
REPORT FOR: CABINET

Date of Meeting:	11 th July 2019
Subject:	Property Acquisition
Key Decision:	Yes This report concerns capital expenditure of over £1 million
Responsible Officer:	Paul Walker, Corporate Director - Community
Portfolio Holder:	Cllr Keith Ferry – Deputy Leader and Portfolio Holder for Regeneration, Planning and Employment Cllr Adam Swersky – Portfolio Holder for Finances and Resources
Exempt:	No but Part II Appendices – in accordance with paragraph 3 of Schedule 12a of the Local Government Act 1972 in that they involve the likely disclosure of exempt information in relation to the financial and business affairs of any particular person (including the authority holding that information).
Decision subject to Call-in:	No
Wards affected:	All
Enclosures:	Appendix 1 – Initial Property Report - Part II Appendix 2 – Cash Flow - Part II

Section 1 – Summary and Recommendations

This report sets out details of a proposed purchase of a long term property investment out of the borough.

Recommendations:

Cabinet is requested to:

1. Approve the proposed property purchase on the Head of Terms set out at Appendix 1. This is subject to Council approval (18/7/2019) to increase the Capital Programme.
2. Approve a variation from the Investment Property Strategy in respect of the single purchase limit of £5m on this occasion only (paragraph 3)
3. Delegate to the Corporate Director Community following consultation with the Director of Finance, Portfolio Holder of Regeneration, Planning and Employment and the Portfolio Holder for Finance and Resources the final approval of the purchase, including any variation to the Heads of Terms, subject to satisfactory survey reports, valuation, due diligence and financial viability

Reason: (For recommendations)

This proposed property acquisition will be an addition to the Council's commercial investment portfolio.

Section 2 – Report

Introductory paragraph

1. Elsewhere on the agenda, a report presents the '2 Year Budget Strategy 2020/21 to 2021/22' which sets out the Council's approach to achieving financial sustainability over the medium term. The strategy is centred on 4 key themes one of which is the delivery of long term commercial investment and income generation. The report asks Cabinet to recommend to Council addition of £100m to the Capital Programme for the purchase of long term commercial investments which will generate a net return.
2. The property acquisition detailed in Appendix 1 (exempt) is the first commercial investment to be purchased from the £100m capital allocation.
3. In December 2015 the Council approved its Investment Property Strategy. The property acquisition in this report is being purchased under the

strategy. There is one area of deviation from the strategy as the purchase exceeds the single purchase limit of £5m. Cabinet is recommended to approve to vary the single purchase limit on this occasion only. Other than this the property purchase meets the criteria.

Options considered

1. **Option 1 – Do not purchase.** This option will mean that the Council misses an opportunity to strengthen its property portfolio.
2. **Option 2 – Seek Authority to vary the single purchase limit on this occasion only as it otherwise meets the Council’s investment criteria as set out in the Investment Property Strategy.** This option gives the Council the opportunity to strengthen its property portfolio to provide a revenue stream.

Implications of the Recommendation

Staffing/workforce

The management of the property will be undertaken by Corporate Estate with support on repairs and maintenance from the Facilities Management Team. This additional work will be managed within the current workforce and will not require any further expense.

Risk Management Implications

Risk included on Directorate risk register? Yes/ No

Separate risk register in place? Yes/ No

The Council has been investing in the commercial property market with the assistance of Luton Borough Council.

The main risks can be summarised as:

- Economic and property market risks
 - Asset- specific risks – location, building quality, length of unexpired lease(s), financial strength of the tenant, rental levels payable.
 - Environmental and regulatory risks
 - Reputational risks
 - Funding risk
- A report will be presented for this property transaction with details of the due diligence investigations, to be approved by the Corporate Director Community in consultation with the Director of Finance and Portfolio Holders.

Procurement Implications

Any purchase or sale of a property, interest in land, transaction in land and/or lease transaction is excluded from the Contract Procedure Rule but must be authorised in accordance with the requirements set out in the Constitution and, specifically, the Management of Asset, Property and Land Rules.

