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Meeting of: Property Growth Fund Sub-Committee
Date: Tuesday, 9th February, 2021
Time: 4.30 pm.
Venue: Zoom Meeting

This agenda gives notice of items to be considered in private as required by Regulations 5 (4) and (5) of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

| Item No. | AGENDA | Page No |
|-----------------|---|----------------|
| 1 | Apologies To receive any apologies for absence. | |
| 2 | Declarations of Interest Members are required to declare any disclosable pecuniary, personal or personal and prejudicial interests they may have and the nature of those interests relating to items on this agenda and/or indicate if S106 of the Local Government Finance Act 1992 applies to them. | |
| 3 | Items for Exclusion of Public and Press To determine any items on the agenda, if any, where the public are to be excluded from the meeting. | |
| 4 | Urgent Items of Business To determine whether there are any additional items of business which, by reason of special circumstances, the Chair decides should be considered at the meeting as a matter of urgency. | |
| 5 | Minutes To consider the Minutes of the meeting of the Property Growth Fund Sub-Committee held on 7 th July 2020. | 4 - 5 |
| 6 | Update on PWLB Lending Terms To consider the report of the Cabinet Member for Corporate | 6 - 11 |

Delivery/Director of Resources.

7 Exclusion of Press and Public

To consider that the press and public be excluded from the remaining part of the meeting pursuant to Section 100(A) 4 of the Local Government Act 1972 on the grounds that discussions may involve the likely disclosure of exempt information as defined in the provisions of Part 1 of Schedule 12A to the Local Government Act 1972 and public interest would not be served in publishing the information.

8 Asset Development Fund - Ronald Gorton Centre 12 - 14

To consider the report of the Cabinet Member for A Thriving Economy/
Director of Economy.

9 Durham Business Park, Lincoln Close 15 - 28

To consider the report of the Cabinet Member for A Thriving Economy/
Director of Economy.

10 Logic, Kingsway Business Park - Update 29 - 32

To consider the report of the Cabinet Member for A Thriving Economy/
Director of Economy.

11 Property Investments - Performance and Risk - 2020/21 33 - 40

To consider the report of the Cabinet Member for A Thriving Economy/
Director of Resources.

Property Growth Fund Sub-Committee Members

Councillor Allen Brett
Councillor Daalat Ali
Councillor Sara Rowbotham

For more information about this meeting, please contact:
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Agenda Item 5

PROPERTY GROWTH FUND SUB-COMMITTEE

MINUTES OF MEETING

Tuesday, 7th July 2020

PRESENT: Councillor Brett (in the Chair); Councillors Rowbotham and Wardle (substituting for Councillor Daalat Ali).

OFFICERS: N. Thornton (Director of Resources), J. Searle (Director of Economy), L. Rickell (Economy Directorate), M. Ashworth and P. Thompson (Resources Directorate)

ALSO IN ATTENDANCE: Councillor Dearnley and D. Cooke (Rochdale Development Agency).

30 APOLOGIES

Apologies for absence were received from Councillor Daalat Ali.

31 DECLARATIONS OF INTEREST

There were no declarations of interests.

32 EXCLUSION OF PRESS AND PUBLIC

That the Press and Public be excluded from the meeting during consideration of the following two items of business, in accordance with the provisions of Section 100A (4) of the Local Government Act 1972, as amended.

33 PLOT G, KINGSWAY BUSINESS PARK – FEASIBILITY & DESIGN

The Sub-Committee considered a report of the Director of Economy, the purpose of which was to seek approval for the use of £50,000 of the Asset Development Fund to carry out feasibility studies and detailed design to achieve planning permission for a scheme at Plot G, Kingsway Business Park, Rochdale.

Alternatives considered:

The Sub-Committee could decide not to approve the recommendations in which case it would not achieve the financial objectives of the corporate vision via this project.

Resolved:

1. The Property Growth Fund Sub-Committee approves the proposal, detailed in the submitted report, to invest up to £50,000 of the Asset Development Fund to carry out feasibility studies and detailed design to achieve planning permission of a scheme at Plot G, Kingsway Business Park. The £50,000 will be matched equally by Wilson Bowden to total £100,000.
2. The Assistant Director, Legal Governance & Workforce be authorised to advise appropriate Council services, to prepare and execute appropriate legal documentation to secure the delivery of the approved feasibility projects.

Reasons for decision:

The feasibility studies were required to understand the viability of a potential scheme before it could proceed.

Eligible for Call-in: Yes

34 PROPERTY INVESTMENTS - PERFORMANCE AND RISK QUARTER 4:2019/2020

The Sub-Committee considered a report of the Director of Resources that informed Members of the performance of the Council's commercial property investments in financial year 2019/20, and highlight the associated risks.

The report also demonstrated that the Commercial Investment Fund/Asset Development Fund investments had achieved the appropriate performance targets that had been established for this activity.

