

ADUR & WORTHING
COUNCILS

Joint Audit and Governance Committee
15.01.2026

Joint Strategic Committee
06.03.2026

Key Decision [Yes/No]

Ward(s) Affected:

Strategic Property Investment Fund Strategy 2026/27

Report by the Service Director for Place & Economy

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Executive Summary

1. Purpose

- 1.1. Statutory guidance places a duty on Local Authorities to prepare an annual investment strategy to be approved by the full Council or equivalent, in advance of forthcoming financial years.
- 1.2. This report provides an update on the Strategic Property Investment Fund as of January 2026.
- 1.3. It contains the Commercial Property Investment Strategy (Appendix) which sets out the initial investment guidelines originating in 2015 and updated.
- 1.4. This report covers:
 - The current overall Fund structures and completions within the current financial year to date.

- A brief review of market situation and Public Works Loan Board (PWLB) Funding criteria.
 - Review and update of processes to support the ongoing structured and measured approach to property income generations and proactive risk management inherent in any property investment.
 - A brief update on specific aspects of the funds
- 1.5. The primary objective of the Commercial Property Investment Strategy (CPIS) is to build a balanced portfolio generating revenue for the Councils' delivery of services for the benefit of Adur and Worthing.
- 1.6. It is recommended that the report and Appendix is approved by the respective Councils as the Commercial Property Investment Strategy for 2026-2027.

2. Recommendations

- 2.1. The Joint Audit & Governance Committee is recommended to note the contents of the report and provide feedback and/or recommendations to the Joint Strategic Committee (JSC) at its meeting on 6 March 2026.
- 2.2. It is recommended that the Joint Strategic Committee:
- a) Agree the suggested delivery and governance model as set out in the report which will be approved by the full Council as part of the overall CPIS.
 - b) Recommends that Adur District Council and Worthing Borough Council adopt the Commercial Property Investment Strategy for 2026/27.
 - c) Approves that the budget for future years may be brought forward with the approval of the relevant Cabinet Members for Resources, following their consideration of a business case.
 - d) Note the contents of this report.

3. Report Context

- 3.1. Due to reductions in Central Government Funding, Local Authorities are reliant upon other income models to support delivery of Council services. Direct investment in commercial properties is a way that Councils across the country sought to increase their income to support Council services and was commonly undertaken by Local Authorities, some acquiring assets nationally. Investment is still permitted, broadly, in administrative boundaries.
- 3.2. Typically investments are funded through Public Works Loan Board (PWLB) long term lending, on historically preferential terms to the market enabling authorities to generate income over borrowing costs. This surplus contributes to mitigating the impact of cuts whilst also protecting services that would otherwise be at risk of closure.
- 3.3. The Councils' cost of borrowing from the PWLB and other sources has become less favourable than borrowing prior to 2022. PWLB rates have ranged from below 1% to in excess of 6% during the last decade.
- 3.4. Revised 2021 onward PWLB Funding arrangements resulted in increased scrutiny on borrowing, preventing the use of this loan facility to fund new investments primarily for yield.
- 3.5. Adur District and Worthing Borough Councils established Strategic Property Investment Funds (SPIFs) following a report to JSC in July 2015. Subsequent reports have increased the current fund size (capital spend) to £125m per Council.
- 3.6. The approval of the 2020 CPIS provided mechanisms to grow the portfolio and monitor performance through improved asset management, continuous review and monitoring. This report reinforces the continued need to monitor performance and moves to take a longer term "total return" approach and analysis of the portfolios.
- 3.7. The properties in the SPIF Funds are found on the Council's website at <https://www.adur-worthing.gov.uk/about-the-councils/open-data/>.

4. SPIF Strategy and 2025 Commentary

- 4.1. The investment strategy is significantly affected by the Council's deficit position so in 2025 officers re-focused their efforts on rent collection and tenant engagement, to preserve the Council's revenue position.

- 4.2. At the same time officers initiated a selective disposals programme selling one asset out of the Worthing SPIF.
- 4.3. Rent collection data (% of all rents collected in advance) across all occupied property was approximately 97% with two of those late payments turning into bad debts through tenant liquidation.

