

## BABERGH DISTRICT COUNCIL

<b>TO:</b>	<b>COUNCIL</b>	<b>REPORT NUMBER: BCa/18/35 Amended</b>
<b>FROM:</b>	<b>Cabinet Member for Assets and Investments</b>	<b>DATE OF MEETING: 23 October 2018</b>
<b>OFFICER:</b>	<b>Emily Attack - Assistant Director, Assets and Investments</b>	<b>KEY DECISION REF NO. CAB83</b>

### Strategic Property & Land Investment Fund

#### 1. PURPOSE OF REPORT

- 1.1 This report requests Cabinet's approval to establish a Strategic Property and Land Investment Fund of £3million, to be funded from borrowing as required, to enable the Council to act immediately when opportunities are available for strategic purchases.
- 1.2 The allocation of this dedicated fund will provide the Council with the opportunity to react and secure, when required, strategic properties and land, within the district.
- 1.3 The proposed fund will not require a secondary decision-making process, with the proposed final decision, to purchase, delegated to the Strategic Director (responsible for Assets and Investments) in consultation with a minimum of two Cabinet Members including the Cabinet Members for Assets and Investments, Finance and Economy. All transactions will have a thorough due-diligence process and will follow the strict criteria detailed within sections 4.5 and 4.6 of this report. Acquisitions will be reported, at Cabinet, following the completion of all purchases.

#### 2. OPTIONS CONSIDERED

- 2.1 The following options have been considered:
  - 2.1.1 **Option 1** Not allocating a fund for strategic purchases;
  - 2.1.2 **Option 2** Allocating a fund of £3million;
- 2.2 Both options above have been considered and the recommended option within this report is option 2, to allocate a fund of £3million. The reason the other option has not been recommended is detailed below.
  - 2.2.1 **Option 1** - This does not allow the Council to react and secure strategic assets on a level playing field with the commercial sector.

<p><b>3. RECOMMENDATIONS</b></p> <p>That the Council:</p> <p>3.1 Approves the establishment of a Strategic Property and Land Investment Fund of £3million to be funded from borrowing as required.</p> <p>3.2 Delegates to the Strategic Director, with responsibility for Assets and Investments, in consultation with a minimum of two Cabinet Members including the Cabinet Members for Assets and Investments, Finance and Economy, the authority to pursue and finalise purchases of strategic property and land as set out within sections 4.5 and 4.6 of this report.</p>	<p><b>REASON FOR DECISION</b></p> <p>To enable the Council to react and secure, when required, strategic property and land, as an investment opportunity, and to assist future house building and economic growth within the district.</p>
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#### 4. KEY INFORMATION

- 4.1 The Council has in the past approved, through the Strategy Committee process, the purchase of strategic assets, prior to a formal offer being made and accepted. However, the delayed decision-making process could put the Council at risk of not securing strategic properties and not being able to compete with the commercial sector, in a timely way, to gain the best purchase price for the Council.
- 4.2 The ability to act quickly with authority is particularly important when properties are sold by auction or by way of other restricted timescale methods such as best bids with a set completion date. For example, if a key piece of property within a regeneration area were to be listed for sale at auction, the Council would need the ability to act quickly to acquire it. Failure to do so could result in a lengthy and costly Compulsory Purchase Order process to enable the regeneration to come forward or alternatively could result in the inability to deliver the proposed regeneration to the detriment of the wider community.
- 4.3 Equally where property is available adjacent to other land and property holdings there can be opportunities to add value by merging the interests into a single ownership. For example, acquiring a small strip of land adjacent to a car park may enable the car park to be laid out more efficiently to provide more spaces or alternatively adjacent to residential development land it could increase the number of dwellings that can be provided.
- 4.4 The proposal is that the Council establishes a Strategic Property and Land Investment Fund and allocates £3million to be funded from borrowing as required. It is an innovative step, that some other councils have also recently adopted, to set up a fund and delegate authority to invest in strategic property and land in this way.
- 4.5 Following benchmarking with other similar councils, £3million is the most appropriate amount to allocate to this type of fund. A review would be proposed after the first year to measure the success of the fund and enable the funding allocation to be reviewed to ensure it is appropriate moving forward.

