



PR.50 14/15

**Policy and Resources
Committee**

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Land and Property Investment Policy

Report by:

Commercial Director

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Purpose / Summary:

The purpose of this report is to set out the proposed policy for the Council's approach to investing in land and property.

RECOMMENDATION(S):

- (1) That members approve the Land and Property Investment policy.**

IMPLICATIONS

Legal:

The Land and Property Investment Policy is intended to complement the Council's existing legal and governance framework as set out in the Constitution and Financial/Contract standing orders. All investment decisions will need to follow the appropriate legal/financial processes in addition to this proposed policy.

Financial: FIN-139-15

There are no direct financial implications arising from this report. The Land and Property Investment Policy complements the Council's Investment Strategy as set out in the Medium Term Financial Strategy. As stated above, all land/property transactions are required to follow the Council's existing financial/contract standing orders.

Staffing :

There are no direct staffing implications arising from this report.

Equality and Diversity including Human Rights :

The proposed Land and Property Investment policy will require the Council to consider social issues as part of the investment decision, this will include compliance with relevant equalities legislation. Each individual land/property investment would need to consider any equality implications that may arise.

Risk Assessment :

Adopting the Land and Property Investment Policy will give the Council a clear framework to follow when considering investment decisions. This should help provide assurance that the Council is demonstrating probity, due diligence and strategic alignment in its land/property transactions.

Climate Related Risks and Opportunities :

There are no direct climate related risks arising from this report.

Title and Location of any Background Papers used in the preparation of this report:

None

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1 Background

- 1.1 The challenging financial climate of recent years has resulted in the need to radically realign local public services and finances. Maximising the use and effective management of assets has become even more central to the way local authorities are seeking to deliver services and provide value for money.
- 1.2 The Council recognises that the effective and prudent management of its property portfolio plays a vital and critical role in its wider service delivery objectives, where property supports its staff and customers in direct service delivery and where property can and should support local regeneration and, where appropriate, deliver robust and valuable investment income.

2 Land and Property Investment Policy

- 2.1 The application of sound commercial principles and best practice should underpin the Council's approach to estate management and support its vision of an *'Entrepreneurial Council'*. The proposed Land and Property Investment Policy (Appendix 1) sets out a strategic and operational framework to guide the Council's investment decisions in relation to land and property assets.
- 2.2 The policy complements the Council's overall Investment Strategy that is set out in the Medium Term Financial Plan
- 2.3 The Policy is based on existing best practice and UN Guidance on Responsible Investment.
- 2.4 The policy will be reviewed annually to make sure it remains fit-for-purpose and that it guides effectively the Council's approach to asset management.

3 Conclusions

- 3.1 The Land and Property Investment Policy should strengthen the Council's approach to asset management. It is recommended, therefore, that Members agree to adopt the policy set out in Appendix 1.

WEST LINDSEY DISTRICT COUNCIL

LAND AND PROPERTY INVESTMENT POLICY

2015 – 2020

Introduction

The following policy introduces the Council's core management principles; rationale and approach in respect of land and property investment activity for the period 2015 to 2020.

The policy does not describe detailed operational investment activity but does describe the framework, and principal [underlying] considerations, which the Council will follow when reviewing and subsequently agreeing investment opportunities. It is designed to support the Council's goals and objectives as outlined in the current 'Corporate Plan 2014-2018' the relevant theme being a Prosperous and Enterprising District, where the key focus of this theme is delivering business and economic growth, dealing with unemployment (especially youth unemployment), ensuring the services we deliver are business friendly and are efficient, effective and economically run. The Council can play a key role in the improvement of the local housing stock and the securing of land and property to be made available for both commercial and residential use. An essential component to this is the role we can play in ensuring the local workforce is work ready and has the necessary skills sought by businesses; both existing and new. A creative re-appraisal of the use of and current returns on our existing land and property assets will play an essential role in the achievement of our vision, as will the strategic acquisition and disposal of assets. In addition to the general aims of a public sector service provider.

The policy should be regarded as a strategic document which conveys to members; officers and the public, a high level framework describing intention; approach to risk; relevance to current objectives and overall approach to sustainable investment and sound governance.

In an increasingly competitive market place and with the likelihood of reducing central grant funding over the next several years, West Lindsey Council is keen to secure a sustainable and robust revenue based income stream. Improving the Council's approach to asset management and asset utilization will help to achieve this goal. The need to continually review operational cost bases and secure alternative sources of income has become an essential driver to exploring commercial market investment opportunities centred on both physical assets and commercial ventures.

The policy makes reference to best practice in relation to 'Sustainable & Responsible' investment which incorporates the integration of **environmental; social and governance (ESG)** concepts and their impact on the investment decision.

