

REPORT TO	ON
CABINET	21 JUNE 2017

Jan 2017

TITLE	PORTFOLIO	AUTHOR	Agenda item No.
STRATEGIC REVIEW OF PROPERTY AND ASSETS – INVESTMENT FRAMEWORK	CORPORATE SUPPORT AND ASSETS	MARK GAFFNEY	

Is this report a <b>KEY DECISION</b> (i.e. more than £75,000 or impacting on more than 2 Borough wards?)	<b>Yes</b>
Is this report on the <b>Cabinet Forward Plan</b> ?	<b>Yes</b>
Is the request outside the policy and budgetary framework and therefore subject to confirmation at full Council?	<b>Yes</b>

## 1. PURPOSE OF THE REPORT

1.1 The Council has identified investment in property and assets as a source of income to support delivery of the MTFs. There is therefore a need for a Property and Asset Investment Framework which is separate and different to the Treasury Management Strategy.

1.2 Cushman & Wakefield (C&W) have previously been appointed by the Council to undertake a high level review of some of its operational and all income generating property assets. A number of the outcomes from that review have been used to inform this Investment Framework at Appendix 1.

1.3 This report also recommends that the Cabinet establishes a Sub Committee for Property & Assets Investments which would have the delegated authority to commit expenditure in line with the Investment Framework, where there was a commercial necessity for an urgent decision to be made to avoid the possibility of the investment opportunity being lost.

## 2. RECOMMENDATIONS

2.1 That Cabinet approves the Investment Framework at Appendix 1.

2.2 That Cabinet approves the establishment of a Cabinet Sub Committee for Property and Assets Investment.

2.3 That Cabinet consider and amend as appropriate the draft Terms of Reference at Appendix 2 for the Cabinet Sub Committee for Property and Assets Investment

2.4 That Cabinet recommends to full Council that the Sub Committee has delegated authority to authorise expenditure on acquisitions of up to £10 million, to be committed in line with the guidelines within the Investment Framework.

2.5 That the operation of the sub Committee be reviewed after 6 months.

### 3. CORPORATE PRIORITIES

The report relates to the following corporate priorities

Clean, green and safe		Strong and healthy communities	
Strong South Ribble in the heart of prosperous Lancashire	√	Efficient, effective and exceptional council	√

### 4. BACKGROUND TO THE REPORT, DETAILED CONSIDERATIONS AND WIDER IMPLICATIONS

#### Context

4.1 The Council owns and manages a mixed Commercial Property Portfolio of industrial, office and retail properties located within six main residential and employment locations across the borough. The composition of the portfolio is heavily weighted to industrial property both in terms of number of assets and income contribution.

4.2 The portfolio breakdown is 76 Industrial, 6 Office and 16 Retail assets.

4.3 Cushman & Wakefield (C&W) was appointed by the Council to undertake a high level review of some of its operational and all income generating property assets. A number of the outcomes from that review have been used to inform this investment framework.

#### Medium Term Financial Strategy (MTFS)

4.4 The Council has identified investment in property and assets as a source of income to support delivery of the MTFS. There is therefore a need for a Property and Asset Investment Framework which is separate and different to the Treasury Management Strategy.

4.5 A Borough Investment Fund has been established to support asset investment and is stated in the 2017/18 Budget and MTFS report as £3.824 million. Should any investment be above the amount in the Borough Investment Fund then prudential borrowing will be required for the additional amount.

4.6 The MTFS includes a target from asset investment of £300,000. As an indicative guide to the investment required, a 7.84% return (net of one off and ongoing management costs) from the investment of the full Borough Investment Fund of £3.824 million would achieve the target.

4.7 If prudential borrowing is required then the return may be reduced depending on the cost of carrying debt.

#### Corporate Plan

4.8 This framework will support delivery of the Council's Corporate Plan, in particular:

- Increased income from investing in property and assets to support the MTFS.
- Promoting economic growth and prosperity in the borough and wider City Deal and Central Lancashire areas through purchasing property and assets. This will support local businesses and help increase skills and employment.
- Generating an income stream which will enable the Council to continue to fund and provide services and support to residents, businesses and visitors to the borough.