The report presented the balances remaining within the respective Property Growth Funds and recommends that the Commercial Investment Fund and Direct Development Fund be amalgamated at the earliest opportunity in the 2020/2021 financial year.

Alternatives considered:

The Sub-Committee could decide not to amalgamate the Commercial Investment Fund and Direct Development Fund and instead to preserve the separate aims and objectives associated with each Fund, as set out in paragraphs 4.2 and 4.3 of the submitted report.

Resolved:

1. That the report be noted, including the assessment of risk with regard to the property portfolio, as detailed at paragraph 6 and Appendix 2 of the submitted report.
2. The Sub-Committee approves the amalgamation of the Commercial Investment Fund and Direct Development Fund, with immediate effect.

Reasons for the decision:

The amalgamation of the Commercial Investment Fund and Direct Development Fund would provide the Council with more flexibility in making Property Growth Fund investment decisions, would allow access to a wider range of opportunities, and would simplify future financial reporting.

Eligible for call-in: No

Agenda Item 6

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| Agenda Item | |
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Report to Property Growth Fund Sub-Committee



| | |
|-------------------------|-------------------------------|
| Date of Meeting | 9 th February 2021 |
| Portfolio | Corporate Delivery |
| Report Author | Michelle Ashworth |
| Public/Private Document | Public |

Update on Public Works Loan Board Lending Terms

Executive Summary

- 1.1 This report is to update Members of the Property Growth Fund Sub-Committee of the outcome of the Public Works Loan Board (PWLB) Lending Terms Consultation announced in November 2020, and the implications for the Property Growth Fund going forwards.
- 1.2 The revised PWLB lending terms implemented in November 2020 restrict access to prudential borrowing for local authorities who have 'debt for yield' schemes in their capital programme.
- 1.3 Cabinet have been asked to approve an amendment to the current capital programme narrative to reinforce regeneration as the primary aim of the Property Growth Fund, with financial return as a secondary consideration. This will ensure that the Council can continue to access PWLB borrowing to support the current and future years capital programmes. These changes will also be reflected through the future years capital programmes and Capital Investment and Disposal Strategy to be approved at Budget Council on 3rd March 2021.

Recommendation

2. Members are asked to note the change to PWLB lending terms, the proposed changes to the capital programme and Capital Investment and Disposal Strategy, and the resultant effect on future property investments.

Reason for Recommendation

3. The Members of the Property Growth Fund Sub-Committee make decisions regarding the operation of the Property Growth Fund and the property investments that it funds. The Property Growth Fund represents a substantial part of the Council's overall capital programme and as such

affects the Council's capital financing requirement and borrowing requirements. Members should therefore be aware of the changes to the PWLB lending terms to enable the Council's continued access to PWLB borrowing.

Key Points for Consideration

Background

- 4.1 In a recent report published by the National Audit Office (NAO) it was estimated that local authorities spent £6.6bn on commercial property between 2016/17 and 2018/19, which equated to over 14 times more than in the previous 3 years financial years. This investment was considered to be primarily for yield – as authorities sought to address reductions in funding - and largely financed by prudential borrowing.
- 4.2 In 2018 the Ministry for Housing, Culture and Local Government (MHCLG) sought to address this issue by issuing statutory guidance, including a requirement for local authorities to publish a capital/investment strategy, quantitative indicators, and reiterating prohibitions around borrowing in advance of need.
- 4.3 However following the issuing of this guidance borrowing continued to increase as interest rates fell, particularly in the summer of 2019, when £500m was borrowed in a single day. As borrowing was heading towards the statutory limit, in October 2019 HM Treasury announced an immediate 1% PWLB rate rise and an increase to the statutory limit.
- 4.4 In February 2020 the NAO issued their report, highlighting the issues around authorities using low cost loans from PWLB to buy investment property primarily for rental income. HM Treasury issued a consultation on proposed PWLB future lending terms in March 2020, and CIPFA (the Chartered Institute of Public Finance and Accountancy) published an initial response, which was for local authority Chief Finance Officers to abide by this with immediate effect. In July 2020 CIPFA issued their official response to the consultation, further recommending a review of the Prudential Framework and for the Prudential Code to be made mandatory.
- 4.5 The PWLB consultation ended in November 2020, and HM Treasury implemented the new PWLB terms with immediate effect, reducing PWLB lending rates to their pre-consultation level at the same time.

Implications

- 4.6 HM Treasury state that the purpose of PWLB lending is to support public works. The Treasury do not consider 'debt for yield' schemes to fall into this category, and states that such activity presents risks in terms of the stability of the income, puts unmanageable pressure on PWLB, and distorts local and regional markets.
- 4.7 In light of this, the changes to PWLB lending terms are as follows:

- (a) To require authorities that wish to borrow from the PWLB to confirm that they do not plan to buy investment assets primarily for yield;
- (b) To publish guidance defining the activity that the PWLB will no longer support, with clear protections for service delivery, regeneration and the re-financing of existing debt; and
- (c) To standardise the information currently gathered through the application process for the PWLB Certainty Rate and use this as a primary way to confirm that authority plans conform to the guidance.

