



CABINET

Report of: Councillor Adam Stokes Cabinet Member for Finance

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| Report to: | Cabinet |
| Date: | 13 th July 2017 |
| Subject: | Review of Commercial Investment Strategy CFM 425 |

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|---------------------------------|---|
| Decision Proposal: | Key Decision |
| Cabinet Member: | Cllr Adam Stokes - Cabinet Member for Finance |
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| Signed off by: | Councillor Adam Stokes |
| Approved for publication | Councillor Adam Stokes 30 th June 2017 |

SUMMARY

The commercial property investment strategy is focussed on identifying and securing investment opportunities in the business sector in order to secure a financial return. This initiative is a significant contributor to the Council's response to the funding challenges that lie ahead and to maximise the Council's financial headroom.

Given the current market conditions, the opportunity has been taken to re-asses the investment strategy and consider amendments to the criteria that more adequately reflect the investment ambitions.

RECOMMENDATION

Cabinet is asked to approve the revised commercial investment strategy and to proceed to acquiring asset income generating investments in order to contribute towards the £300,000 income budget within the 2017/18 budget framework.

1. BACKGROUND TO REPORT;

1.1 The investment strategy was developed and approved in December 2015 as one of the many responses the Council introduced as part of its commercial focus as outlined in the Corporate Plan. More specifically, the strategy was developed as a means to secure commercial investment income at a time of reducing treasury investment returns and reducing revenue support grant. The Council has a stated ambition of being self-funded by 2019/20 and be in a position of creating financial headroom in order to invest in its priority outcomes.

The objective of the strategy is specifically to acquire income-producing property in order to enhance Council revenue streams as opposed to making investments in potential development sites and development schemes within the district. Property development is a distinct activity with very different risks which is not the subject of this strategy.

1.2 At the time of its formation, the strategy was focussed on identifying commercial investment opportunities primarily within the district that secured a financial return which was supported by strict criteria which was established to achieve a balanced portfolio of properties and to minimise risk of over exposure within one commercial sector.

The current strategy also sets criteria with respect to lot size and value in an attempt to contain the increasing asset portfolio that could otherwise arise from having no minimum value. It is recognised there is a cost of holding tenanted assets including rent collection, landlord maintenance, managing any void periods, etc.

However it is recognised that despite best endeavours it has not been possible to secure investments that are within the district of South Kesteven and that meet the criteria. The difficulty has been further compounded by the slowing down of the market and the investment returns that are now being offered. This has resulted in the strategy being out of context with the commercial market and therefore the criteria no longer achievable.

A proposed revised strategy was presented to Growth Overview and Scrutiny Committee and the committee members debated a wide range of issues including the geographical constraints, the lot sizes and anticipated yields for investment and the asset classification. The main recommendations were:

- That the Cabinet considers the balance of local investment against returns and where appropriate considers investment opportunities outside the district on a case by case basis and in line with other criteria changes.
- That consideration should be given to removing the lower limit for both yield and lot size
- Including in the investment strategy 'Target Assets' section:
 1. Investment in health and care facilities
 2. Opportunities to invest in land that would provide a commercial return
 3. Investment in different leisure opportunities
- Flexibility to include the use of borrowing to fund investments

With respect to the last point, financing decisions will be considered at the point of any procurement being undertaken and therefore does not require inclusion in the strategy.

The proposed recommendations have been incorporated (shown in *italics*) into a draft strategy which is provided at Appendix A. For reference and comparison purposes, the current strategy is provided at Appendix B.

2. OTHER OPTIONS CONSIDERED

The strategy could remain unchanged but given the changes in the investment yields being offered in today's market, it is unlikely there will be investment opportunities that meet the criteria that is set out in the current strategy.

3. RESOURCE IMPLICATIONS

None

4. RISK AND MITIGATION

Risk has been considered as part of this report and any specific high risks are included in the table below:

| Category Risk | Action / Controls |
|----------------------|--|
| Financial Risk | In order to support the delivery of the budgeted income of £300K for 2017/18 it is appropriate to review and update the strategy in order to reflect the current investment market |

5. ISSUES ARISING FROM IMPACT ANALYSIS (EQUALITY, SAFEGUARDING etc.)

None

6. CRIME AND DISORDER IMPLICATIONS

None

7. COMMENTS OF FINANCIAL SERVICES

The 2017/18 budget framework includes a capital allocation of £5M to fund commercial investment opportunities and an associated revenue income budget of £300K to be met from the commercial rental returns. Therefore in order to ensure that the budgets are met, it is important to regularly review the investment strategy to ensure it remains fit for purpose and will support the delivery of investment opportunities.

8. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

S.12 of the Local Government Act 2003 provides the Council with authority to invest for any purpose relevant to its functions or for the purposes of prudent management of its financial affairs.

Any strategy relating to the investment in property must ensure that the resources of the Council are sufficient to manage the portfolio of property to be purchased.

9. COMMENTS OF OTHER RELEVANT SERVICES

N/a

10. APPENDICES

Appendix A – Suggested revised strategy

Appendix B – current approved strategy

11. BACKGROUND PAPERS

Investment Strategy 7th December 2015

<http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=164&MId=3194&Ver=4>