

AGENDA

INVESTMENT BOARD

WEDNESDAY, 21 OCTOBER 2020

2.00 PM

**A VIRTUAL MEETING VIA ZOOM VIDEO
CONFERENCING SYSTEM**

Committee Officer: Linda Albon
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Due to the COVID-19 outbreak and the restrictions by the Government on gatherings of people, this meeting will be conducted remotely using the Zoom video conferencing system. There will be no access to this meeting at the Council offices but you can view the meeting on YouTube, apart from any items marked confidential.

Today's meeting can be viewed via the following YouTube link:
<https://www.youtube.com/watch?v=AvMkLh9ZZCs>

- 1 To receive apologies for absence
- 2 Previous Minutes (Pages 3 - 4)

To approve the public minutes of the previous meeting held 18 September 2020.

- 3 To report additional items for consideration which the Chairman deems urgent by virtue of the special circumstances to be now specified
- 4 To receive members' declaration of any interests under the Local Code of Conduct or any interest under the Code of Conduct on Planning Matters in respect of any item to be discussed at the meeting
- 5 Consideration of Investment in Residential Housing (Pages 5 - 12)

To provide the Investment Board with an opportunity to consider investing in residential property as part of the Commercial and Investment Strategy.

6 Draft 6 month Forward Plan (Pages 13 - 14)

To consider the draft 6 Month Forward Plan

7 Items which the Chairman has under item 3 deemed urgent

CONFIDENTIAL - ITEMS COMPRISING EXEMPT INFORMATION

To exclude the public (including the press) from a meeting of a committee it is necessary for the following proposition to be moved and adopted: "that the public be excluded from the meeting for Items which involve the likely disclosure of exempt information as defined in the paragraphs 3 of Part I of Schedule 12A of the Local Government Act 1972 (as amended) as indicated."

8 Restricted Minutes - Confidential Item (Pages 15 - 18)

To confirm the restricted minutes of the previous meeting held 18 September 2020.

Tuesday, 13 October 2020

Members: Councillor C Boden (Chairman), Councillor I Benney (Vice-Chairman) and Councillor S Tierney

INVESTMENT BOARD

FRIDAY, 18 SEPTEMBER 2020 - 2.00 PM



PRESENT: Councillor C Boden (Chairman), Councillor I Benney and Councillor S Tierney

OFFICERS IN ATTENDANCE: Amy Brown (Chief Solicitor and Deputy Monitoring Officer), Peter Catchpole (Corporate Director and Chief Finance Officer), Simon Machen (Interim Corporate Director), Paul Medd (Chief Executive), Carol Pilson (Corporate Director and Monitoring Officer) and Justin Wingfield (Head of Business & Economy)

OBSERVING: Councillor D Mason

Councillor Boden welcomed members of the public and press watching the livestream of the Investment Board meeting via YouTube due to Government guidance on social distancing. The meeting was held in accordance with the provision set out in the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 and with Fenland District Council's Virtual Meeting Protocol.

IB1/20 **APPOINTMENT OF VICE CHAIRMAN FOR THE MUNICIPAL YEAR**

Councillor Boden advised that the Terms of Reference indicate that as Leader, he shall Chair the Investment Board. It was proposed by Councillor Boden, seconded by Councillor Tierney and resolved that Councillor Benney be Vice-Chairman of the Investment Board for this Municipal Year.

IB2/20 **FILTERING OF INVESTMENT OPPORTUNITIES**

Members considered the Filtering of Investment Opportunities report presented by Peter Catchpole.

Peter Catchpole pointed out that for the purpose of clarity, point 5 on page 2 of Appendix 1 referred to commercial buildings.

Councillor Boden suggested that as well as the addition of the term 'for commercial buildings' as highlighted by Peter Catchpole, due consideration be given to an additional point 10 to be incorporated to state that due attention be paid to the resolution of full Council concerning a moratorium on sales of assets within a given location of Wisbech. Councillor Tierney agreed, saying it was important that we note that. Amy Brown confirmed this was acceptable as the motion had been passed in full Council. Councillor Boden thanked Amy Brown.

Members of the Investment Board AGREED to the two amendments as outlined and:

- the draft process for identifying opportunities that are taken forward for full appraisal at future Investment Board meetings; and
- to note the investment criteria and process agreed by Full Council for the acquisition and disposal of Commercial Property.

