

Council

**Tuesday, 11th September, 2018
6.30 - 9.25 pm**

Attendees	
Councillors:	Bernard Fisher (Chair), Roger Whyborn (Vice-Chair), Victoria Atherstone, Matt Babbage, Paul Baker, Garth Barnes, Dilys Barrell, Angie Boyes, Nigel Britter, Jonny Brownstein, Flo Clucas, Chris Coleman, Stephen Cooke, Iain Dobie, Wendy Flynn, Tim Harman, Steve Harvey, Rowena Hay, Alex Hegenbarth, Karl Hobley, Martin Horwood, Peter Jeffries, Steve Jordan, Chris Mason, Paul McCloskey, Andrew McKinlay, Tony Oliver, Dennis Parsons, John Payne, Louis Savage, Diggory Seacome, Malcolm Stennett, Jo Stafford, Klara Sudbury, Simon Wheeler, Max Wilkinson, Suzanne Williams and David Willingham

Minutes

1. APOLOGIES

Councillor Collins, Flynn and Holliday.

2. DECLARATIONS OF INTEREST

Councillor Willingham declared a personal interest in agenda item 11 which did not preclude him from voting.

3. COMMUNICATIONS BY THE MAYOR

The mayor wanted to remind Members that the Battle of Britain event was taking place this Sunday and requested that Members respond to Jennie Ingram if they are able to attend.

4. COMMUNICATIONS BY THE LEADER OF THE COUNCIL

The Leader reported that the 2050 consultation had concluded at the end of July and they were currently waiting on the reports and delivery options. He advised Members that they were proposing to hold a Members Seminar, although a date was yet to be confirmed.

5. TO RECEIVE PETITIONS

None received.

6. PUBLIC QUESTIONS

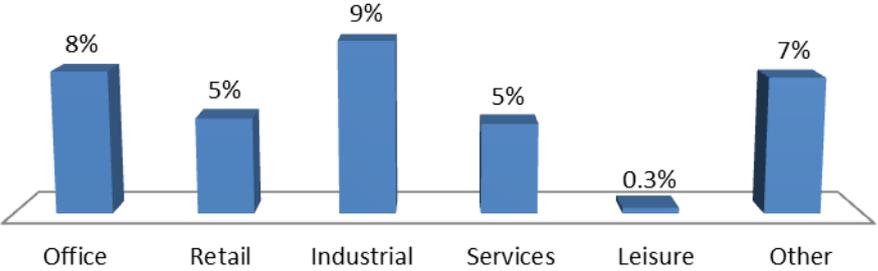
There were none.

7. MEMBER QUESTIONS

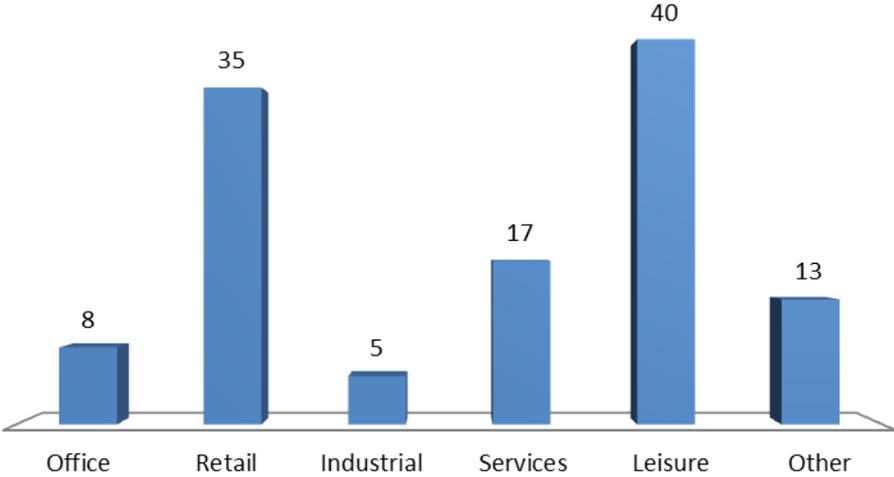
1.	Question from Councillor Babbage to Cabinet Member Finance, Councillor Rowena Hay
	Please provide a summary position of the council's investment property and

