

PROPERTY INVESTMENT STRATEGY UPDATE

Finance Advisory Committee - 28 March 2017

Report of Chief Finance Officer

Status: For Decision

Also considered by: Policy and Performance Advisory Committee - 23 March 2017
Cabinet - 20 April 2017

Council - 25 April 2017

Key Decision: No

Executive Summary: This report provides an update on the progress of the Property Investment Strategy to date and looks at the future direction of the strategy.

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 continued to reduce.

The initial acquisitions have helped the council achieve this aim and this report provides an update on the acquisitions to date and requests additional funding to enable the council to achieve 'self-sufficiency +' and therefore provide extra value to residents. Funding previously approved has now nearly all been spent.

External investment advisors have analysed the current property investment portfolio and provided advice as to the future direction of the strategy. This advice has been used to propose changes to the Property Investment Strategy criteria and to support the reasons to set aside further funds.

Portfolio Holder Cllr. Peter Fleming, Cllr. John Scholey

Contact Officer Adrian Rowbotham Ext. 7153

Recommendation to Policy and Performance Advisory Committee:

- (a) Members recommend the Updated Property Investment Strategy and;
 - (b) Members recommend that a further £25m be set aside for the Property Investment Strategy.
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Recommendation to Finance Advisory Committee:

- (a) Members recommend the Updated Property Investment Strategy and;
- (b) Members recommend that a further £25m be set aside for the Property Investment Strategy.

Recommendation to Cabinet:

- (a) Members recommend the Updated Property Investment Strategy to Council and;
- (b) Members recommend to Council that a further £25m be set aside for the Property Investment Strategy.

Recommendation to Council:

- (a) Council agrees the Updated Property Investment Strategy and;
- (b) Council agree that a further £25m be set aside for the Property Investment Strategy.

Introduction

- 1 In recent years Sevenoaks District Council has been faced with ongoing reductions in Government Support culminating in it no longer receiving Revenue Support Grant from 2017/18. 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 On 7 November 2013, Cabinet approved the Corporate Plan which set out key focus areas for the organisation including the need to become more financially self-sufficient. The agreed plan articulated 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.
- 3 On 22 July 2014, Council agreed the Property Investment Strategy with specific criteria which is shown in Appendix A.

Funding Agreed to Date

- 4 A total of £18m of funding for the Property Investment Strategy has been agreed to date as follows:
 - £5m Council 22 July 2014
 - £3m Council 17 February 2015
 - £10m Council 21 July 2015

Activity to Date

5 A summary of the expenditure to date is included in the following table:

Date	Activity	Total Cost £000	Average Annual Income Yield %
Activities achieving the required return			
Apr 2015	Suffolk House (including refurb.)	4,683	7.7% (7.1% before refurb.)
May 2015	Swanley Petrol Station and Supermarket	2,566	6.1%
Mar 2017	Office building, Sevenoaks	4,673	6.1%
Work in Progress			
Feb 2015	Swanley Working Men's Club (including demolition)	1,437	-
2016/17	Quercus 7 set up costs	10	-
Feb 2017	96 High Street, Sevenoaks	4,501	Initially 2% Basic option 7% Other options 7%+
	Total	17,870	

6 **Swanley Working Men's Club** (February 2015) - The premises were demolished in July 2016. This site will be part of the gateway to Swanley.

7 **Suffolk House, Sevenoaks** (April 2015) - This office building is in a town centre location with diminishing levels of office stock in the area. It consists of a total of 16,699 sq ft of office space over four floors with 84 parking spaces. It is managed by a property management company with costs recoverable under a service charge. Several floors have now been refurbished to grade A standard office space and the price per square foot is now significantly higher than when the building was purchased.

- 8 **Swanley Petrol Station and Supermarket (May 2015)** - The property comprises a 2,789 sq ft convenience store building with 15 car parking spaces, 8 multi-fuel pump forecourt with jet wash and car wash on a 0.589acre site. The property is let on a lease expiring in August 2030.
- 9 **Quercus 7 set up costs** - a budget of £10,000 was approved by Council on 31 March 2015 to be funded from the Property Investment Strategy Reserve.
- 10 **96 High Street, Sevenoaks (February 2017)** - This premises consists of ground floor retail space, 1st and 2nd floor office space with residential potential and development opportunity to rear. The most basic option of refurbishing the office space and selling the land to the rear will give a 7% annual return. The land at the rear is next to a council car park which in turn is next to the bus station and therefore has the potential to be a catalyst for wider development.
- 11 **Office building, Sevenoaks (due to complete in March 2017)** - This is a modern freehold office investment in Sevenoaks town centre. The 10,499 sq ft building over three floors has 56 car parking spaces is currently fully let on a ten year lease.
- 12 The above activity has used £17.87m of the £18m approved.
- 13 All acquisitions have been supported by a thorough business case and approved by the Policy & Performance Portfolio Holder in consultation with the Finance Portfolio Holder as required by Council.

Property Investment Strategy Income

- 14 The 10-year budget approved by Council on 21 February 2017 included net Property Investment Strategy income of £500,000 in 2017/18 and £735,000 in 2018/19. Income from the properties acquired to date should exceed these budgets and therefore help to deliver 'self-sufficiency+'.

