

## COUNCIL - 12 JULY 2018

### PART I - DELEGATED

#### 5. UPDATE ON PROPERTY INVESTMENT ACTIVITY (CED/DCES/DoF)

##### 1 Summary

- 1.1 The Council, via the Property Investment Board (PIB), is required to set down and approve the selection parameters for the acquisition of property for investment purposes.
- 1.2 This report provides an update to Council on the property investment activities of the Council to date and highlights performance in achieving the target portfolio splits set out in the Investment Strategy agreed by Policy and Resources Committee on the 19 March 2018.
- 1.3 The agreed strategy gives approximate percentages for a split of commercial property between various sectors and Council is asked to endorse the approach taken by the Property Investment Board around this flexibility.

##### 2 Details

- 2.1 The subject of property investment was taken to P&R Committee on 21 March 2016 when the Committee's terms of reference for property purchase were established and were subsequently confirmed at Full Council on 17 May 2016. On 6 October 2016 P&R considered a high level report about the property investment strategy. On 23 January 2017 P&R considered a Treasury Management paper which included further elements of the property investment strategy, subsequently confirmed at Council on 21 February 2018.
- 2.2 Part I and part II reports were taken to the P&R Committee on 27 February 2017 together with an appendix titled "Property Investment Strategy". The key financial factors that were established at this stage were:-
  - A fund of £20m was to be made available to build up a property portfolio over a 2 to 3 year period
  - The investments acquired by this fund are to have a balanced yield of approx. 5% pa.
  - An implied income stream, when fully established, of £1m pa gross was thus established.
- 2.3 The strategy went on to establish that the portfolio should be roughly split 50/50 across residential and commercial properties with the commercial element split across sectors such as offices, retail and industrial property.
- 2.4 Policy and Resources Committee on 19 March 2018 revised the strategy in the light of the experience of PIB to date. The amended strategy was included as an Appendix to that report (<https://www.threerivers.gov.uk/download?id=41720>). The key points in relation to the split of the portfolio are:

- the portfolio is to comprise not less than 50% and up to 80% residential and not less than 20% and up to 50% non-residential.
  - the commercial property element of the portfolio should contain approximately 30% retail, 30% office, 30% industrial and 10% specialist (leisure, social, energy, environmental)
- 2.5 The table in the Appendix details the latest position. Council should note that, at present, should both the Thrive loan and Commercial Property N purchase proceed to completion the current budget of £20M would not be sufficient. An alternative proposal for financing the housing association loan along with other loans to partner organisations is included elsewhere on the agenda.
- 2.6 The table also illustrates the splits achieved between residential and commercial property and the split of commercial property between the sectors. Council will note that to date the target split of commercial property has only been partially achieved.
- 2.7 The size of the portfolio available for investment in commercial property compared to the value of those assets means that the Council is only able to invest in a very small number of properties. To date PIB has sought to maintain a balance through the purchase of a mixed use building with accommodation split between retail and office accommodation.

### **3 Options and Reasons for Recommendations**

- 3.1 Given the size of the Portfolio the Council address the split of commercial property by applying a range to each of the commercial sectors. The down side to this approach would be to overcomplicate the Property Investment Strategy and potentially prevent the Council taking advantage of investment opportunities that are presented.
- 3.2 The preferred approach would be to continue to allow flexibility to the Property Investment Board in achieving a split of commercial properties between sectors whilst retaining the target splits as currently set out. This option retains the aspiration of a perfectly balanced portfolio whilst recognising the limitations of the available funds for investment.

### **4 Policy/Budget Reference and Implications**

- 4.1 The recommendations in this report are within the Council's agreed policy and budgets. The relevant policy is entitled Financial Planning and Investment programme and was agreed on 29 January 2018 and at Full Council on 21 February 2018.
- 4.2 The recommendations in this report relate to the achievement of the £1M target for investment income.
- 4.3 The impact of the recommendations on this/these performance indicator(s) is to assist in achievement of the income target.

### **5 Financial Implications**

- 5.1 There are no additional financial implications above those already set out in the Capital Strategy and Investment Programme.

5.2 An alternative proposal regarding the loan to Thrive and to Watford Community Housing is set out in a separate report elsewhere on this agenda.

**6 Legal Implications**

6.1 None specific.

**7 Equal Opportunities Implications**

7.1 Relevance Test

Has a relevance test been completed for Equality Impact?	Yes / No
Did the relevance test conclude a full impact assessment was required?	Yes / No

7.2 Impact Assessment

What actions were identified to address any detrimental impact or unmet need?

**8 Staffing Implications**

8.1 None specific.

**9 Environmental Implications**

9.1 None specific.

**10 Community Safety Implications**

10.1 None specific.

**11 Public Health implications**

11.1 None specific.

**12 Customer Services Centre Implications**

**13 Communications and Website Implications**

13.1 None specific.

**14 Risk Management and Health & Safety Implications**

14.1 The recommendations endorse the current approach to risk management in relation to the property investment portfolio.

**15 Recommendation**

15.1 That Council endorse the current approach of allowing flexibility to the Property Investment Board to manage a spread of risk in its commercial investment portfolio in relation to retail, office, industrial and specialist accommodation.

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**Data Quality**

Data sources: General Ledger in respect of spend to date.

Data checked by: Jan Tailor.

<b>1</b>	<b>Poor</b>	
<b>2</b>	<b>Sufficient</b>	
<b>3</b>	<b>High</b>	√

### **Background Papers**

Policy and Resources Committee, 19 March 2018, Item 7. Property investment Strategy

Appendices / attachments

Appendix A – Summary of Current Investment Portfolio