

## **Hambleton District Council**

**Report To:** Cabinet

**Date:** 8 September 2020

**Subject:** **Commercial Investment strategy**

**Portfolio Holder:** Economic Development and Finance  
Councillor P R Wilkinson

**Wards Affected:** All Wards

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### **1.0 Purpose and Background**

- 1.1 It is proposed that the Commercial Investment Strategy is suspended at the current time due to the
- increase in Public Works Loan Board interest rates on borrowing in October 2019 resulting in the income to be generated from commercial investments being marginal;
  - consultation paper from HM Treasury on 'Public Works Loan Board: future lending terms' in March 2020 where it clearly implies the Treasury will no longer allow local authorities to borrow money from the Public Works Loan Board to purchase commercial property if the aim is solely to generate an income stream
  - current Covid-19 environment where receipt of rental income is uncertain
- 1.2 In September 2019 the Council approved the Commercial Investment Strategy where the proposal was to acquire a commercial investment property portfolio to potentially generate an income stream to contribute to the Financial Strategy and, therefore, to the delivery of public services and projects to improve the community, economic and environmental wellbeing of the District.
- 1.3 The commercial investment property portfolio was explained to Members to not be without risks and to ensure a careful and managed approach was adopted. The Council therefore approved the Investment Strategy which set out parameters within which the Council would make such commercial property purchases.
- 1.4 External property investment advisers were appointed to advise on the Investment Strategy and also identify potential commercial property acquisitions to secure commercial income to underpin the delivery of the Council's priorities across all departments.
- 1.5 However, it is now proposed to suspend the Commercial Investment strategy in light of HM Treasury imposing two changes which increased Public Works Loan Board borrowing rates in 2019/20 without any prior warning. Public Works Loan Board borrowing rates are the interest rates set by Government specifically for local authorities which are lower than gilt yields on which the interest rates are based.

- 1.6 The first change, on 9 October 2019, added an additional 1% margin (100 basis points) over gilts to all Public Works Loan Board rates. This resulted in increased costs when borrowing to support the capital programme schemes as well as the commercial investment property portfolio.
- 1.7 The second change was within the consultation for local authorities on possibly further amending Public Works Loan Board interest rates. This was released in March 2020 by HM Treasury with the end date being 31 July 2020. From the consultation paper it is clear that the Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.
- 1.8 In addition, the Covid-19 pandemic has added to the volatility of generating an income stream from commercial investment property due to the uncertainty that rental income is paid and organisations continue to struggle to meet rental payments.
- 1.9 Therefore, in these circumstances it is not financially viable to continue with the Commercial Investment Strategy at the current time and it is recommended that it is suspended.
- 1.10 This position will be closely monitored and if the Government's view changes on its approach to local government commercial investment, the PWLB interest rates are favourable to this type of investment and the commercial property market is less uncertain then further consideration will be given to proceeding.

## **2.0 Link to Council Priorities**

- 2.1 The report details the volatility of the commercial property market and therefore by not proceeding with the commercial investment strategy at this time will ensure that the Council's reserves can be used to support projects, schemes and service areas of the Council rather than being used to support rental income losses that may occur.

## **3.0 Risk Assessment**

There are no risks associated with the report.

## **4.0 Financial Implications**

- 4.1 The £30m commercial investment property portfolio included in the capital programme at £30m will be removed and reported to Cabinet at quarter 2 along with the change in the prudential indicators including the Capital Financing Requirement (which is an estimate of the amount that the Council needs to borrow to support capital expenditure) and also the authorised borrowing limit. The change in the authorised borrowing limit requires Council approval which will be obtained in December 2020 in line with quarter 2 reporting.

- 4.2 The estimated income to be generated in 2020/21 from the commercial investment property portfolio at £149,340 will be removed from the budget at quarter 2 where additional income or reduced expenditure will occur within the total budget to cover this overspend during the year. The position will be closely monitored during the year.
- 4.3 The 10 Year Financial strategy includes the Income generating Revenue Stream in which the income from the commercial investment property portfolio contributed along with other projects across the Council. The 10 Year financial strategy is currently being reviewed in light of Covid-19 and the revised 10 year Financial Strategy will be brought to Cabinet for approval in autumn.

## **5.0 Legal Implications**

- 5.1 There are no legal implications associated with the report.

## **6.0 Equalities and Diversity Issues**

- 6.1 There are no equalities and diversity Issues associated with the report.

## **7.0 Recommendation**

- 7.1 That Cabinet approves and recommends to Council that:
- (1) the Commercial Investment strategy is suspended; and
  - (2) £30m commercial investment property portfolio is removed from the Capital programme and the Authorised Borrowing Limit and Prudential Indicators are revised at paragraph 4.1 of the report.

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**Background papers:** Commercial property investment portfolio  
Public Works Loan Board: future lending terms consultation

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