

Investment Property Strategy 2020/21

PURPOSE

1. The purpose of this report is to seek Council approval for a revised Investment Property Strategy.

BACKGROUND

2. In its budget for 2017/18, the Council identified investment in commercial property as an opportunity to increase its income whilst protecting its capital. An income target was established, and a Borough Investment Fund created in the council's earmarked reserves. Governance arrangements were developed over the following months and agreed at Cabinet on 6 December 2017. At that meeting it was agreed to procure specialist advice.
3. Professional advisors LSHIM were subsequently procured to seek out external property investment opportunities and appointed in March 2018. In April 2018 workshops were held at the Civic Centre with LSHIM, Members of the Cabinet and the Asset Working Group outlining the staged approach to identifying and selecting investment opportunities. The Investment Strategy was revised following those workshops and approved by Cabinet on 21 June 2018.
4. The Investment Property Strategy is just one element of the Council's property strategy that is solely for investment purposes. In January, Cabinet approved a review to be undertaken of the Council's commercial investment property portfolio which will assess the performance of assets, develop the asset management plan and inform strategy for acquisitions and disposals.
5. The Borough Investment reserve was originally set up as a fund to purchase investment property to generate revenue returns (commercial rents) to the Council. The key themes in the approved strategy are for this funding be aimed at low risk, long term investments with a sustainable income stream that preserves capital. Despite employing professional advisors for two years to identify and assess potential acquisitions, since the strategy was approved no suitable investments have been identified that meet all these key criteria.

PROPOSALS

6. The council actively manages its cash investments within the parameters of the Treasury Management and Investment Strategies. The bank rate is currently at 0.75% and, as set out in the Treasury Management and Investment Strategies, the forecast rise in the next couple of years is minimal. In order to secure better returns on the Council's cash resources long-term, other investment options need to be identified.
7. There is therefore an opportunity to re-define the purpose and future application of the Borough Investment reserve, which currently has a balance of £4,594,000.
8. Where the previous strategy was focussed purely on achieving a commercial rate of return, albeit whilst still seeking to protecting the council's finances, there is an opportunity to still achieve a better return on the Council's investments but with added benefits to the local community and with a consideration of the environmental impacts. It is proposed that the funding is restricted to investment inside the Borough only.

INVESTMENT PROPERTY STRATEGY – CORE PRINCIPLES

9. This revised Investment Property is based on the following set of principles:
- a) Funding will only be applied to investments in the Borough
 - b) The Borough Investment Fund will only be applied to schemes which improve the Borough and are revenue generating
 - c) The expected return on the investment must be more than the average interest rate which could be earned if the cash was placed with approved investment counterparties
 - d) The Borough Investment Fund is a recurring fund and returns must be repaid back into this reserve
10. Whilst the main criteria in assessing the attractiveness of the investment will be in respect to financial return and risk, the Council should give due consideration to those property investments which display higher levels of environmental sustainability.

FUTURE INVESTMENT OPPORTUNITIES

11. In the MTFs it is proposed that part of the Borough Investment reserve is applied to two capital items:
- (i) the investment in Worden Hall, and
 - (ii) to cashflow a community loan (Hoole Village Hall)

These schemes are subject to Council approval as part of this agenda.

12. Both initiatives are expected to generate a payback to the Council which would be repaid back into the Borough Investment reserve. If approved, the community loan will include annual repayment of capital and interest. By repaying these returns into the reserve, this recycling of the funds invested will serve to maintain the reserve in the longer-term and therefore ensure it be available for future investment opportunities in the Borough.
13. It is forecast that after funding these two initiatives, there will be a balance of £2,274,000 in the Borough Investment Fund.
14. Regarding the funds held, a few areas of work have been identified which could be considered for future investment.
- Leyland town centre potential site acquisition and commercial development
 - Purchase of homes for homebuild project
 - Purchase of further commercial properties in Borough
 - Joint investments with other Lancashire authorities aimed at items in the emerging Greater Lancashire Plan

SUMMARY

15. Back in 2017/18, investment in commercial property was identified as a potential sustainable income stream for the Council and funding was earmarked for such investment. An income target was also included in the approved revenue budgets.

- 16.** The revised strategy recognises that the scope needs to be widened to incorporate investments which, as well as providing a return and a repayment back into the Borough Investment Fund, also have broader social and community benefits.
- 17.** Maintaining the Borough Investment Fund provides opportunities for further investment and potential additional returns which could provide sustainable income streams in the future.

BACKGROUND DOCUMENTS

Cabinet 21 June 2018 – Investment Property Strategy