WESTMINSTER CITY COUNCIL PROPERTY INVESTMENT STRATEGY SUPPLEMENTARY GUIDANCE

1 Purpose of the Guidance

1.1 Councils have a long history of acquiring property to meet the needs of their residents. This guidance is to be followed when considering the acquisition of property where the aim is regeneration, meaning the delivery of cross cutting outcomes beyond the immediate financial considerations of the acquisition.

1.2 The guidance also seeks to clarify some of the existing principles and objectives outlined in the **Property Investment Strategy** within the Council's **annual Capital Strategy,** that guides the purchase of property for regeneration purposes.

1.3 The Council's Property Investment Framework (PIF) detailed in the Council's annual Capital Strategy and within this the Property Investment Strategy, makes provision for the acquisition of property for regeneration aims.

1.4 This document explains the meaning of 'regeneration' in the context of the Property Investment Strategy within the Capital Strategy and in the context of the aims of the Fairer Westminster Strategy.

1.5 Current policies on capital expenditure and effective treasury management provide a coherent framework for property acquisitions, including a requirement for investments to be strategic, value for money and affordable. The approach adopted in the Capital Strategy complements the HM Treasury's Green Book Business Case framework which is used by public bodies to guide decision making for investment.

1.6 This document provides additional information on the components of the **Strategic Case**, the **Economic Case** and **Financial Case** which is mentioned in the Capital Strategy.

1.7 In summary, the document:

- Outlines the existing provision for acquiring property under the Council's Property Investment Framework (PIF) as set out In the Council's annual Capital Strategy and within this the Property Investment Strategy
- Explains the meaning of an acquisition in the context of capital acquisitions.
- Explains the meaning of 'regeneration' in the Property Investment Strategy within the Capital Strategy.
- Provides further information on the Strategic Case, the Economic Case and Financial Case for investments as outlined in the Capital Strategy.
- Summarises the governance process for making the case for an acquisition (as set out in the Capital Strategy) in a process flow diagram.

1.8 This guidance should be read in conjunction with the following source document:

- WCC annual Capital Strategy and set out within this, Property Investment Strategy

Further context is set out in the following documents:

- Treasury Management Strategy Statement (TMSS)
- WCC Financial Regulations.
- Budget and Policy Framework Procedure Rules
- CIPFA Prudential Code for Capital Finance in Local Authorities (2021)

2 The Council's Property Investment Framework (PIF)

This is comprised of the Council's annual Capital Strategy and within this, the Property Investment Strategy.

2.1 Westminster annual Capital Strategy

2.1.1 This sets out the council's capital programme; its commitments for capital expenditure; the capital budget and the process for making the case for capital investments.

2.1.2 Schemes in the capital programme are aligned to the objectives of the Fairer Westminster Strategy and include investment in:

- Social infrastructure i.e. public toilets, community leisure centres, playgrounds, outdoor gyms and schools **(Fairer Communities**).

- Sustainable transport including cycling provision, electric vehicle charging points, recycling programmes and the procurement of electric vehicles for waste collection (**Fairer Environment**).

- Housing schemes, making provision for affordable housing and temporary accommodation (**Fairer Housing**).

- High Street regeneration in district centres as well as public realm improvements in Oxford Street, Aldwych and key areas of the City.(**Fairer Economy).**

- Digital Access to services as well as an improved building for the Coroners Service (**Fairer Council**).

2.1.3 Investments generally fall under two categories: i) **Operational** and ii) **Development and Strategic Investment**. The aim of operational schemes is to consolidate corporate property, reduce carbon footprint, improve efficiency (reduce running costs), ensure the property is fit for purpose and to meet statutory requirements.

2.1.4 **Development and Strategic Investment** captures schemes that are broadly focussed on housing led regeneration; enabling infrastructure; the regeneration of key strategic sites; investments that lead to increased income / capital values; and investments that diversify the Council's property portfolio. Acquisitions with regeneration aims fall under Development and Strategic Investment

2.2 Property Investment Strategy

2.2.1 The Property Investment Strategy within the Capital Strategy sets out the objectives and guiding principles that facilitate the acquisition of property for development and strategic investment. The aim of this is to enable the acquisition and development of key strategic sites including future regeneration where an investment opportunity exists.

