

TELFORD & WREKIN COUNCIL

CABINET - 12 NOVEMBER 2015

COUNCIL - 26 NOVEMBER 2015

PROPERTY INVESTMENT PORTFOLIO – INVESTING IN TELFORD'S GROWTH

REPORT OF THE ASSISTANT DIRECTOR: DEVELOPMENT, BUSINESS & EMPLOYMENT

LEAD CABINET MEMBERS – CLLR LEE CARTER and CLLR SHAUN DAVIES

PART A – SUMMARY REPORT

1. SUMMARY OF MAIN PROPOSALS

1.0 To seek approval to borrowing to establish a £20m Growth Fund to attract inward investment and deliver economic growth and revenue income, through the development of the Council's Property Investment Portfolio (PIP).

2. RECOMMENDATIONS

2.1 That Cabinet delegate authority to the Assistant Director: Development, Business & Employment, in consultation with the Assistant Director: Finance, Audit & Information and the Cabinet Member: Council Finance & Service Delivery, to consider the business case and determine the acquisition and disposal of PIP assets;

2.2 That Cabinet delegate authority to the Assistant Director: Development, Business & Employment to undertake the acquisition and disposal of PIP assets following approval to the business case as set out in 2.1;

2.3 That Cabinet recommends to Council the approval of necessary changes to the in-year (2015/16) budget framework to enable the strategy detailed in this report to be used in this financial year to facilitate the ongoing rationalisation and expansion of the PIP as outlined in this report;

2.4 That Cabinet recommends to Council the approval of necessary changes to the capital programme and revenue budget from 2015/16 to facilitate the ongoing rationalisation and expansion of the PIP as outlined in this report;

2.5 That Cabinet delegate authority to the Assistant Director: Law, Democracy & People Services to seal or sign any documents required to give effect to the recommendations contained in this report.

3. SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	The proposals within this report will support the priority of protecting and creating jobs as part of a 'Business Supporting, Business Winning Council'
	Will the proposals impact on specific groups of people?	
	No	
TARGET COMPLETION/ DELIVERY DATE	The programme of PIP investment and disposals is a continual process.	
FINANCIAL/ VALUE FOR	Yes	The Property Investment Portfolio (PIP) generates revenue income of in excess of £5m for the Council which supports a range of

MONEY IMPACT		Council services. In order to secure the ongoing viability of the PIP this report seeks approval for the PIP to prudentially borrow up to a maximum of £20m to invest in and expand the portfolio and for the necessary changes to be made to the capital and revenue budget for 2015/16 to reflect this increase in borrowing. For indicative purposes the full year revenue impact of borrowing the full £20 million over 60 years (should all the borrowing be drawn down in 2015/16 and 2016/17) would be £884k although, at present, this is an unlikely scenario and the borrowing costs would be offset by additional rental income. The individual investments, including revenue borrowing costs, will be subject to approval by the Assistant Director: Development, Business and Employment and the Assistant Director for Finance, Audit & Information after consultation with the Cabinet Member for Council Finance & Service Delivery. JAC 12/10/15
LEGAL ISSUES	Yes	The Council has the power to carry out the recommendations contained within this report but has a statutory duty to obtain best consideration when disposing of property/land. In addition, the Council is also under an obligation to comply with EU procurement requirements when it awards any contracts such as the contract for construction described in this report.
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	The opportunities and risks will be continually monitored as part of the rationalisation programme. The investment will enable inward investment and business expansions providing opportunities for job creation, regeneration and generate additional business rates
IMPACT ON SPECIFIC WARDS	No	Borough wide

PART B – ADDITIONAL INFORMATION

4. INFORMATION

- 4.1 The Council's Property Investment Portfolio (PIP) comprises a range of industrial, retail and office premises, which play a vital role in accommodating a considerable number of our local businesses. The mix of the portfolio in unit numbers is dominated by industrial premises with a smaller proportion of office and retail space.
- 4.2 The PIP also makes an important contribution to the Council's revenue budget generating a consistent income stream in excess of £5million per annum to support the delivery of Council services.
- 4.3 The PIP was originally formed from the transfer of assets from Telford Development Corporation and whilst over a number of years these assets have been bought and sold, there remains a significant proportion of assets which are of an age that means that the current income cannot be sustained in the long term without further re-investment.
- 4.4 Furthermore, whilst the demand for industrial and retail premises continues to be strong with low void rates, office premises continue to see greater voids. The higher rents and service charges associated with these office buildings means that voids have a disproportionate negative impact on the portfolio.
- 4.5 In response to this there is an ongoing disposal programme of assets which seeks to sell poor performing assets to reinvest in newer better performing sustainable investments. The PIP is self-contained and as such any capital generated from disposals is retained to be reinvested into other investments and maintain income levels. This position however requires the PIP to sell an asset before it can reinvest in another, which impacts upon the

