

Commercial Services Cabinet Committee

Monday, 8 July 2019

7.30 pm

Present:

Cllr Lenny Rolles (Chair)
Cllr Sarah Gow (Vice-Chair)

Councillors: Conrad Broadley
John Caller
Anthony Pritchard
Tony Rana
Tony Rice
Gurbax Singh
Denise Tiran

Note: Cllr Leslie Hills was also in attendance.

Stuart Bobby	Director (Corporate Services)
Sarah Parfitt	Assistant Director (Corporate Services)
Elizabeth Thornton	Service Manager (Property and Regulatory Services)
Michelle Batstone	Corporate Change Manager
Charlie Simmonds	Committee Services Manager

1. Apologies

An apology for absence was received from Cllr Leslie Pearton.

2. Declarations of Interest

No declarations of interest were made.

3. Order of Agenda

The Chair stated the agenda item 5 would be considered before agenda item 4.

4. Local Authority Trading Company (LATCo) Briefing Paper

The Director (Corporate Services) informed the Committee that given the financial pressures that had been placed on Councils in recent years there had been a drive for local authorities to consider the way in which they operate and provide their services. This had resulted in Councils exploring other options for income generation such as purchasing of commercial properties and the formation of trading entities to deliver Council services such as private repairs and maintenance, house clearance and vehicle repairs.

There were two key pieces of legislation which allowed for a local authority to trade in the services it provides:-

- The Local Government Act 2003 which allows local authorities to trade in the ordinary day to day functions of the Council; and
- The Localism Act 2011 which allows local authorities to trade in any area (unless expressly prohibited or limited by statute).

A recent report by Grant Thornton in September 2018 stated that it had identified 743 LATCos in Great Britain and that 59.2% of local authorities owned at least one. These figures included commercial property companies which made up 23.2% of all LATCos.

The Council's Medium-term Financial Strategy 2016-17 to 2019-20, set out an initial funding gap by 2019-20 of £2.9m. Whilst considerable action had been undertaken to date to 'bridge the gap' in term of identifying savings and new income streams, a further £1.3m of savings had been agreed in the autumn of 2018 as a result of further central government austerity measures and commercialisation would be a key step to delivering these additional actions to close the funding gap.

The Director (Corporate Services) provided Members with a detailed overview on the process of forming a LATCo and the Council's potential approach to the formation of such a company.

Members highlighted the following:-

- Which services would be progressed and would a business case for each of those services be submitted to the Committee for consideration.

The Director (Corporate Services) advised that there were currently three areas being explored and that further work needed to be undertaken. The Committee would be informed of those areas and the order in which they would be progressed once the above work had been completed.

- If the LATCo was to become successful, would TUPE need to be considered?

The Director (Corporate Services) advised that the creation of a LATCo was in no way intended to result in the transference of existing Council functions or the erosion of staff terms and conditions.

- The Council will need to adequately protect those Members and Officers that will sit as Directors on the LATCo as they will become personally liable i.e. the Council will need to indemnify those appointed.
- Consideration will need to be given to how the Council will manage expectations when providing services for both the public and private sector.
- Could a LATCo offer services that are outside of the Council's ordinary day to day functions.

The Director (Corporate Services) advised that this was possible however there was no intention to do so at this moment in time.

As it was the Council's intention to establish a LATCo, the Committee was informed that approval would need to be obtained from Full Council therefore appendix four to the report

set out an indicative timeline for establishing a trading company by 1 April 2020. Regular updates on progress would be provided to the Committee over the course of the year.

5. Property Acquisitions Briefing Paper

The Assistant Director (Corporate Services) informed the Committee that Full Council had adopted a Property Acquisition Strategy in February 2016. At the time of approving the Strategy, £10m of the Council's investment balances were made available for the purchase of properties for investment purposes. Since that time, total funding of £26.2m had been made available to implement the Property Acquisition Strategy due to the strengthening of the Council's cashflow balances, meaning that these balances had not reduced as quickly as expected. A balance of £3.29m currently remained.

The Assistant Director (Corporate Services) advised that the strategy set out the following criteria for selecting investment assets:-

- the investment provides a regular income with the net initial yield exceeding a minimum level of 3% above the prevailing 25 year Public Works Loans Board (PWLB) fixed maturity rate, after taking into account all costs associated with the acquisition;
- purchases are to be from the retail, industrial, office and any other conventional business sectors; and
- acquisitions are not limited to being within the Borough of Gravesham.

Interests in the following properties had been acquired to date:-

- Network House, Gillingham;
- Springhead Units A4, A5 and C1-6, Gravesend;
- St Johns House, Dartford;
- 123-127 High Street, Sittingbourne;
- Site at Stuart Road, Gravesend;
- 35-36 New Road, Gravesend; and
- Springhead Units A1-A3 and B1-B4, Gravesend.

In 2019/20 the above properties have been budgeted to generate rental income of some £1.5m. Had the same levels of investment been placed in Banks, Building Societies and Money Market Funds, it had been estimated that this would have only generated returns of around £150,000.

As at 31 March 2019, the value of investment property assets held on the Council's balance sheet had increased to £38.69m.

In recognition of the increased reliance on this type of income to support the General Fund budget, the Council had now established an earmarked reserve – the Income Protection Reserve. This reserve had been set at a level equivalent to 15% of the budgeted rental income reflected in each year of the Medium Term Financial Plan and will be directed to meet any maintenance and upkeep requirements of properties purchased under the Strategy or to smooth the impact on the General Fund budget of any unplanned void periods.

The Assistant Director (Corporate Services) advised that further details on each of the seven properties acquired would be shared with the Committee outside of the meeting.

The Committee was informed that both Financial and Property Services were currently finalising a 'property dashboard' which would be periodically shared with the Committee to provide an overview of the Council's total commercial property portfolio and detailing any risks to the performance of the portfolio. Members were invited to submit any further information which they would like to see included within the 'property dashboard'.

The Committee thanked officers for the detailed reports.

Close of Meeting

The meeting ended at 8.23pm