TITLE	**Property Portfolio Investment Strategy**
FOR CONSIDERATION BY	Council on 23 November 2017
WARD	None specific
DIRECTOR	Graham Ebers, Director Corporate Services

OUTCOME / BENEFITS TO THE COMMUNITY

The revenue received from the creation of a Property Investment Portfolio will soften the impact of reducing Central Government funding by creating new income streams that will be free from austerity measures and will improve the financial resources available to the Council.

RECOMMENDATION

Council is recommended to:

1) note the recommendations agreed by Executive on 28 September 2017, as set out in the report;

2) agree that up to £100m borrowing powers, in line with the Property Portfolio Investment Strategy, are delegated to the Director Corporate Services, in consultation with the Leader, Executive Member for Finance and the Executive Member for Business, Economic Development and Regeneration;

3) agree that in line with the Property Portfolio Investment Strategy the Director Corporate Services, in consultation with the Leader, Executive Member for Finance and the Executive Member for Business, Economic Development and Regeneration, be delegated authority to invest up to a maximum of £20m for a single transaction.

SUMMARY OF REPORT

This report considered two types of investment namely:

1. Developments on Council-owned land.

2. The purchase of and or development of income-generating or re-saleable property assets.

The report described proposals for implementing an investment strategy to preserve and improve the financial resources available to the Council by generating revenue income from capital investment as a direct response to the proposed reduction in Central Government funding in future years.

To fund investment opportunities, the Council will utilise Public Works Loan Board borrowing of up to £100m or the proceeds of asset disposals.

Following Executive agreement to the broad principles, it is necessary for Council to agree borrowing of up to £100m.

Background

The Council has already embarked on an assets investment programme through Town Centre Regeneration and the Council owned housing companies. These investments are approved by Executive on a case by case basis.

All other investments are made in accordance with the Council's Treasury Management Strategy. These are shorter term and of low risk and are currently yielding a modest 0.4% net return, even where specialist fund managers are engaged.

In contrast, yields from property present an opportunity for greater returns, even allowing for the inherent risk and illiquidity in direct property ownership. There is therefore an opportunity for the Council to increase its risk profile by investing in income generating assets where typically the gross yield range from property investment could be 3-12%, with lower yields reflecting a more secure investment requiring less management. NB - Yield is the relationship between value and income.

The minimum investment criteria will be above the costs of borrowing from the Public Works Loan Board (currently circa 3%).

The net yield achieved will provide a direct profit to the Council and will be available to subsidise the costs of core services and mitigate the annual impact of Government funding cuts.

As Central Government funding has fallen, this has led to ever widening funding gaps, pressure on spending and reductions in services and staff. This has resulted in Local Authorities looking at innovative ways to generate alternative revenue streams that deliver more than the limited returns that are currently available from bank reserves.

At the same time, suggestions from Central Government that Councils should aim to be more self-sufficient in their income sources, has made it increasingly commonplace for Councils to invest in commercial property where the higher yields help to offset the impact of the grants cuts.

Compared to many local authorities, Wokingham has a small property portfolio, although the Town Centre Regeneration scheme has/will increase numbers significantly.

Until 4-5 years ago, there was only a small number of authorities expanding their investment property portfolios, but since then that number has increased dramatically. Indeed, Savills estimate that last year, local authorities spent £1.2bn across a range of commercial property and collectively the biggest investors in the last 18 months have been Councils.

The moves towards property investment portfolios is a logical step if it is undertaken sensibly and is not seen as the panacea for all the Council's funding problems.

Recently there has been comment in the media regarding the risks that many local authorities have taken by entering the commercial property investment market with suggestions that they are gambling with public funds, even though Councils have been involved in commercial property for many years. This has led to suggestions that central government may look to stop local authorities from using the PWLB funding for investment purposes.

However, if the Council is to be innovative and develop a portfolio, then a robust risk-assessed approach is needed to protect the Council's interests.

In this regard, an Investment Protocol has been developed so that a case by case review of each proposed investment can be conducted using an evaluation methodology that must then go through the appropriate approval process described, before any commitment to an acquisition is made.

Analysis of Issues

It is proposed that there are two types of investment – development on our own land and/or other development and property-related opportunities.

The approvals for development on our own land will be in accordance with the current approvals process i.e. through Executive. It is proposed that governance for the acquisition of other development opportunities will be in accordance with the criteria set out in the Investment Protocol.

Any form of investment is not without risk since its value may rise or fall over time, especially where it is retained over many years.

To mitigate the impact of uncertainty, the investment objective will be to accumulate a spread of investments across many different opportunities including a variety of property types, sizes, building condition, locations and covenant strength, with varying degrees of risk.

At the Executive meeting on 28 September, the following recommendations were agreed :

1) endorse the broad principles of the Property Portfolio Investment Strategy which was set out in Part 2 of the report;

2) that delegated authority be given to the Director of Corporate Services, in consultation with the Leader, Executive Member for Finance and the Executive Member for Business, Economic Development and Regeneration, for purchases totalling up to £100m;

3) recommend to Council that up to £100m borrowing powers are delegated to the Director of Corporate Services, in consultation with the Leader, Executive Member for Finance and the Executive Member for Business, Economic Development and Regeneration;

4) note that the cost of borrowing will be funded by the investment income from the commercial assets;

5) note that developments on Council owned land will be brought back individually to Executive on a case by case basis.

There is a limit on Executive authority to incur expenditure up to £15m on individual capital schemes, subject to such expenditure being within Council approved budgets, and it is therefore necessary for Council to agree recommendation 3 above.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Financial implications are dependent on cost of purchases	There is sufficient revenue funding as income generating assets will pay for the costs of borrowing.	Capital spend for revenue income
Next Financial Year (Year 2)	Financial implications are dependent on cost of purchases	There is sufficient revenue funding as income generating assets will pay for the costs of borrowing.	Capital spend for revenue income
Following Financial Year (Year 3)	Financial implications are dependent on cost of purchases	There is sufficient revenue funding as income generating assets will pay for the costs of borrowing.	Capital spend for revenue income

Other financial information relevant to the Recommendation/Decision
See other financial implications

Cross-Council Implications
Revenue generated from the investments will assist in the continued provision of Council services.

List of Background Papers
None

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