

Peterborough City Council

Acquisitions Strategy

December 2016 – To Be Revised



ASSET MANAGEMENT PLAN

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1 Introduction

1.1 Context & Scope of Strategy

Although the City Council has been successful in generating capital receipts from the disposal of its surplus assets, the number of assets that can come forward from the Council's operational portfolio will to reduce. Sites that do come forward remain subject to increasing scrutiny for shared use by public sector partners and communities, or have increasing constraints from a planning perspective. The Asset Management Plan (AMP) is articulating a revised direction for asset management focussed on an emphasis on *using property to support growth, inward investment and financial security*.

It will be increasingly important to focus on the Council's investment and growth portfolios and to grow these through strategic acquisitions to generate improved rental income or to secure sites for future development. This will require capital which can be utilised to respond quickly to market opportunities within a clear governance framework and with the benefit of defined acquisition and performance criteria. This will allow the Council to respond to current financial constraints by growing its rental income stream from commercial assets and to take a lead in commissioning and delivery of new developments through existing and new delivery vehicles. It will be similarly important to change the composition of the operational portfolio as this needs to be reinvigorated since many assets are not 'fit for purpose'; in a poor physical condition or costly to use. Whilst this may not necessarily see a growth in the size of the operational portfolio it is likely to see new acquisitions allied with the disposal of existing properties to change the overall nature of the portfolio.

The purpose of this strategy is to set out:

- The rationale for Growing the Portfolios
- The criteria for Acquisitions
- An Outline of Governance Arrangements
- An Outline of Approach to Review and Performance

2.0 A Framework for Acquisitions

The AMP identifies the need for specific management action for three distinct portfolios; the operational, investment and growth portfolios. The AMP also identifies that in the future there could be pressures to reduce the size of the operational portfolio whilst growing the size of both the investment and growth portfolios. There is likely, however to be a need to acquire assets from time to time across all three portfolios. These acquisitions need to be set within a clear decision making framework with defined criteria

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2.1 The Rationale for Growing the Portfolios

Increasingly Councils are moving to a 'self-funding model' with Government changes around reduction in grant funding and future retention of business rates. This will require Councils to be more innovative and commercial in how they generate funds to support local services and provides a strong impetus for the council to grow income generated from its investment portfolio – both through improved management and acquisitions to enhance the portfolio. Having an acquisition strategy enables the Council to pursue assets identified and also to respond to unexpected market opportunities that arise from time to time. The availability of pump-priming capital will allow speedy intervention in the market; subject to appropriate governance arrangements. Good quality commercial investments are in strong demand. There is therefore a necessity for a defined strategy and acquisition framework to be adopted in order to allow the Council to bid competitively, particularly on a timescale basis, in the open market.

There is similarly a need to enhance the Council's holding of strategic assets which can be used to support growth and regeneration. This will be necessary to fulfil the Councils vision to grow the city and to create employment opportunities and also its need to respond to population increase and housing pressures.

The principle of using of property returns to fund front line services is not new with many local authorities actively involved to a greater or lesser degree for many years. However, historically an acquisition of investment property by local government has not necessarily been on a structured basis. With the changing operating climate and an imperative to improve income generation there will increasingly be a need to adopt more formal approaches to ensure compliance with financial statutes and a focus on the performance of the investment portfolio.

Whilst emphasis is increasingly likely to be placed on growing the investment and growth portfolios it will still be vital that the Council retains an operational portfolio to support service delivery. This will require a change in portfolio composition so that through selective acquisitions and disposals the portfolio can be adapted to ensure it meets service needs; is functional suitable for its purposes and is cost effective for the Council.

A renewed focus on the Council's operational, investment and growth portfolios with a clear framework for decision making will allow the Council to:-

- Allow a change in the operational portfolio to ensure it is 'fit for purpose' and cost effective to use and maintain
- Identify new assets to generate long term income streams for the Council
- Provide improved financial security and certainty in support of the revenue budget
- Acquire sites to support land assembly and strategic developments (such as housing)

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- Support Council priorities around growth, sustainability and prosperity for all
- Invest in ‘green assets’ to promote the Council’s aspiration as UK’s Environment Capital

2.2 The Criteria for Acquisitions

The Council will only acquire assets where it meets defined criteria. Whilst there are some over-arching criteria there will also be criteria which may vary across the three portfolios. The Council will acquire assets where it can demonstrate:

Portfolio	Criteria	Geographic scope
	▪	
Over-arching Criteria		
All	<ul style="list-style-type: none"> ▪ There is an approved budget allocation for the acquisition Or ▪ The Council’s invest to save criteria are met And ▪ There is a robust business case which identifies any inherent risks from the acquisition 	Within or outside the city
Portfolio Specific Criteria		
Operational	<ul style="list-style-type: none"> ▪ There is a specific service need ▪ There is an opportunity to improve service delivery ▪ There is an ability to provide a shared service use that will release other assets for alternative use or disposal ▪ The acquisition meets current or future service needs of the Council 	Within the city or in the case of shared service use within areas covered by joint working arrangements
Investment	<ul style="list-style-type: none"> ▪ Land and / or buildings where: ▪ A sound income return can be generated Or ▪ There is an opportunity to add value to existing assets And ▪ Contribution to the maintenance of a balanced portfolio (to minimise income risk) And ▪ The income generated is greater than the Council’s costs of borrowing 	Within or outside the city. (Can be UK wide and managed by external agents)
Growth	<ul style="list-style-type: none"> ▪ Sites which have the potential to support development and regeneration Or mixed use commercial / residential development Or ▪ Sites which can contribute to the stock of under 	Within the city or within areas covered by joint working

