

## REPORT OF THE PROPERTY INVESTMENT STRATEGY IN-DEPTH WORKING GROUP

Scrutiny Committee - 30 March 2017

Report of Cllr Clack, on behalf of the Working Group

Status For Consideration

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**Executive Summary:** The Property Investment Strategy In-Depth Working Group has considered whether the benefits of the council's property investment strategy, outweighs the risks. Conclusions and recommendations are set out below.

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### Recommendations to Scrutiny Committee

To consider the report and agree the that report and recommendations contained within paragraph 60 be referred to Cabinet.

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### Introduction and Background

- 1 In recent years, Sevenoaks District Council having been faced with on-going reductions in Government financial support, adopted a 10 year budget process to enable the council to have a greater visibility of both future income and expenditure, plus ensure that the council remained in a financially sustainable position going forwards.
- 2 Key to achieving financial self-sufficiency was to create additional sources of revenue, particularly as reserves were providing very low returns from money held in the bank.
- 3 To achieve this, on 22 July 2014, Council agreed the Property Investment Strategy set out in Appendix A.
- 4 Funding for acquisitions was to be decided on a case by case basis, coming from either receipts from disposals, use of some funds held in reserve or external borrowing.
- 5 The following five acquisitions have been made to date:
  - Swanley Working Men's Club
  - Suffolk House, Sevenoaks - freehold office building
  - 73 - 75 High Street, Swanley - petrol filling station
  - Ground and upper floors, 96 High Street, Sevenoaks (M & Co occupy the ground floor)
  - 26-28 Pembroke Road, Sevenoaks

- 6 It should be noted that the purchases for 96 High Street and Pembroke Road were made subsequent to the meetings of the working group.
- 7 In addition to these purchases, money has also been allocated to build and lease a hotel on the Sennocke site, which also involved decking the Bradbourne car park.
- 8 With regard to funding the strategy, 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. On 21/07/15 Council agreed to a further £10m to be allocated.
- 9 This report should be read in conjunction with the Property Investment Strategy report (and its appendices) presented to the Policy and Performance Advisory Committee on 23 March 2017 (Appendix B). This report provides much useful information and it is therefore not proposed to duplicate much of this information.

## **10 Scope of property investment strategy work group**

Terms of reference for the group:

- The membership of the Working Group to consist of 5 Councillors (subsequently only 4 councillors formed the group) who do not sit on the Policy and Performance Advisory Committee.
- Examine the Council's Property Investment Strategy and whether the benefits outweighed the risks.
- The Working Group to regularly report back in line with the Scrutiny Committee Work Plan.

## **11 Summary of work carried out**

The working group has met 6 times as follows;

- A familiarisation with the subject area with Adrian Rowbotham and Lesley Bowles;
- A case study on Suffolk House with Robin Cooper and Leigh Keating;
- Hearing from a member and two officers from Ashford Borough Council on their experiences concerning investments;
- A case study on the hotel and car park with Richard Wilson;
- Discussing with Peter Fleming and John Scholey the investment strategy generally, past, present and future
- To consider all that the working group had heard in order to draw conclusions and make recommendations.

- 12 The initial meeting with Lesley Bowles and Adrian Rowbotham discussed broadly the strategy, the process to make an investment, and to determine who should be invited to attend future meetings.
- 13 In particular, at this meeting, the working group discussed the existing sites (at that time) namely the hotel; Swanley Working Men's Club; Swanley petrol station; Suffolk House.
- 14 It was explained that when purchased, Suffolk House and the petrol station had existing occupants, and therefore income had been immediate, whereas the Working Men's Club was a development opportunity and therefore income would not be forthcoming until development took place.
- 15 Additionally, the working group were advised of potential areas of investment, including possibly Fort Halstead (the business area) and other small parcels of land.
- 16 The group were provided with a summary setting out (as at 16 August 2016) expenditure and funding sources (Appendix C) and a time line and process for decision making (Appendix D).
- 17 The working group were advised that from the outset, the council recognised that for the strategy to be a success, it was necessary to make arrangements for the prior approval of funds, as it was recognised that in order to react quickly to quickly changing markets, and the speed at which opportunities came about, the approval of funds using the normal structure of decision making at council and committees, would prohibit progress. Through a council recommendation, it set out to approve the allocation of funds (with two further allocations - as set out in the Introduction and Background section of this report) with a robust investment criteria. This approach meant that providing any opportunity met the pre-determined tests, then progress could be made and the purchase could go through. Similarly, the failure to meet all the tests ensures that an opportunity is not further progressed.
- 18 It was explained that before purchasing a property, a detailed acquisition report is produced setting out the project details, the business requirement, the due diligence carried out, the finances and risks. This has to be signed off before a purchase is completed. Appropriate Officers and the relevant Portfolio Holders are involved in the process before the final Portfolio Holder decision is made.
- 19 An explanation was also given concerning the trading company (Quercus 7 Limited) and its purpose to do things the council can't. It is an independent trading arm of the council, set up to purchase residential property and can be used to operate housing stock. The group were advised that the company was in its infancy and no trading to date had taken place to date.
- 20 At the next meeting, the working group met with Robin Cooper and Leigh Keating, who outlined a case study relating to Suffolk House (Appendix E).

