

SWT Corporate Scrutiny Committee

Wednesday, 2nd June, 2021,
6.15 pm



Somerset West
and Taunton

The John Meikle Room - The Deane
House

Members: Gwil Wren (Chair), Ian Aldridge, Benet Allen, Marcus Barr, Sue Buller, Norman Cavill, Simon Coles, Habib Farbahi, Ed Firmin, John Hassall, Libby Lisgo, Nick Thwaites, Danny Wedderkopp and Loretta Whetlor

Agenda

1. Appointment of Vice-Chair

2. Apologies

To receive any apologies for absence.

3. Minutes of the previous Corporate Scrutiny Committee held on 19 May 2021.

To approve the minutes of the previous meeting of the Committee held on 19 May 2021.

(Pages 5 - 8)

4. Declarations of Interest

To receive and note any declarations of disclosable pecuniary or prejudicial or personal interests in respect of any matters included on the agenda for consideration at this meeting.

(The personal interests of Councillors and Clerks of Somerset County Council, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes.)

5. Public Participation

The Chair to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public who have submitted any questions or statements, please note, a three minute time limit applies to each speaker and you will be asked to speak

before Councillors debate the issue.

Temporary measures during the Coronavirus pandemic

Due to the temporary legislation (within the Coronavirus Act 2020, which allowed for use of virtual meetings) coming to an end on 6 May 2021, the council's committee meetings will now take place in the office buildings at the John Meikle Room, Deane House, Belvedere Road, Taunton. Unfortunately due to capacity requirements the Chamber at West Somerset House is not able to be used at this current moment.

Following the Government guidance on measures to reduce the transmission of coronavirus (COVID-19), the council meeting rooms will have very limited capacity. With this in mind, we will only be allowing those members of the public who have registered to speak to attend the meetings in person at the office buildings, if they wish. (We will still be offering to those members of the public that are not comfortable in attending, for their statements to be read out by a member of the Governance team). Please can we urge all members of the public who are only interested in listening to the debate to view our live webcasts from the safety of their own home to help prevent the transmission of coronavirus (COVID-19).

6. Corporate Scrutiny Request/Recommendation Trackers (verbal update).

To update the Scrutiny Committee on the progress of resolutions and recommendations from previous meetings of the Committee.

7. Corporate Scrutiny Committee Forward Plan

To receive items and review the Forward Plan.

(Pages 9 - 10)

8. Executive and Full Council Forward Plan

(Pages 11 - 16)

9. Executive Cllr PFH Session - Portfolio Holder for Culture

10. Review of the Commercial Property Investment Activity and Performance Report

(Pages 17 - 28)

A handwritten signature in black ink, appearing to read "James Hasset". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

JAMES HASSETT
CHIEF EXECUTIVE

Please note that this meeting will be recorded. At the start of the meeting the Chair will confirm if all or part of the meeting is being recorded and webcast. You should be aware that the Council is a Data Controller under the Data Protection Act 2018. Data collected during the recording will be retained in accordance with the Council's policy. Therefore unless you are advised otherwise, by entering the Council Chamber and speaking during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact the officer as detailed above.

Members of the public are welcome to attend the meeting and listen to the discussions. There is time set aside at the beginning of most meetings to allow the public to ask questions. Speaking under "Public Question Time" is limited to 3 minutes per person in an overall period of 15 minutes. The Committee Administrator will keep a close watch on the time and the Chair will be responsible for ensuring the time permitted does not overrun. The speaker will be allowed to address the Committee once only and will not be allowed to participate further in any debate. Except at meetings of Full Council, where public participation will be restricted to Public Question Time only, if a member of the public wishes to address the Committee on any matter appearing on the agenda, the Chair will normally permit this to occur when that item is reached and before the Councillors begin to debate the item.

If an item on the agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group. These arrangements do not apply to exempt (confidential) items on the agenda where any members of the press or public present will be asked to leave the Committee Room. Full Council, Executive, and Committee agendas, reports and minutes are available on our website: www.somersetwestandtaunton.gov.uk

The meeting room, including the Council Chamber at The Deane House are on the first floor and are fully accessible. Lift access to The John Meikle Room, is available from the main ground floor entrance at The Deane House. The Council Chamber at West Somerset House is on the ground floor and is fully accessible via a public entrance door. Toilet facilities, with wheelchair access, are available across both locations. An induction loop operates at both The Deane House and West Somerset House to enhance sound for anyone wearing a hearing aid or using a transmitter. For further information about the meeting, please contact the Governance and Democracy Team via email: governance@somersetwestandtaunton.gov.uk

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SWT Corporate Scrutiny Committee - 19 May 2021

Present: Councillor Gwil Wren (Chair)

Councillors Sue Buller, Loretta Whetlor, Ray Tully, Ed Firmin, Habib Farbahi, Danny Wedderkopp, John Hassall, Norman Cavill, Simon Coles and Libby Lisgo

Officers: Paul Fitzgerald, Dawn Adey, James Barra, Tracey Meadows, Sean Papworth, Clare Rendell, Amy Tregellas, Chris Hall and Andrew Pritchard

Also Present: Councillors Ian Aldridge, Benet Allen, Dixie Darch, Marcus Kravis, Janet Lloyd, Derek Perry, Francesca Smith, Anthony Trollope-Bellew and Alan Wedderkopp

(The meeting commenced at 6.15 pm)

1. Election of Vice-Chair

The election of the Vice-Chair was postponed to the meeting scheduled on 2 June 2021.

