000	£2,000,000	£2,000,000
Gross income:	£3,696,437	£3,032,145	£3,038,600
Net income (less interest, MRP, fees, risk fund):	£1,152,625	£454,763	£444,878

6. Proposal(s)

6.1 A number of changes within the last year has created circumstance where WBDC is reviewing the commercial Property Investment Strategy within the wider investment context:

- (1) The rate of borrowing from the Public Works Loan Board was increased in October 2019 by 1% taking the rate at that time from around 1.5% to over 3% at present;
- (2) The difficulty in identifying suitable properties which align with the current Strategy;
- (3) New guidance released in November 2019 from The Chartered Institute of Public Finance & Accountancy (CIPFA), ‘Prudential Property Investment’, which provides clarity on investing in advance of need around some of the elements of the Prudential Code (that governs local authority capital investment)
- (4) With the declaration of a Climate Emergency by West Berkshire Council in July 2019 and ongoing pressures within the housing sector for affordable housing, investment priorities may be re-aligned with the council’s emerging Environmental Strategy and its refreshed Housing Strategy, both of which are currently in draft form and subject to consultation and formal approval by the Council.

7. Conclusion(s)

7.1 WBDC having spent £62.6m on commercial property investment is deriving a revenue income. With a single property from the nine acquired currently vacant, this has impacted the income over the period this asset remains vacant. Once fully let, the income will be in line with that anticipated from this level of investment, but not at the level planned for a full investment of the £100m budget.

- 7.2 With amended CIPFA guidance (released Nov 2019) and increased PWLB borrowing rates, coupled with emerging strategic direction related to the environment and housing, the Council is currently reviewing its wider approach to investment and the commercial property investment will sit within that wider investment context.

8. Appendices

- 8.1 Appendix A – Data Protection Impact Assessment
- 8.2 Appendix B – Equalities Impact Assessment
- 8.3 Appendix C – Supporting Information
- 8.4 Appendix D – WBDC Property Investment Strategy 2018

Appendix A

Data Protection Impact Assessment – Stage One

The General Data Protection Regulations require a Data Protection Impact Assessment (DPIA) for certain projects that have a significant impact on the rights of data subjects.

Should you require additional guidance in completing this assessment, please refer to the Information Management Officer via dp@westberks.gov.uk

Directorate:	Resources
Service:	Finance and Property
Team:	Property Services
Lead Officer:	Richard Turner
Title of Project/System:	Commercial property investment
Date of Assessment:	31 December 2019

Do you need to do a Data Protection Impact Assessment (DPIA)?

	Yes	No
<p>Will you be processing SENSITIVE or “special category” personal data?</p> <p>Note – sensitive personal data is described as “<i>data revealing racial or ethnic origin, political opinions, religious or philosophical beliefs, or trade union membership, and the processing of genetic data, biometric data for the purpose of uniquely identifying a natural person, data concerning health or data concerning a natural person’s sex life or sexual orientation</i>”</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<p>Will you be processing data on a large scale?</p> <p>Note – Large scale might apply to the number of individuals affected OR the volume of data you are processing OR both</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<p>Will your project or system have a “social media” dimension?</p> <p>Note – will it have an interactive element which allows users to communicate directly with one another?</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<p>Will any decisions be automated?</p> <p>Note – does your system or process involve circumstances where an individual’s input is “scored” or assessed without intervention/review/checking by a human being? Will there be any “profiling” of data subjects?</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<p>Will your project/system involve CCTV or monitoring of an area accessible to the public?</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<p>Will you be using the data you collect to match or cross-reference against another existing set of data?</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<p>Will you be using any novel, or technologically advanced systems or processes?</p> <p>Note – this could include biometrics, “internet of things” connectivity or anything that is currently not widely utilised</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

If you answer “Yes” to any of the above, you will probably need to complete [Data Protection Impact Assessment - Stage Two](#). If you are unsure, please consult with the Information Management Officer before proceeding.

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:	The OSMC is to consider the information regarding commercial property investment to assist in future direction.
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:	31 December 2019

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 offer understanding of commercial investment
Objectives:	To offer sufficient information to inform decision making
Outcomes:	To allow the Council to make informed investment decisions
Benefits:	For investments to align with the Council Strategy, investment strategy.

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	
Owner of Stage Two assessment:	
Timescale for Stage Two assessment:	

Name: Richard Turner

Date: 31 December 2019

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.