- 21 They went through the criteria considerations, how the building met those criteria, and the acquisition process. They also discussed the weaknesses and strengths that had been identified during the process.
- 22 They indicated that the processes in place for property purchases meant the council were able to move quickly (for instance from heads of terms to completion within 2 months).
- 23 Having made the purchase, further opportunities were identified and the working group were given details of subsequent investment made in Suffolk House to refurbish and reconfigure; which although an initial additional cost, would increase the return going forward.
- 24 It was pointed out that the purchase of Suffolk House had enabled the council to maintain an office building within the town, whereas potentially other purchasers may have turned the building into living accommodation. Whilst more housing is required, it was suggested that the strategy could bring balance (albeit only within the set criteria) thus helping with strategic aims within the District. The working group were also given an example relating to another property, to show where the council had proved its mettle to the market by sticking to the investment strategy. It related to an occasion where the council were advised it had been outbid, but were then offered the opportunity to re-bid at a higher amount. This was turned down, as the return would not have met the requirements of the strategy. The point made, was that by strictly adhering to the strategy, it indicated to the market that the council would not be taken beyond what it was prepared to pay.
- 25 With regard to the strategy generally, possible future shifts in interest rates, and the ongoing monitoring of the council's investments were discussed. The group were referred to the Investment Strategy itself and the Risk Register Report (the updated version of which is contained within Appendix B).
- 26 This report included risks concerning upturn/downturn in the property market and changes in interest rates. The Monitoring of the markets was to remain important and each asset required to deliver a 6% return as specified in the Property Investment Strategy. If the rate of return was no longer expected to be received, the council would look to dispose of the asset. None of the investments to date had been funded by external borrowing but if future acquisitions were funded by external borrowing, the borrowing was likely to come from the Public Works Loans Board (PWLb). Rates would be set at the outset of the loan for the full period so there would be certainty regarding future repayments.
- 27 Overall, Robin Cooper and Leigh Keating expressed an opinion that by being fleet of foot (and the market knowing this to be the case) plus the benefit of being a council thus having finances in place to complete purchases, the council is already trusted by agents. This trust means approaches are being made to the council as other opportunities arise; with agents and sellers

willing to do business with the council; and the council are well positioned to take up suitable opportunities as they occur.

- 28 The group then met with a member and two officers from Ashford Borough Council. This authority had been invited as they were one of the first to undertake a property strategy and had the most significant portfolio of properties within Kent.
- 29 Their presentation touched upon the reasoning for commercialisation of the council; the methods of funding; their planning for the long term strategic aim to become self-sufficient; the consideration of investment opportunities. They also referred to specific investments made.
- 30 They had, and were, involved in many projects, including commercial properties, housing and leisure/retail developments. They had taken over an existing shopping centre, and also created housing for people who would normally go into bed and breakfast; thereby saving paying external landlords to house people.
- 31 They had used a mixture of financing, including using their own money, and borrowing; including borrowing in order to provide short term finance to developers. For instance, borrowing at 0.5% and lending to developers at 5%.
- 32 They talked about the integrity of investments locally. They consider whether as well as being a good investment, it is good for the area. They were prepared to invest outside their own area (although they hadn't done so as yet) as this would enable them to consider investments that might otherwise cause difficulties in their own area.
- 33 They broadly aimed at a minimum of a 6% return on their investment. They advised that one of their investments in the past hadn't worked out and they used this example to warn to expect this to occur at some stage in the future. However, they said by having a wide portfolio to spread the risk, this minimised and mitigated the possibility. They stated it was vital to be risk aware, not risk adverse and if a mistake is made; accept it and not throw good money after bad.
- 34 They were asked about issues faced and they said being under-resourced was a false economy, as this at one stage had caused them problems. They stated it was very important to keep staff internally happy and stressed getting project management right was vital. They also said when using external advisors, it was important to get the right horses for courses and also people you trusted - not necessarily the cheapest. They considered it extremely important to bring members on board with the investments and to keep them updated and informed.
- 35 It was clear that the scale of Ashford's developments and plans are on a different level to which could be considered within the Sevenoaks District Council area. Ashford are not constrained in the same way by green belt

land, so they have a lot more land that can be developed. Their population is also much higher, meaning they had greater financing opportunities.

