

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.

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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 18th 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