NOT FOR PUBLICATION
This report contains exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (matters affecting the financial affairs of the Council) - (applies to Appendix 2 and 3)

Report to:	**Audit Committee**
Date:	**6th September 2022**
Title:	**Investment Property – Update and monitoring report**
Portfolio Area:	**Performance & Resources – Cllr Edmonds**
Wards Affected:	**All Wards**

Relevant Scrutiny Committee: N/A

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Date next steps can be taken: **N/A**

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Recommendations: That the Audit Committee:

1. Notes the performance and risks of the investment property portfolio to date.

1. Executive summary

1.1. This report considers the performance of the investment portfolio to date and the risks associated therewith looking forward.

1.2. Four purchases have been made to date totalling £21.5m including costs representing 43% of the agreed borrowing limit for all Council services (£50m).

1.3. The net revenue income (an ancillary benefit) from the investment properties, after allowing for management, maintenance and risk mitigation, was £300,000 in 2021/22. Since 2018/19 when the investment properties were purchased, the net revenue income has totalled £1.05million in aggregate.

1.4. The portfolio has achieved a geographic and sector balance in line with the Regeneration and Investment Strategy. It has not achieved a balance of spread between tenants (one of the reasons for this is that the PWLB guidance changed in 2020 and the portfolio has been restricted to in-area purchases only) and there are future pressure points in 2028 created by lease events.

1.5. Over the last 12 months no investment opportunities have been identified and no purchases have been made since September 2019.

1.6. The impact of the COVID pandemic on the portfolio and its tenants is reviewed in Appendix 2.

1.7. The report sets out the latest portfolio valuation information as shown in Appendix 3.

2. Background

2.1. Four investment property acquisitions have been made by the Council, totalling £21.5m including associated costs.

2.2. The investment properties generated a net revenue income of £300,000 in 2021/22, which is an ancillary benefit which contributes to the financial sustainability of the Council, enabling it to continue to deliver, and where possible improve, frontline services.

2.3. The Regeneration and Investment Strategy was approved on 5 April 2022. This replaced the Investment Property Acquisition Strategy.

2.4. The Council has an upper borrowing limit of £50m (for all Council services).

2.5. At 31 March 2022, the Council's current level of borrowing (for all services) is £27.73m.

Four investment property purchases were made totalling £21.5m including acquisition costs. All of the borrowing taken out with the PWLB is on a fixed rate interest rate, so the Council is protected from the current interest rate rises.

2.6. This report sets out the risks, statistics and performance of the investment property portfolio to date.

3. Outcomes/outputs

3.1. The average net income of the portfolio is 1.4% which is above the minimum target of 1% set out in the Regeneration and Investment strategy.

3.2. As at the end of March 2022, 96.4% of the Council's investment portfolio income has been received. Therefore of the rental income from the portfolio of £1.19million, an amount of £43,200 is outstanding in arrears. This is detailed in Appendix 2.

3.3. A net revenue income of £300,000 per annum is currently generated as an ancillary benefit of the investment property portfolio. This is after deducting an allowance of 10% for the management, maintenance and risk mitigation fund (a fund set up to deal with maintenance, repairs or unforeseen risks).

3.4. The Investment Property portfolio has a property in each of the main asset classes – Office, Industrial and Retail.

3.5. A geographical spread within the South West Peninsula has been achieved; Regional - Bristol, Sub-regional – Exeter & Plymouth, Local – Okehampton. Following the November 2020 Public Works Loans Board review, the portfolio has been restricted to in-area purchases only.

3.6. Single and Multi-let opportunities have been acquired, with a mix of tenants (11 in total), including those with the strongest covenant strength.

3.7. A spread of lease expiries and breaks have been achieved, however, there are certain points, particularly 2028, at which there is a concentration of lease events. Any future purchases need to avoid having similar lease event dates. The acquired properties have various unexpired lease terms.

