

COMMERCIAL PROPERTY ACQUISITIONS

To: Assets & Investments Committee

Meeting Date: 24th February 2017

From: Deputy Chief Executive & Chief Finance Officer

Electoral division(s): All

Forward Plan ref: N/a

Key decision: No

Purpose: To provide the Committee with an opportunity to discuss the issues of governance surrounding the acquisition of properties for commercial investment purposes.

Recommendation: It is recommended that:-

- a) In light of the short period before the new Managing Director commences in post that no further acquisition opportunities are pursued at this point;**
- b) The first meeting of this Committee in the new civic year include a workshop to confirm the Committee's risk appetite for commercial acquisitions and to agree a clear process for considering such investment opportunities.**

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1. BACKGROUND

- 1.1 At the last meeting of the Committee an item was considered regarding the potential acquisition of a commercial opportunity in Great Shelford. The level of returns were within the parameters previously discussed with the Chairman and Vice Chairman, however it was felt appropriate that given the size of the investment required it should be considered by the whole Committee.
- 1.2 This was the second occurrence where the Deputy Chief Executive had undertaken negotiations in respect of a potential commercial acquisition in as many months. The first proposal was an open market sale for which the Council made an offer but ultimately was not prepared to match the higher sums that other investors were prepared to put forward.
- 1.3 Given the current state of the market, in this geographical area, and the significant amount of “cash” that there is circulating in the system, acquisitions with reasonable rates of return will attract pension funds looking for sound investment opportunities. These funds generally are prepared to accept a much lower level of return where the security of that return is relatively secure. As a consequence pension funds are prepared to pay a premium for such investments. Realistically therefore, in such circumstances, the Council would not be able to compete with such investors given our need to borrow to fund the acquisition which would reduce the net benefit to the Council.
- 1.4 Following the open market competition the Council faced at Bar Hill it was felt that the Council would have more success if it was in a position to negotiate a commercial offer before the opportunity came on to the open market thereby sealing the deal without any market competition. As a consequence officers engaged Carter Jonas with a view to seeking potential opportunities before they are released on to the open market.
- 1.5 Great Shelford was the first of those potential opportunities. Due diligence data was compiled, and shared with the Committee, and two Members of the Committee took the opportunity to view the site. There was some degree of nervousness at the haste of the decision-making required around the acquisition but this is often the case for pre-market sales opportunities.
- 1.6 The outcome was that the Council did not proceed with the purchase. This raised a number of issues regarding the acquisition governance process, which were highlighted at the last Committee meeting.

2. RISK APPETITE

- 2.1 Although the Committee has considered an acquisitions policy no formal investment framework has been established. As a consequence there is a lack of clarity on the Committee's appetite for risk and reward. This leaves officers unclear on what investment opportunities to pursue and which not to. The Committee therefore needs to be able to provide clear guidance on this issue. This is a matter that can be developed in more detail with the Company once the new Managing Director has commenced employment.

- 2.2 Although the Company, operating as a commercial organisation, should be largely unfettered and able to operate independently from the Committee's overview it will need to be cognisant of the shareholders' commercial risk appetite. Part of the discussion at the last Committee suggested that should similar arise in the future the challenges faced recently would not be repeated as the Company would make the decision.
- 2.3 As the Committee will recall, the business case for the Company is predicated on loan funding being made by the Council and therefore the Committee will effectively operate as the banker to the Company. Alternative funding solutions could be found by the Company but this would impact on the overall financial returns received by the Council. Therefore although the nature of the governance arrangements will be different the Committee, as shareholder and lender, will not relinquish responsibility completely.
- 2.4 The Committee will be providing the funding for the Company and therefore it is important that it establishes its own risk framework and appetite. It is suggested therefore that a small workshop is held before the first Committee meeting following the May elections in order to establish this framework.

3. GOVERNANCE PROCESS

- 3.1 There is currently no approval process for acquisitions. Whilst any decision could be delegated to the Deputy Chief Executive in consultation with the Chair and Vice Chair, given the scale of the investment this may not be appropriate. As we have seen with the most recent opportunity if pre-market opportunities arise it is likely that decisions on these would need to be made in an agile way. Therefore, unless properties appear for sale aligned to the democratic cycle any such engagement would need to be an electronic one.
- 3.2 It is appreciated that Members are very busy and often have day jobs outside of their roles as politicians. However if the Council wish to have an acquisitions portfolio it may need to accept that on occasions decisions will need to be made quickly. Given the inflexibility of the democratic process decisions would need to be delegated to an officer. The question therefore is in consultation with whom? Given the discussion at the last Committee meeting it is suggested that this would be the entire Committee. This is a relatively straight forward process but Members would have to accept that officers will take decisions based on the responses received. No response will effectively be taken as an abstention.
- 3.3 There was discussion at the last meeting that the level of engagement would change once the Managing Director was in situ. As mentioned above the nature of the engagement will be different but the role of the Committee going forward is equally as important as it is today. There were also calls from the Committee to put interim arrangements in place pending the arrival of the Managing Director. Having consumed both internal and external resources on two opportunities that were not taken forward, it is felt that greater clarity on the Committee's risk appetite should be obtained before any further opportunities are pursued. The new Managing Director will be in place by the time the Committee meets after the May elections and with purdah looming this deferral is unlikely to result in any significant opportunities being missed.

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 Developing the local economy for the benefit of all

Considering commercial investment opportunities will enable the Council to play a more direct and active role in delivering employment opportunities for the local economy. However the clear purpose of such investment remains a commercial return on those investments.

4.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

4.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

5. SIGNIFICANT IMPLICATIONS

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Chris Malyon
Has the impact on Statutory, Legal and Risk implications been cleared by LGSS Law?	No
Are there any Equality and Diversity implications?	No Name of Officer: Chris Malyon
Have any engagement and communication implications been cleared by Communications?	There are no significant implications within this category.
Are there any Localism and Local Member involvement issues?	No Name of Officer: Chris Malyon
Have any Public Health implications been cleared by Public Health	There are no significant implications within this category.

6. SOURCE DOCUMENTS

Source Documents	Location
None	