## **Cabinet Sub Committee for Property and Assets Investment.**

4.9 As part of the Council's approach to targeted investment in assets the need for the authority to be able to move rapidly on occasion, and so avoid a commercial opportunity being lost, has been identified as a key consideration. As a result it is recommended that the Cabinet establishes a Sub Committee to deal with the acquisition of assets in urgent situations where the matter will not wait until the next scheduled meeting of the full Cabinet. This is considered preferable to relying on the Urgency powers in the Council Procedure Rules given the potential sums involved. It is also suggested that this approach is piloted with a view to reviewing how well it works after an initial 6 month period

4.10 Draft terms of reference for the Sub Committee are set out at Appendix 2. In addition Cabinet are recommended to seek authority from the full Council that the Sub Committee has delegated authority to authorise expenditure on acquisitions of up to £10 million, to be committed in line with the guidelines within the Investment Framework.

## **Legal Considerations**

4.11 Many Local Authorities invest in property assets within their own boroughs. Besides generating an income stream the investment supports other wider priorities, including promoting and supporting economic growth.

4.12 Local Authorities have also successfully acquired commercial property outside of their area by virtue of Section 120 Local Government Act 1972. This is supported by section 1, 12 and 13 of the Local Government Act 2003, which vests in Local Authorities the power to borrow, invest and provide security for money borrowed and Section 1 of the Localism Act 2011, which provides a Local Authority with the power to do anything that individuals generally may do.

4.13 It should be noted that statutory guidance issued by the Department of Communities and Local Government, states that section 12 of the Local Government Act 2003 cannot be used to borrow to invest, solely to make a profit. As the Local Government Act 2003 is pre-existing legislation, any constraints on it cannot be remedied by relying on Section 1 of the Localism Act 2011. However, it is arguable that to borrow to invest outside a Local Authority area is not purely to make profit where that income is used to provide and maintain services and support for residents, businesses and visitors to the borough.

4.14 In light of the above and where necessary, the appropriate legal advice will be sought to ensure the legality of any proposed transaction.

## **5. ALTERNATIVE OPTIONS CONSIDERED**

The need to introduce an Investment Framework for Property and Assets is a result of the approved budget and MTFs which includes a £300,000 additional income target from property and assets. Therefore no consideration has been given to alternative options as a framework is required to set out the criteria for future acquisitions.

## 6.1 COMMENTS OF THE STATUTORY FINANCE OFFICER

The realisation of additional income into the Council is a key and critical strategy for the Council to deliver a balanced budget over the medium term whilst at the same time limiting the impact on statutory and front-line services. The target delivery profile is for a minimum of £0.300m per annum on a recurring basis to be achieved within the 2017/18 financial year.

Any acquisition has to robustly evidence that it complies with our legal obligations and statutory responsibilities with regard to public finance, therefore all appropriate due diligence must be completed, including a detail financial appraisal over the whole life of the asset, in advance of any acquisition proceeding.

## 6.2 COMMENTS OF THE MONITORING OFFICER

The Legal considerations section above sets out the key legal issues here. Clearly there are various enabling powers that we can utilise to acquire property as envisaged. If we are ever in doubt as to the legality of a particular proposal then we would seek bespoke legal advice at that time.

<b>Other implications:</b> <ul style="list-style-type: none"><li>• <b>Risk</b></li><li>• <b>Equality</b></li><li>• <b>HR</b></li></ul>	<p>There are a number of risks to consider as a result of the proposals in this report. These are set out in detail in Appendix 1 - Property and Asset Investment Framework.</p> <p>There are no equality issues as a result of the proposals in this report.</p> <p>There are no HR issues as a result of the proposals in this report.</p>
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## 7. BACKGROUND DOCUMENTS

2017/18 Budget and Medium Term Financial Strategy

Appendix 1 - Property and Asset Investment Framework

Appendix 2 - Draft Terms of Reference for the Cabinet Sub Committee for Property and Assets Investment