



Basingstoke  
and Deane

## Property Investment Strategy

### Annual Property Plan 2020-21

#### Cllr Izett, Cabinet Member for Regeneration and Property

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<b>Report to</b>	<b>Cabinet</b>
<b>Ward(s):</b>	<b>All</b>
<b>Key Decision:</b>	<b>No</b>
<b>Appendices:</b>	<b>Appendix 1 - Table of acquisitions completed under the Property Investment Strategy</b> <b>Appendix 2 – Audit and Accounts Committee comments and recommendations</b>
<b>Papers relied on:</b>	<b>Property Investment Strategy – approved by full Council on 23 February 2017</b>

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#### Foreword - Cllr Izett, Cabinet Member for Regeneration and Property

*These proposals for the further evolution of this council's Property Investment Strategy for the upcoming financial year build on the excellent progress made by officers during 2019. Following the enhanced income now flowing as a result of fully investing the £30M allocated for the strategy within the borough, the additional £1.7M targeted additional income will not only be exceeded but will also be achieved a year ahead of that planned.*

*The council's property portfolio currently raises an income of almost £17M per annum, more than double the income it receives from council tax.*

*Priorities for the year ahead are clearly stated in this report including a new focus on opportunities to modernise and improve our existing long held property portfolio.*

*I am pleased to note the good progress being made with existing tenants and developers to enable the redevelopment of obsolete buildings. It is important that this council continues to facilitate the renewal of premises so that new job opportunities can be created. There are further opportunities to rationalise our approach to property asset management and regeneration within the borough.*

*I note the comments and advice of Audit and Accounts Committee in carrying out their important role in connection with our Property Investment Strategy.*

**Recommendation:**

- **That Cabinet agrees the Property Investment Strategy Annual Property Plan 2020-21.**

## **Background, corporate objectives and priorities**

This report accords with the council's Policy and Budget Framework in that it sets out the overall Property Investment Strategy – Annual Property Plan.

### **Main considerations**

#### **1 Executive summary**

- 1.1 A Property Investment Strategy (objectives and principles) for the council's property investment portfolio was approved by full Council in February 2017.
- 1.2 The approved objective of the Strategy is to ensure a stable long term source of income from a balanced property investment portfolio and to contribute to the generation of additional income to meet the council's Medium Term Financial Strategy in support of the council plan and financial requirements. Rental income from the property investment portfolio significantly assists the funding of council facilities and services, without which service provision to residents and businesses in the borough would be adversely affected unless a replacement source of income were available.
- 1.3 The value of the investment portfolio at the last valuation in March 2019 was £286.0M from which an annual rental income of approximately £16.7M per annum is derived.
- 1.4 The Property Investment Strategy approved objectives highlighted the need for a comprehensive modernisation of the approach to the management of the portfolio. This included acquisition of new investment properties through a £30.0M allocation of Treasury Management funds, enhanced asset management of the portfolio and a pro-active approach to day to day management
- 1.5 Through acquisitions and asset management a target of generating an additional net income of £1.7M per annum by the end of 2020/21 through increased rental income was set, to directly link with and support the council's Medium Term Financial Strategy. Based upon completed and agreed investments this target will be exceeded by £0.61M.
- 1.6 It was agreed in March 2019 by Council that up to a further £5.0M would be made available over the £30.0M previously agreed for investments with the requirement that this was funded through asset disposals. £2.5M of this additional funding allocation was utilised taking the overall investment total to £32.5M.
- 1.7 The agreed Strategy objectives provided for amended governance arrangements including Cabinet approval of an Annual Property Plan at the start of each year with on-going monitoring and scrutiny of the strategy via quarterly reporting to the Audit & Accounts Committee.
- 1.8 The 2020/21 Annual Property Plan builds on the work of previous years and the focus will move from property acquisitions to more active asset management of the portfolio.

## **2 The proposal**

- 2.1 This report sets out the proposed 2020/21 Annual Property Plan for the council's property investment portfolio in pursuance of its agreed Property Investment Strategy objectives, in support of the council's Medium Term Financial Strategy.

