

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Council **DATE:** 29<sup>th</sup> November 2016

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**WARD(S):** All

### **PART I** **FOR DECISION**

#### **RECOMMENDATIONS OF THE CABINET FROM ITS MEETING HELD ON 21<sup>st</sup> NOVEMBER 2016**

##### **1 Purpose of Report**

To advise the Council of the recommendations of the Cabinet from its meeting held on 21<sup>st</sup> November 2016:

- A. Proposed Strategic Acquisition Strategy.
- B. Lease Slough Refugee Support, 28 Bath Road, Salt Hill Park

These matters will be considered by the Cabinet at its meeting on 21<sup>st</sup> November following publication of the Council agenda. Any amendments will be reported to Council.

##### **A. PROPOSED STRATEGIC ACQUISITION STRATEGY**

###### **1. Purpose of Report**

- 1.1 To consider the recommendations of the Cabinet in relation to amendments to the Strategic Acquisition Strategy and a request to adjust the Capital Programme to increase the budget by and additional £25m.
- 1.2 In September 2015, Council 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.
- 1.3 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 Council is requested to resolve:

- (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

<b>Risk</b>	<b>Mitigating action</b>	<b>Opportunities</b>
<b>Legal</b> – 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.
<b>Human Rights</b>	No risks identified	
<b>Health and Safety</b>	No risks identified	
<b>Employment Issues</b>	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.
<b>Equalities Issues</b>	No risks identified	
<b>Community Support</b>	No risks identified	
<b>Communications</b>	No risks identified	
<b>Community Safety</b>	No risks identified	
<b>Finance</b> - 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.	
<b>Timetable for Delivery</b> – 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.
<b>Governance</b> – Poor performance	Introduction of specific procedures relating to Strategic Acquisitions, which set out objectives, criteria and delegated authority.	
<b>Performance</b> –	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 following 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 The Cabinet will consider the matters detailed in this report at its meeting on 21<sup>st</sup> November 2016. Any amendments to the recommendations will be reported to Council.

## 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. **Appendices**

None.

## 9. **Background Papers**

None.

## **B. LEASE SLOUGH REFUGEE SUPPORT, 28 BATH ROAD, SALT HILL PARK**

### **1 Purpose of Report**

- 1.1 To consider the recommendation from the Cabinet made on 21<sup>st</sup> November 2016 in relation to a lease the letting of 28 Bath Road, Salt Hill Park to Slough Refugee Support (SRS).
- 1.2 The Council is required to determine this matter in its capacity as Trustee of Salt Hill Park.

### **2 Recommendation**

The Council is requested to resolve that a lease agreement be entered into with Slough Refugee Support for 28 Bath Road, Salt Hill Park as set out in Paragraph 4(f) of the report.

### **3 Slough Joint Wellbeing Strategy, The JNA and the Five Year Plan**

#### **3a Joint Wellbeing Strategy Priorities**

The proposal meets the following priorities of the Joint Wellbeing Strategy

#### **Health**

Ensuring better community engagement to improve the wellbeing of our residents.

#### **Safer Slough**

A place where people feel safe to live, visit and play.

Safeguard and support vulnerable adults and children in our communities.

Promote cohesive open communities that value diversity, encourage a sense of belonging and engender a sense of local pride.

#### **3b Five Year Plan Outcomes**

The proposal also has the potential to make the following contributions to corporate objectives:

#### **Enabling and preventing**

Will contribute to deliver the Council's community cohesion strategy by providing a location from which SRS can provide its services and help refugees better acclimatise to life in Slough.

### **4. Other Implications**

#### **a) Financial**

There are no immediate financial revenue/capital spend implications as a direct consequence of this report.

#### **(b) Risk Management**

<b>Risk</b>	<b>Mitigating action</b>	<b>Opportunities</b>
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<b>Community</b>	None	
<b>Property</b>	None	
<b>Financial</b>	None	
<b>Legal</b>	None	
<b>Human Rights</b>	None	
<b>Employment</b>	None	
<b>Planning</b>	None	
<b>Public Consultation</b>	None	.

(c) Human Rights Act and Other Legal Implications

There are no immediate Human Rights Act and Other Legal implications as a direct consequence of this report.

(d) Equalities Impact Assessment

There is no identified need to carry out an EIA.

(f) Land and Property Implications

If approved, 28 Bath Road will be leased to SRS for a term of 5 years at an annual rent of £8,700. There is a tenant only right to break the lease on the 3<sup>rd</sup> anniversary of the lease.

**5. Supporting Information**

**Background**

- 5.1 28 Bath Road is a former park keeper's cottage located in the south eastern corner of Salt Hill Park, on the junction with Bath Road and Stoke Poges Lane.
- 5.2 SRS have been in exclusive possession of the building for sometime with the last lease being in place from 2006 to 2008. Terms for a new lease were agreed in 2008, but never formalised despite a rent increase at this time.
- 5.3 SRS is a registered charity focused exclusively on the needs of refugees and asylum seekers. It was established in 1997 in order to welcome and offer practical help to some of the most marginalised people in the local community. In addition to support the SRS also offers practical advice such as accessing initial benefits, how to access health and education services, job searching and IT/Life classes with crèche support.
- 5.4 Terms have been agreed with SRS for the granting of a 5 year lease with a rent agreed at £8,700 per annum. SRS will be responsible for the running costs of the building (business rates, utilities, insurance, etc). The Council will continue to maintain the external parts of the property given its age and prominent location within the park.
- 5.5 The rent agreed is supported by a District Valuer community use rental valuation carried out at the time terms were agreed.



**6. Comments of Other Committees**

- 6.1 The Cabinet will consider this matter at its meeting on 21<sup>st</sup> November 2016 and any amendments to the recommendation will be reported to Council.

**7. Conclusion**

- 7.1 Regularising the lease agreement with SRS, who are already well established at 28 Bath Road, will give both the Council and SRS certainty and security with regards occupation of this site. In turn SRS will be able to continue to provide and fund the support services it already provides to the local refugee community.

**8. Appendices Attached**

None

**9. Background Papers**

None.