IB3/20 **DRAFT 6 MONTH FORWARD PLAN**

Councillor Boden suggested that at the October meeting, we have a paper on the practicality or otherwise of considering establishing a residential property portfolio. Paul Medd agreed.

Peter Catchpole pointed out that the LATCo business case paper contained a virtual scenario where that would be considered and is therefore happy to build on that.

The draft forward plan was accepted with that amendment.

IB4/20 **CONFIDENTIAL ITEM - NENE WATERFRONT BUSINESS CASE DEVELOPMENT**

Members considered the confidential Nene Waterfront Business Case Development report presented by Simon Machen.

Members made comments, asked questions and received responses.

Subject to some amendments Members AGREED to the recommendations within the report.

2.55 pm

Chairman

| | | |
|-----------------|--|--|
| Agenda Item No: | 5 |  |
| Committee: | Investment Board | |
| Date: | 21 October 2020 | |
| Report Title: | Consideration of investment in Residential Housing | |

1.1. Purpose

- To provide the Investment Board with an opportunity to consider investing in residential property as part of the Commercial and Investment Strategy.

1.2. Key issues

- Type and location of any such investment;
- Portfolio management of such assets;
- Initial funding proposals and Return on investment;
- Business arrangements and delivery methodology;
- Risk assessment and resourcing

1.3. Recommendations

- It is requested that the Investment Board:-
 - Provide a steer on the key issues as outlined in the report and the direction to be taken;
 - Request a full business case when direction is agreed;

| | |
|-----------------------------|--|
| Wards Affected | All |
| Portfolio Holder(s) | Cllr Chris Boden, Leader and Portfolio Holder, Finance |
| Report Originator(s) | Paul Medd, Chief Executive Officer Peter Catchpole, Chief Finance Officer and Corporate Director Carol Pilson, Corporate Director and Monitoring Officer Amy Brown, Deputy Monitoring Officer |
| Contact Officer(s) | Paul Medd, Chief Executive Officer Peter Catchpole, Chief Finance Officer and Corporate Director Carol Pilson, Corporate Director and Monitoring Officer Amy Brown, Deputy Monitoring Officer |
| Background Paper(s) | Cabinet Report 9 th June 2020 Approval of the Business Case to set up a Local Authority Trading Company (LATCo) |

Fenland District Council

Investing in Residential Property

October 2020

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1. Summary

The LATCO business case presented to and approved by Cabinet on 9th June 2020 included a potential scenario for investing in residential property for a rental return.

This paper seeks to build on this initial scenario and ascertain further steers from the Investment Board on how this option can be developed. There are many ways in which this can be approached and some of the options to be discussed include but are not limited to the following:-

- Buying new properties in bulk off plan potentially at a discount.
- Are there particular segments of the market that we would want to target i.e. sheltered housing, supported living etc. as tenancies could be seen as potentially longer?
- Are there particular areas of Fenland that we may wish to target as they potentially offer better returns on investment?
- If not new, then what is our minimum standard of property to invest in? Ready to let, refurb needed etc.?
- Retaining new properties from our own development schemes?
- Others?

2. Background

In view of the reduction in central government support the Council has a responsibility to consider smarter ways of working and providing additional income. It is therefore undertaking a review of how it manages property investment to generate income to continue to maintain services and to live within its means.

The Commercial and Investment Strategy which was approved by Full Council in January 2020 identified the need for the creation of one or more residential and commercial property companies to engage in property investment at arm's length from the Council for a commercial purpose. Further advice has been received which enables both residential and commercial activities to be undertaken by one arm's length company which will be solely owned by the Council.

The Council's business plan 2020/21 shows that improving infrastructure and housing growth is a priority and the establishment of a separate property company will provide the means to proactively explore new methods of property investment and housing delivery across the district.

In the Business case to establish the company presented to Cabinet on 9th June 2020 the objectives for Fenland Future Ltd ("FFL") were agreed as follows:-

- (a) Maximise the return to the Council as shareholder from its asset portfolio and exploit opportunities for acquisitions, development and commercial return from assets;
- (b) Create a delivery model that operates with a degree of commerciality in line with aspirations that mirror the Council's Corporate Plans;
- (c) Hold, manage and operate private lettings directly or via procuring landlord services to the tenants of any rented housing;
- (d) Act as a responsible and equitable landlord;
- (e) Deliver capital appreciation;
- (f) Generate income from commercial investments;
- (g) Always seek to obtain the lowest price for purchases and best consideration on sales.

