



# **COUNCIL MEETING**

## **Items 6 and 7**

**Wednesday, 27th January, 2016**

**7.30 pm**

**Town Hall, Watford**

**Publication date: 25 January 2016**

**CONTACT**

If you require further information or you would like a copy of this agenda in another format, e.g. large print, please contact Caroline Harris on 01923 278372 or by email – [legalanddemocratic@watford.gov.uk](mailto:legalanddemocratic@watford.gov.uk) .

25 January 2016

Councillor

You are hereby summoned to attend a meeting of the Council of the Borough of Watford to be held on Wednesday, 27th January, 2016 starting at 7.30 pm at the Town Hall, Watford to take into consideration and determine upon the following subjects, namely: -

**6. FINANCIAL PLANNING: DRAFT REVENUE AND CAPITAL ESTIMATES 2016/2019 AND TREASURY MANAGEMENT STRATEGY 2016-2019** (Pages 5 - 12)

Report of Cabinet 18 January 2016

*Please note that this report has been printed separately for Budget Panel on 13 January, Cabinet on 18 January and Council on 27 January. Members are reminded to bring their copy to this meeting.*

**7. PROPERTY INVESTMENT STRATEGY, GOVERNANCE AND MANAGEMENT ARRANGEMENTS** (Pages 13 - 28)

Report of Cabinet 18 January 2016

A handwritten signature in black ink, appearing to read 'Manny Lewis', with a stylized flourish at the end.

**Manny Lewis, Managing Director**

## REPORT TO COUNCIL – 27 January 2016

## REPORT OF CABINET – 18 January 2016

Cabinet met on 18 January 2016. The minutes are published on the Council's website.

The following Members were present at the meeting:

Present:

Mayor Dorothy Thornhill  
Councillor Johnson  
Councillor Scudder  
Councillor Sharpe  
Councillor Taylor  
Councillor Watkin

Also present:

Councillor Bell  
Councillor Mehta

The following was a recommendation to Council:

### 43 **FINANCIAL PLANNING: DRAFT REVENUE AND CAPITAL ESTIMATES 2016/2019 AND TREASURY MANAGEMENT STRATEGY 2016-2019**

A report was received from the Shared Director of Finance on service level expenditure, funding and council tax levels for the medium term 2016/17 to 2018/19 including consideration of the use of reserves and balances.

The report had also been considered at the Budget Panel meeting on 13 January and the minutes were circulated at the meeting.

The Mayor thanked the Budget Panel and stated that it was important that all members of Budget Panel understood the position of the council and were reassured that the council's accounts had been done properly. Discussion about how the budget had been divided could be reserved for the full Council meeting.

There had been one item from Budget Panel which was brought to Cabinet's attention.

The Head of Corporate and Client Services described that issues had arisen at

Budget Panel around the work on Equality Impact Assessments as a result of some communities requiring burial that they might be disproportionately affected by an increase in burial fees. The benchmarking which had been carried out on the fees was not only with Hertfordshire authorities but also London Boroughs, such as Brent and Harrow who had a cemetery close by in Carpenders Park. The original figures which went to Budget Panel were closer to those of London. It was now proposed to reduce the increase to 50% and monitor the impact of this on demand, income and on different communities. The Council would also look at what other local authorities had done this year with their charges and what investment was required to implement the cemetery strategy which would be coming to Cabinet in February. It was still proposed that non-residents would pay three-times the fees due to the need to manage demand as land availability was restricted and currently estimated at seven to nine years.

An additional recommendation to amend the increase was circulated at the meeting:

“In light of the Budget Panel’s recommendations and a further review by officers of the Equality Impact Assessment and benchmarking exercise it is recommended to Cabinet that the increase in charges for 2016/17 for burials is reduced by 50%. That officers review the impact of this increase on demand and undertake further benchmarking during that financial year with a view to securing:

- cost recovery in the face of budget pressures and reduction in government grant
- income to facilitate additional resourcing requirements of the Cemetery Strategy
- aligning the council’s costs with those of similar authorities
- to manage the demand for diminishing cemetery space.

