

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 8 February 2016

Portfolio:	Policy & Resources
Subject:	Commercial Property Investment Acquisition Strategy
Report of:	Director of Finance and Resources
Strategy/Policy:	Asset Management Plan
Corporate Objective:	A dynamic, prudent, progressive and best practice Council

Purpose:

To provide an update on the Commercial Property Investment Acquisition Strategy which was put in place after approval from the Executive in January 2013.

Executive summary:

As part of the Council's on-going review of finances and new income generating opportunities, approval was given by Executive in January 2013 to put in place a Commercial Property Investment Acquisition Strategy as a means to optimise returns on Council investments. The Executive are asked to note the six properties acquired in accordance with the Strategy.

Recommendation/Recommended Option:

That the Executive notes the update on the Commercial Property Investment Acquisition Strategy, including the details of the commercial investment properties acquired.

Reason:

To provide the Executive with an update of the properties acquired in accordance with the Commercial Property Investment Acquisition Strategy

Cost of proposals: The cost of the acquiring the 6 commercial investment properties totals £8,027,406.

Appendices: **A: Executive Briefing Paper – Investments Acquired and Financial Implications (Confidential Appendix)**

Background papers: **None**
Reference papers: **Report to Executive 7 January 2013 – Commercial Property Investment Acquisition Strategy**

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Executive Briefing Paper

Date:	8 February 2016
Subject:	Commercial Property Investment Acquisition Strategy
Briefing by:	Director of Finance and Resources
Portfolio:	Policy and Resources

INTRODUCTION

1. As part of the Council's on-going review of finances and new income generating opportunities, investigative work was carried out into the possibility of generating an on-going revenue stream by increasing its investment in commercial property.
2. This work identified that if the Council were to use some of its treasury related cash investments to acquire commercial property; it was likely that a greater return could be secured. However, it was also clear that to provide the security that such an approach would require a set of clear criteria were necessary to ensure that only high quality; low risk property assets were acquired.
3. The Executive, on 7 January 2013, agreed to put in place a Commercial Property Investment Acquisition Strategy to achieve this aim. The strategy included the criteria that would need to be considered in order to choose the most suitable investment and measures to minimise risk. The Executive also agreed to provide £3m as an initial investment to fund the acquisition programme.
4. On 7th October 2013, the Executive agreed a report on the Annual Review of the Council's Medium Term Finance Strategy. Included within the Strategy at paragraph 102 was reference to the meeting on 7 January 2013 when the Executive approved the Commercial Property Investment Acquisition Strategy which was designed to increase the Council's return on investments due to the low returns being received from treasury related investments. As mentioned in this report, the Executive agreed to commit up to £3 million of investment in commercial property to achieve returns of up to £150,000 per annum to assist in reducing funding pressures.
5. The Finance Strategy at paragraph 103 advised that a report would be brought to this Executive meeting to review the investments that have been made to date and with a view to increasing the amount available to invest by between £3 million and £5million funded from capital reserves, to relieve the pressure on the revenue budget.
6. In November 2013, the Executive agreed that a further £5 million would be made

available to fund additional commercial investment properties.

INVESTMENTS ACQUIRED

7. Following the decision of the Executive in January 2013, an industrial property; Clifton House in Segensworth was acquired in August 2013 and a property comprising a ground floor Sainsbury's unit in Eastbourne in December 2013. The properties purchased from the additional £5m approved by the Executive in November 2013 include a Sainsbury's convenience store in Streatham purchased in March 2014, a retail shop in Weymouth purchased in September 2014 and a Tesco convenience store in Poole in November 2014. The final purchase; a children's nursery in Oxford was purchased in October 2015. The full details are set out in the Confidential Appendix A.

RISK ASSESSMENT

8. The risks associated with acquiring commercial property investments and measures to minimise the exposure to risk are set out in the draft Commercial Property Investment Acquisition Strategy. Most notably are the risks that the initial capital investment will deteriorate, and the on-going revenue stream does not materialise. For this reason, there was a set of clear criteria agreed prior to any acquisition to limit the Councils exposure to these risks.

FINANCIAL IMPLICATIONS

9. For the current financial year to date, the Council is currently earning on average 0.8% from its treasury related cash investments. Had £8million been invested at this interest rate, the return for the year would be £64,000 compared to the projected rental income of £542,000; a difference of £478,000 (full details are set out in the Confidential Appendix A).

CONCLUSION

10. The report outlines the acquisitions of investment property following the Executives decision in January 2013 to provide £3million as an initial investment to fund a commercial property investment acquisition programme and the Executives decision in November 2013 to provide an additional £5 million to facilitate further investment. The report sets out the financial benefits of investing £8million in commercial investment property as opposed to treasury related investments.

Enquiries:

For further information on this report please contact Ffion Johns. (Ext 4670)