This paper builds on these objectives with a particular focus on acquiring property for rental purposes. For the purposes of this discussion paper it is assumed that FFL will be the acquiring organisation and will therefore hold the assets on its Balance Sheet.

Although this is only the first stage of the process it might be worth noting that a Local Authority can own up to 199 residential properties before a Housing Revenue Account (HRA) is required and further legal advice would be sought well before this trigger point is reached.

3. Business Arrangements

Private residential properties will initially be let on assured shorthold or non-secure tenancies to provide the Company with the greatest flexibility with the long-term management arrangement of the properties.

It is proposed that the management, maintenance and statutory compliance services will be acquired either through the Fenland Future Ltd or an external provider depending on the volume and nature of the tenancies. It is envisaged that this would be outsourced initially until there is sufficient critical mass to manage directly through FFL.

4. Financial Analysis

Detailed financial modelling on more specific and targeted investments would need to be carried out to assess the potential viability of acquiring properties for rental in the District. For illustrative purposes the general scenario as presented in the original business case is again included with this paper.

Property purchase (Appendix 1)

A scenario where the FPC purchases 15 housing properties at the beginning of each year, spending approximately £1.5m per annum on investment properties in the Fenland District for the first 5 years of operation. The proposed portfolio of properties is based on purchasing properties in the Fenland area with an average price of £100k including Stamp Duty Land Tax, fees and an allowance for refurbishment.

The properties would be acquired through the purchase of existing properties including new builds or potentially off-plan as reasonable discounts may be secured. When selecting the properties, the key criteria applied will be to achieve a minimum 6% or higher ratio of capital cost to annual rent. When modelling the first phase the key aim would be to select properties that offer the greatest return.

Base Financial Assumptions

In calculating the viability model, the following assumptions have been included:

- Inflation 3% per annum;
- Borrowing costs 5% per annum on a 50-year annuity basis;
- Management costs per unit £500 per annum;
- Responsive maintenance costs per unit £400 per annum;
- Major repairs provision 0.5% per annum from year 5;
- Occupancy level 96%.

For the property purchase scenario, a 50-year cash flow has been used for the business plan of the FPC. On the basis that assets are well-designed, planned and maintained and suitable provision is made for capital repairs during the lives of the assets housing asset lives typically extend up to 100 years. On this basis, assets should remain in a good condition at the end of the 50-year cash flow and, therefore, have a residual value. The business plan has excluded increases in house prices however it is anticipated that this is an area where additional returns on investments can be made in the medium to long term.

The assumption in preparing the profit and loss account and balance sheet is that the housing stock acquired would be held as investment property, as determined under IAS40 (property held for capital appreciation or to earn rentals). There would therefore be no depreciation charge on the

assets. However, falls in the asset valuations would be charged to the profit & loss account.

The financial cash flow forecast at Appendix 1 shows the potential property purchase impact and further detail would be required to present in a full business plan.

Other considerations would include agreeing exit strategies and holding periods. It may be beneficial to strike a balance between acquisitions, holdings and sales at any given time which is in essence an effective asset management process. This would need to allow for disposal of troublesome/void properties and continual refinement of the asset base.

Capital appreciation would also be a key factor in this strategy and will be considered when looking at any property acquisition.

5. Financing

Potential Funding Sources

It has been assumed that the Council will make loan finance available to FFL through the use of prudential borrowing. This would be based on a secured loan at market rates including a margin which will provide FDC a return on the funds invested.

Funding initial schemes

It is envisaged that the Council will need to loan FFL sufficient sums to enable the purchase of the first properties including all acquisition expenses.

Stamp Duty Land Tax (SDLT)

SDLT is a charge on property transactions. The sale of land and / or property from a third party to FFL has the potential to incur an SDLT charge. This will be allowed for in the calculation of the initial purchase cost of the properties.

6. Risk Management

The key delivery risks and their likely impact are summarised below along with mitigating actions. A robust risk management plan will be developed as part of the business plan.

In undertaking acquisitions, the Council will need to consider the capacity of FFL to deliver and manage these investments and to ensure statutory compliance and financial sustainability in the future.

