

PROPERTY INVESTMENT STRATEGY

Cabinet – 16 July 2015

Report of	Chief Finance Officer
Status:	For Decision
Also considered by:	Council – 21 July 2015
Key Decision:	No

Executive Summary:

The Property Investment Strategy was approved by Council on 22 July 2014 to support the aim of the council becoming more financially self-sufficient as Government Support continues to reduce.

The initial acquisitions have been successful in taking the council some way towards this aim. This report requests additional funding to enable further acquisitions to help ensure that the council remains in a financially sustainable position going forwards.

Portfolio Holders Cllr. Fleming, Cllr Searles

Contact Officer(s) Adrian Rowbotham Ext. 7153
Mark Bradbury Ext. 7099

Recommendation to Cabinet:

- (a) Cabinet recommends to Council to agree to set aside a further £10m for the Property Investment Strategy from borrowing.
- (b) Cabinet recommends Council to approve the Amendment to the Treasury Management Strategy 2015/16.

Recommendation to Council:

- (a) That Council agrees to set aside a further £10m for the Property Investment Strategy from borrowing.
 - (b) That the Amendment to the Treasury Management Strategy 2015/16 be approved.
-

Introduction and Background

- 1 In recent years Sevenoaks District Council has been faced with ongoing reductions in Government Support. This has led to a number of decisions that have been

taken through the 10 year budget process to try and ensure that the council remains in a financially sustainable position going forwards.

- 2 This position has been increasingly difficult to achieve due to the ongoing nature of budget reductions, compounded by continued low interest rates resulting in returns on treasury investments of between 0.5% and 1%. The Government's early comments suggest that at least for the next 2-3 years, Local Government is likely to face severe Government Support reductions in order to meet the requirement to reduce the national deficit.
- 3 The council has sought to address this position by regularly reviewing assumptions within the 10-year budget and by proposing appropriate reductions in service expenditure where achievable.
- 4 On 7 November 2013, Cabinet approved the Corporate Plan which sets out key focus areas for the organisation including the need to become more financially self-sufficient. The agreed plan articulates an approach of investing in assets that will generate revenue income to allow less reliance on diminishing Government Support. It goes on to state that this could be done either through the review of use of reserves or through borrowing at low interest rates.
- 5 On 22 July 2014, Council agreed the Property Investment Strategy set out in Appendix A.

Progress to Date

- 6 The following three acquisitions have been made to date:
 - Swanley Working Mens Club
 - Suffolk House, Sevenoaks – freehold office building
 - 73 – 75 High Street, Swanley – petrol filling station
- 7 Options for the development of Swanley Working Mens Club are ongoing and the other two premises are producing income yields in excess of 6%.

Funding

- 8 On 22 July 2014, Council agreed to set aside up to £5m from a review of reserves for the purpose of the proposals outlined in the Property Investment Strategy. On 17 February 2015, Council agreed that a further £3m be allocated to the Property Investment Strategy from the Capital Receipts Reserve.
- 9 Having made the initial acquisitions following the implementation of the strategy, which have used the £8m agreed to date, relevant Portfolio Holders are of the view that there is a clear requirement to push ahead so that the council can become more self-sufficient. Therefore it would be beneficial to set aside a further £10m for this purpose which can be funded from borrowing. It is likely that further capital receipts will be received from the sale of assets and when this arises, the options for their use will be analysed to ensure they are used in the most beneficial way.

- 10 Other initiatives are currently being investigated, and further funding through borrowing may be requested once these have progressed to a suitable stage.
- 11 Members are assured that any property acquisitions will be supported by a thorough business case and approved by the Policy and Performance Portfolio Holder in consultation with the Finance Portfolio Holder.
- 12 Based on our experience from the acquisitions to date, the current strength of the property market across the district and the type and lot size of opportunities expected to come to the market over the next few months it is considered that a budget of £10 million will enable the Council to bid effectively for opportunities that meet the criteria set out in the Property Investment Strategy, ensure a balanced portfolio and make a significant contribution to the council's income.
- 13 If borrowing to purchase an asset, the overall yield on the acquisition will reduce due to interest charges and the repayment of the loan. These details will be included in the business case to give assurance that the purchase still gives financial benefits to the Council. As a guide to current rates, the Public Works Loans Board (PWLB) is offering a 25 year annuity loan at 3.34%. Borrowing at this rate would result in a lower net yield than suggested in the strategy but would still produce significant benefits for our communities.

Treasury Management Strategy

- 14 Council approved the Treasury Management Strategy for 2015/16 on 17 February 2015 which included a borrowing limit of £5m. If Council approve the additional funding requested above, the borrowing limit will need to increase accordingly.
- 15 Appendix B contains an amendment to the Treasury Management Strategy for 2015/16 to increase the borrowing limit to £10m.

Key Implications

Financial

As previously stated in this report, the proposals outlined are suggested in order to contribute to the aim of the council becoming more financially self-sufficient as articulated in the approved Corporate Plan.

The council has been debt free for many years so borrowing to finance acquisitions will be a significant change. External advice will be obtained where appropriate to ensure that there is a thorough understanding of the implications and possible accounting treatments of borrowing to purchase any asset.

Legal Implications and Risk Assessment Statement.

A full risk analysis of the Property Investment Strategy was included in the report to Council on 22 July 2014 and reviewed by the Audit Committee on 9 September 2014.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Value for Money and Asset Maintenance

It is suggested that value for money derived from available finances when looked at in conjunction with the Treasury Management Strategy has the ability to be increased if the proposals outlined in this report are adopted.

Conclusions

In acknowledgement of the ongoing reductions in Government Support and the continued low returns on investment of reserves, further investment in the Property Investment Strategy will continue to support the alternative approach as indicated by the approved Corporate Plan.

Members will be updated with more details at future meetings

Appendices

Appendix A – Property Investment Strategy

Appendix B – Amendment to Treasury Management Strategy 2015/16

Background Papers:

[Report to Council 22 July 2014 – Investment Strategy](#)

[Report to Audit Committee 9 September 2014 – Investment Strategy Risk Register](#)

Adrian Rowbotham
Chief Finance Officer