It is recommended that the fees to non-residents remain at 3 times the charges made to residents as this is a key policy to manage the demand on the depleting stock of available grave space.”

The Mayor stated that apart from burying people who had no means, burials were a service that the council could chose to provide. Each service needed to cover its costs and burial charges were considerably less than at other authorities. However, the points made by Budget Panel were fair and were being adopted.

Councillor Bell commented on other points raised at the Budget Panel meeting, and the Mayor responded that these would be considered.

In accordance with the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014 the votes were recorded as follows –

Those in favour

Mayor Thornhill, Councillors Johnson, Scudder, Sharpe, Taylor and Watkin

The resolutions as set out in the report were CARRIED by 6 votes to 0

RESOLVED:

That Cabinet:

1. Resolves in accordance with the *Local Authorities (Calculation of Tax Base) Regulations 1992*, the amount calculated by Watford Borough Council as its Council Tax Base for the year 2016/17 is 31,314.71 as outlined in paragraph 7.5 and summarised at Appendix 8.
2. Approves the estimate surplus and deficit position on the Collection Fund.
3. Approves the 2016/17 savings of £430,760 as detailed at Appendix 1.
4. Approves the 2016/17 growth of £922,600 and as detailed at Appendix 2a, 2b and 2c.
5. Approves the proposed fees and charges for 2016/17, which are included in the base estimates and detailed at Appendix 4.
6. Approves all the assumptions made with the Medium Term Financial Strategy at Appendix 6 which includes a council tax freeze for 2016/17.
7. Delegates to the Director of Finance and Portfolio Holder the ability to amend the budget figures in accordance with decisions taken at the Cabinet meeting and any minor variations that may occur before the Council meeting on 27 January 2016.
8. In light of the Budget Panels recommendations and a further review by officers of the Equality Impact Assessment and benchmarking exercise agrees that the increase in charges for 2016/17 for burials is reduced by 50%. That officers review the impact of this increase on demand and undertake further benchmarking during that financial year with a view to securing:
  - cost recovery in the face of budget pressures and reduction in government grant
  - income to facilitate additional resourcing requirements of the Cemetery Strategy
  - alignment of the council's costs with those of similar authorities
  - management of the demand for diminishing cemetery space.

It is agreed that the fees to non-residents remain at 3 times the charges made to residents as this is a key policy to manage the demand on the depleting stock of available grave space.

**That Council be recommended to approve:**

1. The General Fund Budget Requirement (Net Expenditure) (before use of grants and reserves) as outlined at paragraph 7.1 and detailed at Appendix 6 as follows:
  - Revised budget for 2015/16 as £16,797,035.
  - Base budget for 2016/17 as £16,035,060.
2. The Capital programme as set out at Appendix 11 and 11a.
3. The key financial risks set out in Appendix 10.
4. The current Local Council Tax Reduction Scheme continues for financial year 2016/17 (paragraph 7.7).
5. The use of reserves and balances as identified in paragraph 7.9.
6. The Treasury Management Strategy for 2016-19 as set out in Appendix 12 and that where reserves or cash balances can be deployed in accordance with the Property Investment Strategy to generate better returns for the Council, then the Director of Finance may authorise investment of Council funds accordingly.

**Appendices**

- Report to Cabinet 18 January 2016 (previously circulated)
- Report of the Director of Finance on the Council Tax Resolution 2016/2017

**Report to:** Council  
**Date of meeting:** 27<sup>th</sup> January 2016  
**Report of:** Director of Finance  
**Title:** Council Tax Resolution 2016/2017

## **1.0 SUMMARY**

- 1.1 The purpose of this report is to enable the Council to set the 2016/2017 budget and pass the statutory Council Tax Resolutions for 2016/17 for Watford Borough Council's own tax requirements.
- 1.2 At the time of writing this report, the precept demand from both Hertfordshire County Council and the Police and Crime Commissioner for Hertfordshire have not been set. A report will be submitted to the Functions Committee on 25<sup>th</sup> February 2016 to set the overall Council Tax, which will include these precepts.