5. Portfolio Risks

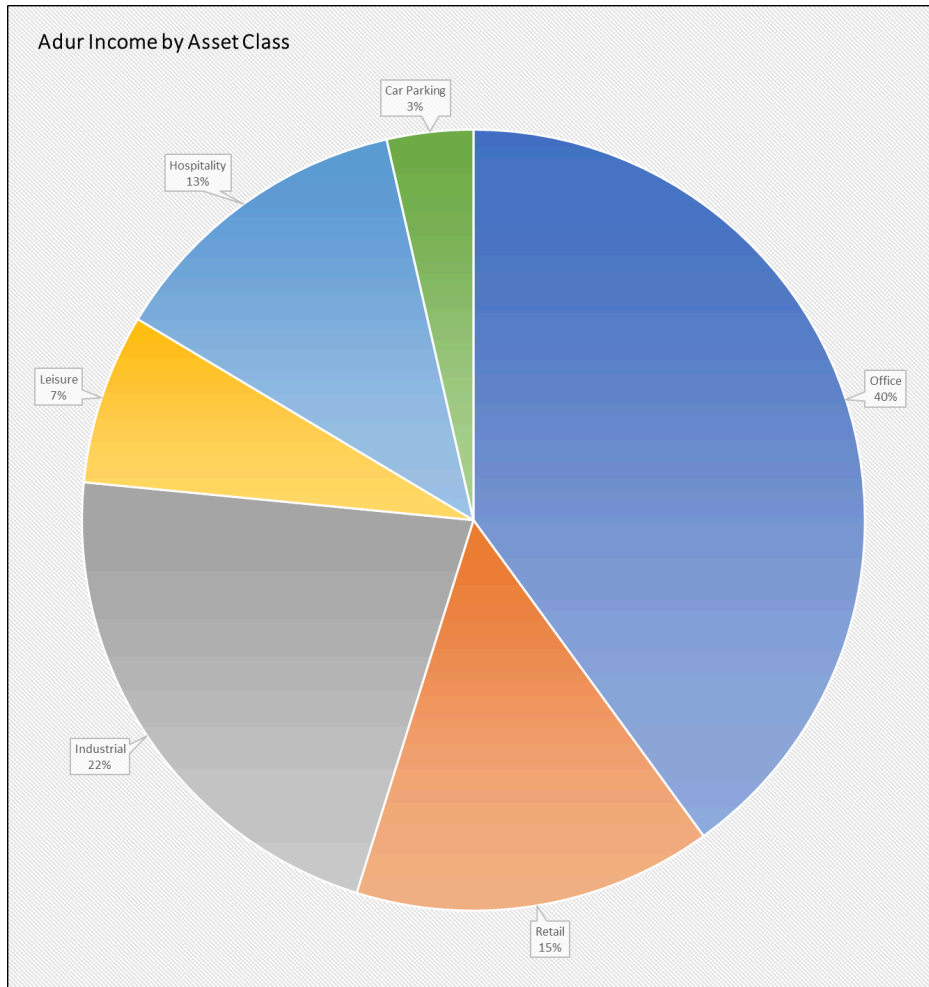
- 5.1. The major risks in the SPIFs, are tenant failure, obsolescence and restrictions on the acquisition of new fresh stock, relying on historically acquired assets alone.
- 5.2. Against the backdrop of economic uncertainty, the portfolios have performed well in income only terms during the last financial year. Overall success in rent collection is due to the quality of tenants, and the careful evaluation and governance process applied to purchases.
- 5.3. However two of the smaller tenants have failed, as has a household name, and others especially in retail and hospitality, remain a concern and are being monitored.
- 5.4. Periodic reinvestment is required to keep the estate relevant to the market conditions and tenant needs at the time. When the SPIFs were created, in order to spread risk, a diverse portfolio was acquired, in terms of geography, sector, lot size and tenant type.
- 5.5. Obsolescence/compliance risk includes inability to let the space when leases end owing to the Minimum Energy Efficiency Standards (MEES). The team is addressing this, by putting forward capital bids, having risk assessed the portfolio. The MEES compliance rules have altered in the last six months in the Council's favour with a slight relaxation of standards due in 2030.
- 5.6. Obsolescence risk includes physical, visual, amenity, fabric and style mismatches that make any property less appealing in the market. Obsolescence will reduce or even destroy capital value or simply render the space unlettable or lettable only at a low rent.
- 5.7. Fashion and tenant requirements are constantly changing. The team is addressing this by working with tenants to regear leases, and planning to raise capital bids to address the risks on lease expiry, where it is known or suspected that a tenant might leave at lease end.

- 5.8. An emerging risk results from the requirement to purchase/own new assets in the council's area only, with the limited range of stock available therein, a function of history, land supply and coastal topography.

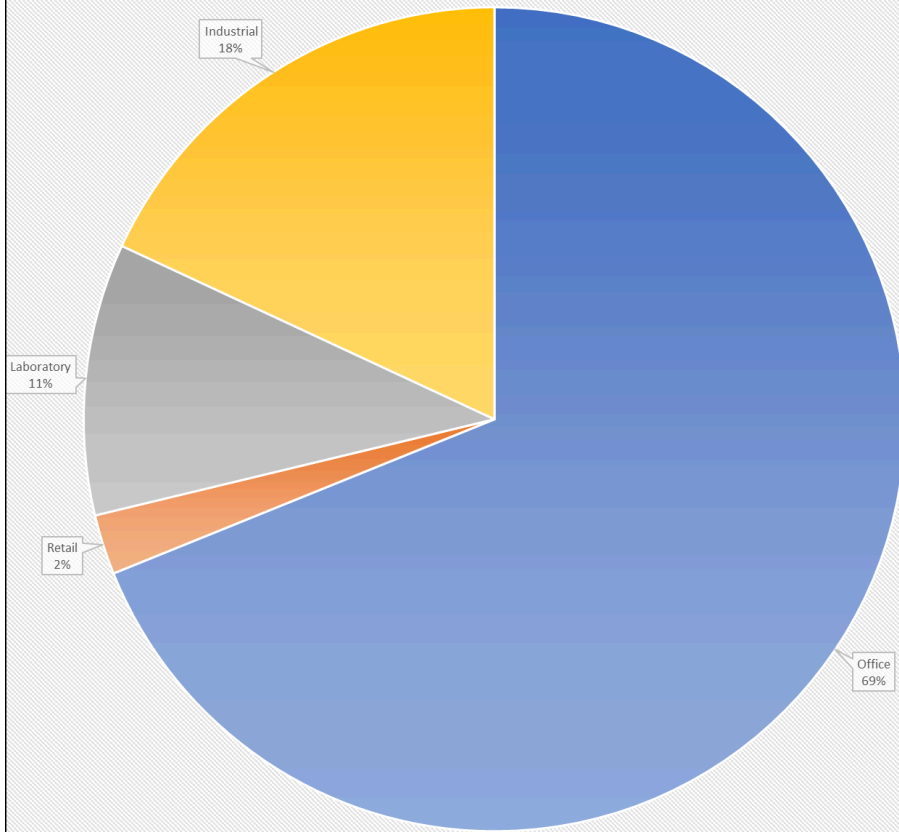
6. Current Fund Structure

- 6.1. During the last financial year, no new purchases were made, the last being in November 2022.
- 6.2. The Councils established the Strategic Property Investment Funds following a report to JSC in July 2015. The overall Fund objective is to invest in UK commercial property to secure income and long term capital growth to support the Councils' local services following reductions in Central Government funding.
- 6.3. The Councils sought to acquire assets that present a minimum hurdle average net return of at least 1% over the assumed hold period after all costs and expenses including principal and interest debt payments.
- 6.4. The acquisitions ought to minimise risk exposure, seeking strong underpinning factors with the investment and obtain stable income and capital appreciation.
- 6.5. The portfolio is under constant review and where asset returns diminish to an unacceptable level, disinvestment will be considered. In reality, the debt associated with each property, while not necessarily attached to any one property, is part of the overall debt that the Councils carry and is a factor when considering disinvestment.
- 6.6. The SPIF/Tier 1 priority is to generate income by owning quality assets let to strong corporate bodies. Tier 2/3/4 assets are mostly of lesser quality and include community and social spaces, local investment property and land, and land held as statutory owner of last resort.
- 6.7. For Adur, the SPIF property rental income makes up some 64% of the Council's total non residential property income. The rest are Tier 2 let properties, community and social spaces.
- 6.8. For Worthing, the SPIF property rental income makes up some 55% of the Council's total non residential property income. The rest are Tier 2 let properties, community and social spaces.