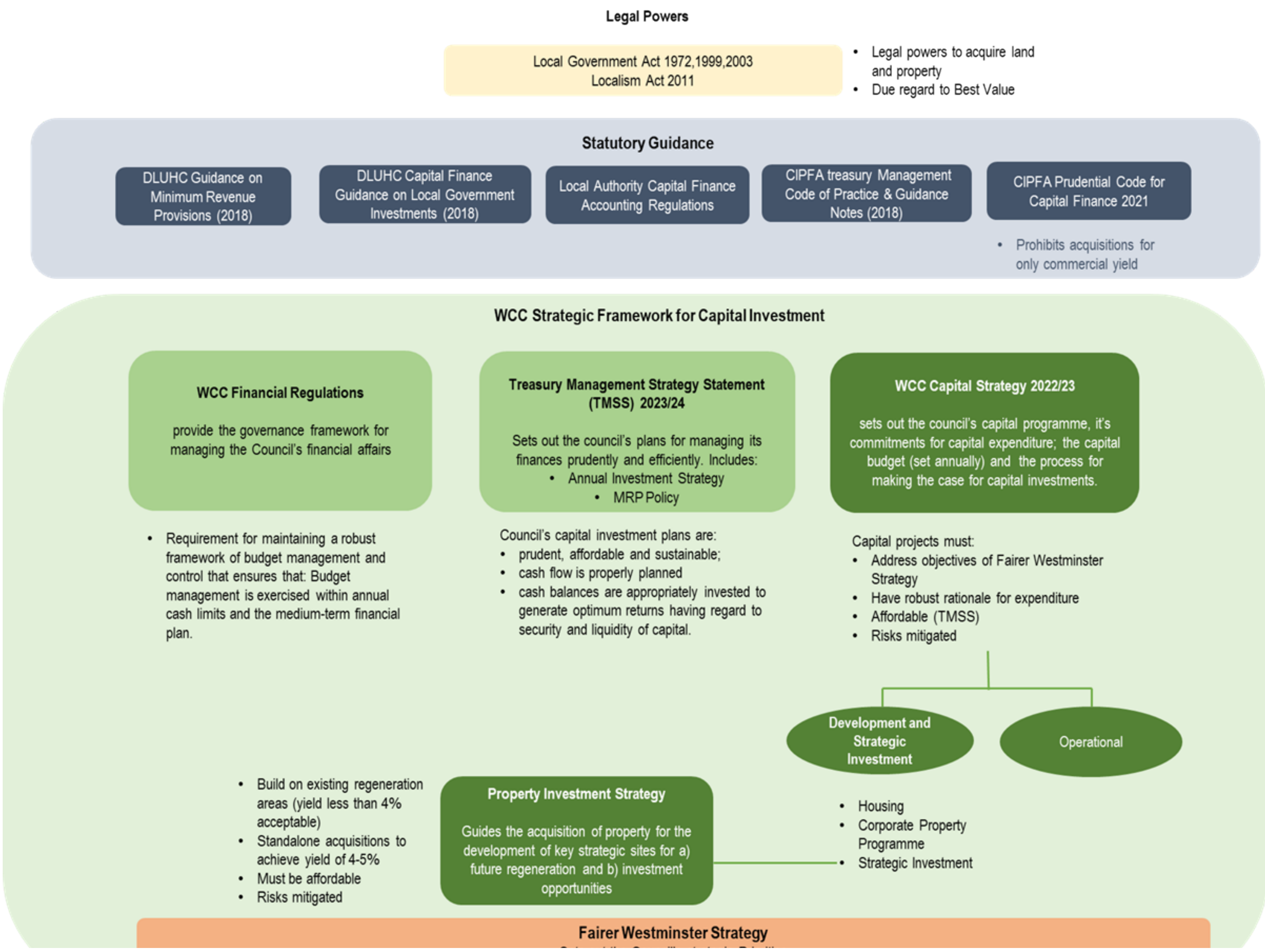
2.2.2 The objectives and guiding principles set out in the Property Investment Strategy must address CIPFA's Prudential Code for Capital Finance (2022) which <u>prohibits the use of borrowing to finance acquisitions purely for commercial yield</u>. Any acquisition, if it is to be eligible for borrowing under the Public Works Loan Board, must demonstrate it is:

- linked to the <u>primary purpose of regeneration.</u>
- the associated financial return is related to the financial viability of the service in question.
- and is incidental to its primary purpose.