- 36 At the meeting with Richard Wilson, the group were given an overview of Bradbourne car park, the temporary arrangements during building works and the financial deal concerning the hotel development. Questions were also asked about the South Eastern car park.
- 37 A main driver of the proposal to extend the car park was the strategic objective to have further hotel accommodation within Sevenoaks. The Sennocke car park was identified as a location for such a hotel. It was unlikely a hotel company would have been interested in the site, without parking being available nearby.
- 38 The parking proposal created 135 extra parking spaces, in comparison to the (then) existing combined provision of the Bradbourne and Sennocke car parks. When taking into account the removal of 70 on-street parking spaces, This figure netted to an extra 65 spaces. It was noted that the income from the existing 70 on street spaces is ring-fenced for parking related expenditure, whereas the income from the car park can be spent on other council services. It was stated that it was desirable to replace long stay on street parking with off street parking.
- 39 The cost of extending Bradbourne car park was £5.3m. The working group were advised it would take 30 years to pay back this expenditure from additional income generated by the extra spaces and that this was not an abnormal length of time for payback on capital expenditure.
- 40 Questions were asked concerning whether the extension of the existing South Eastern railway car park would have provided the additional spaces required, rather than extending the existing car park.
- 41 Essentially, the working group were informed that any deal with South Eastern (even if possible) would not have provided value for money. South Eastern could not pay for the works as their franchise was not long enough to recoup the money required. So if the council wanted to go ahead, it would have had to pay for the infrastructure - but then would have to share the income with South Eastern. There were other complications due to the land being owned by Network rail, which is nationalised, and the council paying for an asset on Government land.
- 42 In response to questions concerning loss of income whilst the car park was closed, it was stated that at the time of the meeting (8 December 2016) £55k had been lost, but there had been additional income of £184k from on street parking. This meant that in the next financial year no budget was required for asset maintenance of car parks.
- 43 With regard to the hotel, expenditure was budgeted to be £7.5m. It was estimated that the rate of return would be 7% and building works would commence in May 2017. Works would take approximately 12-14 months. A

question was asked whether the hotel would have dedicated parking spaces in the car park. In answer, the working group were advised that if a request was made, it would be looked at, but the hotel would have to pay the going rate for spaces.

- 44 At the next meeting, Cllr Fleming and Cllr Scholey attended to provide an overview of the strategy past, present and future.
- 45 In light of ongoing reductions in revenue support grant and the perceived risk (soon to become a reality) of the loss of support grant completely, it was considered a priority to maintain services at the same level (such as weekly bin collections) and then work out how to afford this. Savings were an important part of the process, but in themselves could not deliver self-sufficiency. Nor could large Council tax rises be considered as they were capped. The strategy was therefore developed in response to these challenges as it was considered the risk of doing nothing outweighed the risk of investments.
- 46 Cllr Fleming said it was important to have a wide portfolio to spread the risk. He repeated that as with all investments, the property investment strategy is not without risk, and that at some stage one investment won't deliver expected returns or may fail in another way, he believed that a wider portfolio ensures there is less financial exposure if an investment does not perform.
- 47 He explained it was important to be clear that different investments provided income or profit at different times. Some, such as property purchased with existing tenants, produced income from day one, others (such as the Swanley Working Men's Club) would provide a revenue stream further down the line. He stated that going forward it was important for members to understand and be clear when it comes to developer and investment risk, and that those levels of risk are phased depending on the type of investment; also how profit is viewed, due to the different nature of investments.
- 48 For instance, how profit is viewed if development takes place on land already owned by the council. An example was given of the purchase (at that stage in the process of being made) in respect of 96 High Street, Sevenoaks. Flats upstairs could be developed and sold and then the proceeds used to finance another purchase. So expenditure and income were moving feasts, profit obtained at different stages, so it was important to explain these issues as clearly as possible to members, so they could understand the value of investments, particularly where (after purchase) further investment is required before a profit or income is achieved.
- 49 Cllr Fleming, in response to a question, explained that to maintain self-sufficiency, investments would have to be made annually. He then went on to discuss "self-sufficiency +". He said it may be possible, and members may find it desirable, for the district council to support or take on extra services

from other existing providers, such as support around adult care and local road maintenance in order to protect services for residents.