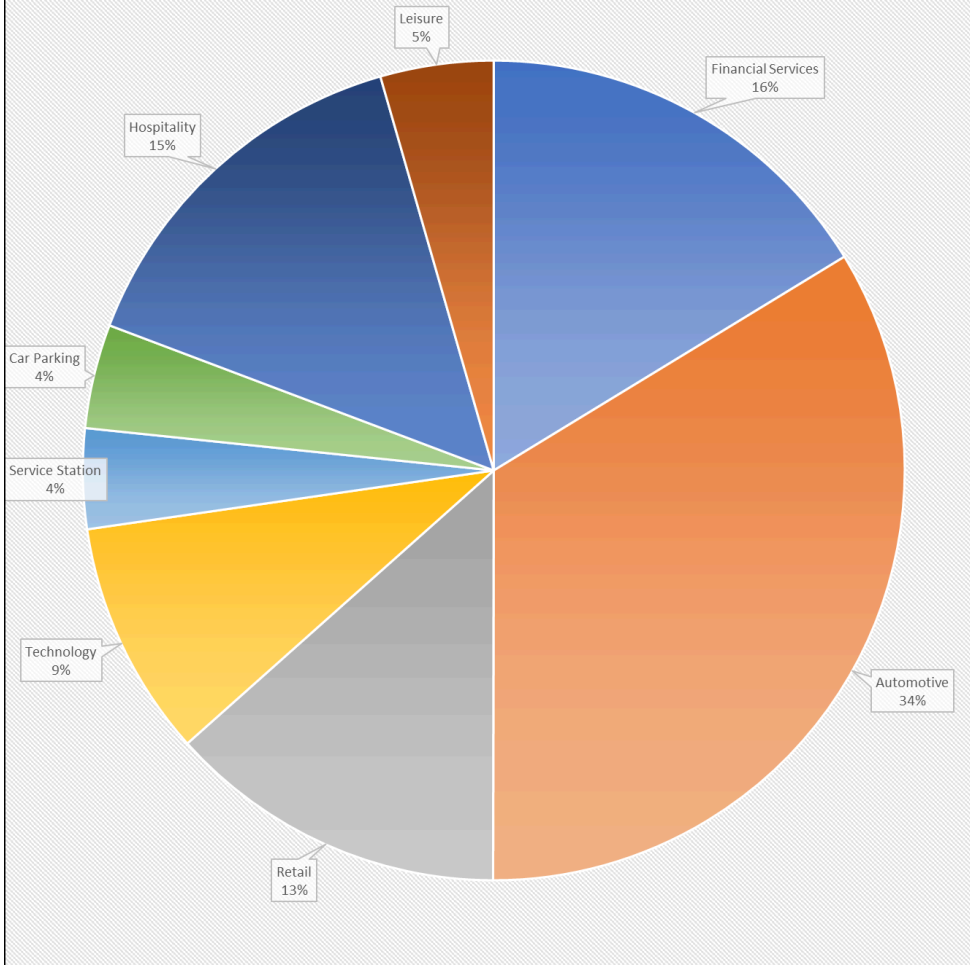
6.9. The Funds maintain a balanced spread between asset classes and geographical locations. The pie charts below detail the current weighting of the Funds considering all purchases to date:

