Appendix 1
Three Rivers District Council
Property Strategy and Policy
December 2020

1. Introduction

The ever changing playing field of local government financing means that the Council is constantly needing to adapt and to rely more on its own resources in order to maintain the level of services to which its community has become accustomed. Therefore the Council is investing in property as a means of achieving this goal. Historically, property has proved to be a good investment for local authorities due to the appreciation in land values and opportunity to derive regular income streams and is therefore generally deemed to be a low to medium risk investment.

This property strategy sets out how the Council will optimise the use of property assets to support the delivery of services and corporate objectives, both for operational property and for investment properties providing a substantial and sustainable income stream. It complements the Council's Corporate Objectives and feeds into other Council strategies and policies. Most significantly:

- Commercial Strategy, with its three core principles of maximising value from assets, being more business-like, and income generation
- Capital Strategy
- Corporate Plan
- Treasury Management Policy, and
- Terms of Reference for the Property Investment Board

The property strategy also takes into account MHCLG Investment Guidance, the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), and with reference to CIPFA's Prudential Property Investment guidance.

Additionally, the property strategy has been influenced by recommendations stemming from the Peer Review in spring 2019 and from consultations with Members.

In summary, this document is intended to set out:

- the Council's vision and strategy for investments
- how acquisitions are undertaken
- the approach to managing existing portfolio
- how disposals are identified
- governance arrangements

2. Vision and Strategy

The Council's overarching vision is:

We want Three Rivers to be a place for everyone where all our communities enjoy a healthy and sustainable future with access to good quality housing and open spaces, high quality services, and a successful economy

Specifically in relation to property, the Council seeks to invest in a diverse range of property and investments, taking a risk-based approach. Its intention is to be innovative in utilising property assets to stimulate economic activity attract investment and create income to support service delivery.

The portfolio will be a key driver for the Council's ability to achieve its ambitions and to do this it will need to be managed in an efficient way.

Core Principles

The set of Core Principles below are designed to make sure that the property strategy is reflected in all property related decisions and 'rules of behaviour' for where the strategy is implemented.

Core Principles	
1.	Deliver **best consideration** for the Council's assets in accordance with s.123 Local Government Act 1972.
2.	**Increase income** from the Council's property assets (long term revenue streams preferred to one-off capital receipts).
3.	**Invest** in new property assets where a safe balance of security, liquidity, and yield objectives can be met.
4.	**Optimise assets** to meet the Council's corporate objectives.
5.	**Release surplus estate** for long-term revenue income and/or development.
6.	Seek out and participate in **development opportunities** via the Council's joint venture structures.
7.	Ensure **sufficient investment** is made on the Council's property assets to avoid too great a backlog maintenance liability and to maintain an asset's value.
8.	**Provide quality** modern operational buildings that will help the Council to deliver quality service to customers. Operational buildings should be efficient, attractive environments that are future-proofed, flexible and support agile working.
9.	Achieve **100% compliance** (physical buildings and health & safety)
10.	**Budget presentation** is reconfigured so that the true picture of income and expenditure can be seen for each individual asset.
11.	Support provision of a properly resourced, **professional in-house property team.**
12.	Hold a live **Asset Register held in Asset Management and GIS Data Systems** that are accurate, comprehensive, modernised, accessible, and transparent.

Overarching Strategy

The strategy for investment properties is:

To acquire and hold a broad variety of properties and other assets with property as a core element, that allow for the spreading of risk, in order to provide the Council with sustainable and secure revenue income.

There is no specific financial target to be achieved but the investment in property by the Council is intended to be grown in a measured way depending on suitable opportunities arising, which it will appraise on a case-by-case basis. Those taken forward will be implemented if they contribute to reserves and as such support the Council in delivering wider service benefits.

The strategy is intended to:

- draw out the importance of the asset base and its role in delivery of the Council's objectives particularly given there will be greater emphasis on this as a means of generating revenue and place shaping

- set out the extent to which the current property portfolio (by asset class and its total value/breakdown of properties) is it achieving what it should for the Council now and in the future

- demonstrate how its performance will be monitored to ensure the desired outcomes are achieved

The property portfolio is divided into two main categories:

- investment properties purely for revenue return and capital value
- operational properties which serve a purpose such as strategic development, economic growth, provide fit for purpose accommodation for the delivery of services and housing; and to support third party service delivery which benefits the community

The property strategy will align to the Council's capital strategy to create an integrated approach and ensure the correct prioritisation of resources.