- 50 To achieve self-sufficiency + he had in mind a target of 25% growth beyond district self-sufficiency. If this could be achieved, he wanted the council to consider the provision of affordable housing or shared ownership, perhaps in partnership with others. He did identify that a challenge for both self-sufficiency and self-sufficiency + is potential wage growth, as it was becoming increasingly difficult to recruit and maintain staff and gave one example of a council not too far away paying £15k more per annum for a department head.

## Conclusions

- 51 The working group has concluded that the benefits of the Property Investment Strategy do outweigh the risks, provided that the council remains constantly aware of changes in the market and financial risks - for example oversupply of office accommodation, which would affect lettings. In particular:
- 52 Evidence provided at the sub-group meetings clearly demonstrated that the approach taken by Sevenoaks District Council to pre-authorise expenditure, and set clear financial tests, has enabled it to build a positive reputation in the market place as a trusted and respected organisation to deal with.
- 53 The professionalism and competence of offices; the thoroughness of checks and balances; the worthiness and the results of the strategy thus far demonstrates competent management of this policy
- 54 Excluding some set-up costs, initial refurbishment and initial outlay; the net investment returns to date have all exceeded the limit set out in the policy. This is particularly the case with the Suffolk House investment.
- 55 Officers have shown a sound level of competence, and used this to the councils advantage in identifying prudent (and well costed) additional expenditure that offers an overall enhancement on the return.
- 56 Sevenoaks District Council's approach to tackle the loss of the government Support grant has been innovative and effective to date. The desire for "self-sufficiency plus" was welcomed by the working group including the potential to increase the provision of affordable housing.
- 57 The council's communications to members is currently not maximising the benefit that could be gained by engaging more with members.
- 58 Following the evidence from Ashford Borough Council, there are clearly lessons that can be learnt from other local authorities and this type of engagement with other similar councils is only to be encouraged. The council

should particularly bear in mind that there are risks from overstretching, or attempting to take on too much, too quickly.

- 59 In reaching its conclusion, the working group were able to draw upon the detailed information provided verbally within the meetings and from documents provided. It was felt that without going through this process, other members are not sufficiently aware of the process including; the checks and balances; risks and opportunities; the overall running total of expenditure and income. While most, if not all, of this information is available, it is in disparate locations and not necessarily easily found.
- 60 Therefore the following recommendations are made:
- a) There is improved on-going communication with members on progress with the existing portfolio, the financial viability and returns being achieved, and details of new investments (as soon as it is appropriate to make members aware)
  - b) To have a single location accessible to members where all relevant information is maintained and updated.
  - c) In any month a purchase is made, an update should be provided to members, by the end of the same month (or within seven days, whichever is the later) with details of the cost, source of financing and projected income.
  - d) To explore possibilities of self-financing affordable housing and shared-ownership projects to help the less wealthy within the District.

**Appendices**      [Appendix A - Property Investment Strategy approved 22 July 2014  
http://cds.sevenoaks.gov.uk/ieListDocuments.aspx?CId=121&MId=1790&Ver=4](http://cds.sevenoaks.gov.uk/ieListDocuments.aspx?CId=121&MId=1790&Ver=4) please use link or website address - Appendix has not been printed

[Appendix B - Property Investment Strategy Update Report \(with  
appendices\) to the Policy and Performance Advisory Committee - 23  
March 2017  
http://cds.sevenoaks.gov.uk/ieListDocuments.aspx?CId=322&MId=2089&Ver=4](http://cds.sevenoaks.gov.uk/ieListDocuments.aspx?CId=322&MId=2089&Ver=4) please use link or website address - Appendix has not been printed

Appendix C - Property Investment Strategy Summary (as of 16 August 2016)

Appendix D - Sevenoaks Property Strategy - A Time Line and Process for Decision Making

Appendix E- The Acquisition Process of Suffolk House - Case Study

**Cllr. Graham Clack**  
**Chairman of the Property Investment Strategy In-Depth Working Group**