	other income generating property, including valuations, income generated, location and overview of tenants.
	Response from Cabinet Member
	<p>I thank Cllr Babbage for his question which proved to be an interesting and informative exercise and I would also like to thank the significant amount of work and detail that officers have given in responding.</p> <p>The main categories of a commercial property investment portfolio are:</p> <ul style="list-style-type: none"> • Office • Retail • Industrial <p>The Council have a number of properties which are used primarily for service provision within these groups but are also capable of generating an income. Examples would include: Municipal Offices (office), Depot (industrial) and to a smaller extent Cafes in the Park (retail). Service providing properties would not normally be considered pure investment properties but actually what the statics show is that all these Asset Groups are performing well.</p> <p>The Council's income generating portfolio has been summarised by the attached graphs by showing the numbers of assets held in each category, the income generated from each category and the yields being generated from that asset group.</p> <p>A further three asset groups have been added to capture the entire property income generating elements of the Councils property portfolio. These have been split between:</p> <ul style="list-style-type: none"> • Services – WC's, Retirement and care accommodation • Leisure • Other – Primarily Land <p>It was a pleasing discovery on formulating this information that those Assets primarily held for service delivery were actually performing well. A yield of around 5% or above is what a traditional commercial fund would aspire to achieve.</p> <p>The Council are now focusing on diversifying the more traditional individual asset groups within the portfolio, to spread the risk. Again there is a large amount of historic assets that are <u>not</u> under performing as such, but they are very similar in nature due to the way in which Councils operate historically and have matured. An example would be the retail stock. This asset group is made up of a number of small individual units, either stand alone or forming part of a small parade of shops. There is traditionally no primary retail (town centre), but a number of units in secondary (town centre edges) and tertiary (within housing estates) locations. The purchase of Café Nero and future acquisitions look to diversify the historic portfolio balance.</p>