2. Apologies

Apologies were received by Councillors Barr and Thwaites.

Councillors Aldridge, Allen and Cavill joined via Zoom.

Councillor Tully attended as a substitute for a vacant Liberal Democrat seat on the Committee.

3. Minutes of the previous Scrutiny Committee held on 7 and 28 April 2021.

Resolved that the minutes of the Scrutiny Committee held on 7 and 28 April be confirmed as a correct record.

4. Declarations of Interest

Name	Minute No.	Description of Interest	Reason	Action Taken
Cllr N Cavill	All Items	West Monkton	Personal	Spoke and Voted
Cllr S Coles	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr L Lisgo	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr R Tully	All Items	West Monkton	Personal	Spoke and Voted
Cllr D Wedderkopp	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr L Whetlor	All Items	Watchet	Personal	Spoke and Voted

5. **Public Participation**

There was no public participation.

6. **Scrutiny Recommendation Tracker**

(Copy of the Scrutiny Committee Action Plan, circulated with the agenda).

A progress report of the Climate Change Budget would be considered at the June meeting.

The public transport task and finish group would report to the committee within two months.

Resolved that the Scrutiny Committee Action Plan be noted.

7. **Corporate Scrutiny Committee Forward Plan**

(Copy of the Corporate Scrutiny Committee Forward Plan, circulated with the agenda).

Councillors were reminded that if they had an item they wanted to add to the agenda, that they should send their requests to the Governance Team.

Resolved that the Corporate Scrutiny Committee Forward Plan be noted.

8. **Executive and Full Council Forward Plan**

(Copy of the Executive and Full Council Forward Plan, circulated with the agenda).

Councillors were reminded that if they had an item they wanted to add to the agenda, that they should send their requests to the Governance Team.

Resolved that the Executive and Full Council Forward Plan be noted.

9. **Executive Councillor Portfolio Holder Session - Leader of the Council and Communications**

The Committee were informed that the Executive Councillor Portfolio Holder Session - Leader of the Council and Communications, would be considered at the meeting scheduled on 2nd June.

10. **Corporate Risk Management Update**

The Audit, Standards and Governance Committee agreed the councils updated Risk and Opportunity Management Strategy on 1st February 2021. The Strategy sets out that a quarterly report on risks and issues will be presented to both Scrutiny and Executive. As this is the first such report, it is a stand-alone item, and provides an update on the risks and issues as of March 2021. In future, regular reports on risks and issues will be included with the quarterly performance reports.

The Risk and Opportunity Management Strategy states that only “key business risks”, i.e. those that have a score of between 15-25, will be reported to Executive and Scrutiny on a quarterly basis. As this is the first report, all risks have been included, but future reports will just include key business risks. There is a Corporate Risk Register and Corporate Issues Log which are supported by registers for each Directorate. The registers are fluid documents and are reviewed and updated on at least a monthly basis, and more frequently if required. The registers are also aligned to the Directorate service plans and to the delivery of the Corporate Plan and the council’s strategic objectives. Programmes and projects that the council is undertaking also capture risks relevant to the work being delivered.

The Corporate Risk Register was set out in Appendix 1. There were currently 15 risks on the risk register. The RAG status of these and the risks were set out for the committees views.

During the debate the following comments and questions were raised:-

- Levels of risk were considered around risk Cr22 and levels of risk considered as part of the assessment process.
- The risk register was updated on monthly basis and was reviewed corporately by directorates.
- Due to the confidentiality and sensitivity of some of the risks not all were included as part of the report.
- The risk assessment process in staff operations was considered inadequate and the seriousness of implications were encouraged to be considered in further detail.
- A permanent solution to improve the power supply for the IT server room was encouraged and it was questioned why this was a green risk.
- The risks were scored based on likelihood and impact alongside the severity and risk.
- Backup supplies to the server room were in place in case of a power failure.
- Audit Governance and Standards approved the Corporate Risk Policy in January 2020, and also approved in Feb 2021 which set out roles responsible for risk management.
- Quarterly progress reports were set out in this report. Pg 256 of the February report considered at the Audit Governance and Standards Committee set out the roles of officers in the strategy which was communicated to officers and councillors, it was questioned if checks had been completed and actively monitored. The committee were reassured this would be communicated.
- Clarification was provided that this was the first time the report had been to Scrutiny and Executive and would be considered every quarter. The Committee further questioned if Scrutiny would consider the risk strategy.
- All risk owners were set out and mitigation of actions were considered outside the scope of the committee.
- The issues log had 3 red indicators, it was questioned if these had been resolved. Preparation of risks in advance of the creation of the Unitary Council was encouraged.
- Page 43 identified the key business risks.
- Some risks or events that had taken place were not scored as these had already occurred but were given a RAG status to capture them as an issue and not a risk.
- It was questioned what criteria measured risks, how was the suitability of existing risk management measures evaluated and established the real cost to the community and tax payers. The risk register was reviewed on a monthly basis and the lead officer was responsible for updating each risk.

