

**WAVERLEY BOROUGH COUNCIL**

**VFM O&S PROPERTY WORKING GROUP – 19 MARCH 2018**

**VFM O&S COMMITTEE – 26 MARCH 2018**

**INVESTMENT ADVISORY BOARD – 27 MARCH 2018**

**EXECUTIVE - 10 APRIL 2018**

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**Title:**

**PROPERTY INVESTMENT STRATEGY**

**[Portfolio Holder: Cllr Ged Hall]**

**[Wards Affected: All]**

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**Summary and purpose:**

This report presents a revised Property Investment Strategy and proposes delegations to the Executive to progress general fund investment opportunities. The report also sets out a revised composition for the Investment Advisory Board to strengthen the governance in the decision making for property investments.

The Investment Strategy will cover all property acquisition whether this be by the Council direct or by a subsidiary company should that direction of travel be taken at some point in the future.

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**How this report relates to the Council's Corporate Priorities:**

1. 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. The arrangements proposed in this report will also allow for investment in schemes that will support economic growth in the Borough.

**Financial Implications:**

2. The objective of the Property Investment Strategy is to use the council's resources to invest in income generating assets to help offset the budget deficit over the longer term and to protect service provision while minimising the burden on local council tax payers.
3. The Council may fund 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 Prudential Code, which includes the council approving any changes required to the prudential indicators. 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 being brought forward 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 principles of investment by local government are governed by the priority of security, liquidity and yield-in that order of priority.
5. All investments will require a robust business case to ensure that each investment is affordable, sustainable and provides value for money and that any borrowing is sustainable

### **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.
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### **Introduction**

8. Waverley’s Medium Term Financial Plan 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 grants in the future;

Waverley’s Treasury Management Strategy already identifies property investments as a priority and the Strategic Asset Plan approved by Council in 2015 sets out the foundation for developing the strategy further.

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. The arrangements proposed in this report would also allow for investment in schemes that will support economic growth in the Borough.

10. The proposed strategic approach to investment is based upon the following;
- 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; and
  - retaining assets where appropriate and undertaking effective property and asset management, and if necessary associated investment, to enhance income generation.

### **Governance**

11. Decisions on taking forward each investment opportunity will be taken by the Executive. However, the development of the Investment Strategy is likely to mean more decisions coming forward for consideration and the Investment Advisory Board (IAB) has been established to provide advice to the Executive. This will ensure appropriate rigour in advance of the Executive decision: by ensuring only credible options are progressed to the Executive; and providing the forum for strategically managing the overall portfolio of investments consistent with the aims of the Investment Strategy. The current composition of the IAB is set out in Appendix 1 to the Investment strategy. It is suggested that the Investment Advisory Board is changed and in future the composition is as follows:
- Portfolio Holder for Finance and Property (Chairman)
  - One other Executive Member
  - Non-Executive Member
  - Non-Executive Member
  - Non-Executive Member
  - Non-Executive Member
12. Officer support will continue to be provided by a range of senior and technical officers including finance, legal and property. All meetings will be serviced by the Democratic Services Team. In approving a business case, 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.

13. Other than the change to composition outlined above, minor changes are proposed to Investment Advisory Board's Terms of Reference (see Appendix 1 to the Investment Strategy).

### **Risk Management Implications:**

14. The adoption of the Investment Strategy and its implementation will have an impact on the council's finances and the council may need to manage risk differently to now in relation to these investment decisions. Decisions made under this strategy and by the Executive will need to take into account the financial stewardship duty that the council holds towards its residents.
15. It will be essential that the Investment Strategy and the governance arrangements are legally sound and are deemed to be reasonable and robust by the Council's external auditors.
16. The implementation of the Investment Strategy means the council will be managing different financial risks. Investments will be subject to inherent economic and market risks, and therefore a balanced portfolio of investment may be preferable. Achieving a balanced portfolio will take some time to create and will be dependent upon appropriate opportunities coming to the market.
17. The governance process is designed to mitigate these risks. All investment opportunities will continue to be based upon a robust business case developed using appropriate technical advisors and which take 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.

### **Conclusion**

18. The revised Investment Strategy provides a strengthened framework for the Council to progress this important work stream. The Council has successfully acquired four properties within the Borough over the past 12 months generating a gross rental income of >£800k. There are risks associated with property investment and the governance arrangements outlined, including the requirement for each investment to have a robust business case approved by the Investment Advisory Board, provide the appropriate control of these risks.

### **Overview and Scrutiny Committee**

19. The Value for Money O&S Committee considered the report and the Strategy at its meeting on 26 March 2018. The Committee thanked the members of the Working Group who had been involved in refining the Strategy document. Members commented that the governance structure was very positive and agreed that performance monitoring would be key going forward. The Committee endorsed the proposed changes to the Investment Advisory Board membership, and agreed that it was important that the Board be supported by external professional advisors where required.

## **Recommendation**

That the Executive recommends to the Council that

1. the General Fund Property Investment Strategy be approved, as set out in Annexe 1 with a commitment to review it again after 6 months;
2. subject to a positive recommendation from the Investment Advisory Board and agreement from the Chief Executive and Strategic Director, authority be delegated to the Executive:
  - a. to bid, negotiate and complete on property acquisitions and investments with a total individual cost of up to £10m, within a total aggregate sum of £30m over the period 2018/2019 to 2020/21, subject to the decision fully satisfying all criteria and process requirements set out in this Strategy;
  - b. to appoint advisors and undertake appropriate due diligence for each property acquisition and investment proposal as necessary; and
  - c. to complete the legal matters and signing of contracts to execute the transactions referred to above;
3. the proposed composition of the Investment Advisory Board be approved and revised Terms of Reference take effect immediately.

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## **Background Papers**

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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