

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 14 March 2016
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PART I NON-KEY DECISION

STRATEGIC ASSET PURCHASES 2015/16

1. **Purpose of Report**

On 14 September 2015 Cabinet approved the introduction of a Strategic Acquisition Strategy and agreed to recommend that a budget of £25m should be introduced to undertake Strategic Asset Purchases. The purpose of this strategy was to enable the Council to undertake asset investment through the acquisition of land and/or property generating income to realise the ambitions and outcomes agreed in the 5 Year Plan and improve the Council's financial resilience.

The purpose of this report is to provide an update on assets acquired within the financial year and confirm the financial an regeneration benefits that have been realised.

2. **Recommendation(s)/Proposed Action**

The Cabinet is requested to resolve that it be noted that:

- a) The ability to operate within commercial timescales has been very effective. Two Three major strategic asset purchases have already been completed, generating income in excess of £550,000 of per annum.
- b) A mixed portfolio of potential strategic asset purchases has been identified and is being pursued.
- c) An income target of £1.25m has been set for the financial year 2016/17.
- d) The income generated from strategic asset purchases will generate an independent income stream that will alleviate pressure enforced by central government funding cuts.

3. **The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan**

The acquisition of property assets is a direct way of influencing regeneration. The agreed streamline procedures have created the conditions to make a material contribution to the economic wellbeing of the Borough.

3a. **Slough Joint Wellbeing Strategy Priorities**

Individual acquisitions will be reviewed in line with the Slough Joint Wellbeing Strategy priorities.

3b. **Five Year Plan Outcomes**

Outcome 3 of the 5 year plan focuses on ensuring that the centre of Slough will be vibrant, providing business, living and cultural opportunities. This workstream is being delivered via the *Changing Views* task and finish group. The implementation of the Strategic Acquisition Strategy has created a mechanism for the Council to assemble land and gain control of key sites that will facilitate broader regeneration and economic development objectives. The acquisition of income generating assets is also closely tied to Outcome 7, which seeks to maximise the value of the Council's assets and income.

4 **Other Implications**

a) **Financial**

This report comes with no financial implications. A budget of £25m has already been set and is managed via the Strategic Acquisition Board, with acquisitions requiring approval of the s151 Officer.

The implementation of this new commercial approach has provided the opportunity for the Council to secure assets with an income stream that outperform the current returns received through its treasury management activities. The income generated will increase the Council's financial resilience against a background of austerity measures and will make a material contribution to offset the impact of reduced funding from central government.

b) **Risk Management**

Risk	Mitigating Action	Opportunities
Legal – competing priorities could create delays.	Appoint external solicitors to undertake due diligence and provide comprehensive reports on title, deeds, leases etc, as required.	
Property market risk – property is a riskier asset than other asset classes because of its physical characteristics, which need to be managed and maintained together with the time needed to liquidate time The Council may not achieve its target returns if market conditions significantly worsen	Undertake appropriate due diligence and appoint specialist advisers as required. Target assets/locations where income is secured and rental growth identified.	Market conditions can go up as well as down, with the Council benefitting from increased returns during an upturn.
Human Rights		
Health and Safety	No risks identified	
Employment Issues	No risks identified	
Equalities Issues	No risks identified	
Community Support	No risks identified	

Communications	No risks identified	
Community Safely	No risks identified	
Finance - Abortive costs including legal and survey fees, staff costs, initial feasibility costs.	Whilst efforts will be made to reduce abortive costs it is inevitable that the Council will on occasions incur costs on projects that do not proceed. Introduction of specific procedures relating to Strategic Acquisitions, which set out objectives, criteria and delegated authority.	
Governance – Poor performance	Introduction of specific procedures relating to Strategic Acquisitions, which set out objectives, criteria and delegated authority.	
Performance	No risks identified	

c) Human Rights Act and Other Legal Implications

The Council's powers to acquire land are governed by statute. Section 120 of the Local Government Act 1972 permits the Council to acquire by agreement any land whether situated inside or outside its area of operation. It does not matter that the asset is used immediately for the intended purpose and may be used for an alternative purpose in the interim.

d) Equalities Impact Assessment

There are no equalities issues associated with this report. However the accessibility of properties will be one of the factors for consideration in deciding between investments.

e) Property Implications

See section 5 below.

5 **Supporting Information**

Background

5.1 The Strategic Asset Purchase scheme (SAP), which designed to use the Council's balance sheet to improve ongoing revenue streams and increase the asset base, was approved in September 2015. The scheme is limited to £25m initially for land and/or properties that provide a good yield back to the Council and/or will assist in the delivery of the Council's wider regeneration aspirations. This will allow the Council to capture an increase in capital value through other regeneration work that the Council is completing, rather than leave this purely to the outside market to benefit from.

5.2 The scheme has a clear governance process with delegated authority to spend based on a variety of clear criteria. A Board has been established with membership drawn from elected members and officers that has a remit to:

- Consider acquisition recommendations proposed by the Head of Asset Management (or delegate).

- Review proposed land acquisition and/or property investment opportunities, taking into account the extent to which the proposition fulfils the council's policy objectives against a set of agreed criteria.
- Make strategic acquisition and investment decisions on behalf of the council within the initial funding allocation of £25m.
- Oversee and monitor the performance of approved acquisition and investments.

5.3 The scheme has already enabled the Council to purchase two assets, with more than £550k of ongoing income at a yield of 6.48%. It is anticipated that the Council will achieve returns of £1.25m once the scheme is fully utilised.

5.4 In acquiring the investment properties, consideration was given to future proof the land in the event that the existing leases are not renewed. The potential exists to demolish the existing units and rebuild with a combination of retail and residential. Assuming they are redeveloped via Slough Urban renewal, this would provide a capital receipt for the land, 50% of the development profit, New Homes Bonus, additional Council tax income and a long-term income stream from leasing the new retail units, therefore the investments will provide a long-term return irrespective of the performance of the existing tenants.

5.5 The Council has specifically taken the approach to invest in assets within the borough. There are a variety of reasons for this. Firstly, it is where the Council extensive market knowledge. Secondly, by investing in the borough the Council is able to benefit from wider regeneration schemes across Slough.

6. **Comments of Other Committees**

6.1 This report has not been considered by any other committees.

7. **Conclusion**

7.1 When approving the Strategic Acquisition Strategy, Cabinet noted the associated processes would place the Council in a position to operate within commercial timescales, enhance its ability to complete strategic acquisitions and/or investments and alleviate the risk of losing opportunities as a consequence of delays in process. Within 6 months this approach has proven to be highly successful. The flexibility and governance arrangements that have been agreed have allowed the Council to compete in this market, secure long-term income streams and acquire land for future regeneration.

8. **Appendices (both contain exempt information and are in Part II of the agenda)**

Appendix 1 - Extract from report to Strategic Acquisition Board, 12 October 2015.

Appendix 2 - Extract from report to Strategic Acquisition Board, 24 October 2015

9. **Background Papers**

None