

Cabinet

21 December 2016



Title	Supplementary Capital Estimate for property acquisitions in the Borough		
Purpose of the report	To make a recommendation to Council on a Key Decision		
Report Author	Terry Collier, Chief Finance Officer		
Cabinet Member	Councillor Ian Harvey	Confidential	No
Corporate Priority	Value for money Council		
Cabinet Values	Community and Self-Reliance		
Recommendations	Cabinet is asked to recommend Council: To approve a supplementary capital estimate for property acquisitions within the Borough of £80m for remainder of 2016/17		
Reason for recommendation	Due to the scale of funding reductions facing the Council and additional pressures in areas such as housing and recycling, the Council needs to continue to acquire assets which both support the economic development and well-being of the Borough and provide an investment income for the Council.		

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. The Council has made good progress in addressing these challenges. Since 2013/14 the Council's Revenue Support Grant (RSG) has fallen from £2.5m and stands at £580,000 for 2016/17. The current 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 2019-20 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.
- 1.5 Earlier this year the Council successfully bid for BP International Campus at Sunbury a key economic asset within the Borough which will provide a long term net (after interest, principal repayments etc) income stream for the Council in excess of £3m per annum. Whilst this significantly enhances the Council's financial sustainability the sheer scale of funding reductions and additional pressures in areas such as housing and recycling means the Council needs to continue to acquire further assets which both support the economic wellbeing of the Borough and provide an investment income for the borough.
- 1.6 The Council is continuing to look for a number of significant opportunities around the borough which if acquired (i) allow the Council to further secure the economic well-being of the borough and also (ii) bring in additional 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

Current budget position on acquisitions

- 1.7 In July 2016, the Council approved a revised Capital Programme for asset acquisitions of £446.2m 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

- 1.8 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 and other councils who are looking to acquire and hold sites for the medium to long term (for pensions/annuities/investment streams).
- 1.9 The Council is seeking out a number of further 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.
- 1.10 The Council needs to be in a clear position to act on any opportunities presented by the market and make decisions promptly. The Council believes it is particularly important to seek to pursue further opportunities as quickly as possible before the interest rates the Council is able to access rise significantly.

2. Options analysis and proposal

Option 1 - in order to be in a position to acquire a number of significant opportunities as they may arise around the borough a supplementary capital estimate is required. .

Risks

Option 1

- 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:***
that a supplementary capital estimate of £80m 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 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.
- 3.3 Historically, until the recent BP deal, 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 exceed £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. The supplementary estimate requested is within the borrowing limits agreed by Council in July and our Treasury Management adviser remain comfortable with the level of borrowing required to sustain a supplementary capital estimate of £80m to acquire income generating assets.

If the additional estimate is agreed, the Capital Programme will increase in 2016/17 from £446.2m to £526.2m.

4. Other considerations

There are none.

5. Timetable for implementation

- 5.1 If the additional capital is agreed by Council, then Cabinet will be in a position to meet to approve further acquisitions proposals as they arise. Cabinet reports on acquisition proposals will include a thorough assessment of the opportunities (along with advice from our professional advisors). Only if Cabinet agree to proceed with 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