

**REPORT OF: CHIEF EXECUTIVE**

**TO: POLICY AND RESOURCES COMMITTEE**

**DATES: 22<sup>nd</sup> AUGUST 2019**

**Contact Details:** Dean Langton  
**Tel. No:** 01282 661866  
**E-mail:** dean.langton@pendle.gov.uk

## **PROPERTY INVESTMENT FUND**

### **PURPOSE OF REPORT**

1. The purpose of this report is to seek the approval of the Policy and Resources Committee to establish a Property Investment Fund for investment in property assets for a commercial return.

### **RECOMMENDATIONS**

2. That the Committee makes the following recommendations to Council:-
  - a) That the Property Investment Strategy at **Appendix A** is approved;
  - b) That approval is given to establish the Property Investment Fund with an initial allocation of £10m (£5m for 2019/20 and £5m for 2020/21);
  - c) That a supplementary capital estimate for 2020/21 of £5m is approved, to be funded by way of an equivalent amount of borrowing, such borrowing to be delegated to the Chief Financial Officer, used in accordance the Property Investment Strategy and taken in compliance with the Council's annually agreed Treasury Management Strategy;
  - d) That the revised Capital Strategy 2019/22, provided at **Appendix B**, is approved;
  - e) That the updated Treasury Management Strategy for 2019/20, provided at **Appendix C**, is approved.

### **REASONS FOR RECOMMENDATION**

3. To put in place the funding and necessary governance arrangements for a Property Investment Fund which will be used to investment in commercial property acquisitions with a view to generating net additional income to support the Council's Revenue Budget.

## ISSUE

### Background

4. As a result of ongoing reductions in funding from central government, local authorities such as Pendle are increasingly considering other ways to generate income to sustain the delivery of Council services. At the meeting of the Policy and Resources Committee in December 2018, a Commercial Strategy was approved which highlighted a number of ways in which the Council is generating additional income and also other areas to be explored.
5. One of those areas to be explored and a key component of the Strategy was a proposal for investment in commercial property acquisitions as a means of generating net additional income for the Council to support the General Fund Revenue Budget. It was acknowledged at that time that further work was required to develop a Property Investment Strategy which would provide the basis for the Council to embark on this activity.

### Property Investment Strategy

6. A draft Property Investment Strategy was considered by the Policy and Resources Committee in May 2019. At that time, Councillors were asked to comment as appropriate on the proposed Strategy which sets out the governance and investment framework within which the Council would consider the acquisition of property for a commercial return.
7. The Property Investment Strategy 2019/22 is now provided at **Appendix A** for approval and is the basis on which the Council will seek to invest a Property Investment Fund.

### Property Investment Fund

8. To support the delivery of the Property Investment Strategy, it is proposed to establish a Property Investment Fund with an initial allocation of £10m. The fund will be used for the acquisition of property investments in accordance with the policy and procedure set out in the Strategy.
9. Establishing and using a fund of this nature must be done within statutory guidance that governs capital finance acknowledging that there are inherent risks in this activity and that appropriate controls to manage that risk should be in place. This includes guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG) in areas such as local government investments and the Minimum Revenue Provision as well as relevant Codes of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) including The Prudential Code for Capital Finance in Local Authorities and Treasury Management in Public Services, both of which articulate in more detail the statutory provisions underpinning this activity.
10. In relation to existing activities, the Council already complies with these statutory provisions. At the meeting of the Council in February 2019, Councillors approved the Capital Strategy for 2019/20 to 2021/22 which set out the Council's capital investment and financing plans. Similarly, at the Council meeting in March 2019, the Council approved the Annual Treasury Management Statement for 2019/20 (which incorporate the Annual Investment Strategy and the Annual Policy on the Minimum Revenue Provision amongst other matters).
11. Acknowledging the creation of the Property Investment Fund and the proposal to start investing in the acquisition of commercial property, a review of these Strategies/Statement has been undertaken to ensure that the Council remains compliant with statute and continues

to operate within a robust framework that manages/balances the risks associated with this activity against the potential rewards.