***Copies of the Budget Report to the Cabinet meeting on 18th January 2016 were circulated separately to all councillors as they contain information relevant to the recommendations.***

## **2.0 RECOMMENDATIONS**

### **2.1 To agree proposals recommended by Cabinet on 18th January 2016:**

- a) That the Council's net General Fund expenditure for 2016/17 shall be £16,035,060.
- b) That the Capital Programme shall be as set out in the Cabinet report.

#### **And in approving these recommendations**

- c) To have regard to the Director of Finance's assessment of financial risks and the level of balances and provisions required, as set out in the Cabinet report.

### **2.2 Setting the amount of Council Tax for Watford Borough Council**

That Watford Borough Council's Council Tax Base for 2016/17 has been calculated at 31,315 in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 made under Section 31B (1) of the Local Government Finance Act 1992, as amended.

2.3 That the following amounts be now calculated by the Council for the year 2016/17 in accordance with Sections 31A to 36 of the Local Government Finance Act 1992:

- (A) *Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A (2) of the Act. (Effectively the gross expenditure and transfers to reserves)* **£68,409,160**
- (B) *Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A (3) of the Act. (Effectively the gross income and transfers from reserves)* **£60,585,493**
- (C) *Being the amount by which the aggregate at 2.3 (A) above exceeds the aggregate at 2.3 (B) above calculated by the Council in accordance with Section 31A (4) of the Act as its Council Tax Requirement for the year* **£7,823,667**
- (D) *Being the amount at paragraph 2.3 (C) divided by amount at 2.2 above, calculated by the Council, in accordance with Section 33 (1) of the Act as the basic amount of its Council Tax for the year (at Band D)* **£249.84**

(E)

<b>Council Tax Valuation Bands</b>	<b>Conversion Factor to Band D</b>	<b>Watford's Share (£)</b>
A	6 / 9	166.56
B	7 / 9	194.32
C	8 / 9	222.08
<b>D</b>	<b>1</b>	<b>249.84</b>
E	11 / 9	305.36
F	13 / 9	360.88
G	15 / 9	416.40
H	2	499.68

*Being the amounts given by multiplying the amount at paragraph 2.3 (D) above by the number which, in the proportion set out in Section 5 (1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in Valuation Band D, calculated by the Council, in accordance with Section 36 (1) of the Act, as the amounts to be taken into account for the year 2016/17 in respect of categories of dwellings listed in different valuation bands*

2.4 That a report including precepts of both the Police Authority be presented to the Functions Committee on 25th February 2016 to set the total Council Tax.

**Contact Officer:** Joanne Wagstaffe, Director of Finance, telephone extension 8189, email joanne.wagstaffe@watford.gov.uk

### **3.0 BUDGET PROCESS**

- 3.1 At its meeting on the 18th January 2016 the Cabinet approved the budget proposals for 2016/17. The decisions made by Cabinet are reflected in the formal resolutions set out above.
- 3.2 The Council is recommended to approve Cabinet's budget proposals and to make the necessary formal resolutions to set the level of Council Tax.
- 3.3 Members are required to have regard to the Director of Finance's assessment of risks and the adequacy of balances. This is set out in the 18th January 2016 Cabinet report and concludes that the level of balances should be adequate.
- 3.4 Budget Panel considered Cabinet's proposals at its meeting on 13<sup>th</sup> January 2016 and its minutes were circulated to Cabinet prior to any decisions being taken.
- 3.5 Members agreed a Members Remuneration Scheme at the Council meeting on 29th January 2014 which covered the period 2014-2018. As such there are no recommended changes to that previously agreed.
- 3.6 The precepts for Hertfordshire County Council and The Police and Crime Commissioner for Hertfordshire have not yet been notified to the Council. A report will be submitted to the Functions Committee on 25th February 2016 detailing the tax requirement for Watford Borough Council's own purposes with those of the preceptors, to formally set the overall level of Council Tax.
- 3.7 Watford's net revenue expenditure for 2016/17 is forecast to be £16,035,060 which is then reduced by the application of central government support of £7,469,403 and the transfer from the Council's Reserves of £741,990. The residual balance of £7,823,667 is the statutory Council Tax Requirement which is then divided by the council tax base for 2016/17 of 31,315 Band D equivalents.
- 3.8 This results in a council tax for Band D of £249.84 and the Watford Borough Council's Council Tax therefore remains unchanged from 2015/16.

