



Report of:	Meeting	Date
Councillor Alan Vincent, Resources Portfolio Holder and Garry Payne, Chief Executive	Cabinet	16 January 2019

Establishing a Property Investment Board

1. Purpose of report

- 1.1** To give the Service Director for Performance and Innovation delegated authority to make investment decisions in consultation with the Resources Portfolio Holder.

2. Outcomes

- 2.1** We will maximise commercial opportunities and improve the return from our assets.

3. Recommendations

- 3.1** To give the Service Director for Performance and Innovation delegated authority to make investment decisions up to £1,000,000 in consultation with the Resources Portfolio Holder.
- 3.2** To achieve appropriate checks and balances it is proposed to establish an Investment Board to support the Service Director for Performance and Innovation. This Board would consist of the aforementioned Service Director, Head of Finance (S.151 Officer) and Senior Solicitor (Deputy Monitoring Officer). The Board would meet as and when a commercial opportunity arises that requires a timely decision. A report to the Board from the Head of Built Environment will set out the proposal, its associated risks and the financial and legal implications. Any business case for a commercial opportunity would therefore require the approval of the S.151 Officer and the Senior Solicitor. The remainder of Corporate Management Team, not represented on the Board, would also be consulted on any investment opportunities and all could deputise for the Service Director for Performance and Innovation in their absence.

- 3.3** The Investment Board will take into account the Medium Term Financial Plan, the Capital Programme, the emerging Capital Strategy and any relevant Treasury Management Policies and Procedures. All decisions must be in line with the aforementioned documents.
- 3.4** To establish a Property Investment Fund from general balances of £1,000,000 and a one-off revenue budget of £30,000 to be earmarked to fund upfront costs.
- 3.5** The Council's Constitution is updated to accommodate the recommendations above.

4. Background

- 4.1** Reductions in central government funding have made it necessary for the council to look for ways to become more financially sustainable through delivering efficiency savings and generating new sources of income in order to become less dependent on remaining central government funding.
- 4.2** The Medium Term Financial Plan, published in October 2018, identified a funding gap by March 2023 of £2.7m and as part of the council's plans to address the budget gap, the council's Business Plan 2015 – 2019 (2018 Update) includes the following priority: "We will maximise commercial opportunities and improve the return from our assets". Under Key Programmes and Projects it also states that we will: "Deliver a programme of commercial initiatives as part of the Council's Commercial Strategy" and "Deliver the Asset Management programme of works to maximise the return from our assets".
- 4.3** The Cabinet Report on 2 May 2018 on the Asset Management Strategy and Action Plan 2018-2023 included the following project: "Explore the opportunity to invest in new assets which would generate a good return for the council". Since that time, the Estates Team have undertaken some market research around industrial units in particular but this research has shown that in order to secure the most attractive properties with the highest expected rate of return, a quick decision is essential. Our current process involves lengthy decision-making procedures which make it unworkable to move forward in a timely manner and the report is seeking to address this.
- 4.4** The Council's current investment portfolio is made up of a wide range of assets including offices, shops/kiosks, a market, agricultural land, industrial units and ground leases. The estimated income from investment assets and rent from miscellaneous properties in 2018/19 is £846,080 (investment assets £482,190 and miscellaneous properties £363,890). The portfolio provides essential revenue income with future growth through rent reviews and capital growth through increasing investment values.

4.5 Over the long term, the property market is expected to continue to offer good capital growth in addition to yields in excess of other investment opportunities. The purpose of any investment in commercial property would be income generation.

5. Key issues and proposals

5.1 A Property Investment Fund ('the Fund') will be established with an opening balance of £1,000,000. A revenue budget of £30,000 will also be set aside to fund any associated upfront and potentially abortive costs such as legal fees, valuations, surveys and investment and acquisition advice.

5.2 The Fund will initially be funded using general balances in order to avoid utilising external borrowing and this initial investment will be run as a two-year pilot. Future sources of funding may include capital receipts and external borrowing, as allowed in the Council's Treasury Management Policy and emerging Capital Strategy.

5.3 The sum of £1,000,000 represents a comparatively modest amount to invest in asset acquisitions but is sufficient for the initial two-year pilot. To illustrate, in simple terms this size of investment fund would generate £50,000 per annum in revenue income based on a minimum 5% rate of return. It would allow the council to explore this area of commercial activity without exposing itself to high levels of risk or increasing its reliance on external borrowing.

5.4 In addition to the net revenue return from commercial properties, the council would also benefit from longer term uplifts in property values. However, this capital uplift can only be realised if the properties are sold.

5.5 The proposal will contribute towards the ongoing revenue budget gap and deliver income growth that will support current service provision and help to avoid reliance on cuts to services. Investing in commercial property has been shown to achieve significantly higher returns than those offered by current treasury management products and it also provides an asset that could be sold in future, generating a capital receipt.

