

REPORT FOR DECISION

MEETING: CABINET

DATE: 3 SEPTEMBER 2014

SUBJECT: INVESTMENT PROPERTY ACQUISITION STRATEGY (2014-18)

REPORT FROM: CABINET MEMBER FOR RESOURCES & REGULATION

CONTACT OFFICER: MIKE OWEN (EXECUTIVE DIRECTOR OF RESOURCES & REGULATION)
STEVE HOPLEY (REGENERATION & ESTATES MANAGER)

TYPE OF DECISION: KEY DECISION

FREEDOM OF INFORMATION/STATUS: FOR PUBLICATION

SUMMARY: The Property Acquisition for Investment Strategy outlines proposals to acquire property assets for investment purposes, which will increase the financial performance of the commercial portfolio and increase revenue income to the Council as a result.

This strategy is inherently interlinked with the Estates Management Strategy that is shown elsewhere on the agenda for this meeting with both strategies seeking to maximise the returns from Council investments at acceptable levels of risk.

OPTIONS & RECOMMENDED OPTION

Option 1

Members are recommended to:

- (a) Approve Property Acquisition for Investment Strategy in the form attached.
- (b) Establish an initial investment fund utilising either prudential borrowing or existing cash investments, to fund properties to be acquired for investments which satisfy the pre-determined objective criteria and to use the net proceeds from on-going property disposals to create a rolling fund.
- (c) Establish a Member/Officer Property Appraisal Group to evaluate acquisitions for investment proposals.

- (d) Grant delegated authority to the Executive Director of Regulation and Resources in consultation with the Cabinet Member for Resources and Regulation, to consider and if appropriate approve acquisitions recommended by the Property Appraisal Group.
- (e) Require the Executive Director of Regulation and Resources to advise Cabinet on an annual basis, for information purposes, of any acquisitions made in the preceding year.

Option 2

Not approve the recommendations of this report.

Cabinet is recommended to approve Option 1.

IMPLICATIONS:

Corporate Aims/Policy Framework:	Do the proposals accord with Policy Framework? Yes.
Statement by s151 Officer:	The strategy provides a mechanism whereby the Council can enhance the yield on its investments; whilst current returns exceed market averages, opportunities are limited given current interest rate levels and the limited range of institutions the Council can safely invest with. Moving forward with the Strategy, as specific proposals are developed, consultation will take place with the Council’s external auditors (KPMG), and specialist advice (e.g. VAT) will be sought as necessary.
Statement by Executive Director of Resources and Regulation:	The proposals set out in the report are consistent with the Council’s Economic Strategy and Asset Management Plan.
Equality/Diversity implications:	None
Considered by Monitoring Officer:	
Are there any legal implications?	
Wards Affected:	All
Scrutiny Interest:	Overview & Scrutiny

TRACKING/PROCESS**DIRECTOR: Mike Owen**

Chief Executive/ Strategic Leadership Team	Cabinet Member/Chair	Ward Members	Partners
18 August 2014	Yes		
Scrutiny Committee	Cabinet	Committee	Council
	3 September 2014		

1.0 INTRODUCTION

- 1.1 The Property Acquisition Strategy is a framework designed to secure for the Council long term and sustainable income streams. This will increase our financial resilience over time, helping to address shortfalls against income targets and reducing the Council's reliance on ever decreasing Central Government funding.

2.0 ACQUISITION FOR INVESTMENT STRATEGY

- 2.1 The main purpose of holding property as an investment is to generate income. Traditionally returns from Property have outperformed (both rental and capital growth) most other sectors and for this reason most large organisations hold property as an investment.
- 2.2 The income derived through the Council's let estate property portfolio has, however, steadily diminished and is currently circa £1M less than at its peak in 2007/8.
- 2.3 This decrease can be attributed to the overall drop in property values and increased vacancy rates across all property types, but particularly the decline in the market attractiveness of older industrial premises.
- 2.4 A significant proportion of the portfolio is older property, in secondary locations and requires high levels of property management in terms of both time and resources relative to the returns that it produces.
- 2.5 If left as it is then the current mix of property within the portfolio potentially exposes the Council to further reductions in income.
- 2.6 Over the next few years it is proposed that the Council undertakes a significant property disposals programme which, in combination with acquiring more profitable replacement investment properties, will create a much stronger portfolio than currently exists.
- 2.7 The additional revenue income that this will generate will assist in financing front line services and protect jobs.

3.0 RISKS AND MITIGATION MEASURES

- 3.1 Risk: New investments fail to produce the required returns.
- Mitigation: In assessing each Investment opportunity the Council will take advice from recognised experts within the Property Investment sector.

The Council will only acquire investments that meet the criteria contained within the strategy which will be reviewed. The criteria would be reviewed and updated on a regular basis to account for any changes in the marketplace.

Through holding a mixed portfolio of property types the Council will seek to minimise its exposure to risks within any one investment type.

4.0 ACCESS TO FUNDS

- 4.1 The Council currently holds cash in a number of long, medium and short-term investment accounts. These investments form part of the Council's treasury management activities and effectively represent the cash that backs the authority's various reserves and provisions. As such these investments are not available to directly fund revenue services. At present the rate of return on investments is extremely low at around 0.7% and the rate of return is falling due to the very low levels of interest that is being paid on such accounts.
- 4.2 The Council also has the ability to borrow at considerably lower interest rates than most other borrowers.
- 4.3 In order to achieve a positive financial return the Council would need to ensure that the returns received from the property investments were in excess of the costs of borrowing the moneys and/or the existing and forecast returns on cash investments. Surpluses over and above the cost of the debt repayments can then be used by the Council in supporting vital front-line services.

5.0 OPTIONS & RECOMMENDED OPTION

- 5.1 Members are recommended to:

Approve the Property Acquisition for Investment Strategy in the form attached.

Establish an initial capital fund via the use of existing long-term cash balances and/or prudential borrowing to fund properties to be acquired for investments which satisfy the pre-determined objective criteria and to use the net proceeds from property disposals to create a rolling fund.

Establish a Member/Officer Property Appraisal Group to evaluate acquisitions for Investment proposals.

Grant Delegated authority to the Executive Director of Resources and Regulation in consultation with the Cabinet Member for Resources and Regulation to consider and if appropriate approve acquisitions recommended by the Property Appraisal Group

Require the Executive Director of Resources and Regulation to advise Cabinet on an annual basis, for information purposes, of any acquisitions made in the preceding year.

**COUNCILLOR SANDRA WALMSLEY
CABINET MEMBER FOR RESOURCES & REGULATION**

Background documents:

Property Acquisition for Investment Strategy

For further information on the details of this report, please contact:

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