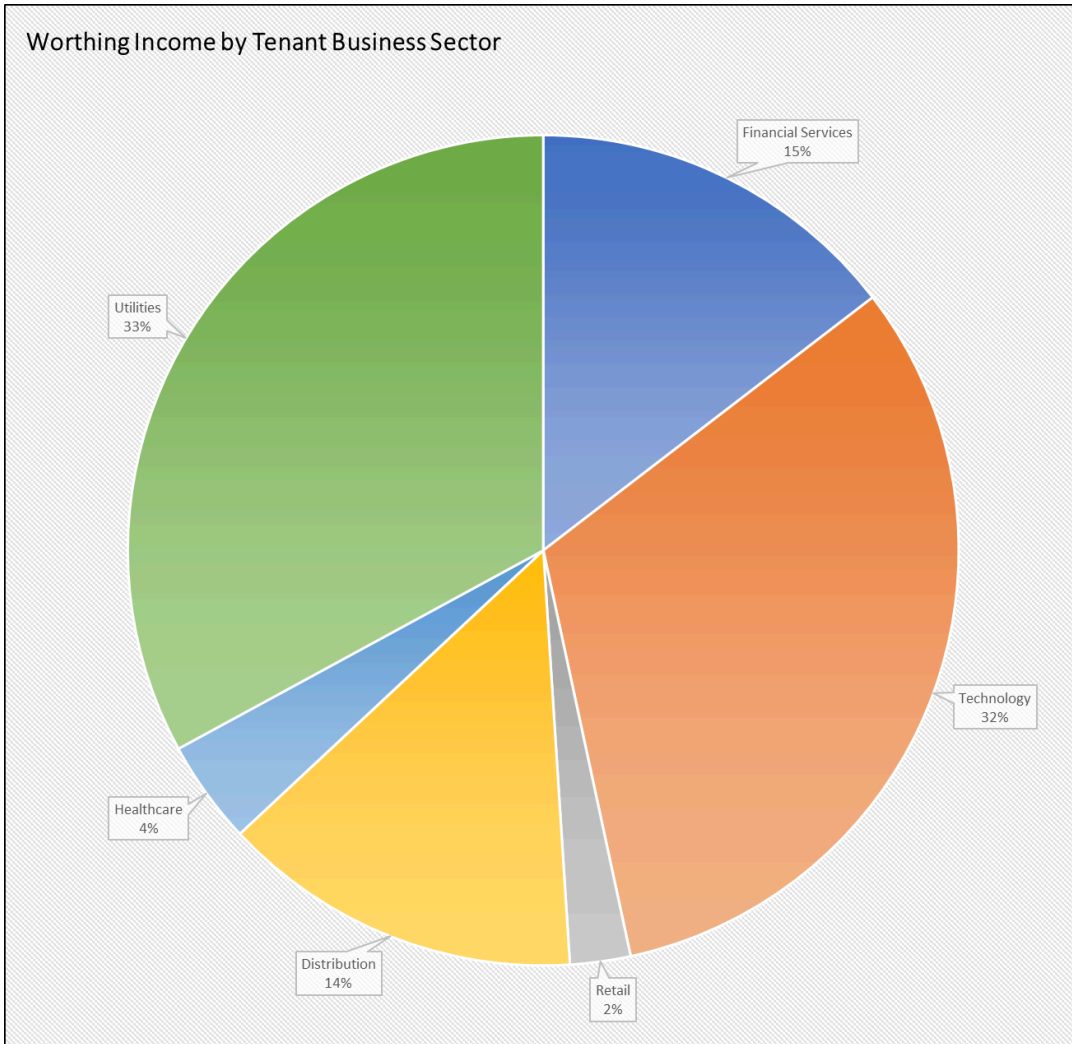


Worthing Income by Asset Class



Adur Income by Tenant Business Sector





6.10. The above pie charts do not include any property used for operations, housing, regeneration (except five retail units) or local economy purposes.

6.11. The above charts show both Councils' investments are weighted towards office investments, a combination of market opportunities and strong fundamentals at purchase (location, strong demand from the service economy, high quality construction and low maintenance).

7. Market Notes

7.1. The CPIS is to set out the strategy, and this report is an update, not to give granular details on fund performance.

- 7.2. However it may be helpful to set out some interim reflections on the broader national investment market for the types of assets that the Councils own. These are not the same markets as assets in Tiers 2 and 3 that the Councils also own, but a commentary on the national and regional markets in which the SPIFs sit.
- 7.3. At the start of the year there were hopes that interest rates would fall faster and inflation still remains more than the Bank of England target, but we *may* start to see some more reductions in debt costs in 2026.
- 7.4. This is absolutely not a given and the 2025 market was somewhat subdued as a result, compounded by a late Budget. In short, not a lot of transactions were happening, so no suitable local opportunities came forward for the Funds to purchase. The occupational market is patchy, and some of our stronger tenants wanted to remain in situ rather than face the costs of moving, so we were able to re gear one large property and agree terms for two more upon expiry, this preserving income into the medium term.
- 7.5. Nationally, the very best office space is sought after, the less attractive or well-located spaces, with doubtful energy performance certification and amenities, are much less in demand, if in demand at all.
- 7.6. Reluctance in some quarters to return to the workplace full time, and digitisation and improved remote working have changed the requirements of office tenants, which in turn drives obsolescence risks and so this sector is still experiencing disruption.
- 7.7. The funds' diversification and asset allocation, resulted in a resilient performance despite the weighting towards offices. The funds' relatively low exposure to traditional retail has been helpful to the funds' performance.
- 7.8. As income driven investors, the Councils are (relative to the market) not entirely agnostic as to absolute capital value, but focus on strength, reliability and longevity of income instead. If and when capital values rise and fall, as they will, the focus still remains on driving income.
- 7.9. Demand for office space remains very thin in our Borough and District areas for the time being. New supply is almost non-existent.
- 7.10. Looking to 2026/27, it is much the same picture as the previous year, in that office occupier markets may perform well for high quality stock but there remains uncertainty around structural changes in this sector. This

is resulting in secondary office stock being repurposed or demolished where they face economic and physical obsolescence.

- 7.11. Other than where the Councils see a regeneration, an opportunistic purchase with strong upside, compelling pricing, internet-proof locations and tenants, or social opportunity, it is recommended that retail as an asset class, continues to be treated with caution. Within the two SPIFs though, the two well located retail units with a household name tenant do provide satisfactory long dated income.
- 7.12. Industrial and logistics investments remain highly sought after. In our area most industrial investments remain tightly held and do not enter the market frequently. The Councils will remain alert, although opportunities remain limited. The reality is that within the holdings this asset class makes up a small percentage of the total by value.
- 7.13. Alternatives such as an hotel, car parking, gym and laboratory investment are held in the funds, most being long index linked income with strong investment grade covenants.
- 7.14. The Councils could seek further alternative sector investments to diversify risk across the funds, meaning sites within Adur District and Worthing Borough and their functional economic areas.

8. Fund Size and Weightings

- 8.1. The overall Fund size of £125m per Council is relatively small within the context of wider commercial property funds, so due to the risks presented by smaller funds officers sought to proactively ensure a diverse portfolio composition and balanced approach.
- 8.2. This has proven resilient against increased volatility in the market and has reduced the Council's exposure by spreading risk across a number of assets, lot sizes, sectors and geographical locations.
- 8.3. There are currently no proposals to increase this fund size beyond £250m but that the Councils should move to the overall fund being capped at that level and no more, so with assets comprising not more than £125m of debt per authority.
- 8.4. Due to the impact of changes to the PWLB lending criteria, and typical transactional opportunities within the functional economic area, the

average lot size to consider for new purchases was amended to £2m - £25m.

- 8.5. This lot size will enable the Councils to operate in a window of opportunity partly below that of typical institutional investors (Pension funds and private equity) in order for the Council to remain competitive in the market.
- 8.6. When an acquisition presents as a value add and opportunistic opportunity, or a repositioning, repurposing and redevelopment opportunity, the acquisition process has a requirement to produce a prior detailed business case and appraisal so that funds for the activity can be drawn down.
- 8.7. Officers will evaluate opportunities both higher and lower than the average lot size as well as assets across the evaluation criteria to ensure that opportunities of interest and benefit to the Councils are not unduly ruled out.
- 8.8. The reality is that during 2026 officers do not expect to be inundated with opportunities that meet these CPIS criteria within our Council areas.
- 8.9. On inception, and subsequently, the Fund structure in the Commercial Property Investment Strategy (CPIS), set out guiding principles of broad weightings to allocate to different asset classes in the interests of income diversity and risk management.
- 8.10. The weightings (i. e the capital devoted to a series of different asset classes such as shops, offices, industrial, leisure, etc) will change, as assets increase or decrease in value relative to others, and where new assets are bought or leave the portfolio.
- 8.11. Given the headwinds against new acquisitions, (budget constraints, geographic PWLB restrictions, lack of suitable SPIF compliant stock in the area), the portfolio is very unlikely to change materially its component parts, other than by disposals.
- 8.12. There are plans for disposal of one asset associated with a wider regeneration site, so it is likely that the funds will maintain the same component properties or shrink over the budget period of two years unless new acquisitions are made.
- 8.13. Given the above, the aim to meet the exact asset allocation in the CPIS is unlikely to be met but it still serves as a useful set of parameters for

the management of the fund and may need to be revised in future years.