The policy addresses investment in relation to:-

1. Principal 'Corporate' aims; objectives & goals as identified in the 2014-2018 Corporate Plan
2. Responsible Social; Environmental & Governance principles
3. Physical asset investment
4. Risk and Financial Approach
5. Policy review

CORPORATE PLAN 2014-2018 AIMS; OBJECTIVES and GOALS.

The investment policy should support the stated aims and objectives of the Corporate Plan 2014-2018 and align with it in the widest context.

The principal elements of the Corporate Plan that impact on, and steer, this investment policy are:-

1. FINANCIAL.

Considers the need to mitigate the uncertainties surrounding revenue income, particularly, the anticipated reduction in central government revenue funding.

- a. For the financial period 2015/16 – 2019/20 the authority is projecting a £3m funding gap.
- b. Resourcing is becoming increasingly uncertain and uncontrollable.
- c. Strategies need to be developed which will deliver greater financial certainty and security.

The challenge and solution becomes one of considered, practical and risk aware investment and service transformation which delivers a range of positive attributes to the Council both financial and social.

Addressing this challenge, the authority has developed the concept of the 'Entrepreneurial Council', an approach which seeks to develop a commercial focus throughout its activity and instil legitimacy to the development of a robust investment framework and approach. Within this context, the investment policy will:-

'Guide and support the objective of seeking (investment) opportunities which will generate income and do so in a manner which will align with the core principles of the Council and its Corporate Plan and the elements further outlined in this policy'.

Identify the principles required to support considered investment decisions.

For its physical assets, the Council will adopt the following success measures to guide investment and positive management:-

SUCCESS MEASURES

- Increase the capital value of current land and property holdings
- Increase the income from current land and property holdings
- Increase Fair Value of land and property holdings

Targets for these success measures will be set annually through the Council's business planning process and monitored through 'Progress and Delivery'.

The 'Entrepreneurial' agenda gives the Council the opportunity to expand its investment remit and be creative in the approach to capital investment management. This must be structured and controlled through the strict application of the appropriate governance arrangements. The process of due diligence will be maintained through strict reporting regimes and financial modelling.

RESPONSIBLE INVESTMENT

The commitment to the concept of the '*Entrepreneurial Council*' introduces the option for the Council to explore investment opportunities beyond the acquisition of physical assets i.e. investment in other operational entities such as regional and/or national firms and/or service providers and development partners.

Irrespective of the investment class being considered, 'Responsible Investment' (RI - investing in opportunities that seek to generate both financial value and sustainable growth, or 'Responsible Social Investment' (RSI) – sustainable, socially conscious, "green", ethical investment which considers both financial return and social good, is considered to be fundamental to the authority in its drive to promote equality, fairness and sustainability and the application of good governance. RI is the integration of *environmental; social and governance* (ESG) concepts into the investment decision.

Defined by the PRI*, responsible investment is:-

An approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems.

* PRI. A group of global institutional investors, conceived by the UN, commissioned to develop Responsible Investment principles.

The Council will commit its self to the following principles when assessing the investment decision;

1. *Consider environmental, social and governance issues in the investment analysis and decision-making processes.*
2. *Seek appropriate disclosure on environmental, social and governance issues from the entities in which we invest.*
3. *Incorporate environmental, social and governance issues into our ownership policies and practices*
4. *Work with partners to enhance our effectiveness in implementing the responsible investment principles.*

Consider future social, environmental and economic market conditions to gain assurance for long term sustainability. Responsible investment will be applied to all asset classes i.e. general business investment; real estate and physical assets and will consider the application of both positive and negative screening and the identification of preferred investment sectors and themes.

- In respect of negative screening, the Council will not invest in opportunities (assets or companies) where the product; activities of the company, company policies and/or procedures do not align with best practice and sustainability e.g. labour standards; human rights; governance; Health & Safety. Negative based screening can be sector based (whole sectors of investment are rejected) or norm-based, in which case specific companies are rejected.
- For positive based screening, the Council will, within the rules of governance, give preference to those companies, organisations and developments which demonstrate positive products, activities and policies.

PHYSICAL ASSET INVESTMENT

Physical Assets are, land; buildings; infrastructure. Investment in physical assets within the authority is driven by three requirements;

- Creation and maintenance of facilities from which to deliver services, and
- To secure sustainable returns on dedicated (direct or indirect) investment property.
- Regeneration, community and local intervention requirements

In all cases the authority will seek to apply the principles of this policy. In the case of physical investment assets, the authority will seek to secure the highest levels of building performance, sustainability and income.

