Public Document Pack

To:
All members of the Council

Please reply to:
Contact: Gillian Hobbs
Service: Committee Services
Direct line: 01784 446240
E-mail: g.hobbs@spelthorne.gov.uk
Date: 5 April 2016

Supplementary Agenda

Extraordinary Council - Thursday, 7 April 2016

Dear Councillor

I enclose the following items which were marked 'to follow' on the agenda for the Extraordinary Council meeting to be held on Thursday, 7 April 2016:

3.	**Request for Supplementary Capital Estimate for property acquisition**	**1 - 12**

To consider a request for a supplementary Capital estimate, as set out in the joint report of the Regeneration Manager and Joint Head of Asset Management in relation to acquisition of properties in the Borough.

It may be necessary during discussion of this item to move the exclusion of the Press/Public, in view of the likely disclosure of exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006.

Yours sincerely

Gillian Hobbs
Corporate Governance

Spelthorne Borough Council, Council Offices, Knowle Green

Staines-upon-Thames TW18 1XB

www.spelthorne.gov.uk customer.services@spelthorne.gov.uk telephone 01784 451499

To the members of the Council

Councillors:

M.M. Attewell
C.B. Barnard
R.O. Barratt
I.J. Beardsmore
S.J. Burkmar
S. Capes
R. Chandler
C.A. Davis
S.M. Doran
S.A. Dunn
Q.R. Edgington
T.J.M. Evans
K. Flurry
P.C. Forbes-Forsyth
M.P.C. Francis (Mayor)
C.M. Frazer
A.E. Friday
N.J. Gething
A.L. Griffiths
A.C. Harman
I.T.E. Harvey
N. Islam
A.T. Jones
J.G. Kavanagh
V.J. Leighton
M.J. Madams
A.J. Mitchell
S.C. Mooney
D. Patel
J.M. Pinkerton OBE
O. Rybinski
D. Saliagopoulos
J.R. Sexton
R.W. Sider BEM
R.A. Smith-Ainsley
B.B. Spoor
H.A. Thomson
H.R.D. Williams

EXTRAORDINARY COUNCIL

07 April 2016

SPELTHORNE BOROUGH COUNCIL

Title	Supplementary Capital Estimate for property acquisitions		
Purpose of the report	To make a Key Decision		
Report Author	Heather Morgan, Staines upon Thames Regeneration Manager Catherine Munro, Joint Head of Asset Management		
Cabinet Member	Councillor Ian Harvey	**Confidential**	Report No Appendices Yes
Corporate Priority	Value for money Council		
Cabinet Values	Community and Self-Reliance		
Recommendations	**Council is asked:** **To approve supplementary capital expenditure for property acquisitions of up to £29m for 2016/17 (for service provision - specifically for affordable housing and emergency accommodation, economic and social regeneration or to generate an on-going income stream)** **To agree the revised set of prudential indicators which include the operational boundary and authorised limit for external debt (Appendix 2)**		

1. Key issues

Background

1.1 The Council is part way through implementing a wide reaching transformation programme - known as 'Towards a Sustainable Future' (TaSF). There are three strands: (1) use of assets and income generation (2) Knowle Green programme and new ways of working (3) structural review. This report links to assets and income generation, but also considers how to help to alleviate the increasing pressures being placed on affordable housing provision, and the rising costs of assisting homeless families.

1.2 The TaSF programme has been developed to ensure Spelthorne Borough Council is in a strong position to withstand the coming financial challenges. Since 2013/14 the Councils Revenue Support Grant (RSG) has fallen from £2.5m and stands at £580k for 2016/17. This financial year is the last year that the Council will receive RSG. Beyond this, the Council may well be responsible for paying back up to an estimated £750,000 each year to central government.

1.3 As part of its TaSF strategy, the Council has said that it effectively needs to be fully self-financing by 2020 in order to continue to deliver the services that it currently provides.

1.4 The reductions in RSG have been on-going for a number of years, and this, combined with the need to 'stand on our own two feet' financially, means it is imperative that the Council focuses on the most effective ways of increasing on-going income streams. One of the identified ways of doing this is through property investment and the Council previously allowed the Cabinet a fund of £6m to advance this policy. In the meantime, whilst trying to build additional sources of revenue income, the Council has experienced escalating revenue pressure resulting from the increased costs of dealing with the number of households who are either homeless or at risk of becoming homeless.