### **4.0 IMPLICATIONS**

- 4.1 The implications contained in the report to Cabinet on 18th January 2016 are equally applicable to this report and Members are invited to refer to them to avoid unnecessary duplication.

#### Background Papers

Report to Cabinet of 18th January 2016



## REPORT TO COUNCIL – 27 January 2016

## REPORT OF CABINET – 18 January 2016

Cabinet met on 18 January 2016. The minutes are published on the Council's website.

The following Members were present at the meeting:

Present:

Mayor Dorothy Thornhill  
Councillor Johnson  
Councillor Scudder  
Councillor Sharpe  
Councillor Taylor  
Councillor Watkin

Also present:

Councillor Bell  
Councillor Mehta

The following was a recommendation to Council:

### 39 **PROPERTY INVESTMENT STRATEGY, GOVERNANCE AND MANAGEMENT ARRANGEMENTS**

A report was received from the Head of Regeneration and Development on the progress that had been made to date since the Property Investment Board was established in March 2015. The report also included a proposed Property Investment Strategy recommended by the Property Investment Board.

Councillor Sharpe commented that as it had been alluded to earlier, the Council's funding from central government would diminish to nothing in the future. If the Council was to retain the current level of services and fulfil its aspirations then it would be necessary to seek other ways to generate income and make the best use of resources. The Council's property portfolio had a value of £100m. However, the key issue was that the portfolio was dominated by retail which did not necessarily achieve the best returns. Through the property review it was being clarified which assets were important for operational or community reasons and which were there to provide an income.

This was a dynamic area which did not sit well with committee meeting schedules. The purpose of the report was to enable quicker decisions to be

made by increasing the delegation and enabling decisions to be made by the Property Investment Board in accordance with the Property Investment Strategy. Council would be asked to agree the changes to the constitution on the levels of delegation. Any decisions on property had to be subject to a business case agreed by the finance and legal sections. The decisions would be reviewed through the Major Projects Board where questions could be raised. It was necessary, however, to be able to move quickly when properties came onto the market.

Councillor Bell commented that the Property Investment Board had met on four occasions in 2015, and again today. There needed to be more Major Projects Board meetings on a regular timetable as currently they were often cancelled. It was important for back bench councillors to have the opportunity to review decisions.

The Mayor considered that Councillor Bell had a valid point. It was also important that the policy and framework were very clear so councillors would be reassured about governance. Once a decision was taken to purchase property it would be final.

The Managing Director commented that decisions that were made within the context of the investment strategy were approved by the Property Investment Board. The report included a matrix which would be used to determine which properties would be an appropriate purchase. He suggested inviting Lambert Smith Hampton to Major Projects Board to demonstrate how the criteria from the matrix would be applied, what sort of acquisitions might result and the format of the business case so the members could see the structures involved. For example purchasing high value light industrial properties would give a better return than the 6% yield on retail properties which the council was receiving currently. The decisions taken were purely commercial and not political.

The Mayor commented that a similar practice had been in place at Hertfordshire County Council for a number of years and asked Councillor Bell to feedback any information to Watford if there were any further helpful practices.

In response to a request from Councillor Bell the Managing Director agreed to provide a list of the properties going to auction in February.

## RESOLVED

That Cabinet:

1. approves the property investment strategy annexed to the report.
2. agrees further changes to the scheme of delegation in order to expedite decision making and ensure a commercial approach.

3. recommends to Council further changes to the constitution to that end.
4. notes that decisions on funding the acquisition of replacement assets by recycling receipts from the disposal of investment property will be made by the Property Investment Board in accordance with the agreed Property Investment Strategy, taking into account the Council's other financial commitments.
5. that in order to ensure a commercial approach to property investment management, services including rent collection are outsourced and that the Head of Regeneration and Development is authorised to procure and appoint an appropriate specialist firm.

