



Report to:	Strategy & Resources Committee	Date:	28 September 2015
Report title:	Corporate Asset Management Strategy – Governance and Portfolio Management Arrangements for the Investment Property Portfolio		
Report from:	Gerald Almeroth, Strategic Director for Resources		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Councillor Ruth Dombey, Leader of the Council Councillor Simon Wales, Deputy Leader of the Council		
Author(s)/Contact Number(s):	Ade Adebayo, Executive Head of Asset Planning, Management & Capital Delivery – 020 8770 6109		
Corporate Plan Priorities:	<ul style="list-style-type: none"> • A Smart Council 		
Open/Exempt:	Appendix B is exempt on the basis of Paragraph 3, Schedule 12A of the Local Government Act 1972		
Signed:		Date:	16 September 2015

1. Summary

- 1.1 The Strategy and Resources Committee at its meeting of the 9 February 2015 approved the Corporate Asset Management Strategy 2015-2019. The strategy included proposals for setting up an Investment Property Portfolio. The Committee also agreed to receive at a later date, a report setting out management and governance arrangements for the portfolio.
- 1.2 This report and accompanying policy sets out proposals for the portfolio. It recommends strategic priorities to guide the growth and management of the portfolio. The role of Members and officers in managing the portfolio, the standards to use in measuring performance of the portfolio and the oversight to be provided by Members are also covered. The report also recommends for disposal a number of properties that no longer fit the profile of the Investment Property Portfolio.

2. Recommendations

Strategy and Resources committee is recommended to:

- a) Agree the portfolio management and governance proposals set out in this report and accompanying policy
- b) Adopt the Statement of Ethical Investment in Property to guide the growth and management of the portfolio
- c) Commit to the aim of increasing the gross revenue income from property investment by £1.6m by 2019
- d) Agree that all new acquisitions are to achieve a minimum of 2% return net of borrowing and other costs associated with the acquisition



- e) Grant the Chief Executive, delegated powers to authorise acquisition of commercial property up to a value of £5m, where the property has been assessed and recommended for purchase in line with the policy for governance and portfolio management.
- f) Agree to the disposal of the following properties either by private treaty or through auction with the reserve price at auction set at the values indicated in the confidential Appendix B:
 - 1) Building at 7/7a High Street, Cheam
 - 2) Building at 9/9a High Street, Cheam
 - 3) Building at 11 Lower Road, Sutton
 - 4) Land adjacent to Manor Chambers, Throwley Way, Sutton
 - 5) Land at Bank Mews, Sutton Court Road, Sutton
 - 6) Land at North End Tavern, Cheam Common Road, Cheam
 - 7) Land rear of 105 Stafford Road, Wallington

3. Background

- 3.1 The Corporate Asset Management Strategy approved by the Strategy and Resources Committee requires council properties that are commercially let to be separated into two portfolios. The first is to be an Investment Property Portfolio (IPP) that will include properties and other land interests that are to be held by the Council for investment purposes and are to be managed on a fully commercial basis. The second is to include properties that do not meet the criteria for the IPP but which the Council will continue to own as they are used by third party organisations under a lease or licence, on the basis that their use serves a socio-economic purpose that is beneficial to the community.
- 3.2 Other properties which do not meet the criteria for inclusion in the Investment Property Portfolio (IPP), and are occupied by third party organisations and whose continuing ownership by the Council cannot be justified on socio-economic terms are to be reviewed and considered for disposal.
- 3.3 In agreeing the strategy for the Investment Property Portfolio, Committee requested that arrangements for governance and performance management of the IPP be brought back for approval so that Members can be satisfied that there would be sufficient oversight of the growth and management of the portfolio. A policy setting out these arrangements is therefore attached to this report for approval at Appendix A.

4. Issues

- 4.1 Following a detailed review of council's current stock of commercial properties, a high-level summary of the portfolio is set out below in Tables 1 and 2. These show the types of properties that comprise both classes of commercially let properties and set the baseline for the future growth and performance reporting of the IPP.



