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Coventry City Council

Minutes of the Meeting of Cabinet held at 2.00 pm on Tuesday, 13 June 2017

Present:

Members: Councillor Duggins (Chair)
Councillor L Bigham
Councillor K Caan
Councillor J Innes
Councillor A Khan
Councillor J Mutton
Councillor J O'Boyle
Councillor Ruane

Deputy Cabinet Members Councillor P Akhtar
Councillor R Ali
Councillor B Kaur
Councillor R Lakha
Councillor C Thomas

Non-Voting Opposition Members: Councillor A Andrews
Councillor G Ridley

Employees (by Directorate):

Apologies: Councillor F Abbott

Public Business

1. Declarations of Interest

There were no disclosable pecuniary interests.

2. Minutes

The minutes of the meeting held on 11th April 2017 were agreed and signed as a true record.

There were no matters arising.

3. Exclusion of Press And Public

RESOLVED that the Cabinet agrees to exclude the press and public under Sections 100(A)(4) of the Local Government Act 1972 relating to the private report in minute 8 below headed "Unit 1 Dutton Road, Aldermans Green Industrial Estate, Coventry – Investment Acquisition" on the grounds that the report involves the likely disclosure of information defined in Paragraph 3 of Schedule 12A of the Act, as it contains information relating to the financial affairs of a particular person (including the authority holding that information) and in all circumstances of the case, the public interest in

maintaining the exemption outweighs the public interest in disclosing the information.

4. Revenue and Capital Outturn 2016/17

The Cabinet considered a report of the Director of Finance and Corporate Services, which set out the final revenue and capital outturn position for 2016/17 and reviewed treasury management activity and 2016/17 Prudential Indicators under the Prudential Code for Capital Finance.

The Cabinet noted that the Audit and Procurement Committee would also be considering the report at their meeting on 26th June 2017.

The report indicated that the overall financial position included a revenue overspend of £0.7m, which was required to be funded by a contribution from the Council reserves. At quarter 3 there had been a projected overspend of £4.8m and the report identified the underlying movements between quarter 3 and outturn which had resulted in an overall underlying net underspend of £4.1m in the final quarter and led to the overall overspend of £0.7m.

The Cabinet were advised that, consistent with the approval of the programme of staffing reductions approved by them in November 2015, £6.7m of costs had been incurred as a result of early retirement and voluntary redundancy decisions.

There had been a Capital Programme expenditure of £71m, which was £52m less than envisaged at the start of the year. The quarter 3 monitoring report to Cabinet on 21st February 2017 approved a revised capital budget of £81m for 2016/17. Since then, there had been a net programme increase of £1.3 giving a final budget for the year of £82.3m. Since February, a total of £12.5m net rescheduled spending had arisen on directorate capital programmes. The report provided a scheme by scheme analysis of the rescheduling and accelerated spend.

The report sought retrospective approval for a change to the Capital Programme, reflecting final scheme costs on the completed Whitley Infrastructure, Friargate Bridgedeck and South West Coventry Junction Improvement schemes delivered by Costain.

There was also a reduction in the level of Council revenue reserves from £57m to £51m and an increase in balances held relating to capital grants and capital receipts to fund future projects from £12m to £30m. Table 2 of the report provided a summary of reserve movements during the year.

In relation to Treasury Management Activity, the report indicated that political uncertainty had been the main driver of the economic landscape during 2016/17. Uncertainty over the outcome of the US Presidential election and the UK's future relationship with the EU resulted in significant market volatility during the year. UK Inflation continued to be subdued in the first half of 2016/17, however, a sharp fall in the Sterling exchange following the EU referendum had an impact on import prices which resulted in inflation rising from 0.3% in April 2016 to 2.3% in March 2017. Despite this uncertainty, the UK GDP grew steadily during the year and the unemployment rate dropped to 4.7% in February, its lowest level in 11 years. The fall out from the EU Referendum also caused the Bank of England Base rate to be

cut to 0.25% from 0.5%. Current forecasts expected the base rate to stay at 0.25% until at least June 2020, with a further reduction to close to zero more likely than a rate rise in the meantime.

Given the interest rates provided by the Public Works Loans Board, it continued to be cheaper for local authorities to use short rather than long term funds for financing. At outturn, the Capital Financing Requirement, which indicated the authority's underlying need to borrow for capital purposes, had reduced by £11m. No new long term borrowing was taken out during 2016/17, however, some borrowing would be required in the future to support current expenditure plans and the need for any such borrowing would be kept under review in 2017/18.

Appendix 3 of the report submitted set out the ratio of financing costs to Net Revenue Stream, highlighting the revenue impact of the capital programme. This showed the Council's revenue costs of financing its capital expenditure as a proportion of its income from Government grant and Council Tax. The actual was 13.09% against a forecast of 14.03% in the Treasury Management Strategy. This reflected a lower level of borrowing than anticipated to fund the Capital Programme and higher levels of investment balances. The Appendix also provided Capital and Treasury Management Related Prudential Indicators, including authorised limit for external debt; operational boundary for external debt; gross debt v "Year 3" capital financing requirement; and debt maturity structure, interest rate exposure and investments longer than 364 days.