Sustainable Buildings

Sustainability and quality of facilities will be the overriding focus of the Council in respect of all of its physical investment activity. This will be underpinned by the following approach:

- Purchase and/or disposal of property assets that meet [or do not meet] the Councils evolving environmental and social performance standards.
- Investment in (new) building projects which are designed; constructed and subsequently managed according to the requirements of sustainable buildings
- Investment into existing building stock in order to improve sustainability and performance.
- Investment into community projects such as affordable housing and urban regeneration in order to promote a more sustainable society.

PRINCIPLES

- Ensure that it invests only in commercial physical assets which are or can be made to meet energy rating E
- Ensure that all physical assets [investment and operational] meet energy rating C by April 2018
- Where applicable and appropriate the authority will always seek to partner with contractors and developers who have 'environmental strategies & policies' within their governance structure e.g. waste recovery strategies and policy.
- Support as far as practical the 3 principal dimensions of sustainable development
 - Protection of the natural environment
 - Protection of basic natural resources
 - Protection of human health and well-being

Investment Philosophy

The Council's investment strategy is to ensure that investments meet the Council's Corporate Plan objectives. To pursue growth in the value of its property portfolio, and to invest in services to generate sustainable and robust revenue income. The philosophy will be implemented through the application of the principles set out below.

The Council will;

1. Portfolio

- a. Maintain an asset portfolio which is as diverse as practical but recognises that investment must support and maintain commerce throughout the district. A balance between securing pure investment income and social investment, supporting local business, must be secured.
- b. No sector (commercial office; retail; industrial or residential) will be precluded when considering investment opportunities.
- c. The Council will endeavour to have a diverse property portfolio. Geographical location of an asset will not preclude its inclusion in the portfolio
- d. The composition of the portfolio will be reviewed annually and balancing actions agreed as required.

2. Quality

Investment properties purchased should be of high quality or [in the case of substandard property acquired for e.g. area or town centre improvement] be capable of improvement and modernisation within an identified and sustainable budget and improved to the standards within this policy.

The Council's aim will be that tenants occupying property held purely for investment will be of high quality (good covenant) and will occupy on institutional lease terms delivering 'best in sector' rental yields and identifiable potential for growth.

Secondary and lower level investment must demonstrate potential for rental / capital growth and /or area regeneration qualities.

3. Management

The Council will adopt a pro-active approach to the management of its investment property focusing on developing a close working relationship with its tenants and understanding and meeting their needs and requirements. Tenant understanding will promote higher occupancy levels and correspondingly increasingly robust income streams. The approach will be supported by the application of the principles in the 'Lease Management' policy.

In all cases, the standard approach at rent review and lease renewal will be to seek maximum rental levels. Any variation to this approach must be sanctioned by Corporate Leadership Team.

4. Risk Management

In pursuing both direct and indirect investment in property, the Council will seek to balance income streams, through the application of timed lease renewal opportunities, so that no more than 20% of contract rents expire in any one year. The Council will further seek to;

- Ensure that all properties are fully insured for both full replacement costs and loss of rental income for the duration of any reinstatement period.
- Tenants fully comply with maintenance and repairing obligations during the period of their tenancy. This will protect the Councils investment.
- The most appropriate form of lease is used and contracting in or out of the Landlord & Tenant Act 1954 is carefully considered prior to lease commitment.
- Property with a high risk profile will only be considered as an appropriate investment with a sound business case
- Identify and consider any tax implications

Major development opportunities will only be undertaken within agreed parameters as approved by the directors and boards, with appropriate levels of risk mitigation (such as tenant pre-commitment) or where construction contract risk is clearly quantified, and appropriate investment returns identified.

5. Potential Investment and Refurbishment Opportunities

The Council acknowledges its unique position as a driver for growth and development within the West Lindsey district. Where such investment is proposed, the principles of this policy should be adhered to insofar as;

- Where investment returns are below optimum market value, the acquisition should be treated as a medium term commitment and the asset should demonstrate the potential for capital growth social return and/or support area regeneration.
- Investment assets should not be acquired if future rental and/or capital appreciation cannot be expected unless there is a sound strategic case agreed by Committee.
- The capital cost of meeting proposed energy performance standards must be considered as part of the investment decision.
- In all cases, the priority approach should be the refurbishment of existing buildings and facilities. New build investment is considered appropriate only where;
 - The building is beyond economic repair / improvement
 - The building forms part of a larger re-development proposal
 - The proposed investment is part of a green or vacant brown field development
 - The proposed investment is indirect and the Councils interest forms part of a 'joint venture' opportunity.

Policy Review

The Council's Land and Property Investment Policy will be reviewed by the Commercial Director on an annual basis and approved within the appropriate governance arrangements