## **3 Background**

- 3.1 The council owns a commercial investment property portfolio principally comprising office, industrial and retail property investments leased on commercial terms to third party tenants. The portfolio is located within the borough with the majority of the assets situated in or around the town.
- 3.2 It is primarily held to provide the council with a source of annual income to support financing the delivery of services across the borough. In 2019/20 the income is expected to be £16.7M. This income directly assists provision of facilities and services for residents and businesses in the borough, and without which such services would be adversely affected unless a replacement source of income were available.
- 3.3 Some investment properties are held in support of wider council initiatives and/or to provide a larger land ownership for longer term redevelopment opportunities or to bring forward other socio-economic benefits.
- 3.4 The approved objectives of the Property Investment Strategy highlighted the need for a new approach to the management of the portfolio, including acquisition of new investment properties through a £30.0M allocation of Treasury Management funds, enhanced asset management of the portfolio and a pro- active approach to day to day management. Through acquisitions and asset management a target of generating an additional net income of £1.7M per annum by the end of 2020/21 through increased rental income was set, to directly link with and support the council's Medium Term Financial Strategy.
- 3.5 It was agreed in March 2019 by Council that up to a further £5.0M would be made available over the £30.0M previously agreed for investments with the requirement that this was returned to general funds through the initial disposal programme which will progress through 2020/21.
- 3.6 Amended governance arrangements were provided for in the strategy report to council, including Cabinet approval of an Annual Property Plan at the start of each year, on-going monitoring and scrutiny of the strategy via quarterly reporting to the Audit & Accounts Committee, and a Property Investment Panel with delegated authority held by the Executive Director of Finance and Resources to progress investment acquisitions, sales and lease re-structures, subject to Portfolio Holder consultation and subject to a financial limit on any one transaction.
- 3.7 Preparation of the Annual Property Plan is intended to directly support the council's Medium Term Financial Strategy. With total new investments of £32.5M, the priority is now to consider the wider Property Strategy under

which the investment strategy will sit, in order to bring specific focus on key outputs from operational property, community assets and investment with proposed amendments to be brought forward for formal consideration under a new Property Strategy during 2020.

- 3.8 As part of the review of the Medium Term Financial Strategy it is proposed that no further investment is made in property from additional Treasury management funds. However, investment will occur through the asset management of the portfolio, disposing of assets that no longer meet the Council's requirements and using funds generated from disposals to reinvest in new strategic investment assets.

#### **4 Annual Property Plan 2020/21**

- 4.1 The proposed Annual Property Plan 2020/21 will change the focus from investment acquisitions to delivery of a wider corporate property strategy to cover all aspects of the portfolio to bring best value through improved asset management (investment portfolio), cost management (corporate portfolio) and supporting the organisation in ensuring assets support the wider community objectives of the Council where appropriate.

- 4.2 The strategy will be developed to support a reduction in the carbon footprint of the portfolio. The property team will review the managed portfolio to understand where there are opportunities to reduce carbon emissions in line with the Council's commitment. This will include a review of energy consumption and to reduce this through the maintenance programmes replacing, for example, lighting with low energy alternatives as well as energy generation via solar panels.

- 4.3 The strategy will cover and provide clear strategic direction for the portfolio. For the investment portfolio this will include:

##### **4.3.1 Re-balancing the Investment Portfolio**

- In line with the Medium Term Financial Strategy no further allocation of funds are proposed to be invested to increase funding in the direct property investment portfolio. Further acquisitions will only take place with funds released from disposals;
- The focus will be on a re-balancing of the portfolio where required. This will involve disposals of current assets where they no longer meet the requirements of the portfolio and further acquisitions through the re-investment of funds raised through disposal of investment assets;
- Focus will be on the asset management of the portfolio and opportunities to improve the value and income of the current portfolio and manage risk;
- Focus on achieving a balance between leasing types, sector types, lease lengths, asset income & value, yield, location and quality of assets; and
- Establishing a more efficient & less management intensive portfolio.

#### 4.3.2 Enhanced asset management

- Review of Asset Plans for individual assets to inform investment decisions;
- Focus on opportunities & options to improve individual asset performance;
- Pro-active targeting of lease re-gearing opportunities;
- Monitoring tenant compliance with lease obligations; and
- On-going reviews of tenant covenant strength, particularly for new tenants.

#### 4.3.3 Income management

- Pro-active focus on managing forthcoming lease events to maximise income security;
- Focus on measures to re-let vacant accommodation and minimise void costs;
- Ensuring arrears of rent & other payments are kept to a minimum; and
- Detailed risk management and reporting to inform future decisions and income risk to the organisation (for example current challenges in the retail sector).

