

TRAFFORD COUNCIL

Report to: Executive
Date: 22 February 2017
Report for: Noting
Report of: Helen Jones, Deputy Chief Executive

Report Title

Trafford's Approach to Developing a Portfolio of Investment Opportunities

Summary

This report sets out the proposed approach to securing and developing investment opportunities to generate sustainable income streams to support the Council's revenue budget.

Recommendation(s)

- 1) To note and approve the approach set out in this report.
- 2) To note the intention to begin a tender exercise to secure an expert investment adviser.
- 3) To note the intention to explore the establishment of a Trafford Property Company and to secure the relevant expert advice.
- 4) To note that a further report will be brought back to the Executive, with an update on progress and to seek approval for an investment strategy and appropriate vehicle.

Contact person for access to background papers and further information:

Name: Helen Jones
Extension:

Background Papers:

None.

Implications:

Relationship to Policy Framework/Corporate Priorities	The investment programme will need to be reflected in both the Treasury Management Strategy and the Capital Programme which will be presented to Council in February 2017.
Financial	<p>As each investment proposition is considered a business case showing a detailed analysis of the capital and revenue implications and associated risk levels will be prepared.</p> <p>Dependant on the complexity of the opportunity, the Council may need to procure a due diligence review before undertaking the investment.</p> <p>It should be noted that the process of setting up a property company will require expenditure on specialist external legal and financial advisors.</p> <p>There may be tax and VAT implications associated with investment activity.</p>
Legal Implications:	<p>Local authorities have the power to invest in property through a range of statutory provisions, principally through the general power of competence under the Localism Act.</p> <p>There are a range of different vehicles which can be used to undertake and manage investment. The appropriate form to set up would be determined by the specific circumstances in each case.</p> <p>Specialist legal advice is to be obtained as to the appropriate structure which would allow the Council to maximise its investment opportunities.</p> <p>The Council would not be restricted to investments within Trafford, subject to the appropriate agreements being in place.</p>
Equality/Diversity Implications	None.
Sustainability Implications	None.
Resource Implications e.g. Staffing / ICT / Assets	None.
Risk Management Implications	The purpose of securing appropriate specialist advice is to ensure that any risks are identified or mitigated. Follow up reports will identify any risks clearly.
Health & Wellbeing Implications	None.

Health and Safety Implications	None.
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1.0 Background

- 1.1 A report was brought to Executive in December 2016 setting out the Council's intention to explore opportunities to secure investments to generate sustainable income streams using its favourable prudential borrowing position. The preference will be for investments that deliver revenue returns and the potential for capital uplift, along with a model of investment that will bring both an immediate return and a longer term income stream.
- 1.2 More work has been done, as part of an emerging Investment Strategy, to investigate the potential approaches that are available to the Council to put in place arrangements to deliver a portfolio of investment opportunities. These are set out in Section 2 of this report.
- 1.3 The 2017/20 Capital Programme Report contains an estimated sum of £20m for property investment and the related borrowing requirement is reflected in the Treasury Management Strategy Report.

2.0 Approach to Securing Investment Opportunities through Acquisition of Investment Property.

- 2.1 As set out in the report to December Executive, many local authorities are acquiring 'off the shelf' commercial property to generate income. Investment property acquisition is a complex area and before embarking on an Investment Strategy, the Council will need to appoint an expert property adviser with a sound track record of delivery to advise about relative merits of one investment opportunity over another.
- 2.2 Soft market testing has taken place with a number of advisors and there are several firms with expertise in this area who could be appointed. STAR Procurement have advised about the process and the intention is to seek proposals in response to an invitation to tender via the CHEST.
- 2.3 From research that has been carried out it will be important for the Council to be clear about its appetite for risk and issues such as length of lease terms, future management of the asset and residual value / redevelopment potential will all be important criteria to be considered when deciding on a potential acquisition. The expert advice that we are seeking will provide greater clarity around specific risks and this in-turn will inform the scope and content of the investment strategy.
- 2.4 A Capital Investment fund will be established and the aim is to secure a portfolio which will contain income generating assets which will yield future sustainable revenue streams for the Council and also cover any borrowing costs. As each investment proposition is considered a business case showing a detailed analysis of the capital and revenue implications and associated risk levels will be prepared.
- 2.5 The scope of the Investment Strategy and the appetite for risk are both factors which will have a bearing on the way in which investment opportunities could be delivered. The options in this regard range from a requirement that each potential acquisition is considered through the Executive; delegation of decisions on investments to an

Executive member; delegation to an officer/member panel; and the establishment of an Investment company. The establishment of an investment company offers certain additional benefits in that it would enable the Council to invest outside the borough. The proposal at this stage is to seek expert legal advice in relation to the establishment of an investment company. Such advice will evaluate all available options so that the Council proceeds in the most effective way.

3.0 Approach to Securing Income through Investment in the GM Investment Fund.

- 3.1 The Evergreen fund is already established for GM. This fund has been running for several years and was funded in part by European Regional Development Fund. It is a revolving fund (i.e. profits generated are recycled back into the fund) and is used to provide development finance for a range of schemes that deliver regeneration, financial and employment outcomes. There is no target rate of return and the fund does not cover retail investments.
- 3.2 The Council has the opportunity to invest directly into the fund in order to deliver revenue returns for the Council. The proposal and the potential returns to the Council need to be considered more fully.
- 3.3 The GM Fund is managed by CBRE who are FSA registered / approved. The governance and due diligence is carried out by the established GM Investment Team. Trafford already makes an annual contribution towards the costs of the investment team.

4.0 Investment Opportunities through Participation in Development.

- 4.1 The Council has the opportunity to use its land holding and / or prudential borrowing to become a direct developer or a partner with developers to bring forward development and regeneration schemes within Trafford. These could be residential, commercial or mixed use schemes. The key determination would be that the developments deliver economic growth whilst still delivering financial return for the Council.
- 4.2 The advantage of Trafford based development schemes is that the Council would be investing in promoting growth in Trafford and using capital monies as part of our overall strategic vision for the Borough and increasing business rates and the Council Tax base.
- 4.3 The Council owns land in town centres where there may be the opportunity to use its land holdings to secure ongoing income streams rather than simply selling land for a capital receipt. Options for all redevelopment and regeneration schemes will be explored on a case by case basis.
- 4.4 Where appropriate the Council is already seeking revenue returns when it disposes of land. An example of this is the recent procurement of a development partner for Regent Road car park in Altrincham that will deliver 148 newly resurfaced public parking spaces along with additional commercial parking spaces that will generate an ongoing income to the Council of approximately £50,000 per annum.

4.5 We have previously identified that there are a number of approaches to property holding and investment. We have identified that there is significant potential for the council to use investment to stimulate economic growth and also to secure a financial return (either aligned to such growth or as an end in its own right). However further work is required both to shape the investment strategy and to identify the most effective and tax efficient delivery vehicles.

Other Options

The Council could choose not to explore potential opportunities to invest in property, including those which might require considering the use of prudential borrowing to finance the acquisition. This would avoid the potential for the Council to be exposed to potential commercial risk. However this would mean that the ability to generate new sustainable income streams would be missed and the potential to reduce the budget deficit through increased income would be lost.

Consultation

No consultation is required at this stage and each proposal will be assessed to determine any impact and therefore the consultation required.

Reasons for Recommendation

The scope of approaches set out in this report would lead to a balanced portfolio of investment aspects, spreading risk and maximising returns.

Finance Officer Clearance (type in initials)...NB.....
Legal Officer Clearance (type in initials)...JLF.....

[CORPORATE] DIRECTOR'S SIGNATURE (electronic)...

Helen Jones

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To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.