

Investment Indicators

Appendix 3A

Security

The Council considers a property investment to be secure if its accounting valuation is at or higher than the amount of debt currently outstanding for the asset.

Security Indicator

Property Purchases	2018/19 actual £'000	2019/20 actual £'000	2020/21 actual £'000	2021/22 forecast £'000	2022/23 forecast £'000
Asset Valuations	210,484	201,401	197,566	197,566	197,566
Debt Outstanding	205,706	203,674	201,580	199,418	197,180
Security Value	4,778	(2,441)	(4,014)	(1,865)	386

This indicator has fallen from 2018/19 as asset valuations have fallen, although the Council has continued to make prudent provision for the repayment of debt. This indicator is forecast to improve as the Council's policy on the repayment of debt increases the security value over time.

Fluctuations in value are common, as valuations are predominantly market driven and the Covid 19 pandemic caused a reduction in valuations over the last 2 financial years, and also due to a general decline in the retail sector over a similar period which has reduced some values however in the main, the retail within the Council's property portfolio is not high risk and falls into the subsectors which are less affected by the current market changes.

Valuations are also impacted by the age of the Council's property portfolio. As the Council has acquired assets, these are often reduced in value in the initial years after purchase, as associated costs from the purchase such as stamp duty and professional fees are discounted when valued but remain within the debt outstanding figure. The effect of this is reduced over time due to the Council's policy on the repayment of debt.

The condition of the Council's property portfolio is closely monitored by the asset management team, and the cost of maintaining the buildings is covered both by the maintenance reserve seen later in this appendix, as well as through repairing leases, whereby tenants are responsible for keeping the buildings they occupy in good condition. This ensures fluctuations are market driven, rather than impairments due to a building being in disrepair.

The Council currently has no plans for the sale of its portfolio and has actively engaged with tenants during the pandemic to ensure the security of income, as can be seen from the yield indicators later in this appendix.

Liquidity

Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice. Therefore, in order to assess liquidity, the Council monitors the income stream attached to properties, a much more liquid asset, comparing budgets to forecasts and actuals.

Liquidity Indicator

Revenue Income from Properties	2020/21 actual £'000	2021/22 forecast £'000	2022/23 budget £'000
Budget	10,941	12,546	12,400
Actual/Forecast at Year End	10,818	12,546	n/a
Percentage Attained	98.9%	100%	n/a

Yield

The Council monitors property yields both prior to purchase and post purchase, to ensure the portfolio makes a financial surplus.

Yield Indicator

Property Purchases Yield	2019/20 %	2021/22 %	2022/23 %
Gross Yield	6.56%	6.84%	6.85%

Service Investment – Loans

The Council also monitors and reports on the outstanding balance and potential loss allowances applied to service investment loans. This will ensure that appropriate action can be taken should the loss allowance begin to rise.

Limit and loss allowance indicator

Category of Borrower	31/03/2021 actual			2022/23
	Balance Outstanding £'000	Loss Allowance £'000	Net Figure in Accounts £'000	Approved Limit £'000
Subsidiaries	24,500	0	22,500	43,100
Businesses	2,500	0	2,500	8,000
Local Residents – Mortgages	8	0	8	8
Employees – Loans	117	0	117	30% of employee salary
Total	27,125	0	27,125	

Commercial Investments - Voids and Maintenance

As described in the main Appendix, each purchase by the Council makes allowance for funds to be transferred to reserves at the end of each financial year to cover unforeseen void and maintenance costs. To ensure these reserves are maintained to the correct level, balances will be regularly reported as part of the Prudential Indicators. These balances will also be monitored through the Medium Term Financial Plan and Budget setting processes, and both overall balances of these reserves, and individual property balances will be assessed to ensure they continue to provide the correct level of risk management.

Void and Maintenance Reserve Indicator

Property Reserves	2020/21 actual £'000	2021/22 forecast £'000	2022/23 budget £'000
Void Reserve	2,472	2,863	3,254
Maintenance Reserve	1,154	1,487	1,821
Total Reserve	3,626	4,350	5,075

Commercial Investments – Vacancy Levels

Monitoring vacancy levels (voids) ensures the property portfolio is being managed effectively (including marketing and tenant relations) to ensure the portfolio is as productive as possible

Vacancy Level Indicator

Vacancy Levels	2018/19 actual	2019/20 actual	2020/21 actual
Square Footage Vacant	5362 Sq Feet	3298 Sq Feet	10,249 Sq Feet
% of lettable properties	0.52%	0.32%	1.00%

In addition, the performance of the property portfolio and its impact on reserves is monitored quarterly as part of the Property Performance report.