- 4.6 The nature of negotiating on property and land purchases means that the ability to act quickly and with the relevant authority is often needed. Having to make offers which are subject to Cabinet approval and wait for the next meeting cycle for proposals to be formally approved is not efficient, especially when in competition for strategic property and land with the commercial and housebuilding sectors.
- 4.7 The following criteria will be used to guide such property and land purchases:
- a) The property/land will be within the district of Babergh;
  - b) Both urban and rural opportunities will be considered;
  - c) The purchases of the property/land would represent good value for money given the potential return on investment;
  - d) The property/land will have some development potential, although not necessarily immediate, to allow the Council to be able to take a medium and long-term view;
  - e) No more than £1.5m will be paid for any individual land or property acquisition;
- 4.8 Further checks and balances would be put in place. Before agreeing to purchase any property/land, the Cabinet Members for Assets and Investments, Finance, Economy and local members will always be consulted. Once completed, the details of all property and land purchases will be reported, in full, to Cabinet. The Fund, its operation, and performance will be reviewed annually. The process as outlined in Appendix A will be followed for all purchases.

## 5. LINKS TO JOINT STRATEGIC PLAN

- 5.1 The purchase of the property, highlighted within this report and the opportunity to purchase future properties and land, meets the following key strategic priorities and outcomes:
- 5.1.1 Property investment to generate income and regenerate local areas
  - 5.1.2 Ensure there are enough good quality, environmentally efficient and cost-effective homes with the appropriate tenures and in the right locations
  - 5.1.3 Making best use of land and buildings across the Suffolk system
  - 5.1.4 Further develop the local economy and market towns to thrive.

## 6. FINANCIAL IMPLICATIONS

Revenue/Capital/ Expenditure/Income Item	
<b>Capital</b>	
Strategic Property and Land Investment Fund (to include all associated purchase costs)	£3m

- 6.1 The Council will need to borrow to pay for any purchases using this Fund and depending upon the type of asset purchased there may be some time where the Council has to cover the capital financing charges from its General Fund, before a return can be achieved.

6.2 The costs will depend upon the type of asset purchased e.g. land is depreciated over 50 years and property over 40 years.

6.3 There are also two elements to capital financing charges where borrowing is used to pay for a purchase. The first is interest, which is due from the day that a loan is taken out. The second is the minimum revenue provision (MRP / depreciation) which is paid from the financial year following the year of acquisition.

6.4 The table below identifies the capital financing costs that would be borne by the Council on the purchase of an asset for £1.5m for the first two years following acquisition for both land and property options.

	Year 1 (£)	Year 2 (£)
<b>Property Purchase</b>		
Interest (1.85% over 40 years)	27,750	27,750
MRP (40 years)	0	37,500
<b>Total Cost</b>	<b>27,750</b>	<b>65,250</b>
<b>Land Purchase</b>		
Interest (1.8% over 50 years)	27,000	27,000
MRP (50 years)	0	30,000
<b>Total Cost</b>	<b>27,000</b>	<b>57,000</b>

## 7. LEGAL IMPLICATIONS

7.1 The Local Government Act 1972, Section 120, gives the Council the power to acquire property and land.

7.2 The purchase of the property mentioned in this report and future properties/land will be subject to a legal contract. The development of the property/land may also require a planning application to be submitted or change of use.

## 8. RISK MANAGEMENT

8.1 This report is most closely linked with the Council's Corporate / Significant Business Risk No. 4c. If we do not manage our asset portfolio effectively it may result in: lost opportunity; loss of capital value; increased revenue costs and loss of public confidence. Key risks are set out below:

8.2 Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Strategic Asset Management Operational Risk 4A07. If we do not have readily accessible funds with appropriate delegations in place to make timely strategic acquisitions, then the council may miss opportunities to add assets to its portfolio which could contribute significantly to its strategic priorities	2 - Unlikely	3 – Bad / Serious	Identify funding and put appropriate delegations in place via BDC Cabinet.

## **9. CONSULTATIONS**

- 9.1 Prior to all purchases, consultation will be made with all local ward members to the land or property
- 9.2 Consultation will also take place with Planning Officers who will be able to provide pre-application planning advice for all properties and sites prior to acquisitions being completed, where appropriate.
- 9.3 Consultation with the public would also take place under the usual planning process in the event of any future redevelopment.

## **10. EQUALITY ANALYSIS**

- 10.1 The content of this report is such that there are no equality issues arising directly from this report and an Equality Impact Assessment (EIA) is not required.

## **11. ENVIRONMENTAL IMPLICATIONS**

- 11.1 Environmental issues will be considered prior to all acquisitions being made, for example as one area of due diligence, energy certificates will be obtained and reviewed.
- 11.2 All acquisitions will be reviewed, post purchase, to enable them to be as energy efficient as possible

## **12. APPENDICES**

Title	Location
(a) Acquisition Indicative Process flowchart	Attached