The Sevenoaks Property Strategy – Time Line and Process for Decision Making

November 2013 Cabinet had approved the Corporate Plan which recognised the need to be self sufficient and an approach of investing in assets that generated revenue income.

In **December 2013** the Council undertook **a Peer Review**. The findings were reported to **Cabinet in February 2014** and **Council** approved the direction towards self sufficiency and the opportunity to create greater income from investing in appropriate property assets.

Finance and Resources Advisory Committee 26 March 2014 proposing an investment strategy based on an initial £5mil investment. Committee agreed to recommend to Cabinet and Council to go forward with the strategy.

It was agreed that investment in offices, retail, industrial and housing sectors would be a lower risk to the Council than markets such as student housing, nursing homes and medical centres.

On **10 April 2014 Cabinet** agreed an Investment Strategy building on an approach of property based investment in order to deliver increased revenue income. Officers had discussed the proposal with Grant Thornton, the Council's external auditors, who viewed it as a coherent case for change and that the solution was consistent with the goal of becoming more self-sufficient. Members agreed that external borrowing should not be a recommended source for funding.

22 July, 2014 Council endorsed the investment strategy and agreed an initial £5mil investment

Audit Committee on 9 September 2014 agreed a Risk Strategy to consider the Risk Management associated with the Investment Strategy. The Risk Register had been developed by Officers, taking in the views of the relevant Service Managers and Chief Officers. It sets out those risks that Officers believe should be considered when investing the Council's money in property / infrastructure assets rather than it remaining in financial investments.

The Risk Register has been expanded to demonstrate the risks of investing the Council's funds in Property Assets.

The Investment Strategy Risk Register sets out 11 risks that Officers consider to have the potential to influence the achievement of the aim to increase revenue income and therefore financial self sufficiency as stated within the Corporate Plan. For each risk Officers set out those factors that could cause the risk to occur and the potential effect that these events could have.

16 July 2015 Cabinet agreed additional funding for investment. The Treasury Management Strategy would be amended to allow a further £10 million to be invested in 2015/16. The Chairman added that he considered financial self-sufficiency was essential.

On **23 April 2015 the Portfolio Holder** agreed to the purchase of **73 – 75 High Street Swanley** as a retail Co-op store and Texaco petrol station for £2.45mil demonstrating an initial yield of 6.03% rising to 6.75%

The Portfolio Holder agreed on **9 December 2015** to purchase **Suffolk House Sevenoaks** for £4million demonstrating an initial yield of 6.95%

The Portfolio Holder on 16 January 2015 agreed the purchase of the **Working Men's Club and Former Bank Swanley** which with our car park (already owned by us) for £1.25mil allows the comprehensive redevelopment of the site demonstrating a potential yield of 20.55%

1. In terms of **internal processes** Savills have recently won the tender to provide advice on acquisitions and disposals:

2. When a proposition is presented it is discussed with the Chief Executive (CEO), Chief Finance Officer (CFO) and leading members.

3. A concept paper is produced and the paper presented to the Corporate Board (or by email if time dictates).

4. Agreement is gained from the relevant Portfolio Holder so that when due diligence is complete we are still in time to exchange contracts.

5. The CFO confirms the funding route and that funding is in place.

6. If the bid is accepted officers ensure the CEO. CFO and Leading Members are informed and the relevant Portfolio Holder asked to sign the decision to proceed. The decision notice is also signed by the CFO.

7. Full Council approved that a further £10m could be spent on the Investment Strategy but all acquisitions must be supported by a thorough business case and approved by the **Policy and Performance Portfolio Holder** in consultation with the **Finance Portfolio Holder** and agreed by the **CFO**.

8. If appropriate a press statement is prepared and an email sent to members to inform them of the purchase.

The Acquisition Process of Suffolk House- Case Study

The Criteria for the Property Investment Strategy;

- Lot size £1m-£5m
- Income yield of 6%+
- Individual properties or portfolios
- Single or multi-tenanted
- Asset Categories; Industrial, office, retail, trade counter, private residential
- Initially located within the District
- Potential to increase rental income though pro-active asset management.

Suffolk House fulfilled all these criteria;

- Lot size -£4M
- Income yield of 6.95%
- Individual Property
- Multi- tenanted
- Office block
- Located within Sevenoaks Town Centre
- The estimated rental value (ERV) at the time of acquisition was approx. 15% above the passing rent offering an opportunity to increase income at either review or letting.

The acquisition process;

Extensive due diligence was carried out prior to the acquisition being completed including;

- A RICS Red Book valuation by Savills confirming that the Market Value of the building at £4M equating to an initial yield of 6.95%.
- An investment level structural survey of the building with an inspection & assessment of the Mechanical & Electrical equipment and the lift.
- Report on title by the Legal Department
- Report on the lease drafting by the Property Department to confirm in an institutionally acceptable form
- Asbestos report, Contaminated Land report, Fire Emergency plan, fire risk assessment report
- Financial credit checks on each tenant

As a result, the following strengths and weaknesses were identified;

Strengths;

- Town Centre location
- Asset management opportunities
- Popular office location in affluent market town with excellent communications to central London
- Good rental growth prospects
- Diminishing levels of office stock in the area
- Popular size of accommodation within a detached building
- Potential of lease re-gears i.e restructuring of the lease terms to add value
- Some good covenants
- Building in good condition for its age with no signs of serious structural defects

Weaknesses

- Break clauses that bring uncertainty
- Potential for void periods
- Works to windows, minor roof repairs, render & brickwork repairs, replacement of gas fired boilers, Central heating circulating pumps,- the majority of which are recoverable through the service charge.
- Toilets in need of upgrade
- Two of the tenants had poorer financial rating that the others- but the landlord holds rent deposits in respect of each of these giving greater comfort and the risk was considered acceptable.

In Summary, Suffolk House met the criteria identified by the Property Investment Strategy, and so the acquisition was recommended by the Chief Finance Officer and the Head of Economic Development & Property to the both the Portfolio Holders for Policy & Performance and Finance & Resources.

Subsequently, Heads of Terms were agreed for the acquisition in mid February 2015, and the acquisition completed at the end of April.