

Agenda Item No:6



Report of Overview and Scrutiny Committee to Cabinet

O&S Recommendations to Cabinet – Commercial Investment

The Overview and Scrutiny Committee recommends to the Cabinet:-

- I. Financial Reports including Red Book valuations are prepared annually in accordance with UK GAAP for management purposes. The output to include normal commercial property metrics and risk registers, such as estimated rental value and covenant strength of tenants.
 - II. A framework document should be prepared setting out social value yield and return targets for the Council's Property Strategy.
 - III. A clear list of investment and social worth objectives to be included for each investment and reported on annually.
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Date of O&S meeting: Tuesday 24 April 2018

Chair of O&S Committee: Cllr Brendan Chilton

Date of Cabinet Meeting: Thursday 14 June 2018

Key Decision: No

Significantly Affected Wards: None specifically

Relevant Portfolios: Corporate Property and Projects
Finance and IT

Management Team Comment: See paragraphs 8-11

Background Papers: **Commercial Investment by the Council**, report to Overview and Scrutiny Committee, 24 April 2018

Contact: Will.train@ashford.gov.uk – Tel: (01233) 330394

Report Title:

Introduction and Background

1. During scrutiny of the council's draft 2018/19 budget, the Budget Scrutiny Task Group felt that there would be benefit in the full Overview and Scrutiny Committee examining the council's approach to commercial investment, with particular reference to the council's purchases of International House and Park Mall.
2. The Portfolio Holder for Corporate Property and Projects; Portfolio Holder for Finance and IT; Director of Finance and Economy; Head of Corporate Property and Projects and Senior Accountant attended the Committee and presented a number of reports relating to the financial position and occupancy status of both assets, the council's approach to investment and the development of both assets since acquisition by the council.

Recommendations

3. The Committee noted that the commercial valuation figures presented showed that the assets as detrimental, and felt that it would be beneficial for future annual reports on commercial property assets to include a RICS red book valuation in accordance with the UK Generally Accepted Accounting Practice (UK GAAP) to allow for improved consistency and greater confidence in the presentation of commercial performance to Council (**recommendation 1**).
4. The Portfolio Holders for Finance and IT and Corporate Property and Projects noted the importance of delivering social 'worth' as a facet of the council's commercial investment, in terms of supporting the borough's economy and delivering benefits to residents through the council investing in (and so enabling) key developments such as Elwick Place, or the purchase of Park Mall for regeneration purposes.
5. Members noted the importance that the council attached to delivering social value to the borough in addition to achieving a positive financial return to achieve financial self-sufficiency, but felt that the desire to deliver worth was not spoken to sufficiently in the council's Corporate Property Management Strategy, and that a framework document in this area would strengthen governance arrangements around acquisitions.
6. The Committee felt that a clearer framework was necessary to both support the council's commercial direction and document the council's activities with regard to delivering social value, yield and return through the council's corporate property management strategy (**recommendation 2**). This framework would provide a clear rationale for decision making if members wanted to revisit decisions in the future.

7. Members felt that accountability with regard to investment decisions was of paramount importance, and that the investment cases presented to Members at the Economic Regeneration and Investment Board (ERIB), Cabinet or Council should include a clear list of investment and social value objectives that the investment will seek to achieve to aid accountability. Annual reporting to Members on these objectives should also be undertaken to demonstrate how the council's approach to commercial investment is aiding the delivery of the corporate plan aims beyond delivering a financial return (**recommendation 3**).

Management Team Comment

8. Management Team has considered the report and wishes to submit the following comments for the attention of the Cabinet. Management Team have concerns over the definition and measurement of social value – whilst the Public Services (Social Value) Act 2012 details considerations with regard to delivering social value in certain procurement exercises, a multitude of meanings can be attached to social value and as such it can be extremely difficult to effectively measure.
9. Management Team would note that whilst there is no requirement from an accounting perspective to value the council's property assets in this way, officers would like the opportunity to explore the costs associated with the preparation of Red Book valuations as cost may be a factor that determines the frequency of valuations. Management team are happy to seek quotes and report these through to Members but would **advise Cabinet not to adopt recommendation 1** until such time as exploratory work in this area is completed.
10. Management Team have concerns about the definition and measurement of social value in respect of commercial investment – social value can have a multitude of meanings and without specific definition it can be extremely difficult to measure yield and return. Management team would however **advise Cabinet to adopt recommendation 2**, with a social value framework to be included within the council's Corporate Property Management Strategy (adopted by Cabinet in April 2018) is reviewed.
11. It is important to set both financial and non-financial objectives as criteria to determine the success of all council projects; and to measure performance against these criteria. Management Team **advise Cabinet to adopt recommendation 3**, and suggest that the Annual Corporate Property report is extended to report the achievement of investment and social worth objectives back to Members.

Conclusion

12. The Overview and Scrutiny Committee thanks the Portfolio Holders and Officers for their attendance and the reports presented, and recommends the following to Cabinet:

- I. **Financial Reports including Red Book valuations are prepared annually in accordance with UK GAAP for management purposes. The output to include normal commercial property metrics and risk registers, such as estimated rental value and covenant strength of tenants.**
- II. **A framework document should be prepared setting out social value yield and return targets for the Council's Property Strategy.**
- III. **A clear list of investment and social worth objectives to be included for each investment and reported on annually.**

Contact and Email

13. Will Train, Senior Policy and Scrutiny Officer
will.train@ashford.gov.uk 01233 330394