

Report to	-	Cabinet
Date	-	2 October 2017
Report of the	-	Executive Director of Business Operations
Subject	-	Income Generation and Asset Management Plan

The Overview and Scrutiny Committee (OSC) meeting held on 11 September 2017, considered a report on Income Generation and Asset Management Plan. The recommendation and minute arising is reproduced below.

Recommendations to COUNCIL: That:

- 1) a proposed decision-making structure and Terms of Reference for the acquisition of investment properties be developed by Cabinet and approved by full Council and the legal position clarified;
- 2) an initial budget of £7m for acquisitions of investment properties be approved; and
- 3) the Property Investment Strategy at Appendix 4, to the report, be approved as submitted.

AND

It be **RESOLVED:** That:

- 4) Parts A & B of the report to OSC be noted; and
 - 5) the appointment of a development surveyor to bring forward Council-owned sites be approved.
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OSC17/21. INCOME GENERATION AND ASSET MANAGEMENT PLAN

Members considered the comprehensive report of the Executive Director of Business Operations that updated Members on actions in support of the Asset Management Plan (AMP). It also set out recommendations regarding the future delivery of the AMP and the resources required to achieve the Rother 2020 savings programme income target of £600,000 minimum per annum.

The report comprised three parts, summarised as follows:

Part A – Disposals and Devolvments Update

Disposals – as reported to Cabinet in September 2016 (Minute CB16/27 refers), four properties were sold at auction last year, generating net proceeds after fees of £250,600. Since that time three further disposals had been completed at land at Sidley Surgery,

Bexhill, St Mary's Wood, Bexhill and 7 Wish Ward, Rye totalling £18,501. Two further disposals in respect of Rye Pre-School Playgroup and the former railway track, near Ninfield Road, Bexhill were nearing completion. There were a number of other properties previously approved for disposal that remained under negotiation.

Councillor Barnes raised concern over the disposal of the land at Sidley Surgery and the Executive Director of Business Operations agreed to provide Councillor Barnes with the history and background to this site which would explain the rationale for disposal.

Devolvements - a list of assets that had been devolved, including those scheduled for devolvement but not yet taken place was attached as Appendix 1 to the report. The Council would consider alternative uses for sites where devolvement had not been progressed which could include redevelopment or disposal, depending on the particular circumstances in each case; recommendations on these would be considered at a future Overview and Scrutiny meeting.

Part B – Current Land and Property Assets

Operational Assets – these included the Town Hall and other administrative buildings, parks, car parks, public conveniences, leisure centres, woodland, promenades and other amenity land and buildings that were either directly managed by the Council, or managed under contract on the Council's behalf.

Non-operational Assets – these were properties not occupied by the Council but which were held as they offer a wider social benefit to the community, including community centres, sports pavilions etc. and not held for generating a return.

Investment Assets – investment assets were those held solely to earn rentals and/or for capital appreciation. The total value of the investment portfolio as at 31 March 2017 was assessed at £10,447,000; generating rental income in the region of £800,000 per annum, representing an overall gross return on capital of 7.6% and net return of 6.2% (excluding central support costs). A summary of the investment assets was attached as Appendix 2 to the report.

Redevelopment of Council-owned Sites - officers had identified the following assets within the Council's ownership where there was potential to either wholly or partially redevelop the site:

- Land at Amherst Road, Bexhill (behind the Town Hall complex)
- Camber Central Car Park (part)
- Sidley Car Park (part)
- Beeching Close Car Park
- Site of workshops at Float Lane, Udimore
- Cemetery Lodge, Turkey Road, Bexhill
- Cyprus Place, Rye
- Site of workshops at The Maltings, Peasmarsh

In order to make further recommendations on the viability of redevelopment in each case, detailed options appraisals and financial

assessments would be required. However, currently there were no staff resources to do this work and a level of investment would be required to take these forward. It was recommended therefore that the Council appointed a development surveyor to undertake this work and lead and delivering property development projects from inception to completion, including project appraisals and business case preparation, site acquisition, appointing and overseeing professional teams, overseeing the construction process and managing budgets. It was estimated that the salary and on-costs associated with this post was likely to be in the region of £60,000 per annum; to be met initially from the Medium Term Financial Strategy Earmarked Reserve and ultimately the additional income generated through acquisitions.