4.8 The implications for local authorities therefore are:

- Authorities must provide their high level capital programme to MHCLG
- Authorities must provide assurance from their s.151 Officer that they will not borrow in advance of need, and that the authority has no intention to buy commercial assets primarily for yield
- There will be no access to new PWLB loans in a financial year if an authority has commercial/for yield assets anywhere in its capital programme
- This applies to local authority-owned companies/joint ventures
- Breaches could result in repayment of loans on demand, plus early repayment penalties

4.9 The definition of categories of capital spend will be key in the application of the above changes. The following categories are **allowable** for the purposes of access to PWLB borrowing:

| Allowable Capital Spend | |
|--------------------------------|--|
| SERVICE SPENDING | Anything captured in the standard central government capital return forms, i.e. education, highways & transport, social care, public health, culture & related services, environmental & regulatory services, police, fire & rescue |
| HOUSING | Land release, housing delivery, subsidising affordable housing |
| REGENERATION | Schemes featuring one or more of the following characteristics: <ul style="list-style-type: none"> • addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector |

| | |
|--------------------|--|
| | <ul style="list-style-type: none"> • preventing a negative outcome, including through buying and conserving assets of community value that would otherwise fall into disrepair • involving or generating significant additional activity that would not otherwise happen creating jobs and/or social or economic value • rents are recycled within the project or applied to related projects with similar objectives, rather than being applied to wider services |
| REFINANCING | Restructuring or extending existing debt from any source; including internal borrowing. Funding via one source then seeking to refinance via PWLB is 'not something LAs should deliberately do' |

4.10 'Investment assets bought primarily for yield' are **not allowable** anywhere in an authority's capital programme for the purposes of accessing PWLB borrowing. HM Treasury considers characteristics of such schemes to be as follows:

| Non-Allowable Capital Spend | |
|---|---|
| INVESTMENT ASSETS BOUGHT PRIMARILY FOR YIELD | <p>One or more of the following:</p> <ul style="list-style-type: none"> • buying land or existing buildings to let out at market rate • buying land or buildings which were previously operated on a commercial basis which is then continued by the authority without any additional investment or modification • buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly |

4.11 It is not intended that the changes to PWLB lending terms are applied retrospectively, but will apply to the current and future financial years capital programmes. A review of past PGF acquisitions against the above criteria has been carried out to inform the PGF position going forwards. This indicates that the majority of property investments have been made within the borough and have had regeneration aims alongside a financial return, however a minority of schemes do not fit the characteristics for regeneration and are more likely to have been classified as investment assets bought primarily for yield.

4.12 The aims for the PGF stated in the current capital programme are:

‘...to acquire properties for a commercial, financial return, and to generate revenue savings of 1.5% on the capital invested. To date, all the CIF acquisitions have been within the borough boundaries, although there was no specific prohibition on out-of-borough purchases. In Phase 3 it is proposed to widen the geographical parameters to acquire properties out-of-borough.’

In order to make sure the capital scheme description for the PGF incorporates the regeneration aims of the Council going forwards, and to ensure continued access to PWLB borrowing, a recommendation has been made within the period 8 Finance Update Report considered at Cabinet on 9th February to amend the purpose of the scheme to the following:

‘Acquisition and development of property with the primary aims of strategic regeneration, business growth, job creation and enhancing social or economic value, with secondary aims of portfolio diversification and the achievement of a financial return in order to cover the costs of investment and provide for whole-life asset maintenance costs and future fluctuations in property investment income’.

The proposed capital programme and Capital Investment and Disposal Strategy to be approved at Budget Council on 3rd March will also include this updated description.

- 4.13 All future PGF investments will need to be made in accordance with the allowable capital spend categories as set out in paragraph 4.9 above.

Alternatives Considered

This report is for information only, there are no alternatives to consider.

Costs and Budget Summary

5. The proposed capital programme for 2021/22 to 2025/26 to be approved at Budget Council on 3rd March is supported by £106.4m of prudential borrowing, which would be put at risk if the changes described in paragraph 4.12 above were not approved. Although alternative lending providers are available, PWLB remains the most cost-effective and accessible form of borrowing available for local authorities.

Risk and Policy Implications

6. This report is for information only; there are no risk and policy implications.

Consultation

7. The Director of Economy, Director of Resources and Chief Finance Officer have been consulted in producing this report.

| Background Papers | Place of Inspection |
|--|--|
| <p>8. NAO Report – Local Authority Investment in Commercial Property – February 2020</p> <p>Public Works Loan Board: Future lending terms consultation</p> | <p>No.1 Riverside</p> <p>No.1 Riverside</p> |
| <p>For Further Information Contact:</p> | <p>Michelle Ashworth Michelle.ashworth@rochdale.gov.uk 01706 924197</p> |

Agenda Item 8

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

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Agenda Item 9

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Agenda Item 10

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