5.6 It is proposed that for low risk property investments, a return of between 5% and 7% can be reasonably expected. As internal borrowing is being used to fund the initial £1,000,000 investment, no borrowing and repayment costs will apply which would typically reduce the net return to between 1% and 3%. This is a factor that would need to be considered should the funding approach change in future.

5.7 The Commercialisation Strategy attached at Appendix 1 contains the overarching vision for the council's commercial investment approach. This includes the preference to be given to opportunities within the borough. More detailed guidance exists for officers which includes consideration of Tenancy Strength, Tenure and Building Quality. This

guidance would be applied in the formulation of the business case which would then be passed to the Investment Board for consideration.

- 5.8** There are risks inherent in investing in illiquid assets for the long-term. Wyre's level of Usable Reserves as reported to Cabinet in the Medium Term Financial Plan in October 2018 were £21,306,259 as at 1 April 2018. This is currently forecast to reduce to £8,184,649 by 31 March 2023, demonstrating the need to secure efficiencies and new income streams to reduce the budget shortfall. Investing in commercial property will reduce our liquidity level but it is deemed to be within acceptable levels.
- 5.9** Asset values can increase and decrease, as can revenue from rental income. Independent market valuations will be made at the point of purchase and each property will be analysed according to the criteria and business case requirements in Appendix 1 of the Commercialisation Strategy to mitigate this. A minimum rate of return has been set at 5% and this will also have the effect of reducing the impact of any falling values.
- 5.10** There is a risk of void periods in future occupation as well as the possibility of tenants defaulting on payment of rent. Security of tenancy is addressed in the supplementary guidance for officers and will be a consideration in any investment decision.
- 5.11** The process of buying and selling property is complex and requires due diligence at every stage. Abortive and transactional costs such as Stamp Duty and Legal Fees mean that an increased cost may fall on the council should the market shift during any conveyancing period. In-house skills will be utilised to keep costs at a minimum and external advice sought only where necessary and on an agreed fee basis.
- 5.12** Investing in property has one of the most consistently lowest risks as measured by volatility but it is recommended that property purchases are entered into with a view to long-term ownership rather than short-term.
- 5.13** Whilst it is the intention to acquire investment properties outside of our existing asset portfolio, there may be assets that we currently own that would benefit from investment funded from the Fund. For instance, we hold land assets that may be suitable for redevelopment and these too would be considered by the Investment Board using a modified business case based on the Appendix to the Commercialisation Strategy.
- 5.14** The council's business plan also includes priorities around promoting economic growth and attracting investment in Wyre. This new Fund and accompanying strategy will support this ambition and will also create potential for additional business rates growth should new properties be constructed and leased in Wyre. Investments outside the borough are referred to in Appendix 1, but these are not the primary focus of the

initiative and will be considered only where suitable opportunities within Wyre are not forthcoming.

- 5.15** The decisions of the Investment Board will be reported periodically as part of the emerging Capital Strategy, Capital Programme updates and the Asset Management Strategy and Action Plan as appropriate.

Financial and legal implications	
Finance	The financial implications are considered in the main report.
Legal	s.9E of the Local Government Act 2000 allows the senior executive member of a district council to arrange for the discharge of relevant functions by the executive, another member of the executive, a committee of the executive or an officer of the council., The Council has a general power to acquire property, including investment properties and also has a general power to borrow but is under a general duty to act prudently (Local Government Act 1972 and the Localism Act 2011).

Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	✓
climate change	x
ICT	x

Processing Personal Data

If the decision(s) recommended in this report will result in personal data being processed, a primary impact assessment (PIA) will have been completed and signed off by the council's Data Protection Officer before the decision is taken (as required by the General Data Protection Regulations 2018).

report author	telephone no.	email	date
Clare James	01253 887308	Clare.james@wyre.gov.uk	30.11.2018

List of background papers:		
name of document	date	where available for inspection
None		

List of appendices

Appendix 1 – Commercialisation Strategy 2018-2023

dems/cab/cr/19/1601cj5

Wyre Council - Commercialisation Strategy 2018/19 to 2022/23

Background and Commercial Vision

In December 2016, the Council adopted a new Strategic Narrative, which sets out a clear vision and goals for evolving the way that Wyre council works.

The Strategic Narrative contains three big goals and these are:

- An integrated and community-focused service offer.
- A flexible and change-ready workforce.
- Financial discipline and commercial awareness.

Focusing on the third big goal around financial discipline and commercial awareness, the narrative commits that:

- By 2020 we will have implemented new ways to replenish dwindling government funding for local authorities.
- Our employees will be commercially minded with the ability to spot and maximize commercial opportunities.
- We will be financially astute delivering quality services, in conjunction with partners, on time and on budget.

Our approach will include:

- **Maintaining financial discipline.** Our Medium Term Financial Plan and Efficiency Programme will be aligned with our Business Plan to ensure our objectives and priorities are properly resourced and funded appropriately.
- **Bringing commerciality into everyday thinking.** We will bring commerciality into everyday working across the organisation through improved procurement practices, better contract management and a focus on delivering established financial goals.

