



## **Service Design Proposal**

## **Investment Opportunities**

## **1 What is the recommendation?**

The Council should develop of an investment strategy to target a 5% net yield on investment in predominantly physical and, where appropriate, financial assets.

This will involve the identification of potential investment opportunities in both residential and commercial properties, and could be both inside and outside of the borough. The aspiration is to invest as far as possible inside the borough to act as a boost to the regeneration and economic development ambitions of the Council. Investments will be sought outside of the borough that provide an appropriate level of return and to act as a diversifier rather than a pure concentration of risk in one area.

The potential residential options include:

- New build housing
- Estate renewal with a wider tenure mix and price points (to diversify and increase our asset base)
- HRA voids purchases
- Street purchases

The investment programme will also seek to develop and expand the existing commercial property portfolio, potentially with a Joint Venture partner on a project-by-project basis.

In parallel to the identification of investment opportunities, we will need to develop appropriate funding solutions, including co-investment alongside other investors, and those solutions will potentially differ for individual investment based on the type of asset and cash flows of the scheme.

## **2 Why is this proposal recommended?**

The proposal will increase the Council's income generating asset base and enable the Council to be an active participant in the growth opportunities within the borough but with a very clear focus on return. It provides a mandate which will enable the authority to respond quickly to participate in opportunities presented and proactively to acquire and develop standing and new build assets.

This proposal builds on the relatively small-scale work to date, which has focused on developing existing assets on a project-by-project basis, rather than as part of a defined and systematic investment strategy.

## **3 What does the future service look like?**

This is not a service in the traditional Council sense – it is a strategy to generate investment income rather than the provision of a service. It could be viewed as more akin to establishing a private equity real estate investment function (mandated investment committee serviced by investment people to implement the investment strategy and allocate an agreed capital sum to achieve target returns). Alongside this, a development function would be established to originate investment opportunities. Returns are likely to be different between different projects as each will carry its own risk and return profile.

Where the investment is inside the borough:

- Create and build on existing role as a private landlord with a wider choice of tenure for higher quality housing
- Redevelopment of the Council's commercial property portfolio managing and growing it commercially
- Estate renewal programme
- Site acquisition and standing asset purchase programme
- Co-investment development projects and development partnerships with the private sector and RSLs

#### **4 What will the service deliver?**

This is an investment proposal to generate a return rather than the delivery of a service.

Where invested in the borough, it will create:

- Expand our income generating asset base
- New or wider choice of housing tenures
- Enhanced commercial and retail property portfolio

#### **5 What are the constituent parts?**

The elements and stages of investing would be:

- Development of an investment strategy
- Identification of investment opportunities
- Identification of funding solutions and co-investment structures and partnerships
- Review and authorisation by new Investment Committee operating independently within the investment mandate approved by Cabinet
- Delivery/development by commissioned through third parties (potentially "Be First")
- Client management of managing agent of residential and commercial units

#### **6 What will be different for the customer?**

In this instance, the Council will be the customer expecting a return on its allocated capital to support front line service delivery from expanded revenue generating asset base. It would also play a more active role in prompting and participating in the borough's growth.

From the perspective of tenants of the assets:

- Residential – the development of a wider choice of tenure in high quality units with the wholly owned PRS Company acting as an ethical private landlord
- Commercial – renewed, well managed commercial estate

## **7 What will need to change in the service(s)?**

To enable the proposal the Council will:

- Create of the commissioning capacity building on existing skill set within Finance & Investment teams
- Create capacity to identify funding solutions, financial modelling, investment appraisal and monitoring of delivery/management of schemes beyond that which currently exists
- Establish scheme identification/development/delivery capacity within a third part partner, potentially “Be First”
- Buy a different housing service offer from My Place than currently delivered by Housing Services for units owned by B&D reside and other co-investment structures

## **8 What will be the impact on the workforce?**

It will require a different or enhanced skill set in the retained Council investment function on commissioning, financial modelling, funding identification and active investment management etc.

The main direct impact on the workforce will occur through “My Place” and “Be First” as the expected services to be commissioned to identify, develop and manage the assets. There could also be a fundamental impact on the small commercial in house property team depending on how the current portfolio is redeveloped or enhanced.

## **9 When will the changes take effect?**

It is very difficult to be precise due to the range of options and the different lead times for each. The following developments are already planned or in the pipeline:

- Schemes already live – Reside I and II
- Approved and under development – Gascoigne I
- Being developed – Gascoigne II and west Gascoigne and Housing Zone projects

It is likely that the major investments will be towards the end of the Ambition 2020 time horizon. Other investments have yet to be identified and therefore the implementation time is not known.

## **10 When will customer outcomes be seen?**

It is dependent on the speed with which investments are identified and the lead time for each project. For example, the lead time will be very short on the purchase and re-letting of HRA void properties but potentially a number of years for large estate renewal schemes. The investment return will be staggered over at least the next five years and is more likely to be backended than delivered in the early phases of Ambition 2020.

## **11 What savings will be made from the changes?**

The target investment return, after all costs, is 5%. Therefore, based on £100M investment, the Council seeks an annual net income to the Council of £5M by 2020/21.

An important point to be established is whether this return is to be achieved as a solely operating return, which would require investments of a higher risk, or if it is to incorporate increases in asset values, as occurs for property fund managers. The latter also has its own risks if property prices go down in the future but, given current values in Barking & Dagenham, is a real opportunity for achieving return.

## 12 When will the savings be realised?

It is dependent on the type and timing of the investments but is likely to largely be achieved in the later phases of Ambition 2020. Part of the development of an investment strategy will be a detailed development programme in conjunction with Regeneration/"Be First".