2.2.3 As well as supporting the Council's broader strategic aims under the Fairer Westminster Strategy, new acquisitions must contribute to a balanced and diversified portfolio, demonstrating long term capital and revenue appreciation for the greater benefit of the Council and its residents. The Property Investment Strategy allows the Council to purchase any property providing the Prudential Code is addressed.

The legal and strategic framework for Capital acquisitions is summarised in Figure 1 below.

Fig. 1 Summary of the legal and strategic framework for property acquisitions



2.4 Making the case for a property acquisition.

2.4.1 The Council's annual Capital Strategy outlines the governance, assessment and due diligence processes required to make the case for an acquisition. This is detailed in the Capital Strategy

2.4.2 Acquisitions above £10m require an Outline and Full Business Case; for values below, a Business Justification Case, although this is dependent on the strategic value of the acquisition such as the aims of the project, level of resident engagement required, sensitivities and historical context.

2.4.3 As part of the budget setting process, new bids in the capital programme are required to submit a Capital Programme Submission Request Form (CPSR) which is assessed by a CPSR panel before review by the Council's Capital

Review Group (CRG). Each project in the capital programme also requires a carbon assessment to ensure the Council's capital programme complements its obligations to be a net zero authority by 2030.

2.4.4 The key considerations by the CRG panel are focussed on **strategic fit**, in terms of alignment with the Fairer Westminster Strategy; the **financial case**, in terms of affordability, ongoing revenue implications and **value for money**; **external factors** that support the justification for investment, such as legislative and compliance requirements as well as an **assessment of risk**.

2.4.5 The **Property Investment Panel (PIP)** reviews from an independent perspective, advising Cabinet Members on the validity of the acquisition from a market perspective. This is based on a high-level assessment of the acquisition conducted by Corporate Property and includes information on pricing, suitability, occupational investment and market analysis. All acquisitions need to go through PIP prior to Member decision.

3 Scope

3.1 What is an acquisition?

3.1.1 For the purposes of this guidance, the acquisition means a freehold or leasehold interest in built premises, from which service, community and commercial activities can be delivered.

3.1.2 The methods of acquisition covered by this guidance includes the following:

- Private Treaty Acquisition – privately negotiated transaction between the vendor and the council, either in an on or off market scenario.

- Acquisition via Auction

- Acquisition via CPO – (CPO is highly unlikely to be suitable for this type of acquisition as the legal threshold for the necessity of invoking CPO powers is unlikely to be met)

- All acquisitions shall have the necessary budgetary and governance approvals before embarking on the acquisition.

3.2 Regeneration Aims

3.2.1 The Property Investment Strategy within the Capital Strategy enables the acquisition and development of key strategic sites including future regeneration where an investment opportunity exists. The objective requires new acquisitions to be in ‘alignment to the Council’s wider Fairer Westminster objectives; developing key strategic sites that can benefit residents through future regeneration’.

3.2.2 In the context of the Property Investment Strategy within the Capital Strategy, ‘future regeneration’ can be interpreted as the acquisition of properties where the intention is to achieve regeneration aims. This may include investments that seek to:

3.2.3 **Reactivate vacant or under-utilised assets for social and commercial use**, and may include:

- vacant units or properties in a poor condition / state of disrepair and which is negatively impacting an area or neighbourhood.
- And /or the property to be acquired presents a local growth opportunity, in terms of job creation, supporting local businesses through vacant commercial unit activation, the creation of affordable workspace, and the preservation or creation of social or cultural services and facilities.

3.2.4 **Acquisitions that enable new development to happen** through land assembly and purchase of site/s. These tend to be acquisitions for major development schemes and sites.

3.3 The Property Investment Strategy within the Capital Strategy refers to the strategic clusters linked to the Council’s long-term regeneration and economic objectives. This allows the Council to consider any acquisition that seeks to achieve wider regeneration aims.

3.4 Regeneration projects are generally understood to adhere to the following aims:

- Unlock additional and exceptional social, economic and environmental benefits that support our communities to thrive, and lead to sustainable and inclusive growth.

- Address market failure. For example, where there are market distortions leading to unmet demand for goods and services i.e., the lack of affordable workspace in Westminster or lack of affordable childcare services.

- Redistribute opportunity to residents. For example, local job creation or the provision of affordable workspace for local businesses.