- The C19 scoring and real cost to the community on phosphate impact was questioned. This was on the issues log and not the risk register now an issue was being managed alongside a proposal for a solution. Further clarity and timeframe was questioned for the resolution.
- Confirmation was provided that the risk strategy was sent out by the monitoring officer before its consideration at the Audit, Governance and Standards Committee in February.
- IT processing and logging issues and cyber security risks were considered. The Council had not achieved cyber security plus but had achieved PSN compliancy. Cyber security would always remain a risk with changes in technology and is a high risk area to maintain service provision and network security. Appropriate policy's had been adopted and user awareness training introduced.
- Gaps in training, including Health and Safety training in the workforce had been identified and assurance was given these training gaps would be addressed to ensure officers were adequately qualified for their roles. Over the next six months monitoring training and qualifications were being developed.
- A wider improvement plan in respect of Health and Safety was addressing improvements across the authority including activity on construction sites.
- In relation to Section 4 of the report (the background and full details) it requires a bit more clarity and context in terms of what the report is actually trying to do. It would be nice if a narrative was provided on how issues are spotted coming forward, how the organisation actively responds to those issues that are coming forward and how we set about fixing or mitigating them, to give assurance we are not just looking at a list of those things that could go wrong, but that there was a system behind it in case the worst happened. A short succinct statement on the key elements may help the Executive understand that, and help the Committee as these kinds of reports would come back to the Committee in due course.
- The portfolio holder and officers were thanked for their report and attendance at the Committee.

The Committee noted the risks and issues held on the Councils register.

(The Meeting ended at 7.25 pm)

CORPORATE SCRUTINY

Meeting	Draft Agenda Items	Lead PFH/ Lead Officer	Executive Report?
19th May 2021	Executive Cllr PFH Session - Leader of the Council & Communications	Cllr Federica Smith-Roberts	No
DH	Risk Management Report	Cllr R Henley / M. Riches	Yes
	Appointment of Vice-Chair		
2nd June 2021	Executive Cllr PFH Session		No
DH	CNCR Spend Update	Cllr D Darch / C. Hall	No
	Scrutiny Committee Work Plan for 2021-22	Scrutiny Committee	No
	Review of the Commercial Property Investment Activity and Performance Report	Cllr R Henley/ D. Adey & G. Mills	Yes
7th July 2021	Belvedere Road Public Space/ Flook House	Cllr M Kravis / C. Hall	Yes
DH	2020/21 Financial Outturn	Cllr R Henley / P. Fitzgerald	Yes
	Financial Strategy 2021-2023	Cllr R Henley / P. Fitzgerald	Yes
	Corporate Performance Report	Cllr R Henley / M. Riches	Yes
4th August 2021	Single Homelessness Accomodation Strategy	Cllr F Smith/ M. Leeman	Yes
DH	Executive Cllr PFH Session		No
1st September 2021	Financial Performance 2021/22 Q1	Cllr R Henley/ P. Fitzgerald	Yes
DH			
6th October 2021			
DH			
3rd November 2021	General Fund 2022/23 Draft Budget Update	Cllr R Henley / P. Fitzgerald	Yes
DH	Housing Revenue Account 2022/23 Draft Budget Update		
1st December 2021	Financial Performance 2021/22 Q2		
DH			
5th January 2022			
DH			

Executive Meeting	Draft Agenda Items
26 May 2021	Risk Management Report
venue =	SWT Cultural Strategy
Exec RD = 14 May	Scrutiny Recommendation - Post Office
Informal Exec RD = 26 April	
SMT RD = 14 April	
16 June 2021	
venue =	
Exec RD = 4 June	
Informal Exec RD = 11 May	
SMT RD = 28 April	
21 July 2021	Belvedere Road Public Space
venue =	2020/21 Financial Outturn
Exec RD = 9 July	Financial Strategy 2021-2023
Informal Exec RD = 15 June	Corporate Performance Report
SMT RD = 2 June	Firepool Design Guidance and Masterplan
18 August 2021	Single Homeless accommodation strategy and delivery plan
venue =	
Exec RD = 6 August	
Informal Exec RD = 13 July	
SMT RD = 30 June	
15 September 2021	Public Realm Design Guide for Taunton Garden Town – Feedback
venue =	Somerset West and Taunton Districtwide Design Guide

