SLOUGH BOROUGH COUNCIL

REPORT TO:	Cabinet	**DATE:**14 November 2016
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PORTFOLIO:	Housing & Urban Renewal Leader of Council	- Cllr Ajaib - Cllr Munawar

PART I
KEY DECISION

PROPOSED STRATEGIC ACQUISITION STRATEGY

1. **Purpose of Report**

1.1 On 14 September 2015, Cabinet approved the introduction of the Strategic Acquisition Strategy, which provided a framework for the Council to operate commercially and undertake a new approach to asset investment through the acquisition of land and/or property generating income up to £25m (inclusive of acquisition costs). On the same occasion cabinet agreed that all strategic acquisitions would normally be made within the Borough of Slough in order to accelerate regeneration objectives, realise local economic developments and provide long-term strategic benefits.

1.2 The purpose of this report is to seek approval to allocate an increased budget to secure additional land and/or investment assets that will improve the Council's financial resilience with greater flexibility to acquire assets outside Slough.

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

The Cabinet is requested to Recommend:

(a) That it be agreed that whilst strategic acquisitions will normally be made within the Borough of Slough, to reduce risk, maximise financial returns and widen the potential to create a more balanced portfolio is achieved by buying investments outside Slough.

(b) That the scoring criteria associated with out-of-borough investment assets be amended.

(c) That the Capital Programme for 2016/17 be amended to increase the existing budget by an additional £25m.

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

The introduction of a streamlined procedure to pursue strategic acquisition has created the conditions for the Council to maximise the value of its existing asset base, acquire land and property that will make a significant contribution to the town centre regeneration strategy and supply an income stream that could contribute to the provision of front line services.

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**

The introduction 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 has increased the Council's revenue in 2016/17 and 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

SBC currently owns a portfolio of property and land assets that comprises investment (commercial) and service delivery (operational) assets. Commercial assets are held for the purpose of generating rental income and/or capital appreciation. The portfolio includes light industrial units and retail premises as well as 'minor' interests, for example wayleaves, easements and licenses. Whilst the investment portfolio has through the activities of the SAB reduced the Councils revenue pressure, , its net financial contribution remains modest compared to other councils who have a more bullish approach to strategic investment and seek to dilute-risk by acquiring assets outside their boundaries.

It is anticipated that there will be a requirement to fund strategic acquisitions from a range of options including borrowing funds from the Public Works Loan Board and utilising internal balances.

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.
	No risks identified	

Human Rights		
Health and Safety	No risks identified	
Employment Issues	No risks identified	It is proposed to appoint agents to act on behalf of the Council as they offer investment expertise and market intelligence not held internally.
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.	
Timetable for Delivery – The existing approach is cumbersome and has added to the inability to pursue strategic acquisitions.	Introduce a Strategic Acquisition Board with the specific remit of considering strategic acquisitions.	The proposed process would speed up timescales and enhance the Councils ability to compete for strategic acquisitions.
Governance – Poor performance	Introduction of specific procedures relating to Strategic Acquisitions, which set out objectives, criteria and delegated authority.	
Performance –	No risks identified	

b) Human Rights Act and Other Legal Implications

Under Section 120 of the Local Government Act 1972 the Council may acquire by agreement any land whether situated inside or outside their area. It may do so for the purpose of (a) any of their functions under that or any other enactment or (b) for the benefit, improvement or development of their area. However, the reference in Section 120 to the benefit of the area requires some more direct connection with the property acquired than the mere fact that income from it could in future be applied to the provision of local services. Accordingly the Council may not rely on this provision to acquire property outside their area simply for the purposes of generating revenue to support services.

Under Section 12 of the Local Government Act 2003, however, the Council may invest (a) for any purposes relevant to its functions under any enactment or (b) for the prudent management of its financial affairs. Investment is generally considered to mean the acquisition of an asset to be used as a source income or alternatively the asset may be a source of capital gain. Accordingly the Council may invest in property, regardless of the location of the property under this provision if it does so for the purpose of the prudent management of its financial affairs.

The constraints upon the Council in exercising its investment powers under Section 12 of the Local Government Act 2003 are that it must always comply with ordinary “Wednesbury” principles i.e. it must act reasonably and have regard to relevant matters which, in this context, would include the Guidance issued by the Secretary of State relating to local government investments, which has statutory force under Section 15, and to regulations made under that section. This guidance calls in particular for the production of an appropriate investment strategy and the Council would then need to adhere to that strategy unless there are sensible reasons for not doing so.

The Council also have power to acquire land outside its area under the general power of competence contained in Section 1 of the Localism Act 2011. Under Section 4 of that Act, however, anything done for a commercial purpose in exercise of this general power of competence must be done through a company. For these purposes, acquisition of property for the purposes of generating profit would amount to doing something for a commercial purpose and would need to be done through a company if this power is to be relied upon.

c) 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.