3. Asset Acquisition Policy

New opportunities for property investment may arise from a speculative approach from a third party or as a result of proactive searching for new opportunities by officers at the Council. Any new opportunities will be added to the existing pipeline of potential projects maintained by Finance and linked to the Capital plan to ensure that their progression is tracked by the Property Steering Group (see section on Governance). When considering any new opportunity, whether purely for investment or for operational purposes, an initial assessment will be carried out to determine the extent to which it meets the Council's objectives.

If this is purely an investment and not for any operational use, the focus will be on the revenue returns over the period and the value of the asset which could be sold if necessary. Officers should regularly review such investments in the light of changes to Government policy, CIPFA guidance and PWLB borrowing regulations concerning out of District properties. A list of assets held by the Council for pure investment purposes and those held operationally are attached in the Appendix. These may be considered in any location and not necessarily within the District or its economic area.

For operational assets, a wider set of objectives will be need to be considered, for example the extent to which they meet social housing objectives or to support local businesses. These must be within District or its economic area.

To achieve this, the Property Investment Steering Group members will conduct an initial appraisal of the proposition to assess it in terms of:

- financial returns (through the production of a high level cashflow statement showing Net Present Value, Internal Rate of Return and other relevant metrics). For investment property, it must meet the hurdle criteria set by the Property Investment Board
- level of investment required by the Council – how much borrowing would be needed
- where the asset is located i.e. in-district or economic area
- the intended purpose of the asset i.e. for a Council service or purely investment
- whether or not the Council would invest alone or with a third party
- the mechanism through which the asset would be purchased and operated i.e. would it be held directly by the Council or through an arm's length vehicle

A paper setting out the proposition and an early assessment of how it meets the Council's criteria, stating the benefits and risks, will be prepared by members of the Property Investment Steering Group and presented to the Property Investment Board for consideration (see Governance section). If this is approved for further consideration, a full business case will be produced including detailed cashflows to indicate the likely returns.

Asset Selection Policy

When considering new investments, the ratio of property asset types and the use class of each property asset should be balanced. The Council will seek to avoid one type of asset being overly dominant in the portfolio to spread risk. The terms of reference of the Property Investment Board contains a set of recommended ratios between property types, particularly between residential and non-residential property. These ratios should be reviewed periodically to ensure a balanced risk profile of investments, and to respond to changes in market values for particular sectors or asset types. This will be particularly important in the light of the post Covid19 landscape and challenges faced by businesses renting accommodation from the Council.

Part of the risk assessment of an investment needs to be the liquidity of the asset, where there should be a presumption against overly illiquid assets (e.g. difficult to dispose or slow to dispose) achieving an overly dominant position in the overall portfolio. The Council should also bear in mind any adaptations that may need to be made to make any property specifically used for a purpose (e.g. a particular type of care user or business) returned to a state to generate a positive return.

The Council will have a minimum net return (after borrowing, overheads, transaction fees, etc.) to be achieved by any proposed investment. Cashflow forecasts should be carried out to ensure that a clear assessment of the net gains to the Council is made. The Council's preference is for property investments within the district or economic area but will consider other opportunities as they arise depending on the likely returns.

Housing Development Policy

Where the Council has a stake in a residential development, the primary outcome of should be the delivery of affordable housing and housing mix at the ratios set out in the latest Strategic Plan.

Where the Council invests through participation in a new development, it should be within the district or economic area. In the first instance, the Council will seek to carry out new developments in partnership with housing associations through joint venture arrangements, to provide the necessary skills and capacity in addition to risk-sharing. It is not necessarily the case that investing in a development should entail a longer term involvement in the scheme. The purpose of the investment i.e. for short term capital receipt or longer term income will be determined on a case by case basis but in general terms the Council will seek revenue generation to support its financial position.

Funding Policy

The source and quantum of funding/borrowing for new investments should be determined on a case-by-case basis, and should be in line with the Council's Capital Strategy. A sufficient budget should be made available to officers for exploring potential investments and developments to allow a reasonable level of due diligence and assessment to be carried out to inform any proposed investment/scheme that is put before the Property Investment Board and Members.