Exec RD = 3 September	Financial Performance 2021/22 Q1
Informal Exec RD = 10 August	Corporate Performance Report
SMT RD = 28 July	
20 October 2021	
venue =	
Exec RD = 8 October	
Informal Exec RD = 14 September	
SMT RD = 1 September	
17 November 2021	Voluntary and Community Sector Grants Review
venue =	General Fund 2022/23 Draft Budget Update
Exec RD = 5 November	Housing Revenue Account 2022/23 Draft Budget Update
Informal Exec RD = 12 October	
SMT RD = 29 September	
15 December 2021	Financial Performance 2021/22 Q2
venue =	Corporate Performance Report
Exec RD = 3 December	
Informal Exec RD = 9 November	
SMT RD = 27 October	
19 January 2022	
venue =	
Exec RD = 7 January	
Informal Exec RD = 7 December	
SMT RD = 24 November	

Budget - 9 February 2022	Housing Revenue Account 2022/23 Budget
venue =	General Fund 2022/23 Budget
Exec RD = 28 January	
Informal Exec RD = 4 January	
SMT RD = 8 December	
16 February 2022	
venue =	
Exec RD = 4 February	
Informal Exec RD = 11 January	
SMT RD = 22 December	
16 March 2022	Financial Performance 2021/22 Q3
venue =	Capital, Investment and Treasury Strategy 2022/23
Exec RD = 4 March	Corporate Performance Report
Informal Exec RD = 8 February	
SMT RD = 26 January	
20 April 2022	
venue =	
Exec RD = 8 April	
Informal Exec RD = 15 March	
SMT RD = 2 March	

Items to be Confirmed	

FULL COUNCIL

Meeting	Report Deadline	Draft Agenda Items
6 July 2021	24 June 2021	Public Realm Design Guide for Taunton Garden Town – Feedback
		Somerset West and Taunton Districtwide Design Guide
		Review of the Commercial Property Investment Activity and Performance Report
		Skatepark Petition Update
7 September 2021	25 August 2021	Annual Review of the Commercial Property Investment Strategy
		Single Homeless accommodation strategy and delivery plan
		Firepool Design Guidance and Masterplan
7 December 2021	25 November 2021	Voluntary and Community Sector Grants Review
8 February 2022	27 January 2022	
24 February 2022	14 February 2022	Housing Revenue Account 2022/23 Budget
Budget Only		General Fund 2022/23 Budget
		Council Tax Resolution 2022/23
		NO MORE ITEMS

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29 March 2022	17 March 2022	Capital, Investment and Treasury Strategy 2022/23
10 May 2022	28 April 2022	Annual Council Meeting
		Council Committees for 2021/2022 and their Terms of Reference
		Appointment of Representatives on Outside Bodies
		To authorise the sealing or signing of documents to give effect to any decisions taken
ITEMS TO BE CONFIRMED		Skate Park Petition Update to be brought back in July 2021

Report Version No:	1/2/3/4/5 etc.
REPORT SIGNED OFF BY	Date:
1) <i>Service Manager – Dawn Adey</i>	YES
2) <i>Legal - NA</i>	NO
3) <i>Finance/s151 – Paul Fitzgerald</i>	YES 22/04/2021
4) <i>Governance Team</i>	YES– dd/mm/yyyy
5) <i>SMT</i>	YES/NO/TBC – dd/mm/yyyy
6) <i>Informal Executive</i>	YES/NO/TBC – dd/mm/yyyy
7) <i>Governance Team - Name</i>	YES/NO/TBC – dd/mm/yyyy

Somerset West and Taunton Council

Corporate Scrutiny 2 June 2021

Executive 16 June 2021

Full Council 6 July 2021

Commercial Property Investment Update

This matter is the responsibility of Executive Councillor Ross Henley

Report Author: Dawn Adey, Director of Development and Place

1 Executive Summary / Purpose of the Report.

- 1.1 The Commercial Property Investment Strategy (CPIS) was approved in December 2019 and refreshed in December 2020. A requirement of the strategy (Clause 10.4) is that a report is brought to full Council every six months to report on the commercial property investment activity and the performance of the portfolio. These will report the position as at 30 September and 31 March each year.

- 1.2 Since the last report was prepared, despite difficult market conditions resulting from Covid, four further properties have been purchased. These are a retail warehouse in Ayr occupied by B&Q, a retail warehouse in Birmingham occupied by Wickes, a car dealership in Stockton-On-Tees, trading as a Jaguar Land Rover franchised dealership, and an office in Birmingham occupied by the Highways Agency. Additional investment totals £28.70m taking the total amount invested in the portfolio to £44.06m by 31 March 2021 and increasing gross rental income of the portfolio to £3.25m per annum.
- 1.3 The portfolio build is on track with a further acquisition completed in April and two properties currently under offer and scheduled for completion by the end of April which if completed will take the total amount invested to £68.6m of the approved £100m fund.
- 1.4 During this period borrowing costs have remained low and therefore the Council's average borrowing costs are still predicted to be around 1.5% per annum.
- 1.5 The Net Income budget for 2020/21 is £0.440m, reflecting an estimate of the pace of investment during the first year and part year rents on completed assets. Actual net income reported for the year is £0.614M, providing a surplus of £0.174M (40%) against budget.
- 1.6 Despite the challenging economic conditions facing UK businesses and the economy the performance of the portfolio has been very strong. To date there have been no material rental defaults and during the period of September 2020 and March 2021 the market has seen a great deal of yield compression particularly in the retail warehousing and industrial markets. As a result the retail warehouse assets contained in the portfolio which were purchased earlier in 2020 will already have increased significantly in value potentially adding £1.75M of capital value to the value of the property.
- 1.7 Risk factors to property investment continues to be monitored. The immediate risks around Brexit continue to be assessed. The Covid pandemic remains and is continuing to cause difficulties to trading business and the UK economy as a whole. It is still too soon to know what the long term effects of the pandemic will be but we have seen a large number of investors return to the UK property market with demand increasing for secure income investment which has in turn been forcing up Capital values. Occupier performance and covenant strengths will be continued to be monitored to identify any tenants that may be affected by the current market restrictions. In general it is not considered that the level of risk has changed materially since our last report in December 2020.