The above is widely interpreted as any scheme that demonstrates some or all of the following:

- **Transformative impact** – the acquisition has the ability to improve or transform the neighbourhood or locality to unlock additional and exceptional social, economic and environmental value, whilst preserving the social fabric of the local community.

- **The ability to stimulate long term investment in the area, leading to sustainable growth –** attracting the start-up of new businesses and investment in infrastructure.

- **Scalability -** where possible and feasible, the investment is targeted on clusters of properties, in proximity or located in district centres or local high streets to create scale and impact.

- **Collaboration** – to ensure the proposition has buy in from local communities and that residents have been consulted, are involved in the design and development of the scheme and its end use, and where possible, have a stewardship role. Where feasible, development partners and co-investors are sought to minimise risk, for example, in joint venture arrangements.

3.5 As with all capital investments, the Council must ensure that there is a robust business case to underpin the acquisition. The evidence of demand for the intended end use must be rigorous. This includes commissioned market research to evidence need, commitment from potential occupiers, and a financial model which demonstrates financial viability, by considering the upfront costs as well as the current and future costs of occupation and maintenance.

3.6 The case for acquisitions must be supported by an approved budget line or existing allocation. Service Managers making the case for an acquisition, must first consult their Finance business partner at the earliest opportunity and engage with Corporate Property, prior to any commitment being made on behalf of the Council.

4 Out of Scope

4.1 Acquisitions of empty residential properties as this is subject to statutory housing powers and the Empty Residential Homes workstream.

5 The Case for Investment

The Capital Strategy sets out the process for making a case for new acquisitions as well as referencing the criteria used to assess the case for investment. This includes a consideration of the Strategic Case under a Business Case for investment.

5.1 The Strategic Case

5.1.1 As part of a HMT Green Book Business Case, the Strategic Case includes an analysis of alignment or strategic fit with key organisational vision and objectives.

5.1.2 All capital projects referenced in the Capital Strategy are aligned to the Fairer Westminster objectives. The Capital Strategy and within this the Property Investment Strategy therefore requires new acquisitions to be aligned to the objectives of the Fairer Westminster Strategy and is one of the assessment criteria that is considered by CRG.

5.1.3 Although there is a degree of flexibility in how projects are strategically aligned under the Fairer Westminster objectives, alignment could be better addressed by ensuring the purpose or end use of the acquisition addresses the following aspects of the key five core priorities:

- **Fairer Communities**

  Activities or services that:

  - support Westminster's residents to reduce poverty, inequality or discrimination.
  - help residents to remain active and reduce health inequalities.
  - provide cultural and learning opportunities for residents.
  - provide services to young people, older people, people with disabilities or any other cohort of vulnerable people.

- **Fairer Housing**
  - reduces homelessness or provides support for the homeless.
  - provides additional housing support to residents over and above the support available through the Council.

- **Fairer Economy**
    - create local job opportunities for residents.
    - support residents to upskill and acquire new qualifications.
    - support residents to become more entrepreneurial or help them to secure good quality jobs.
    - support the resilience and vitality of local high streets.

- **Fairer Environment**
    - support Westminster to be safer, cleaner and greener.
    - Provide access to high quality green spaces and services.
    - encourage active travel.

- **Fairer Council**
    - Information, advice and guidance services for residents or any activity that provides a service to the residents of Westminster.

5.2 Benefit, impact and added value

5.2.1 The Property Investment Strategy within the Capital Strategy makes clear the purpose of regeneration, which is to benefit residents. The articulation of benefits and beneficiaries are an important element of the Strategic Case.

5.2.2 A benefit is a measurable impact of change for target communities. When making the case for acquisitions, it is important to be clear about how the investment will benefit residents and their localities.

5.2.3 Ultimately the investment must show that it has made a tangible difference to the community or neighbourhood where the site / facility is located. The outputs and outcomes flowing from the end use of the property must be additional. This can mean:

- Delivering new outcomes where there were previously none, and / or

- Delivering more in relation to existing provision. For example, more participants taking up an intervention resulting in greater social impacts, and / or

- Delivering better quality provision. Such as enhanced delivery made possible by improved facilities, leading to improved outcomes for participants, and / or

- Delivering change / benefits more quickly as a result of the capital funding,

5.2.4 The case for investment should avoid including benefits that cannot tangibly be linked to the investment or that are difficult to evidence.