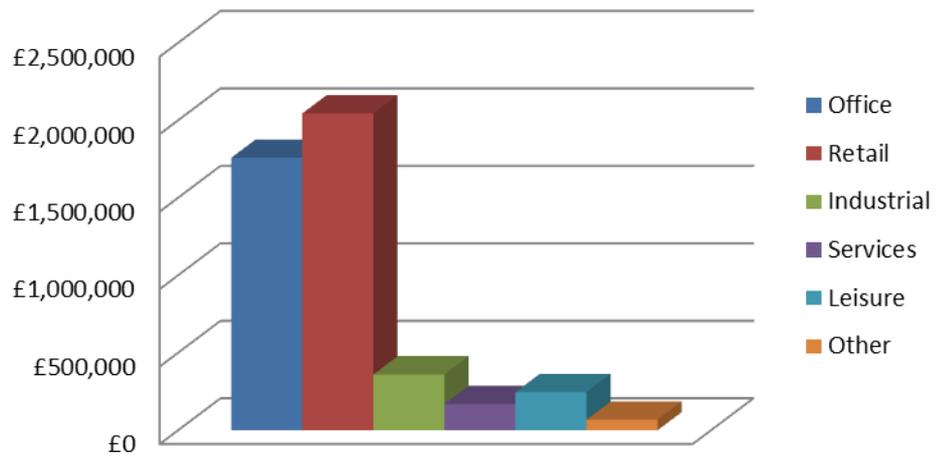
Yields



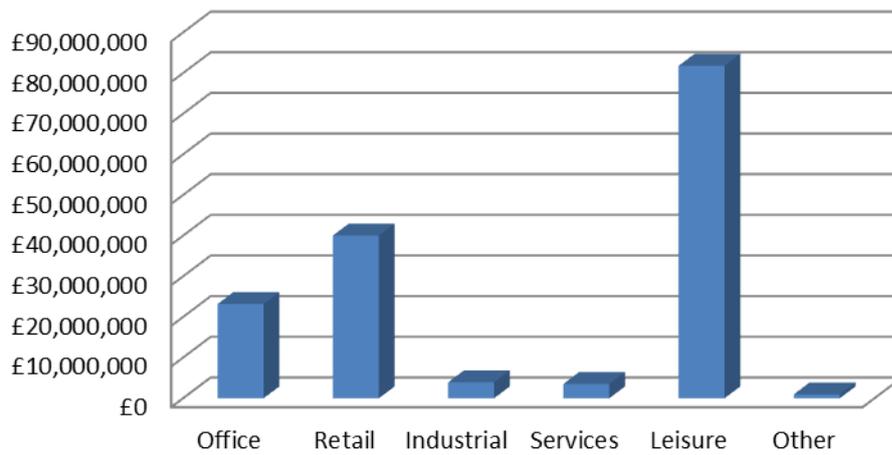
Number of assets in each class



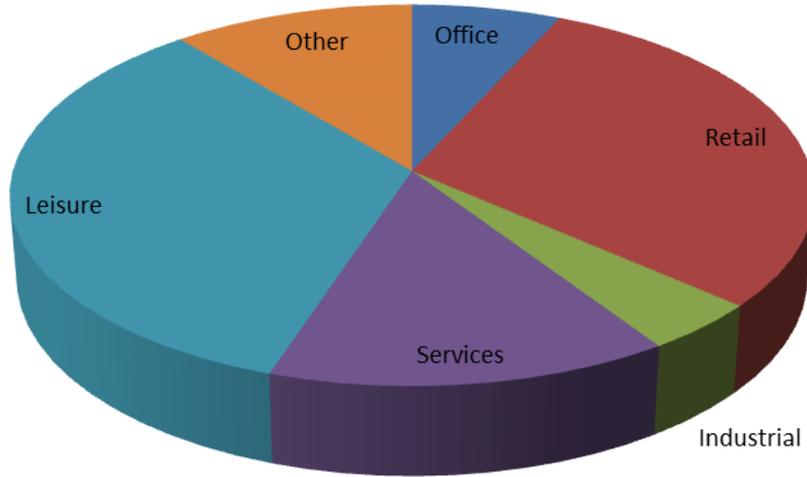
Income 2018

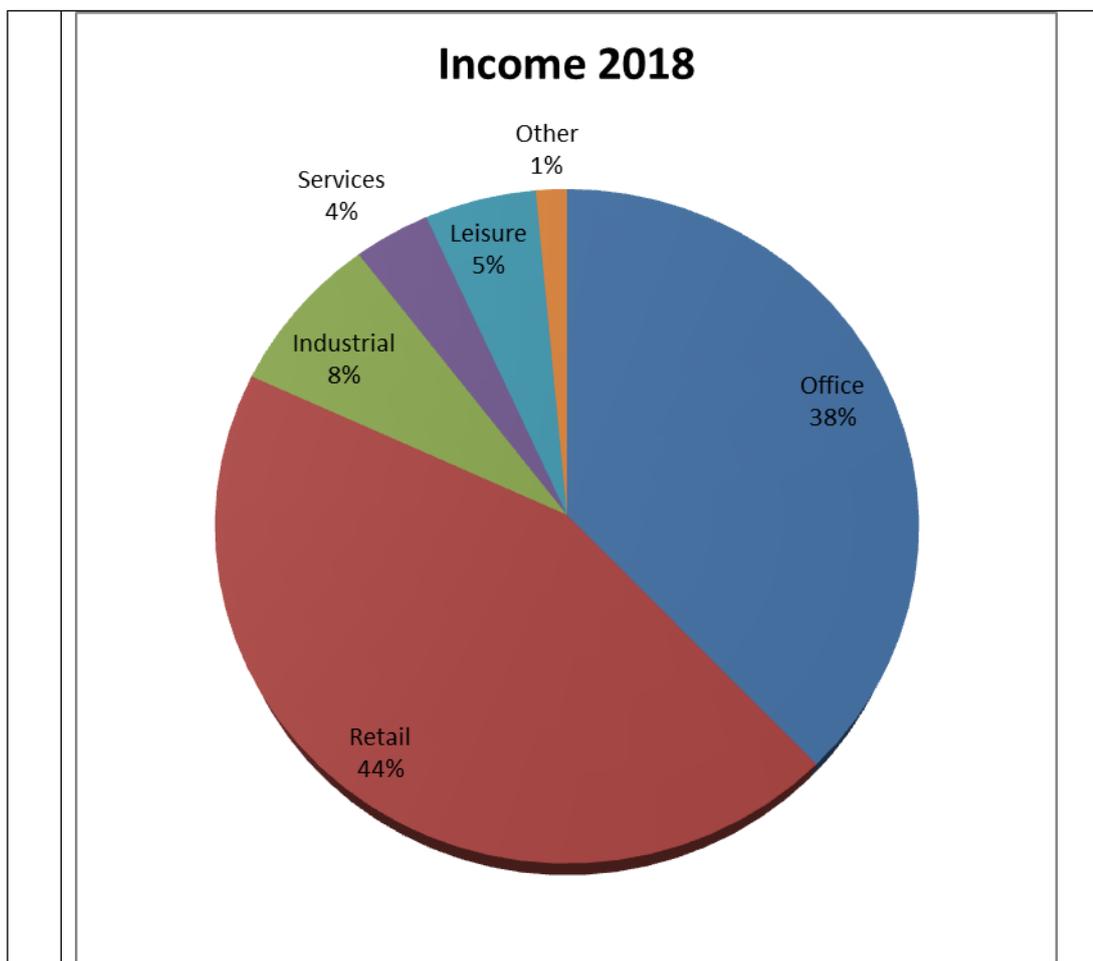


Value 2018



Number of Assets in each group





In a supplementary question Councillor Babbage requested that this information be a standing item on the Asset Management Working Group and the Budget Scrutiny Working Group during the budget setting process. In response the Cabinet Member confirmed that this was the intention and she was conscious of the importance of a diversified portfolio.

8. NOTICES OF MOTION

Proposed by: Councillor Max Wilkinson and Seconded by: Cllr Flo Clucas

This Council notes:

- *The recent warnings from multinational businesses based in the south west, including Airbus and Honda, that exiting the EU customs union will be a catastrophe for trade and may lead them to relocate their manufacturing outside of the UK.*
- *The number of Cheltenham citizens working for businesses that rely on free movement of trade within the European Union.*
- *That, according to the Government's own figures, under all Brexit scenarios the UK will be considerably worse off, not only in terms of international reputation but also the negative social, environmental and economic impact it will have on the people of Cheltenham.*

This Council therefore agrees that there should be a 'people's vote' on the final Brexit deal, which should include an option for the United Kingdom to remain a full member of the European Union.

