

PROPERTY INVESTMENT ESTATE UPDATE

REPORT OF THE DIRECTOR OF ECONOMIC DEVELOPMENT

AGENDA ITEM: 1

PORTFOLIO: LEADER (ECONOMIC DEVELOPMENT AND PARTNERSHIPS)

Appendix 2 of this report is not for publication as it contains exempt information of the kind described in paragraph 14 of part 4 and paragraph 21 of part 5 of schedule 12A of the Local Government Act 1972.

Reason for this Report

1. To present a new 5 year Investment Estate Strategy 2016-2021 and to seek Cabinet approval.

Background

2. The Investment Estate is the Council's portfolio of non-operational property held for the primary purpose of generating income to support the Council's revenue budget.
3. On 12th November 2015 Cabinet approved a new approach to the management of the Investment Estate. The key changes agreed were:
 - All commercial income producing property is to be held corporately and managed by Strategic Estates, with associated budgets realigned.
 - All properties that have a broader community or economic development rationale for being held by the Council to be removed from the Investment Estate portfolio and to be managed as part of the operational estate.
 - A new internal Board to be established to manage the Investment Estate supported by market advice from an appointed external advisor.
 - Capital receipts generated from the sale of Investment Estate assets to be ring-fenced to be reinvested to improve the quality of the

retained assets or to purchase better quality and better yielding assets.

4. Following the Cabinet decision in November 2015 a new Investment Estate Strategy has now been prepared and is attached as Appendix 1.

Issues

5. The absence of a management strategy has meant that the Council's property assets have historically been managed purely on a reactive basis. The implementation of the Investment Estate Strategy will allow the Council to proactively manage assets more effectively with the aim to improve the overall performance of the estate.

Progress to Date

6. All income producing commercial properties are now directly managed by Strategic Estates and budgets have been realigned.
7. Jones Lang La Salle (JLL) has been appointed as the Council's external property advisor. JLL will be consulted on all property transactions affecting the Investment Estate.
8. An Investment Estate Board has been established to make recommendations regarding the management of the estate and comprises officers from Strategic Estates, Finance and representatives from JLL. The Board meets monthly and recommendations made are reported to Asset Management Board, chaired by the Chief Executive for approval. The Cabinet member with responsibility for the Investment Estate is also consulted as part of this process.
9. A new comprehensive Master Property Schedule has been produced to include all lease information, rental income and capital values. The schedule incorporates a new method for highlight upcoming rent reviews and lease renewals.
10. A review of all Investment Estate assets has now been completed with the assistance of JLL to provide a baseline understanding of all properties held. A RAG system has been introduced, allocating a high level action plan against all properties on the Master Schedule as illustrated in confidential Appendix 2. The RAG system represents the following actions:

Red: Release
Amber: Remodel
Green: Retain
11. The status of each asset will be subject to change as the review of assets is an iterative and on-going process.

Investment Estate Strategy 2016 – 2021

12. The key objective of the Investment Estate Strategy is to deliver an improvement in the performance of the estate over the next 5 years. The Strategy (attached as Appendix 1) sets out the targets by which the performance of the estate will be monitored. The key measure will be the overall yield of the estate. The Investment Estate currently includes approximately 200 assets worth £67m and generating an income of £3.4m. This represents a gross yield of 5%. The 5 year strategy aims to increase the return to 6% and this would represent a 20% improvement on the current performance of the estate. It is anticipated that an improvement to the performance will build over the course of the next 5 years as the key management building blocks are implemented. Progress will be reviewed annually and published in an annual Investment Estate Action Plan.
13. The first building block is to follow up the recently completed estate review which identified assets that require a further detailed options appraisal. This will confirm whether the Council retains, remodels or releases the asset.
14. It has been agreed that capital receipts generated from the sale of Investment Estate properties can be reinvested in existing assets or can be used to purchase new investment properties. The third area of work will therefore be to consider the acquisition of new assets to generate rental growth. This will involve a number of factors such as yield, property location, tenant covenant, lease length and lease repairing terms. The Council also has a social role to play in holding or acquiring property for economic development and regeneration. In this regard, where it meets the objectives in the strategy including the target of increasing yield, appropriate sites and properties will be considered as additions to the investment estate.
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Performance Management and Monitoring

16. Progress will be kept under constant review and a report to Cabinet will be prepared on an annual basis reporting activity and rental growth.

Reason for Recommendation

17. To implement the Investment Estate Strategy.

Financial Implications

18. The Council generates revenue income from the investment estate as part of the Council's budget. In accordance with the Cabinet recommendation in November 2015, any proceeds from the disposal of the investment estate are retained to meet the objectives set out in the report in the form of capital receipts. Re-investment up to this limit can take place which would place the management and operation of the estate on a more sustainable and commercial footing.

Where disposal results in a loss of revenue income, it is essential that any funds are re-invested to generate at least equivalent return in order to avoid an adverse impact on the Strategic Estates Revenue budget. Any such acquisitions should be based on a robust business case, due diligence and follow an approved governance process which has determined the criteria and any limits for any such investment in terms of affordability, future risks to affordability and any maximum exposure to ensure any credit risk as a result of unsupported borrowing. The budget report 2016/17, highlighted the potential need to set maximum exposure limits to unsupported borrowing for discretionary activities.

Where targets are set, base data and systems should be put in place to be able to collate and report that data periodically, within existing revenue budgets

Legal Implications

19. The Council has an underlying fiduciary duty to ensure value for money from the acquisition, management and disposal of public assets.

RECOMMENDATION

The Cabinet is recommended to approve the Investment Estate Strategy 2016 – 2021 attached as Appendix 1.

NEIL HANRATTY
Director
15 November 2016

The following Appendices are attached:

Appendix 1: The Investment Estate Strategy 2016-2021

Confidential Appendix 2: Investment Estate Master Schedule