

Report to:	CABINET
Report of:	Corporate Director, Economy
Date of Decision:	27th June 2017
SUBJECT:	Development of an investment vehicle for commercial property and the disposal of surplus properties to the vehicle – Full Business Case
Key Decision: Yes	Relevant Forward Plan Ref: 003545/2017
If not in the Forward Plan: (please "X" box)	Chief Executive approved O&S Chairman approved <input type="checkbox"/>
Relevant Cabinet Member or Relevant Executive Member	Councillor John Clancy, Leader of the Council Councillor Majid Mahmood, Cabinet Member Value for Money and Efficiency
Relevant O&S Chairman:	Councillor Mohammed Aikhlaq, Corporate Resources and Governance Overview and Scrutiny Committee
Wards affected:	All Wards
1. Purpose of report:	
<p>1.1 To seek approval to the Full Business Case for the establishment of a company wholly owned by the Council that will be utilised to provide a vehicle for commercial investment.</p> <p>1.2 To seek approval to the proposed disposal of the Crowne Plaza and Hilton Metropole Hotels at the NEC to the wholly owned company (WOC).</p> <p>1.3 The accompanying private report contains commercially confidential information.</p>	
2. Decisions recommended:	
<p>That Cabinet:</p> <p>2.1 Note the contents of this report</p>	
Lead Contact Officer(s):	
Telephone No/ E-mail address:	Kathryn James Interim Assistant Director of Property Kathryn.James@birmingham.gov.uk

3.	Consultation
3.1	<p><u>Internal</u> Consultation on the proposed approach has taken place with key stakeholders, including the Deputy Leader. Further consultation has been undertaken with relevant subject matter experts within the organisation including the City Solicitor, the Section 151 officer and Head of City Finance (Capital), alongside consultation with a range of Cabinet Members and Senior Officers at the Council's Commercialism Board – all of who are supportive of the proposals. The details of this consultation are set out in Appendix 3 of this report.</p>
3.2	<p><u>External</u> None</p>
4.	Compliance Issues:
4.1	<u>Are the recommended decisions consistent with the Council's policies, plans and strategies?</u>
4.1.1	Council Financial Plan 2017+ - the Council is utilising a temporary mechanism made available by Central Government to utilise capital receipts to fund transformation activity to enable the delivery of revenue savings.
4.1.2	Council Vision and Forward Plan - the proposal contributes to the 'Jobs and Skills' priority to build upon the Council's assets for the benefit of our citizens.
4.1.3	Commercialism – the Council is embarking on a Commercialism approach that seeks to improve the financial return of assets that the Council holds, including seeking to generate new revenue for the Council. The implementation of the proposal outlined in this report will support the Commercialism approach and it has been endorsed by the Commercialism Board.
4.2	<u>Financial Implications</u>
4.2.1	This report presents the Full Business Case (FBC) for the establishment of a wholly owned company (WOC) of the Council to support effective engagement with the investment property market, including acquisition, disposal and leasing of investment properties.
4.2.2	The business case for the establishment of a WOC has been produced following the options appraisal outlined in section 6 of this report to establish the best value for money option to enable the Council to achieve the capital receipts required. The options appraisal has considered the current and future capital, revenue and investment implications of each option, alongside risks associated with each approach. The commercially confidential aspects of the FBC are contained in the private agenda report.
4.2.3	The private report also sets out the business case for disposing of property assets to the wholly owned company. The net proceeds from the disposal of the assets will contribute to the generation of capital receipts to support the delivery of the Council's Financial Plan 2017+ as outlined in paragraph 4.1.
4.2.4	The Council will develop a commercial relationship with the WOC. The commercial relationship will include; the disposal of assets at market rate and the provision of a loan secured against property and assets, under commercial terms. In addition services provided by the Council to the WOC will be charged to the WOC on a full cost recovery basis. The WOC will make payments to the Council, comprising both payments in relation to loan finance and services provided and as a further distribution of net operating surpluses generated.
4.2.5	The development of principles for a commercial investment strategy, if approved and applied, are anticipated to generate the Council a sustainable and increasing revenue stream and will require the Council to utilise prudential borrowing to fund further investments. The terms of this strategy will be set out in a report to Cabinet in Autumn 2017.
4.2.6	The generation of a capital receipt from the sale of properties was taken into account in the Council's Financial Plan 2017+ as part of the use of the Government's Capital Receipts Flexibility, taking account of the loss of rental income. Without the generation of this capital receipt the Council may be unable to fund some of the revenue costs of delivering savings, creating a potentially significant revenue budget pressure in 2017/18.

