

Report to the Cabinet



**Epping Forest
District Council**

Report reference: C-029-2019/20
Date of meeting: 6th January 2020

Portfolio: Business Support – Cllr S Stavrou

Subject: Purchase of Loughton Centric Parade

Responsible Officer: Nick Dawe (01992 564000).

Democratic Services Officer: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

1. To note that in accordance with the Agreed Asset Strategy and the delegation from Cabinet that units in Loughton High Street with a value of £23,820,950, (noting that this price may reduce because of VAT registration, Stamp Duty reliefs and minor reductions in other charges.
2. To note that Cllrs Stavrou, Cllrs Whitbread and Cllrs Patel in discussion with the Leader and the assistance of the Estate Team and Section 151 Officer, formally considered and unanimously agreed the purchase and signed the decision sheet accordingly.
3. To note that the information provided to the decision makers showed a gross annual revenue yield of £1,425,602, or 5.98% against the guiding benchmark of 6.00%.
4. To note that the information provided to the decision makers showed a net (after fees) annual revenue yield of £717,823, or 3.01% against the guiding benchmark of 3.00%.
5. To note that the information provided to the decision makers showed an analysis of key risks and sensitivities that could be appropriately managed.
6. To note that the information provided to the decision makers showed that future capital growth was a possibility with additional expansion and improvement to the flat units, (this development is not planned at this stage).
7. To note that the Authority is awaiting confirmation of the VAT status of the project and a final statement of fees and charges for the solicitors. All the expected movements in costs are marginal and will work in the Authority's favour.
8. To note that further financial analysis and a full report from the Estate Team is available upon request.

Loughton Centric Parade

1. Executive Summary

In line with the direction set-out in the Asset Strategy (that was approved by Cabinet in June 2019) and the specific delegations to designated Cabinet members (that was approved by Cabinet in September 2019), Loughton Centric Parade has been purchased with completion having taken place on the 9th December 2019.

2. Background

It is worth revisiting some key issues that arose from the original Asset Strategy and the more recent discussions concerning setting aside £30m for investment asset purchase and designating a few Cabinet members to make prompt decisions on the advice of the Section 151 Officer and the Chief Estates Officer.

In terms of further investment in assets, it should be recognised that the Authority only gains around 0.8% from traditional investments but should get 6% gross from asset investments. The Authority should and needs to benefit from the increased level of return.

It is true that estate investments by their very nature are less liquid and that investments may be overweight in a particular sector, e.g. retail, however both issues over time can be remedied by a portfolio approach to risk and churning, i.e. selling existing assets as well as buying new ones.

The Authority may also receive indirect benefit from these investments if they are within the Authority Boundary from regeneration, lifting the High Street and increase council tax and business rate revenues.

To ensure the Authority can act quickly to take advantage of purchases, execute deals and show willingness to sellers, a scheme of delegation is needed that encompasses Estate and Financial input from members and officers. The earlier experience with the “off, on, off” sale of Loughton Centric Parade, reinforces this issue.

3. Approach

Investment in property, like all investments can carry a risk and this risk can be mitigated by following a standard approach and measuring the cost of purchase against the returns expected and noting the risks and sensitivities around the purchase as well as looking at capital growth potential, (above inflation) over time.

In addition, the asset purchase must fit into a portfolio management approach which would include, what type of asset is being purchased and where the asset is being purchased.

The broad approach in the case of Loughton Centric Parade was as follows:

- The Estate Department scans the market for opportunities.
- The Estates Department carries out an initial viability assessment of potential asset purchases.
- If the asset purchase is deemed appropriate a full briefing paper is produced with Estate and Finance input (this was done and shared in respect of Loughton Centric Parade). Cabinet expresses a view.
- If the asset purchase is still deemed appropriate detailed discussions are undertaken by the Estate Department with the purchaser and appropriate due diligence activities are undertaken, e.g. surveys.

- If the asset purchase is considered likely a summary financial briefing note is produced by Estates and Finance.
- Designated Cabinet members meet and are briefed about the purchase and then make their decision, signing the briefing document.
- The purchase then takes place (if the asset is still for sale).

4. Acid Financial Tests

The Section 151 Officer applies certain acid tests to all asset purchase and these are relatively industry standard and are as follows:

- That the purchase (all costs included) should give a minimum 6.0% gross rate of return (allowing for a 0.5% deviation from this figure).
- That the purchase (all running costs included) should give a minimum 3.0% net rate of return (allowing for a 0.5% deviation from this figure).
- That all significant risks and sensitivities should be recognised and an action plan for mitigation should be recorded (if necessary).
- That any capital growth potential above inflation should be identified.

These tests were applied in respect of the purchase of Loughton Centric Parade.

5. Post Event Changes

Possible post event changes should be noted at the time that the decision was made and appropriate measures should be taken in respect of these issues.

In terms of the purchase of Loughton Centric Parade the only main issue outstanding is whether the purchase of non-residential units should attract VAT or not.

Figures were prepared on the basis of VAT being payable and the decision was made on that basis. An illustration of the awaited HMRC decision on VAT status is shown overleaf.

Key Value	Per Decision	IF VAT Scheme Granted
Total cost of purchase	£23,820,905	£19,903,387
Gross Rate of return £	£1,425,602	£1,425,602
Gross Rate of return %	5.98%	7.16%
Net Rate of return £	£717,823	£737,410
Net Rate of return %	3.01%	3.70%

6. Other Issues

Residential Units will be owned and operated by Qualis as this is an investment asset and “rights to buy” should not apply.

7. Other Reference Documents

Asset Management Strategy

Cabinet

June 2019

Asset Management Strategy: Asset Purchases

Cabinet (pink)

September 2019