At Wyre, commercialisation is a broad term used to capture all aspects of service reviews and redesign, the commissioning cycle, shared and multi-partner organisation joined-up services, income generation and general efficiencies.

Key Drivers

The council has a forecast budget gap of £2.7m in 2022/23 (as at October 2018) largely owing to central government cuts and this financial position necessitates our becoming more commercial in our approaches to procurement, contract management and the delivery and marketing of our services.

There is renewed interest in inter-Council arrangements with other local authorities as financial pressures increase. The same applies to other public sector partners who are similarly looking at the advantages, both financial and operational, of delivering services together on a shared footprint to make efficiencies.

Wyre's ultimate goal is achieving sustainability without the need for central government grant support and successes reported by other councils are building confidence in the sector that this is possible.

The introduction of our new appraisal 1-2-1s and 1-2-1+ are embedding the strategic vision and driving forward the 'One Team One Wyre', 'Together We Can' and 'Work Smart' values throughout the workforce.

Annual benchmarking of services has highlighted areas for further investigation where our unit costs appear high compared to both our 'nearest neighbour' group and the national average. This analysis will prompt more detailed reviews of high unit cost areas to identify potential savings.

Core principles of Commercialisation at Wyre Council

Commercialisation at Wyre Council encompasses the following approaches:

- Selling and Marketing our Services
- Fees and Charges
- Smart Procurement
- Improved and Continuous Contract Management
- Multi-partner Collaboration and Shared Services
- Maximising our Assets
- Investments
- Generating Efficiencies
- Digital Transformation
- Civic Crowdfunding

This strategy allows for all services to participate (or elements of services) and encourages a diverse range of approaches.

The principles of commercialisation include:

- Be open to all options for service delivery
- Be willing to take risks – allow for failure as well as success
- Be open and honest about current performance
- Follow financial regulations
- Be prepared to invest now for a return in the future

Links to other Wyre Council Strategies and key documents include the following:

- Wyre Council Business Plan
- Medium Term Financial Strategy
- Procurement Guide for Staff
- Commercial Advice for Staff
- Digital Transformation Strategy
- Annual Fees and Charges review
- Annual Benchmarking Report

Aims and Objectives

Essentially, the strategy aims to deliver a financial return, which contributes to closing the growing funding gap currently forecast to be £2.7m in 2022/23 (as at October 2018).

This will entail developing a programme of work based on:

- business cases put forward throughout the year;
- business plan programmes and projects;
- external funding bids;
- fees and charges reviews;
- marketing our services and assets
- training and development of staff to grow our in-house commercialism skills;
- the creation of cross-directorate working groups to take shortlisted projects forward; and,
- harnessing Wyre's unique selling points including our capital assets, a brand that people trust and detailed local knowledge.

Creating the right culture and environment

Careful consideration will be given to nurturing the positive, 'can do' culture within Wyre in order to encourage innovative ideas and develop them into robust project proposals. This will involve the following activities:

- Undertaking a staff development programme to support our vision and goals;
- Holding regular staff briefings (at least once a year) and cascading updates to teams during the year via Core Brief
- Adopting a project management approach for the implementation of the programme and promoting the new online resources for generating project proposals;
- Ensuring new proposals have the right support from the Senior Leadership Team and necessary stakeholders.

Outcomes

The approach taken in this strategy will ensure that positive outcomes are delivered including:

- A real, tangible opportunity to make a contribution to the Medium Term Financial Plan;
- Staff development – new skills will be acquired and can be transferred to other opportunities internally;
- Enhancing Wyre Council's reputation as a leading-edge authority in this sphere;
- Developing the organisation into a more innovative workplace, building on successes so far;
- Bringing benefits to the local economy;
- Ensuring the sustainability of non-statutory services that would otherwise be stopped due to lack of funding.

Criteria for Selecting Investment Assets

An initial Pass/Fail test will apply to all investment property acquisitions:

1. Owing to the council's requirement to generate income through a satisfactory level of return, the net initial yield (NIY) range that we could expect to achieve on the investment is likely to be between 5% and 7%. The NIY allows for the cost of purchase including agent's fees, surveys and stamp duty and should exceed a minimum level of 5% to qualify. (To **calculate net initial yield**, you need to deduct all the expenses (ongoing costs + cost of vacancy) from the annual rental income (weekly rent x 52). You then divide that number by the property's purchase price (including associated cost of purchase expenses) and times it by 100. This will give you the percentage yield.)
2. Whilst borrowing is not currently planned to finance the purchase of investment property, if it is undertaken then all investments must initially provide income equal to or above the council's required rate of return (ROR) defined by the cost of capital borrowing for purchase.

Any asset meeting the above criteria will be eligible to pass to the next stage for consideration. Any assets which do not meet the above criteria will not be considered further.

Following the initial Pass/Fail test, for eligible assets, a more detailed evaluation criteria will then apply accompanied by a business case co-ordinated by the Head of Built Environment.