



Report to: Policy and Resources Committee, 26th February 2019

Report of: Corporate Director - Finance and Resources

Subject: PROPERTY DEVELOPMENT FINANCING

1. Recommendation

1.1 To revise the overall limit on the Property Development Fund to £30m to allow for approval of suitable schemes.

2. Background

2.1 In February 2018 the Council adopted a Commercial Strategy. The strategy is designed to support the Council to manage the transition from a funding regime based substantially on central government grants to one in which the Council is entirely dependent on its own resources. However, the strategy also recognises that a commercial approach supports progressive policy-making. Underpinning the City Plan is a commitment to improving Worcester as a destination and as a place to live, work and spend leisure time. By providing services that are self-sustaining and by generating income in excess of immediate need, the Council can build capacity for regeneration and increase service delivery to target groups.

2.2 As part of this approach the Council's Cabinet, in October 2016, approved a proposal which combined the need to establish income streams and the need to procure property and assets for development through:

"better utilisation of our asset base either as a stand alone or through partnership working; the development of sites for housing, business opportunities or leisure activities to encourage economic growth and a healthy and more active population; and the further development of the tourism offer through our heritage assets and partnership approach."

2.3 Subsequently, during the 2018/19 budget-setting process, two of the Council's policy Committees proposed the following indicative allocations from the City Plan Fund for the development of projects to support the above aims:

Committee	Indicative allocation (£000)	Purpose
Planning and Economic Development	500	To support housing initiatives other than social housing including: <ul style="list-style-type: none"> - Helping people onto the housing ladder - purchasing vacant and redundant buildings to return them into use the establishment of a Housing Development Company
Planning and Economic Development	100	To support business development initiatives
Communities	500	To increase capacity to provide housing for vulnerable tenants through a suitable model such as: <ul style="list-style-type: none"> - dispersed family units - design & build schemes - a joint venture with a provider

- 2.4 The indicative allocations were designed as start-up funding or pump priming funds to unlock potential developments, not primarily as investment funds for the purposes of generating returns. More substantial capital sums will be needed to invest in property development in support of these intentions and this is likely to include raising capital finance through borrowing.
- 2.5 At its meeting of 30 July 2018 the Committee approved a report on Property Development Funding. This establishes the basis for accessing such funds and sets out the decision-making process in relation to the property development projects, as envisaged by the October 2016 report.
- 2.6 The Committee agreed a capital limit of £20m on the fund. This was on the basis that as part of the Transformation Programme and Medium Term Financial Strategy, the Council has identified a need to secure income from such investments of £100,000 in 2020/21 and a further £100,000 in 2021/22. In simple terms, on the basis of a 1% annual yield, net of all up-front, borrowing and lifecycle costs, this would require investment of £20m.
- 2.7 Following negotiations with property agents, two potential schemes have been considered and these are subject to separate reports on the agenda. The total value of these schemes, including purchasing costs, would be in excess of the Development Fund limit.
- 2.8 Further opportunities for property development are under consideration. Consequently the Council's Operational Boundary and Authorised Limit for debt, which are indicators required under the CIPFA Prudential Code on Capital Accounting, have been revised. The revised limits were approved by Full Council on 19 February and include sufficient room to borrow to meet all known schemes under consideration. The revised limits are as follows:

	2018/19 limit £m	2019/20 limit £m	2020/21 limit £m	2021/22 limit £m
Authorised limit	32.4	51	55	57
Operational boundary	26.8	44	48	49

2.9 In light of this analysis, and in line with the revised borrowing limits, it is proposed to increase the limit on the Development Fund to £30m.

3. Preferred Option

3.1 To revise the overall limit on the Property Development Fund to £30m and to undertake borrowing for property development purposes where this is considered to be the most effective means of financing proposed schemes.

