



Reigate & Banstead
BOROUGH COUNCIL
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REPORT OF:	PROPERTY MANAGER AND S151 OFFICER
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TO:	EXECUTIVE
DATE:	4 December 2014
EXECUTIVE MEMBER:	COUNCILLOR N.J. BRAMHALL

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	ALL

SUBJECT:	PROPERTY INVESTMENT APPROACH
<p>RECOMMENDATIONS:</p> <p>That:</p> <p>(i) the proposed approach to property investment within the Council be agreed, as set out at Annex 1 to the report;</p> <p>(ii) the S151 Officer be authorised to approve prudential borrowing, where considered the most appropriate funding option, to support property acquisitions subject to:</p> <p style="margin-left: 20px;">a) consultation with the Leader of the Council and Portfolio Holders for Finance and Property; and</p> <p style="margin-left: 20px;">b) the new acquisition providing adequate revenue income to support the cost of borrowing.</p> <p>(iii) the Chief Executive be authorised to approve property acquisitions up to a value of £5m, subject to:</p> <p style="margin-left: 20px;">a) agreement of the Leader of the Council</p> <p style="margin-left: 20px;">b) consultation with the following:</p> <ul style="list-style-type: none"> • S151 Officer • Property Services Manager • Portfolio Holder for Property • Portfolio Holder for Finance <p style="margin-left: 20px;">c) adequate funding being available within existing budgets or through prudential borrowing.</p>	
<p>REASONS FOR RECOMMENDATIONS:</p> <p>The Council's emerging Corporate Plan recognises the need to take a more commercial approach to funding our services. A key element will be the investment in property to provide capital and revenue income.</p>	

EXECUTIVE SUMMARY:

The Council has an extensive property portfolio, which is well managed to ensure that the assets provide the best value for the organisation. These assets provide the Council with a significant revenue income.

The Council is currently consulting on the draft 2015-20 Corporate Plan, and the emerging Medium Term Financial Plan will set out the funding plans to support delivery of the Corporate Plan. Both Plans will recognise the need to increase the value and income derived from the Council's property and assets if the Council is to ensure financial sustainability and overcome the challenges facing local government without substantial cuts to our services.

This report sets out the proposed approach to meet the aims of the draft Corporate Plan and emerging Medium Term Financial Plan. The recommendations will inform the service and financial planning process for 2015/16 and beyond.

Executive has authority to approve the above recommendations

STATUTORY POWERS

1. The Council has a general power of competence under the Localism Act 2011. Under this power the Council can undertake any activity that will support the social, economic or environmental wellbeing of the areas.

BACKGROUND

2. The Council has an extensive property portfolio, which is well managed to ensure that the assets provide the best value for the organisation. In 2013/14 £0.8m income was received from these assets, which supports the delivery of services to our residents and communities.
3. In conjunction with the Executive Member for Property & Regeneration, a work plan has been developed to maximise opportunities for capital and revenue generation within the Council's property portfolio. However, this needs to be supported by additional acquisitions.

CORPORATE PLAN 2015-20

4. The Council is currently consulting on the draft Corporate Plan for the 2015-2020 period. One of the organisation priorities within the draft plan is to increase the value and income derived from the Council's property and assets.
5. The draft plan highlights the very low level of grant from the government, which is expected to reduce further and disappear completely by 2020. Our ability to deliver great services for our residents and businesses is, therefore, dependent on income and Council Tax, which are themselves often restricted.
6. The draft plan sets out the need, therefore, to take a commercial approach to fees and charges wherever possible and to find new income sources and investment income. Property investment, development and income will be a key element of this strategy.

MEDIUM TERM FINANCIAL PLAN

7. Alongside the draft Corporate Plan, a revised Medium Term Financial Plan (MTFP) has been developed. This was reported to the Executive in November as part of the service and financial plans for 2015/16 and beyond.
8. The key purpose of the MTFP is to ensure that resources are directed towards delivery of the Corporate Plan 2015-20, which includes the priority to increase value and income derived from the Council's property and assets.
9. The MTFP therefore identifies the need to ensure financial sustainability and maximise income. Utilising property to capture both revenue and capital income opportunities is a key element.
10. The MTFP confirms that the Council will utilise prudential borrowing to support capital investment and will ensure that an agreed revenue income stream is identified to meet the borrowing costs when investment decisions are taken. Ideally this will come from revenue savings or from additional income generated directly from the capital project.

