

Report for: INFORMATION
Item Number: 08



Contains Confidential or Exempt Information	NO – Part I Except for Annexes which are Part II - Not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.)
Title	Investment in Private Residential Rented Property
Responsible Officer(s)	Nick Greenwood
Contact officer, job title and phone number	Nick Greenwood Pension Fund Manager 01628 796701
Member reporting	n/a
For Consideration By	Berkshire Pension Fund and Pension Fund Advisory Panels
Date to be Considered	20 January 2014
Implementation Date if Not Called In	n/a
Affected Wards	None
Keywords/Index	<i>Pensions, Investment, Property</i>

Report Summary

1. This report updates Members on discussions that the Pension Fund Manager has had with various parties regarding possible investment by the Pension Fund in private sector rented residential property. It also reports on a legal review of a fund structure to hold any such investments that the Fund may make.
2. It recommends that Officers are authorised to incorporate “Blue Swan Residential Property”.
3. These recommendations are being made because the Fund should have the ability to act promptly when presented with suitable investment opportunities.
4. If adopted, the key financial implication for the Fund is a budgeted cost of £45k to incorporate the General Partner and a Scottish Limited Partnership to hold future residential investments and £20k for producing pro-forma documents for joint venture vehicles.

If recommendations are adopted, how will residents, fund members and other stakeholders benefit?

Benefits to residents, fund members and other stakeholders and reasons why they will benefit	Dates by which they can expect to notice a difference
1. Investment in privately rented residential property offers the potential for a rising income stream and capital appreciation to assist the Fund in meeting its liabilities	On-going
2. Investing via a Scottish Limited Partnership is a efficient way of maintaining tax transparency and offers flexibility in accessing opportunities	On-going

1. Details of Recommendations

RECOMMENDATION: That:

- i. Panel note the progress made to date
- ii. Panel authorise Officers to request RBWM as the administering authority to incorporate the General Partner as a limited liability company and a Scottish Limited Partnership (in which the Fund would be the sole Limited Partner), and prepare limited partnership agreements, memoranda and articles of association for use by joint venture vehicles.

2. Reason for Recommendation(s) and Options Considered

The Pension Fund Manager has held meetings with the following parties:

Housing Association A – this Housing Association is very keen to work with the Pension Fund on the basis that they have the expertise to develop and manage such investments. They are currently looking at a number of projects in Berkshire and will revert when further details are available.

Housing Association B – this Housing Association regards the Fund as a potential source of finance but believes that debt is a cheaper option. Nevertheless they see the attraction of having the Fund as an equity partner and will revert with any project they are willing to consider with a third party as an equity stakeholder.

Housing Association C – an introductory meeting was held on January 14th after these papers were distributed to Members. The Pension Fund Manager will update Members at the meeting.

Local Authority D – this Local Authority continues to develop its housing stock largely through its own development subsidiary. Their current focus is on social and affordable housing but they have passed on contact details of organisations who may be interested in developing private rented residential accommodation.

Developer E – this organisation has recently purchased a large site within one of the unitary authority’s development areas. Preliminary contact has been made.

Developer F – this organisation is seeking to raise £150 million for a residential property fund focussed on the South East. They have suggested three ways in which they could assist us:

- i) The Pension Fund becomes the seed investor in their fund
- ii) They build a Berkshire centric portfolio specifically for the Fund
- iii) The Fund purchases an interest in a diversified portfolio (190 units spread across 7 locations in the South East) which would provide the Fund with a “core” well diversified portfolio.

Accessing the Investment Opportunity

Officers have taken legal and tax advice from Osborne Clarke a London and Bristol based legal firm who have a team specialising in advising on the structuring and incorporation of investment funds.

Osborne Clarke recommend that the Fund becomes the limited partner in a Scottish Limited Partnership (“SLP”) formed specifically to invest in private rented residential property projects. This route is the most efficient for tax purposes (the Limited Partnership can collect income from the projects and distribute to the Limited Partner without deducting tax since each partner is responsible for its own tax affairs).

The SLP will require a General Partner who is responsible for managing the partnership and making investment decisions. These decisions would be based on the recommendation of Pension Fund staff and the Pension Fund Panel. Individual projects would be held by the SLP via project specific special purpose vehicles. These vehicles could either be limited partnerships or limited liability companies.

Officers recommend that the General Partner, which should be a limited liability company, be owned by the Council (as the administering authority for the Fund) but it can not be held as an asset of the Fund. It is further recommended that the GP company receives no income or profit share but it will be able to deduct its expenses (negligible) against income before it is distributed to the Fund.

Option	Comments
Use an English Limited Partnership to hold the investments	Not recommended – an English Limited Partnership may not invest in other Limited Partnerships. Investments in residential projects could then only be via limited companies which would pay Corporation Tax on trading profits and reduce the income available to the Pension Fund.
Use an English Limited Liability Partnership to hold the investments	Not recommended – there are complex tax issues if a English Limited Liability Partnership invests in property and again this would reduce income (and realised gains in the long-run) available to the Fund.
Use a Limited Liability Company to hold the investments	Not recommended – a limited liability company pays corporation tax on trading profits reducing the income available to the Pension fund.
Use a Scottish Limited Partnership to hold the investments.	Recommended – a Scottish Limited Partnership can hold interests in other Limited Partnerships so this route is the most transparent for tax purposes and maximises the return for the Fund.

3. Key Implications

Not Applicable.

4. Financial Details

a) Financial impact on the budget

The anticipated costs are

	£000
Incorporating General Partner	8-12
Incorporating Scottish Limited Partnership	28-35
Pro-forma JV agreements	15-30
Incorporating JV's	1 plus fees incurred in signing documents (negotiating changes to terms etc)

5. Legal Implications

A Legal and Tax review was prepared by Osborne Clarke for the Fund. Investment in Limited Partnerships is permitted under the Local Government Pension Scheme Regulations.

6. Value For Money

Competitive quotes for preparing the report and incorporating the investment vehicle were obtained.

7. Sustainability Impact Appraisal

At this stage not applicable but individual projects will be subject to such appraisals.

8. Risk Management

Risks	Uncontrolled Risk	Controls	Controlled Risk
Income seepage	Pay unreclaimable tax on income and gains	Use Limited Partnerships to hold investments whenever possible	Overarching investment vehicle is a Scottish Limited Partnership to retain maximum tax transparency and maximise returns.

9. Links to Strategic Objectives

Residents First

- Improve the Environment, Economy and Transport

Value for Money

- Deliver Economic Services
- Invest in the future

Delivering Together

- Strengthen Partnerships

10. Equalities, Human Rights and Community Cohesion

Not Applicable

11. Staffing/Workforce and Accommodation implications:

None

12. Property and Assets

None

13. Any other implications:

None

14. Consultation

The Chairman and Vice Chairman were consulted prior to Officers commissioning the legal report on the preferred investment fund structure.

15. Timetable for Implementation

Key steps will be the incorporation of the General Partner followed by the completion of the Limited Partnership Agreement.

16. Appendices

Annex 1 (Part II) – details of the parties with which discussions have been initiated.

Annex 2 and 3 (Part II) – outline details of Developer F's proposals.

17. Background Information

Not Applicable