COUNCIL

21 July 2016

Title	Investment acquisitions in the Borough
Purpose of the report	To make a decision
Report Author	Terry Collier, Chief Finance Officer Heather Morgan, Group Head Regeneration and Growth
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 an additional supplementary capital estimate for property acquisitions within the Borough of £400m for 2016/17 to support the economic development and well-being of the borough and investment purposes** **To agree the revised set of prudential indicators which include increasing the operational boundary and authorised limit for external debt (Appendix 3)** **To confirm the Council's Minimum Revenue Provision policy to ensure prudent provision is made to cover repayment of loans (Appendix 3)**

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.

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 £580,000 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.

1.5 A number of significant opportunities have arisen around the borough which will (if acquired) (i) allow the Council to secure the economic well-being of the borough and also (ii) bring in a substantial on-going income stream from investment assets. In order to be able to bid for these opportunities, Council need to:

(a) Agree a substantial supplementary capital estimate to enable the Council to grasp a number of opportunities within the Borough, and future opportunities

(b) Agree a revised set of prudential indicators which include increasing the operational boundary and authorised limit for external debt

(c) Confirm the Council's Minimum Revenue Provision policy to ensure prudent provision is made to cover repayment of loans

Current budget position on acquisitions

1.6 In April 2016, the Council approved a revised Capital Programme for asset acquisitions of £45.455m 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.

Asset opportunities

1.7 As a Council, we need to be able to respond promptly to opportunities that arise in the property market. We are competing alongside commercial developers who are building in the borough, as well as institutional investors who are looking to acquire and hold sites for the medium to long term (for pensions/annuities).

1.8 A number of significant opportunities have arisen around the borough which would (if acquired) secure assets capable of generating considerable levels of income, increase our asset base and enable the Council to support the on-going economic well-being of the borough.

1.9 Details of one particular investment opportunity are set out in **confidential Appendix 1**. Given the likely market interest in the opportunity it is necessary to restrict public access to the considerations of the expenditure which the Council is currently considering.

1.10 Collectively, these opportunities will enable the Council to effect 'meaningful change' in the borough, and increase income streams. However, the Council does not necessarily wish to limit itself to these alone, and is considering developing a broad portfolio to achieve the required income growth. Other schemes may 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 available in principle (subject to normal council procedures on Key Decisions and Cabinet approval to spend being subject to the usual call-in provisions etc).

2. Options analysis and proposal

Option 1 - in order to acquire a number of significant opportunities which have arisen around the borough referred to in **confidential Appendix 1** a supplementary capital estimate is required. The remaining capital will be used for acquiring additional properties/sites to aid service provision (affordable housing), economic and/or social regeneration or facilitate other prudent purchases to bring in income streams. To agree to borrowing of up to £442m for the reasons set out above.

Furthermore, as a result of the capital financing requirement, Council needs to agree that the operational boundary for external debt is increased up to £500m. Finally, Council need to agree the Minimum Revenue Provision (MRP) policy that the Council will be applying.

Risks

<u>Option 1</u>

2.1 The main risk to the Council is in purchasing an opportunity which (i) fails to appreciate in value at a sufficient rate, or at all (ii) costs more to manage than it yields in income or (iii) proves unsuitable for the service it is 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, and the business cases for each individual project.

Proposal

2.2 ***It is recommended:***

(a) ***that a supplementary capital estimate of £400m for 2016/17 is agreed.***

(b) ***that revised set of prudential indicators which include increasing the operational boundary and authorised limit for external debt are agreed***

(c) ***that the Council's Minimum Revenue Provision policy to ensure prudent provision is made to cover repayment of loans is confirmed***

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 2.25 to 2.75% long term at fixed rates from the

Public Works Loans Board (effectively the Bank of England) depending on the amount and length of a loan, whereas a developer would be likely to pay 5 - 6%). The Council is also able to borrow at cheaper rates from other councils.

3.2 It makes financial sense to borrow money at these rates rather than using the Council's own capital, which in the most recent financial year achieved an average of more than 5% return when re-invested in property funds. Whilst there may be some short term fluctuations associated with the UK Brexit decision, properties acquired are likely to appreciate in capital value over the longer term. Depending on the acquisition, there will be scope to achieve an on-going rental income stream. 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 risk of increasing interest rates for those repayments.

3.5 Officers have sought advice from our Treasury Management advisors Arlingclose on a range of issues. They have confirmed they are comfortable with the level of borrowing required to sustain a supplementary capital estimate of £400m to acquire income generating assets (**Appendix 2**). It has also been recommended that the funds are not borrowed until any acquisitions are completed and the cash is physically needed.

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 3** for approval.

3.7 If the additional estimate is agreed, the capital programme will increase in 2016/17 from £45.455m to £445.455m. As a result, the capital financing requirement and operational boundary for external debt has increased to £500m. 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 to £550m.

3.8 The Council will make appropriate Minimum Revenue Provision (MRP) deductions from the Revenue Budget on an annual basis to ensure sufficient sums are set aside to enable the Council to repay loans incurred on their maturity. The Council's Treasury Management advisers Arlingclose have provided advice on the most effective way to structure these MRP deductions. **Appendix 3** sets out the MRP policy the Council will be applying.

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 investment opportunity 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 one specific investment opportunity which requires an urgent decision. 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 this or any other acquisitions will any of the additional capital need to be spent.

5.2 The Cabinet report will set out timescales for this acquisition (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 opportunity under consideration
Appendix 2 – Correspondence from Councils Treasury Management Advisors
Appendix 3 - Prudential Indicators Statement 2016/17