

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	2 November 2017
<b>Subject:</b>	Strand Shopping Centre, Bootle - Update		
<b>Report of:</b>	Executive Director Sarah Kemp	<b>Wards Affected:</b>	Linacre/Derby
<b>Portfolio:</b>	Cabinet Member - Regeneration and Skills		
<b>Is this a Key Decision:</b>	No	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

Framework for change is comprised of four Programmes, one of which is Strategic Investment which includes, investment that deliver a net new revenue stream to the Council. Two other Programmes, Public Service Reform Programme and Economic Growth also reflect the need for the Council to maximise its asset portfolio, to improve its yield and to deliver service transformation and operational efficiency.

On April 28<sup>th</sup> 2017, Cabinet made the decision to acquire 100% shares in G.L. Europe Bootle S.a.r.l. and through this structure the Council became the owner of the Strand Shopping Centre. Cabinet, acting as the Shareholder of the Company, has approved the hive-up of the asset to the Council's balance sheet as a dividend in specie – a distribution/dividend to shareholders in a form other than cash. The existing shares will be extinguished and the corporate structure dissolved such that the Company acquired no longer exists.

From this point on, the business of the Strand requires an appropriate interface within the Council that fulfils the commercial demands of this asset. It is proposed that a new and additional form of governance is required to provide an agile and commercial interface, operating within existing delegations: the Investment Board, Chaired by the Chief Executive. This interface will also act as a working group of senior officers to direct and govern the activities of Framework for Change that are specifically “commercial” in nature.

### Recommendation(s):

- 1) To agree the formation of a new additional governance structure – the Investment Board
- 2) To agree membership of the Investment Board (Chair – CEX; Executive Director; Head of Corporate Services; Head of Regulation and Compliance, Head of Regeneration and Economic Development; Head of Commercial)
- 3) To note that the Investment Board will act as the commercial interface with the asset, the Strand Shopping Centre

- 4) To note that the Investment Board will guide and direct the activities of Strategic Investment across Framework for Change that are commercial in nature and that those decisions may be commercially confidential in nature
- 5) To note that delegations to the Investment Board will remain as set by the Constitution
- 6) To note that the Investment Board will work in consultation with the Strategic Capital Investment Group and that formal decisions to be made, above the delegations of the Investment Board, will be made by Cabinet or by Council, as the Constitution determines.
- 7) To note that the Terms of Reference of the Investment Board and its delegations will be reviewed by Cabinet on a frequent basis to ensure that this form of governance is responsive and effective to the needs of the business, acting in the best interests of the Council

**Reasons for the Recommendation(s):**

The day to day running and investment decisions of commercial investment, including the Strand Shopping Centre, require an agile and commercial interface within the Council in order to competently transact its business, particularly where that commercial activity is not governed by a Company Board or other structure.

**Alternative Options Considered and Rejected:** (including any Risk Implications)

One alternative option was considered – to provide an interface within a single service area of the Council such as Regeneration and Economic Development or Corporate Services. This option was rejected based upon the need to provide an interface with a broader reach of commercial determination and corporate responsibility, which has delegated power to make day-to day decisions that respond appropriately to the needs of the business. Council processes and the speed and frequency of execution may hinder or reduce the competitive and operational integrity of the business.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

There is no direct cost to the Council of establishing an Investment Board

**(B) Capital Costs**

There are no capital costs associated with this decision

**Implications of the Proposals:**

<b>Resource Implications (Financial, IT, Staffing and Assets):</b>
<b>Legal Implications:</b> The terms of reference will need to be carefully considered so that

they align with the requirements of the constitution. If alignment is not possible due to the commercial nature of the Board, then this will need to be identified and varied through usual Council procedures.

**Equality Implications:**

There are no equality implications.

**Contribution to the Council's Core Purpose:**

An Investment Board will provide the governance required to act as an interface on appropriate commercial activity across the Council. The output of the business cases commissioned, developed and approved for recommendation to Cabinet, will make its most significant contribution to the following elements of the Council's core purpose – Place Leadership and Influencer; Facilitate Sustainable Economic Prosperity. This will manifest most likely as built assets (but not exclusively) in regeneration, new housing, new development sites, and create new revenue streams to the Council, which in turn can be used to sustain vital services which fulfil Council's core purpose.

**Protect the most vulnerable:**

As above

**Facilitate confident and resilient communities:**

As above

**Commission, broker and provide core services:**

As above

**Place – leadership and influencer:**

As above

**Drivers of change and reform:**

As above

**Facilitate sustainable economic prosperity:**

As above

**Greater income for social investment:**

As above

**Cleaner Greener:**

As above

**What consultations have taken place on the proposals and when?**

**(A) Internal Consultations**

The Head of Corporate Resources (FD 4890/17) and Head of Regulation and Compliance (LD 4174/17) have been consulted and any comments have been incorporated into the report. In addition the report author has worked closely with a range of officers in the Council including, the Head of Regeneration and Housing.

**(B) External Consultations**

Not applicable

## Implementation Date for the Decision

Following call-in

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### Appendices:

None

### Background Papers:

There are no background papers available for inspection.