#### *Update to Capital Strategy 2019/20 to 2021/22*

12. The Council's Capital Strategy 2019/20 to 2021/22 was approved by the Council in February 2019 as part of the process of agreeing the Capital Programme for 2019/20. At that time, the development of the Property Investment Strategy was in its early stages and, therefore, not considered in the context of the Capital Strategy at that time.
13. Property Investment as proposed here is considered to be capital expenditure and is, therefore, subject to the statutory guidance and regulations governing such expenditure in local authorities. Acknowledging this, as a starting point, the Council's Capital Strategy has been updated to reflect this activity. A revised Capital Strategy is provided at **Appendix B** and the changes in relation to commercial investment activity are provided in **Bold**.
14. At present, the Capital Programme for 2019/20 includes no provision for commercial investment activity. As a result, and in compliance with the Council's Financial Procedure Rules, it is recommended in this report that Council is asked to approve a Supplementary Capital Estimate of £5m in 2019/20 and £5m in 2020/21. This fund will be used in accordance with the requirements of the Property Investment Strategy.

#### *Update to Treasury Management Strategy 2019/20*

15. It is proposed to fund the Property Investment Strategy by way of borrowing from the PWLB. As with any borrowing undertaken by the Council, it must be undertaken within the bounds of the Council's Treasury Management Strategy. In this context, the following changes are required to provide the capacity for this additional borrowing:-
  - the projected Capital Expenditure and related Capital Financing Requirement have both been increased by £10m over the period 2019/22;
  - both the Authorised Limit (the maximum amount of Council borrowing) and the Operational Boundary (the day to day limit on borrowing) have been increased by £10m over 2019/22;
  - the Borrowing Strategy for 2019/20 (and for 2020/21) has been amended to reflect additional borrowing of £5m in each year subject to compliance with the Property Investment Strategy.
16. An updated Treasury Management Strategy for 2019/20 is provided at **Appendix C**. Again, the changes to the Strategy to reflect the intention to invest in commercial properties are provided in **Bold**.

## **IMPLICATIONS**

### **Policy**

17. There are no new policy implications arising from this report accepting that the Council has previously acquired properties for investment previously. That said, the adoption of the Property Investment Strategy to acquire properties for investment returns represents a change in the policy which does require the agreement of Council.

## **Financial**

18. The financial implications are generally as given in the report.
19. This report seeks approval to establish a Property Investment Fund of £10m which will be used in compliance with the Property Investment Strategy. The fund will be financed from an equivalent amount of borrowing, with the cost of borrowing met from the expected investment returns (rental income) arising from the ownership of the investment assets.
20. It is not intended that the fund is used for general capital expenditure that will not generate an investment return.
21. Each proposed investment will be subject to a financial appraisal before a recommendation to purchase is made to this Committee so that there is a full understanding of the financial implications before the decision to acquire is taken. Where appropriate, specialist external advice will be sought in support of each specific business case.

## **Legal**

22. The proposed Property Investment Fund will operate within the bounds of the statutory guidance issued by MHCLG and CIPFA relating to acquiring investment properties. The Council's Capital Strategy and Treasury Management Strategy, presented as Appendices to this report, have been updated to reflect this guidance.
23. Each proposed investment will be subject to the normal legal processes and appropriate due diligence will be undertaken when acquiring property. As a minimum, an independent valuation and a property survey will be obtained prior to any purchase and, where it is considered necessary, property market assessments may be undertaken to obtain an insight into specific property markets in locations where the Council is seeking to acquire.

## **Risk Management**

24. Councillors should note that there is risk that the capital value of investments can go down as well as up. In recognition of this, a full risk assessment will be undertaken in relation to each proposed investment. This will be in the context of both protecting the Council's capital investment in the acquisition of each property and ensuring that the Council achieves the returns expected ensuring it is sufficient to repay the related debt charges.

## **Health and Safety**

25. There are no Health and Safety implications arising directly from the contents of this report.

## **Climate Change**

26. As with health and safety implications, there are no climate change or sustainability implications arising directly from this report.

## **Community Safety**

27. There are no community safety issues arising directly from the contents of this report.

## **Equality and Diversity**

28. There are no equality and diversity issues arising from the contents of this report.

## **APPENDICES**

Appendix A – Draft Property Investment Strategy

Appendix B – Capital Strategy 2019/22 (Revised – August 2019)

Appendix C – Updated Treasury Management Strategy 2019/20

## **LIST OF BACKGROUND PAPERS**

None