

DECISION-MAKER:	CABINET		
SUBJECT:	PROPERTY INVESTMENT FUND		
DATE OF DECISION:	19 APRIL 2016		
REPORT OF:	LEADER OF THE COUNCIL		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY	
None	
BRIEF SUMMARY	
<p>This report sets out proposals to increase investment in property in response to the financial pressures to increase revenue. An initial allocation of £65 million in the Capital Programme has been approved by Council and the report details the criteria for investment, the typical options available, the governance, the resources and the draft business plan.</p>	
RECOMMENDATIONS:	
(i)	To approve the <i>draft</i> Business Plan, Investment Criteria; Governance Arrangements and Delivery Options.
(ii)	To delegate authority to the Head of Capital Assets following consultation with the Leader of the Council and the Council's Capital Board to agree the detailed business plan and any future variations to Investment Criteria and Delivery Options.
(iii)	To delegate authority to the Head of Capital Assets, following consultation with the Leader of the Council and the Service Director; Strategic Finance and Commercialisation to approve the acquisition or sale of property or other investments in accordance with the Business Plan, Investment Criteria and Delivery Options and to do anything necessary to give effect to the recommendations contained in this report.
(iv)	To delegate authority to the head of Capital Assets, following consultation with the Leader of the Council and Council's Capital Board, to take all further decisions in respect of real property acquisitions and disposals irrespective of value.
(v)	To recommend to Council as part of the review of the Constitution at the Council's AGM to amend Financial Procedure Rules to exempt real property transactions from the value thresholds determining level of decision make and to amend Article 12 of the

	Constitution to exclude property transactions from the definition of 'significant budgetary impact' that determines whether or not a matter be treated as a Key Decision.
REASONS FOR REPORT RECOMMENDATIONS	
1.	To allow the Council to increase income through strategic property investment, in response to the current financial pressure, reducing the reliance on Government grant by building asset and investment portfolios that provide a commercial return.
2.	This will build on the current investment portfolio which the Council manages. This has a current value of £99.7M (31 st March 2015) and generates a gross annual return of approximately 7%.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	Not to further invest in property would forego the opportunity to increase the potential for additional revenue.
DETAIL (Including consultation carried out)	
4.	There are options for increasing the council's portfolio of property investments because of the potential for higher returns and the likelihood of interest rates remaining low, giving the potential to fund acquisitions from borrowing.
5.	The Investment Property Databank (IPD) UK, All Property Annualised Total Return (which is the income return added to the capital growth) for the 3, 5 and 10 years to December 2014 was 10.5%, 10.9% and 6.2% respectively (source: IPD UK Annual Property Index) demonstrating that even through the recession the property sector as a whole has generated returns for investors
6.	<p><u>Investment Strategy</u></p> <p>The <i>prime purpose</i> of the initiative is to generate income i.e. contributing to a financial 'future-proofing' effect, underpinning financial security for the Council by providing further income independent of Government funding or Council Tax revenues to fund activities. Hence, the investment focus will be on the most appropriate method of delivering income, rather than on location within the city boundary.</p> <p>In some cases investment assets also offer the potential to unlock future development opportunities, assist the economic well-being of the city and provide extended services. This, however, would be a <i>secondary objective</i> of this particular initiative as other property initiatives will focus more on development and economic well-being.</p>
7.	<p>There are a range of types of investment and vehicles for investment that may form part of a balanced investment portfolio. Capital Board proposed that examples which should be considered include:-</p> <ul style="list-style-type: none"> • Direct Investment - Acquisition of Income Producing Property • Indirect Investment - Investment in Property Investment Vehicles such as Investment Funds or R.E.I.T.s (Real Estate Investment Trusts)