#### 4.3.4 Investment sales

- Assessment of core and non-core investments;
- Disposal of under-performing or non-core investments; and
- Sale proceeds re-invested into further property investment opportunities

### **5 Governance and Reporting Arrangements**

5.1 The following governance and reporting procedures are in place:

- Cabinet approval of an annual property plan;
- Half-year report to Cabinet on investment strategy progress;
- Monitoring and scrutiny of the strategy implementation by the Audit and Accounts Committee via quarterly reporting;
- Bringing forward recommendations for approval of governance arrangements for the sale of existing investments which no longer meet retention criteria, within investment strategy parameters and the annual plan;
- The government is now recommending that benchmarking is undertaken for commercial investments against other councils and other types of investment. The council does currently carry out benchmarking for these specific investments however, officers in the property management department have plans to carry out this type of benchmarking once all the

investments under the Property Investment Strategy are in place; and

- The governance arrangements for these investments are that the council has a specific strategy that was approved by Council and it has an asset management plan. The strategy sets out criteria and limits on this type of investment and officers are required to operate within these criteria and limits. Decisions on commercial investments are made by the Asset Manager – Investment Portfolio, after consultation and approval of Executive Director of Finance and the Portfolio Holder for Regeneration and Property, within limits and criteria approved in the strategy. Property and most other commercial investments are also capital expenditure and therefore will also be approved as part of the capital programme. Quarterly monitoring reports on property investment activity under the strategy are presented to the Audit and Accounts Committee and half yearly to Cabinet.

## **6 Property Board**

6.1 It should also be note that a property advisory board has been established which replaces the previous investment panel and widens the remit to include:

- Improve and support decision-making and improve communication on key cases relating to the Council's property portfolio;
- To review and approve the draft Property Strategy (prior to formal approvals required);
- To provide direction and decisions, within the bounds of the current governance and constitution, on property matters;
- To review investment and operational proposals and provide feedback/decisions to proceed as part of the overall governance process (i.e. proceed to Council decision etc);
- To provide corporate direction on cases where there the cost:benefit needs to be balanced between Corporate Objectives e.g. benefits of regeneration and the potential cost in investment income/undervalue; and
- For property services to provide a brief update on key projects/programmes, cases and the overall position in relation to the Improvement programme and the Business Plan.

### **Corporate implications**

## **7 Legal implications**

7.1 Section 120 of the Local Government Act 1972 gives councils the power to acquire property by agreement for the purpose of any of its functions or for the benefit, improvement or development of the area.

7.2 Section 1 of the Localism Act 2011, known as the general power of competence, enables a local authority to do anything that an individual

generally may do (subject to prohibitions, restrictions, and limitations in existing statute which are not applicable in the circumstances set out in the report). Further, that power enables the authority to do it anywhere in the United Kingdom or elsewhere, for a commercial purpose or otherwise for a charge, or without charge, and to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.

- 7.3 The council also has the power to invest for the purpose of the prudent management of its financial affairs under section 12 of the Local Government Act 2003.  
The Localism Act 2011 provides the council with the statutory power to acquire property investments outside the borough.
- 7.4 The Governance Structure established by council in 2017 will continue with reporting to Audit & Accounts Committee and to Cabinet.

## 8 Financial implications

- 8.1 The Property Investment Strategy is a key strand in achieving the council's additional income targets. Its objective to generate additional net income of £1.7M per annum by the end of 2020/21 has been exceeded by £0.61M.
- 8.2 Funding totalling of £32.5M has been completed or committed and £2.5M of this will be funded from future capital receipts as property disposals are achieved.

A summary of the investments made is shown below and further details are provided in appendix 1.

	Total Investment made	Additional rental income	IRR
<b>Completed*</b>			
1-4 Armstrong Road	£4.55M	£0.44M	9.40%
1&2 Stroudley Road	£4.99M	£0.30M	7.90%
Units 1&2 Winchester Road	£6.01M	£0.32M	7.80%
Ringway House, Bell Road, Daneshill	£0.47M	£0.08M	13.50%
B&Q Lister Road	£7.57M	£0.61M	6.51%
<b>Sub-total</b>	<b>£23.59M</b>	<b>£1.75M</b>	
<b>Future agreed **</b>			
Eli Lilly	£8.90M	£0.56M	5.60%
<b>Total</b>	<b>£32.49M</b>	<b>£2.31M</b>	

\* A total of five investments have been completed at a cost of £23.59M (including stamp duty land tax and fees). They will produce total ongoing rental income of £1.75M per annum with Internal Rates of Return ranging from 5.2% to 16.8%.

