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**Investment Estate Strategy 2016-21**

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**Reason for the Report**

1. To provide the Committee with an opportunity to consider the Council's Investment Estate Strategy 2016 – 2021, and provide its views to the Council Leader and officers prior to consideration of the draft Strategy by Cabinet on 21 November 2016.
2. For clarity, the papers attached to this covering report are:
  - Appendix A:** Cabinet Report - 21 November 2016, which is itself supported by the following appendices:
    - Appendix 1:** Investment Estate Strategy 2016-2021
    - Appendix 2:** Investment Estate Schedule.

**Background**

3. The Committee has responsibility within its Terms of Reference for scrutiny of the Council's property estate, which comprises both 'operational' property (from which the Council operates and delivers services), and 'non-operational' or 'investment' property (which is often let for commercial return or to promote local employment, small businesses and the economic regeneration of local areas). The Council's operational estate falls within the Corporate Services and Performance Portfolio, while the Council's non-operational property as under consideration today, falls within the Portfolio of the Leader.

4. The Cabinet Report attached at **Appendix A** seeks approval for the Council's first property investment strategy, following a detailed review of the property portfolio.
5. In November 2015 Cabinet agreed that all commercial income producing property would be held corporately; a newly formed Investment Board would govern the Council's investment estate; and capital receipts generated from the sale of investment estate assets would be reinvested to improve the yield in existing properties within the estate, or used to purchase better quality and better yielding assets.
6. The report to Cabinet on 21 November will outline progress to date. This includes all income generating properties now being directly managed by Strategic Estates; the appointment of external consultants Jones Lang La Salle (JLL) as the Council's external property advisor; the establishment of a Property Investment Board; production of a comprehensive Master Property Schedule; a high level review of the property estate; and the application of a Red Amber Green (RAG) system indicating what the Council should do with each individual property.

### **Investment Estate Strategy 2016-2021**

7. The Council has 200 property assets with a value of £67million, generating an income of £3.47million p.a. This represents a yield value of 5.16%. The proposed Investment Estate Strategy, attached at **Appendix 1 of Appendix A**, is designed to improve the performance of the estate and increase the yield on Council assets.
8. A high level assessment of all properties in the Council's portfolio has been carried out. This means that properties have been RAG assessed where:
  - a. Red = release
  - b. Amber = remodel
  - c. Green = retain
9. The Investment Strategy proposes that to improve the property portfolio the Council will consider the acquisition of new investments. It states 'opportunities to acquire new assets will depend on where the Council is willing to invest and how much it is willing

to spend. There is an increasing trend toward local authorities with a remit to acquire investment property on a national basis, seeking the best opportunities wherever they can be found, often in competition with private sector investors'.

10. The Strategy suggests there are many properties that will be suitable for the Council to acquire, and that important factors to take into consideration are Location, Covenant Strength, Lease Length, Investment Yield and Lease Repairing Terms.
11. Members will note that the Strategy identifies a performance target to increase the gross yield from the Council's portfolio from 5.16% to 6.16%, which represents a 20% improvement over 5 years.
12. As part of this strategy, a review of all operational assets will also be carried out, to identify any opportunities to generate rental income from properties that may be underutilised, surplus to requirements or sites where there is potential to let out the whole or split the site for commercial benefit.

### **Previous Scrutiny**

13. The Committee has considered property matters on several occasions. In January 2015 Members received a presentation of a review and recommendations of the Council's external advisor, JLL. Members will find a copy of this Review document [here](#).
14. The document contains an overview of the local investment property market, the planning context, a review of the Council's portfolio and suggestions towards future strategy in this area. The report provided 18 recommendations for the Council to consider, in areas spanning; the renewal of the Council's Investment Asset Strategy; categorisation of existing assets; agreement of the implementation plan; and operational management of the Estate.
15. This was followed up in November 2015 with pre-decision consideration of the way forward and proposed governance of property estate matters.

16. Members may recall that previous scrutiny of non- operational property strategy has highlighted the following concerns and recommendations to the Cabinet:

- The importance of considering the community and social benefit of Council property, as well as financial considerations;
- Where community assets are considered for asset transfer, sound business cases should be in place, and there must be community capacity to take the buildings on;
- The risk to income of disposing of capital assets;
- When the Committee scrutinises the Investment Estate in the future it would be seeking reassurance that an ethical and community focussed framework for investment had been implemented, and would be looking for a fuller explanation of how the new Investment Estate Board is identifying new assets. It would also seek to consider disposal case examples from the list of investment properties, to reassure itself that the framework is being adhered to.
- The importance of preserving the quality of the public realm in prominent locations. Members urge that all opportunities for the Council to control development on such sites the Board decides to sell seeks to prevent over development with bland options.
- Support for the recommendation that strategic sites in the city centre should be retained. Cardiff is short of hotel space, and Members urge that some control is preserved over the site's future use.
- The Committee fully endorsed the retention of some public houses for income purposes, and others for community benefit.
- The Committee felt the timescales for implementation remained unclear.

- Recognition that accountability for decisions taken by the Board will sit with professional officers advised by commercial advisers, reporting to the Leader, with an annual report of its activities included in the Council's Asset Management Plan programmed for Cabinet consideration. As these properties will be assessed to have no ward Member or community implications, the Committee's interest would be in the performance of the Board in maximising income from the Council's estate
- An annual report to the Policy Review & Performance Scrutiny Committee on the performance of the Investment Estate Board; supported by a cash flow statement outlining all sources of income and allocation of funding.

In response the Leader indicated:

- The strategy is focussed on generating increased revenue.
- Poor yielding properties will be considered for disposal.
- The Council would look to capitalise on opportunities that may arise out of redevelopment schemes where it could share in the development value.
- The investment board will seek to retain an element of control over sites where it is practical to do so, however over development and design quality would predominantly be controlled through the planning process.
- All new development would be expected to adhere to the city's new Liveable City Design Guide.
- With regard to the disposal of City Council assets ethical considerations will be part of the process to ensure that they are not used inappropriately in the future, or counter to community considerations.
- Regular updates will be provided to Cabinet, and the investment board would also be pleased to provide an annual report to the Policy Review & Performance Committee together with a cash flow statement.

## **Way Forward**

17. The Council Leader, Councillor Phil Bale, has been invited to attend the meeting and may wish to make a statement. Neil Hanratty, Director for Economic Development, and Helen Jones, Strategic Estates Manager, will be in attendance to answer Members' questions. In addition Chris Sutton of Jones Lang La Salle will attend.

## **Legal Implications**

18. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

## **Financial Implications**

19. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any

modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

## **RECOMMENDATIONS**

20. The Committee is recommended to:

- I. Consider the information presented in this report and at this meeting; and
- II. Decide whether it wishes to make any comments or recommendations to help shape the Non-Operational Investment Property Strategy programmed to be considered by the Cabinet on 21 November 2016.

**Davina Fiore**  
**Director of Governance & Legal Services**  
**9 November 2016**