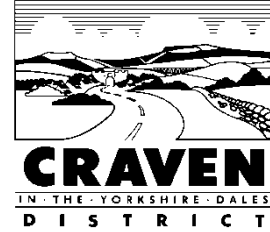


## Policy Committee – 26<sup>th</sup> January 2016

# ACQUISITION REGENERATION AND INVESTMENT STRATEGY



Report of Director of Services

Lead Member; Councillor P Mulligan

Ward(s) affected: All

### 1 Purpose of the Report

To approve Craven District Council's Acquisition Regeneration and Investment Strategy.

### 2 Recommendations

Members are recommended to:

- 2.1 Approve the Acquisition Regeneration and Investment Strategy as set out at Appendix A.
- 2.2 Amend the Council's Capital Programme to include the acquisition of assets.
- 2.3 Recommend to Council that up to £3m financed from borrowing is made available to fund acquisitions and the Council's Treasury Management Strategy and the Council's Authorised and Operational Borrowing Limits are increased by £3m respectively to allow for this borrowing.
- 2.4 Approve a supplementary revenue estimate of £10,000 funded from the New Homes Bonus reserve to meet one-off costs such as legal costs, valuations etc.
- 2.5 Decide whether to i) give delegated authority to the Chief Executive / Director of Services in consultation with the Group Leaders, Lead Members for Financial Resilience and Enterprising Craven and the Council's Section 151 and Monitoring Officers to agree property acquisitions with the scheme of delegation amended accordingly or ii) request all decisions to acquire assets be brought to a meeting of the Council's Policy Committee.
- 2.6 Request a further report be submitted to a future Policy Committee setting out proposals on the financial and legal implications / arrangements associated with the delivery model, namely a third party company for the acquisition of assets for commercial purposes, together with the resourcing and governance arrangements.

### 3 Background

- 3.1 There is increasing pressure on the public sector to strategically manage and operate property assets and act commercially when making property investment decisions. At the same time there is pressure to continue to provide and improve front line local services

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whilst operating under financial constraints. Many Councils are now acting to strengthen their funding base and reduce reliance on Government grant by building asset portfolios to provide a commercial return.

3.2 The purpose of acquiring assets is to promote or improve either the economic, social or environmental well-being of Craven, unlock future development opportunities, provide extended services or as an investment to generate income.

3.3 The Acquisition Regeneration and Investment Strategy aims to provide a viable and sustainable framework for asset acquisition. The strategy sets out;

- *The Council's objectives for acquiring assets*
- *Criteria for acquisition*
- *Risks to the Council*
- *The existing framework into which acquisition fits*
- *The acquisition process*

3.4 Proper regard will be had to the following when acquiring any land or property;

- *The relevant capital and revenue costs and income resulting from the investment over the whole life of the asset*
- *The extent to which the investment is expected to generate a secure ongoing income stream.*
- *The level of expected return on the investment*
- *The payback period of the capital investment*
- *The existing strategic framework into which each asset acquisition fits*

3.5 Whilst the Council's scheme of delegation grants delegation to officers to dispose of assets up to a value of £100,000 it is silent on the acquisition of property. The best commercial opportunities are likely to require a quick response from the Council. Delegating authority to a small group of Members and Officers will allow for a more focused and detailed consideration of acquisition opportunities whilst at the same time allow for a greater responsiveness to commercial agents and improved functioning of Council business.

It is therefore recommended delegated authority be given to the Chief Executive / Director of Services in consultation with the Group Leaders, Lead Members for Financial Resilience and Enterprising Craven and the Council's Section 151 and Monitoring Officers.

The risk should delegated authority not be approved is that acquisition opportunities are lost because the Council is unable to bring a report for decision to a meeting of its Policy Committee in a timescale required by commercial vendors.

3.6 All decisions leading to the acquisition of an asset will be reported to the Council as part of the Council's capital programme monitoring reporting arrangements.

