



ADUR & WORTHING
COUNCILS

Executive Members for Resources
4 January 2019

Decision to be taken on or after
14 January 2019

Key Decision Yes

Ward(s) Affected: All

Bringing Forward Capital Funding from the 2019/20 budget to the 2018/19 budget

Report by the Director for Digital and Resources and Director for the Economy

Executive Summary

1. Purpose

- 1.1 To enable funds allocated for the Strategic Property Investment Fund in the 2019/20 Capital Budget to be brought forward for use in the 2018/19 capital budget year to purchase additional properties which meet the Council's Commercial Property Strategy.

2. Recommendations

- 2.2 It is recommended that the Executive Member for Resources for Adur District Council and Executive Member for Resources for Worthing Borough Council agree to bring forward funds allocated for the purchase of commercial property in the 2019/20 budget to 2018/19 to ensure its continuing contribution to the Councils' Medium Term Financial Strategy. The amounts recommended to be bought forward are:
Adur: £20.2m
Worthing: £20.7m

3. Delivering the Medium Term Financial Strategy

- 3.1 Both Councils have committed to investing in Commercial Property to produce a long term sustainable income for the Council. The investment in such property is governed by the Annual Investment Strategy - Commercial Property which was approved by the Joint Strategic Committee on the 10th July 2018. The Strategic Property Investment Fund is a core component of both Council's Medium Term Financial Strategy, and is central to ensuring the Councils' financial stability.
- 3.2 To enable this objective to be met, as part of the Capital Strategy, each Council has set aside funding for a Strategic Property Investment Fund. Each investment should generate income which exceeds the potential borrowing costs associated with the purchase or development of the new property.
- 3.3 The current Capital Strategy identifies a budget of approximately £25m per year for each Council, for the years 2018/19; 2019/20 and 2020/21. The total fund size for each Council being targeted as approximately £75m for each Council, £150m in total.
- 3.4 In the 2018/19 financial year the Head of Major Projects & Investment and Asset Portfolio Manager have worked to purchase a number of properties. For Adur District this has included a petrol filling station in Cosham, an office building in Uxbridge and currently working to purchase a retail superstore in Altrincham, Greater Manchester for a total outlay of £24.98m. For Worthing Borough the property fund has purchased two office buildings, one in Abingdon, one in Fareham, and are shortly due to complete on an office Building in Reading, totalling £25.14m anticipated expenditure. Officers expect to achieve the income target for 2018/19 in January 2019. Furthermore, officers are actively engaged with the investment market. As active purchasers, Adur District and Worthing Borough Council are recognised and well connected in the market and continue to work to build relationships and confidence amongst vendors; that we are suitable entities with which to do business. This means we are well sighted on opportunities coming to market, often early, providing choice and ability to react promptly to suitable opportunities, which supports portfolio development.

- 3.5 Officers are in regular contact with property professionals in the course of this work to ensure that we are able to avail of the best opportunities, and to ensure we are up to date on the market and wider sentiment. Current market sentiment indicates that in the 2019/20 financial year the wider commercial property market is likely to contract due to the planned macro-economic changes affecting the UK. This contraction will be characterised by less properties coming to the market, and a consequent lack of opportunities for the Councils. However, in advance of the UK leaving the European Union there remains suitable liquidity and versatility of properties available.
- 3.6 Officers are of the view that given the Strategic Property Investment Fund's importance to the Medium Term Financial Strategy, that the potential for a property market contraction poses a risk to the successful development of a balanced portfolio in line with the Council's adopted Commercial Investment Strategy.

It is considered that bringing forward funding allocated from the 2019/20 budget while market conditions remain buoyant would enable the continued prudent development of the fund but allow us to be more selective about our purchases.

- 3.7 A report to Joint Strategic Committee on 4th December 2018 titled "Investing for the future: Capital Programme 2019/20 to 2021/22" was subsequently approved by Worthing Borough Council at its meeting on 11th December and Adur District Council on 13th December. The report included at Recommendation (f) that "the budget for the Strategic Property Investment Fund can be brought forward with the approval of the Executive Member for Resources" which enables the funding to be brought forward as set out in the paragraphs above.

4. Financial Implications

- 4.1 Adur and Worthing Councils have committed to investing in Commercial Property to generate long term sustainable income. The investment in such property is governed by the Annual Investment Strategy – Commercial Property which was approved by the Joint Strategic Committee on 10th July 2018.
- 4.2 To enable this objective to be met, as part of the Capital Strategy, each Council has set aside funding for a Strategic Property Investment Fund. Each investment should generate income which exceeds the potential borrowing costs associated with the purchase and development of the new property.

- 4.3 Whilst under the constitution the Head of Major Projects has the delegated authority to purchase property, in consultation with others, provided that a budget exists; given the nature of these investments each purchase or development is the subject of a business case which the relevant Leader and Executive Member for Resources is consulted upon.
- 4.4 The amount that can be invested in any given year by each Council is currently capped at £25m with an overall cap of £75m. However due to the number of property purchases that meet the investment objectives that have or are due to complete in 2018/19 this cap is expected to be breached. Additionally whilst the commercial property market is currently buoyant, contraction is forecast for 2019/20; a consequence is the likely reduction in the level of investment opportunities available for each Council. Consequently it is recommended that the budget for 2019/20 is brought forward to 2018/19 to enable the Council to optimise appropriate investment potential.

	Adur	Worthing
	£	£
Purchase completed	14,124,900	14,979,500
Properties under active consideration	31,067,900	30,657,100
Total value of potential purchases in 2018/19	45,192,800	45,636,600
2018/19 budget	-25,000,000	-25,000,000
Budget requested to be brought forward from 2019/20	20,192,800	20,636,600

5. Legal Implications

- 5.1 Section 124 Local Government Act 1972 provides the Councils with the power to acquire land or property.

- 5.2 Each Council's Scheme of Delegations to Officers, provides the Head of Major Projects and Investment with delegated authority to purchase property in accordance with the Strategic Property Investment Fund criteria, subject to consultation with specific Officers and Members. However, such delegations can only be exercised subject to being within budget, and as set out in the report there is no further budget available within 2018/19.
- 5.2 A resolution of the Council on 11 December 2018 authorised that the budget for the Strategic Property Investment Fund can be brought forward with the approval of the Executive Member for Resources.
- 5.3 Paragraph B16 of the Financial Procedure Rules provides that Executive Member approval is required for the release of the budget for any capital project of more than £250,000.

Background Papers

- Investing for the future: Capital Programme 2019/20 to 2021/22

Officer Contact Details:-

Cian Cronin

Head of Major Projects and Investment

07824 343896

cian.cronin@adur-worthing.gov.uk

Sustainability & Risk Assessment

1. Economic

Matter considered and no issues identified.

2. Social

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. Environmental

Matter considered and no issues identified.

4. Governance

This report details how the Councils intend to meet the budget strategy by the investment in good quality commercial property to produce additional income.