	<ul style="list-style-type: none"> Corporate Investment – Investment in or Acquisition of Property Management, Trading or Investment Companies
8.	The opportunities and risks presented by these and other investment options will inform a draft Investment Business Plan which will also set out proposals for decision-making, reporting and governance
9.	<p>An Options Appraisal and Draft Business Plan are attached as Appendix A and B respectively.</p> <p>These conclude: -</p> <p>Given the Property Investment Fund (PIF) objectives the recommendations are as follows: -</p> <ol style="list-style-type: none"> 1. The PIF be flexible enough to allow all seven potential delivery methods as described in this report. 2. To generate immediate income, initial investment is proposed into the most liquid categories of delivery methods, namely 3 and 4 (property funds and shares). In this way, capital can be deployed quickly and flexibly. In the event further allocations do not become available for future projects, these investments can be readily realised and redeployed. 3. As suitable opportunities arise investments should then be focussed on delivery methods 1 and 2 (direct property investment and joint ventures). 4. Higher value adding/risk activities (delivery methods 5 to 7) are focussed initially within the City. The Council's knowledge of the city creates a competitive advantage and allows it to better manage risk and deliver wider Council objectives.
10.	It is further noted that if property investments are purchased within the city boundary with prudential borrowing, the Authority will be required to make a prudent Minimum Revenue Provision (MRP) to cover the whole debt (with payments over the projected life of the asset). This MRP payment will impact on the return available. Such cases will thus need to be assessed on individual merit as there may be a more suitable vehicle for purchasing/developing these options within the City, it is noted that value would need to be added to any proposal on this basis with associated risk attached (hence this is covered by delivery method 5-7).
11.	When assessing options for direct investment, due diligence will be given to each option under consideration. This will include the type of asset, location, ownership, tenure/lease terms, occupier/quality of covenant, yield and prospects for future growth and improvements to the return, risks including voids, repairs, etc.
12.	<p><u>Monitoring and Review</u></p> <p>Detailed proposals for decision-making and governance form part of the Investment Business Plan. It is proposed that authority is delegated to the Head of Capital Assets following consultation with the Leader of the Council and the Council's Capital Board to agree and update the Business Plan. It is proposed that given the need to act swiftly when appropriate opportunities arise, authority to agree the detailed terms of any acquisition or sale will be delegated to the Head of Capital Assets, following consultation with the Leader of the Council and the Service Director Strategic Finance and</p>

Commercialisation.
A Portfolio Performance Report will also be published at least bi-annually for review at the Council's Capital Board and this will inform future iterations of the Investment Business Plan.

RESOURCE IMPLICATIONS

Capital/Revenue

13. The 2016/17 Revenue Budget, approved by Council in February 2016, included a saving proposal to generate a net £1M additional revenue investment income from the creation of a Property Investment Fund. In order to generate this level of net revenue return a capital investment in the region of £65M is required. The following table details the breakdown of this requirement.

Investment Breakdown

	£M
Initial Investment	60.0
Investment Costs (based 8% of investment total)	5.0
Total Capital Investment Cost	65.0
Assumed Rate of Return 6%	3.6
Less Borrowing Costs 4%	(2.4)
Assumed Revenue Income	1.2
Allowance for Voids, Management and R&M Costs	(0.2)
Net Revenue Income	1.0

14. Council approved the addition of a new scheme to the Leaders Portfolio Capital Programme in February 2016 for £65M, in 2016/17 to be funded from Council Resources. Further approval to spend has been given subject to the review of a detailed Investment Business Plan by the Council's Capital Board and the seeking of relevant governance and delegations as sought in this report.

Property/Other

15. This is covered in text above. Additionally, there will be a resource required within Legal Services to undertake the conveyancing work involved. This has yet to be identified or quantified bearing in mind that the volume of acquisitions is unknown. It is possible that external solicitors may need to be instructed at additional cost depending on the timeframes, priorities and available resource at any particular time. Naturally it is envisaged that the in house team will be able to facilitate any instructions where possible.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

16.	Further investment in property is permitted under the General Power of Competence (GPC) introduced by the Localism Act 2011 which gives councils the power to do anything an individual can do provided it is not prohibited by other legislation.
<u>Other Legal Implications:</u>	
17.	none
POLICY FRAMEWORK IMPLICATIONS	
18.	The proposal set out in this report is not contrary to any policy implications. The disposal of a Council property for a capital receipt (as and when the option is exercised), supports the Council's capital programme.

KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Options Appraisal
2.	Draft Business Plan
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out?	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
Other Background Documents	
Equality Impact Assessment and Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None