### **4 Financial Implications**

4.1 The Acquisition Regeneration and Investment Strategy has been prepared in order for the Council to be able to secure an income stream and increase resilience over time rather than be reliant on ever decreasing Central Government Funding.

4.2 Depending on the value of the acquisition there may be a requirement to borrow funds from the Public Works Loan Board at the prevailing interest rate at that time. The Council's

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capital programme will be amended to establish an Acquisition Fund of up to £3m financed from borrowing.

- 4.3 The Authorised limit for borrowing and the operational limit for borrowing currently £9.75m and £7.5m will need increasing by £3m and this requires approval from Council.
- 4.4 An allocation of £10,000 from New Homes Bonus to meet one-off costs such as expert investment advice or legal costs is required.

### **5 Legal Implications**

- 5.1 Under section 120 (1) (b) of the Local Government Act 1972, the Council has the power to acquire property for the *benefit, improvement or development of the area*.

The 'general power of competence' contained in the Localism Act 2011 enables the Council to acquire property for investment. However, where the general power of competence is used for a commercial purpose, it must be done through a company.

- 5.2 Further consideration needs to be given to the governance, legal and financial arrangements of a Council established company and a report brought to a future meeting of this committee.

### **6 Contributions to Corporate Priorities**

The proposals in this report support the Council priorities of 'Financial Resilience' by ensuring the Council remains sustainable and can continue to deliver essential front line services. The proposals also support the priority of 'Enterprising Craven' by protection and creating jobs.

### **7 Appendices**

Appendix A –Acquisition Regeneration and Investment Strategy

### **8 Author of the Report**

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## Appendix A

### ACQUISITION REGENERATION AND INVESTMENT STRATEGY

#### 1 Introduction

The Acquisition Regeneration and Investment Strategy aims to provide a viable and sustainable framework for acquisition.

The purpose of this strategy is to set out the following:

- The Council's objectives for acquiring assets
- Criteria for acquisition
- Risks to the Council
- The existing strategic framework into which acquisition fits
- The acquisition process

#### 2 The Council's Objectives for Acquisition

With the ever decreasing grant funding and uncertainties about future funding levels it is Craven District Council's aspiration to become more financially resilient so that the Council is less dependent on funding from Central Government.

The Council has indicated its desire to acquire property for the long-term to increase financial resilience and improve the overall economic wellbeing of the district. It is recommended a variety of assets are acquired in order to spread sector risk.

#### 3 Definition of an Acquisition Regeneration and Investment Strategy

This strategy will apply to all acquisitions of land and property and for the purpose of this strategy an acquisition is defined as acquiring a legal interest in land and property, the taking of a freehold, leasehold or license in land and property for investment purposes.

#### 4 Statutory Powers for an Acquisition

Under section 120 (1) (b) of the Local Government Act 1972, the Council has the power to acquire property for the *benefit, improvement or development of the area*.

The 'general power of competence' contained in the Localism Act 2011 enables the Council to acquire property for investment. However, where the general power of competence is used for a commercial purpose, it must be done through a company.

#### 5 Property Acquisition

##### 5.1 Purpose of acquiring property

The purpose of acquiring assets is to promote or improve either the economic, social or environmental well-being of Craven, unlock future development opportunities, provide extended services or as an investment to generate income.

## 5.2 The Council's Strategic Framework for Acquiring Assets

Craven District Council's Council Plan 2015-2018 sets out its priorities. It's 'Enterprising Craven' priority seeks to improve infrastructure and support business growth across Craven. Suitable and timely acquisitions may improve or protect the economic vitality of Craven's market towns and villages.

The 'Financial Resilience' priority seeks to improve resilience and generate additional income streams.

Asset acquisition is a key element of the Council's Asset Management Plan.

## 5.3 Possible Risks for the Council

- Market Forces – property will need to be managed and maintained in good order. This will be compensated by increased returns. However, the property market is not a certain market and the Council may not achieve its target returns if market conditions significantly worsen.

A thorough legal and practical due diligence process prior to acquisition will help to mitigate this risk.