## **Appendices**

- Report to Cabinet 18 January 2016.



## PART A

**Report to:** Cabinet  
**Date of meeting:** 18 January 2016  
**Report of:** Head of Regeneration and Development  
**Title:** Property Investment Strategy, Governance and Management Arrangements

### 1.0 SUMMARY

- 1.1 This report sets out progress made to date since the Property Investment Board was established in March 2015 and in the light of experience makes a number of recommendations to ensure a commercial approach to management of the Council's property investment portfolio.

### 2.0 RECOMMENDATIONS

- 2.1 To approve the property investment strategy annexed to the report
- 2.2 To agree further changes to the scheme of delegation, in order to expedite decision making and ensure a commercial approach.
- 2.3 To recommend to Council further changes to the Constitution to that end.
- 2.4 To note that decisions on funding the acquisition of replacement assets by recycling receipts from the disposal investment property will be made by the Property Investment Board in accordance with the agreed Property Investment Strategy, taking into account the Council's other financial commitments.
- 2.5 To agree that in order to ensure a commercial approach property investment management services including rent collection are outsourced and that the Head of Regeneration and Development is authorised to procure and appoint an appropriate specialist firm.

**Contact Officer:**

For further information on this report please contact: David Lewis Interim  
Property Team Manager  
telephone extension: 8216 email: david.lewis@watford.gov.uk

**Report approved by:** Jane Custance Head of Regeneration & Development

3.0 **BACKGROUND**

3.1 Lambert Smith Hampton (LSH) were commissioned by the Council in 2014 to undertake a strategic property review. The outcome of this process was reported to the March 2015 Cabinet which resulted in a number of decisions on the general aims of the Council, including establishing a Property Investment Board. The terms of reference agreed by the Cabinet are attached as Appendix A to this report. These include authority to agree a reinvestment programme and to determine the level of receipts to be recycled into new investments to support the Council's capital or revenue programme.

3.2 Although the LSH report recommended establishing a wholly owned management company, it was felt that establishing an internal board to oversee management of the portfolio in conjunction with appropriate changes to the Council's constitution would achieve the same objectives. Accordingly on the recommendation of Cabinet in May 2015 Council agreed changes to the Scheme of Delegation and the Constitution to expedite decision making. It was also agreed that further reports would be made to Cabinet as needed.

3.3 The Property Investment Board chaired by the Portfolio Holder met on 4 occasions in 2015 with the next meeting scheduled for 18<sup>th</sup> January.

4.0 **PROPERTY INVESTMENT STRATEGY**

4.1 The proposed Property Investment Strategy recommended by the Property Investment Board is attached as Appendix B. This sets out parameters for property investment to ensure an appropriate balance of risk through diversity in terms of type and location. In order to ensure an objective independent benchmark, it is proposed that the Investment Property Database is used to measure and track performance.

4.2 To put matters into perspective the Council has a £100 million property portfolio compared with £54.5 million invested in treasury investments at the end of December 2015. The proposal is that the strategy will be reviewed and agreed annually by Council in parallel with the Treasury Management Strategy. It will provide a framework for reinvestment to secure a more balanced property portfolio.

5.0 **GOVERNANCE**

5.1 Whilst the scheme of delegation was amended in May 2015 to enable the Council to more quickly take advantage of the market to pursue acquisitions by increasing the level of delegation to both the Portfolio Holder and the Head of Regeneration and Development /Section Head for Property, experience indicates that the level of delegation is still too low due to the value of the properties the Council are likely to wish to acquire or sell

5.2 It is therefore proposed that the Portfolio Holder be given delegated powers to agree to acquisitions and disposals up to £5,000,000 and that the Head of

Regeneration and Development/Property Section Head have delegated powers to agree to acquisitions and disposals up to £3,000,000. Both of these subject to a full written business case being prepared and signed off by Finance and Legal and the acquisition/disposal being in line with the Property Investment Board Investment Strategy.