9. Resources and Capacity

- 9.1. During 2025-26 the Property and Investment Team led the asset management of this portfolio to support the delivery of the CPIS. The other staff are committed to duties such as day to day management, disposals and lease events across some 583 total properties which are subject to lease, licence or other agreements. In total the Councils own some 815 properties (when non-let sites for instance mainly small areas of land, bus stops, sub stations, WCs, beach huts etc are included). There is a list of all assets on the Council's website.
- 9.2. In the SPIFs only, officers are supported on rent collection and service charge management by outsourced day-to-day property management of the portfolio. The Councils procured Savills, a FTSE250 RICS (Royal Institution of Chartered Surveyors) regulated property firm to assist.
- 9.3. Following the approval in November 2024 of the Asset Strategy, the team is focusing on income generation, disposals of selected assets, re-negotiating inappropriate and/or outdated agreements and generally addressing forthcoming MEES related issues.
- 9.4. The team adopts a commercial approach to generate income and enable the delivery of property assets outside the SPIFs, within the Borough and District for the benefit of the community.
- 9.5. The Property and Investment Team will continue to engage specialist consultants where required. The Property and Investment team will also continue to maintain their self-funded CPD requirements and self-funded subscriptions for the RICS, and the team includes an apprentice on the pathway to qualification.

10. Future Fund Direction, Updated Commercial Property Investment Strategy

- 10.1. Future activity must inevitably slow down given the restricted area of acquisition, budget pressure and relative lack of Grade A investment property in our areas, but keep looking for a mixture of 'Core', 'Added Value' and 'Opportunistic' acquisitions within our areas.

- 10.2. Officers continually review opportunities within the existing portfolio to re-shape this accordingly in order to manage risk. This is to ensure that the portfolio has a balanced asset mix representative of the core aims of the SPIF.
- 10.3. Owing to the accelerated decline of retail assets, it is unlikely that the funds will meet their target percentage of retail stock. It is recommended that the SPIF remain flexible in a fluid and fluctuating market. This will enable the Councils to remain competitive and agile when exploring investments that present strategic opportunities, in a geography with limited opportunity.
- 10.4. As the properties age, and as leases fall due for renewal, there will be calls on the Councils' funds to upgrade and improve the properties, especially around compliance with Minimum Energy Efficiency Regulations (MEES) regulations. This is investment as such spending may release the opportunity to increase rental levels, or prevent deterioration in value and, critically for this investment model, income.
- 10.5. Disposal to reduce exposure may further be required where future performance prospects of an asset diminish to an unacceptable level.
- 10.6. MEES regulations which changed since the inception of the portfolio, put increased pressure on all owners to upgrade space. There will be a minimum Energy Performance Certificate threshold of A/B/C in 2030 beyond which it will be illegal to let space at a lower grade. Officers have identified shortfalls and are planning to address this through a revised capital programme.

11. Statutory Guidance

- 11.1. When investing in property, local authorities must comply with statutory guidance. This includes two codes of practice (Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and The Prudential Code for Capital Finance in Local Authorities) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), in addition to, the Ministry for Housing Communities and Local Government (MHCLG) February 2018 publication, "Statutory Guidance on Local Authority Investment Activity".

11.2. This statutory guidance on investment strategy includes requirements for Councils to:

- Prepare an annual Investment Strategy which must be approved before the start of the forthcoming financial year by full Council, or its closest equivalent.
- Ideally present the strategy prior to the start of the financial year.
- Ensure the strategy is available on a local authority's website.
- Disclose the contribution that all other investments make towards the service delivery objectives and/or place making role of that local authority.
- Include quantitative indicators within the strategy, that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. This should include how investments are Funded and the rate of return.

The investment strategy must include:

- Details of the processes used to ensure effective due diligence, defining the authority's risk appetite, including proportionality in respect of overall resources.
- Qualify independent and expert advice and scrutiny arrangements.
- Disclose the contribution that investments make "towards the service delivery objectives and/or place making role of the local authority".
- Propose indicators that enable Councillors and the public to assess the authority's investments and the decisions taken.

11.3. The investment guidance is clear that Councils may not "borrow in advance of need" to profit from the investment of the sums borrowed. The definition of investment has recently been extended to include investment in property and the granting of loans to third parties.

11.4. In recognition of the importance of commercial income to Councils to support the delivery of services, a Council can choose to disregard the Prudential Code and this part of the guidance. In this case, its investment strategy should set out why this is the case and what the Council's relevant policies are.

- 11.5. The guidance states Councils will need to have at least one Investment Strategy (“the Strategy”) that meets all the disclosures and reporting requirements specified in the statutory guidance.
- 11.6. For Adur District and Worthing Borough Councils, there will be two separate elements to the strategy:
- Annual treasury management investment strategy which covers all cash investments.
 - Annual SPIF and CPIS covers the Councils’ approach to commercial property investment.
- 11.7. The annual Treasury Management Investment Strategy 2024/25 to 2026/27 was approved by the Councils in February 2025. This Treasury Management Investment Strategy and the Commercial Property Investment Strategy, which is attached as Appendix 1, provide evaluation criteria for the assessment of investment opportunities, risk profiling, evaluation, resourcing and monitoring, accounting for the statutory guidance.