Funding Sources

- 15 The £17.87m spent to date has been funded by (or is expected to be as part of the 2016/17 annual accounts process):
 - Property Reserve and Financial Plan Reserve £4.76m. Funds put aside for the Property Investment Strategy agreed as part of the annual budget setting process.
 - Capital receipts £8.61m. Proceeds from the sale of council assets.
 - Internal borrowing £4.5m. From council balances. No interest is paid but Minimum Revenue Provision (MRP) is charged. MRP is the minimum amount which must be charged to the revenue account each year and set aside as provision for repaying loans and meeting other credit liabilities. This is a requirement for any form of borrowing so that an amount is set aside to repay the loan.

- External borrowing £nil. This funding method incurs interest and MRP costs each year.

Future Opportunities

- 16 Savills (Investment Advisors) have analysed the Council's current property investments and advise that the council should consider further acquisitions in order to provide a more balanced investment portfolio. They recognise that good investment purchases have been made and are currently performing well and this is set to continue with the creation of new tenancy agreements and potential development opportunities within the current portfolio.
- 17 They also advise that further acquisitions should be targeted towards the industrial sector to reflect not only a more balanced portfolio and dilute any risk that may occur within specific areas of commercial property. They also recognise the preference to balance the portfolio by way of geographical area, investing in other commercial focused areas and residential property. However, opportunistic purchases should not be ignored where value for money and growth can be identified for example further properties in Sevenoaks.
- 18 Savills have confidence that the current property investment strategy is working but is now reaching a point where the following should be considered to update the strategy:
- Broader geographical area and sector purchases.
 - Yield requirements/target to be a minimum of 5%.
 - Budget £20-25 million.
- 19 The following projects are expected to progress as part of the Property Investment Strategy.
- 20 96 High Street, Sevenoaks - development of the site and potentially also adjacent sites.
- 21 Swanley - a separate report will be presented to Members at an appropriate stage, therefore the funding requested in this report is not required to fund these schemes. The sites are:
- Bevan Place / 27-37 High Street, Swanley - potential for residential units and business start-up space.
 - White Oak Leisure Centre
- 22 Timberden Farm - The majority of land has been sold. The agricultural buildings have currently been retained with work continuing before deciding how to proceed.

- 23 Small sites development (including Stangrove Estate and Spitals Cross, Edenbridge)
- 24 Croft Road, Westerham - This land has been sold to a developer to build 18 residential units. The council has an option to acquire two houses at a discount (based on external valuation).
- 25 Further individual investments.
- 26 Due to the number of developments planned for the next few years it is recommended that the emphasis for any further acquisitions are for sites where no further work is required rather than those with development potential.
- 27 Proposed changes to the Property Investment Strategy criteria are included in Appendix A.

Further Funding Required

- 28 Further funding will be required to enable the above schemes and further property investments to take place which will help to deliver the aim of 'self-sufficiency+'.
- 29 Funding options will be considered on a case by case basis and may be funded by reserves, capital receipts, internal borrowing or external borrowing. Due to current commitments it is likely that a significant proportion will come from external borrowing (PWLB 30 year annuity loan interest rate at 10/03/17 is 2.56%).
- 30 Each scheme will also be analysed to decide whether it is preferable to proceed as the council or via Quercus 7.

Risks

- 31 The risks of the Property Investment Strategy are included in Appendix B. The risks were previously analysed by the Audit Committee on 9 September 2014.
- 32 The Council's Strategic Risk Register was also agreed by the Audit Committee on 27 September 2016 and the relevant category for the Property Investment Strategy is also included in Appendix B.
- 33 Property Investment is inherently more risky than leaving reserves in the bank but this has been taken to account when approving the Property Investment Strategy and setting the investment criteria.
- 34 The risks of each potential investment are considered by carrying out due diligence to include the following:
 - Valuation.
 - Market conditions.

- Covenant strength of tenants.
- Terms of leases.
- Structural surveys.
- Funding options.
- Future costs.

35 It should be recognised that there is likely to be a time when there are business reasons to dispose of assets currently owned and invest elsewhere instead.

36 The Scrutiny Committee set up a Property Investment Strategy Member Working Group at their meeting on 5 July 2016 and are due to report their findings at the Scrutiny Committee on 30 March 2017. Feedback will be provided to Cabinet on 20 April 2017.

Key Implications

Financial

As previously stated in this report, the proposals outlined are suggested in order to contribute to the aim of the council remaining financially self-sufficient and deliver 'self-sufficiency+'.

The Council has agreed to part-fund the Buckhurst 2 Car Park Development by external borrowing and as the council has been debt free for many years, this will be a significant change. It is expected that a significant proportion of Property Investment Strategy funding will also be provided by external borrowing. Each acquisition will be looked at on a case by case basis to ensure that the most appropriate funding method is used.

Legal Implications and Risk Assessment Statement.

Legal resources would be required to undertake legal pre-purchase due diligence for any future acquisitions. This would be undertaken either internally by the Council's Legal Team or externally and a decision would be made on a case by case basis.

A full risk analysis is included at Appendix B to this report.

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

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.

Conclusion

In acknowledgement of the position with 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.

Appendices

Appendix A - Property Investment Strategy

Appendix B - Property Investment Strategy - Risk Analysis

Background Papers

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

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

Report to Council 17 February 2015 - Budget and Council Tax Setting 2015/16

Report to Council - 21 July 2015 - Property Investment Strategy

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