TRAFFORD COUNCIL

Report to:	**Executive**
Date:	**19th December 2016**
Report for:	**Noting**
Report of:	**Helen Jones, Deputy Chief Executive**

Report Title

Trafford's Approach to Investment Opportunities

Summary

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

Recommendation(s)

To note the report and the proposed approach to generating interest and opportunities and to note that a further report will be brought back to Executive setting out a further update and details of any specific investment proposals.

Contact person for access to background papers and further information:

Name: Helen Jones
Extension: 1915

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	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. Dependant on the complexity of the opportunity, the Council may need to procure a due diligence review before undertaking the investment.
Legal Implications:	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. 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. The council would not be restricted to investments within Trafford.
Equality/Diversity Implications	None.
Sustainability Implications	None.
Resource Implications e.g. Staffing / ICT / Assets	None.
Risk Management Implications	The risks of any proposals will be set out clearly in outline business cases.
Health & Wellbeing Implications	None.
Health and Safety Implications	None.

1.0 Background

1.1 The Council is facing an unprecedented financial challenge with service demand, particularly for health and social care services, rising at an increasing rate and Government funding being reduced. The Council's intention is to move towards becoming a self–sustaining Council that does not rely on central government support.

1.2 Trafford Council is in a good financial position with regards to borrowing costs due to many years of prudent financial management. The Treasury Management Mid-Year Report which was presented to the Audit and Accounts Committee on 23rd November shows that, as at 31st March 2016, the Council was under-borrowed by £30.6m.

1.3 Borrowing costs are currently extremely low and the Council has access to fixed interest loans at low interest rates by borrowing from the Public Works Loan Board (PWLB).

1.4 A combination of the Council's requirement to find new income sources, the under-borrowed position and the low interest rates means that this is an ideal time to explore both residential and commercial investment propositions with a view to creating a sustainable income stream for the future.

1.5 The property market is currently experiencing a reduction in investment activity. This is due to a combination of factors including, some adjustment to market value post the EU Referendum, funders' lending criteria, and higher borrowing costs for commercial lending. These market conditions present an opportunity for local authorities to use their borrowing power to secure investment properties which in turn can deliver a revenue return. There is evidence that the level of investment activity by local authorities has increased significantly in recent months.

1.6 Local authorities have taken different approaches to investment, dependent on local factors (such as land ownership and borrowing capacity), strategic objectives and risk appetite. Three broad themes can be identified: some local authorities have used commercial property investments to help fill their funding gaps and to enable them to move towards becoming financially self-sufficient; other local authorities have used their prudential borrowing to secure investments to deliver regeneration schemes in their areas; and finally in some cases investments have been on a purely commercial basis and have included 'out of borough' property investment.

2.0 Current Investment Activity

2.1 Investment in property is not a new activity for the authority. The Council owns the freehold of property held for investment purposes, such as Stretford Mall and Stamford Quarter. These assets are performing well and generate £ 427k p.a. in income.

2.2 In addition the Council receives income through its part ownership in the airport. Over the past few years this has generated between £2.5m and £3.5m per annum in shareholder dividends. In addition the Council owns a small amount of land used by the Airport which generates an income of £417k per annum.

2.3 In September 2015, the Council invested £5m in the Local Authority Property Investment fund, managed by the Church Commissioners Local Authority (CCLA). The annualised rate of return on this investment is 5.25%, which is 4.75% higher than can be obtained via other investment routes, and this expected to continue however it should be noted that the value of this fund has fallen by £200k since the Brexit vote as property prices have been affected by market uncertainty. This is however a long term investment and as such this small fluctuation in value is not seen as a long-term problem.

2.4 The Council has an active land sales programme to dispose of assets that are surplus to requirements. The programme is an important element of the funding for the Council's capital programme, and will continue to do so. However, where the Council has land ownership that could form part of a regeneration scheme, e.g. the site of the former Friars Court building in Sale that forms a key part of the proposals for the Sale Square redevelopment, the approach is to secure an income stream from the land rather than the traditional approach of selling land for a capital receipt.

2.5 In addition the Council has entered into commercial lending, alongside GM, to support the investment in a new hotel by LCCC. This generates a reserve surplus for the Council.

3.0 Proposed Approach to Identifying Investment Opportunities

3.1 There is the opportunity to investigate investment opportunities either on an individual ownership basis, i.e. the acquisition of property that generates income or to consider taking a joint venture approach in a new development that would produce an income stream once complete.

3.2 At this stage, the proposed approach is to explore all potential opportunities by going out to the market to seek expressions of interest from property owners and developers for live investment opportunities.

3.3 An advertisement will be drawn up that sets out the Council's desire to secure investment opportunities and an indication of the Council's potential level of capital investment which would be initially in the region of £20m. Discussions will also continue with agents and developers. This approach is intended to encourage a breadth of submissions that will maximise potential opportunities for further consideration.

3.4 Each proposal will have to be considered on its own merits and external advice may need to be procured to ensure a prudent balance of risk and reward. It should also be noted that, in some cases there may be a need to borrow money to invest in advance of development work taking place and therefore there may be a lag between incurring borrowing costs and an income stream that results from that investment; any such lag will need to be managed through the annual budget setting process.

3.5 Ideally a balanced portfolio of assets that would produce income immediately alongside development opportunities that will take some time to generate income but would create growth would be desirable. It is expected that there will be considerable response to Trafford's prospectus and a shortlisting exercise would identify opportunities that could be explored in more detail.

3.6 The Council investment strategy will be aligned with other key strategies such as the Leisure Strategy and the Trafford Plan (Vision 2031).

<u>Other Options</u>

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 plug the budget deficit through increased income would be lost so further service cuts would be required in order to produce a balanced budget.

<u>Consultation</u>

The Council's desire to generate further income is part of the budget proposals currently being consulted on.

<u>Reasons for Recommendation</u>

Strategic use of the Council's prudential borrowing to secure a balanced portfolio of investment and development opportunities could generate income and facilitate further growth in the borough. The approach set out is the first step in identifying opportunities for further consideration.

<u>Key Decision</u> No
<u>If Key Decision, has 28-day notice been given?</u> N/A

Finance Officer Clearance *(type in initials)* NB
Legal Officer Clearance *(type in initials)* JLeF

Helen Jones

[CORPORATE] DIRECTOR'S SIGNATURE *(electronic)*
To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.