OUR APPROACH TO PROPERTY INVESTMENT

11. The Council has a significant asset disposal programme, but still retains significant property assets including land, operational buildings, community benefit buildings, regeneration land, property holding and car parks.
12. In order to meet the aims of the Corporate Plan and Medium Term Financial Plan, the Council will need to acquire more property assets that provide revenue income or higher capital receipts. In order to ensure the Council's revenue funding shortfall is met, long term revenue income generation should be prioritised over short term capital gain. Any investments will also need to improve the social, economic or environmental wellbeing for the borough.
13. Due diligence and risk analysis will be undertaken on any property / development option. Costs and benefits will be identified, including the maximum exposure at any point during a property investment / development. Further details are set out later in the report.
14. Where appropriate and beneficial to do so for the Council, it will consider Joint Ventures with private sector organisations, and public sector organisations as well as the possibility of independent Company set ups. These will be the subject of separate reports.
15. The attached **Annex 1** sets out the approach to property investment, and an outline of the process that would be required prior to any investment.

Property Investment Approvals

16. The nature of the property market often means properties come to the market and are put under offer in less than two weeks. As a result the traditional decision making timescales with local government can be a hindrance and limit the Council's ability to deliver the Corporate Plan priority of investing in more revenue generating assets.
17. The Council retains the flexibility to introduce additional capital schemes, provided that a source of revenue funding can be identified to meet the costs of borrowing. It is recommended that delegation to the S151 officer be agreed (recommendation ii).

18. In order to support agile decision making it is also recommended that a delegation be made to the Chief Executive to support smaller acquisitions (recommendation iii). This will be necessary if the Council is going to be successful when property and sites come to the market with short timescales for submitting bids.
19. In order to provide wider oversight and input to the property investment approach, it is proposed that the delegation include consultation with key officers and a number of portfolio holders before any decision be taken.

OPTIONS

20. The Executive can:

- a. Approve the approach to property investment

This is the recommended option. It will enable the Council to take forward the priority within the draft Corporate Plan to increase the income the Council receives from property, and support the delivery of services for residents and businesses in the borough.

- b. Reject the recommendations and continue to consider property investment through existing ad hoc arrangements.

This approach is not recommended. Existing arrangements are limiting and may hinder the delivery of the Corporate Plan and new income streams. In order to enable the Council to respond to opportunities in a competitive property market, the new approach is necessary.

- c. Seek additional information / alternative approaches to property investment and request that officers prepare a further report.

This is not recommended. There is an emerging priority to increase the Council's investment in property. The recommendations seek agreement to a framework that will enable this to happen, and to input into the budget proposals for 2015/16. A delay could impact on the budget development.

LEGAL IMPLICATIONS

21. The Council has the power to invest in property in order to support the social, economic or environmental well being of the borough.
22. Any decisions taken under the proposed delegation must follow the legal and constitutional requirements for decision making. In particular, it is highly likely that decisions would be 'key decisions' as defined by Article 14 of the Council's Constitution.

FINANCIAL IMPLICATIONS

23. As set out in the report, budget provision will be made within annually agreed budgets, and within the Medium Term Financial Plan, to support any capital acquisition and revenue costs associated with any prudential borrowing.
24. It is anticipated that any feasibility studies that may be required to support an acquisition or development will be funded through existing revenue budgets.