Legal Implications

Local authorities have broadly drawn powers allowing them to invest and to borrow, in each case either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs (s1 and s12 of the Local Government Act 2003). They may also acquire property by agreement located either inside or outside of their borough for the purposes of any of their functions, including their investment functions, or otherwise for the benefit, improvement or development of their area (s120 of the Local Government Act 1972). Lastly, they may also take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions, which would again include their investment functions (s111 of the Local Government Act 1972).

The Council will need to ensure that in exercising its investment and borrowing functions to expand its property portfolio, that any actions are reasonable and proportionate and for proper purposes consistent with the Council's prudential regime and its investment strategy. Investment decisions are to have in mind the Council's fiduciary duties to ensure the sound management of the public finances.

Legal due diligence will be required on the acquisition, to include a review of title and ownership, and searches and enquiries of the vendor, in order to ascertain relevant liabilities and encumbrances connected with the subject property. The results of the legal enquiries, and any associated risks, should be considered prior to any decision to enter into contract.

On any sale of an investment property the Council will be required to obtain best consideration in accordance with s123 of the Local Government Act 1972. Usually this will be achieved by placing the property onto the open market or otherwise, in respect of a sale agreed off market, demonstrating by way of professional valuation that it is achieving no less than the best consideration which is reasonably obtainable.

Financial Implications

As part of the 2 Year Budget Strategy (2020/21 to 2021/22) which is being presented to Cabinet elsewhere on this agenda, Cabinet are being asked to recommend to Council the addition of £100m to the Capital Programme for long term commercial investments. This property acquisition will be funded from within this £100m allocation. This is subject to Council approving the

£100m addition to the Capital Programme on 18 July 2019.

The property acquisition meets the Council's Investment Property Strategy with the exception of the single property purchase limit which is set at £5m. This property exceeds this limit and Cabinet are recommended to agree a variation from this limit on this occasion only.

The expected net initial yield from this property is 8% per annum, reduced to 3% net after accounting for all associated revenue costs. The minimum requirement per the Investment Strategy is 1.75% net per annum.

A £200k reserve has been established in 2018/19 in order to cover any one off revenue costs such as valuations, lease renegotiations and any other one off revenue costs associated with investment properties. The intention is to add to the reserve each year, to the value of the assumed revenue costs included for investment properties. So in the case of this proposed purchase, there is a £24k estimated allowance made for revenue costs associated with this property purchase each year. Should these costs not materialise in year, then this sum will be added to the reserve at the end of each year to cover future costs.

The monitoring of commercial income is included as part of the Council revenue monitoring procedures and will be reported to Cabinet quarterly.

The 2 Year Budget Strategy report explains that to support the long term commercial investment fund of £100m, the Investment Property Strategy will be refreshed and external professional investment advice will be engaged to support the refresh, the identification and subsequent management of commercial investments entered into. No more investment property purchases will be entered until the strategy has been refreshed and approved.

Equalities implications / Public Sector Equality Duty

There are no Equalities Implications.

Council Priorities

Please identify how the decision sought delivers these priorities.

- 1. Building a Better Harrow**
- 2. Supporting Those Most in Need**
- 3. Protecting Vital Public Services**
- 4. Delivering a Strong local Economy for All**
- 5. Modernising Harrow Council**

The decision supports the budget strategy which is being presented at this Cabinet meeting.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert

Chief Financial Officer

Date: 02 July 2019

Name: Matthew Dineen

on behalf of the
Monitoring Officer

Date: 2 July 2019

Name: Nimesh Mehta

Head of Procurement

Date: 2 July 2019

Name: Charlie Stewart

Corporate Director,
Resources

Date: 3 July 2019

Ward Councillors notified:

**NO, as it impacts on all
Wards**

EqIA carried out:

NO

EqIA cleared by:

There are no Equality Issues regarding
this proposal.

Section 4 - Contact Details and Background Papers

Contact:

Belinda Prichard – Head of Corporate Estate

020 8420 9330

Belinda.prichard@harrow.gov.uk

Background Papers:

None

Call-In Waived by the Chair of Overview and Scrutiny Committee	YES
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