In proposing the motion, Councillor Wilkinson wished to thank those in the public gallery who were in attendance supporting the motion for a people's vote on the final Brexit deal, a cause which he had been campaigning hard for. He raised concerns about the incompetence of the government over Brexit talks and the fact that many leave voters had made their decision based on inaccuracies. He feared that the most likely outcome was appearing to be a no deal Brexit supported by the far right. He cited food shortages, the cancelling of leisure and business trips and lengthy traffic jams as his key concerns, as well as the detrimental effect of immigration on public services, having stated that 4000 EU nurses and midwives had already left the NHS. He further advised that 69% of voters felt that Brexit negotiations were going badly and felt they should be given a second vote now the facts were known.

In the debate that followed, many Members confirmed that they supported the motion. Noting their key concerns as the number of key industries in Cheltenham who depend upon the skills of non EU citizens and the free movement of knowledge between countries, Erasmus programmes which benefitted many students, and the fact that the NHS was severely understaffed and relied upon EU workers. Concerns were also raised over security given the current climate and the detrimental impact on the hospitality industry, in particular Cheltenham racecourse which welcomed many visitors and riders each year, particularly from Ireland. Many Members shared Councillor Wilkinson's sentiment that leave voters had made their decision based on deceit and inaccuracies and felt that democracy was about giving people the chance to vote on real facts. They reiterated the fact that the vote on the referendum in 2016 had been extremely narrow and that Cheltenham had voted to remain. Members felt strongly that young people should be given the chance to vote considering that the impacts of Brexit would affect them the most.