EQUALITIES IMPLICATIONS

25. There are no equalities implications to consider.

RISK MANAGEMENT CONSIDERATIONS

26. Property investment is not without risks. Revenue income is reliant on tenants and capital values are subject to the wider (and even global) economy.
27. Due diligence and risk analysis will be undertaken on any proposed investment. However, it is important to recognise that investing in property, like any investment, is not without risks and values may reduce in adverse economic conditions. The Council will seek to maximise the return in doing so and therefore on occasions hold assets awaiting favourable market conditions.
28. Due diligence and risk analysis will include a range of factors, including:
 - Cash flow and exposure during any development
 - Sales analysis, and options for pre sale / let
 - Testing the covenant of any development partner(s)
29. The flow chart set out in the attached **Annex 1** demonstrates the key 'decision points' that would be carefully considered before any investment decision is finalised.
30. The Corporate Plan priority to increase income from property assets is partly dependent on the state of the economy and the availability of suitable investment opportunities.

CONSULTATION

31. The specific proposals within this report have been the subject of consultation with all Executive Members.
32. The development of the draft Corporate Plan has been based on a range of evidence and research. All Councillors were also invited to contribute to the plan through a number of workshops. There was strong support for increasing the Council's investment in property to provide sustainable funding and support service delivery.

POLICY FRAMEWORK

33. Council is responsible for approving the policy and budget framework.
34. The proposals within this report are consistent with the draft Corporate Plan, 2015-20, which is currently the subject of a consultation. It is anticipated that the Corporate Plan will be finalised and adopted by the Council in December.

Background Papers: Draft Corporate Plan 2015-20
Medium Term Financial Plan

Annex 1

Our approach to property investment

Purpose

To set out the Council's rationale and approach to property investment.

Current situation

The Council has significant property assets including land, operational buildings, community benefit buildings, regeneration land, property holding and car parks. The Council benefits from revenue income from a number of these assets, but the Corporate Plan and Medium Term Financial Plan set a priority to significantly increase the income derived from property.

Some of our assets are included within our disposal schedule in order to raise capital funding for the organisation. Others provide opportunities for investment / development in order to realise revenue and/or capital return.

Investment aims

In order to meet our aims the Council will need to acquire more property assets that provide revenue income or higher capital receipts.

The Council will seek long term revenue income generation over short term capital gain to provide a sustainable income to support the delivery of service. Any investment will seek to improve the social, economic or environmental wellbeing of the borough.

Our investments will fall into one of the following categories:

- Investment

This could be any form of property (retail, office, industrial, residential) that will provide the Council with either new revenue income that can support the delivery of our services, or capital value growth.

As a guide, income from investment should deliver a rate of return at least 4% above the cash investment rate available to the Council.

- Land holding

The borough must provide for future development through our planning policies, in order to meet the housing, employment and industrial needs of the area. In order to safeguard the most suitable sites for this development, and increase the deliverability of development, the Council may acquire land holdings for future use.

It is unlikely that this will provide a financial return in the short-medium term.

- Regeneration

The Council has driven a significant regeneration programme in key areas of the borough. In some instances, this has been facilitated by the use of existing land/property owned by the Council, or the Council acquiring additional land/property (either on the market or through CPO processes).

The Council will seek to secure revenue and / or capital return on sites/properties acquired for the purposes of regeneration. However, it is recognised that this may not always be possible.

It is anticipated that any property acquisitions will be located in the south east region, for ease of management, and in particular around the M25, Surrey, Kent and East Sussex.

Decision making and Budget

The attached process (**Annex 1**) will be followed when considering any property investment.

The Council will make provision for prudential borrowing to support property investment. The S151 Officer will manage any prudential borrowing, in line with the approved finance procedure rules and scheme of delegation within the Council's Constitution.

Structures

Where appropriate and beneficial to do so for the Council, it will consider Joint Ventures with private sector organisations, and public sector organisations as well as the possibility of independent Company set ups.

Risks

It is recognised that property investment is not without risks. Revenue income is reliant on tenants and capital values are subject to the wider (and even global) economy.

Due diligence and risk analysis will be undertaken on any proposed investment. However, it is important to recognise that investing in property, like any investment, is not without risks and values may reduce in adverse economic conditions.

The Council will seek to maximise the return in doing so and therefore on occasions hold assets awaiting favourable market conditions.

The Council will seek, wherever possible, to minimise financial exposure through the use of pre letting or pre sale agreements and joint venture structures.

Annex 1

Process