Table 1 – Investment Property Portfolio

Type	Number	Annual Rent (£m)	Capital Value (£m)	Initial Yield (%)	Portfolio weighting (revenue)
Industrial ¹	56	£1.096	£20.453	5.4%	38.58%
Retail	9	£0.687	£9.647	7.13%	24.19%
Offices	6	£0.678	£8.2	8.28%	23.85%
Leisure	10	£0.279	£3.94	7.1%	9.82%
Advertising/Other	9	£0.057	£0.904	6.28%	2%
Car Park	5	£0.038	£0.433	8.68%	1.32%
Agricultural	3	£0.007	£0.147	4.8%	0.25%
Sub Totals	98	£2.842	£43.712	6.5%	
Imperial Way ² (industrial)	19	£0.363	£0	0.00%	
Total	117	£3.205	£43.712	7.33%	

Table 2 – Properties held for socio-economic Reasons

Type/Reason	Number	Rent
HRA properties – shops, etc.	45	£205,600
Regeneration	6	£20,400
Leisure	14	£56,600
Industrial	2	£23,000
Car park	2	£250
Office	7	£61,800
Retail	6	£33,300
Community/Day Centre	11	£73,600
Nurseries	3	£48,800
Agricultural	2	£8,900
Others – utilities/access/residential	41	£173,000
Totals	139	£705,250

- 4.2 The aim of creating an Investment Property Portfolio and managing it on a commercial basis is to deliver a secure medium to long-term investment return for the Council. This requires agreement of a set of principles, priorities, targets, delegated powers and reporting standards so that officers are able to acquire and manage the properties in the IPP on a commercial basis.
- 4.3 The proposals set out in the accompanying policy therefore address the following matters:
- Risks
 - Objectives and strategic priorities for the IPP
 - Governance proposals
 - Portfolio mix

¹ This excludes the properties on the Imperial Way estate

² The Council has beneficial interest of about 50% of the rental income from properties on the Imperial Way estate which is physically in Croydon; it however does not own the freehold.



- Funding and financial performance of the portfolio
- Investment evaluation criteria
- Performance indicators for monitoring the portfolio
- Acquisition procedure

- 4.4 The delivery plan of the strategy adopted in February 2015 included a relatively modest target of increasing the revenue income from the IPP by £220k by 2019. The acquisition of Cantium House in February 2015 at a cost of £6.5m and with an annual gross income of £575k suggests that the Council could be more ambitious in its income expectations from property investment. The strategic priorities in the policy therefore recommend that a target be set of increasing the income from the current level of £3.2m by 50% by 2019. This would set a target of generating an additional gross income of £1.6m, and could require a commitment of up to £25m funded by prudential borrowing. In order to generate a net positive income stream for the Council, it is further proposed that each new acquisition should be justifiable on its own merits and should achieve a minimum of 2% return net of borrowing and other costs associated with the acquisition.
- 4.5 In order to be competitive in the property market it is necessary to be able to identify and act decisively in bidding for properties that meet the Council's investment criteria. The attached policy shows a timeline that may require bids to be made within 3 weeks. It is consequently recommended that the Chief Executive is granted delegated powers to authorise acquisitions up to £5m, and that the Urgency Procedure is used for acquisitions over £5m.
- 4.6 Investment in new commercial properties, some of which might be outside the borough could expose the Council to reputational risks from the type of tenants and the economic activities carried out in the buildings. The Council has consequently drafted the statement of ethical investment in property (see below) for adoption to guide the property investments made by the Council:

“Ethical investment considerations underpin the London Borough of Sutton’s decisions when making property investments. The Council is mindful that it should avoid undermining its community leadership role through profiting from, or by providing capital for activities that are inconsistent with its vision of building a community in which all can take part and all can take pride”

Review of Properties Not Meeting Threshold for Investment Portfolio

- 4.7 The delivery plan of the corporate asset management strategy included a number of commercially let properties which did not meet the criteria for investment properties and for which there were no overriding reasons for their retention on socio-economic grounds. The 9 properties that fell into this category have consequently been reviewed with contact made with existing occupiers to establish their intentions and future plans in the buildings. Councillors in the Wards that these properties are located have been informed of the reviews.
- 4.8 A schedule (confidential) summarising the outcome of the review and recommendations for the buildings is attached as Appendix B. The review proposes that the following 7 properties are put up for sale with the properties first offered for sale to the current occupants, or failing which, to



be sold either by private treaty or by auction with the reserve price at auction set at the values indicated in Appendix B:

- a) Building at 7/7a High Street, Cheam
- b) Building at 9/9a High Street, Cheam
- c) Building at 11 Lower Road, Sutton
- d) Land adjacent to Manor Chambers, Throwley Way, Sutton
- e) Land at Bank Mews, Sutton Court Road, Sutton
- f) Land at North End Tavern, Cheam Common Road, Cheam
- g) Land rear of 105 Stafford Road, Wallington

4.9 It is proposed that the Council retains ownership of the remaining 2 properties for the time being for the reasons set out in the confidential schedule.