Other Members, however, stated that they would not support the motion. They discussed the uncertainty surrounding Brexit and felt that a second referendum would increase this uncertainty, they also felt that a second referendum could undermine peoples faith in future referendums. They felt that despite the fact the outcome was not the favoured one for some parties, they could not keep holding referendums until a favoured outcome for one particular opinion was achieved.

In seconding the motion Councillor Clucas felt strongly that no government had the right to take away a persons citizenship. She felt that as it was an advisory referendum the government were not bound by the outcome, particularly considering the Conservatives had lost the general election. She stated that the key issue was the Irish border and the current proposals could not fix that. The Chequers agreement had omitted to mention services which represented the bulk of the UK's earning potential. She also highlighted the plight of the NHS in the face of Brexit in terms of filling vacancies.

In summing up Councillor Wilkinson referred to the multimillion pound businesses which were being ignored in the Brexit debate. Cheltenham had in 2016 voted to remain in the EU and even more than ever this should not be

ignored. With the lack of certainty he strongly believed that any deal should go before Parliament.

A recorded vote having been requested and supported by Members the motion was put to the vote. The motion was approved with 30 for and 7 against.

Voting for : Cllrs Atherstone, Baker, Barnes, Barrell, Boyes, Britter, Brownstein, Clucas, Coleman, Dobie, Fisher, Harvey, Hay, Hegenbarth, Hobley, Horwood, Jeffries, Jordan, McCloskey, McKinlay, Oliver, Parsons, Payne, Stafford, Sudbury, Wheeler, Whyborn, Wilkinson, Williams, Willingham

Voting against: Cllrs Babbage, Cooke, Harman, Mason, Savage, Seacome, Stennett

Council adjourned from 8.05-8.10 pm

9. ANY OTHER ITEM THE MAYOR DETERMINES AS URGENT AND WHICH REQUIRES A DECISION

None.

10. LOCAL GOVERNMENT ACT 1972 -EXEMPT INFORMATION RESOLVED THAT

In accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraph 3, Part (1) Schedule (12A) Local Government Act 1972, namely:

Paragraph 3; Information relating to the financial or business affairs of any particular person (including the authority holding that information)

11. PROPERTY ACQUISITION

The Mayor proposed suspension of the rules of debate set out in Rule 13 of the Council procedures for this agenda item in order to facilitate the following :

1. The Cabinet Member will propose the motion in the normal way (up to 10 mins)
2. The Mayor will invite the Head of Property and Assets, Dominic Stead, and Simon Hodges, to give a presentation.
3. This will be followed by a Q and A session where questions will be put to the Cabinet Member Finance, Councillor Rowena Hay who may ask officers to assist in any technical responses.
4. The Mayor will then invite debate where normal rules of debate will apply concluding in a vote.

The Cabinet Member Finance introduced the report and explained that in response to enormous cuts in central government funding the council had already embraced radical changes to the way its services were organized and delivered. Adopting a commercial focus and growing the investment portfolio had been necessary as part of the drive towards financial sustainability. This represented a vital way forward for the authority given the continuing uncertainty around the fairer funding review outcome.

She reminded Members that the original basis of an Investment Property Portfolio Strategy was to establish a £10 million fund mainly financed through borrowing to purchase investment properties with the aim of generating a net yield in excess of 5%. However, like the Sainsbury's acquisition, this particular acquisition fell outside the parameters previously set by Council and would require a further budget allocation of up to £18.1m to fund the acquisition and associated costs.