\*\* The council has agreed one further transaction, a scheme for a new office building on Basing View to be let to Eli Lilly. This commits a further £8.9M of the Property

*Investment Strategy funds and will generate additional rental income of £0.56M per year.*

The focus will now change to re-balancing of the portfolio where required. This will involve disposals of current assets where they no longer meet the requirements of the portfolio and further acquisitions through the re-investment of funds raised through disposal of investment assets.

## **9 Risk management**

- 9.1 A risk assessment has been carried out in accordance with the council's risk management policy and was included in the Property Investment Strategy.
- 9.2 Property is a riskier asset class than some investments due to its physical characteristics which makes the asset less liquid. Consistent with all investment types (cash, shares, bonds, etc.) the expected return on investment increases with the level of inherent risk. In the context of property markets rental and capital values can also fluctuate upwards or downwards over time according to the market and wider economic circumstances. Due to these risks property is a long term investment and only suitable for strategic investment funds with an expected duration of 5 to 10 years or more.
- 9.3 The main risks are reputational concerning the failure to progress transactions, financial relating to fluctuations in property capital & rental values due to market or wider economic circumstances, financial failure of tenants, a lack of suitable investments for acquisition and property vacancies following lease expiry.
- 9.4 These risks will be managed at portfolio and asset levels through focussed asset management and can be further moderated by ensuring a balanced portfolio.

## **10 Climate Emergency**

- 10.1 This strategy will aim to have a positive carbon impact. This is because of the new specific focus of reducing the carbon footprint of our property portfolio as part of the maintenance and repair plans for properties and action that will be taken as a result.

## **11 Equalities implications**

- 11.1 An Equalities Assessment was been carried out as part of the proposals for the Property Investment Strategy to consider the impact of the proposed strategy on the protected characteristics groups, and the implications for the public sector equality duty (Equality Act 2010).
- 11.2 This concluded that the strategy has no differential impacts on any groups. The strategy aims to ensure a stable and growing long term source of rental income from the investment portfolio to support the council's financial needs

and provision of services to businesses and residents across the borough. Properties forming part of the investment portfolio and for which the council has direct responsibility will be assessed to ensure that relevant accessibility legislation is met. This conclusion holds good for the 2018/19 Annual Property Plan.

## **12 Consultation and communication**

- 12.1 The proposed annual property plan 2020/21 was considered by the Audit and Accounts Committee at its meeting on 27<sup>th</sup> January 2020. The comments and recommendations are attached as Appendix 2.
- 12.2 Communication of the agreed Property Investment Strategy has previously been undertaken to local and national commercial property agents, and other key stakeholders, in conjunction with the council's property investment adviser Cushman & Wakefield.

## **13 HR implications**

- 13.1 The need for changes to resourcing arrangements, whether internally and/or through external advisers, will need to be kept under review and managed promptly in order that the ongoing implementation of the Annual Property Plan is not adversely affected. A review of resourcing is currently underway.

### **Conclusion**

## **14 Summary and reasons for the decision**

- 14.1 Following approval of the Property Investment Strategy in February 2017 approval of the 2020/21 Annual Property Plan is recommended, as set out in this report.
- 14.2 It should be noted that an overarching corporate property strategy will be developed with the investment strategy and plan forming part of this in future years.
- 14.3 Implementation of the Plan will build on the work commenced in 2017/18 to increase the council's rental income and to work towards ensuring a more balanced & efficient property investment portfolio, providing a stable long term source of income which will contribute to the generation of additional income to meet the council's Medium Term Financial Strategy.

## **15 The options considered and rejected**

- 15.1 The alternative options considered are to either discontinue or to amend the Property Investment Strategy approved in February 2017. This report forms part of the requirements of the strategy however it should be acknowledged that, with the completion of the fund, a new corporate format for corporate property and investment will be delivered during 2020.

**Date: 11<sup>th</sup> February 2020**  
**Decision taken by: Cabinet**

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<b>Status</b>	<b>Open</b>
<b>Confidentiality</b>	<b>It is considered that information contained within this report (and appendices) do not contain exempt information under the meaning of Schedule 12A of the Local Government Act 1972, as amended, and therefore can be made public.</b>

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