12. Investment Evaluation Process

- 12.1. Prospective investment opportunities are reported by suitably qualified and experienced in-house FRICS/MRICS (Fellow/Member of the Royal Institution of Chartered Surveyors) professionals, in risk matrix as Appendix 2. This matrix provides analysis of a set of key investment criteria against which every prospective purchase is evaluated. The presentation of information highlights fundamental matters such as macro/micro location economics, tenant covenant strength, lease length, building quality and alternative uses in a transparent and consistent format, to support clear scrutiny and decisions.
- 12.2. The risk matrix provides a basis for scoring and weighting risk, to support the analysis of potential acquisitions and qualify overall suitability for inclusion in the wider portfolio. A minimum score threshold is set, below which it is not recommended to proceed unless there are significant factors that require consideration, to include additional regeneration opportunities for the Council, land assembly opportunities or other circumstances that can be suitably justified from a social and environmental perspective.

- 12.3. The score threshold is not an absolute, but set to guide decisions, reflecting the Fund structure objectives, as detailed in the CPIS (Appendix 1), which assumes a low risk profile. The process is further supported by the inclusion of a Strength, Weakness, Opportunities, and Threats analysis (SWOT).
- 12.4. To ensure arms-length objectivity and scrutiny, external agents and consultants provide professional market analysis, specialist data and advice, to support the evaluation and internal reporting process. The risk matrix and SWOT analysis is undertaken by the Council's retained external agent and consultants, with officer input and scrutiny.
- 12.5. Tenant default is a significant threat to performance. This risk has previously been reviewed through undertaking in-house reports such as CreditSafe and/or Dun and Bradstreet, with further internal scrutiny from the in-house financial team.
- 12.6. Where proportional, it is recommended that this process is furthered to include third party advice from an accountant to provide an in-depth analysis of a tenant's financial health, business operations and future performance. Where value-add or opportunistic acquisitions are identified, an additional outline business and financial case will be prepared and shared at Stage 2 below and shared in Stage 4 as part of the relevant consultation process.
- 12.7. If a decision is made to proceed, in-house surveyors lead negotiations, via the introducing/retained external agents, who are professional property firms with relevant market specialism and RICS regulated.
- 12.8. To ensure independent and expert advice and scrutiny, all pre-sale technical due diligence is undertaken by arms-length external professional advisors, including as required:
 - A valuation, in accordance with the RICS Red Book, Professional Valuation Standards, issued by the RICS as part of their commitment to promoting and supporting high standards in valuation delivery worldwide. The publication details mandatory practices for RICS members undertaking valuation services.
 - A Building Survey report, as part of the proposed purchase for investment purposes, including preparation of a Reinstatement Cost Assessment for insurance purposes.
 - Environmental, services and any further surveys/technical due diligence required to qualify the investment.

- Specialist investment market advice, including, as required, occupational market context and financial modelling to qualify and forecast prospective investment performance.

- 12.9. The above is reviewed by the Property and Investment Manager as an experienced in-house FRICS (Fellow of the Royal Institute of Chartered Surveyors) professional, with support from the internal multi-disciplinary property teams, for final decision by the Assistant Director of Place & Economy, on whether to proceed.
- 12.10. The professional team including the Assistant Director of Place & Economy receives regular updates on market activity, trends, forecasts and occupier activity from RICS firms and in-house surveyors to support the decision process. In addition, Cabinet Members holding the Regeneration portfolios are regularly updated on SPIF performance.

13. Property Investment Governance

- 13.1. Clear, robust and transparent governance is critical to the strategy, meeting the statutory guidance and ensuring an appropriate level of due diligence and scrutiny is applied, together with objective arms-length external advice where appropriate. It is also important to ensure any decision process retains fluidity, so officers are empowered to respond promptly and competitively, to investment opportunities in the market and avoid missing opportunities through delay.
- 13.2. The current Scheme of Delegations provides that the authority to acquire or dispose of land, is vested in the Assistant Director of Place & Economy, and where the asset is purchased through the SPIF, the delegation is only exercisable in consultation with the relevant Leader, Executive Member for Resources and the Chief Financial Officer.
- 13.3. A formalised staged governance approach is adopted in relation to SPIF purchases, as follows:

Stage 1 Officers identify suitable opportunities in the market, having undertaken appropriate investigative and due diligence assessment, in accordance with the above “Investment Evaluation Process”.

Stage 2 The opportunity is reported in writing, with all supporting information as detailed in the “Investment Evaluation Process”, to the

Head of Major Projects and Investment, in consultation with the Chief Financial Officer/s151 officer, notifying the Head of Legal Services, Director for the Economy and Chief Executive.

The report will include:

- A risk matrix and SWOT analysis
- A financial appraisal
- An outline business case where the opportunity is a 'value add' or 'opportunistic' and likely to require additional capital expenditure
- A summary of the investment, including a request for authority to bind the Council to a range of terms and indicating an acceptable price point for the acquisition.
- A consideration of any tenant, use or asset from an Environmental, Social and Governance perspective,

If the proposal is supported, the potential acquisition will progress to Stage 3.

Stage 3 The Property and Investment Team will progress negotiations, with the retained external agent, seeking to formally agree Heads of Terms with the vendor, including price and basis/terms of acquisition. If negotiations lead to the agreement of acceptable terms, final approval to proceed will be sought in accordance with Stage 4.

Stage 4 A recommendation will be reported in writing to the Assistant Director for Place & Economy t. In making any decision to purchase, the Assistant Director will carry out a consultation, as provided for in the Scheme of Officer Delegations, with the relevant Council Leader, Executive Member for Resources and Chief Financial Officer.

- 13.4. The relevant Council for any acquisition will be determined, applying the principles in the Investment Strategy (Appendix 1) in relation to financial resilience and risk diversification requirements, to support the development of balanced portfolios.
- 13.5. Subject to approval, written authority to proceed, will be provided by the Assistant Director for Place & Economy to the Property and Investment Manager, who will then seek to acquire the asset, which will be subject to an external Red Book valuation, building and other

necessary surveys and legal reports and conveyancing, providing satisfactory pre-acquisition due diligence.

- 13.6. A decision notice will be completed and published in accordance with the Officer Decision Making Protocol, and such decisions will be subject to the call-in provisions.

Stage 5 Completed purchases will be reported as part of the Annual Review, or through the following year's Commercial Property Investment Strategy to JSC.