1.5 The Council now has an opportunity to address both issues through acquisition of properties which will provide income and capital growth and at the same time assist with its service delivery and rising costs. In order to achieve this, the capital fund which has previously been provided needs to be reviewed.

1.6 In March, several significant property opportunities arose which were not on the horizon at the time the budget was set. These will enable us to provide much needed affordable housing in the borough (issues are set out in more detail in paragraphs 1.10 – 1.14 inclusive). There may also be other opportunities further down the line.

1.7 The purpose of this report is therefore to request a supplementary capital estimate to cover the above, and future opportunities.

Current budget position on acquisitions

1.8 In February 2016, whilst setting the budget, the Council approved a Capital Programme for asset acquisitions of £6m for 2016/17. This allows the Council to acquire assets to (1) assist in the economic and social regeneration of Staines upon Thames and our other town centres (2) to assist in service provision and/or (3) to generate an on-going income stream.

1.9 The Council also has at its disposal £1.1m which remains from a £2m budget (2015/16) which was set up specifically to acquire assets to deliver more affordable housing.

Housing

<u>Affordable housing</u>

1.10 Local Housing Authorities continue to face a series of challenges in responding to housing demand and preventing homelessness, particularly in high value areas like Surrey. Spelthorne has the added dimension of being bordered by three London Boroughs all of which have extensive housing need and problems with homelessness of their own. Accessing the housing market in Surrey is challenging given the affordability ratios in the County are up to 14 times an average income.

1.11 There are currently around 1,400 families on the Housing Register. The Council only receives around 180 – 230 re-lets each year out of a total social housing stock of around 5,500 units. Changes in government legislation regarding under occupation mean that the demand for two bedroomed properties has increased dramatically in the last 12 – 18 months, whilst three and four beds have dropped.

1.12 The number of re-lets however does not match total demand. Whilst increasing efforts are made to secure accommodation for people, the provision of new social housing and private rented sector units is a crucial element in 'bridging' the demand gap.

Homelessness and B&B

1.13 In 2014/15 more than 1,300 households approached Spelthorne's Housing Options Team for advice on homelessness and prevention. Prevention is essential to reducing the statutory responsibility of assisting priority households with accommodation.

1.14 There are currently 74 families in bed and breakfast (B&B), but this figure has been as high as 104 (Aug 2015). B&B is not a long term acceptable alternative to a stable home. Currently accommodation is provided in Spelthorne, East Berkshire and West London. Placing 'out of borough' adds further complication. Not only does it reduce the support available from any near-by family members and friends but it also hampers the Council because it has ongoing duties towards these families which have to be met, such as: complying with our responsibilities to assist with child protection monitoring, mental health support and monitoring of vulnerable adults. These are all more difficult for the Council when we have to move families out of the local area.

1.15 The cost of providing (B&B) in 2015/16 will be circa £450,000 net (£6,000 per family per year). The need for B&B depends in part on the number of new affordable units coming on line. The number of families requiring this type of accommodation is very likely to increase in future years due to limited new supply.

Asset opportunities

1.16 As a Council, we need to be able to respond promptly to opportunities that arise in the property market. We are competing against commercial developers who are building in the borough.

1.17 Two properties in the borough have recently come to the attention of officers. If the Council wishes to acquire them, they may provide accommodation for homeless families, an income stream to the Council and an opportunity to increase our asset base. If acquired, they will require conversion and refurbishment and these have been built into the estimates of the increases the capital required. Details of the properties are set out in **confidential Appendix 1**. Given the market interest in the properties it is necessary to restrict public access to the considerations of the expenditure which the Council is currently considering.

1.18 If the Council is to really effect 'meaningful change' and increase income streams, then the acquisition of these two properties by themselves will not achieve all the income growth the Council requires. Other schemes will still be required. The Council needs to be in a clear position to act on any opportunities presented by the market and make decisions promptly. Whilst it is not possible to say with any high degree of certainty where these new opportunities might arise in the borough and the likely costs involved, officers suggest an increased figure (set out below but more fully explained in **confidential Appendix 1**) is made available for this purpose. This will enable

Cabinet to consider sites in the knowledge that the capital is there in principle (subject to Cabinet approval to spend subject to usual call-in provisions etc).