2 Recommendations

- a) Scrutiny Committee reviews performance against the Commercial Property Investment Strategy and supports the following recommendation to the Executive and Full Council:
 - 2.1 The Executive recommends that Full Council notes the report which is the review of the Commercial Property Investment activity and performance for 2020/21 financial year.

3 Background and Full details of the Report

- 3.1 The Commercial Property Investment Strategy (CPIS) was approved by Full Council on the 17th December 2019 and an updated version approved on the 15th of December 2020.
- 3.2 As part of the Financial Strategy agreed in 2019 the Executive set a net income target of £2m+ per year through commercial property investment. Due to a reduction in financing cost assumptions the updated financial strategy for 2020 increased this target to £2.9m.
- 3.3 The latest Medium Term Financial Plan forecasts, as set out in the General Fund Budget Report to Council in February 2021, include a projected Budget Gap rising to £3.5m in 2022/23 and reaching £6m by 2025/26. This gap already takes into account the targeted £2.9m income from commercial property investment. The primary reasons for the scale of budget gap include a sharp reduction in core income to the Council from business rates and New Homes Bonus grant, which underlines overall funding volatility faced by the Council. Business rates and NHB combined to give £9.5m of annual funding in 2020/21 but this is projected to reduce to only £4.3m by 2023/24 – a fall of some £5.2m. Council tax increases alone are not adequate to offset funding reductions and service cost pressures, with a 1% increase in council tax income generating around £90k per annum in additional income.
- 3.4 The Commercial Property Investment Strategy sets out the governance framework and parameters for investment which ensures a balanced, diversified portfolio is established which will generate long term sustainable income contributing towards sustaining the Council's front line services for many years to come.
- 3.5 Since SWT first entered the investment market in May 2020 general market activity has greatly increased. The market has seen considerable yield compression (pricing increase) particularly in certain sectors. Two of the most affected sectors are retail warehousing and the industrial sectors. In part this has been driven by the large number of investors that have returned to the UK property investment market looking for a perceived safe haven for cash funds in anticipation of a global economic downturn as a result of the Covid pandemic. During 2020 many funds have concentrated their efforts on equity raising and this has created a significant weight of money to be gathered from global investors which is now chasing secure income profile, institutional grade property particularly in the non-retail sectors.
- 3.6 Although the higher numbers of investors active in the market has made the further acquisition of property more difficult, the trade-off is the yield compression this has created has increased the capital value of the retail warehousing assets that SWT purchase earlier in 2020, when the market was very subdued and there was obvious value to be achieved particularly in the retail warehousing sector. As a result the retail warehouse assets contained in the portfolio will already have increased significantly in value potentially adding around £1.75M of capital value to the value of the portfolio. In addition, it is also likely the other assets in the portfolio will also have increased in value due to the secure nature of the income stream and the high quality of the properties but maybe not by such noticeable amounts.

Summary of Acquisitions and Disposals

3.7 Set out below is a summary of the completed acquisitions since May 2020 and the annual rental due from properties in the portfolio.

Date	Sector	Location	Total Costs £000	Annual Rental Income £000
28/08/20	Office	Offices, 730 Waterside Drive, Aztec West, Almondsbury, BS32 4UE	9,573	759.2
11/09/20	Retail Warehouse	The Range, Pellon Lane, West Yorkshire, HX1 5QE	5,781	418.5
11/11/20	Retail Warehouse	B&Q Sanquhar Farm Rd, Ayr KA8 9TB	6,998	520.0
18/12/20	Retail Warehouse	Wickes Extra Aldridge Road Tameside Business Park, Perry Barr B42 2ET	9,816	733.3
05/03/21	Other	Jaguar Land Rover, Concord Way, Preston Farm Industrial Estate, Stockton On Tees	6,130	446.4
31/03/21	Office	One Quinton Business Park, Birmingham B32 1AF	5,765	372.5
		Total as at 31 March 2021	44,063	3,249.9

3.8 **Overview of activity including initial filtering of opportunities and number of successful and unsuccessful bids (specific detail will remain confidential)**