14. Risk Management

- 14.1. Property investment will necessitate exposure to risk. Risk is in effect two fold - specific risks, arising from the nature of particular assets, or systemic risks - risks that are fundamental to the investment market and reliance upon property investments for commercial returns.
- 14.2. Financial risk is notably evident whereby the total invested can exceed the current Market Value. Prices are prone to fluctuation, particularly due to changes in the locality, the general economic outlook, or asset specific risks, such as tenant failure. Furthermore, property investment is relatively illiquid, requiring a longer term approach. In the event of a market crash, property is much less liquid than other assets and can be hard to sell and may present risk to income and servicing of debt requirements.
- 14.3. The Councils' exposure to risk equates to the total amount of capital invested, plus financing costs (such as interest due on loans), property operational running costs (management, vacant business rates, service charges, professional fees etc.) and legislative compliance. The Councils' risk quantum will be defined as this total exposure, less the value of held assets.
- 14.4. Whilst risk is a natural, necessary, part of investment that cannot be eliminated, it can be proactively managed.
- 14.5. Larger investment funds have greater overall exposure but tend to be better insulated to market fluctuations where they comprise a diverse mix of strong performing assets.
- 14.6. The SPIF is built upon a series of conventional measures to manage risk, reflecting the key objective:

“To adopt a structured and measured approach to property income generation, pro-actively managing the risk inherent to investment, creating a balanced portfolio delivering long term sustainable income, for the purpose of supporting the continued provision of Council Services.”

- 14.7. The CPIS (Appendix 1) objectives and Fund policy build upon this key objective, providing a series of controls to direct the investment strategy towards a prudent low risk Fund with a cautious perspective on investment, limiting exposure to unnecessary capital risk, whilst generating a return.
- 14.8. In reviewing this strategy, the investment direction has been expanded to include value add and opportunistic investments, where within the functional economic area, additional value can be quantified through social, economic or environmental benefit to the Councils’ objectives.
- 14.9. Financing property investments has typically been based upon utilising reserves, capital receipts and borrowing. Borrowing is currently available with fixed interest for the duration of any loan, (albeit subject to much more stringent criteria than previous) via the PWLB Funding, mitigating the risk associated with exposure to interest rate fluctuations.
- 14.10. The Minimum Revenue Provision Policy (part of the treasury management strategy statement) details the Council’s position and deals with the Minimum Revenue Provision (MRP) that must be made to mitigate that risk. The MRP is the amount the Councils must set aside each year from the annual revenue budget for the repayment of debt.
- 14.11. The CPIS (Appendix 1) details a series of measures to guide decisions, based around spreading capital across a variety of asset classes, locations and sectors. This diversification reduces the risks of exposure to a single asset, tenant, or sector failure, that are excessively concentrated in one particular sector or region increase risk, whilst a good spread of properties across asset classes, diversify systematic risk and varying the locality, reduces local market risk.
- 14.12. As a result of re-focusing investment within the functional economic area, the Council’s risk profile to local market risk will be increased due to the reduction in geographical spread of investments and higher allocation to our functional economic area. However, where investments are local, the Council is able to take a longer term view

with regards to future growth and opportunities, specifically where an assets current use is facing economic, physical or functional obsolescence and requires regeneration, economic support and placemaking more generally.

- 14.13. The average property size was typically a measure to ensure the Fund does not only hold a very small number of large properties, which increases risk, such as a single large tenant failing whilst maintaining an efficiency of management. Whilst the funds have historically moved to increase the Fund size, targeting larger lot sizes in order to maintain the same level of net return to the Council, officers feel that due to the locational restrictions on lending and typical lot size for prospective assets within our economic functional area, the average lot size is adjusted to between £2m - £10m but with scope to increase to up to £25m for exceptional opportunities.
- 14.14. Investments should still focus on a diverse mix of single and multi-let tenanted properties to spread the income security. The Council's exposure to investment risk can also be profiled by defining the acceptable parameters. The CPIS (Appendix 1) Fund Structure details a series of different segments that provide a basis for dividing property investments, based upon their position at differing points on the risk versus return spectrum.
- 14.15. The ability to vary the distribution of purchases between each of the above three categories, is a common portfolio investment tool. This provides flexibility to respond fluidly to opportunities and changes in the economy, market climate and differing performance across asset classes, as the Fund evolves. Such agility is key to maximising operational efficiencies and opportunities will continue to be evaluated on a case by case basis.
- 14.16. This portfolio profile has favoured acquiring premises leased to strong covenant tenants in established markets, which are typically more attractive to investors, thus easier to sell if required, when compared to higher risk investments which attract a different type of investor. If the portfolio expands into the value-add and opportunistic spheres, investments will become less liquid so a greater level of scrutiny is required through the business cases for individual opportunities to ensure proposals are financially robust and can be delivered within an appropriate timeframe. This is why officers have updated the acquisition process and further reporting to ensure that a robust risk management process is in place.

- 14.17. Officers have sought to ensure the Councils' robust risk management procedures are fit for purpose, in particular as a result of the 'stress test' applied to the portfolio as a result of the Covid-19 Pandemic. Whilst it is clear that the impact of the pandemic will continue to be felt and markets will flex and change to meet this, it is important that the Councils continue to adjust their risk management procedures in order to respond to this.

15. Annual Performance Monitoring

- 15.1. Active management of the portfolio is key to proactively maintain the buildings to maximise value, monitor occupiers and capitalise in favourable market conditions which maximise capital receipts. Tenant covenant strength, compliance with lease obligations, such as repair and maintenance, management of the payment of rent and service charge are actively managed. External managing agents (Savills) are appointed and the portfolio is led by the Property Investment Manager, a FRICS qualified professional with experience in institutional level commercial property investments.
- 15.2. Additional recommendations within last year's report were to expand the investment management Fund reporting to include total return outputs to measure the income and capital return from portfolio at inception to each future financial year showing accumulative and annual performance. In the event Officers have altered the reporting tools for Members given we are income driven and focusing on that metric, i.e. actual cash returns.
- 15.3. Officers have instead worked up appropriate metrics for the different types of investments arranged in 'Tiers'. This means a focus on reporting for the SPIFs, the second tier investments, then community assets, as a more measured and appropriate basis of reporting and ultimately resource allocation for different property classes. Officers report regularly to the appropriate Portfolio Holders,

16. Corporate Implications

- 16.1. If the Councils had not taken the decision to invest, this would have led to an overall reduction in the capacity of the Councils to deliver, with

cuts in services, particularly those we are not under a statutory duty to deliver.