2. Options analysis and proposal

Options

<u>Option 1</u>

2.1 To agree a capital estimate of £29m for 2016/17 (£29m being the difference between the £35m required and the £6m already committed in the budget) in order to acquire and refurbish the two buildings referred to in **confidential Appendix 1**. The remaining capital will be used for acquiring additional properties/sites to aid service provision (affordable housing), economic and/or social regeneration or other prudent purchases to bring in income streams. The £1.1m carry forward from 2015/16 will be added to this sum.

2.2 To agree borrowing up to £29m for the reasons set out above.

<u>Option 2</u>

2.3 To agree a lower capital estimate of £15m (being the difference between the estimated £21m required and the £6m already committed in the budget) purely for the acquisition and refurbishment of the two properties referred to in **confidential Appendix 1**.

<u>Option 3</u>

2.4 Not to agree any supplementary capital estimate (and keep to the £6m allocated in the budget).

Risks

<u>Option 1</u>

2.5 The main risks to the Council are in purchasing properties which (i) fail to appreciate in value at a sufficient rate, or at all (ii) cost more to deliver than they yield in income or (iii) prove unsuitable for the service they are designed to deliver. These risks will be covered by the Cabinet in deciding if and how to spend the capital. Cabinet will consider how to hold the properties (it is proposed they are held by a council owned property company) and the business cases for each individual project.

<u>Option 2</u>

2.6 There is the risk that we are unsuccessful in acquiring these properties and that we therefore we do not need to exercise the authority to borrow up to the authorised limit. Both properties have short timescales for completion and if the Council cannot acquire them then the money will be un-used.

2.7 Authorisation for £21m will not enable the Council to buy other suitable properties which come on the market. This will severely restrict our ability to move quickly to assist in alleviating affordable housing pressures, and to secure on-going income streams.

<u>Option 3</u>

2.8 The risk is that the Council will lose the opportunity to buy these two properties for the time being and the Council will have to identify new schemes and bring new funding requirements back to Council.

2.9 In turn, the Council will be less able to address its pressing affordable housing needs in the short and medium term.

2.10 There would be very limited opportunities to secure on-going income streams to help the Council's aim of being self-financing by 2020.

Proposal

2.11 ***It is recommended that a supplementary capital estimate of £29m for 2016/17 is agreed.***

3. Financial implications

3.1 Councils are in a strong financial position to acquire property due to their ability to access capital, coupled with the low cost of borrowing (for example Spelthorne can borrow at 1- 2% depending on the amount and length of a loan, whereas a developer would be likely to pay 5 - 6%). The Council is able to borrow from a wide variety of sources including the Public Works Loan Board and inter authority lending.

3.2 It makes financial sense to borrow money at these rates rather than using the Councils own capital, which is currently achieving an average of 5% return when re-invested in property funds. Properties acquired are also likely to appreciate in capital value over time. Depending on the acquisition, there may well be scope either to achieve an on-going rental income stream, or to reduce our out-goings on paying for emergency bed and breakfast accommodation. Detailed financial information is provided in **confidential Appendix 1**.

3.3 Historically this Council has been debt free, as have many others. However, in the current fiscal climate, Councils are increasingly looking to borrow in order to enlarge their property portfolios, whether for income, service provision or regeneration purposes. Over the next two years the collective cumulative borrowing levels of all the Surrey districts and boroughs will reach nearly £2 billion.

3.4 Councils are able to set whatever borrowing limit they judge to be appropriate. However it clearly needs to be prudent and affordable. Importantly, we need to consider carefully the impact of increasing levels of debt, our ability to repay and the increasing interest rates for those repayments.

3.5 Officers have sought advice from our Treasury Management advisors Arlingclose, who are comfortable with the level of borrowing required to sustain a supplementary capital estimate of £29m. It has also been recommended that the funds are not borrowed until any acquisitions are completed and the cash is physically needed. To have this level of flexibility these funds would therefore need to be borrowed initially on a short term basis when required, and then further consideration would be given to accessing longer term funding if deemed appropriate. This decision would be made in conjunction with Arlingclose. Accessing funds on a short term basis is a straightforward process, most probably from another local authority, and funds are readily available at competitive rates.

