Property Investment Strategy 2019/20

1. Background

The Property Investment Strategy sets out the ranges and limits within which the Council can operate. It states which investments the Council may make and sets limits on the different types of investment.

2. Investment Objectives

The Council's policy objectives are to invest prudently having regard to all of the associated risks including the security of investments and to maintain liquidity in the investment portfolio to meet the Council's spending plans. This includes acquisitions of freehold and leasehold interests, and alternative investment models such as, but not limited, to sale and leaseback, income strip lease model, joint ventures and providing security for regeneration projects by signing head-leases.

The Prudential Code clearly states that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

All investments will need to contribute towards the service delivery and/or corporate objectives of the Council. This contribution may in some cases not be financial and may qualify under the headings below:

- Yield
- Regeneration
- Business rate growth

3. Property Selection

The selection of investment properties will be determined following a decision making process which includes evaluation using the Project Information Scoring Business Case, credit worthiness of tenants and risk and reward profiles, which shall include suitability for portfolio diversification, anticipated performance of the asset over its expected useful life in both financial and non-financial terms.

For in-house specified investments the Council has determined that the minimum allowable credit rating for investments that are not within the Lancashire Economic Area will be subject to a satisfactory report from a reputable credit rating agency. Full regard will also be given to all other available information.

For long-term investments within the Lancashire Economic Area the Council will consider their financial strength by assessment of their financial statements and other external indicators where available and will include an assessment of the economic and regeneration benefits to Blackpool and the wider Lancashire Economic Area.

When considering leasing, a full option appraisal and comparison of other funding sources must be made and the Council must be certain it provides the best value for money method of funding the scheme.

4. Security and Risk

The Council will invest in assets which provide an adequate level of security for the level of risk being taken. The market that the identified property is in will be assessed and the likely competition considered during the assessment to minimise risk to the Council.

The Council will seek legal advice where necessary to evaluate the potential investment to ensure best value is being obtained.

5. Liquidity

This is the risk that the timing of any cash inflows from a project will be delayed, e.g. if other organisations do not make their contributions when agreed. There is also the risk that the cash inflows will be less than expected, e.g. due to the effects of inflation, interest rates or exchange rates. The Council's exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

Investment properties will be acquired with the intention of retaining the asset for the majority of its expected useful life. Consideration is given however to the potential to dispose of investment assets if necessary in the future.

6. Capacity and Skills

The Council may appoint suitably qualified professionals in all relevant fields to ensure officers are provided with the best possible advice to make decisions. Property, legal and finance professionals are all heavily involved in the appraisals of investments to ensure all information is obtained and processed.

Discussions between the various professions are held on a regular basis to ensure scheme appraisals continue to progress and that all issues are considered.

The findings and thoughts are then reported to the relevant decision making body who will ultimately make the final decision on whether the investment proceeds.

7. Property Investment Borrowing Requirement

Any property investments will be funded from capital receipts from disposals, prudential borrowing, external funding or revenue budgets.

Although the Council is a major investor it is necessary to borrow and this is part of the investment strategy, although usually the Council will seek to dispose of property to fund new investment purchases this is not always possible.

8. Risk Profile

Quantitative indicators will be used which assess the total risk exposure including how investments are funded and rate of return over both the payback period of the investment and the length of any associated borrowing.

Consideration will also be given as to where the asset retains sufficient fair value to provide security of the investment including a statement that fair value assessment has been made within the last 12 months and that underlying assets provide security for capital investment.

For each investment a risk mitigation plan will be produced. The Council will note the purpose of each investment and the associated risks and this is demonstrated in the table below:

Reason for investment	**Associated Risks**
Highly diversified portfolio of assets	Potential for capital loss
Stable income generation	Infrequent but potentially large volatility
Potential for capital growth	High cost of entry/exit

9. Investment Monitoring

Investment properties will be monitored and assessed to ensure that the investment objectives identified above are being met, and if not corrective action is required/taken.

Any properties that are identified as failing to achieve their objectives and do not respond to any corrective action will be considered for disposal.

The performance of investment property will be reported on a quarterly basis to the Growth and Prosperity Board who can advise and direct officers accordingly.

10. CIPFA Guidance

In October 2018 CIPFA issued a statement regarding their concerns around local authorities borrowing in advance of need and investing in commercial properties. CIPFA will be issuing further guidance regarding investments and risk, and should the Property Investment Strategy require amendment it will be reported to a future Executive meeting.