

# FAREHAM

## BOROUGH COUNCIL

### **Report to Policy and Resources Scrutiny Panel**

**Date:** 3 March 2020

**Report of:** Director of Planning and Regeneration

**Subject:** REVIEW OF THE COUNCIL'S COMMERCIAL PROPERTY  
INVESTMENT PORTFOLIO

#### **SUMMARY**

This report provides the Policy and Resources Scrutiny Panel with background to the Council's Commercial Property Investment Acquisition Strategy and update on the assets and their performance.

#### **RECOMMENDATION**

It is recommended that Members consider the contents of this report and make comments or raise any questions for clarification.

## **INTRODUCTION/ BACKGROUND**

1. The Council adopted a Commercial Property Investment Acquisition Strategy in 2013 to secure a greater return than that available via treasury related cash investments.
2. This report outlines the background to that Strategy and the current assets and their performance.
3. Approval was given by the Executive on 7 January 2013 for;
  - (a) The principle of a programme of investment in commercial property and the adoption of a Commercial Property Investment Acquisition Strategy;
  - (b) an initial investment of £3 million to fund a commercial property investment acquisition programme;
  - (c) the authority to be delegated to the Director of Finance & Resources following consultation with the Executive Leader to submit offers for commercial property investments in accordance with the criteria set out in the Commercial Property Investment Acquisition Strategy.
4. Further approval was given by the Executive on 4 November 2013 for;
  - (a) An additional £5m to fund further commercial property investment acquisitions for the reasons set out in the report; and
  - (b) reaffirmed the criteria for selecting investment opportunities as set out in the Commercial Property Investment Acquisition Strategy attached as Appendix B to the report and agreed by the Executive on 7 January 2013.
5. The Executive approved an update report on the Commercial Property Investment Acquisition Strategy on 8 February 2016 (see appendix 1).
6. The Executive has since approved three further purchases on 10 October 2016, 5 November 2018 and 5 December 2019.

## **COMMERCIAL INVESTMENTS GOVERNANCE**

7. The steps taken before a decision to purchase a property are clearly documented within the Commercial Property Investment Acquisition Strategy and tested via a challenge process involving the Head of Property Services, Director of Planning and Regeneration, and the Executive portfolio holder for Policy Strategy and Finance.
8. Decisions on commercial investments are made by the Executive in line with the criteria outlined in the Commercial Property Investment Acquisition Strategy.
9. Property and most other commercial investments are also capital expenditure and purchases are therefore also added to be the capital programme.
10. The Prudential Code for Local Authorities was revised in 2017. Since then the Council's Commercial Property portfolio has been reported via the annual Capital and

## Treasury Management Strategies.

11. The Capital Strategy for 2020/21 was reviewed by Executive on 6 January 2020 and is included on the agenda for full Council in February 2020.
12. The Treasury Management Strategy was reviewed by Executive on the 3 February 2020 and is included on the agenda for full Council in February 2020.

## RISK ASSESSMENT

13. With financial return being a key objective, the Council accepts a higher risk on commercial investment than with treasury investments. Investing in property is not risk-free, so it is important that any acquisitions reflect the Council's risk appetite in terms of maintaining the capital value of the asset in the long term, and extent to which rental income is guaranteed.
14. These risks are managed in accordance with the Commercial Property Investment Acquisition Strategy.

## PERFORMANCE

15. Total commercial investments that have been purchased in accordance with the Council's Commercial Property Investment Acquisition Strategy are summarised below and are currently valued at **£39.6 million** providing a net return of **6.9%** (as of 28 January 2020). This compares against a current treasury investment return of 2.37%.

Property Type	Purchase Cost £'000	Current Value £'000
Retail	28,515	26,850
Commercial	10,121	10,650
Other	1,890	2,050
<b>Total</b>	<b>40,526</b>	<b>39,550</b>

\* Purchase costs includes: SDLT, Legal fees etc

## CONCLUSION

16. The Council's Commercial Property Investment Portfolio reflects and accords with the adopted CPIAS approved by the Executive in 8 February 2016. This strategy has secured a greater return for the Council than that available via treasury related cash investments.

**Background Papers:**

**Reference Papers:**

**APPENDICES:**

**A** - Confidential - Commercial Property Investment Acquisition Strategy

**B** - Confidential – Asset list

**Enquiries:**

For further information on this report please contact Grant Hobday. (Ext 4320)