VALE OF WHITE HORSE DISTRICT COUNCIL

Report No:185/08
Wards Affected: all

REPORT OF THE STRATEGIC DIRECTOR
TO THE EXECUTIVE
3 APRIL 2009

Property Investment Policy

1.0 Introduction and Report Summary

1.1 The current Property Investment Policy was agreed in March 2004.

1.2 This report considers the policy on property investment and the current economic climate. It proposes a change to the policy and an addition to the capital programme.

1.3 The Contact Officers for this report are Steve Lawrence, Principal Accountant (Technical) (01235 540321) Stephen.lawrence@whitehorsedc.gov.uk and Andrew Morgan, Head of Property Services (01235 520202 ext. 542) andrew.morgan@whitehorsedc.gov.uk

2.0 *Recommendation*

to recommend to Council that:

a) *the Property Investment Policy be amended so that the maximum percentage of the investment portfolio in property should be 80% of the total (a change from 75%) and the cash funds invested (i.e. not held for cash-flow purposes) should not fall below £5 million (from £10 million).*

b) *A sum of £5.5 million be included in the capital programme for 2009-10 for the possible purchase of an investment property up to the value of £5.2 million plus costs, the actual purchase to be agreed by the Portfolio holder with responsibility for property.*

3.0 Relationship with the Council's Vision, Strategies and Policies

This report supports the Corporate Plan objective of managing our business effectively by optimising the use of the Council's assets. It complies with the Council's strategies for sound financial management and recommends a change in the policy on property investment.

4.0 Background

4.1 The Executive, various Committees, and full Council have considered the Council's Investment Strategy in 1999, 2001 and 2004 and agreed that the best way of maximising the return on the Council's investments, within the constraints local authorities operate under, was to hold some as cash reserves and some in property held purely for rent income and capital growth.

5.0 Current position

5.1 Attached in the confidential part of the agenda at Appendix A is a schedule of non-operational property held for investment. The value of properties held solely for investment was £37.8 million at 31 March 2008.

5.2 The Council had £11.7 million of capital receipts and £7.7 million in reserves and balances when the accounts were closed at 31 March 2008. This cash holding was split £17.3 million with a fund manager (Investec Asset Management) and £1.8 million held in-house invested short-term and used to ease cash flow. (The balance was tied up in other miscellaneous loans, the difference between debtors and creditors etc.)

6.0 The state of the property market

6.1 The current world economic climate and turmoil in the money markets has also affected values and yields on investment property. The Royal Institution of Chartered Surveyors (RICS) expects the commercial property market to see at least a 16% decline in capital values in 2009 and a further drop of up to 10 percent in 2010. In addition The RICS expects rents to fall by ten percent in 2009, four percent in 2010 and three percent in 2011.

6.2 Difficult trading and credit conditions mean that potential opportunities will be created with a number of forced disposals of investments, by a variety of organisations, looking increasingly likely. The key to their worth as an investment opportunity will be the quality of covenant which is offered. Unfortunately this is very difficult to assess with apparently sound businesses struggling.

6.3 There are currently good quality property investment opportunities available, to purchasers holding cash, at annual returns in the region of 6% and with the prospect of capital appreciation when the current downturn ends. By comparison the rates available for cash investments are between 1.5% and 2% depending on the period. So, even given the possible, declining, medium-term rates outlined in 6.1 above, these still represent a higher return than cash equivalents.

7.0 Current policy

7.1 It is difficult to say precisely how much of the Council's cash can be regarded as available for investment since all of it is on relatively short notice. If we regard the cash held in-house as adequate for cash-flow management, there is currently £15 million invested through the fund manager. Applying a 10% reduction to the Council's investment property holding would give a notional value at the year end of £34 million making a total of £49 million available. The investment in property currently represents 69% of this figure. These figures are always moving as values change but 80% in property (up from 75% under the present policy) would mean that £5.2 million of cash could be invested in property if the right opportunity came along. The Council's Financial Strategy is to move to a position where core services are funded from council tax and revenue income/government grants and developments can be funded from the income on investments. (Recommendation (q) of the budget proposal agreed 11 February 2004). This has proved very difficult to move towards given the pressure on the Council's finances.

8.0 Conclusion

8.1 The overall investment strategy of putting a significant proportion of funds available in property has been justified in terms of spreading risk and generating revenue income and capital appreciation. Attached in the confidential part of the agenda at Appendix B is a table showing the rents received from investment properties purchased since 2000 compared with the interest lost. The Council still needs to retain a cash fund for emergencies but experience has shown that £5 million would be sufficient. The downturn in the property market makes it a poor time to try to dispose of any property but could also mean that there may be opportunities to add to the property portfolio which could be accommodated in a revised policy up to a value of £5.2 million plus up to £300,000 costs. The new part of the policy would therefore become:

- the maximum percentage of the investment portfolio in property should be 80% of the total and the cash funds invested (i.e. not held for cash-flow purposes) should not fall below £5 million,

The other elements of the policy would remain as:

- in general, properties for investment will be from the categories retail, offices, industrial land and buildings, and,
- only property located in the U.K. will be considered.

8.2 Any proposal for the acquisition of a property would be developed by the Asset Management Group. The lack of any budget for property acquisition doesn't allow proposals to be considered at short notice and an offer made (subject to contract etc.) in the timescales necessary. It is therefore proposed that an amount of £5.5 million be included in the 2009-10 capital programme for the possible acquisition of an investment property up to the value of £5.2 million plus costs if a good opportunity arose.

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Background Papers:
none