

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Commercial Cabinet Committee

Date: 8 July 2019

Reporting officer: Sarah Parfitt, Assistant Director (Corporate Services)

Subject: Property Acquisition Strategy Briefing Paper

Purpose and summary of report:

To provide Members with an overview of the council's Property Acquisition Strategy and commercial property interests.

Recommendation:

This paper is for information only.

1. Background Information

- 1.1 The council holds a number of property assets, ranging from operational buildings used to deliver services to council houses, through to district shopping centres, leisure centres and other community buildings. At 31 March 2019 the value of these property assets was just under £400m.
- 1.2 The council has a long history of holding property assets for investment purposes. These have principally been in the form of the St George's Shopping Centre, the Norfolk Road Industrial Estate and Springhead Enterprise Park and at 31 March 2016 these assets were held at a value of £10.50m on the council's balance sheet, generating an annual revenue income stream to the council of £400,000.
- 1.3 In 2015 central government announced that it would be ending support grants to local authorities by 2019. In response to this, the council developed a proactive and multi-faceted approach to overcome the funding gap identified at that time of £2.5m, albeit this gap has increased to £4.2m due to other pressures on spending and further funding reductions. This became known as the council's *Bridging the Gap* Strategy and included the intention of the council to optimise income generation opportunities.

2. Property Acquisition Strategy

- 2.1 On 23 February 2016 Full Council approved a Property Acquisition Strategy for the council. Changes were made to the original strategy in September 2016 to take account of impacts on the UK's economy as a result of the EU Referendum outcome.
- 2.2 Any properties considered for acquisition are required to fit with the agreed principal criteria as follows:
 - 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.
 - Acquisitions are not limited to being within the Borough of Gravesham.

3. Funding of the Property Acquisitions Strategy

- 3.1 At the time of developing the *Bridging the Gap* Strategy, the level of investment returns the council was able to generate from placing its cashflow balances with Banks, Building Societies and Money Market Funds was around 0.6%. By directing these cash amounts towards the acquisition of commercial properties, it was intended that the council would achieve a far greater revenue return on its investment through rental income derived from such properties, while still maintaining a high level of security.
- 3.2 At the time of Full Council approving a Property Acquisition 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 has been made available to implement the Property Acquisition Strategy due to the strengthening of the council's cashflow balances, meaning that these balances have not reduced as quickly as expected.

4. Governance of the Property Acquisitions Strategy

- 4.1 The powers to acquire or dispose of properties purchased as part of the strategy have been formally delegated by Full Council to the Chief Executive or Director (Corporate Services), with support provided by a cross-party working group advised by the Chief Executive, the Director (Corporate Services) and the Head of Legal Services. These arrangements recognise the need for the council to be able to respond quickly in the event of a suitable property coming to market.

5. Activity under the Strategy

5.1 Seven acquisitions have been made under the Property Acquisition Strategy since February 2016:

Property Address	Sector	Interest Purchased	Purchase Date	Purchase Price (£)	Initial Annual Rent (£)	Net Initial Yield (£)
Network House, Gillingham	Office	Long Leasehold	May 2016	£3.135m	£221,562	7.48%
Springhead Units A4, A5 and C1-6), Gravesend	Industrial	Long leasehold (council already has freehold interest)	October 2016	£3.850m	£241,879	5.97%
St Johns House, Dartford	Office	Freehold	January 2017	£2.325m	£161,500	6.79%
123-127 High Street, Sittingbourne	Retail	Freehold	January 2018	£1.030m	£85,000	7.20%
Site at Stuart Road, Gravesend	Retail/ Warehouse	Long Leasehold	August 2018	£8.000m	£511,185	6.00%
35-36 New Road, Gravesend	Retail	Freehold	January 2019	£0.525m	£58,000	10.34%
Springhead Units A1-A3 and B1-B4, Gravesend	Industrial	Long leasehold (council already has freehold interest)	February 2019	£2.900m	£217,157	7.10%

5.2 In 2019/20 the above properties are budgeted to generate rental income of some £1.5m which will be directed to support the delivery of General Fund council services to the residents of the borough. Had the same levels of investment continued to be placed in Banks, Building Societies and Money Market Funds it is estimated that this would have only generated returns of around £150,000.

5.3 At 31 March 2019 the value of investment property assets held on the council's balance sheet had increased to £38.69m.

5.4 In recognition of the increased reliance on this type of income to support the General Fund budget, the council have established an earmarked reserve – the Income Protection Reserve. This reserve is 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 Property Acquisition Strategy or to smooth the impact on the General Fund budget of any unplanned void periods.

- 5.5 A balance of £3.29m remains of the total funding currently made available to implement the Property Acquisition Strategy Funding.

6. Management of the commercial property portfolio

- 6.1 Property Services are responsible for the management and repair of the commercial property portfolio. This includes items such as:
- Considering whether to offer an existing tenant a new lease at lease end and either negotiating new terms or agreeing a leaving date.
 - Overseeing the refurbishment of vacant premises.
 - Appointing and overseeing the performance of professional agents appointed to market vacant premises and agreeing lease terms.
 - Undertaking rent review negotiations.
 - Liaising with Financial Services in respect of any tenant in arrears and agreeing what action to take.
 - In conjunction with Financial Services compiling and managing budgets for service charges.
 - Liaising with Legal Services in respect of legal documentation and tenant disputes.
 - Ensuring tenants comply with the terms of their leases.
 - Considering tenant's requests for consents required under the terms of their leases (e.g. alterations, assignments or wayleaves).
 - Organising regular maintenance and repairs where the council has responsibility to do so.
 - In the case of St John's House, overseeing the performance of professional agents appointed by Property Services to undertake the day to day management of the property.
 - Identifying opportunities to increase income and reduce risk through lease amendments and negotiation.

7. Monitoring of the commercial property portfolio

- 7.1 Further details on each of the seven properties acquired under the Property Acquisition Strategy will be shared with Members of the Commercial Cabinet Committee outside of the meeting.
- 7.2 Financial Services and Property Services colleagues are currently finalising a 'property dashboard' which can be periodically shared with the Commercial Cabinet Committee to provide an overview of the council's total commercial property portfolio and any risks to the performance of the portfolio. This will include:
- Exposure of the portfolio by sector (e.g. office, retail, industrial)
 - Top 10 Tenants by Rental Amounts due
 - Upcoming known lease movements (break-clauses, rent reviews, terminations or renewals)

- Balance of Funding available for delivery of the Strategy
- Use of the Commercial Income Protection Reserve

8. Background Papers

- 8.1 Background papers pertaining to this report are held by the Financial Services Change Team. Anyone wishing to inspect background papers should, in the first place, be directed to Committee & Electoral Services who will make the necessary arrangements.

IMPLICATIONS		APPENDIX 1
Legal	N/A	
Finance and Value for Money	N/A	
Risk Assessment	N/A	
Data Protection Impact Assessment	<i>A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.</i>	
	a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data ?	N/A
	b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice?	N/A
	c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk .	N/A
Equality Impact Assessment	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? If yes, please explain answer.	N/A
	b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.	N/A
	<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 Plan	N/A	
Crime and Disorder	N/A	
Digital and website implications	N/A	
Safeguarding children and vulnerable adults	N/A	