Questions by Members of the Council under Procedure Rule 10.0

Council – 26 January 2021

Question from Councillor Turmaine
Received on 21 January 2021

Question:

On January 7th at an LGA Event: "Rethinking Local Government Finance", Robert Jenrick, Secretary of State for Housing, Communities and Local Government noted some observations concerning local government income.

In relation to investment risk-taking, Mr Jenrick stated that the Covid-19 pandemic had exposed an over-reliance by local authorities on commercial investment income. In future, he said, local authorities should focus on service delivery, rather than market distorting investments that are volatile. He questioned why a local authority would be able to run a business such as a hotel, better than commercial operators.

Local authorities, he said, should seize this opportunity to reduce reliance on commercial income.

Where does this new proposed direction for local government funding leave Watford's income generating investment portfolio and what measures would need to be taken to secure the income that may need to be substituted, were the proposals to go ahead.

Answer:

Local government has a long and successful history dating back over a century of investing in property and commercial activity to support its ability to deliver services to local communities.

This activity accelerated in response to the significant reduction in funding from central government when austerity measures were introduced. Local authorities have had to look at alternative funding sources in order to continue to run services. As a result, many local authorities have invested in property, some more speculatively than others.
More recently, with financial pressures associated with Covid19, there will be an even greater imperative to find alternative sources of income.

Watford has a long history of investing in property to enable it to generate income, it has done so in a measured and risk-managed manner to generate revenue for service delivery, rather than for speculative gain. It has achieved this through a number of mechanisms including:

- *being fully cognisant of the risks associated with such investment*
- *ensuring investments are proportionate to the budget*
- *engaging advisors with relevant experience and completing full due diligence before investing in any property, including surveying, legal and accountancy firms*
- *engaging suitably skilled asset managers (LSH) to run the portfolio on its behalf, maintaining arm's length control and not undertaking activities of which it is has no experience*
- *putting in place sufficient officer and member oversight and governance of the portfolio to monitor and manage situations as they arise*

As a result, the performance of the Council's portfolio benchmarks favourably across the sector.

There has been a small number of high profile failures, such as Croydon, where large-scale investment has led to significant losses and has cost the authority severely. In the light of the high profile failures the Government has recently introduced changes to PWLB borrowing which mean that local authorities are no longer able to borrow to purchase property out of borough, or purely for yield. There is no requirement for local authorities to divest themselves of their existing portfolios, therefore Watford does not need to look at substituting other types of income.

It should be noted that many of the Council's key investments such as Riverwell, Watford Business Park and Croxley Park support a vibrant economy in Watford along with investments in premises in the Town Centre. These would not be affected by the changes and the current key area of risk is our investment in the Intu Centre, again unaffected by the changes.

Nonetheless, officers have taken a pro-active stance in reviewing the Council's approach to commercial income. The impact of the changes on our portfolio is currently being assessed and discussions are being held with MHCLG in order to ensure that there are no unintended consequences for current investments both for existing services and the ability to manage our existing portfolio.

A Commercial Income and Investment Board, chaired by the Managing Director and reporting to the Property Investment Board, has been created. This is not a decision-

making body, but aims to provide further information and initiatives for consideration by members through PIB, Finance Scrutiny and ultimately Cabinet. Part of its remit is to assess the weighting of the portfolio and consider broadening it to include other types of investment, therefore reducing reliance on property as a means of income generation. The Council's investment managers, LSH, also attend to report on the market and wider opportunities for diversification to spread risk, as well as the portfolio's performance. This reinforces transparency of approach and is underpinned by the development of a new Commercial Strategy and associated framework. Included in this is an evaluation template to assess new investment initiatives against the Council's objectives and any regulatory requirements before being presented to members for consideration in due course if they meet the agreed criteria.