4. Asset Management Policy

Strategy

The strategy for Asset Management is:

To manage the Council's land and property portfolio through pro-active estate management in order to:

- Optimise the value of its commercial assets;
- Optimise all assets to produce an income stream at best consideration;
- Ensure that operational properties are fit for purpose, cost effective, in the correct location, and offer a safe and secure environment for staff and service users; and
- Support the wider policy aspirations of the Council, particularly those relating to climate change and economic development.

Asset Management Policy

Data and systems

For effective and efficient asset management, accurate and appropriate data need to be assembled and held on a dedicated and fit-for-purpose property system. Such data needs to be:

- List of assets and the nature of legal interest that they comprise;
- Internal and external measured areas and CAD floorplans (both ascertained through measured surveys) of all properties;
- Building Information Management ('BIM') data;
- Lease information;
- Tenant information; and
- Location information suitable for use by the Council's Geographic Information System ('GIS') mapping system.

Periodic assessment

All assets require periodic assessment and review of the following matters:

- Ascertain the condition of the properties through a comprehensive condition survey and the programme/cost of addressing backlog maintenance;
- Capital investment where necessary to ensure that a property retains its value, and remains lettable and/or fit for purpose;
- Ascertain the environmental performance of the properties and address situations where performance is poor, where it is value for money to do so;
- Ascertain whether each non-operational property produces a net benefit to the Council in terms of income and expenditure, in order to determine whether the property deserves continuing investment, or to be re-developed (if feasible) or divested.

Operational property

For solely the operational portfolio, the following to be achieved:

- For its office space, “right-sizing” the Council’s space requirement through adoption of modern ways of working; and
- Income generation from surplus space, treating and dealing with such space similarly to an investment property.

Commercial property

For the non-operational parts of the portfolio i.e. those for a purely commercial return, the following policies to be applied:

- A Letting Policy – to ensure consistency of approach to all tenants:
    - Unless a lease already is already protected by the security of tenure provisions of the Landlord & Tenant Act 1954 (as amended) and cannot be negotiated away at lease renewal, such protection should be “contracted out” of leases.
    - Properties must be ‘rack rented’ (i.e. rents set at the best rent possible). Should there be any call for a discounted rent (or other occupational cost discount) to be applied, this will only take effect via an internal transfer of funds that has been agreed through the mechanism of a service-level agreement/contract for the supply of services, or an extraordinary grant that has been awarded from a non-property budget.
    - A tenant’s repairing and insuring obligations should be industry-standard full repairing and insuring (“FRI”) obligations.
    - Where the Council provides services and facilities to tenants and occupiers, these should be fully recovered, ideally via an itemised service charge.
    - The covenant strength of each lessee needs to be assessed, and where the assessment shows a weak covenant, a suitable rent deposit (or other equivalent surety) should be obtained when agreeing a new lease.
- A Garage Letting Policy – that officers have the freedom to propose a garage licence fee for each garage site to enable an optimum balance between income and retaining & attracting customers. These proposals will be approved by Members.

Land assets

To ensure the protection of the Council’s interests through the avoidance of third parties acquiring adverse interests over Council land, and to ensure a consistent and fair approach to all customers, licences need to be agreed for all situations where a permission needs to be granted. This will be achieved by a Licensing Policy:

- The assessment of the extent of licensable situations for a land asset;
- Agreeing licences where none exist, or updating those which have not been reviewed for some time;
- Each licence is to be granted subject to a consistent and fair licence fee that that officers have the freedom to set that achieves an optimum balance between incentive to agree a licence, property value (e.g. its Council Tax band) of the licensee, and benefit of amenity granted; and
- Where licences cannot be agreed with customers, the Council takes appropriate action to cease the amenity that the customer is taking benefit.

Performance monitoring

This will be important to assess the extent to which the portfolio is delivering against targets. Key indicators will include:

- Gross income return
- Void percentages
- Outstanding rent reviews
- Outstanding tenancy renewals
- Bad debt
- Sector weightings

These should be prepared by the Property Steering Group and reviewed on a regular basis by the Property Investment Board, taking any action where necessary.