- As at the 31st March 2021 we have sourced 868 investment prospects. These have all been reviewed and classified in to the following groups:
- 9 are “Active” and are being actively investigated and discussions and negotiations with agents are ongoing.
- 16 are on a “watch” list. The reasons for this categorisation is mainly due to the three reasons:
 - A. that they may be properties which have come to the market with strong pricing and at this time the Vendor is not willing to consider offers at the level we believe the property to be worth. We will continue to monitor these investments to see if the price and the Vendors expectations soften over time.
 - B. it may be they are properties that we have tried to secure but which have gone under offer to other parties and we are monitoring them to see if the transactions complete.
 - C. The properties cannot be purchased now but we have intel that they may be brought to the market shortly or the owner will sell later in the year.
- We have rejected 825 as the initial review has determined these properties are not suitable for the Council to invest in. The reasons for rejecting a property vary hugely with some of the more frequent reasons being set out below:
 - Lot size does not fit with the strategy
 - Pricing structure doesn't offer value for money

- Property location unsuitable e.g. in a high flood-risk zone
- Covenant of tenant is not strong enough
- Lease hold is too short
- Defective title documents

- We have acquired 6 properties as detailed above
- We are under offer on 3 properties
- We have made bids on 9 properties which have been unsuccessful
- We have made no disposals since the strategy was approved.

Portfolio investment performance and performance against budget target

3.9 The Strategy included key milestones setting out the anticipated timetable for the delivery of the Investment Portfolio. Progress against these milestones is influenced by a wide range of factors however overall progress is on track as shown below.

Milestone status as at 31/03/20	Actual	RAG Status
September 2020 we aim to complete at least two transactions and have approx. £20m invested.	£15.350m invested with two transactions completed by 30 September 2020.	
December 2020 aim to complete two to three more transactions and have £40m-£50m invested.	By the end of December 2020 four properties had been acquired with a total investment of £32.2m.	
December we will prepare a progress report for Council on the CPIS	Reported to Council on 15 th December 2020.	
March 2021 we aim to complete two more transactions and have £60m-£75m invested.	As at 31 March 2021 6 properties have been completed with a total of £44.063m invested. A further 3 properties were under offer and in an advanced stage of due diligence with the aim of completing in April, taking the total portfolio to 9 properties with £68.6m invested.	Amber
May 2021 Review of portfolio performance to Council	This is this report.	Green
June 2021 aim to have completed a further two - three transactions and have £80m- £100m invested.	This is still an achievable target	Green

September 2021 have the remaining part of the funds invested and have achieved a fully built out £100m+ property portfolio.	This is still an achievable target	Green
October 2021 Second report to Council on CPIS	This is still an achievable target	Green

- 3.10 The tables below sets out the delivery against the capital budget and the 2020/21 net investment income budget and actual performance for the year, together with a forecast for 2021/22.

Investment Properties Capital Budget

	2020/21 £000	2021/22 £000	Total £000
Budget Profile	50,000	50,000	100,000
Completions During 2020/21	44,063		44,063
Balance to be invested in 2021/22		55,937	55,937
Total Actual + Projection	44,063	55,937	100,000

- 3.11 As part of the end of year financial performance report the Executive will be recommended to approve the carry forward of the £5.937m balance of the 2020/21 capital budget, so that the capital budget in 2021/22 will be adjusted to £55.937m in order to complete the £100m investment over the two financial years.

Net Investment Income 2020/21

	2020/21 Budget £000	2020/21 Actual £000	2020/21 Variance £000
Rent Income	1,065	1,137	72
Direct management and abortive costs	-202	-301	-99
Sub-total – Gross Income Less Direct Costs	863	836	-27
Financing – Notional Interest	-225	-222	3
Financing – Debt Repayment (MRP)	0	0	0
Optimism adjustment	-198	0	198
Transfer to reserve		0	0
Net Income to Revenue Account	440	614	174

- 3.12 Rental income is accounted for on an accruals basis. Rent payments receivable or received in cash in 2020/21 totalling £1.034M, reflecting money due in advance of the period of rent this covers, has been deferred to subsequent years and is not included in the table above.
- 3.13 Net income has exceeded the budget 'bottom line' estimate by £174k or 40%, which is a very positive position to have achieved during the first year of implementing the Strategy. Options for allocating this surplus are considered in the Finance / Resources Implications section later in this report.
- 3.14 Reflecting previous questions from Members, the following table gives an indication of rental income forecast for 2021/22 and compares with the gross rent income budget. The overall position against 2021/22 net investment budget will be covered fully in reports during the financial year.

Gross Investment Income Forecast 2021/22

	2021/22 £000
Budgeted Rent Income (reflects assumptions around timing of completion of investment during 2021/22 and optimism adjustment for budget estimates)	5,232
Forecast Income – Assets completed in 2020/21	3,250
Balance needed in-year from future completions to meet budget estimate	1,982

- 3.15 As reported through the Finance Strategy and budget setting reports, the Council has established a portfolio risk reserve to protect the annual budget from income volatility from the investment fund and accrue 'sinking funds' for asset management purposes. This fund has been 'front-loaded' to provide immediate resilience during the initial phase of growing the portfolio as well as for ongoing risk management. The biggest risk in the early years of the portfolio is from tenants defaulting and the costs and unanticipated capital expenditure which may be incurred as a result. This reserve mitigates that risk. The current balance in the reserve as at 31 March 2021 is £3.5m.

