

EAST HERTS COUNCIL

EXECUTIVE - 4 FEBRUARY 2014

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE

DEVELOPING AN INVESTMENT STRATEGY FOR EAST HERTS:
PROGRESS REPORT

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report outlines: progress achieved in developing an Investment Strategy for East Herts; the advice being sought; performance of the existing investment portfolio; and next steps, including an indicative programme.

RECOMMENDATIONS FOR EXECUTIVE: that:	
(A)	progress to date be noted; and
(B)	the draft outline programme be noted and that a further report will update on progress at a future Executive meeting.

1.0 Background

1.1 The report to the Executive on 5 November 2013 set out the background to developing an Investment Strategy and the principles for property investment.

1.2 This report sets out: the progress to date; the specific areas being actioned; the advice that is being sought; overall current performance of the existing investment portfolio; and next steps, including an indicative programme.

2.0 Investment areas being progressed

2.1 There are four discrete areas of possible investment that are currently being investigated and progressed. These are:

- **Acquisition of a Property Investment Portfolio** – direct investment in physical assets
- **Investment in Property Funds** – making an investment within a fund that has a number of properties and the Council pools their investment with other investors. As a consequence the risk and reward is spread across all properties in the fund for all investors.
- **Management of the existing investment property portfolio** – ensuring that the Council continues to proactively manage our current investment property portfolio.
- **Investment in the Municipal Bonds Agency - consider** whether the Council wishes to participate in the setting up of the Municipal Bonds Agency, with other partners, through the Local Government Association

3.0 Property Investment Portfolio – progress to date

3.1 Advice has been sought from a number of organisations as part of our due diligence work:

3.1.1 **Property professionals, Lambert Smith Hampton (LSH).**

They have advised East Herts on the potential ways of structuring the procurement of the acquisition of investment properties and features that may make this more or less attractive to the market and deliver best value for East Herts.

3.1.2 **A proposal has been sought and received from Capita (Asset Management) on the statutory and accounting implications of investing in any new Investment Property.**

Initial meetings have been held with Capita. Their report is due to be received by officers by late February 2014 for further consideration.

3.1.3 **Discussions with other Local Authorities already undertaking direct investment around potential partnership working.**

Direct discussions have taken place with a number of local authorities and public sector bodies who already undertake similar functions. These have been to establish both lessons learnt and for us to consider whether there are options available around partnering opportunities within the sector. Whether these options would be viable relies on important due diligence work underway in relation to governance and legal issues surrounding direct property investment.

4.0 Property Investment Portfolio – next steps

4.1 The receipt of the proposals from other local authorities and public sector bodies and the advice from Capita (Asset Management) is necessary prior to further developing the detailed plan for potential acquisition of a new Property Investment Portfolio. However, it is likely that the earliest that a new Property Investment Portfolio could start to be acquired is the end of 2014.

4.2 Appropriate governance and management arrangements will be developed and, subject to investment in property being approved, implemented.

5.0 Property Funds – progress to date

5.1 Proposals have been received from Capita (Asset Management) for the provision of advice to East Herts on the statutory and accounting implications of investing in any new Investment Property and Property Funds and for supporting the process for evaluating and selecting property funds. It is anticipated that they will commence work on both proposals during January.

6.0 Property Funds – next steps

6.1 The process to get to inception of Property Funds will include:

- Revision of East Herts' Treasury Management Strategy Statement and Annual Investment Strategy in order to enable the Council to acquire Property Funds.
- Development and approval of appropriate governance and client management arrangements.
- Sending invitations to fund managers to provide East Herts with information on their property funds.
- Analysing information provided by fund managers.
- Short-listing of funds.
- Interviewing short-listed fund managers.
- Selection of preferred fund(s).
- Receipt of required documentation from fund manager(s).

6.2 The yield achieved from Property Fund(s) will be used as a benchmark to assist with establishing what potential returns should be sought from a property investment portfolio. An estimate of the potential yield has been included within the budgets for 2014/15 and the Medium Term Financial Plan

(MTFP). These have been presented to Joint Scrutiny and are on the same agenda as this report. If the yield does not meet our expectations in the MTFP any shortfall can be funded via our Interest Equalisation Reserve in the in the short-term. In the longer-term the financial implications would need to be considered as part of future budget setting processes.

