

15 December 2015

Policy, Finance and Resources

Income from Property Investment

Report of: *Chris Leslie, Finance Director*

Wards Affected: *All Wards*

This report is: *Public*

1. Executive Summary

- 1.1 In March 2015 the Asset and Enterprise Committee approved the Acquisition Policy which sets out the process for acquiring income generating assets.
- 1.2 The Committee also recommended that the Finance and Resource Committee approve a capital allocation to fund the acquisitions.

2. Recommendation(s)

- 2.1 That the acquisition policy agreed in March 2015 be reviewed and a revision brought forward, to a future committee.**
- 2.2 That the creation of a £10m property acquisition fund is revisited regarding the appropriateness of the sum and a staged approach be considered and brought forward to a future committee.**
- 2.3 That the use of existing assets be considered for future property development with an options report and associated business cases to be presented to future Committees.**

3. Introduction and Background

- 3.1 The Assets and Enterprise Committee in March 2015 proposed an acquisition fund of £10m. The Committee is asked to consider revised options of the potential for generating income from property.

4. Issue, Options and Analysis of Options

- 4.1 To fund the acquisition of income generating properties the Council will need to borrow. These borrowing costs will be fully considered as part of the financial assessments undertaken.
- 4.2 The approved Acquisition Policy is available at Appendix A. The policy states that any use of delegated authority should be reported to the next meeting of the Committee.
- 4.3 In the report presented in March 2015 a restriction of a 100 mile radius of Brentwood was mentioned. However this is not included in the Acquisition Policy that was approved by the Committee and it is intended that no restriction would be applied to location and that each opportunity be considered on its merits. Furthermore, the policy will be reviewed to ensure the council can operate in a flexible manner, required on the open market, whilst maintaining transparency when spending taxpayers' money.

Option 1 – Borrowing to Fund Acquisitions

- 4.4 Based on the investment returns figures that were presented to the Assets and Enterprise Committee in March 2015 and reproduced in Appendix A of this report the following additional income could be expected after borrowing costs.

Investment	Yield			
	6%	7%	8%	9%
£2m	£13k	£33k	£53k	£73k
£4m	£27k	£67k	£107k	£147k
£6m	£40k	£100k	£160k	£220k
£8m	£54k	£134k	£214k	£294k
£10m	£67k	£167k	£267k	£367k

- 4.5 These figures do not include management costs and assume maintenance is the responsibility of the tenant. Additionally no allowance is provided for void periods and this needs to be considered when selecting the best option for property investment.
- 4.6 Returns of 6% - 7% can be expected in the secondary class of investment properties as outlined in the investment returns section of appendix A. Returns above 7% are only expected in the tertiary class where risk is considered higher.

Option 2 – Invest from the Capital Programme

- 4.7 By investing from existing financial resources there is the opportunity cost of interest on surplus money which at short term rates is approximately 1%.
- 4.8 Taking the loss of interest into account the following additional income could be expected.

Investment	Yield			
	6%	7%	8%	9%
£1.0m	£50k	£60k	£70k	£80k
£1.5m	£75k	£90k	£105k	£120k
£2.0m	£100k	£120k	£140k	£160k

- 4.9 These figures do not include management costs and assume maintenance is the responsibility of the tenant. Additionally no allowance is provided for void periods.
- 4.10 Based on the existing capital programme there is unlikely to be capacity to invest in this activity without withdrawing some of the current capital schemes.

Option 3 – Development of Current Property Assets

- 4.11 Due to the cost of acquiring property it maybe more cost effective to develop the Council's existing property assets.
- 4.12 This would require a review of the current asset register for potential opportunities and a robust business case prepared for Members to review.

5. Reasons for Recommendation

- 5.1 It was agreed by the Asset and Enterprise Committee in March 2015 that a capital allocation be considered in relation to the Acquisition Policy.
- 5.2 A robust programme needs to be developed on a sound financial footing if a property acquisition programme is to be undertaken.

6. References to Corporate Plan

- 6.1 This reflects the Council's priority of a Prosperous Borough.

7. Implications

Financial Implications

Name & Title: Chris Leslie, Finance Director

Tel & Email: 01277 312 542 christopher.leslie@brentwood.gov.uk

- 7.1 A thorough financial appraisal will be carried out before any development decision is made.

Legal Implications

Name & Title: Saleem Chughtai, Legal Services Manager

Tel & Email: 01277 312 500 saleem.chughtai@brentwood.gov.uk

- 7.2 The recommendations are in relation to Option 3 in the report . If the recommendations are approved then there are no legal implications other than the issue of whether Options 1 and 2 are entirely rejected or deferred for further consideration after the existing property portfolio has been reviewed

8. Appendices to this report

- Appendix A – Acquisition Policy

Report Author Contact Details:

Name: Chris Leslie, Finance Director

Telephone: 01277 312542

E-mail: christopher.leslie@brentwood.gov.uk