### Introduction/Background

For the past eighteen months, Cabinet have been considering how best to use the Council's assets, to deliver new revenue streams and generate better yields i.e. return on investment. The acquisition of the Strand represents a first step towards a new approach to strategic investment. This approach will deliver new revenue streams to pay for services, maximise yield from Council owned assets, develop and acquire new assets and dispose of redundant and de-commissioned assets. At the same time, the approach will support new economic growth and regeneration in the Borough.

This new approach requires a different governance model, one that will be tested and trialled on the recently acquired Strand Shopping Centre, to find the optimal mechanisms to enable the full ambition of the Council to be achieved, within an appropriate legal, financial and constitutional framework. It will be developed in consultation with Strategic Capital Investment Group and will require the supporting activity of an Asset Review and production of an Investment Strategy – processes already agreed with Cabinet and in development.

The Strand Shopping Centre will not be subsumed into Council services and will require the Council to provide an interface between the Asset Managers (currently Ellandi) and the Property Services Manager (Savills) and the Council, for day to day operational decision making and development of longer-term strategic investment proposals at the Strand.

This paper addresses the immediate needs of governance around the Strand, but sets out how this new approach to Strategic Investment might be further developed and delivered, such that other projects, that are commercial in nature, may also be directed and governed by the Investment Board.

## 1.0 **PURPOSE**

- 1.1. A Strategic Investment approach is being considered in the light of the significant changes to how the Council is currently funded and how it will be funded in the future. This is requiring the Council to take greater ownership of its own financial and Sefton borough's economic sustainability. Further, the Council's role within the public sector as a whole is changing with the reform of services, whereby the Council is acting as the key enabler to integration of services and is taking the lead in provision of estates solutions to support integration, e.g. multi-agency hubs.
- 1.2. The Council has a significant property asset base much of which delivers a certain, but not optimised, income stream into the Council. It can also access further capital, with no limits on prudential borrowing, provided there is a clear mechanism to service that borrowing and repay the capital.
- 1.3. The Strategic Investment approach considers the capital locked up in the existing asset base, the income stream it delivers, capital required to deliver against other Council priorities and seeks to optimise the overall financial and service outcomes.
- 1.4. This change of emphasis and change in risk requires the adoption of a modified approach and appropriate governance, to effectively manage that risk. Ultimate decision making will clearly remain within existing Council governance arrangements, but day to day operations and advice should draw upon the resources, knowledge and expertise that exist within the Council or from partners, for the benefit of the Council.

## 2.0 **CONTEXT**

- 2.1 Strategic Investment was introduced under Framework for Change as a mechanism to manage, monitor and drive key future income streams and operational savings, broadly described as Invest to Save, Invest to Grow and Invest to Thrive. Proposed increases in business rates, council tax and developer contributions are also expected to increase as a consequence of this approach.
- 2.2 Framework for Change drives the organisational approach to Economic Growth, Public Service Reform (PSR), Corporate Services and Strategic Investments. One particular project, PSR 8 Asset Maximisation, seeks to maximise all of the Council's assets to ensure that assets are deployed to enable transformation of Council services, create new revenue streams and stimulate economic growth. In this regard, it acts as an enabler of Framework for Change as a whole, against which the MTFP has been determined and agreed. To-date the projects within PSR8 have largely been focused on the Council's own operational foot-print.
- 2.3 A single whole Council approach to the development of a Capital Programme that meets all of the Council's strategic objectives and requirements is underway. An allocation of revenue "Growth budget" has been made available to support in part, the development of the Capital Programme. From this same budget, approval has been given to commence an Asset Review of approximately 200 assets out of a potential 1100, in order to categorise them to:

- Inform the development and subsequent delivery of the Investment Strategy
- Understand the commercial value of those assets in variable scenarios
- Define options for future consideration which might be:

Assets held for operational purposes

Assets held for heritage reasons or other designated reasons

Assets held to be developed or re-purposed

Asset to be disposed of to create a capital receipt

- 2.4 The Asset Review will look to identify the assets that could be disposed of and replaced with better yielding investments. Once identified these are deemed to be relatively straightforward and marketable. This will also include potential residential and other development site disposals which are deemed to be more complex and require further preparation for sale.
- 2.5 It is also important to conduct a review of all income generating assets not currently within the existing 'property budget / investment portfolio' structure to ensure all incomes are captured and recorded, potentially moving under the Strategic Investment approach for consideration e.g. Atkinson Theatre and Southport Theatre and Convention Centre.
- 2.6 At this stage it is proposed that the Investment Board would only consider investments to be 'in-scope' by exception i.e. the Strand Shopping Centre, until the Asset Review has been completed, the Investment Strategy developed and approved, setting out a clear portfolio of assets for re-purposing and therefore "in-scope" and a clear set of deliverables to be achieved.
- 2.7 At the beginning of 2017, the existing investment portfolio was currently estimated to be about £55m. The Asset Review will assess realisable market value and set out potential options for the purpose of the asset and its role in delivering any part of the Council's agenda.
- 2.8 The assets that will ultimately be considered as being in-scope of the Strategic Investment portfolio will potentially be pre-determined in the main, by the amount of existing development, regeneration, and other similar projects already in-flight within the Borough. The approach is likely to display the following characteristics:
- Maintain or increase the net income from the portfolio whilst maintaining or increasing its value
  - Realising capital from the portfolio whilst having a strategy to maintain or increase net income
  - Reducing management costs whilst maintaining gross income
  - Maintaining net income whilst delivering other wider outcomes such as delivery of residential development or wider regeneration
  - Have in place suitable risk management strategies or considerations, e.g. agreed levels of liquidity.

