

**Report to CABINET**

# **Commercial Property Investment Strategy and Fund**

**Portfolio Holder:** Councillor Jean Stretton, Leader of the Council and Cabinet Member for Economy and Enterprise  
Councillor Abdul Jabbar MBE, Deputy Leader of the Council and Cabinet Member for Finance and HR

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**18<sup>th</sup> December 2017**

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## **Reason for Decision**

Cabinet approval is sought for the Commercial Property Investment Strategy and to establish a fund to facilitate development in a robust, property investment portfolio in order to generate a sustainable future income stream to support the Council's mainstream service delivery.

## **Executive Summary**

The Council is currently faced with an unprecedented financial challenge as its funding arrangements are changed. Over the next three years as part of the Government's programme to reduce the deficit, support for Local Government is expected to continue reducing thus placing the Council's budget under pressure. This proposal to develop a Commercial Property Investment Strategy and subsequent Investment Fund, presents an opportunity to reduce this pressure by increasing the revenue income stream to the Council by way of rental income from the acquisition of new investment property assets.

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## Recommendations

Cabinet is recommended to approve:

1. The establishment of a Member/Officer Property Appraisal Group comprising Directors of Finance, Legal and Economy and Skills and the Executive Directors for Economy, Skills and Neighbourhoods and Corporate and Commercial Services, the Leader of the Council and the Cabinet Member for Finance and HR to evaluate business cases and make recommendations in relation to future property acquisitions which align to the Commercial Property Investment Strategy principles.
2. The authorization of the Director of Legal Services or his nominated representative to sign and/or affix the Common Deal of the Council to all the documents and ancillary or associated paperwork required to give effect to the recommendations in this report.

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## Commercial Property Investment Strategy and Fund

### 1 Background

- 1.1 The Council is currently faced with an unprecedented financial challenge as its funding arrangements are changed. Over the next three years as part of the Government's programme to reduce the deficit, support for Local Government is expected to continue reducing thus placing the Council's budget under pressure. This proposal to develop a Commercial Property Investment Strategy and subsequent Investment Fund presents an opportunity to reduce this pressure by increasing the revenue income stream to the Council by way of rental income from new property assets.
- 1.2 By 2020/21, it is anticipated that the unringfenced revenue support grant (RSG) provided to Councils as the main source of government funding will no longer exist and that Councils will aim to be self-funding from raising local taxation (Council Tax and Business Rates). Oldham, in a practical sense no longer receives RSG as with other GM Councils, it is piloting 100% Business Rates Retention with the Top-Up Business Rates grant. Although some Top-Up funding will continue beyond 2019/20, this will effectively mean that in order to sustain service provision the Council needs to look to raise income from other sources. This proposal suggests ways to support this by increasing revenue streams by way of rental income from property investments
- 1.3 The return from investments will contribute to the Council's Medium Term Financial Strategy (MTFS) in that income from revenue streams will be reinvested into supporting the economy of the borough and the provision of Council services.
- 1.4 It is envisaged that the Commercial Property Investment Strategy (CPIS) is closely aligned to the MTFS and approved Income Strategy in addition to complementing the suite of strategic corporate property documents currently available. The initiative will contribute to the Council's corporate priority of being a Co-operative Council creating responsive and high quality services.
- 1.5 In order for the CPIS to be sustainable, capital funding would be required to purchase investment assets on the open market. To be able to acquire properties, a fund will be required with the sole purpose of acquiring properties which can deliver an investment return for the Council.
- 1.6 A number of local authorities are already operating in this market, including Bury and Rochdale Councils.
- 1.7 It has been widely acknowledged that as activity increases, local authorities will potentially be 'competing with each other' in the same market. Consequently, it is suggested that there may be merit in considering development of a GM Investment Fund, albeit it is recognised that individual authorities will inevitably differ in their approach and appetite for risk. This initiative remains to be developed.

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- 1.8 The Chartered Institute of Public Finance and Accountancy (CIPFA) has recognised that commercial investment is an option for Local Authorities for future financial sustainability and are revising their Prudential Code to take into account these new initiatives. The Prudential Code was developed as a professional code of practice to support local strategic planning, asset management planning and proper option appraisal for local authorities when developing their programmes for capital investment in fixed assets. Its objectives are to ensure that capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. The prudential indicators within the Prudential Code are designed to demonstrate compliance with these objectives and to provide assurance to government that local authorities are acting responsibly.

## **2 Current Position**

- 2.1 Currently, the Council's non-operational property portfolio consists of shops, offices, industrial units and an extensive range of low value freehold reversionary residential and commercial interests situated in the town centre and across the borough.
- 2.2 The portfolio generates a gross annual income of circa £3m. Not unlike many Council property non-operational estates in the UK, the majority of the revenue value of the estates is held within a few properties and this is not unexpected given the complex reasons why Councils have acquired and then retained assets in the past.
- 2.3 A significant proportion of the stock held currently for non-operational purposes is now aging and dilapidated, management intensive, poorly located, unfit for purpose or difficult to let. These factors impact upon the rental return and its corresponding capital value. As a result of this a full review of the Council's property assets will take place with the view to achieve a revenue saving going forward from 2019/20 following a combination of disposals, realignment of use and lease reviews plus other service changes.

