

Hart District Council – Commercial Property Acquisition and Investment Strategy

Introductio

1. This Commercial Property Acquisition Investment Strategy (“the Strategy”) aims to reinforce the current robust framework for the acquisition of property investments. It is to be followed as the Council strives to create a balanced Property Investment Portfolio, from which to derive a long term, sustainable revenue stream.
2. The key priority now is to ensure the Council’s uses its resources to generate short- and medium-term revenue income for the Council to support the funding and delivery of services to Hart residents. It seeks aims to generate a 3-4% revenue return¹ on investment when assessed as an average across the whole portfolio. There may however, be other investments where further flexibility is required, where the key objective is not necessarily yield and these cases are to be considered on a case-by-case basis where the S151 Officer and Monitoring Officer will require additional governance and approvals before investment is committed.
3. The target investment is to build a balanced portfolio with a capital value of up to £50M which will be financed where possible prudential borrowing in accordance with the Council’s Medium Term Financial Strategy (MTFS).
4. The priority will be to invest within Hart district (all residential acquisitions must be with the area of Hart) but the Strategy supports the need for flexibility in acquisition of commercial investment properties outside the district boundary as there are insufficient commercial property opportunities available within the Hart district that:
 - Will enable the investment of £50m within the parameters identified within the strategy
 - Will enable the mix of investment property types stipulated (to mitigate risk)
 - Will enable the Council to achieve the liquidity required from the investment portfolio
 - Will provide the substantial covenant strengths required for long term secure property investment.

Borrowing and Risk

5. In making any decision to invest in property, the Council will consider the statutory investment guidance issued this year from the Ministry of Housing, Communities and Local Government (MHCLG), and CIPFA’s Prudential Code, which sets the governing framework for borrowing for commercial return.

¹ This strategy is intended as a guide and any values or % are provided as indicators to the underlying principle of the policy and are not specific requirements.

6. While allowing for flexibility, both set out as a matter of prudence that local authorities need to consider the long-term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure.
7. Borrowing in advance of need purely for commercial purposes is not consistent with the Code or with the guidance.

Background

8. The Council agreed a Commercialisation Strategy in August 2018. It has since worked on procuring a modest property portfolio made up of operational assets, investment assets (both residential and commercial) and community assets. A review of operational assets has already been undertaken to ensure the efficient use of Council property and an action plan is included in the recently updated Asset Management Plan.
9. The Council is looking to progress an approach to commercialisation, set out by this updated property acquisition and investment strategy, that aims to promote investments that will generate net additional income and improve efficiency of services to decrease current or future costs. It is recognised however, that given the current commercial climate, the number of commercial opportunities with short term gain may be limited and returns on investments are unlikely to significantly increase in the short term.

Objectives

10. The objectives of the Strategy are to:
 - Secure long-term additional commercial income through strategic property investment/asset-based investments that support the Council's Corporate Plan.
 - Achieve a balanced investment portfolio of acquisition, retention and management of good quality asset-based investments that together deliver an effective, stable and significant income return to the Council.
 - Make more efficient use of assets in order to reduce the costs of Council owned and occupied assets.
 - Make investments that contribute to the improvement, development or regeneration of the district to the benefit of its residents²;
 - Make investments that support climate emergency targets and promote those which reduce carbon emissions, support renewable energy, water and energy efficiency or any other objectives as set out in the Climate Emergency Action Plan.
 - Achieve a consistent approach to considering investment opportunities, enable prioritisation of investment opportunities that meet council priorities and provide an ethical framework to support decision making
 - Maximise income return whilst minimising risk through the governance and monitoring processes as outlined in this strategy

² This Strategy is not in itself intended to be a regeneration strategy. It is a property investment and acquisition strategy. Regeneration projects fall outside this strategy and delegation process:

- Support delivery of the Council's strategic goals as articulated in the Corporate Plan and 'Vision 2040' for the district, the Council's Corporate Property Strategy and Asset Management Plan, Economic Development Strategy and Climate Emergency Action Plan.

Scope

11. This Strategy promotes a programme of investment, using a range of opportunities to build a portfolio of investments that generate income and reduce costs, to meet council priorities and objectives.
12. It is planned that up to £50 million will be invested over 5 years.
13. The Council intends to make investments in three key areas:
 - **Income generation:** Increase income through strategic property investment / asset-based investments
 - **"Invest to Save" via:**
 - **Cost Reduction:** Reduce the costs of Council owned assets
 - **Efficiency:** Improve the efficiency of services to decrease current or future costs
14. The strategy also promotes opportunities for co-investment with partner organisations of good financial and reputational standing. The options of local joint venture opportunities that meet the objectives of the Strategy should therefore be supported subject to approval of Council.

