

Agenda Item No: 6
Report To: CABINET
Date of Meeting: 13th September 2018



Report Title: Cabinet responses on Overview and Scrutiny recommendations on Commercial Investment
Report Author & Job Title: Paul Mckenner – Head of Corporate Property and Projects
Portfolio Holders for: Cllr Galpin – Corporate Property and Projects
Cllr Shorter – IT and Finance

Summary: This report responds to those matters raised by Overview and Scrutiny of the 24th April 2018 and the Cabinet's initial response of the 14th June 2018 on its review of Park Mall and International House.

The report provides Cabinet with an update and proposed responses to the recommendations made by Overview and Scrutiny of the 24th April 2018.

Key Decision: No

Significantly Affected Wards: None specifically.

Recommendations: **The Cabinet is recommended to:-**

- 1) authorise expenditure of £14,000 over a three year period to carry Red Book valuations for the Council's Commercial Investment Portfolio, starting with International House.
- 2) to note a framework for social value yields and return targets **will not be adopted**.
- 3) to note investment and social value objectives will be included within future investment appraisals.

Policy Overview: Commercial Investment Portfolio continues to assist in the delivery of the corporate plan objectives to achieve greater economic prosperity for the borough, and will support the delivery of a viable and sustainable replacement for the

Formula Grant through the generation of income for the council.

Financial Implications:	The financial implications of this report require the allocation of £14,000 on a rolling basis over a three-year period.
Legal Implications	None.
Equalities Impact Assessment	Not required.
Other Material Implications:	None
Exempt from Publication:	NO
Background Papers:	Overview and Scrutiny Committee report 24 th April 2018 and Cabinet 14 th June 2018
Contact:	Paul.mckenner@ashford.gov.uk– Tel: (01233 330 419)

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. A report on Park Mall and International House was presented to Overview and Scrutiny on the 24th April 2018 at which three recommendations were recommended Cabinet Committee on the 14th June 2018. These are as follows:-
 - 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.
3. Cabinet noted the three recommendations for further examination, but not to adopt them at this stage. If they could be implemented they would be, but they wanted to be cognisant of all potential implications and costs before doing so. Cabinet undertook to report back to the Chairman of the Overview and Scrutiny Committee in due course.
4. This report forms the final consideration of these recommendations.

Cabinet updated response.

Recommendation 1

5. Cabinet noted 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.
6. Head of Corporate Property and Projects has now received the estimate to provide the advice and is estimated at £14,000 for the entire commercial property portfolio and is proposed to carry out the valuations over a three year period starting with International House with a cost of £2,500

7. The red book valuations will be included in subsequent annual reports on Commercial Investments, which is reported to Cabinet in September. The cost of the valuation advice and built in to the revenue budget for 2019/20 as growth.

Recommendation 2

8. In April, the Cabinet adopted the Corporate Property Management Strategy, which included some broad overarching criteria for the purchase of commercial property, so there is a framework for setting a framework for yields and objectives. There are concerns about the definition and measurement of more specific social value criteria in respect of commercial investment and its appropriate use in determining its social value return. There are numerous forms that these could take and they may vary considerably with each individual acquisition, it is questioned whether a single strategy or framework is appropriate.
9. Return targets for individual projects are undertaken and are set out in the initial appraisals and these can then be agreed at the time of purchase and reported upon as part of that annual report in September each year.
10. It is therefore proposed not to adopt a framework of social value yields for the Commercial Investment Portfolio.

Recommendation 3

11. At its Cabinet meeting of the 24th June agreed 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. Furthermore, the social worth objectives will be reported on for each future investment as they arise.

Portfolio Holder Comments

12. "I am grateful to the Overview & Scrutiny Committee for their diligent, exhaustive and helpful review of the Corporate Property portfolio. We are pleased to take on recommendations 1 & 3, however mensuration of social value quantitatively is most difficult and therefore an analysis of the achieving the general strategic objective is felt to be adequate. I am therefore happy to commend the recommendations of this report to the Cabinet".

(Cllr Graham Galpin, Portfolio Holder for Corporate Property).

13. "I accept the report as presented with thanks to officers for their detailed work in supporting the O&S committee in understanding this complex process."

(Cllr Neil Shorter, Portfolio Holder for Finance and IT).

Conclusion

14. Cabinet are requested to approve recommendations 1 to 3 and to note the additional cost to the budget of £14,000 over a three year period.

Contact and Email

15. Paul Mckenner, Head of Corporate Property and Projects
Paul.mckenner@ashford.gov.uk 01233 330419