4. Alternative Options Considered

4.1 To not increase the headroom for borrowing. This would require the Council to work within existing borrowing limits and to use revenue contributions, capital receipts and other sources of funding for investment in property development. Evidence from proposals received to date suggests that these sources alone would not be sufficient to undertake the level of investment required to meet the aims of the City Plan, the October 2016 Cabinet report and the Commercial Strategy.

5. Implications

5.1 Financial and Budgetary Implications

These are set out in the report. More detailed financial implications would be brought forward for consideration as part of the two-stage decision process set out in the report. Individual decisions would need to be considered by the Committee and/or the Income Generation Sub-committee as required.

5.2 Legal and Governance Implications

The Council has a power of general competence under s1-4 Localism Act 2011 to do anything an individual can do, subject to any statutory prohibitions which may be in place. There is currently no prohibition on the Council's ability to borrow for the purpose of income generation, property investment and potential development, as described in this report. Any decisions to increase borrowing and make investments must be compatible with the Council's general fiduciary duties in respect of the stewardship of public funds, and specifically the Council must have regard to the Prudential Code and Treasury Management Limits, issued periodically by CIPFA.

The revised Prudential Code and Treasury Management Limits have been taken into account in developing a Capital Strategy during 2018/19 and in reviewing the operation of the Development Fund. The Council has also considered revised guidance by CIPFA and the MHCLG relating to capital investment decision-making and Minimum Revenue Provision. The proposals in the report are in line with this current guidance and approved Council policies and strategies.

In the event that Government requirements on local government borrowing were to change in the future, this would feed through into the terms on which Public Works Loan Board borrowing could be drawn down. Therefore on a scheme by scheme basis, as part of the business case for any acquisition, the Council will be able assess the availability of borrowing and the terms on which it can be made.

5.3 Risk Implications

The Corporate Risk Register includes two relevant risks:

- Insufficient resources and skills gap to deliver City Plan Priorities.
- Macro-economic financial crisis that impacts on the Council's investment portfolio.

One of the intentions of the report is to ensure that where the Council undertakes development initiatives which include the purchase of assets, income should be derived from the assets, either as revenue streams or as capital receipts such that there is no negative impact on the Council's ability to deliver the City Plan. Increased reliance on income from such sources, however, increases the risk that macro-economic changes may affect the Council's capacity to deliver services. This needs to be mitigated by continuing to deploy a range of solutions for balancing the Council's income and expenditure, including efficiencies, budget savings and reliance on income from other sources. Increasing engagement in the City Centre may, on the other hand, help to secure the City as an attractive place to invest and thereby increase income from business rates and Council Tax.

Nevertheless, the overall limit on the Development Fund is a key measure of risk for the Council in relation to investment in property development. It is therefore essential that the rationale for any changes to the limit is clear and that the limit remains subject to approval by the Policy and Resources Committee. Other key indicators of the effective management of risk in relation to property development will be reported to Committee and Full Council under the requirements of the Capital and Investment Strategies, agreed by Council in February 2019.

5.4 Corporate/Policy Implications

The proposals are designed to support the delivery of the City Plan as part of the strategies set out in the Cabinet report of October 2016, the Commercial Strategy and the 2018/19 budget.

5.5 Equality Implications

Investment in property development is part of a strategy to increase capacity within the city to meet the needs of those who are potentially homeless, residents seeking access to housing across the private and public sectors and businesses seeking development capacity. The aims of the proposal are to support these specific groups, although investment in the city has the effect of improving wellbeing of all residents.

5.6 Human Resources Implications

None directly arising from this report.

5.7 Health and Safety Implications

None directly arising from this report.

5.8 Social, Economic and Environmental implications

Investment in property development is part of a strategy to increase capacity within the city to meet the needs of those who are potentially homeless, residents seeking access to housing across the private and public sectors and businesses seeking development capacity. The proposal in the report will increase the Council's capacity to take advantage of opportunities to promote development in support of these groups and in support of its wider objectives through the City Plan and Masterplan.

Ward(s): All wards
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Background Papers: None