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	supplied asset groups in the city Or <ul style="list-style-type: none"> ▪ Sites which can act as a catalyst for regeneration which will benefit the health, housing, wellbeing, education or business economy of the city Or <ul style="list-style-type: none"> ▪ Sites which are likely to have a strategic benefit that may provide future opportunity and bring wealth to the city 	or devolution arrangements. Use of CPOs where appropriate within Peterborough
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2.3 An Outline of Governance Arrangements for Acquisitions

A set of clear, simple governance arrangements which ensure consistency with the Council’s financial regulations and the appraisal of a robust business case are in place. All acquisitions will be undertaken using these Council’s existing protocols; but there may also be specific instances where the Council has to act in a speedy and confidential manner because of market circumstances and the need for commercial confidence. This is possible using current governance arrangements using special urgency meanings for example to ensure that they allow the Council to participate in the market to acquire assets in a timely, competitive and confidential way. An outline approach for this is given below. The Council will acquire assets where it can demonstrate that criteria in 2.2 above are met. The process for acquisitions will cover the stages outlined below:

- All acquisitions will be assessed through a robust business case and with particular reference to the costs, benefits, impacts and risks of the property and how it relates to the Council’s corporate objectives.
- In all cases an independent valuation will be obtained from a properly qualified member of The Royal Institution of Chartered Surveyors to ensure that the transaction represents good value.
- Identification of key criteria to allow confidentiality and exemption from the ‘key decision’ procedures.
- Acquisitions and disposals will, under the Council’s Rules of Financial Governance require consultation with and agreement of the Section 151 Officer. In all cases, be supported by a financial appraisal providing the financial / budgetary implications. Under the Council’s scheme of delegations nominated senior officers along with Corporate Management Team and/or Cabinet can approve acquisitions or disposals subject to a maximum value.

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It is recommended that the procedures for acquisitions are kept under review and adjusted to allow the Council to operate in the property market in a manner consistent with other commercial property investors, with speed and confidentiality.

3.0 Review & Performance

Each portfolio needs to be reviewed on a systematic and regular basis. The rationale for holding assets in each portfolio differs and therefore the performance measures for each portfolio will differ. The Asset Management Plan (AMP) provided a high-level summary of the focus of approach that needs to be adopted.

Asset Type	Management Objectives		
Operational – held primarily to support the delivery of council services	Functional suitability	Running cost	Condition
Investment – held solely for generating rental income or capital growth	Rate of return	Value	Occupancy rates
Growth – held by the Council to facilitate growth or regeneration	Planning potential	Development potential	Opportunity cost

3.1 Operational Portfolio

Operational assets are primarily acquired for service delivery. There are well established performance metrics for such buildings developed through the property practitioners associations – including NaPPMI (National Property Performance Initiative). The AMP has identified the Council’s approach to developing a performance measurement framework focussed on developing a rounded-perspective on property – with performance measures covering the physical, legal, financial and functional suitability aspects of property.

3.2 Investment Portfolio

The investment portfolio is directed to securing long term stable income and potential for capital growth. The Council will need to take a view on the portfolio structure; portfolio mix; the holding period for each asset and the geographical scope for the portfolio.

- Portfolio Structure – the Council will seek to create a balanced commercial property portfolio that provides long term rental returns and growth. A core portfolio of property assets will be sought with a view to diversification on individual assets by sector (industrial, offices and retail), location and risk.
- Portfolio mix – the Council will seek to maintain a balance between Office, Industrial and Retail assets without a predominance of assets in any individual sector. The Council will seek

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to avoid investing in existing operating leisure and hospitality assets unless they are new build.

- Holding or Review Period for Assets – The Council will determine a ‘holding period’ for each property at acquisition. This is to counter any significant depreciation eroding the value and to ensure a formal periodic review of the rationale for holding and performance of individual assets.
- Geographical Scope – whilst there is a presumption for investment in assets within the city and immediate surroundings there will be no geographical restrictions if the investment offers significant returns and there is a sound business case.

3.3 Growth Portfolio

The growth portfolio is directed to supporting the city’s needs for additional housing, jobs and facilities. As such acquisitions will focus on strategic sites capable of supporting housing or required facilities or strategic sites that can act as a catalyst for regeneration.

- Development potential - The likelihood of securing planning permission or consistency with the Local Development Framework; particularly for housing provision.
- Regeneration potential – the ability of a specific site (in conjunction with other adjacent sites or on its own) to act as a catalyst for wider city regeneration to create job opportunities, provide new facilities or improve the public realm.
- Mixed use developments and unlocking development opportunities, working with developers and other investors via Joint Ventures, for example, to create long term income.