- Abortive cost risk – it is likely that the Council will be one of several bidders for any good quality assets available in the District and may be an unsuccessful bidder on a number of occasions. Abortive costs, including legal costs, survey fees, officer time may be incurred in abortive transactions including costs for initial feasibility investigations.

To counter this the Council's Asset and Commercial Services Team will seek out as many appropriate opportunities as possible, build relationships and communicate to the market the Council's requirement and ability to perform.

- Acquisitions will have the risk of void periods in occupation or tenants may default on payment of rent. The loss of income is a direct result however voids create further holding (and re-letting) costs which if vacant for a prolonged period of time can be substantial.

To mitigate this risk active management will be undertaken during holding periods.

## 6 The Acquisition Criteria

### 6.1 Setting up funds for the acquisition of assets

The Council's Capital Programme will be amended to include an allocation of up to £3m for the acquisitions funded initially from borrowing for suitable property purchases if and where there is capacity. Should cash resources allow then the Acquisition Fund could have this allocated to replace borrowing. The allocation of resources would be reviewed as part of the annual review of the capital programme.

Alternative funding sources can be used for acquisition if appropriate and available if approved separately by Members e.g. New Homes Bonus

A revenue budget of £10,000 will be established for any financing and one-off costs of acquisitions.

Proposals will to be developed on the basis of borrowing for capital acquisitions which promote or

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improve either the economic, social or environmental well-being of an area and for which there is a suitable business case, including being self-funding in the long term, and a risk assessment.

### **6.2 Criteria for Acquisition Decisions**

Any acquisition must satisfy one of the following criteria;

- 6.2.1** Acquisition will enable the Council to be pro-active in the property market to assist in strengthening the Districts' economy; or
- 6.2.2** Effective intervention will expedite agreed key strategies for the district or
- 6.2.3** Acquisition consolidates the Council's existing land holding portfolio or
- 6.2.4** Acquisition provides a realistic long term prospect to generate income or
- 6.2.5** Acquisition assists in the modernisation of the districts business infrastructure and/or encourages inward investment, re-location and business start-up
- 6.2.6** Acquisition is of good quality commercial property in traditional sectors, i.e. retail, office or industrial and will provide a secure return of at least 2% above borrowing costs

## **7 The Process of Acquiring Assets**

### **7.1 Decision to Acquire**

Due to the nature of the property market to ensure good investments are not lost, decisions may need to be taken quickly in order to put offers forward. Delegated authority to make decisions to acquire an asset is therefore given to the Chief Executive and Director of Services in consultation with the Group Leaders, Lead Members for Enterprising Craven and Financial Resilience and the Council's Section 151 and Monitoring Officers.

### **7.2 Responsibility for Making the Acquisition**

In all cases where a decision to acquire an asset has been made the acquisition must be carried out and negotiated by the Asset and Commercial Services Team.

All valuations must be carried out or verified by a fully qualified member of the Royal Institution of Chartered Surveyors with sufficient current local knowledge of the particular market, and the skills and understanding necessary to undertake the valuation competently.

All acquisitions considered will undergo qualitative and quantitative appraisal to establish suitability with consideration given to rent levels, location, property type, rent review and lease expiry pattern, tenant(s), industry sector, tenure, lease covenants, market exit constraints and physical and environmental factors. Third party advice may be called upon for specialist market knowledge.

All acquisitions will be carried out in accordance with rules laid down by the relevant professional bodies, Statute and Case Law. In addition, each element of the acquisition must be carried out in strict compliance with all relevant Public Sector and Local Government Legislation, Statutory Instruments, Government Circulars, and existing Council procedures, policies and the Constitution.

When the appraisal confirms suitability for acquisition the Asset and Commercial Services Team will make a recommendation to the Group Leaders, Lead Members for Enterprising Craven and Financial Resilience, the Chief Executive, Director of Services, Section 151 and Monitoring Officers.

If approval is obtained then Asset and Commercial Services Team will instruct Legal Services to proceed with formalising the acquisition. Instructions will include all necessary plans and details of

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any special arrangements necessary.