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**PROPERTY INVESTMENT STRATEGY 2021/22**


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**1.0 Introduction**

- 1.1 This Property Investment Strategy has been updated with effect from November 2020 to meet the requirements of Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Property Investment Guidance published in November 2020. It focuses mainly on non-cash investments as shown in the table below.

<b>Type of Investment</b>	<b>Strategy</b>
Day to day investment of surplus cash balances – Treasury Management Investments	Treasury Management Strategy
Loans and acquisition of shares in wholly owned companies, joint ventures and other organisations for service and economic regeneration purposes	Investment Strategy
To earn investment income	Investment Strategy

**2.0 Treasury Management Investments**

- 2.1 The Council holds cash balances for day to day use, to make payments to suppliers, contractors and payroll. Balances arise as there are timing differences between Council Tax and Business Rates collected and distributed, and between other income generated and the associated service or debt management costs. The timing of long-term borrowing will be determined depending on the interest rates available which may mean that funds are held for a short period before they are required. The Council also holds reserves for future expenditure.
- 2.2 The consequential cash surpluses are invested in accordance with guidance from CIPFA. The balance of treasury management investments is expected to fluctuate with changing cash surpluses throughout the financial year. The management of cash surpluses are detailed in the Treasury Management Strategy.
- 2.3 Treasury Management Investments are reported monthly to the Treasury Management Panel with 6-monthly updates to the Executive.

### **3.0 Loans for Service purposes**

- 3.1 The Council may lend money to its subsidiary companies and joint ventures, suppliers, local businesses and charities, other local service providers, local residents and its employees to support local public services and stimulate economic generation and growth.
- 3.2 These loans are generally provided on a commercial basis and are funded by borrowing. Loan repayments of principal are treated as a capital receipt and are available to offset against the Capital Financing Requirement (CFR). As a result there is no need to set aside a Minimum Revenue Provision (MRP) to repay individual borrowing.
- 3.3 The Council assesses the risk of loss before entering into, and whilst holding, service loans and undertakes further work where necessary to assess:
- who the loan is to be made to - with appropriate enquiries to fully understand the entity where the entity is not already known/associated with the Council
  - the revenue stream associated with the loan to be made
  - that the loans will be secured against capital assets where possible, ensuring the Council receives the asset in the event of non-repayment
  - credit ratings are not routinely used for known associated entities, but would be used for supplier loans
- 3.4 Many of the most significant loans are made to subsidiary undertakings, and appropriate due diligence is undertaken. Where loans are made to external parties, these are subject to a thorough due diligence process using a range of internal and external advisors with appropriate expertise and experience to ensure appropriate risks are considered and highlighted prior to a report appraising the application being submitted to the Loans Panel.
- 3.5 The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. To mitigate this risk, loans are generally fully secured against assets and only in specific and special cases would the Council consider making loans that exceed 70% loan to value of assets.

3.6. The following table sets out the loans facilities available (exceeding £2m) at 31 December 2020:-

<b>ORGANISATION</b>	<b>TOTAL LOAN FACILITY (£m)</b>
Blackpool Housing Company	41.1
Blackpool Transport Services	37.7
Ocean Boulevard III	12.0
Blackpool Teaching Hospitals	9.2
Coolsilk	8.6
Blackpool Entertainment Company	6.0
Blackpool Pleasure Beach	5.6
Create Construction	4.5
Blackpool Airport Operations	2.8
<b>TOTAL</b>	<b>127.5</b>

3.7 These facilities are the upper limits on the outstanding loans to each borrower approved by the Council. Any additional loan would have to be subject to further consideration by the Council.

3.8 Loans when issued are expected to be repaid in full with interest. The loans are continuously monitored and if at any time during the monitoring there are indications that the loan is expected not to be repaid in full, the Authority will implement the credit control arrangements it has in place to prevent and recover overdue sums, as appropriate. The Covid-19 pandemic will continue to have an impact on businesses in 2021/22 and their ability to pay. Any recovery action plans will be monitored and reported to the Business Loans Panel on a monthly basis.