RESOLVED that the Cabinet:

- 1. Approve the final revenue outturn position of a £0.7m overspend, balanced to nil by a £0.7m contribution from Corporate reserves.**
- 2. Approve the final capital expenditure and resourcing position, incorporating expenditure of £71m against a final budget of £82.3m; £12.5m expenditure rescheduled into 2017/18 and a net over-spend of £1.3m**
- 3. Give retrospective approval for a £1m4m virement reflecting final unfunded scheme costs on the completed Whitley Infrastructure, Friargate Bridgedeck and South West Coventry Junction Improvement schemes.**
- 4. Approve the outturn Prudential Indicators position as set out in section 2.4.4 and Appendix 3 of the report submitted.**
- 5. Unit 1 Dutton Road, Aldermans Green Industrial Estate, Coventry - Investment Acquisition**

The Cabinet considered a report of the Deputy Chief Executive (Place) which set out proposals for the acquisition of an income producing industrial property investment.

A corresponding private report detailing confidential aspects of the proposals was also submitted to the meeting for consideration.

The Council was currently looking at ways of increasing revenue to support the provision of services it seeks to deliver.

An opportunity had been presented to the Council to acquire an income producing investment within one of the City's established industrial estates.

The investment currently produced an income, the level of which was considered commercially sensitive and was therefore outlined in the corresponding private report.

Personal Hygiene Services Limited ("PHS"), who occupies the premises and pays the rent, was part of a national company with a turnover of £280M in 2015/16. They had approximately 7 years left on their current lease.

The Council already owned the land upon which the building was constructed but granted a lease dated 13th September 1989 for a term of 99 years with effect from 20th May 1989 in respect of the industrial site at Dutton Road, Aldermans Green Industrial Estate, Coventry. The long leasehold interest, which received the rent from PHS, was currently owned by Real Estate Investors PLC (REI). REI currently paid the Council an annual ground rent for the land.

Real Estate Investors had indicated a willingness to sell its leasehold interest to the Council, subject to the existing lease to PHS and therefore the right to receive the annual rent for a negotiated price. Stamp Duty Land Tax would be payable by the Council in addition to the purchase price.

The initial net return on the investment was assessed at circa 8.8% after assumed purchasing costs. This would be reduced to a return of 8.0% based on the net rental increase for the Council as it already received a ground rent from the property.

The level of return generated was based on the level of risk associated with the length of lease and the security of the income. The negotiated price had been validated by external property experts as providing 'best value' for the Council.

It was intended that the property would be held by the Council as an investment asset and managed by the Council's Commercial Property Management.

RESOLVED that the Cabinet:-

- 1. Approve the terms for the acquisition of the leasehold interest in 1 Dutton Road, subject to the current tenancy for the price outlined in the corresponding report plus Stamp Duty Land Tax.**
- 2. Delegate authority to the Deputy Chief Executive (Place) (Legal Services) to complete the necessary legal documentation.**
- 3. Delegate authority to the Deputy Chief Executive (Place) in consultation with the Cabinet Member for Jobs and Regeneration, for any subsequent variation in terms.**

4. **Recommends that the Council approve the adjustment of the Capital Programme to reflect the capital expenditure incurred in the acquisition of the long leasehold interest in Unit 1, Dutton Road.**

6. **Outstanding Issues**

The Cabinet considered a report of the Deputy Chief Executive (Place) that listed an outstanding issue and summarised the current position of the item.

RESOLVED that the Cabinet approves the date for future consideration of the outstanding issue item listed in the report.

7. **Any other items of public business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

There were no other items of public business.

8. **Unit 1 Dutton Road, Aldermans Green Industrial Estate, Coventry - Investment Acquisition**

Further to Minute 5 above, the Cabinet considered a private report of the Deputy Chief Executive (Place) that set out confidential aspects of proposals for the acquisition of an income producing industrial property investment.

RESOLVED that the Cabinet:

1. **Approve the terms for the acquisition of the leasehold interest in 1 Dutton Road subject to the current tenancy for the sum indicated within the report plus Stamp Duty Land Tax.**
2. **Delegate authority to the Deputy Chief Executive (Place) (Legal Services) to complete the necessary legal documentation.**
3. **Delegate authority to the Deputy Chief Executive (Place) in consultation with the Cabinet Member for Jobs and Regeneration, for any subsequent variation in terms.**
4. **Recommend that the Council approve the adjustment of the Capital Programme to reflect the capital expenditure incurred in the acquisition of the long leasehold interest in Unit 1 Dutton Road.**

9. **Any other items of private business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

There were no other items of private business.

(Meeting closed at 2.15 pm)

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