5.3 The Economic Case: Value for Money and Best Value

5.3.1 The CRG considers value for money as part of its review. In the context of the Capital Strategy and HMT Green Book Guidance, value for money is ascertained by the Economic Case.

5.3.2 The Economic Case considers public value from the perspective of society including social, economic, environmental costs and all effects on public welfare. In assessing the costs and benefits of an investment proposition, it articulates social return on investment and value for money.

5.3.3 Financial appraisals focus on the affordability and commercial viability of the acquisition and is assessed by PIP and Finance. The Economic Case alongside the Financial Case helps assessors to understand the full implication of the investment.

5.3.4 The consistent application of an Economic Case in acquisitions that are expected to generate high social and economic value will allow assessors to review its value for money. This will enable social benefits to be quantified, leading to the preparation of a Cost Benefit Analysis (CBA) and an assessment of the acquisition's value for money.

5.3.5 The following information is typically captured by a Cost Benefit Analysis

5.3.6 **Costs articulated in a budget**, including:

- **The whole life cost of the acquisition and its end use** – Costs must be at <u>market prices</u> and include the cost of the property; construction and refurbishment costs; professional fees; equipment (furniture, fittings, lighting and wiring); technology and maintenance costs.

- Assets may require replacement, refurbishment or upgrading over the lifetime of the appraisal period. These 'life-cycle' costs should also be included as part of the whole life costs. The assumed maintenance policy on which costs are based must be explicitly and transparently set out and applied appropriately. Service managers must indicate whether costs are fixed, variable, semi variable or step costs.

- **Best Value -** with the property purchased at an evidenced market value. This is ultimately done through a RICS Red Book valuation. However, as this requires a detailed survey of the property there are stages before this, including commissioned independent valuation or internal assessment of value to provide a ballpark. Market value can include marriage value (with other neighbouring assets). The Council cannot purchase property at above market value.

- **Revenue costs**. These are the operational, running, management and overhead costs. It should not be assumed these will remain unchanged over time.

- **Costs of risk mitigation** – these are the costs needed to mitigate against potential risks.

5.3.7 **Valuation of benefits**

- The purpose of valuing benefits is to ascertain whether the acquisition's benefits are worth its costs, and to allow alternative options to be compared in terms of their net social value.

- The approach to benefits measurement should be prudent, proportionate, and appropriate. Prudent, in terms of avoiding claiming for benefits that cannot be measured or assessed in any realistic way, because there is no real evidence base; proportionate, in terms of the resources required to justify the project; and appropriate, in terms of the anticipated scope and spend of the project.

- Service Managers should consider the different stakeholders that will benefit from the acquisition and whether they will benefit directly or indirectly as set out below:

    - **Direct public sector benefits** (to the council)
    - **Indirect public sector benefits** (to other organisations, including central government)
    - **Wider benefits** (to households, individuals, and businesses)

5.4 The Financial Case: Affordability and Risk

5.4.1 The Capital Strategy references the need for acquisitions to be affordable. A key principle of the Property Investment Strategy within the Capital Strategy is that all investments confirm to Minimum Revenue Provision (MRP) regulations.

5.4.2 The Capital Strategy refers to the Financial Case which tests the acquisition's affordability and fundability. The Financial Case requires a complete understanding of the capital and revenue implications of the acquisition and its impact on the Council's balance sheet, income and capital programme. The purpose of the Financial Case is to identify and resolve potential funding gaps during the lifespan of the scheme and evaluate financial risks purporting to the acquisition.

5.4.3 The Council's strategy for affordability is set out in the **Treasury Management Strategy Statement**. This outlines the function of treasury management which is to ensure that the Council's capital programme and corporate investment plans are adequately funded, and that cashflow is adequately planned, with cash being available when it is needed to discharge the Council's legal obligations and deliver Council services.

5.4.4 Surplus monies are invested to obtain an optimal return, while ensuring security of capital and liquidity. Affordability and risk is monitored via the prudential indicators which provide an assessment of the Council's net debt against its capital expenditure.

5.4.5 In practice, all acquisitions must be supported by an approved budget line or existing allocation. Where investments are funded by borrowing, the cost of borrowing must be taken into consideration i.e., the Minimum Revenue Provision which is the charge to revenue made in respect of paying off the principal sum of the borrowing.

