

REPORT TO	ON
Governance Committee	13 September 2017

Jan 2017



TITLE	AUTHOR
Approach to Property and Asset Investment	Mark Gaffney

1. PURPOSE OF THE REPORT

This report is an interim report to Governance Committee to provide details of a revised approach to property and asset investment. A more detailed report will be presented to the Committee at its next meeting on 29 November 2017.

2. RECOMMENDATIONS

That the Committee considers and comments upon the report.

3. CORPORATE PRIORITIES

The report relates to the following corporate priorities:

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

4. BACKGROUND TO THE REPORT

4.1 The Council has identified investment in property and assets as a source of income to support delivery of the MTFS (Medium Term Financial Strategy). There is therefore a need for a Property and Asset Investment Strategy.

4.2 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.

4.3 The MTFS includes a target from asset investment of £300,000.

4.4 On 21 June 2017, Cabinet approved a Property and Asset Investment Framework and the establishment of a Sub Committee for Property and Asset Investments. This Sub Committee 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.

4.5 At full Council on 19 July 2017, it was resolved that decision 10 (4) of the Report of the Cabinet be referred back for re-consideration by Cabinet. Decision 10 (4) was:

That delegated authority be granted for the Sub Committee to authorise expenditure on acquisitions of up to £10 million, to be committed in line with the guidelines in the Investment Framework

4.6 Since the July meeting of the Council, Cabinet is reconsidering its approach to property and asset investment and is now considering the engagement of a property consultancy with specialist capability in investment management. This consultancy would support the Council in the development of an alternative strategy and future acquisitions.

5. DETAILS

5.1 The proposed scope and timeline for a specialist property consultancy to support the Council in the preparation of a revised investment strategy is detailed below, including the timescales for reporting to Governance Committee and Cabinet.

Stage 1

Governance Committee - 19 November 2017

Officer report to Governance Committee detailing the scope of what would be expected from a specialist property consultancy appointed to provide support to the Council. This is as follows:

To produce a report titled 'A Prudent Approach to Establishing a Commercial Property Investment Portfolio' (or similar) which will be prepared and presented to the Governance Committee on the 29th November 2017.

The framework of the report will include:

- *Approvals to date.*
- *Importance of a defined investment strategy & governance - Council objectives*
- *Overview of the proposed investment Strategy – UK wide, sector weighting, profile etc.*
- *Sources of funding*
- *Target rates of return*
- *Risk management*
- *Acquisition process and property selection criteria – including example reports*
- *Decision making and delegation*
- *Reporting – quarterly and annual*
- *Live example with cash flow model*
- *Performance measurement and KPI's (Key Performance Indicators)*
- *A property company's role working in partnership with the Council*
- *Asset management, property management and treasury management*

The property consultancy will present the report to Governance Committee and include 'walk through' examples of reports produced during a typical acquisition process and also a typical quarterly report on the performance of property assets.

Cabinet - 6 December 2017

Repeat the process for the Governance Committee subject to any feedback from the 29th November Governance Committee meeting.

Council - 17 January 2018

Repeat the process if required from the Governance Committee and Cabinet subject to any feedback from their respective meetings.

Stage 2

Appointment of a specialist property consultancy who will provide an Investment Manager and Property Manager to act on behalf of the Council in acquiring and asset managing the commercial property portfolio.

Role and Responsibilities:

- *Confirm and continue to review portfolio objectives*
- *Objectives set at both a portfolio and property level*
- *Collaborative approach with the Council*
- *Agree target rates of return and/or income target*
- *Set and agree KPI's*
- *Agree Portfolio Balance*
- *Source investment opportunities*
 - *On and off market*
 - *Source direct, from investor and agent introductions*
 - *Communicate Council objectives to the investor market to give the widest exposure of the Council's requirement*
 - *Establish/maintain a good reputation for the Council in the market*
 - *Discretion as to identification of the Council*
 - *Prepare 'Recommendation to Bid' and 'Purchase Report'*
- *Rigorous Evaluation*
 - *Develop and agree an investment matrix for initial evaluation of potential investments*
 - *Local market knowledge using network of local offices and other 3rd party contacts of the team for assessing letting and investment comparables, demand and likely voids*
 - *Review research data including MSCI/IPD and 'RealFor' growth forecasts (MSCI/IPD is the industry standard for measuring performance and RealFor provide independent rental and capital growth forecasts)*
 - *Prepare cashflow model to establish net income return and yield return*
 - *Sensitivity analysis on key variables*
- *Reporting to the Council*
 - *Preparation of Quarterly Report to include portfolio strategy, financial summary, performance information and individual property reports including property strategy and asset management initiatives*
 - *Attend 3 meetings a year at the Council to provide a review, report and recommendations on the portfolio and future strategy*
- *Asset Management*

- *Strong tenant relationships are critical to identifying opportunities to increase income and add value*
- *Opportunities may include: Rent review, Lease Regearing, Refurbishment, Change of Use*

6. WIDER IMPLICATIONS AND BACKGROUND DOCUMENTATION

6.1 Financial Implications

The cost of appointing a property consultancy will be determined through the procurement process. This may be a charging mechanism based on a fixed fee or percentage of purchase price, or a combination of both. This cost will be determined later in the process.

6.2 Legal Implications

Specialist legal advice will be taken in this matter which will be included in a future report

6.3 Comments of the Statutory Finance Officer

When the financial implications of engaging a specialist property consultancy are known through market testing and a procurement process, they will need to be included in any resulting Property Acquisition proposal financial model and business case that will be undertaken as part of the Due Diligence process.

6.4 Comments of the Monitoring Officer

The appointment of any specialist property consultancy to act on behalf of the Council will be in accordance with Contract Procedure Rules (CPRs).

When it comes to the acquisition of specific property interests for the Council then Legal services will be fully involved to ensure that the Council's interests are protected; in appropriate cases specialist advice may be sought.

<p>Other implications:</p> <ul style="list-style-type: none"> • Risk • Equality • HR 	<p>Risk issues will be fully considered in the next report to Governance Committee scheduled for 19 November 2017.</p> <p>There are no adverse equality impacts arising from this report.</p> <p>There are no HR issues arising from this report.</p>
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7. BACKGROUND DOCUMENTS

Cabinet report and appendices 21 June 2017