The Cabinet Member explained that this proposed acquisition of Ellenborough House, combined with other recent approved purchases of investment property, had resulted in the need to review the limits, to ensure that external debt falls within the approved boundaries. She was requesting Council to increase the 2018/19 authorised limit to £185 million and the estimated 2019/20 limit to £185 million. Council's approval was also sought to increase the 2018/19 operational limit to £175 million and the estimated 2019/20 operational limit to £175 million. This reflected the assessment of the expected capital borrowing need for this council, whilst allowing for a further £50million to be borrowed by 31st March next year, in the event that further capital acquisitions came forward to full council for approval with a detailed business case. These limits would continue to be reviewed by the Treasury Management Panel annually, for approval by Council at its February meeting.

The Cabinet Member went on to explain that the purchase of commercial property was to provide additional income for the Council, fulfil the intentions as set out in the report regarding the Investment Property Portfolio, and work towards meeting the challenges identified in the Medium Term Financial Strategy. In adhering to the revised guidance, the acquisition of commercial property was focused, to ensure that the asset made a contribution towards service delivery and or place-making, for example economic benefit, business rates growth and retention, or responding to market failure.

She went on to explain that the purchase of Ellenborough House would make a direct contribution towards service delivery, whilst also having a direct impact of the safe-guarding of much needed office accommodation within the town centre. It would also enhance revenue returns for the Council to meet the challenges set out in the Medium Term Financial Strategy -a positive impact of £232k per annum from 21/22.

The Cabinet Member highlighted that Cheltenham was uniquely placed to grow. And sustaining and growing the town's economic and cultural vitality was one of the key outcomes as set out in the Cheltenham Vision and the Council's Corporate Strategy. The property investment strategy aimed to support this by focusing on acquisition opportunities within or in close proximity to the Borough which would help secure existing or increase business rates income.

She reported that good quality office space within the town had suffered sustained decline over recent years. This was partially due to a high proportion of office buildings within the town centre having been converted to retirement flats, which had helped to strengthen the office accommodation market as demand had overtaken supply, this was further evidenced through a comparison of the 2010 and 2017 rateable values which resulted in an average increase in rateable values for all offices within the borough of 14% which was not typical of other parts of the country. Office rents had risen by 20% in the last 7 years in Cheltenham and class A office space currently ranged from £25-£30 per square foot with some local agents predicting rents may go as high as £35 per square foot.

There were currently no office development proposals for the town centre, which indicated that demand would continue to outstrip supply and that rental values were likely to continue to grow.

There was strong investment interest in Cheltenham from pension funds, London based trusts and private investors from the Far East and the US. As an 'off the market' acquisition, the Council had an excellent opportunity to acquire a property without going to tender, and competing with other investors who may be prepared to pay higher prices for lower returns/yields.

The Cabinet Member Finance highlighted that Members often had concerns around the potential risks associated with investment. Should the market change, in the case of Ellenborough House, the council would be in a position of control to ensure that any conversion to residential was appropriate in order to facilitate local housing needs. She felt it was important to remember that we should be risk aware but not risk averse.

She reported that both the property acquisition assessment group and the cross party Asset Management Working Group were supportive.

The Cabinet Member then invited the Head of Property and Asset Management to provide his presentation to Members,.

Following the presentation the following questions were asked by Members and responses given by the Head of Property and Asset Management and the Cabinet Member Finance :

Q. Given the historic shift being witnessed out of retail, what was the long term projection for the maintenance of those yields and can assurances be given that there will not be a downturn in commercial property yields.

A: The Head of Property and Asset Management was satisfied with the retail make up of the council's investment portfolio. The stand alone, one-off large investment in Sainsburys had a good covenant and the historic secondary retail property investments provided a good return. The Cabinet Member Finance highlighted the importance of holding a diverse investment portfolio.

Q : Was this acquisition Brexit proof ?

A : Nothing was Brexit proof.

Q: Has there been a significant downturn in retail due to business rates ?

A: Cheltenham had been well insulated across the board compared to the rest of the UK. Some retail chains had grandiose plans to expand which were not very sustainable with overexpansion causing problems for landlords.

Q : Did the building comply with the requirements of the Equalities Act

A: As part of the due diligence full compliance of the building with the Equalities Act was ascertained. He reported that in 2012 the owner had invested £2.7m in upgrades to the building which included lifts replacements.