Risk assessments with updates on material changes to risks on individual assets

- 3.16 The follow schedule summarises the risks identified with individual assets in the portfolio:

Property	Risk	Mitigation	RAG Status
730 Waterside Drive, Aztec West, Almondsbury. BS32 4UE	Part of the first floor is vacant.	The vacant space rent and all costs are covered by a guarantee from the Vendor until September 2022. Although we have had some interest we have yet to secure a letting.	Green
730 Waterside Drive, Aztec West, Almondsbury. BS32 4UE	Verex Insurance have a tenant's break clause in December 2022.	18 months prior to the break we will open dialogue with the tenants to understand their intentions.	Green
The Range, Pellon Lane, West Yorkshire, HX1 5QE	No identifiable risks	None currently required.	Green
Wickes Extra, Birmingham	No identifiable risks	None currently required.	Green
Jaguar Land Rover, Stockton-On-Tees	No identifiable risks	None currently required.	Green
1 Quinton Business Park, Birmingham	No identifiable risks	None currently required.	Green

- 3.17 The following table provides an update on general investment risks for the strategy and the portfolio as a whole.

Risk Identified	Mitigation	Commentary	RAG Status
COVID 19	The structure of the CPIS is designed to protect against market volatility and to gain exposure to the property market as a whole. This is achieved through diversification across regions, sectors, and the safe guards which are in place of lot size and single tenant exposure.	<p>We did not enter the market until after the initial lockdown period had been implemented and therefore we have always been aware of the risk that Covid poses. We are continuing to monitor the Covid situation and continue to seek the best in class advice around what the experts are predicting will be the long term effects of the pandemic on property.</p> <p>During 2020 we were able to take advantage of the limited number of purchasers in the market and secured a number of good properties. Since September however the number of buyers in the market has increased which has caused yield compression and made it more difficult to secure investments at a yield level suitable for our portfolio.</p>	Green
UK exit from the EU	The structure of the CPIS is designed to protect against market volatility and to gain exposure to the property market as a whole. This is achieved through diversification across regions, sectors, and the safe guards which are in place of lot size and single tenant exposure.	<p>We did not enter the market until after the announcement of Brexit and the first stage of the UK leaving Europe was complete. Therefore, the risk has always been known and we have had always been conscious of the effects this may have on the UK economy.</p> <p>Properties and tenants covenants are selected and considered in the light of how they may be affected by the UK exiting the EU and their resilience to an economic downturn.</p> <p>Although UK parliament has agreed a trade deal with the EU we are still in a period of transition and therefore we continue to monitor the political situation to ensure any changes which may have an effect on the UK Economy or UK business are identified as soon as possible.</p>	Green
General Economic Outlook for the UK and Tenants defaulting	We employ: proactive asset management and proactive tenant communication	Although the UK economy is facing challenging times ahead due to the continuing and prolonged pandemic and the increasing UK debt. However, to date there has been little effect on our portfolio mainly because the properties have been selected for their resilience to the risk factors identified, the secure income profile of the investments and the underlying property	Green

Risk Identified	Mitigation	Commentary	RAG Status
		metrics. No serious defaults have been experienced to date.	
Yield Compression in certain sectors of the UK property market	Careful selection of sectors and properties to ensure the income profile of the investment to be acquired is secure and the correct standard of property is maintained across the portfolio.	The scope of the investment strategy is sufficiently wide to enable adjustments to be made for various market factors. We are therefore able to adjust the properties being acquired as we build the portfolio in order not to increase the risk profile of the portfolio despite the yield compression. We have secured sufficient retail warehousing at a time where there appeared to be obvious value in the market and now the Council is benefiting from the yield compression in this sector. As we seek to acquire industrial property we will have to be mindful of the underlying metrics of the property to ensure any risk is limited to an appropriate level as this will be the hardest sector to align with our income profile target.	Green

Any other relevant information

- 3.18 An external valuation of the properties in the portfolio is not required within the first year of the properties being purchased and therefore the value of the assets will not change in the valuations used for the end of year accounts from the original purchase price. However in 2021/22 the properties which were purchased during 2020/21 will be independently valued, and from 2022/23 all the assets within the portfolio will be independently valued.

4 Links to Corporate Strategy

- 4.1 The Council's Corporate Strategy under the Enterprising Council Theme states that we will become a financially self-sufficient Council which has expanded its commercial activity and generated more income in order to support service provision.

Objectives

1. Pursue commercial investment opportunities that generate additional income that can be reinvested in service delivery in order to protect or enhance services on which our communities rely. Supported by a Commercial Property Investment Strategy
2. Meet the challenge of Government completely withdrawing the Council's grant funding.
3. Ensure our land and property assets support the achievement of the Council's objectives (including service delivery, regeneration projects and community initiatives).

