

Classification: Public

Key Decision: N/A

Gravesham Borough Council

Report to: Full Council

Date: 18 December 2018

Reporting officer: Chief Executive
Director (Corporate Services)

Subject: Property Acquisition Strategy

Purpose and summary of report:

To approve an extension to the funding available to deliver the council's Property Acquisition Strategy.

Recommendations:

Full Council approves that:

- additional funding of £4.5 million be made available for further purchases under the council's Property Acquisition Strategy, taking the total funding made available to deliver the council's Property Acquisition Strategy to £26.2 million.
- The additional funding be met from investment balances.
- The additional funding be included in the current year's capital programme.

1. Background

Theme Four of the Corporate Plan - "Sound and self-sufficient council", recognises the need for the council to seek new and innovative ways in which to generate sources of ongoing revenue in light of reducing funding from Central Government. As part of its response to this, Full Council adopted a Property Acquisition Strategy in February 2016 which established a £10 million fund within the authority's capital programme, funded from investment balances, which was made available for acquiring properties in order to generate a revenue return. Since that time, Full Council has approved that a further £11.7 million of investment balances be made available for purchases under the existing Property Acquisitions Strategy, taking the total funding made available to deliver the council's Property Acquisition Strategy to £21.7 million

2. Property Acquisition Strategy

- 2.1 The strategy set out the following criteria for selecting investment assets:
- 2.1.1 The investment provides a regular income with the net initial yield exceeding a minimum level of 3% above the prevailing 25 year PWLB fixed maturity rate, and after taking into account all costs associated with the acquisition.
 - 2.1.2 That the purchases be from the retail, industrial and business (i.e. office premises) sectors.
 - 2.1.3 That the funding made available be invested in such assets as long-term cash-flow modelling shows this cash to be available for the authority to use on a long-term basis.
 - 2.1.4 Acquisitions are not limited to being within the Borough of Gravesham.

3. Property Acquisitions to Date

- 3.1 Since Full Council approved the adoption of the Property Acquisition Strategy, interests in the following properties have been acquired:
- Network House, Gillingham
 - Springhead Industrial Park (Units A4, A5 and C1-C6)
 - St Johns House, Dartford
 - 123-127 High Street, Sittingbourne
 - Stuart Road, Gravesend (Wickes)
- 3.2 Including fees and other associated costs, the authority will have spent approximately £19.3 million on the purchase of interests in these properties, leaving £2.4 million of the £21.7 million allocated for this purpose. The annual rental income from these properties is circa £1.2 million.
- 3.3 Property Services continue to actively seek opportunities for further purchases and have identified two potential acquisitions that are considered to be beneficial acquisitions to the council's investment property portfolio and meeting the criteria of the Property Acquisition Strategy. The combined purchase price and purchase costs of these two acquisitions is anticipated to be £4.5 million and beyond to 21.7m current funding authorised to deliver the council's Property Acquisition Strategy.
- 3.4 Both of these prospective purchases will be considered by the established Property Acquisitions Cross-Party Working Group (CPWG) at their meeting on 10 December 2018. Both properties meet the parameters previously agreed by Full Council (set out at paragraph 2.1 above), and are considered to represent prudent additions to the council's property portfolio. On this basis it is considered that authority be sought to increase the current provision set aside in the council's capital programme to enable these two acquisitions to proceed.
- 3.5 Full Council is therefore requested to approve a further £4.5 million of investment balances to be made available for these purchases, taking the total funding made available to deliver the council's Property Acquisition Strategy to £26.2 million.

- 3.6 In proposing this extension of funding, consideration of the council's current cash flow position has been made taking into account the financial activities of the council since approval was last provided for funds to be set aside for property purchases. The current cash flow indicates that the council has higher cash flow balances than originally anticipated, primarily driven by the delivery of its Bridging the Gap strategy. Approval of the additional funds requested, therefore, is not considered to have a material impact on the authority's cash flow forecasts and treasury management position.

4. Background Papers

- 4.1 There are no background papers relating to this report.

IMPLICATIONS

APPENDIX 1

<p>Legal</p>	<p>The power to acquire land for purposes in connection with the Council’s functions is contained sections 120 and 121 of the Local Government Act 1972. Whilst there is no general duty to purchase at ‘best consideration’ the Council must be able to demonstrate that it has exercised those powers in a manner consistent with its fiduciary duty to the council tax payer – i.e. that the purchase price paid is reasonable in light of the particular facts and circumstances. Investment purchases are allowed by virtue of s12 of the Local Government Act 2003.</p>								
<p>Finance and Value for Money</p>	<p>The council’s cash balances are currently attracting typical returns from investing in traditional institutions of around 0.62% per annum. The minimum criteria for property investments requiring a net initial yield exceeding 3% above the prevailing 25 year PWLB fixed maturity rate provides a higher level of return on these cash balances.</p> <p>The use of the council’s cash balances to fund the acquisition of properties for investment purposes is known as internal borrowing. The use of internal borrowing to expand the Council’s property investment portfolio is considered to be a policy decision rather than an investment decision and therefore sits outside of the Treasury Management Strategy Statement (TMSS).</p> <p>Utilising investment balances to fund commercial property acquisition increases the Capital Financing Requirement (CFR) in the year in which the expenditure occurs. A Minimum Revenue Provision (MRP) is chargeable on the opening CFR in equal instalments over the estimated life of the asset (to a maximum of 50 years), in accordance with the policy set out in the TMSS. Increasing funding for the Property Acquisition Strategy by an additional £4,500,000 will result in an additional MRP charge of £90,000 per annum.</p>								
<p>Risk Assessment</p>	<p>There are a number of risks associated with property assets, primarily associated with movements in property values (capital and rental). The risk of capital value depreciation is most significant should the council be seeking to dispose of an asset. The council has put in place a Commercial Income Protection Reserve to mitigate the impact on the General Fund revenue budget of fluctuations in rental income levels.</p> <p>The above risks, however, need to be balanced against the current returns being generated on the funds through investment in traditional institutions (typically around 0.62% per annum at present) and the minimum criteria for property investments that require a net initial yield exceeding 3% above the prevailing 25 year PWLB fixed maturity rate.</p>								
<p>Equality Impact Assessment</p>	<p>Screening for Equality Impacts</p> <table border="1" data-bbox="405 1697 1524 1760"> <thead> <tr> <th data-bbox="405 1697 778 1760">Question</th> <th data-bbox="778 1697 935 1760">Answer</th> <th data-bbox="935 1697 1524 1760">Explanation</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>			Question	Answer	Explanation			
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	a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	
	b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	
	c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		Not applicable
<i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i>			
Corporate Business Plan	Corporate Objective 4 – Sound & self-sufficient council		
Crime and Disorder	There are no crime and disorder implications arising from the recommendations contained in this report.		