3.6 As part of the annual budget setting process, officers are required to produce a set of prudential indictors which include the operational boundary and authorised limit for external debt. These therefore need to be revised, and an updated set are included as **Appendix 2** for approval.

3.7 If the additional estimate is agreed, the capital programme will increase in 2016/17 from £16.455 m to £45.455m (reflecting the increase from £6m to £35m set out in this report). As a result, the capital financing requirement and operational boundary for external debt has increased to £42m (this comprises the £35m in this report plus £7m for Council accommodation already in the capital programme). In order to cover unexpected eventualities outside the remit of this specific report and 'just in case' scenarios on cash flow, it is deemed prudent to increase the authorised limit for external debt from £20m to £50m.

4. Other considerations

4.1 Council should note that should the additional capital estimate be agreed, Cabinet will need to consider the proposal to acquire the two properties referred to above, and decide whether to agree to the actual expenditure.

5. Timetable for implementation

5.1 If the additional capital is agreed by Council, then Cabinet will meet immediately after to consider whether to acquire the two properties. This Cabinet report will include a thorough assessment of the opportunities (along with advice from our professional advisors). Only if Cabinet agree to proceed with the acquisitions will any of the additional capita need to be spent.

5.2 The Cabinet report will set out timescales for the acquisitions (should it agree to proceed).

Background papers: None

Appendices:

Appendix 1 contains exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006 Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in the bidding process for the site by allowing other bidders to know the position of the Council. This in turn prejudices the community by (i) distorting the bids process and (ii) prejudicing the opportunity for the community to acquire a site through the Council for the social, environmental and economic benefit of the borough.

Appendix 1 - Financial information on the properties under consideration
Appendix 2 - Prudential Indicators Statement 2016/17

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Prudential Indicators Statement 2016/17

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Council's planned capital expenditure may be summarised as follows. Further detail is provided in Appendix 1.

Capital Expenditure and Financing	2015/16 Revised £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's
Gross Expenditure	1,995	45,455	406	406

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.16 Revised £000's	31.03.17 Estimate £000's	31.03.18 Estimate £000's	31.03.19 Estimate £000's
Total CFR	0	42,000	42,000	42,000

The CFR is forecast to increase during 2016/17 as any significant capital expenditure on replacement Council accommodation and other asset acquisitions will be financed by debt.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.16 Revised £000's	31.03.17 Estimate £000's	31.03.18 Estimate £000's	31.03.19 Estimate £000's
Total Debt	0	42,000	42,000	42,000

Total debt is expected to increase in line with the CFR requirement in 2016/17 and maintain at that level in future years.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2015/16 Revised £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's
Total Debt	4,000	42,000	42,000	42,000

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 Revised £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's
Total Debt	12,000	50,000	50,000	50,000

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Revised %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	(4.64)	(8.43)	(11.04)	(10.77)

The ratios for Spelthorne are currently negative because the Council's investment income exceeds the cost of borrowing. This position is expected to improve further in the Council's favour in future years, due to interest rates for borrowing being at historically low levels and the significant levels of capital receipts the Council is expecting in 2016/17. These will be re-invested and are expected to provide an annual return of at least 4%.

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact looks at the loss of interest which could be generated on the funds being used to finance the proposed capital programme.

Incremental Impact of Capital Investment Decisions	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**
Proposed Capital Programme	45,455,000	406,200	406,200
Estimated Interest earned on short term investments	0.50%	0.75%	1.00%
Estimated Tax Base	38,308	38,691	39,078
Incremental Impact on Band D Council Tax	5.93	0.08	0.10

Adoption of the CIPFA Treasury Management Code: The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition at its meeting on 24th January 2012.

Annual Minimum Revenue Provision Statement 2015/16

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

The Council expects that its Capital Financing Requirement will be nil on 31st March 2016 and in line with the CLG Guidance it will therefore charge no MRP in 2016/17.

Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.

This page is intentionally left blank