5 Finance / Resource Implications

- 5.1 The investment in property continues to deliver a key element of the wider financial

strategy and MTFP, as well as diversifying the Council's income streams in the face of reductions and significant volatility/uncertainty in income through government funding and business rates. Whilst it is clear the market continues to be exposed to risk (e.g. through leaving the EU; COVID-19) there is an active market which is presenting opportunities which continue to fit with the strategy.

- 5.2 Despite the risks, as reported separately in the Financial Strategy report to the Executive, the strategy has delivered significant additional income over and above expectations. The income generated from investment is imperative in order to provide the financial resources necessary to maintain and improve services as set out in the Council's Corporate Strategy and Budget. In terms of balancing the investment portfolio it is prudent to continue to fully invest the fund to provide suitable diversity and spread of risk. Whilst assets acquired to date provide some spread, further diversification during the completion of the fund across sectors in line with the approved strategy will strengthen the spread of risk and resilience in the portfolio. This also spreads the risk against alternative income streams which are reducing significantly as reported above, such as business rates and new homes bonus grant income.
- 5.3 Financial risks are mitigated through robust due diligence, effective portfolio management, use of reasonable estimates for budget purposes and prudent maintenance of reserves to mitigate investment asset costs and income volatility.
- 5.4 The investment completed during 2020/21 adds capital assets with a value of £44.063m to the Council's balance sheet as at 31 March 2021. These assets will be subject to annual valuation (apart from in the year of acquisition) with positive revaluation values credited to the Revaluation Reserve. Valuation deficits will be written off to the Capital Adjustment Account within unusable reserves. Valuation changes are only crystallised and therefore only affect the Council's usable resources upon disposal of the asset.
- 5.5 Investment budget and performance information is included earlier in this report and reports the additional income received over and above the budgeted figures in 2020/21. The actual performance against budget for the year shows a surplus of £174K. This represents some choices for the use of funds. These include:
- Transfer the surplus to the Investment Risk Reserve
 - Use the funds to part fund capital costs of investment assets
 - Transfer the balance to the general fund reserve
- 5.6 The Director of Development and Place, in consultation with the S151 Officer and the Corporate Resources Portfolio Holder, plans to transfer the excess income to the Investment Risk reserve fund. This payment into the reserve further protects the required income for future years.
- 5.7 The commercial property net income budget estimates, related to the current £100m investment fund, is summarised as follows:

	2021/2 £k	2022/3 £k	2023/4 £k	2024/5 £k	2025/26 £k
Gross Income	6,035	7,100	7,100	7,100	7,100
Optimism adjustment	-803	-420	0	0	0
Management and abortive costs	-257	-280	-280	-280	-280
Sub-total Investment Income	4,975	6,400	6,820	6,820	6,820
Financing costs (interest + MRP)	-2,075	-3,500	-3,500	-3,500	-3,500
Net income forecast in MTFP	2,900	2,900	3,320	3,320	3,320
Estimated reserve transfers			-420	-420	-420
Net income for budget	2,900	2,900	2,900	2,900	2,900

Note: This does not include legacy investment assets acquired prior to December 2019.

- 5.8 The current progress to date acquiring assets to the portfolio provides confidence the Council remains on track to achieve the net income estimates. The full picture on performance can be reported once the Fund is fully invested, at which point the budget estimates can be reviewed for future budget reports.
- 5.9 The table indicates the potential to transfer funds to the reserves in the medium term, which will help to replenish the reserve if rental income falls below estimate and to build funds for asset management and maintenance. As the investment reserve has been frontloaded it is not planned to add to the reserve in the early years, although this will be kept under review through the normal course of financial planning.
- 5.10 The MTFP continues to forecast a significant and increasing budget gap in future years. This gap would be much more significant without the inclusion of the above net income projections, increasing the challenge of delivering sustainable, affordable services.

6 Legal Implications

- 6.1 Section 12 of the Local Government Act 2003 specifically provides the Council with the power to invest for any purpose relevant to its functions, and for the purpose of prudent management of its financial affairs.

7 Climate and Sustainability Implications

- 7.1 Where there are opportunities to make investments in the renewables sector these will be examined for suitability and 'fit' within the strategy and if suitable be brought forward to the Commercial Assessment Panel and Board. However, current pricing of this sector means it is unlikely any opportunities will be identified which meet the target yield requirement of the CPIS.

8 Social Value Implications

- 8.1 Currently no opportunities which offer any direct additional social value benefits have come forward since the beginning of this reporting period. However, the income generated from the investment programme will in part be used to support the Council's front line services.

9 Asset Management Implications

- 9.1 The Commercial Investment Team will continue to asset manage all the properties in the investment portfolio.

10 Scrutiny/Executive Comments / Recommendation(s) (if any)

10.1 To be added following Committee meetings.

Democratic Path:

- Scrutiny Committee – Yes)
- Executive – Yes
- Full Council – Yes

Reporting Frequency: Six monthly

Appendices

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