

MEETING OF THE GROWTH OVERVIEW AND SCRUTINY COMMITTEE

FRIDAY, 1 DECEMBER 2017 2.00 PM



COMMITTEE MEMBERS PRESENT

Councillor Felicity Cunningham
Councillor Barry Dobson (Vice-Chairman)
Councillor Graham Jeal
Councillor Robert Reid (Chairman)

Councillor Peter Stephens
Councillor Mrs Brenda Sumner
Councillor Paul Wood

CABINET MEMBERS

Councillor Adam Stokes – Cabinet Member for Finance

OFFICERS

Assistant Director, Property Delivery
(Neil Cucksey)
Assistant Director, Finance (Richard Wyles)
Principal Democracy Officer (Jo Toomey)

CALL-IN MEMBERS PRESENT

Councillor Ashley Baxter
Councillor Phil Dilks
Councillor Bob Sampson
Councillor Ian Selby

OTHER MEMBERS PRESENT

Councillor Bob Adams

30. MEMBERSHIP

The Committee was notified that Councillor Cunningham would be substituting for Councillor Cook for this meeting only.

31. APOLOGIES

The Committee was advised that an apology for absence had been received from Councillor Morgan, who was one of the Members who called in the decision.

32. DISCLOSURE OF INTERESTS

No interests were disclosed.

EXCLUSION OF THE PUBLIC

It was agreed that the press and public should be excluded during discussion of the following item of business because of the likelihood that information that is exempt under paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended) because of its commercial sensitivity, would be disclosed to them.

33. CABINET MEMBER DECISION 6 NOVEMBER 2017 - COMMERCIAL INVESTMENT PROPOSAL

Decision:

To not support the call-in

The Chairman explained the process that would be followed during the meeting and outlined the possible conclusions that the Committee could reach:

- To support the request for the call-in and recommend that the Cabinet Member for Finance re-considers the decision
- To not support the request for call-in and uphold the decision made by the Cabinet Member for Finance
- To refer the decision to Council (only if the Committee found that the decision did not comply with the Council's budget or policy framework)

During discussion, Committee members were reminded that their deliberations needed to relate specifically to the decision that had been called-in and not whether they agreed with the principles in the Commercial Investment Strategy.

Early debate centred on the location of the commercial property that was the subject of the decision, as it was not within South Kesteven. Members referred to a commercial investment decision that had previously been called-in by the current Cabinet Member as it was outside the district, querying what had led to the change in perspective. The Cabinet Member explained that his decision complied with criteria in the Commercial Investment Strategy and followed exhaustive searches of potential investment opportunities within the district, none of which had been found to have the level of return that could be provided by this property. Some members made reference to the payment of business rates, which would be received by another local authority.

Reference was made to the Invest SK programme and its ambition to promote investment within the district. The Committee was advised that while Invest SK was designed to stimulate growth in South Kesteven, the objectives were different and so it would not offer the same commercial return as the proposed purchase.

There was some discussion around the payback period for the purchase with

some members expressing concern because the period for recouping the purchase price exceeded the duration of the leases held by the existing tenant. While this was acknowledged a range of scenarios had been modelled, including the tenant activating the break clauses with their leases, which had indicated that the purchase was still viable. There was also assurance expressed that if the rental income did cease, the Council is investing in an asset that should increase in value over time and would also enhance the net worth of the Council.

It was noted that if the tenant wanted to leave, it was required to give 6-months notice and that the two leases did not run concurrently. This meant that there would be a minimum of 6-months to market one part of the facility, with a slightly longer lead-in to market the second part. The arrangement of the premises also meant that they could easily be remodelled into two or four units. Members were advised that the current tenant had made significant investment in the fitting-out of the office accommodation, which indicated a commitment to staying put.

There was some discussion about the financing of any such acquisition, with enquiries about whether the Council could borrow money to protect the Council's reserves. The Committee was advised that whilst it would be possible to borrow to fund any such purchase, it would diminish the level of return that could be achieved.

Further debate ensued on ensuring best use of council tax payers' money. As commercial investments were being funded through reserves members felt that they should be greater scrutiny of prospective acquisitions and suggested that Council Tax payers may instead prefer to see a reduction in council tax instead of it being used to make a commercial investment. Some members disagreed and suggested it was the Council's responsibility to get the best possible return on its Council Tax, which it felt would most effectively be achieved through the implementation of the Commercial Investment Strategy. Comparisons were drawn between the return that was achieved from treasury management investments against the yield from rental income. Members were also mindful about the possible risks of making any investment, whether it was in commercial property or through the treasury management strategy.

The Cabinet Member for Finance indicated that the key reasons that formed the basis of his decision were the strong location of the investment property; the covenant strength of the tenant, which he felt exceeded that of the previously proposed acquisition; the opportunity to boost the diversity of the Council's investment portfolio with the acquisition, thus spreading the risk and the opportunities to remodel the premise if the existing tenant decided to quit that could make up to four rentable units.

Members were interested in how the Council became aware of the investment opportunity and the due diligence that had been carried out around its acquisition including inspections and site visits.

A suggestion was made that the Council could look at investing in purchasing or developing residential properties within the district, however they were reminded that if they were purchased from within the Housing Revenue Account then they would only be available to let out for social rents and would be subject to the right to buy. Gravitas Housing, the Local Authority Controlled Company created by the Council, was working on delivering housing within the private sector. Members were also advised that investing in housing for market rental would not comply with the terms of the Commercial Investment Strategy because the maximum tenancy would be for three years and not the required five years. Suggestions were also made about other industries in which the Council may be able to identify prospective investment opportunities, but it was noted that the most appealing were those that would have light-touch demands in terms of day-to-day management.

Some members indicated that they had hoped to be able to ask questions about the proposed investment when the Cabinet Member's decision was reported at the Cabinet meeting on 9 November 2017 and were disappointed that they had not had the opportunity.

A majority of members agreed that they did not support the request to call-in the decision made by the Cabinet Member for Finance. Consequently the decision came into force with immediate effect.

34. CLOSE OF MEETING

The meeting was closed at 15:57.