#### 4.0 Shares for Service Purposes

- 4.1 The Council may invest in the shares of its subsidiaries and other jointly owned public sector led activities. In exceptional circumstances it will consider investing in its suppliers, local businesses and organisations to support local service provision and or stimulate local economic growth and regeneration.
- 4.2 Where an investment in shares is treated as capital expenditure and is financed by borrowing, Minimum Revenue Provisions (MRP) are set aside for repayment of the borrowing which may be calculated to match asset life, or over a shorter period in line with the Council's MRP policy (Treasury Management Strategy, Annex F).
- 4.3 Shares are not held by the Council solely as an investment to achieve dividend income and for future sale, however a fall in value whereby the initial outlay may not be recovered would be a risk. To mitigate this risk, a full due diligence exercise is carried out before the purchase of shares and a business case will balance benefits with the risks. The accounts of subsidiary companies are also subject to regular monitoring.
- 4.4 The Authority does not invest in any non-specified investment types. The government defines a non-specified investment as a financial investment that is not a loan and does not meet the criteria to be treated as a specified investment see Treasury Management Strategy, Annex D for definitions of specified and non-specified investments. Shares are treated as capital investment and therefore do not meet this definition.

#### 5.0 Strategic Property Investments

- 5.1 The Ministry of Housing, Communities and Local Government (MHCLG) defines property to be an investment if it is held primarily or partially to generate a profit. The Council's Commercial Property Portfolio, including assets held for future redevelopment, are included in this category.
- 5.2 As the Council does not currently have significant levels of funds for long-term investment, the Council does not invest in property as an Investment Strategy **solely** to achieve financial income.
- 5.3 The Council does invest in property if there is a strategic reason for the acquisition and there is a legal power to do so. Strategic property assets may be affordable to hold in the long term if they also generate a profit that can be spent on local public services. Strategic properties may be held for a variety of reasons including:
  - a) Proposed redevelopment of the site or surrounding area
  - b) Future potential redevelopment of a site or surrounding area
  - c) To influence commercial use of a site
  - d) Consolidation of interests in a site
  - e) To acquire part of a site for an alternative use
  - f) To maintain a property with an existing use, or to make it available for an alternative use

g) As a result of a relationship with a strategic partner, other public sector body or business within the Borough.

- 5.4 The Council's Commercial Property Portfolio has been acquired over time and comprises office, retail and industrial assets within Blackpool and the surrounding Local Economic Partnership area.
- 5.5 Ministry of Housing, Communities and Local Government (MHCLG) guidance on Local Government Investments (2018) considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Valuations vary depending on many factors including the local, national and global economic climate. For property investments, the valuation is directly related to the rental income achieved, a vacant area may therefore have a significant impact on the valuation. Whilst it is important to monitor the property valuations, the Council has treated these acquisitions as capital expenditure and appropriately funded these assets. The property assets are not being held for sale solely as a means to repay borrowing, the intention is for them to be held for the long term.
- 5.6 All investment properties that cost or were previously valued in excess of £500k are revalued on an annual basis to provide a fair value for the preparation of the Council's accounts. The investment properties that cost or were previously valued under £500k are valued on a 4 year rolling programme. The Council believes there is no benefit to valuation being completed within 12 months of acquisition, unless a material change in the occupation or condition of the building occurs and/or the market undergoes significant change.
- 5.7 The Council assesses the risk of loss before entering into and whilst holding property investments. Consideration is given to the operational service or strategic benefit/opportunity provided by acquisition of the asset set against the risk of loss of income to service the capital expenditure. In each case the Council/Executive will receive information on the tenancies and likely income to be achieved from any vacant areas. Investment is in the context of the long-term development plans and vision for Blackpool, the Medium Term Financial Sustainability Strategy and level of reserves to mitigate any downturn.
- 5.8 Property is held as a long-term strategic asset and not a short-term financial asset. It is funded as capital expenditure and it is not therefore being held with a view to being able to convert to cash at short notice, as a treasury investment would be. Where the source of funding is borrowing, the debt taken falls within the Council's Borrowing Strategy and Minimum Revenue Provision Strategy which form Annex C and Annex F of the Treasury Management Strategy.