5. Options Considered

5.1 The corporate asset management strategy was based on reviews and analysis of the different types of property owned by the Council and the recommendations which informed the strategy involved the consideration of a variety of options.

5.2 This report includes options for the commercial properties that are to be sold. The properties are to be first offered to existing occupants before consideration for sale by either private treaty or by auction.

6. Impacts and Implications

Financial

6.1 The strategy aims to increase the income earned from property lettings through a focused approach towards the management of commercial property that meets the criteria set for inclusion in a portfolio of investment properties.

6.2 The funding for purchase of investment properties will come from prudential borrowing. Each acquisition will be subject to a full financial appraisal and will only be recommended for approval on financial grounds if it achieves a return of at least 2% above the borrowing and other associated acquisition costs.

6.3 Any capital receipts from disposals of properties within the Investment Property Portfolio (IPP) will be recycled for investment in new acquisitions which will reduce future borrowing costs.

6.4 The income and expenditure within the IPP will be held in a separate account from the other commercial properties held by the Council so that the performance of the portfolio can be easily measured and reported on separately.

6.5 A target to increase the income from property investments by 50% is to be set which will mean an additional income target of £1.6m. It is not possible to say what the net additional income will be at this stage as it will depend on the acquisition costs of individual properties and the borrowing rate at the time of acquisition



Legal

- 6.6 **Local Government Act 1972** -Section 120 of the Local Government Act 1972 empowers local authorities to acquire land by agreement “any land, whether situated inside or outside their area for: the purposes of any of their functions under this or any other enactment, or for the benefit, improvement or development of their area “.
- 6.7 **Localism Act 2011** -Part 1, Section 1 of the Localism Act 2011 introduced a new “general power of competence” for local authorities who now have power to do anything that an individual may do, rather than be limited to those things which are related to or necessary for the discharge of an existing function of the authority. There are however statutory limitations on local authorities’ pre-existing powers and functions. The general power of competence is set out in subsection: “(1). *A local authority has power to do anything that individuals generally may do.*” Section 1 continues to allow a local authority to express views and beliefs on a wide range of matters – as an individual generally might do. For example Section (1) subsection (4) allows for local authorities to confer powers in any way whatever for a commercial purpose or for the benefit of the authority, its area or residents. Section 2 of the Localism Act 2011 sets out the express limitations on the power for an authority to do anything that an individual generally may do and will need to be taken into consideration when exercising the general power of competence under Section (1) (1) of the Localism Act 2011.
- 6.8 **Local Government Act 2003** - Local Government Act 2003 (c.26), Part 1, Chapter 1, subsection (12) gives a local authority power to invest for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs; requiring local authorities to self regulate their capital finance, borrowing and investment activities. Statutory Instrument (SI) 3146/2003—the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003—develops the controls and powers in the Act and requires local authorities to have regard to the CIPFA Prudential Code for Capital Finance.

Integrated Impact Assessment

- 6.9 An integrated impact assessment has been completed for the asset management strategy. It indicates that impact on protected groups from the implementation of the strategy itself is expected to be minimal as impact assessments would be carried out for specific projects or reviews that have property implications so that the necessary specific adjustments and action can be tailored to suit the issues that arise.
- 6.10 The impact of the properties to be disposed on existing occupiers is to be mitigated by first offering occupants the opportunity to acquire the Council’s freehold interest in the properties. If the Council’s freehold interests were sold to a third party, the current tenants would still have the benefit of the rights granted under their leases.



7 Appendices and Background Documents

Appendix Letter	Title
A	IPP – Policy for Governance and Portfolio Management
B	Schedule of Commercial Properties for Review (Exempt)

Background Documents

Report to Strategy & Resources Committee of 9 February 2015 – Corporate Asset Management Strategy 2015-19

Audit Trail

Version	Final	14 September 2015
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Consultation with other officers

Officer	Comments Sought	Comments checked by
Finance	Yes	Sue Hogg
Legal	Yes	Rowenna Warbuton
Economic Regeneration	Yes	Eleanor Purser
Housing	Yes	Simon Latham/Gill Daw

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