

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 6 NOVEMBER 2017

Title:

GENERAL FUND PROPERTY INVESTMENT STRATEGY - UPDATE

**[Portfolio Holders: Councillors Ged Hall and Tom Martin]
[Wards Affected: All]**

Summary and Purpose

In October 2016 the Council approved Waverley's General Fund Property Investment Strategy and the creation of the Investment Advisory Board (IAB). This report updates the Executive on progress on revising the Strategy which aims to:

- develop the strategic themes and the rationale for investment
 - provide a flexible and robust policy framework on which to base investment decisions
 - update the financial context in the light of the latest financial strategy
 - build on the experience from acquisitions considered and made in the year
 - reflect the current market and external advice
 - ensure that appropriate decision making arrangements are in place to facilitate sound and timely investment transactions
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Introduction

1. The existing Strategy, which was approved following consideration by the Corporate O&S Committee and the IAB, has now been in place for 12 months and has provided the framework to enable one property to be acquired and two more to be approved for acquisition, with a further two covered on this agenda. Officers are undertaking a comprehensive review of the Strategy with the IAB to take account of the points identified above. This report sets out the current position on the review of the Strategy which will be considered by the VFM Overview and Scrutiny Committee and IAB in the coming weeks.

Financial Implications:

2. Waverley's Medium Term Financial Strategy identifies a significant funding shortfall over the next 3 years, mainly due to reductions in Government grant. In order to address this deficit, as well as looking at existing services and budgets, Waverley must:
 - take steps to ensure that the Council maintains its financial resilience and protects its long term financial position;
 - explore and develop alternative sources of funding that reduce its reliance on Government funding in the future;
3. The Council may fund property investments through using its reserves, capital receipts and prudential borrowing, where the council has the powers to do so. Any

borrowing required would need to be made in accordance with the conditions of the statutory Prudential Code. The Code requires borrowing to be affordable, sustainable and provide value for money. The return on any investment would therefore need to be in excess of the capital financing costs of the borrowing, which consist of the interest payable and the statutory minimum revenue provision (MRP) that sets aside funds for the repayment of the borrowing.

4. The Investment Strategy is set under the extended powers created by the Localism Act 2011. The legal advice enables certain investment transactions to be undertaken under these powers but every proposal would need to be individually assessed. The underlying principals of investment by local government are governed by the priority of security, liquidity and yield-in that order of priority. Whilst the Localism Act could potentially increase the risks taken by local authorities, there is a complex system of checks and balances in place to prevent inappropriate risk taking that would lead to concerns about the use of public funds. These checks include the Prudential Code and the requirement to exercise sound fiduciary duty.
5. Some investments will generate a return in the medium to long term but make a loss in the earlier years. The Council agreed to establish a property investment fund using an initial £2m of general fund capital receipts and then to top this fund up each year using further capital receipts and the annual New Homes Bonus Funding. For the reasons set out above, borrowing for general fund property acquisition would only be considered if there is a clear and robust business case.

Legal Implications

6. The proposal to create an Investment Strategy is made possible by the “general power of competence” introduced by Section 1 of the Localism Act 2011. Local authorities now have a general power that enables them to do anything that a private individual is entitled to do, subject to certain statutory limitations. The power is designed to give local authorities considerable breadth of operation.
7. There are, however, some specific restrictions and it would be important that each individual investment proposal is thoroughly examined before proceeding, particularly if the sole purpose is to achieve a commercial gain. The Investment Advisory Board receives detailed legal advice as appropriate to support its ongoing decision-making processes.

Investment Strategy

8. The principal objectives of the Investment Strategy are to use the Council’s resources to invest in income generating assets to help offset the budget deficit over the longer term and to help support/develop the local economy through strategic property investment in the Borough.
9. The expansion of Waverley’s portfolio of investments, covering investment in property and assets, supports the Council’s priority of achieving value for money and its desire to enhance financial resilience in the longer term. To further facilitate this expansion the creation of a new property company is proposed, the details of which are being developed by the Investment Board and the Overview & Scrutiny Committee.

10. The Council's current approved strategy covers the following key aspects;
- prioritising use of the Council's cash reserves and balances to support income generating investment through an Investment Fund;
 - using the Investment Fund to support investments in order to generate additional income for the council that can be used to provide additional financial support for the delivery of functions and services;
 - investing in a diversified and balanced portfolio to manage risk and secure an annual overall rate of return to the Council
 - investing in schemes that have the potential to support economic growth in the Borough
 - retaining assets where appropriate and undertaking effective property and asset management, and if necessary associated investment, to enhance income generation.
11. The review of the Strategy will expand these areas and specifically cover the following framework identified by leading property experts GVA in a presentation to the IAB in September 2017:
- Preparation of strategic plan – including fund size and financing
 - Investment criteria – develop existing criteria and set approach to yield, risk profile, lot sizes and location etc.
 - Governance – review existing arrangements
 - Structure - including how the new company will operate within the strategy
 - Modelling – financial structure and return criteria
 - Market Transactions – approach to advisors and agents
 - Due diligence – Legal/valuation/technical
 - Management – property management and asset management
 - Performance management – financial reporting and cashflow
12. It is proposed to use flowcharts to map the journey of an investment proposal and incorporate a glossary of terms to assist Members' understanding of investment matters presented to them.
13. It is proposed that the revised Strategy proposals will be presented to the investment sub-group of the VFM O&S Committee and to the IAB in November with the aim of seeking Executive and Council approval in February 2018.

Risk and Governance

14. The governance process agreed by Council factored in measures to mitigate risks associated with property investment. Before an investment opportunity is executed, a robust business case using appropriate technical advisors will be considered which takes into account due and proper consideration of the balance between risk and reward and an assessment of the underlying security of the investment to ensure compliance with the fiduciary duty the council holds.
15. In proposing an investment opportunity for approval, the Investment Advisory Board will satisfy itself that the investment is within the Council's legal powers, it has properly considered the advice from its advisors (both internal and external) and its

structure provides the best value for money taking into account all financial considerations, including taxation.

Recommendation

It is recommended that the Executive:

1. Notes the progress of the review of the Investment Strategy; and
2. Endorses the approach being taken

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