5 Supporting Information

Background

5.1 In approving the Strategic Acquisition Strategy in 2015, Cabinet noted the financial driver to acquire income generating assets to offset continued reductions in central government grant and the regenerative benefits associated with purchasing sites to bring forward housing and commercial development.

5.2 Cabinet delegated authority to the Strategic Director Regeneration, Housing & Resources in consultation with the Commissioner for Neighbourhoods and Renewals and the Leader of the Council, authority to:

- Introduce the proposed Strategic Acquisition Board (“SAB”), and thereafter,
- Delegated authority to the SAB to make strategic acquisitions in line with the objectives, criteria and governance procedures set out in the report in consultation with the with the Commissioner for Neighbourhoods and Renewals and the Leader of the Council.

5.3 A strategic acquisition was defined as the acquisition of land or properties that will allow the Council to expedite key outcomes contained within the 5 Year Plan. To be considered strategic, it is agreed that an acquisition must make a significant contribution towards regeneration objectives and/or provide a commercial return on investment that will improve the financial resilience of the Council

5.4 An initial budget of £25m has been agreed to make strategic acquisitions. To date, a total of £13.6m has been spent, generating additional gross income of £596,775 for 2016/17. The sum of £9.2m has been set aside for anticipated pipeline acquisitions in the current financial year (which will generate an additional initial income of circa £500,000 pre annum), leaving a balance of £2.2m to acquire additional assets. Working on the assumption that the pipeline of acquisitions will be secured, this report seeks approval for a second tranche of £25m to build the portfolio.

Economic Overview

5.5 The recent vote by the UK to leave the European Union has triggered a large amount of uncertainty within the market. The instant effect of this has caused the financial markets to exhibit volatility. This in turn has pushed investors into a defensive position when considering their investments resulting in a slowdown in acquisitions.

5.6 Over the last five years, the United Kingdom has remained one of the fastest growing economies, with GDP growing marginally at approximately 1.8% p.a. which is a downward growth projection from 2.2%. The UK is expected to avoid recession.

5.7 Employment figures have looked encouraging with the current unemployment rate standing at 4.9% which represents a 11 year low

5.8 The base rate currently stands at 0.25% decreasing from 0.5% in August 2016. This is predominantly due to weaker UK economic growth forecasts, the decision to leave the European Union and global uncertainty.

Property Market Outlook

5.9 Trading volumes in property for the first 8 months of 2016 totalled approximately £29.4 billion down by 39% compared to last year. Industrials were the only sector not to see a fall in volumes.

5.10 Overseas investors contributed £12.2 billion with UK institutions and private property companies investing £5.6b & £4.5b respectively.

5.11 Property fundamentals remain strong with a low base rate, weak sterling and stable yields. However, the uncertainty will cause the commercial property market to pause in the short term.

5.12 All property equivalent yields are expected to soften by the end of 2016 and move out slightly more in 2017 to circa ½% overall. The sharpest outward movement is projected for offices at ½% in 2016 and another ¼% in 2017.

Assessment Criteria – Investment Properties

5.13 Whilst the SAB has already been delegated authority to consider investment opportunities outside Slough, all of the acquisitions undertaken to date have been located within the Council's area of operation. Although this could be argued to be a positive outcome, retaining a narrow focus has limited the growth and balance of the portfolio. Looking at examples from peers, it is clear that to reduce risk, maximise financial returns and widen the potential to create a more balanced portfolio, other local authorities have flexibility to acquire investment assets outside their areas of operation.

5.14 In approving the Strategic Acquisition Strategy, Cabinet agreed to use a defined list of property specific criteria to score proposed acquisitions. It was also agreed that the minimum score should be at least 240 out of a maximum score of 400, which is equivalent to 60% of the maximum score. The only exception being that the Board should have the discretion to buy assets in Slough that may fall outside the investment criteria if there is an overriding strategic benefit to do so.

5.15 Whilst this report does not propose to change the potential to acquire assets outside Slough and highlights the portfolio and financial benefits of retaining this approach, it is suggested that out-of-Borough acquisitions should score a minimum of 300 (75%) out of 400.

6. **Comments of Other Committees**

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

7. **Conclusion**

7.1 The primary purpose of this report is to seek approval to allocate an increased budget to secure additional land and/or investment assets that improve the Council's financial resilience and brings forward sites for residential and commercial regeneration. Whilst the primary focus will remain on acquiring in-borough investments, the ability to realise growth and income targets will be enhanced by widening the scope of the SAB.

7.2 The report consequently seeks approval to amend the Capital Programme for 2016/17 and increase the existing budget by an additional £25m.

8. **Background Papers**

None