### Governance and Delegations

- 2.4 When an investment property comes to market for sale, decision-making needs to align with the due diligence processes and timetables usually followed by private sector property owners, otherwise opportunities will be lost. This will necessitate the extension of delegated authority in order to make decisions within a commercial timeframe.
- 2.5 A typical timetable for the purchase of commercial property could be a two or three weeks marketing period, including making of offers and confirmation by the seller of the preferred buyer and preparation of heads of Terms, followed by a 4-6 weeks period of due diligence investigations by the buyers solicitors prior to exchange of binding unconditional contracts on the purchase. Completion will usually follow within a further four weeks.
- 2.6 All acquisition proposals will be channeled through the Head of Asset Management & Estates, who will present an outline business case where it is considered that

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there is an investment opportunity that is aligned to the Commercial Property Investment Strategy.

- 2.7 To ensure that good investments are not lost through delays in the decision making process, it is recommended that a Member/Officer Property Appraisal Group (PAG).
- 2.8 It is proposed that the group will comprise of Directors of Finance, Legal and Economy and Skills, Executive Directors for Economy, Skills & Neighbourhoods and Corporate and Commercial and Portfolio Holders for Finance and HR and the Leader of the Council.
- 2.9 A quorum of at least 3 members of the Group will be required to consider outline business cases of investment opportunities, a minimum being one Elected Member, the Director of Finance and the Executive Director for Economy, Skills & Neighbourhoods. If the outline business case is agreed by the group it will recommend that the Director of Economy and Skills completes the purchase.

#### Performance Issues

- 2.10 The success of the CPIS will have a direct impact on the Council's General Fund revenue income and therefore on priorities and outcomes.
- 2.11 The financial performance of the CPIS as a whole and of each property within the portfolio will be measured and reported on an annual basis to Cabinet following periodic reviews by the Property Appraisal Group. Reports presented to Cabinet will include an analysis of performance with a view to making recommendations concerning review/amendments to the adopted strategy to ensure that the main objectives continue to be achieved.
- 2.12 Suitable benchmarking can be set up so that the performance of the property portfolio may be measured against an appropriate peer group and against nationally reported indices of property investment performance.
- 2.13 Quarterly management reports will be provided for Portfolio Briefing, highlighting any changes in the portfolio and movements in the property markets.
- 2.14 The day to day management of these investment properties will adopt normal 'private sector' principles for such a portfolio including for rent collection. Council officers will need to be upskilled to carry out some of these activities, whilst there will be a necessity to engage with external consultants and partner organisations to carry out these functions should investments be outside of the Borough or on such a scale the Council does not have the experience.

### **3 Options/Alternatives**

- 3.1 Two options are presented for consideration:

Option 1 - Do not agree the strategy and establishment of a fund

The Council could choose not to agree the Commercial Property Investment Strategy and establishment of a fund to acquire new investment properties. This is

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not recommended as it does not maximize the potential of additional revenue generation for the Council.

Option 2 - Agree the strategy and establishment of a fund

The Council could choose to agree the Commercial Property Investment Strategy and establishment of a Commercial Property Fund based on the principles of the strategy.

#### **4 Preferred Option**

4.1 The preferred option is to approve the strategy and to establish a fund to facilitate implementation of the attached Commercial Property Strategy.

#### **5 Consultation**

5.1 Officers in Property, Legal and Finance Services together with the Executive Management Team have been consulted.

#### **6 Financial Implications**

6.1 The CPIS is a framework designed to secure long term investments and sustainable income streams for the Council, thus increasing its financial resilience over time to address the pressure of reducing central government grants.

6.2 All other financial implications are contained in Part B of the report.

#### **7 Legal Services Comments**

7.1 Any investments will need to be appraised and appropriate due diligence carried out in line with relevant Council policies, powers and strategies and will be the subject of separate reports which will need to assess merits/risks/benefits and relevant powers on an individual basis.

7.2 Any property transactions would need to comply with the Council's Land and Property Protocols and in particular with the best value obligations in Section 123 of the Local Government Act 1972.

7.3 Any contracts / procurements to be entered into by the Council would need to comply with the Council's Contract Procedure Rules.

7.4 All transactions must comply with the Council's Financial Procedure Rules and appropriate external advice must be obtained to protect the Council's interests and to ensure all decisions are lawful and reasonable. In discharging its fiduciary and reasonableness duties the Council will also need to be mindful of the following;

- Procurement issues
- State aid issues
- Best value
- Vires considerations

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- Appropriate consultation processes

7.5 The Council has the power to make this decision. (Rebecca Boyle)

## **8 Co-operative Agenda**

8.1 Generation of income from property investment will support service delivery and is therefore entirely aligned to the Co-operative agenda.

## **9 Human Resources Comments**

9.1 None

## **10 Risk Assessments**

10.1 This initiative represents a potential new risk for the Council and should be included in the Council's Risk Register. (Jane Whyatt)

## **11 IT Implications**

11.1 None

## **12 Property Implications**

12.1 Fully covered within the report. (Cath Conroy)

## **13 Procurement Implications**

13.1 Procurement Activity will need to be undertaken in accordance with the Council's Contract Procedure Rules. Based on the values mentioned in this report, sufficient time would need to be allocated to enable the implementation of OJEU Compliant Procurement processes. (Neil Clough)

## **14 Environmental and Health & Safety Implications**

14.1 None directly arising from this report.

## **15 Equality, community cohesion and crime implications**

15.1 None

## **16 Equality Impact Assessment Completed?**

16.1 No

## **17 Key Decision**

17.1 Yes

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**18 Key Decision Reference**

18.1 CFHR-20-17

**19 Background Papers**

19.1 N/A

**20 Appendices**

20.1 None