5. Asset Disposal Policy

Strategy

The Council has in recent years has not been minded to permanently dispose of property assets. However, the strategy for disposals is now:

The disposal of assets can be considered where the asset is surplus or underperforming, and the justification for disposal is compelling.

This applies to both operational property and that owned by the Council purely for income returns. There will be opportunity and/or requirement to dispose of property because it is no longer serving the purposes intended. This may be increasingly important in relation to investment properties in the current economic climate (post Covid19) where tenants are in financial difficulty and request changes to their tenancies. The Council therefore needs to have clarity on its process for identifying when a disposal is required and how it will be carried out. When considering disposals for investment property, this will be a commercial decision whereas with operational assets these will require a wider set of factors to be taken into account.

Disposal Policy

Disposal will only be considered where the benefits from disposal significantly outweigh the current and long term benefits of holding the asset, following a detailed options analysis. Examples of assets suitable for disposal are as follows:

- the achievement of super-value for an asset such as if an approach is made by a developer for prime land
- a disposal is part of a wider transaction or scheme where the disposal is an enabler to greater and wider benefits than just the book value of the property asset, for example if the Council were to enter into a JV such as a Local Asset Backed Vehicle joint venture where land would need to be surrendered for a scheme
- the asset in its current form is not contributing to the current or future delivery of the Council's services or strategic objectives and the revenue from it is below the required level
- the service provided through the asset would be better served through another location/property
- its disposal would free up resources better utilised on another investment scheme
- Community asset transfer requests require it
- Disposal to developers or joint venture vehicles for community regeneration schemes for the development of affordable housing
- Disposal of 'incidental amenity space' and areas of landscaping or parts of these (i.e. spaces not designated as 'Open Space'), particularly where it will improve the management of the land benefiting the wider public, transfer a long-term maintenance liability, provides a return on land that the public is unable to access or enjoy, or clears up anomalies of past land sales, acquisitions, or transfers.

The approach to disposal will involves four separate and distinct elements:

- The process for identifying and declaring assets as surplus or under-performing;
- Determination of the method of disposal;
- The procedure for managing the asset prior to its disposal; and
- Formal disposal of the asset.

This policy document will only address the first of these elements as a guide to determining whether the next steps are necessary. This is because the subsequent steps are varied and complex, and that as disposals are currently a rarity for the Council, there is no compelling need to set out a policy on each and every disposal method or its process.

The Process for Identifying and Declaring Assets as Surplus

Surplus properties will be identified through the following processes. It is critical that routine tasks such as condition surveys and property reviews are carried out regularly so that any potential disposals are identified as quickly as possible and reduce the incidence of under-performance. The following will determine the identification of potential disposals:

- Service Plans and Service Reviews;
- Property review processes;
- Condition surveys;
- Local Plan designation and during development of the next iteration of the Local Plan;
- Regeneration schemes; or
- Entering into joint venture development partnerships

For the avoidance of doubt where the Council no longer requires a property but does not want it placed on the open market for sale (preferring to have it demolished and the cleared site retained by the Council) it will be classified as an Investment Property on the basis of it potential to generate rental income and or a capital receipt. A property should only be classified as being surplus if both building and site are no longer required and are available for disposal.

6. Governance

The governance of the property strategy and oversight of its policies and major transactions that stem from it is carried out by the Property Investment Board (PIB). This group comprises the Chief Executive as Chair, Director of Finance and Director of Community and Environmental Services with the Head of Property in attendance. It meets monthly or convened if there is a particular proposition to be reviewed. Its key role is to review the performance of existing investments and consider new ones being proposed.

Reporting into this group is the Property Investment Board Steering Group which also meets monthly. The Chair of this group is the Head of Property and attended by the Finance Projects team, Finance section head for the Council and the Council's lawyer. The purpose of this group is to address any operational issues with the current portfolio and review the pipeline of potential new investments.

When there is a new investment opportunity or a change to the arrangements of an existing one, a paper is produced by the Steering Group which is approved by PIB before being presented to Members of the Joint Leadership Team for a principle decision before going to Committee.

The Terms of Reference and standing agenda for each group is attached in the Appendix.

Updated by Vivien Holland on 29 November 2020 on behalf of Property Services