

REPORT TO	ON
<b>GOVERNANCE COMMITTEE CABINET</b>	29 <sup>th</sup> November 2017 6 <sup>th</sup> December 2017



September 2017

TITLE	PORTFOLIO	REPORT OF
<b>Investment Property Strategy</b>	<b>Corporate Support &amp; Assets</b>	<b>Director of Neighbourhoods, Environmental Health &amp; Assets</b>

Is this report a <b>KEY DECISION</b> (i.e. more than £100,000 or impacting on more than 2 Borough wards?)	<b>Yes</b>
Is this report on the <b>Statutory 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>No</b>
Is this report confidential?	<b>No</b>

### 1. PURPOSE OF THE REPORT

The purpose of this report is to agree and recommend the Investment Property Strategy and associated governance processes to Cabinet.

### 2. PORTFOLIO RECOMMENDATIONS

- 2.1 Members agree the Investment Property Strategy and the Governance arrangements outlined within this report.
- 2.2 Governance Committee recommend to Cabinet the adoption of the Investment Property Strategy and the appointment of the external Property Investment expertise at the end of the procurement process.

### 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

- 4.1 The Council has identified investment in property and assets as a source of income to support the delivery of the MTFs (Medium Term Financial Strategy). An income target of £300,000 has been established and a Borough Investment Fund of £3.824m has been created to fund this investment initially. Additional funding could be identified if other investment opportunities arise.

4.2 Governance Committee considered an interim report at its meeting on 13<sup>th</sup> September 2017 and agreed to consider the Investment Property Strategy at its November meeting. This report identifies governance arrangements, the use of commercial experts and their procurement.

## **5. PROPOSAL**

5.1 An Investment Property Strategy for South Ribble Council has been created and is attached at Appendix A. It sets out the context for investment in commercial property. Also it identifies a range of criteria that need to be considered for each investment and due diligence and governance arrangements to be followed.

5.2 A crucial part of the process is for the Council to engage professional property experts to identify and recommend opportunities and continued management of those investments. It is proposed to appoint a Property Investment Manager for two years. It will be in the form of an expert property consultancy firm. Their appointment will be to:

- Agree target rates of return and/or income target
- Agree Portfolio Balance
- Source Investment opportunities
- Prepare Recommendation Reports
- Rigorous Evaluation
- Reporting to SRBC
- Asset Management of Investments

5.3 It is intended to procure this expertise via the Crown Commercial Services Framework for Estates Professional Services. There are 12 national firms on this framework and a mini competition has commenced. It is likely that fees will be in two elements. Management fees of c£36,000 over the two years with commission on acquisitions up to £30,000 depending upon activity. If Members agree to proceed, the procurement process will be completed and an adviser selected.

## **6. GOVERNANCE**

6.1 The appointment of an expert Property Investment Management consultancy is crucial to the governance of this fund. The proposal recommended to Members identifies that ALL investment opportunities will come forward with a report from the Council's consultant. That will initially be agreed by the Council's Corporate Property Officer, Monitoring Officer and Section 151 Officer. It will then proceed for Cabinet approval and the decision recorded on the pro forma attached at Appendix A. No investment will be made ahead of Cabinet approval.

## **7. FINANCIAL IMPLICATIONS**

7.1 The Council has a target within the Medium Term Financial Strategy of £0.300m to achieve by converting one-off revenue reserve into a recurring income stream that is sustainable over the medium term. There is no fixed budget as this will very much depend on the Business Case for each investment and the financial risk exposure profile for the Council at the time of purchase. There is an initial set aside of £3.824m held within a revenue reserve which can be added to from other appropriate revenue sources for example, review of existing earmarked reserves and in year budget variations. The Council will also be able to borrowing additional funds if the whole life financial model demonstrates that this is affordable

## **8. HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT IMPLICATIONS**

No direct impact

## **9. ICT/TECHNOLOGY IMPLICATIONS**

No direct impact

## **10. PROPERTY DIRECT IMPACT AND ASSET MANAGEMENT IMPLICATIONS**

The whole report and philosophy is about increasing the Council's portfolio and diversifying the property types.

## **11. RISK MANAGEMENT**

11.1 This investment strategy has been identified as a positive action to generate additional, sustainable income for the Council. However, there are potential risks associated with property investment. Rent income may not flow as originally envisaged and tenants may not have strong covenants. Equally the investment may fall in value but this is linked to rents and rent reviews. By adopting the broad strategy recommended and engaging comprehensive advice and investment expertise from the appointed Property Investment Manager, many of the risks will be avoided at the point of investment.

11.2 There is the risk that the assets will fall in value. This is unlikely with the due diligence processes identified in Strategy.

## **12. EQUALITY AND DIVERSITY IMPACT**

No direct impact

## **13. RELEVANT DIRECTORS RECOMMENDATIONS**

## **14. COMMENTS OF THE STATUTORY FINANCE OFFICER**

14.1 Asset investment must only proceed if all due diligence has been completed including a full life financial model that evidences the net return in cash terms and also is transparent with regard to future financial risk and how these will be mitigated. This will be provided as part of the assessment from our external Property Investment consultancy.

14.2 There will be costs associated with making these investments because the Council is procuring Property Investment expertise. The final amount will be known at the completion of the procurement process. These costs will be included within any financial model for each investment.

## **15. COMMENTS OF THE MONITORING OFFICER**

15.1 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.

15.2 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.

15.3 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.

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

**16. BACKGROUND DOCUMENTS (or there are no background papers to this report)**

There are no background papers

**Appendix A                  Investment Property Strategy**

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