Q : Why was the current owner, (i.e. the pension fund) disposing of a property like this when they could realise the value as outlined ?

A : The Head of Property and Asset Management explained that in terms of workspace there was a shift away from bigger, more corporate HQs towards co-working spaces and he referred to the two new ones which had opened in Cheltenham last year. In light of this a further question was asked as to whether a large single site still represented good value? In response the Head of Property and Asset Management explained that pension funds had different investment needs to the council. As it operated in pension cycles of 5-20 years there were different criteria for pension funds over a 40 year period. There were still opportunities in Cheltenham to invest in flexible work spaces but this trend did not impact on the asset. A service provider wishing to operate a flexible workspace, would be more likely go for a new build.

Q :Was the Cabinet Member comfortable that this property could be used for the co-working market in the future if required?

A:This would be a judgement when and if the market changed. It represented a long-term investment and she recognized the need to be flexible, citing the example of the investment in Delta Place as potential accommodation for CBC. In this case the market was such that using it for that purpose would not be in the best interests of the Cheltenham taxpayer.

Q: The business case put forward was based on property delivering market rate rents. What evidence was there of demand for this type of office space in Cheltenham given that historically the town had lost major employers partly due to the fact that the town's infrastructure did not support office accommodation.

A: With the demise of significant office space in the town rents had significantly risen which provides evidence that there was demand.

Q: Why were no other parties interested in purchasing this property If rents decreased the rate of return would not be the same and this would create uncertainty. Reassurance was sought that the interest rate assumption was bullet proof. To an extent the proposed investment was deemed to be speculative and would council tax payers expect the council be investing like this as a core activity? What was the opportunity cost of this investment ?

A: The Cabinet Member explained that this was an off market deal. When the council had placed bids for market deals it had been outbid by a significant margin. She acknowledged that Members were right to be concerned if there was no prospect of payback. However, in order to maintain the current delivery of services it was necessary to be innovative and investing in property was a good capital investment. It was also highlighted that at rent review if the market rent was below what the tenant was currently paying it would not decrease.

Comments : Members considered the property to be in a great location, it had a carpark and blue chip tenants and was a great investment for our town. Planning and permitted development rights were beyond our control therefore it was vital that the current use and current employment was maintained in that building.

Members welcomed the investment opportunity and was an enterprising move. Officers involved in the process were commended in identifying this off market opportunity which would balance the investment portfolio place the council in a good position in a few years as the town developed.

The conservative group highlighted the importance of investing on a case by case basis but this was an excellent building in a great location and they would support the proposal.

The point was made as to how investments were made in a responsible way in terms of building up the property portfolio.

Members queried why the seller would use this route to market when there was clearly a stronger tender market, was this due to savings in agents fees or privacy ?

In response the Cabinet Member said that the council represented a committed cash buyer and a "safe bet" and were able to act quickly. The council also had no cap on borrowing, albeit had to undertake this in a reasonable and prudent way. It was acknowledged that by not going to market there was a risk that it would have to pay more than otherwise go to tender but so far this has not happened.

In summing up the Cabinet Member Finance thanked Members for their questions and input into the debate; she was pleased that the proposal had been considered thoroughly. She thanked officers for their efforts in bringing the proposal to council and welcomed the presentation by the Head of Property and Asset Management. She confirmed that every potential investment would be dealt with on a case by case basis and the council's strategy fully complied with government guidance. The council could control its own destiny in the town centre as far as placemaking was concerned.

RESOLVED (UNANIMOUSLY) THAT

- 1. A budget allocation up to a value of £18.1m, to be funded via prudential borrowing, be approved for the purchase of the freehold interest of Ellenborough House, Wellington Street, Cheltenham.**
- 2. Council is recommended to increase the 2018/19 authorised limit to £185 million and the estimated 2019/20 authorised limit to £185 million. Council is also recommended to increase the 2018/19 operational limit to £175 million and the estimated 2019/20 operational limit to £175 million in order that the Council's borrowing requirements fall within the approved Treasury Management Strategy.**

Bernard Fisher
Chairman