

## TRAFFORD COUNCIL

Report to: Executive 25 September 2017  
Report for: Decision  
Joint Report of: Executive Member for Investment, Executive Member for Corporate Resources and the Chief Finance Officer

### Capital Investment Strategy

#### Summary

In July a report was presented to both the Executive and Council seeking approval to an Investment Strategy that would support local regeneration and / or yield future sustainable revenue streams for the Council and also cover borrowing costs.

The Council has appointed CBRE as investment advisors and appended to this report is a detailed Real Estate Investment Strategy which will assist the Council in creating a balanced portfolio of investment assets.

#### Recommendations

That the Executive approve and adopt the Real Estate Investment Strategy included at Appendix 1.

#### Contact person for access to background papers and further information:

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Background Papers: None

#### *Implications:*

Relationship to Policy Framework/Corporate Priorities	Low Council Tax and Value For Money / Economic Growth and Development
Financial	The Capital Investment Fund budget is included in the Capital Programme. Proposals to utilise the fund will be the subject to the

	appropriate level of due diligence and be capable of providing a sustainable revenue stream to the Council and to cover any related borrowing costs.
Legal Implications	<p>The Council will need to ensure that in exercising its investment and borrowing functions to expand its property portfolio, any actions are reasonable and proportionate and for proper purposes consistent with the Council's prudential regime and its Investment Strategy. Investment decisions also need to be taken mindful at all times of the Council's fiduciary duties to ensure the sound management of the public finances.</p> <p>If the purpose of the proposed investment is objectively characterised as a commercial purpose and the Council is relying on the general power of competence in the 2011 Localism Act, rather than any of its other functions then, pursuant to s4(2) of the 2011 Act, the Council should only act through the use of a company.</p> <p>Legal due diligence will be required on all property acquisitions, to include a review of title and ownership, and searches and enquiries of the vendor, in order to ascertain relevant liabilities and restrictions connected with the subject property. The results of the legal enquiries, and any associated risks, should be considered prior to any decision to enter into contract.</p> <p>On any sale of an investment property the Council will be required to obtain best consideration in accordance with s123 of the Local Government Act 1972. Usually this will be achieved by placing the property onto the open market or otherwise, in respect of a sale agreed off market, demonstrating by way of professional valuation that it is achieving no less than market value for the property.</p>
Equality/Diversity Implications	None as a result of this report
Resource Implications e.g. Staffing / ICT / Assets	None as a result of this report
Risk Management Implications	<p>The appointment of CBRE as investment advisors will enable an objective assessment of the risk levels within each investment and over the portfolio as a whole.</p> <p>The approach to risk is set out in more detail in the investment strategy.</p>
Health & Wellbeing Implications	None as a result of this report
Health and Safety Implications	Not Applicable

## BACKGROUND

1. The Executive approved a Summary Investment Strategy on 24 July 2017 which has assisted the Council to commence a strategy of seeking to acquire a balanced portfolio of investment assets capable of providing sustainable net income streams to support the MTFP, facilitate development and regeneration and support local authority functions.
2. Approval was also given in July as part of this report to:-
  - an increase to the Capital Programme to supplement the £20m previously approved for such purposes in February 2017; and
  - the creation of an Investment Management Board (IMB) to approve new acquisitions and to undertake a performance management role.
3. At the time of the last report CBRE Investment Advisory, the Council's appointed strategic investment advisors, had developed the Summary Strategy on the basis that a more detailed Strategy be made available in due course. The new Real Estate Investment Strategy is attached at Appendix 1.
4. Given the range and scale of the programmes the Council is considering investing in to promote the economic development and regeneration of the area and the size of the financial challenge the Council will face to balance the budget in future years and avoid having to make significant cuts to essential services, together with the need to ensure we have a balanced portfolio of investment assets, Council has already approved that the size of the overall investment fund should be increased substantially.
5. Going forward the Investment Strategy will only be one element of the Council's budget strategy and service savings and efficiencies will continue to be sought in future years, albeit that it is expected that the reliance on generating sustainable, low risk revenue streams will play an increasing role given the extent of savings already delivered since 2010/11.
6. The key components of the Strategy are as follows:-
  - The target income return should be between 5.0% and 6.5% to deliver sufficient margin over borrowing costs and MRP requirements, whilst still providing the investment security required. The actual returns required will depend in part on the specific MRP approach adopted.
  - To achieve sustainable returns, without being over-exposed to risk, to target direct investment in prime and good secondary assets across a variety of sectors.
  - Based on sector performance and the objectives, it is recommended to focus on Industrial, Retail Warehousing (including Food Stores) and alternative sectors (i.e. budget hotels).
  - Other asset classes should be considered on an opportunity basis to help meet the objectives, especially where they may help achieve longer term strategic growth (i.e. regeneration).

- Creating a diversified portfolio is important, whilst balancing the need to generate a return to support local authority functions. A target **average** lot size of between £20m and £30m is recommended. Investments outside of this range will be considered on an opportunity-led basis and considered on their merits.
- Multi-let properties will help reduce asset and tenant specific risk. No more than 10% of the portfolio income should be from a single tenant to maintain the tenant specific risk at a manageable level.
- Initial geographical focus will be on the North West of England. However, opportunities that are outside the region will be considered on a case by case basis if they meet the objectives of the fund.
- Consideration to be given to lending to fund investment or development as part of the strategy, as this can have additional benefits especially when focused in the local area. Up to 30% of the portfolio could be allocated to debt, but consideration to a higher level on a case by case basis.

### **Recommendation**

That the Executive approve and adopt the Real Estate Investment Strategy included at Appendix 1.

### **Other Options**

The Council has appointed CBRE as investment advisors who have the experience of advising on appropriate investment opportunities and creating balanced property portfolios. This approach will minimise the risk the Council faces compared to making acquisitions without a robust strategy which would expose the Council to excessive amounts of risk.

It would also 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; each proposal will be subject to appropriate levels of due diligence and assessed to determine any impact and therefore the consultation required.

### **Reasons for Recommendations**

To ensure the use of the Investment Fund is undertaken based on the appropriate support from investment advisors and subject to appropriate levels of due diligence.

**Key Decision:** No

**Finance Officer Clearance** GB  
**Legal Officer Clearance** JLF

**Corporate Directors Signature:**



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