- 5.3 Council also agreed in May 2015 to extend the key decision limit with regard to decisions relating to the investment portfolio to £500,000. It is proposed that this be increased to £3,000,000 as otherwise it is likely that the urgency provisions will need to be regularly invoked as having to wait to implement a decision in the case of call in could have serious consequences particularly in the case of acquisitions. Sales by auction have been recommended to maximise returns and again this process is constrained by too low a call in level.
- 5.4 Checks and balances are achieved as each delegated decision is firstly subject to a business case signed off by Legal & Finance, secondly such decisions are subject to being in line with the Investment Strategy approved annually by the Council and thirdly the work of the Property Investment Board is reviewed through the Major Projects Board.

## 6.0 **PROPERTY RE-PROFILING**

- 6.1 The LSH review identified that the property investment portfolio is unbalanced with an overloading of retail property. Re-profiling of the portfolio over time in accordance with a property investment strategy has already been agreed in principal by the Property Investment Board and some properties have already been disposed of at Auction. Additional properties are going to auction in February 2016.
- 6.2 It is proposed that the Property Investment Board takes account of the whole of the Council's capital programme so that decisions on use to be made of capital receipts has regard to the overall strategic needs of the Council.

## 7.0 **PROCUREMENT OF PROPERTY INVESTMENT MANAGEMENT**

- 7.1 The Council uses Capita Asset Services as external advisors in order to acquire access to specialist Treasury Management skills and resources.
- 7.2 It is recommended that the Council uses external property investment management services for the property investment portfolio in order to obtain commercial expertise. Such a step will support the Council's overall objective of managing the property investment portfolio on a commercial basis.
- 7.3 The alternative of establishing a property investment manager post has been considered. However, it is unlikely that a single post would have the breadth and range of experience of a commercial company and recruitment and retention is likely to be difficult.
- 7.4 The Council's Contract Procurement Rules do not apply to the acquisition and disposal of land but they do apply to advice and other services taken in relation to the disposal of land.

- 7.5 It is proposed that external property investment management services are procured in two lots (Watford Business Park and remaining portfolio) using an advertised (OJEU) process rather than drawing on an existing framework. Existing frameworks are unlikely to provide a good enough fit for the services the Council requires.
- 7.6 Services to be procured would be investment management and asset management including rent collection. The proposed term to be 5 years with an option to extend for a further 5 years. Contract terms would include KPI's and use of service credits and incentives to drive performance.
- 7.7 Careful consideration will be given to the evaluation criteria and their weightings to ensure that companies with the most relevant and appropriate experience are appointed.

## 8.0 **INTERIM ARRANGEMENTS**

- 8.1 Pending completion of the procurement process it is proposed to continue the use of LSH (property portfolio) and Greenhills (Watford Business Park).

## 9.0 **IMPLICATIONS**

### 9.1 **Financial**

- 9.1.1 The Shared Director of Finance comments that it is anticipated that the costs associated with this proposal can be contained within existing budgets. If additional funding is necessary this will be considered at the time it is required.

It is anticipated that the initial procurement and outsourcing costs can be offset against the increased commercial income.

### 9.2 **Legal Issues** (Monitoring Officer)

- 9.2.1 The Head of Democracy and Governance comments that changes to the scheme of delegation and the Constitution are required to enable the Council to respond in a timely fashion to advice from external managers.

The Council will undertake a full procurement exercise in order to obtain external providers taking internal and external advice as needed to ensure that the documentation, including the contract, will achieve the Council's objectives.

### 9.3 **Equalities**

- 9.3.1 None

#### 9.4 Potential Risks

Potential Risk	Likelihood	Impact	Overall score
Economic slowdown in market making transactions difficult to complete	2	2	4
Lack of suitable property stock to reinvest in that generate a suitable yield	3	2	6
Funds released from property disposals are used in other areas of council spending rather than reinvesting in property	2	4	8
Risk profile of new investments is likely to be higher which may make income more volatile	2	3	6
<i>Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the service's Risk Register.</i>			

#### 9.5 Staffing

- 9.5.1 The procurement of external property investment management services will need to consider potential TUPE implications for property staff and any non-property staff involved in rent collection.