Priorities

15. The Council will promote investments in **priority sectors** and **geographic areas**, by **property type** and in order to create **economic and social value** to Hart residents and business albeit recognising that some of these benefits may be realised by investing functional economic areas outside of Hart's immediate boundaries.
16. The Council will also look at "Invest to Save" opportunities whereby a clear case can be made for savings achieved from a more efficient provision of services or use of current assets.
17. Proposed investments will be assessed to ensure that they meet the objectives of the strategy and support delivery of the Council's strategic objectives.

Priority Sectors

18. Investment will focus on **priority sectors** where investment is needed, targeting projects that support business growth and regeneration and there is alignment with broader objectives, specifically:
 - Digital Technology, particularly telecommunications, data processing and specialist electronics
 - Professional Services
 - Hospitality
 - SMEs and Micro Businesses
 - Farm diversification
 - Rural tourism, culture and heritage

Priority Geographic Areas

19. Over time, opportunities will arise to acquire commercial property investments within Hart District. Such acquisitions can bring opportunity to safeguard the economic vitality of locations within the district as well as present regeneration opportunities and/or income generation. Properties adjacent to existing Council holdings could be of particular interest where potential gains can be identified, either immediately or at a future date, by combining ownership interests. However, acquisitions beyond the district boundary on a case-by-case basis must be considered. This could broaden the opportunity to acquire good quality investments covering the range of types and locations.
20. The priority **geographic areas** are:
 - **Hart District** - Hart would be the preferred location for investment opportunities including acquisitions so that reinvestment is directly retained within the local economy and any additional capital expenditure is made in the local area. All residential acquisitions will be within Hart District's administrative area.
 - **Local Area** - Commercial asset-based investment should be within the local region as defined within the local LEP area(s). The M3 Enterprise LEP area, Solent LEP or Thames Valley Berkshire LEP area should be considered for fresh acquisitions as there is evidence (such as travel to work information for example) that demonstrates that investment in these areas has a positive impact on Hart's economy.

Priority Property Types

21. Investment will target **priority property types** for acquisitions, retention, and improvement:
 - Office, predominantly small flexible and start up business premises
 - Industrial/warehouse, light industrial premises to support rural enterprises and SMEs
 - Flexible, grow on space to support micro firms
22. The following property types may also be desirable if investment aligns with strategic priorities, objectives and/or other investment priorities:
 - Leisure and mixed use
 - Residential
 - Retail

Other Priorities

23. Investments that create the following economic, environmental, and social value will be prioritised:
 - Create opportunities for local businesses
 - Create jobs and training for residents
 - Attract inward investment into Hart district

Sources of Funding

24. All investments must be fully funded, and this should be assessed as part of the governance process for investment decision making.
 - Investment will be funded from a variety of source Improves the affordability and availability of housing
 - Improve energy consumption and reduce carbon emissions and carbon footprint

- Support delivery of the objectives of the Climate Change Action Plan and recent declaration of the Climate Emergency.

Types of Investment

25. The types of investment that the commercial strategy is promoting are:
- **Acquisitions** of assets of priority types, in priority sectors or geographic areas where the acquisition will generate additional commercial income to the Council
 - **Asset Improvement** to maximise the income generation/return on investment from new and existing Council owned assets
 - “**Invest to Save**” where a clear case can be made for savings achieved from a more efficient provision of services or use of current assets
 - **Partnerships and/or joint venture opportunities** to leverage additional private sector resources (skills or finance).
 - The Strategy also promotes other approaches that contribute towards achieving savings/reducing costs and improving buying through smarter contracts with more robust performance management frameworks tied to outcomes.
 - The disposal of assets will also be promoted where holding and retention of that asset is not generating or increasing income return and its disposal will reduce costs, improve efficiency and/ or meets the aims of achieving a balanced investment portfolio

26. Where possible, internal borrowing will be utilised in the first instance, as this is currently more cost effective than external borrowing.

Investment Criteria

27. All investments will be assessed against its strategic alignment and whether it meets financial, and economic and social value criteria albeit that the overriding objective in the short term is to secure sufficient revenue to support continuous service delivery on behalf of Hart's residents.
28. Investments are not expected to meet all (or any of) the economic and social criteria so long as the strategic objectives are met **AND** the financial metrics are met.
29. A decision to invest will depend on the balance of performance against the following criteria. All investments will be assessed against the following:
- Level of income generation
 - Maximising return on investment
 - Optimising utilisation of land and buildings
 - Reducing costs of Council owned assets
 - Making a positive impact on the portfolio – providing diversification/balance
 - Growing and stabilising business rates income

Economic, Environmental and social criteria

30. Investments should also be considered using the following criteria to ensure that the maximum economic, environmental, and social benefit is achieved. Investments should also aim to:
 - Make a positive impact on Hart's economy, which should be assessed via the value of Gross Value Added (GVA) uplift to the district and improving the district's productivity
 - invest in the redevelopment or improvement of the Council's own landholdings for these purposes.
 - Improve the affordability and availability of housing
 - Support the achievement of climate emergency targets and seek to reduce carbon emissions, support renewable energy, water and energy efficiency or any other objectives as set out in the Climate Change Action Plan.
31. No targets have been set against these criteria as the extent to which they are achieved will depend on the actual investments.

Governance & Decision Making

32. The commercial market is very quick and decisive, and the Council has recognised that decisions made to procure and invest in commercial opportunities will not necessarily suit standard local authority decision making processes. Where commercial decisions have to be made, the Council has in place strong governance arrangements that allow quick, transparent, and accountable decision-making processes.
33. All decisions in respect of property acquisitions and disposals are determined to the Joint Chief Executive, in consultation with the Portfolio Holder for Commercialisation, the Chairman of Overview and Scrutiny Committee, and the Section 151 Officer, irrespective of value (albeit this is already limited by the Council's Constitutional limit on borrowing to £30m in total). Once a decision has been reached this will be reported to Cabinet at the earliest opportunity.

Performance and Monitoring

34. The Strategy has been prepared for a 5 year period 2021 – 2026. During this period, the Council will undertake regular monitoring of the Strategy and the portfolio of investments, including the investment property portfolio, to ensure visibility of budget spend.
35. Progress in delivering against the objectives of this Strategy will be monitored and annually reported to Overview and Scrutiny Committee and Cabinet.
36. The Council will take action to ensure the portfolio of investments continues to perform against the objectives of the Strategy. This will include exiting an investment (should it be non-performing or to limit losses) or the disposal of assets where holding and retention of that asset is not generating or increasing income return and its disposal will reduce costs, improve efficiency and/ or meets the aims of achieving a balanced investment portfolio.

Risks

37. The Council acknowledges there are risks involved in pursuing a commercialisation approach and in investing in commercial investment opportunities. This Strategy provides a framework for the appraisal of

investment opportunities and the governance and decision making proposed will allow risks to be identified, assessed, and minimised as far as possible.

38. By creating and assessing investments as a portfolio, this will allow the Council to manage risk and give it the ability to invest in some higher risk activities that have higher potential returns, where these risks are offset against some lower risk opportunities across the portfolio.
39. The key risks and mitigation measures are set out in the table below. Detailed risk registers following the standard format of the Council's risk register will be provided as part of annual monitoring reports to Overview and Scrutiny Committee.

Risk	Mitigation
Investment opportunities do not meet the investment criteria	A portfolio approach will offer the ability to invest in a range and variety of investment opportunities. Both financial and non-financial criteria are to be used in the assessment of investment opportunities.
Legislative framework - Recent guidance from CIPFA on deterring borrowing for investment purposes to seek to generate a yield	The Strategy includes both financial and non-financial criteria for the assessment of investment opportunities and a business case will seek to show alignment with both to demonstrate that any borrowing will not be solely for investment purposes
The Political environment – recent guidance has suggested that Local Authorities should be more considered when making investment decisions, with the preference from Central Government seemingly to be against a commercial investment approach	A business case is to be prepared for each individual investment decision and this will flag or consider any commercial or political constraints on the proposed investment opportunity
The continued restrictions in place on access to Public Works Load Board (PWL).	To be monitored and considered by the Council. Internal borrowing to be utilised in the first instance.
COVID 19 & the Economy – the impact on the local economy and likely recession may reduce the viability of investment proposals	The strategy will operate on a commercial basis and will not therefore be investing into financial unviable schemes. However, the strategy will promote investment to support economic growth and aid economic recovery post COVID 19.

Appendix 1

Risk	Mitigation
Resources and Skills – A lack of available or suitable resources could result in delays sourcing of investment opportunities	A Senior Responsible Officer to be identified with suitable skills who is responsible for sourcing and identifying investment opportunities
Benefit Realisation	Regular monitoring of performance and benefit realisation through the life of the investment and clear exit strategy in place.
Reputation - concerning liability surrounding investments, public perception of investments made and adhering to responsible and sustainable practice.	A communication & engagement strategy may be required to manage the public perception of the Strategy.

Annex A – Example SIFT document

The purpose of this document is to provide an overview of the investment opportunity so it can be sifted initially by the Section 151 Officer, before detailed work is undertaken on a Business Case that is then presented to the Joint Chief Executive, Chairman of Overview and Scrutiny Committee and Portfolio Holder for Commercialisation.

This template is to be completed to outline the potential opportunity at a high level

Key information overview

Name of Investment Opportunity	<i>Name of investment scheme/opportunity</i>
Total Value of Investment Requirement	£
Source of the Investment	<i>Add name/source</i>
Date of Submission	<i>Enter date</i>
Investment Opportunity Overview	<i>Add text describing the scheme or investment opportunity</i>
Does the proposal align with the Investment Strategy?	<i>Outline how the investments meets the Investment Strategy objectives, criteria, priority sectors, property types and priority geographic areas</i>
Could the proposal bring economic and social benefit to the district?	<i>Outline the potential economic benefits of the investment in reference to the priorities in the Investment Strategy</i>
Are there environmental and/or sustainability benefits from the proposal?	<i>Outline the potential environmental benefits of the investment in reference to the objectives of the Climate Change Action Plan</i>
Does the investment in itself provide a 4% return individually or will it ensure the portfolio return remains at least at 3-4% after borrowing costs?	<i>Outline the potential level and type of return to the extent known</i>
What are the potential funding source(s)?	<i>Describe main source(s) of funding</i>
What is the duration of the investment?	<i>Enter timescales</i>
What is the exit strategy?	<i>Describe outcome at end of investment period RAG rating to be given to assess ease of exit</i>
What are the potential risks	<ul style="list-style-type: none"> • <i>Describe key risks</i>

	<ul style="list-style-type: none"> • XXX
--	---

Recommendation

RECOMMENDATION	xxx
Is the total Investment Value within delegated authority limits?	Yes <input type="checkbox"/> No <input type="checkbox"/>
Considerations	<ul style="list-style-type: none"> • <i>Describe any other considerations needed in making the investment decision</i> Xxx

Alignment with Priorities

Objectives	Alignment
Secure long-term additional commercial income through strategic property investment / asset-based investments that support the Council's Corporate Plan;	
Achieve a balanced investment portfolio of acquisition, retention and management of good quality asset-based investments that together deliver an effective, stable and significant income return to the Council;	
Make more efficient use of assets in order to reduce the costs of Council owned and occupied assets;	
Make investments that contribute to the improvement, development or regeneration of the district to the benefit of its residents;	
Make investments that support climate change targets and promote those which reduce carbon emissions, support renewable energy, water and energy efficiency or any other objectives as set out in the Climate Change Action Plan;	
Achieve a consistent approach to considering investment opportunities, enable prioritisation of investment opportunities that meet council priorities and provide an ethical framework to support decision making;	
Maximise income return whilst minimising risk through the governance and monitoring processes as outlined in this strategy;	
Support delivery of the Council's strategic goals as articulated in the Corporate Plan and 'Vision 2040' for the district, the Council's Corporate Property Strategy and Asset Management Plan, Economic Development Strategy and Climate Emergency Action Plan	
Priority Sectors	Alignment
Digital Technology, particularly telecommunications, data processing and specialist electronics	✓
Professional Services	
Hospitality	
SME's and Micro Businesses	
Farm diversification	
Rural tourism, culture and heritage	✓
Geographic Areas	Alignment

Appendix 1

Hart District	✓
Local LEP area(s) including the M3 Enterprise LEP area, Solent LEP or Thames Valley Berkshire LEP	
Property Types	Alignment
Office, predominantly small flexible and start up business premises	✓
Industrial/warehouse, light industrial premises to support rural enterprises and SMEs	
Flexible, grow on space to support micro firms	
The following property types may also be desirable if investment aligns with strategic priorities, objectives and/or other investment priorities:	
• Leisure and mixed use	
• Residential	
• Retail	
Economic, Environmental and social value potential	Alignment
Create opportunities for local businesses	✓
Create jobs and training for residents	
Attract inward investment to Hart district	
Improves the affordability and availability of housing	✓
Support delivery of the objectives of the Climate Emergency Action Plan	