- 4.3 Legal Implications
 The power to acquire, dispose of and manage assets in land and property is contained in sections 120 and 123 of the Local Government Act 1972.
 Under Section 1 of the Localism Act 2011, the Council has the power to enter into the arrangements set out in this report, which are within the remit and limits of the general power of competence Section 2 and 4 of the Localism Act 2011.
 The Council's interest in companies is regulated by Part V of the Local Government & Housing Act 1989.
- [S93] S95 of the Local Government Act 2003 and the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 empowers the Council to trade commercially through a Council owned trading company but before deciding whether to trade commercially the Council must be satisfied that it has the statutory power to engage in the particular activity. Further, the power to trade is subject to a number of requirements which the Council must consider including the development of a full business case and risk assessment prior to trading.
- 4.4 Public Sector Equality Duty
 Within the scope of the project there is no potential to adversely affect any protected group and by generating additional levels of income to subsidise City Council services the project will contribute to equality of opportunity. The findings of the initial analysis are such that there is no need to proceed to a full equality analysis. Decisions on how best to use any income generated will be made as part of the normal City Council budgeting process, which will be subject to its own equality analysis. The equality impact assessment is attached in Appendix 3.

- 5. Relevant background/chronology of key events:**
- 5.1 The Council is developing a new property strategy, to be presented to Cabinet later in the year. A core theme of the emerging strategy is 'Investment portfolio asset management', which will include a full investment strategy relating to the management and development of the Council's commercial property portfolio, including a delivery plan and resource requirements to achieve the revenue benefits and anticipated capital growth of the portfolio.
- 5.2 As part of the development of a commercial investment strategy for the Council consideration has been given to the development of a vehicle or vehicles to support the successful delivery of such an investment strategy. Options have been assessed in relation to some proposed commercial property disposals, and the establishment of a wholly owned company as a vehicle to hold these assets is considered to represent best value in this case. The applicability of this model for wider commercial property activity will be considered in future reports.
- 5.3 The Council has sought specialist taxation and structural advice from PricewaterhouseCoopers to support the development of the optimum company structure of the WOC being a company limited by shares, which has informed the Full Business Case in Appendix 1.
- 5.4 A project definition report was developed and approved by Commercialism Board on 26 April 2017, which outlined the short and long term strategy, risks and benefits of the approach.
- 5.5 A report on the private agenda details the proposed assets to be sold into the company.
- 5.6 The key milestones associated with the delivery of the attached full business case are:
- Endorsement by Commercialism Board of the Project Definition Document and support to proceed to FBC – April 2017
 - Approval by Cabinet of the full business case to establish an investment vehicle – June 2017
 - Establishment of the WOC as an investment vehicle – August 2017
 - Purchase of initial investments by vehicle – September 2017
 - Presentation to Cabinet of investment criteria and enablement strategies for broader investment approach – September 2017
 - Implementation of broader investment approach – October 2017

6. Evaluation of alternative option(s):			
6.1	The Council has carried out an options appraisal in relation to the proposed asset sales, details of which are set out in the report on the private agenda.		
7. Reasons for Decision(s):			
7.1	The development of a commercial property WOC will give the Council a new option for the management of its commercial property portfolio which can be used where this provides best value to the Council.		
7.2	Not to create a WOC would mean the City would miss out on the opportunity to benefit from the capital receipts and retention of assets.		
Signatures		<u>Date</u>	
Cabinet Member John Clancy, Leader of the Council	
Cabinet Member Majid Mahmood, Cabinet Member Value for Money and Efficiency	
Chief Officer Waheed Nazir, Corporate Director, Economy	
List of Background Documents used to compile this Report:			
List of Appendices accompanying this Report (if any):			
1.	Full Business Case for the development of a wholly owned Commercial Investment Vehicle		
2.	Equality Impact Assessment		
3.	Details of consultation		
Report Version	11	Dated	06.06.2017