3.8. The Revenue Earmarked Reserve for the Management, Maintenance and Risk Mitigation (MMRM) currently stands at £417,502 at 31.3.2022. This is shown in the Earmarked Reserve Note to the Statement of Accounts for 2021-22. 10% of rent from the investment property portfolio (£119,000 per annum) goes into the Revenue Earmarked Reserve for MMRM which will fund void periods, management costs and repairs as and when they arise. As at 31.3.2023, the Earmarked Reserve for MMRM has a predicted balance of £536,502.

3.9. Opportunities for further acquisitions within West Devon (although limited) could further balance the investment property portfolio and the management of risk, by increasing the number of rental streams, spreading the points at which the income into the portfolio ceases (e.g. lease ends and break clauses) and increasing the diversity of tenants.

3.10. The Portfolio was revalued at March 2022 as part of the annual valuation for the Statement of Accounts, details are shown in Appendix 3 (Exempt).

3.11. Full details of the investment property portfolio performance can be found in Appendix 1. Details relating to the rental income are in Appendix 2 (Exempt).

4 Options available and consideration of risk

4.1 With the opportunities for future purchases being limited, this would leave the investment property portfolio with some risks as highlighted in the report.

4.1.1 As an example, 55% of the rental income of the investment property portfolio is currently paid by one tenant.

4.1.2 Therefore, the net income into the Council's budget from the investment property portfolio could be affected should it suffer a tenant default or tenancies ending coinciding with each other. The gross rental income from the investment property portfolio is currently just under £1.2million.

4.1.3 The Council will avoid future purchases of investment properties with significant lease events in 2028 and balance the investment property portfolio with expiry dates before and after 2028.

5 Proposed Way Forward

5.1 If in area development projects are further considered (such as employment assets), the Council should consider this impact on the portfolio balance and remain true to the risk-based approach set out in the Regeneration and Investment strategy, so as not to over expose the Council to one sector or area.

5.2 That the MMRM Earmarked Reserve fund continues to be set aside for its intended purpose (with 10% of all rental income from the investment property portfolio being put into this reserve on an annual basis, which equates to £119,000); to ensure there is a contingency against any significant unforeseen events and to deal with future likely points of expected expenditure. It had a balance of £417,502 at 31.3.2022.

6 Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Under section 12 of the Local Government Act 2003 the Council has the power to invest not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs. The Council is required to have regard to guidance issued by the Secretary of State. The current guidance requires the Council to have at least one investment strategy. The Council’s Regeneration and Investment Strategy is referred to in the report and is publicly available on the Council’s website. Appendices 2 and 3 to the report contain information relating to both the financial and business affairs of the Council and the occupiers of the investment properties. The information is not information that would be required to be published under the Companies Act 1985, the Friendly Societies Acts 1974 and 1992, the Industrial and Provident Societies Acts 1965 to 1978, the Building Societies Act 1986, or the Charities Act 1993. Such information is exempt from publication if and so long as, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing it.

		While there is a strong public interest in understanding how public money is spent or invested, this is met by the overall report which can be understood without reference to the detailed information set out in the Appendices which is specific to individual properties and occupiers. Accordingly, the public interest lies in non-disclosure at this time.
Financial	Y	As at the end of March 2022, 96.4% of the Council's investment portfolio income has been received. Therefore of the £1,190,919 of gross rental income from investment properties, an amount of £43,200 is outstanding in arrears, as detailed in Appendix 2. Since April 2018, four investment properties have been purchased to date. The net revenue income from these investment properties (an ancillary benefit) was £300,000 in 2021/22. Further details are shown in Appendix 1. The Revenue Earmarked Reserve for the Management, Maintenance and Risk Mitigation (MMRM) currently stands at £417,502 at 31.3.2022.
Risk	Y	Refer to section 4 and Appendix 1
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		

Supporting Information

Appendices:

Appendix 1 –	Investment property performance reports
EXEMPT Appendix 2 –	Rent position
EXEMPT Appendix 3 –	Valuation information