

Report To:	COUNCIL	Date:	05 SEPTEMBER 2019
Heading:	CAPITAL PROGRAMME AMENDMENT		
Portfolio Holder:	COUNCILLOR DAVID MARTIN		
Ward/s:	ALL		
Key Decision:	NO		
Subject to Call-In:	NO		

Purpose of Report

The report sets out:

1. A proposed amendment to the timing of the Capital Programme regarding investment in commercial property
2. Authorisation for the release of returned capital resulting from the sale of an investment property to be reinvested in further investment property acquisitions.

Recommendation(s)

It is recommended that Council:

1. **Approve the changes to the timing of the Capital Programme as detailed in the report.**
2. **Authorise the release and reinvestment of the principal amount invested arising from the sale of a commercial property investment in April 2019**

Reasons for Recommendation(s)

Making the proposed change to the timing of the Capital Programme would allow for the potential for further commercial property investment activity to occur in 2019/20, to potentially accelerate rental income streams thereby reducing earlier, the budgeted shortfalls in the Medium Term Financial Strategy (MTFS) and help protect services on which our residents rely. The overall total amount of investment in the Capital Programme already approved by Council will not be affected by this proposed change.

Authorising the release and reinvestment of the principal amount from the sale of an investment property in April 2019 will further accelerate the potential for income to be generated earlier to support the MTFS and help protect services on which our residents rely.

Alternative Options Considered

(with reasons why not adopted)

1. No alteration to the Capital Programme timing – Not bringing future budgeted investment sums forward will restrict (and potentially prevent) additional investment activity in 2019/20 and will require potential acquisitions to occur in future years, thereby reducing the corresponding potential surplus available to support the MTFs. This may also increase the required level of budget savings required for 2020/21.
2. No reinvestment of returned capital – if the returned capital resulting from the sale of an investment property is not reinvested, it will not generate a surplus to support the MTFs. The returned capital forms part of the initial £25m property investment fund and the principal amount should again be used as such.

Detailed Information

Capital Programme amendment

In March 2019, Council approved the Capital Programme for 2019/20 through 2022/23. An element of that programme was further commercial property investment activity and £20m was budgeted to be invested in each year.

The 2019/20 approved allocation includes £20m approved by Full Council on the 4th March 2019 and £1.251m slippage on the 2018/19 approved by Full Council on the 25th July 2019.

This Capital Programme amendment is requested as recent and imminently proposed investment activity in 2019/20 would result in an available remaining balance of only £4m.

In order to maximise investment opportunities as they arise and deliver a surplus to support the MTFs, it is recommended that a further £20m be brought forward for investment into 2019/20. Table 1 illustrates this below.

Table 1 – Commercial Property Investment capital scheme

Financial Year	2019/20	2020/21	2021/22	2022/23	Total
Current programme	£21.251m	£20.000m	£20.000m	£20.000m	£81.251m
Recommended programme	£41.251m	£20.000m	£20.000m	£0.000m	£81.251m

In both cases, the total budget for commercial property investment activity is £81.251m. The approved budget of £81.251m is all funded from prudential borrowing, therefore prudential borrowing of £20m will also be required to be brought forward. The revenue borrowing and interest costs associated with the prudential borrowing are met by the income stream from the commercial property investment activity.

No changes in the Capital and Investment Strategies are required.

The benefits of the recommended programme change are:

- A broader range of opportunities may be considered as the available budget to invest will be larger

- Surplus generated to support the MTFs can be realised sooner than the current programme allows, thereby delivering greater surplus over time and help to minimise the level of savings required for 2020/21.

Reinvestment of returned capital

In August 2018, the Council acquired a commercial investment property in Glenrothes. £4.334m was invested in this transaction and formed part of the £25m commercial property investment fund at that time, the purchase was funded through prudential borrowing.

In April 2019, the Council sold the same investment property. The sale resulted in a capital receipt of £5.539m. The capital receipt will be used to repay the prudential borrowing associated with the original purchase of £4.334m.

It is recommended that £4.334m be added to the commercial property investment scheme in the Capital Programme, funded by prudential borrowing. This will allow the level of commercial property investments and prudential borrowing to be at the same level prior to the sale of Glenrothes. This would maintain the £105m investment in properties already approved by Council through to 2022/23.

Table 2 below illustrates the new recommended programme following amendments for the £20m being brought forward and increasing the programme to allow for re-investment following the sale of Glenrothes.

Table 2 – Commercial Property Investment capital scheme

Financial Year	2019/20	2020/21	2021/22	2022/23	Total
Current programme	£21.251m	£20.000m	£20.000m	£20.000m	£81.251m
Recommended programme	£45.585m	£20.000m	£20.000m	£0.000m	£85.585m

Implications

Corporate Plan:

The proposed changes to the 2019/20 to 2022/23 Capital Programme reflects the priorities detailed in the Corporate Plan.

Legal: In exercising its fiduciary duty the Council should be satisfied that the proposals put forward are a prudent use of the Authority’s resources in both the short and long term; that the proposals strike the right balance between the interests of Council Tax payers and ratepayers on the one hand and the community’s interests in adequate and efficient resources on the other; and that they are acting in good faith for the benefit of the community whilst complying with all statutory duties.

All capital projects require input from Legal Services in relation to contracts. The Council must ensure that robust contractual arrangements are in place, specifications are clearly defined, and it is clear which project risks are the responsibility of the Contractor and which remain with the Council. This is to avoid potential contractual disputes and to limit the potential financial impact on the Council should they arise.

This report is brought before Council in accordance with the Budget and Policy Framework Procedure Rules and the Council’s Financial Regulations.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	Acceleration of the purchase of suitable Investment Properties will provide the potential to reduce the size of the revenue budget gap for 2020/21.
General Fund – Capital Programme	The timing change of the programme will not increase the overall budgeted amount allocated to Investment Property acquisitions.
Housing Revenue Account – Revenue Budget	No impact
Housing Revenue Account – Capital Programme	No impact

Risk:

Risk	Mitigation
There is a risk that guidance awaited from CIPFA may impact the Council's plans with regard to the acquisition of Investment properties as set out in the Capital Strategy and Investment Strategy.	On receipt and evaluation of the guidance, should it impact on the Council's Capital and Investment Strategy, a report will be taken to Council to consider and agree the way forward in light of any required change of approach. This is in line with what is already stated within the Capital Strategy approved by Council in March 2019.

Human Resources:

Not applicable

Equalities:

Not applicable

Other Implications:

None

Reason(s) for Urgency

Not applicable

Reason(s) for Exemption

Not applicable

Background Papers

(if applicable)

Report Author and Contact Officer

Justin Henry
Service Manager – Commercial Development
j.henry@ashfield.gov.uk