

REPORT TO CABINET

Open		Would any decisions proposed :		
Any especially affected Wards None	Mandatory	(a) Be entirely within Cabinet's powers to decide	No	
		(b) Need to be recommendations to Council	Yes	
		(c) Is it a Key Decision	No	
Lead Member: Councillor Brian Long E-mail: cllr.brian.long@west-norfolk.gov.uk		Other Cabinet Members consulted:		
		Other Members consulted:		
Lead Officer: Lorraine Gore E-mail: lorraine.gore@west-norfolk.gov.uk Direct Dial: 01553 616432		Other Officers consulted: Management Team		
Financial Implications YES	Policy/Personnel Implications NO	Statutory Implications (incl S.17) NO	Equal Opportunities Implications NO	Risk Management Implications YES

Date of meeting: 17 October 2018

Revision to the Local Property Investment Fund Criteria

Summary

The Capital and Local Property Investment Fund Strategy, supported by a number of other documents, provides a framework for the delivery of the capital programme and ensures that capital investment is directed to the Council's Corporate Priorities and helps achieve the Financial Sustainability Plan. It therefore provides the rationale for any capital spending and property investment plans.

RECOMMENDATION

Cabinet recommend to Council that the criteria for the Local Property Investment Fund is revised to remove the restriction limiting property investment opportunities to the local area and extend the criteria to the whole of Norfolk as detailed in the report.

Reason for Decision

To increase flexibility within the Local Property Investment Fund.

1. Purpose

- 1.1 The purpose of the Capital and Local Property Investment Strategy is to outline the Borough Council of King's Lynn and West Norfolk's (BCKLWN) approach to capital investment and how the Council ensures that capital investment is directed to the Council's Corporate Priorities and helps achieve the Financial Sustainability Plan. It therefore provides the rationale for capital spending and property investment plans.
- 1.2 The Local Property Investment Fund as detailed in the Capital and Local Property Investment Fund Strategy 2017-2021 was recommended to Council by Cabinet at the meeting on 31 January 2017. Council approved the strategy at the meeting on minute C:80i refers.

2. Revised CIPFA Prudential Code and MHCLG Statutory Guidance

- 2.1 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003. Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.
- 2.2 CIPFA released an updated version of the Prudential Code in December 2017. The latitude for local authorities to set the scope and size of their capital plans remains unrestricted, but the prudential system processes have been strengthened to set out greater consideration of prudence, with financial sustainability and risk reporting improved through the governance procedures with the requirement to determine a capital strategy annually alongside the Treasury Management Strategy. A report detailing the Capital Strategy for the Borough Council for 2019/2020 will be presented to Cabinet in February 2019.
- 2.3 During the consultation for the revised Prudential Code there was suggestion that MHCLG would prohibit investments out of area, ultimately they did not do that but instead strengthened the transparency requirements in the statutory guidance, especially around non-financial investments, commentary around proportionality of investments, contribution the investments make to service objectives, knowledge and skills of those taking the decisions, borrowing in advance of need, and risk management.

2.4 The MHCLG statutory guidance states:

Local authorities should disclose the contribution that all other investments make towards the service delivery objectives and/or place making role of that local authority. It is for each local authority to define the types of contribution that investments can make and a single investment can make more than one type of contribution.

As defined in paragraph 4 of this guidance non-financial investments are non-financial assets that the organisation holds primarily or partially to generate a profit. Where a local authority holds a non-financial investment, it will normally have a physical asset that can be realised to recoup the capital invested. Local authorities should consider whether the asset retains sufficient value to provide security of investment using the fair value model in International Accounting Standard 40: Investment Property as adapted by proper practices.

Where a local authority is or plans to become dependent on profit generating investment activity to achieve a balanced revenue budget, the Strategy should detail the extent to which funding expenditure to meet the service delivery objectives and/or place making role of that local authority is dependent on achieving the expected net profit. In addition, the Strategy should detail the local authority's contingency plans should it fail to achieve the expected net profit.

- 2.4 The Council must decide on its treasury and non-financial investments having regard to the prudential framework and statutory guidance.