In practice this will require it being able to evidence that it has:

- Assets it can use as security;
- Managed operational properties effectively, with good void and bad debt performance;
- Met debt servicing requirements of loans from the Council; and
- Managed the business of the FFL effectively from corporate governance and reporting perspective.

7. Resources

Further consideration around resources needed to deliver this strategy will need to be taken into account. These include but are limited to: -

- Day to day management
- Lettings management

- Repairs and maintenance
- Financial management
- Debt control and enforcement
- Statutory testing and compliance
- Sales and purchases management
- Legal advice and leasing

As referenced above under 3. Business Arrangements, it will almost certainly be necessary to “buy in” these skills in the first instance until such time that “critical mass” is achieved.

Appendix 1 – Example Financial Modelling (property purchase only)

| | Year | Year | Year | Year | Year | Year | Year | Year | Year | Year | Year | Year | Year | Year |
|---|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 20 | 30 | 40 | 50 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Income | | | | | | | | | | | | | | |
| Private Rental Income | 104 | 207 | 311 | 415 | 518 | 534 | 550 | 566 | 583 | 601 | 808 | 1,085 | 1,459 | 1,960 |
| Total Income | 104 | 207 | 311 | 415 | 518 | 534 | 550 | 566 | 583 | 601 | 808 | 1,085 | 1,459 | 1,960 |
| | | | | | | | | | | | | | | |
| Costs | | | | | | | | | | | | | | |
| Management Costs | -8 | -15 | -23 | -30 | -38 | -39 | -40 | -41 | -42 | -43 | -47 | -63 | -85 | -114 |
| Repairs and Maintenance | -6 | -12 | -18 | -24 | -30 | -31 | -32 | -33 | -34 | -35 | -58 | -78 | -104 | -140 |
| Allowance for Major Repairs and Maintenance | 0 | 0 | 0 | 0 | 0 | -7 | -14 | -22 | -29 | -39 | -72 | -129 | -263 | -353 |
| Company running costs | -20 | -21 | -21 | -22 | -23 | -23 | -24 | -25 | -25 | -26 | -35 | -47 | -63 | -85 |
| Total Costs | -34 | -48 | -62 | -76 | -90.5 | -100 | -110 | -121 | -130 | -143 | -212 | -317 | -515 | -692 |
| | | | | | | | | | | | | | | |
| Financing Costs | | | | | | | | | | | | | | |
| Interest | -75 | -150 | -225 | -300 | -375 | -373 | -371 | -369 | -367 | -364 | -332 | -280 | -195 | -55 |
| Total Financing | -75 | -150 | -225 | -300 | -375 | -373 | -371 | -369 | -367 | -364 | -332 | -280 | -195 | -55 |
| Grand Total Costs | -109 | -198 | -287 | -376 | -466 | -473 | -481 | -490 | -497 | -507 | -544 | -597 | -710 | -747 |
| | | | | | | | | | | | | | | |
| Profit / (Loss) | -5 | 9 | 25 | 39 | 53 | 61 | 69 | 77 | 86 | 94 | 264 | 489 | 748 | 1,213 |
| Corporation Tax | 0 | 0 | 0 | 7 | 10 | 12 | 13 | 15 | 16 | 18 | 50 | 93 | 142 | 230 |
| Profit / (Loss) after tax | -5 | 9 | 25 | 31 | 43 | 50 | 56 | 62 | 70 | 76 | 214 | 396 | 606 | 983 |

DRAFT 6 MONTH INVESTMENT BOARD FORWARD PLAN – Updated 15 October 2020



| DATE | ITEMS |
|------------------|--|
| 12 Jan 2021 | <ol style="list-style-type: none">1. To approve Fenland Future Limited's Business Plan2. To review progress in relation to Nene Waterfront3. To approve/review any newly emerging business cases (where available)4. To perform general monitoring and review functions (as appropriate)5. Investment Board Draft Forward Plan |
| 16 March 2021 | <ol style="list-style-type: none">1. To review progress in relation to Nene Waterfront2. To approve/review any newly emerging business cases (where available)3. To perform general monitoring and review functions (as appropriate)4. Investment Board Draft Forward Plan |
| 14 April 2021 | <ol style="list-style-type: none">1. To perform monitoring and review functions (as appropriate)2. To agreed proposed schedule of quarterly meetings for 2021/22 municipal year for agreement by Full Council3. Investment Board Draft Forward Plan |

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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