- 16.2. The capital value and income from the funds assets will go down as well as up. There is no guarantee that the Fund will achieve its objectives and Council returns less than originally invested.
- 16.3. The additional income delivered from SPIF investments has contributed to the delivery of the Revenue Budget and is a core element of future budgets. It supports the delivery of the budget strategy, helping to manage pressures arising in-year due to unforeseen circumstances.
- 16.4. As part of this initiative, the Councils inevitably took on more risk, so a robust risk management strategy has been adopted to cover both acquiring property and managing the portfolio for the future, to ensure that there is sufficient revenue income, to repay the debts the Councils are acquiring and to continue to contribute to the Councils' financial health.

17. Engagement and Communication

- 17.1. This report builds upon the previous year's CPIS.
- 17.2. Consultations have taken place with legal and finance and their comments are contained within;

18. Financial Implications

- 18.1. The Councils have, over the past few years, addressed significant budget shortfalls. The investment in commercial property has provided a net contribution to the budget for both councils.
- 18.2. Looking ahead, this investment continues to be an important strand of the budget strategy, contributing to the budget as the Councils continue to address significant financial challenges.
- 18.3. The Councils approved an overall investment of £125m per Council, however following capital programme reviews the available budget has been reduced. This does not preclude the councils from making such investments in the future, however they will need to be considered through full governance in order to make the capital budget available.

The below table gives a summary of spend to date which has been spent or allocated as follows:

Investment Spend by Year	Adur £'000	Worthing £'000
2016/17 Actual	-	-
2017/18 Actual	11,579	-
2018/19 Actual	26,532	26,697
2019/20 Actual	44,298	45,047
2020/21 Actual	-	-
2021/22 Actual	-	-
2022/23 Actual**	-	22,483
2023/24 Actual	-	-
2024/25 Actual	-	-
-Allocated to projects	-	-
-Unallocated	-	-
Virements to other invest to save schemes outside SPIF	-	28,771
Total investments	82,409	122,998

*Figures include purchase costs

** The purchase of Southern House was made using the approved SPIF capital budget but is held for socio-economic reasons.

- 18.4. The Executive Member for Resources can approve an accelerated spend in any given year subject to the provision of a business case to justify a higher level of spend.
- 18.5. It is recommended where possible the Councils continue to seek to retain a property risk reserve to be used to smooth volatility in costs associated with future expenditure on repairs, refurbishment, lettings incentives, and void periods. To achieve this the Council has the following measures in place:
- i) A regular contribution to earmarked reserves is budgeted with the intention of building a balance that equates to 10 - 20% of annual rental income over 5-10 years;

- ii) Any over-achievement against the commercial income budget set will be placed into earmarked reserves at the year end where affordable within the overall outturn position for the council;
- iii) Where commercial properties are disposed of, all the surplus income in excess of any associated debt and the original purchase price, will be placed into a specific reserve for future capital investment requirements. In the short term, this reflects the need to build reserves to support the management of risks associated with the portfolios. In the medium term, it is envisaged these funds could also be released for reinvestment into the portfolios.

18.6. Currently the annual provision for the management of voids and future maintenance is £850k for Adur and £750k for Worthing

19. Legal Implications

- 19.1. S.111 Local Government Act 1972 provides Councils with the power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions.”
- 19.2. Section 120 (1) Local Government Act 1972 provides the Council with the power to acquire land, whether inside their area or not, for the benefit, improvement or development of their area. Section 1 Local Government Act 2003 enables the Councils to borrow money for the purpose of the prudent management of its financial affairs. Section 12 Local Government Act 2003 empowers the Councils to invest for the purposes of the prudent management of its financial affairs.
- 19.3. s.1 of the Localism Act 2011 provides the Councils with the general power of competence to do anything that an individual may do.
- 19.4. The Scheme of Officer Delegations includes the following delegation to the Assistant Director Regenerative Development at paragraph 3.10.2: “To acquire land in connection with the Council’s functions and to take leases, easements, licences and wayleaves of, in, or over buildings or land in connection with the Council’s functions. (Where acquisition of land is purchased through the Strategic Investment Fund, the

delegation is to be exercised in consultation with the Leader, Executive Member for Resources and the Chief Financial Officer).

- 19.5. The Officer Decision Making Protocol in each Council's Constitution provides a procedure for giving notice of key decisions, Officer Decision making, the publication of Decision Notices, and the procedure for Call-In of such decisions.
- 19.6. Any decisions made to acquire under the Strategic Investment Strategy are subject to scrutiny by the Council's Joint Overview and Scrutiny Committee in accordance with the Joint Overview and Scrutiny Procedure Rules in each Council's Constitutions.

Background Papers

- March 2020 JSC report
 - Strategic Property Investment Fund 2020 (SPIF)
 - The Commercial Property Investment Strategy (CPIS 2020-2021)
- Ministry for Housing Communities and Local Government (MHCLG) February 2018 publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes
- The Prudential Code for Capital Finances In Local Authorities
- The Chartered Institute of Public Finance and Accountancy: Prudential Property Investment
- National Audit Office: Ministry of Housing, Communities & Local Government Local authority investment in commercial property
- Costar Insight - Local Authority Investment

1. Economic

- This proposal continues the implementation of the Council's capital and Medium Term Financial Strategy to generate additional revenue for the Funding of Council services.

2. Social

2.1 Social Value

- Matter Considered, no issues identified

2.2 Equality Issues

- Matter Considered, no issues identified.

2.3 Community Safety Issues (Section 17)

- Matter Considered, no issues identified.

2.4 Human Rights Issues

Matter Considered, no issues identified.

3. Environmental

- Matter Considered, no issues identified.

4. Governance

- This aligns with the Council's capital strategy. Investment in good quality commercial property to produce additional revenue is part of a combined strategy in the Councils' approved budget strategy.

Appendix 1

Link to CPIS for 2025/2026

<https://docs.google.com/document/d/1x3YLkPwmiTgbf5LYgeR0MbuXweG4yqmx/edit>