## 6.0 Proportionality

- 6.1 The Council has only been able to maintain and increase service activity and support to the local community in recent years through use of the income generated from investments in group companies and strategic commercial income. Without this income, services would have had to be reduced at a time when they are most needed as other support for the vulnerable in Blackpool is under severe pressure.
- 6.2 Income has also supported the Council's long-term redevelopment of Blackpool Town Centre, achieving a better offer for local people, attracting businesses and employers to the Borough and contributing towards housing needs. This is a long-term vision and the development continues with further town centre improvements such as the Conference Centre and the Tramway link helping make Blackpool a town with a sustainable future.
- 6.3 The contribution made on profit-generating investment activity helps maintain this level of regeneration whilst achieving a balanced revenue budget. The table below shows the proportion of income derived from investments as a percentage of the Council's net service expenditure. The Council is already generating a surplus of circa £2m per annum in respect of its property investments to support the revenue budget but faces challenges in maintaining this throughout 2021/22 due to the COVID-19 pandemic. The revenue consequences of COVID will be monitored throughout the year.

	2020/21	2021/22	2022/23	2023/24
	Forecast	Budgeted	Budgeted	Budgeted
	£'000	£'000	£'000	£'000
Net Service Expenditure	142,084	149,062	140,508	140,508
Treasury Management Investment Income	-	6	6	6
Commercial Rental Income	4,000	3,500	3,500	4,000
Proportionality of investments	2.82%	2.35%	2.50%	2.85%

- 6.4 The Council utilises reserves to manage short term fluctuations in income. Investment performance data will be monitored on a monthly basis. Should there be a significant permanent reduction in income; service provision would need to be reviewed.

## **7.0 Capacity, Skills and Culture**

- 7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Director of Resources, Chief Accountant, Finance Managers and senior members of the Finance team are qualified accountants with many years' experience. The Council has a Strategic Asset Manager and Estates Management team with experience in managing properties, and valuation. The Council also has an in-house legal team led by the Director of Governance and Partnerships (Monitoring Officer).
- 7.2 External advisors and consultants are used where the Council does not have the technical knowledge, experience or skills required, or the magnitude of the investment warrants external verification or support. They are also used to supplement the internal resource if Council staff do not have the capacity to manage the Council's requirements.
- 7.3 The Council supports training towards professional qualifications and for staff to attend relevant training courses for continued professional development. A management training programme is also being completed by senior members of staff. Blackpool Council is accredited by the Chartered Institute of Management Accountants (CIMA), the Association of Chartered Certified Accountants (ACCA) and CIPFA, and provides a working environment to support members and trainees of these accounting bodies. Specific training and briefing sessions are organised on subjects or projects as needs are identified.

## **8.0 Investment Indicators**

- 8.1 The Authority has set the following quantitative indicators to provide information on the Authority's total risk exposure as a result of its investment decisions.

### ***Total risk exposure and funding***

- 8.2 Total risk exposure is the Authority's total exposure to potential investment losses. Blackpool Council has a revenue budget of £149.062m and its larger investments are budgeted to contribute around £4m towards this in 2021/22. In line with CIPFA guidance Blackpool Council investment risk will be reviewed on a monthly basis by the Growth and Prosperity Board and six monthly by the Executive.
- 8.3 At 31 March 2021 the Council is estimated to under borrow by approximately £10m. This means that the Council's reserves and working capital balance were being used to reduce the actual borrowing taken. This is prudent as investment returns are low and short-term finance is readily available on the market.

### ***Rate of return***

- 8.4 Blackpool Council has been analysing the return it derives from the larger assets within its investment portfolio. As recommended by the CIPFA Prudential Property

Investment Guidance the Council will improve on reporting on the rate of return derived by investments to ensure returns do not fall below expected levels. This information will form part of the six-monthly Executive report on Investments.

- 8.5 The Council expects investments to deliver the following rates of return (investment income less all associated costs as a proportion of the sum invested). This rate of return is reflective of normal circumstances and not the environment that has materialised since the initial COVID outbreak. Property investors across the world have suffered as a result of the pandemic.

Investment	Normal Expected Rate of Return
Treasury Management Investment	>0.5%
Loans	>1.5%
Shares in Council Companies	nil
Property Investment	>2%

***Consideration of Other Indicators***

- 8.5 The Treasury Management Strategy includes additional focussed indicators which are not replicated here.
- 8.6 Consideration will be given to further performance indicators, to be included in future years, which would complement the information included in this report.