#### 9.6 Accommodation

- 9.6.1 None

#### 9.7 Community Safety

- 9.7.1 None

#### 9.8 Sustainability

- 9.8.1 None

#### Appendices

Appendix A - Terms of Reference for the Property Investment Board

Appendix B - Draft property investment strategy

#### Background Papers

No papers were used in the preparation of this report

#### File Reference

None



**PROPERTY INVESTMENT BOARD**

**TERMS OF REFERENCE**

**Membership**

The PIB is to be chaired by the Property Portfolio Holder who will undertake formal decisions in accordance with the Council's delegation scheme for executive functions (for example including advanced notice in the Forward Plan and scrutiny/call in procedures. Members will also be able to review progress through the Major Projects Board). The PIB will be advised by external investment/technical expertise. In attendance will also be the Portfolio Holder for Resources, the Head of Regeneration & Development, the Section Head for Property, the Head of Democracy & Governance, the Director of Finance (or her representative) and the Managing Director.

It is proposed initially that LSH will attend as the external party for the council providing private sector expertise. LSH are well placed having reviewed the council's investment and occupational assets. This has been discussed with LSH and if progressed they would assign one of their directors to the PIB so that there is continuity and would call upon specific expertise as required depending on the projects and opportunities to be discussed. It is estimated that a cost of £12,500 pa is set aside to cover LSH servicing costs of the PIB which is based on reviewing papers, attendance at quarterly meetings and general ad hoc advice. This is based on the rates set out in their tender return from the Government's GPS panel relating to work they undertook on the Property Review. It is proposed that the initial appointment be for a period of 3 years.

10 Should LSH carry out any additional work outside the above scope such as disposals, acquisitions, building surveying or lease advisory work discounts to their standard fees would apply. Should any additional work of this nature be required by LSH or other consultants this would be looked at in the context of that specific project and form part of the approval process of those individual projects or tasks.

3.11 The issue of continued day to day management including rent collection could be incorporated into LSH role however with the proposed change in the Investment Portfolio and it becoming less management intensive it is thought that in the long term this can be managed in house in the medium term.

3.12 **Role**

The role of the PIB is to focus on the Council's Investment Portfolio (page 32 LSH report refers) in order to:

- a. develop an overall Investment Portfolio Management Strategy
- b. fully appraise the Investment Portfolio to build on the strengths of the existing Portfolio and tackle the weaknesses (LSH report page 30 refers);
- c. determine the risk appetite for diversifying investment and maximising

- investment returns
- d. set a target for growth investment revenue returns and take the necessary action to achieve the target
  - e. review business cases for disposals, authorising disposal and disposal methodology, and enabling a rebalancing of uses away from a reliance on retail
  - f. determine the corresponding Property financial strategy such as policy on rent reviews, yields, capital values and the cost of holding assets
  - g. authorise the acquisition of land interests, assets and make investment decisions taking account of the overall Investment Portfolio Management Strategy
  - h. agree a reinvestment programme, determining the level of recycling of receipts into investment yielding assets or to support the Council's capital or revenue programme
  - i. to manage risk through recommending holding a mixture of assets (pages 37 – 39 LSH report refers and LSH report Appendix 4, private agenda)
  - j. to make decisions on development portfolio, operational portfolio and community assets business cases referred to it.

## DRAFT PROPERTY INVESTMENT STRATEGY

### **Property Investment Policy 2015/16**

The council is restricted in the different investment vehicles it is legally allowed to invest in notwithstanding the over-riding need for prudence. Of the few options open one is Property and the returns from investing in property have generally been, and currently are, greater than the limited opportunities in the money markets. This should be read in conjunction with the Asset Management Policy.

