Body: Cabinet

Date: 13 December 2016

Subject: Land and Property Acquisitions & Investment

Report of: Director Regeneration and Planning

Ward(s): All

Purpose: To propose an investment strategy for adoption by the Council and to consider a number of land and property acquisitions which would deliver additional revenue.

Decision Type: Key Decision

Recommendation: Cabinet is recommended to:

i. Agree to adopt the proposed Property Acquisition and Investment Strategy for inclusion in the Council’s Asset Management Plan.

ii. Agree to set aside up to £30,000,000 within the Council’s capital programme, for the acquisition of land and property that meets the objectives of the proposed Property Acquisition and Investment Strategy.

iii. Agree to set aside up to £100,000 from the economic regeneration reserve to undertake due diligence work (to include surveys, legal, and other professional fees) relating to property acquisition, in the event that the expenditure cannot be capitalised.

iv. Delegate authority to the Director of Regeneration and Planning, in consultation with the Portfolio Holder for Corporate and Strategic Services; the Strategic Property Board; and the Council’s Section 151 Officer; to negotiate and finalise land and property acquisitions.

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1.0 Introduction

1.1 In line with the Council’s commitment to achieve a sustainable asset base, it is continually reviewing its portfolio to maximise the yield from its assets as well as exploring investment opportunities to secure future revenue opportunities for the Council.

1.2 The Council’s MTFS target for new income generation by 2020 is £1m. Management of the Council’s property assets will go part-way to meeting that target, but it is clear that a step-change is needed by way of property acquisitions to generate new revenue opportunities.

2.0 Property Acquisition and Investment Strategy (PAIS)

2.1 The Council has the opportunity to drive towards financial self-sufficiency by maximising the income generated by investments. With central government grants due to be all but phased out by 2020, most councils will be forced to rely increasingly heavily on local sources of funding.

2.2 Smart investments, for instance in commercial property, could generate enough revenue for the Council to service its debt and retain a surplus to fund public services, while also having the potential to encourage the growth of local business.

2.3 At a time when interest rates are at an historic low, borrowing for investment would appear to be prudent, as long as:

   i. The investment is profitable

   ii. It fits within the framework of the council’s social and corporate goals,

   iii. It is subject to proper risk management to ensure that the public does not have to bear unsustainable revenue costs to service the debt, and

   iv. The investment strategy is balanced by prudence and transparency, whereby the Council is assured it will not be accumulating too much risky debt putting future revenues at risk for short-term gains.

2.4 To reduce the risks identified in para 2.3, it is proposed that the PAIS will incorporate the following principles:
i. That the yield from the investment should achieve a return to the Council at a specific % above the cost of capital borrowing, and after servicing the purchase costs, to be agreed on a case by case basis by the Council’s Section 151 Officer.

ii. Due diligence checks are to be carried out on each acquisition to include the analysis of:
   a. The minimum length of the unexpired lease terms.
   b. Tenant covenant strength and credit checks.
   c. Asset maintenance liability and building condition.
   d. Legal encumbrances, including 3rd party rights and covenants.
   e. Planning and/or regeneration potential.

iii. That investment risk is spread over a range of property assets to include:
   a. Retail – risks to be mitigated by selecting schemes in the right locations.
   b. Commercial, with opportunities for conversion, or part-conversion to residential.
   c. Industrial – risks to be mitigated by selecting schemes in good locations and where future capital investment costs are identified.

iv. The asset base is to be balanced with the overall aim to achieve 70% of assets held as a long-term investment and 30% trading for profit.

2.5 To enable the Council to benefit from property acquisition opportunities, it is recommended that Cabinet approves the principles outlined in paras 2.3 and 2.4 as the Property Acquisition and Investment Strategy for inclusion in the Asset Management Plan.

3.0 Current Opportunities to Acquire Property

The Council has been presented with a number of potential acquisitions. Some of these opportunities are on the open market, but others may be secured by private negotiation.

An addendum to this report is circulated in the confidential part of the agenda and sets out the current opportunities.

4.0 Financial Implications

4.1 The proposals set out in the confidential addendum are consistent with the objectives of the Medium Term Financial Strategy (MTFS) and the Treasury Management Strategy (TMS). Local Authority capital receipts can only be reinvested in capital schemes or used
to repay debt.

4.2 The opportunities are not inter-dependent and may not all come to fruition. Should all of the opportunities be worth pursuing, the effect on successful completion of all of the opportunities could mean a net positive variation to the revenue budget of up to £2,000,000 per annum which could commence in 2017/2018.

4.3 To provide surety over long term finance costs, at the detailed due diligence stage, EBC will explore other options for borrowing in line with the TMS to include new forms of institutional funding. It is unlikely that these will be required, but will however provide important background to the Councils’ mid to long term capital financing requirements and ensure we have a clear benchmark in making treasury management related decisions.

4.4 The Council can utilise capital receipts of prudential borrowing to finance its capital programme and therefore investments have to be affordable and risk managed.

4.5 Any borrowing required would be managed within the council’s treasury management strategy approved by Council annually. As well as the yield, investment opportunities will need to be assessed with reference to risks such as:

- Interest rates
- Voids
- Future capital needs
- Planning constraints

4.6 The council can source borrowing from the Public Works Loans Board and/or institutional investors. There are a range of products available including interest only and annuity loans and interest is usually at a fixed rate for a given period. At the time of writing the rates available are between 2 and 3 percent.

5.0 Legal Implications

5.1 There will always be an amount of due diligence required prior to the Council being properly able to complete any property acquisition. This is explained within the body of the report.

6.0 Corporate Plan and Council Policies

6.1 The principles of the PAIS contribute to the Corporate Plan priorities to create a prosperous economy and a quality environment.

7.0 Conclusions

7.1 By investing in purchasing property, the Council will contribute to
ensuring the long-term sustainability of its asset base and will contribute to unlocking housing, regeneration, and community benefits.

7.2 Cabinet is asked to approve the recommendations as outlined within this report.

**Background Papers**

Cabinet:

Medium Term Financial Strategy – July 2016

Research papers: