

Appendix

From: Nick Chard, Cabinet Member for Finance
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To: Cabinet

Subject: Property Group Enterprise Fund

Date: 10 July 2006

Classification: Unrestricted

Summary:

This proposal seeks Cabinet approval for the establishment of a Property Group Enterprise Fund (with a maximum permitted deficit of £10m) to aid enterprising property acquisition in a timely, efficient and cost effective manner. This fund is proposed in order to add value to the existing property portfolio, and acquire holdings for future use, regeneration and income generation opportunities.

For Decision

1. Introduction & Background

- 1.1 Property Group has embarked on a vigorous acquisitions and disposals strategy aimed at maximising the value of the Council's land and property portfolio. The implementation of this strategy has been overseen by the Property Board (an informal advisory body comprising service directors, senior officers and members, chaired by the Chief Executive and attended by the Leader and Cabinet Member for Finance.)
- 1.2 A central plank of this strategy proposes not only the investment of capital receipts from the disposal of non operational property into assets with higher growth potential but also the strategic acquisition of land and property to add value to the Council's portfolio, aid the achievement of economic and regeneration objectives and the generation of income to supplement the Council's reduced resources.
- 1.3 In order to take full advantage of emerging opportunities it is often necessary for the Council to act swiftly to secure assets presenting significant investment potential. This may not always be readily achievable if funding available for investment in the short term relies solely on the disposal of surplus assets currently held by the Council.

- 1.4 Consequently, it is proposed to establish a fund capable of being drawn against, subject to business case acceptance, in order to realise presented opportunities and reduce the potential for missed opportunities.

2. Funding

- 2.1 It is suggested that the Property Group Enterprise Fund may be established, with a maximum deficit limit of £10m, funded from Prudential Borrowing over a period of 10 years. It is not suggested that acquisitions will be pursued to this limit as a matter of course, only that the limit be set at this realistic level in order not to preclude any significant opportunity to realise the Council's investment opportunities.
- 2.2 Any deficit will be offset as disposal income from other Council owned assets are realised. It is anticipated that the fund will be in surplus at the end of the 10-year period and may well be so at other times within the life of the fund.
- 2.3 The cost of borrowing (i.e. any loan interest) should be charged to the fund to reflect the opportunity cost of the investment.
- 2.4 It is conceivable, however, that from time to time opportunities for investment may present that might exceed the deficit threshold in advance of imminent disposal income. In order not to preclude such opportunities it is suggested that approval to exceed the deficit threshold may be sought and obtained from the Section 151 Officer, Chief Executive, Cabinet Member for Finance and Leader, provided that identified disposal income is earmarked in order to bring the fund back within the agreed threshold within a specified time frame.

3. Governance

- 3.1 The fund will be operated within the parameters of the Property Management Protocol (PMP) in compliance with the Council's Constitution and Financial Regulations, and within the Local Government Act 2003 (Ch 2 6 section 12.)
- 3.2 In developing this proposal it has become apparent that differing arrangements for governance need to be applied between
 - (a) acquisitions primarily in response to delivering service needs where business cases are driven by council service delivery objectives where there is no requirement for investment return and
 - (b) acquisitions in response to opportunities to generate income or capital gains for the council. It is conceivable that there may be some service benefits but the business cases must clearly demonstrate return on the investment to be made.

Only those acquisitions falling within (b), above, will come within the Property Group Enterprise Fund.

- 3.3 In order to underpin the desire to move swiftly to prevent loss of investment opportunity it is recommended that Cabinet should establish the Fund within the parameters outlined in this proposal and delegate authority to spend against that fund to, jointly, the Director of Property and the Director of Finance in consultation with, and subject to the agreement of, the Chief Executive, the Cabinet Member for Finance and the Leader.
- 3.4 The PMP (as set out in the Constitution) will require amendment to provide effective governance for the operation of the Enterprise Fund. The PMP currently provides for delegated authority to the Head of Property on acquisitions and disposals to an upper limit of £0.5m. It is likely that acquisitions under the Enterprise Fund will exceed that threshold.
- 3.5 Consequently, it is proposed that amendments to the PMP will be brought forward to the next available Full Council meeting seeking agreement to a higher level of delegation in relation to both acquisitions in response to service delivery requirements and acquisitions in response to opportunities to be pursued through the Enterprise Fund.
- 3.6 Those recommendations will include
 - (a) raising the threshold for delegation to the Director of Property for service delivery acquisitions from £0.5m to £1m and
 - (b) establishing a threshold for delegation to the Director of Property and Director of Finance, jointly, of £10m in relation to the Enterprise Fund, subject to the identification of budgetary provision.
- 3.7 Each investment proposal under the Enterprise Fund must be supported by a robust business case containing
 - (i) details of the proposal,
 - (ii) the rationale for making the investment,
 - (iii) the objective to be satisfied,
 - (iv) the cost to the authority,
 - (v) the opportunities to be gained and
 - (vi) the return anticipated on the investment. The investment must produce an anticipated minimum return between base rate and base rate plus 4%, expressed in terms of either capital receipt, revenue income or both, in order to reflect the opportunity cost of using cash / borrowing rather than to repay debt.
- 3.8 Each business case shall be subjected to review by the Director of Property and the Director of Finance who shall satisfy themselves that the investment proposal is valid and supportable. The proposal and the

investment capital required must be signed off by the Chief Executive, Cabinet Member for Finance and Leader, as necessary, in accordance with the Council's Property Management Protocol.

- 3.9 The operation of the fund will be reported to the Cabinet Member for Finance on a monthly basis, based on a system to be devised and agreed between the Director of Property and Director of Finance. Monitoring will record transactions against the fund ensuring that the deficit threshold is not breached (unless approved by the Section 151 Officer, Chief Executive, Cabinet Member for Finance and Leader,) that appropriate disposal income is credited to the fund and that charges against the fund are made.
- 3.10 A quarterly report shall be presented to Cabinet.
- 3.11 The question of Value Added Tax (VAT) chargeable, payable and recoverable and its effect on the Council's transactions and partial exemption limit is complex. Each case must be reviewed by the Council's Taxation Manager to establish the most advantageous route for the Council.
- 3.12 Proceeds accruing from the Fund, over and above operating costs, shall be directed to aid both the achievement of the Council's service objectives and the achievement of the Council's economic and regeneration objectives as set out in the Medium Term Plan.

4. Recommendation

Cabinet is invited to:

- Support the proposed amendments to the Property Management Protocol to be brought before Full Council.
- Approve the establishment of a Property Group Enterprise Fund with a maximum deficit balance of £10m.
- Agree that decisions on acquisitions be delegated to the joint authority of the Director of Property and Director of Finance, in consultation with the Chief Executive, Cabinet Member for Finance and Leader in accordance with the Property Management Protocol.
- Approve that operation of the fund be reported quarterly to Cabinet.

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