- 2.9 The Investment Strategy will set out in much greater detail, how those characteristics will be reflected and how pre-categorised assets will be used in order to:
- Deliver Framework for Change – all Programmes
  - Identify future development and acquisition opportunities
  - Manage a new and emerging risk profile
  - Identify appropriate sources of investment finance and how they will be used

The nature of Strategic Investment may be reflected as both capital and revenue investment.

### 3.0 **GOVERNANCE**

- 3.1 New additional governance is therefore required to direct and manage the activities of Strategic Investment and respond appropriately to the nature of the commercial activities within the overall Strategic Investment Programme. This is particularly necessary where an operational or commercial investment interface is required, drawing on commercial and often, asset management and built environment skillsets. It is proposed that the Investment Board will also guide the Asset Review and development of the Investment Strategy to provide the governance of investment decisions that are commercial in nature.
- 3.2 The Investment Board will need to be agile in its management of the portfolio, as local market opportunities or trends develop at pace. The Executive will agree, following the Asset Review, which assets are to be held for investment purposes and which assets will be disposed of to raise a capital receipt that may be subsequently invested to acquire or develop new and existing assets.
- 3.3 It is expected there will be an element of the Investment Strategy that would require a continual recycling of investment. There will need to be continual opportunity scanning that will lead to the ongoing disposal and investment into assets to achieve either improved income, or risk positions, for the Council. However in the immediate short-term, decisions will be made on a case by case basis, until the Asset Review and Investment Strategy have been completed and approved and wholly aligned to the Capital Strategy and Treasury Management Strategy.
- 3.4 It would be anticipated, due to the nature of the activity of Strategic Investment that Delegated Authorities for this 'Board' will likely be higher than, tailored and different to others in the Council governance framework. Member reporting is therefore also essential. The Board will report to Cabinet and will work in consultation with the Strategic Capital Investment Group, particularly relating to the Capital Programme. Normal democratic processes will not be replaced, but continue through Cabinet and Cabinet Member delegations of Portfolios.
- 3.5 The Investment will take both a holistic and strategic view across the whole portfolio to maximise all opportunities for the Council, recognising a broad base of assets and strategies, as well direct the diligence of project specific opportunities.

#### 4.0 **MEMBERSHIP**

4.1 It is proposed the Investment Board will be constituted from the following Council Officers:

- Chief Executive (Chair)
- Executive Director (Growth & Strategic Investment)
- Head of Regulation and Compliance
- Head of Corporate Services
- Head of Regeneration and Economic Development
- Head of Commercial Services (not yet appointed)

#### 5.0 **DELEGATED AUTHORITIES**

5.1 The usual Delegated Authorities apply initially, e.g. over £100k is a key decision. The Investment Board will seek to confirm the authorities required by Council Officers to enable the effective management and operation of the approach of Strategic Investment, so as to be flexible and pre-emptive within ever changing economic, political, policy and local marketplace environmental factors.

#### 6.0 **TERMS OF REFERENCE**

6.1 Full I&D Board terms of reference will be developed which will align fully with the Terms of Reference for SCIG and the Capital Strategy approved in March 2017.

6.2 Investment decisions that do not require a degree of immediacy to expedite a commercial transaction, for example, the redevelopment of the Strand, will be considered accordance with the Capital Strategy and Cabinet's delegation as the Executive or Shareholder.

6.3 In outline below, the intent of Board is to work in consultation with SCIG to review and ultimately maintain oversight of:

- The Investment Strategy including financial return, regeneration and risk
- The Investment Programme (including the governance of investment business cases and evaluation)
- Property disposals process where this has been agreed as being within the Investment Portfolio, for the purpose of raising a capital receipt and/or to reduce holding costs
- Strategic land acquisition/land assembly
- The oversight and interface with the day to day management of commercial and investment activity which sits within the Investment Portfolio e.g Strand Shopping Centre to be able to act quickly and with flexibility within its delegations e.g. agreement to a new tenancy agreement
- To submit quarterly updates and an annual report on Strategic Investment activities against plan and Investment Strategy (including a proposed action plan for a rolling look ahead; short, medium and long term) to SCIG and Executive



- To determine remedial action in respect of any significant market factors and its impact on Council Investments

The execution of decisions made by the Investment Board is mostly likely to fall within the Service areas of Regeneration and Housing and Property Services, but may on occasion be delivered through a combination of other service areas.