

NOT FOR PUBLICATION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 1)

Report to: **Audit and Governance Committee**

Date: **28th September 2023**

Title: **Investment Properties – Update and monitoring report**

Portfolio Area: **Economic Development, Commercial Strategy and Governance – Cllr Birch**

Wards Affected: **All Wards**

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

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

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Recommendations:

That the Committee NOTE the 31 March 2023 valuation figures of the Council's two Investment Properties and the rental income being received.

1. Executive summary

- 1.1. This report considers the financial information in respect of the Investment Property portfolio to date.
- 1.2. The portfolio comprises a historically owned property at Lee Mill, Ivybridge and a property purchased in 2019 in Dartmouth.
- 1.3. The report sets out the latest portfolio valuation information as shown in Appendix 1.

2. **Background**

- 2.1. The property acquisition in Dartmouth was made in December 2019. The purchase price was £4.7million plus acquisition costs of approximately £300,000. A report to the Executive on 6 February 2020 set out further details of the purchase (Minute E.77/19). The investment was for 12,575 sqft retail store plus eight flats (all within one lease to the tenant, the flats are sub-let).
- 2.2. The Dartmouth purchase was funded through long term Public Works Loans Board borrowing with both the principal and the interest being repaid fully over the 50-year life of the asset. The current lease expires in March 2031.
- 2.3. The historic property at Lee Mill, Ivybridge has been let to the Tenant on a ground lease (the tenant built the store) since 1978 and runs for 99 years to December 2077.
- 2.4. The properties generate a combined net income of £652,115 (see Appendix 1) in the financial year, an ancillary benefit which contributes to the financial sustainability of the Council, enabling it to continue to deliver, and where possible improve, frontline services.
- 2.5. The recent valuation information (as at 31 March 2023) can be found in Appendix 1.

3. **Outcomes/outputs**

- 3.1. The net income of the combined properties is £652,115. This allows for borrowing costs and the Maintenance Management and Risk Mitigation reserve (MMRM Reserve) for the investment property in Dartmouth.
- 3.2. Both tenants are up to date with their rental payments.
- 3.3. Both Tenants are (or are guaranteed by) secure covenants, reflecting a low risk of business failure.
- 3.4. The valuation figures as at 31 March 2023 are shown in Appendix 1. Both properties are valued by external Chartered Surveyors with the current knowledge, skills and understanding to value this type of property. The valuers are Members of the RICS (Royal Institution of Chartered Surveyors) and Registered Valuers.

The basis of the valuations is Fair Value – ‘The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date’.

- 3.5. The Revenue Earmarked Reserve for the Management, Maintenance and Risk Mitigation (MMRM) currently stands at £95,148 at 31 March 2023. This is shown in the Earmarked Reserve Note to the Statement of Accounts for 2022-23. 10% of rent from the investment property in Dartmouth goes into the Revenue Earmarked Reserve for MMRM which will fund void periods, management costs and repairs as and when they arise.

- 3.6. Details of the Council's Regeneration and Investment strategy can be found in the report approved by Full Council on 31 March 2022 (Minute CM 75/21).

<https://mg.swdevon.gov.uk/documents/s28134/Appendix%20A%20-%20Regeneration%20and%20Investment%20Strategy.pdf>

4 **Options available and consideration of risk**

- 4.1 The current income is backed by secure low risk covenants.
- 4.2 There remains a long period until the Lee Mill ground lease expires (53 years) and over 7 years for the Dartmouth asset.
- 4.3 Consideration need to be given at the appropriate time in respect of the ending of both tenancies.
- 4.4 The project has a management, maintenance and risk mitigation (MMRM) Reserve fund to help off-set any situations that may arise where there are void periods, management costs or repairs required.

5 **Proposed Way Forward**

- 5.1 Continue to monitor the payments for the quarterly rent.
- 5.2 Continue to build the MMRM Earmarked Reserve.
- 5.3 Ensure the properties continue to be revalued annually as required in March of each year. The Investment properties require an annual valuation.

6 **Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>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.</p> <p>Appendix 1 to the report contains information relating to both the financial and business affairs of</p>

		<p>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.</p> <p>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 Appendix which is specific to individual properties and occupiers. Accordingly, the public interest lies in non-disclosure at this time.</p>
Financial	Y	The net income (an ancillary benefit) was £652,115 in 2022/23 from both Investment properties. This is set out in Appendix 1.
Risk	Y	Refer to section 4
Supporting Corporate Strategy		The external audit process supports all of the Thematic Delivery Plans outlined in the current corporate strategy and emerging themes.
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:

Exempt Appendix 1 – Investment Property Valuation

Background Papers:

None