ability to maintain the revenue income, restricts the ability to react quickly to investment opportunities that come to the market and limits the ability to grow the portfolio.

- 4.6 The Council as an authority is asset weak compared to many others and the growth of the PIP would help support the increase in its asset base.

Telford Growth Fund – Supporting Investment Opportunities

- 4.7 The Council’s ‘Business Winning’ approach, coupled with the implementation of the HCA Stewardship Agreement has resulted in significant investment into the Borough and a continuing level of interest in premises. The borough has a strong pipeline of inward investment enquiries and the Enterprise Telford pledge to business, subject to a parallel Cabinet Report, will further incentivise ‘landing’ this investment interest. The recent decision to become a non-constituent member of the WMCA also provides opportunities to attract investment in key sectors including automotive and advanced manufacturing.

- 4.8 Current investor inquiries indicate interest in leasehold schemes as well as freehold and there are opportunities for the PIP to invest in the construction of new premises with committed tenants, speculative development of industrial units to meet general market demand, investment into existing PIP premises to increase market value, acquisition of investment properties and the acquisition and development of suitable employment land. The ability to meet the range of opportunities however is currently restricted by the ability of the PIP to move quickly to commit to the scheme within the necessary timescales, given the need to raise capital from disposals first.

- 4.9 The creation of the “**Telford Growth Fund**” will allow the PIP to access borrowing up to £20million to fund further investment to deliver business growth, enable rationalisation of the PIP and increase the revenue return. The Fund will directly increase the competitiveness of the Borough’s offer to investors.

- 4.10 Set out below is an example of the potential return based upon an investment opportunity for the Council to construct a new purpose built factory for an investor which would be retained within the PIP and leased to the business. Such opportunities are coming forward on the back of the Councils work with HCA and inward investment programme.

The figures below are based upon a borrowing rate of 4% and a capital investment of £2,000,000.

Year	Rent	Repayment	Interest	Net Income
1	£120,000	£8,404	£80,000	£31,576

The income would be subject to 5 yearly rent reviews. Additionally the Authority would receive an income of some £29,000 from Business Rates per annum (rising to £58,000 if the recent changes in business rates retention come forward). It should be noted that the above does not take account of any rental growth or void periods during the investment period although such investments will only be made where the covenant strength of the business supports the investment.

Year	Rent	Repayment	Interest	Net Income
1	£1,200,000	£84,000	£800,000	£316,000

Based on this example, for indicative purposes, the potential full year net income generated from the whole £20 million investment would be £316,000 per annum.

- 4.11 In addition to the opportunities from the Business Winning approach the availability of funds would also enable the delivery of the commercial elements of the next phase of Southwater to come forward including additional hotel and retail/restaurant space.

- 4.12 The provision of the borrowing will enable short term borrowing to allow more seamless transactions in the future and give greater opportunity to manage the revenue impacts of the capital programme more efficiently. Therefore the timing of disposals can be controlled better to ensure they are sold at the optimum time.
- 4.13 As well as financial investment into new and existing assets it should also be noted that we are continuing to explore avenues to improve the return on the office assets within the portfolio. This includes exploring a range of initiatives including targeting propositions to call centre type activity and potential conversion of premises to alternative uses such as residential.
- 4.14 Opportunities to use this borrowing provision to grow the PIP will be subject to a business case which will be considered by the Assistant Director for Development, Business & Employment and Assistant Director for Finance, Audit & Information in consultation with the Cabinet Member for Finance & Service Delivery.

5 PREVIOUS MINUTES

CB-64 – 8 November 2012

6 BACKGROUND PAPERS

None

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