Part C – Additional Income Generation through Investment in Property Assets

With the removal of central Government grant funding by 2020, the priority for the Council over the next three years was to make up the shortfall in revenue income through savings or by generating additional revenue. The 'Rother 2020' Programme included a target for increasing income by £600,000 by 2020. Property could represent a key area where the Council could generate an enhanced income stream to offset the loss in Government grant. As a result of concerns being raised nationally regarding the level of investment Councils were making in property as a way to help plug the funding gap, legal advice was currently being secured and Members would be updated on any issues that arose.

Should the Council support a policy of property acquisition, the report made proposals for a specific property investment strategy, a draft of which was attached at Appendix 4 to the report. The draft strategy had been developed with input from consultants that provided property investment advice to a number of local authorities, and took into account local market conditions and opportunities, as well as the Council's required targets in terms of net receipts and return on capital.

The strategy would only apply to properties that were being acquired as additions to the Council's investment portfolio for the purpose of generating a sustainable income stream for the Council. It was proposed that acquisitions would not be limited to Rother district, but within a wider geographically defined catchment within a maximum 90 minutes driving distance.

If the Council was to become active in acquiring properties in the commercial marketplace, it would be necessary to ensure a streamlined decision making process so as not to limit the ability of the Council to respond flexibly to opportunities. It was proposed therefore, that an Investment Panel be established comprising Members and senior officers, with delegated authority to conclude acquisitions (for investments for the purpose of generating a sustainable income stream only) and to oversee the due diligence and acquisitions process. The Panel would operate within approved Terms of Reference and would make decisions in accordance with the criteria set out in the Property Investment Strategy.

The sum required to invest in order to generate a minimum net revenue income of £600,000 per annum could range between £12m and £60m depending on the financing arrangements and the actual financial return (rental) on the assets acquired. Subject to the necessary governance arrangements and structures being in place, it was proposed that an initial investment budget of £7m be agreed, with further tranches subject to approval as required in future. Detailed funding arrangements would be considered as proposed investments come forward for approval.

With regard to investment acquisitions, the Council would need to appoint a commercial agent to act on its behalf to identify, recommend and negotiate acquisitions, overseen by the Executive Directors with on-going contact plus regular progress reports to the Investment Panel.

It was also recommended that third party valuations were undertaken at 'arm's length' on a case-by-case basis to provide independent assurance; and the Council would need to procure this service also. These costs would be met within the Capital Investment Fund.

Legal resources would also be required to undertake pre-purchase due diligence for acquisitions, either through the service agreement currently in place with Wealden District Council or externally and a decision would be made on a case-by-case basis. Legal costs would be drawn from the approved budget and taken into account when calculating the net yield on acquisitions.

Concern was raised over the hard distinction being made between policy and investment assets, and that substantial investment in housing / surgeries etc. could also assist the Council with policy goals, particularly around housing delivery. The level of expertise required in-house to deliver this ambitious programme would be substantial and Members were also concerned as to whether the projected salary and on-costs would attract the right calibre of applicant. It was confirmed that the job specification would be evaluated and graded accordingly in line with usual practice.

Some Members queried whether the initial level of investment of £7m was enough and perhaps the Council should be investing more. It was advised that this was the amount the Service Manager – Finance and Welfare had advised could be released, without the need for borrowing. Not all Members present were supportive of the proposed approach and suggested that the Council should look to investing more money in "safer" investments such as the Churches Charities Local Authority Property Fund which had already provided a good level of return, without the associated risks and requirement to fund additional posts / consultative advice etc. There was also a reputational risk to the Council by investing outside of the district; this was acknowledged and would require careful management and a communication strategy to endorse the benefits of external investment in order to safeguard services.

This proposed approach would see a significant new strategy for the Council of additional income generation through investment in property assets and the adoption of a Property Investment Strategy. Following

a lengthy debate, the Overview and Scrutiny Committee endorsed the report and recommendations to Cabinet.

(Overview and Scrutiny Committee Agenda Item 7.1).

Dr Anthony Leonard
Executive Director of Business Operations