5.4.6 Acquisitions must also demonstrate long term capital and revenue appreciation from the standpoint of effective treasury management. There is also a need to ensure risks on such investments are proportionate to the Council's financial capacity.

5.4.7 The financial performance of acquisitions both on a net and gross basis is monitored by the Property Investment Panel (PIP) whose role is to provide challenge to areas of lower performance. This ensures that the asset can meet its MRP obligations, as well as generating the expected yield.

6 The Governance Process

The governance process for new property acquisitions is summarised in Figure 2 below. It supplements the Capital Strategy. The process is also stipulated in the Council's **Financial Regulations**.

Should the acquisition fall outside of the budget or policy set by the Council, the **Budget and Policy Framework Procedure Rules** apply, and the decision becomes one for the Council.

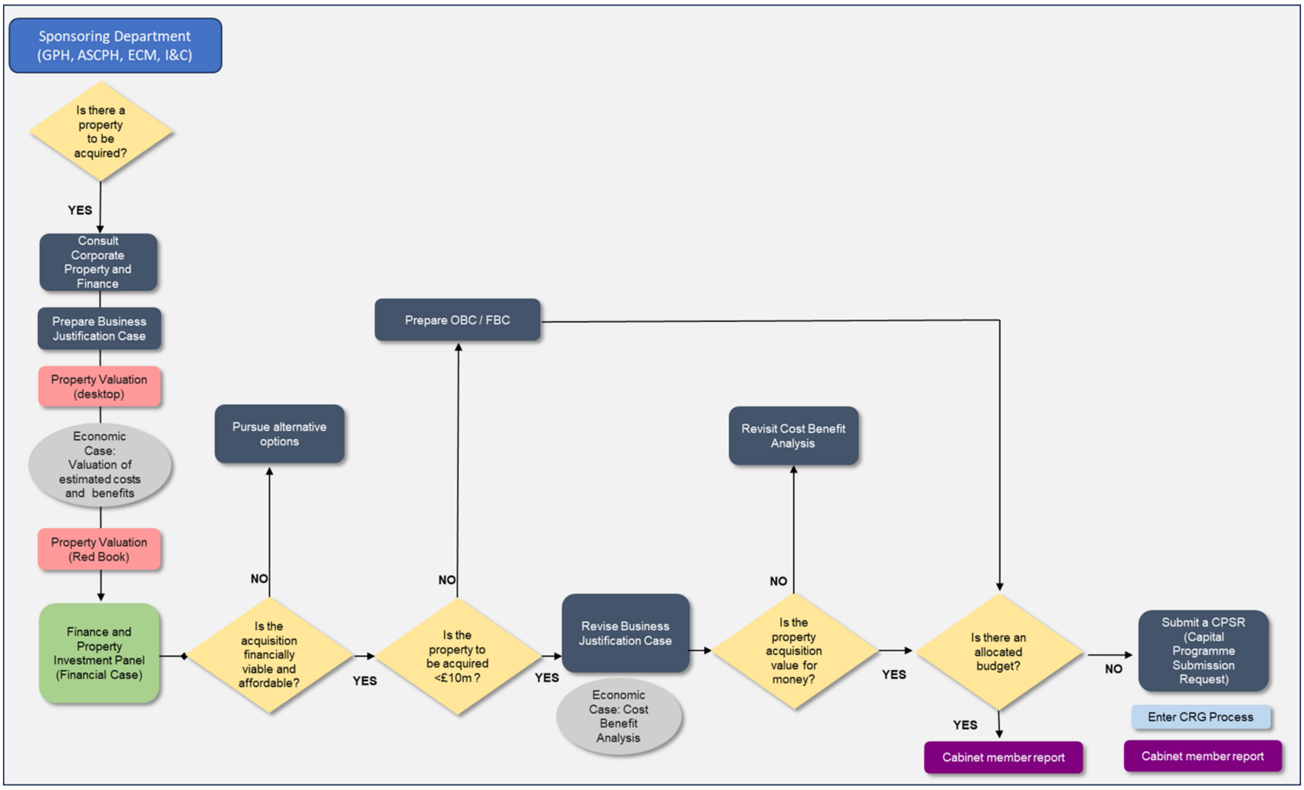


Figure 2: Governance process for acquiring new properties.