6.3 It is currently anticipated that funds may be able to be incepted by the end of April 2014 at the earliest, although the MTFP does not take account of yields until July 2014.

7.0 Existing Investment Portfolio – progress to date

7.1 The value of the Council's existing property investment portfolio is relatively small. The portfolio of investment assets plus community facilities and other properties is derived from the property assets that remain following previous disposals. The portfolio generally does not consist of prime investment property.

7.2 An analysis of the financial performance of the existing investment portfolio has been undertaken. This identified that the yield (before taking account of any provision for voids, bad debts or management costs) for each property is between 4 and 11%, average 6%. It also does not take account of any liabilities that the Council has, or may have, in respect of these properties.

8.0 Existing Investment Portfolio – next steps

8.1 The yield of the existing property investment property portfolio, appropriately adjusted for void risk, bad debt risk, management costs and liabilities, will be used as a benchmark to assist with establishing what potential returns should be sought from a new property investment portfolio.

9.0 Municipal Bonds Agency – progress to date

9.1 Discussions have been held with the Local Government Association's (LGA's) Senior Advisor responsible for managing this project.

9.2 The Council has considered information from the Municipal Bonds Agency (the Agency), including a presentation of the key reasons for proposing the Agency and their outline business case.

10.0 Municipal Bonds Agency – next steps

- 10.1 Once more detail is available we will need to make a decision about whether to participate in the Agency as a Foundation Investor.
- 10.2 If we decide that we wish to explore further the option for East Herts to participate in the Agency as a Foundation Investor, an expression of interest will need to be sent to the LGA.
- 10.3 The LGA are revising the project plan for setting up the Agency. This is scheduled to be available by the end of February and will contain key programme activities and dates. These will be reported to the Executive in future progress reports.
- 10.4 Subject to an appropriate business plan, participation in the Agency as a Foundation Investor will be considered for recommendation to the Council.
- 10.5 The Agency is likely to take 12 to 18 months to be established.

11.0 Outline programme

- 11.1 A draft indicative programme is set out in section 11.2, below. This programme, particularly in respect of the Property Investment Portfolio, is likely to be subject to significant change as it is refined following consideration of Capita (Asset Management)'s advice and the selection of the most beneficial procurement route for these properties.
- 11.2 Subject to the approval of this report, key actions necessary to progress this and draft programme dates are set out in the table below. All actions will be subject to the appropriate decision-maker's approval as laid down in the Scheme of Delegation within the Constitution but the table below indicates who will be the action owner responsible for ensuring this timetable is adhered to.

Action	When
Property Investment Portfolio proposals received from local authorities and public sector bodies.	January 2014
Revised outline Business Case and project plan received for the Municipal Bonds	February 2014

Action	When
Agency.	
Statutory, regulatory and accounting advice received from Capita.	February 2014
Invitations to Property Fund Managers to provide information on their funds.	February 2014
Decision on whether to proceed, as Foundation Investor, in the Municipal Bonds Agency.	February/ March 2014
Approval of revised Treasury Strategy to allow investment in Property Funds and Investment Properties.	March 2014
Evaluation of Property Fund information.	March 2014
Evaluation of advice to determine preferred procurement route for the Property Investment Portfolio.	March 2014
Selection of Property Fund(s).	April 2014
Inception of Property Fund(s).	April 2014
Procurement of Property Investment Portfolio agent. (subject to member agreement)	Summer 2014
Detailed project plan, business case and operating model produced for the Municipal Bonds Agency. Organisational structures established.	October 2014
Selection of preferred Property Investment Portfolio agent. (Subject to member agreement)	Autumn 2014
Launch of Municipal Bonds Agency.	December 2014

Action	When
Inception of Property Investment Portfolio (subject to member agreement)	Winter 2014

12.0 Implications/Consultations

12.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

None

Contact Member: Cllr Michael Tindale – Executive Member for Finance
michael.tindale@eastherts.gov.uk

Contact Officer: Adele Taylor – Director of Finance and Support Services
Adele.Taylor@eastherts.gov.uk

Report Author: Richard Monk – Interim Compliance Manager
Richard.monk@eastherts.gov.uk