3. Local Property Investment Fund

- 3.1 The Council Local Property Investment Fund was established to be managed as part of the Treasury Management function, with the aim of generating a higher return over the longer term, with the added benefit of business rates/council tax growth and wider benefits to the local economy.
- 3.2 The local area has been construed as opportunities within the borough boundaries of King's Lynn and West Norfolk. Within the borough boundaries the three main urban areas, where property investments are more likely, are King's Lynn, Hunstanton and Downham Market with the latter two towns being relatively small market towns with limited property investment opportunities.

- 3.3 Since the policy for the Local Property Investment Fund was adopted in 2016 very few opportunities have arisen within the borough boundaries. The main opportunities have been within the retail sectors in King's Lynn which at present represents too great a risk and therefore does not comply with the other conditions set out within the policy and would therefore not be recommended to Cabinet for consideration. The reason these investments have been considered too high a risk is that the retail sector has been, and still is, somewhat turbulent with rental levels being impacted. The retail property investments available for acquisition have been over-rented with the tenants being tied in to leases with upward only rent reviews – which means that the rent income streams will dramatically reduce on lease expiry (which will ultimately adversely affect the assets capital value) even if the existing tenants wish to renew their lease(s).
- 3.2 It is proposed that the restriction limiting property investment opportunities to the local area is removed and the criteria extended to include the whole of Norfolk. This would provide greater opportunity to acquire investment properties whilst still maintaining the benefit of sustaining/growing business rates in Norfolk from which the Borough Council would also benefit as a member of the Norfolk Business Rates Pool.
- 3.5 It is proposed that with the addition of the change set out in 3.2 above, the criteria for the Local Property Investment Fund would therefore be:
- Business case required which considers options, risk, return, fit with corporate priorities and reputation
 - **Investment opportunities are only considered which are located in Norfolk**
 - Total funds to be allocated to the Local Property Fund to be capped at £7.5m which is 30% of the Council's core investment funds of £25m
 - No one investment to be more than £2m under the delegated authority. Individual investment opportunities in excess of £2m will require Cabinet approval. The Treasury Management Strategy limit is no more than £4m with any counterparty
 - Annual financial returns ie rental income, from the property investment opportunities taken up will generate additional revenue income to the Council and help to meet the cost reduction targets set out in the medium term Financial Plan and the Council's 'efficiency plan'

- Investment properties are revalued annually as part of the Council's closedown of accounts and any movement in value will be reported in the Statement of Accounts. Any uplift in valuations will not be realised unless the asset is sold. The value of the total fund may increase above the £7.5m initial fund allocation to reflect annual revaluations
- Investment decisions in respect of the Local Property Investment Fund for acquisition and disposal of assets held in the Fund to be delegated to; the Deputy Chief Executive (S151 Officer) in consultation with the Leader, relevant Portfolio Holder for Regeneration, a third Portfolio Holder, and the Property Services Manager.

4. Financial Implications

- 4.1 The investment in property in Norfolk will generate a higher return over the longer term than traditional investment vehicles. In addition there will be added benefits of increased business rates/council tax growth for the council.

5 Policy Implications

- 5.1 The Local Property Investment Fund is operated within the Council's existing Treasury Management function. The restriction limiting property investment opportunities to the local area will be removed and the criteria extended to include the whole of Norfolk.
- 5.2 Investment decisions in respect of the Local Property Investment Fund for acquisition and disposal of assets held in the Fund to be delegated to; the Deputy Chief Executive (S151 Officer) in consultation with the Leader, relevant Portfolio Holder for Regeneration, a third Portfolio Holder, and the Property Services Manager.

6 Risk Assessment

- 6.1 The Council already holds £24m (balance sheet 31 March 2016) of investment properties, industrial and commercial properties and land. Investment in a property fund requires a commitment to the investment over the longer term. The value of property can go up or down and in the event of a decline in property values the council will need to commit to holding the property until values recover and take additional borrowing if funds are required in the short term.

Access to Information

Capital Strategy and Local Property Investment Fund 2017/2021

MHCLG Statutory Guidance

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/Guidance_on_local_government_investments.pdf