In broad terms the returns can be higher because the risks are greater. Factors to be taken into account when deciding the principle of investing in property include:

- investment will be for the long term since it may not be possible, or wise, to sell quickly
- the costs of acquisition and disposal
- there are management costs, risk of rent default and failure to honour maintenance agreements
- generally property tends to appreciate in value, although this will vary by type and area; however, in some cases the value may go down
- property can become functionally obsolete necessitating major refurbishment
- without regular repair and maintenance the condition will deteriorate and the responsibility for repairs/maintenance may not always rest with the tenant
- certain types of property may become less desirable as time goes by; this can make re-letting difficult or attract a lower calibre of tenant.

### ***How much is invested?***

Approximately £100 million is currently held in the property portfolio and £ 30 million is invested in treasury investments (short term investments (less than 1 year) with UK building societies and banks).

### ***What type of property?***

There are different types of property investment as follows:

- i) Retail

- ii) Office
- iii) Industrial
- iii) Leisure

For risk management purposes it is recommended that no single asset should comprise more than 10% of the whole portfolio and locations should be diverse as should property types. Convention has often dictated an ideal balance of 30% of monies invested in each retail, office and industrial sectors, and the remaining 10% into leisure and miscellaneous uses. The mix helps to protect the fund against movements that might adversely affect one specific sector which would otherwise have a disproportionate impact.

### ***What level of financial return?***

In general, property can be categorised as prime, secondary or tertiary in terms of its desirability. 'Rack-rented' means that the maximum market rental achievable is being received. Yield derives from both capital and rent. Lower yields can indicate that the investment attracts a lower degree of risk due to the ratio of rent to capital and other factors such as location, security and regularity of income.

Property investment returns will differ depending upon the market and the nature of the asset.

The Investment Portfolio Database (IPD) index tracks total returns (income return and capital growth) on a combined portfolio of all property types and is frequently used as a benchmark by which to measure the performance of individual portfolios. Over the last 12 months the Index has demonstrated All Property returns of 16.2%, comprised of retail at 10.6%, office at 21.3%, and industrial at 20.7%. The long term average total return is 8.3%, which would be a more reliable benchmark moving forward.

The Council has a target to grow the income from the portfolio by 5% per annum. This is to be benchmarked against the income return element of the IPD Index to demonstrate that value for money has been achieved and to promote accountability.

### ***Where should it be located?***

There are compelling legal, cultural and financial reasons for not investing in the European mainland at the moment. Within the UK the location will influence the return and the type of property and may make management more or less difficult depending on distance from the Council offices. Only property located in the UK will be considered.

Wherever possible, stock to be selected should support local regeneration and provide a community benefit, although the Council may have to consider opportunities outside the Borough in order to achieve the required results.

## INVESTMENT PORTFOLIO ASSESSMENT MATRIX

A scoring matrix allows the relative merits of an investment opportunity to be measured. The resultant score can then be assessed against a target measure or used for comparison against other opportunities. The key financial elements are covered in the following table:

SCORING CRITERIA	Score	4	3	2	1
	Weighting Factor	Excellent / Very Good	Good	Acceptable	Not Acceptable
Location	5	Major prime	Micro prime	Secondary	Tertiary
Tenant Covenant	5	Single tenant with strong financial covenant	Multiple tenants with strong financial covenant	Single or Multiple tenants with good financial covenant	Tenants with poor financial covenant strength
Building Quality	4	Modern or recently refurbished with nominal capex required	Good quality with capex likely to be required within the next 20 years	Good quality with capex likely to be required within the next 10 years	Older style or non-compliant with capex required within the next 5 years
Occupiers Lease Length	4	Greater than 10 years	Between 6 and 10 years	Between 3 and 6 years	Less than 3 years or vacant
Tenure	3	Freehold	Lease 125 years plus	Lease between 100 and 125 years	Lease between 60 and 100 years
Lot Size	3	Between £3m & £5m	Between £2m & £3m or £5m & £7m	Between £1m & £2m or £7m & £10m	Greater than £15m

<b>Max Score</b>		96	72	48	24
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The threshold score should be set at 60.

***Review***

The policy is to be reviewed annually (in conjunction with the Treasury Management Strategy).