Historical Background

After the financial crash in 2008 and the austerity imposed on local authorities since 2010, the Council received less and less general revenue grant from government to support its Revenue Budget for the provision of services to residents. Over the years from 2008 to 2016, the Council made savings/income of about £8m or equivalent to 54% of the net 2008/09 budget.

Although no cuts were made to front-line services during this time, the gradual reduction of staff from front-line and support services, did have an impact on the Council's operations. It is fair to say that by 2014 the gradual "salami slicing" of the Budget had reached a stage where some services were becoming unsustainable. The Council launched a programme "Towards a Sustainable Future" with different strands aiming to make a difference to the Council's longer-term finances:

- Investing in property
- Continuing to maximise returns on its financial investments
- Investigating different ways of delivering council services through partnerships and companies/public sector mutuals
- Restructuring the Council

In addition to this ambitious plan, in 2016, a change in administration set a new priority for the Council: provision of much-needed affordable housing for residents. It was against this background of needing to make big changes and find new sources of funding to tackle big social issues, that in 2016 the Council had an opportunity to purchase the BP Campus in Sunbury.

Until 2016, the Council's most significant investment asset was the freehold of the Elmsleigh Shopping Centre in Staines upon Thames. The Council receives a 13.445% share of profits from the shop rents, but the difficult financial trading environment in the retail sector since 2008 had reduced our income from the Elmsleigh Centre.

Against this reducing income the Council had made savings across the Council whilst at the same time it had protected frontline services for residents. However the financial landscape meant that further government cuts and changes to business rates meant that the savings requirements were still there. Protecting front-line services was becoming harder. Acquiring the BP Campus in September 2016 brought about a significant change in the Council's finances.

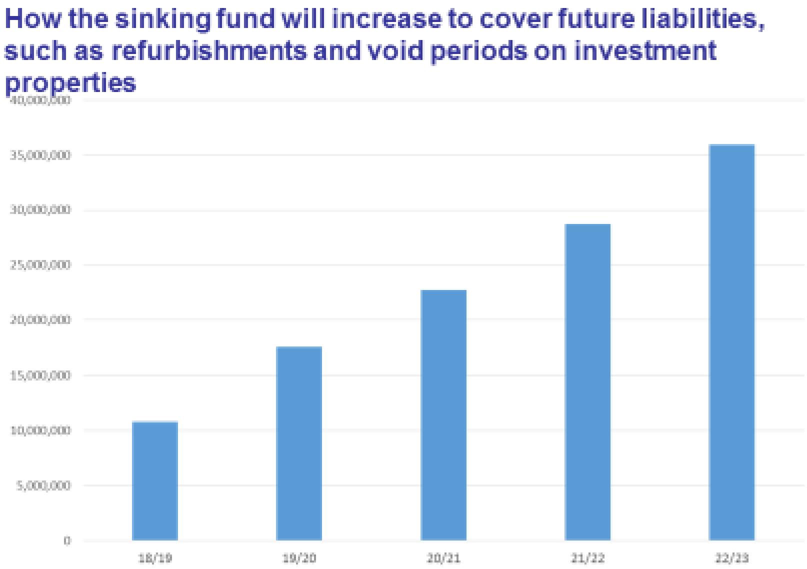
BP campus

This transaction is worth a special mention because it is so significant that it has on-going importance. The chance to purchase the BP Campus was a once in a generation opportunity. BP has been in Sunbury for 100 years. Its campus was significantly enlarged and improved in 1990s. BP wanted to sell its campus to raise money, in return, it would sign a lease on the premises for 20 years, guarantee increases in rent and provide a parent company guarantee. In a separate transaction shortly afterwards, the Council also purchased research buildings on the same campus (known as the south-west corner).

The combined purchase price of the Campus was £380m, which the Council borrowed with a number of 50 year loans (by taking 50 loans out rather than one single loan the Council saved a significant amount of money) from the Public Works Loans Board (PWLB). The PWLB is a government agency which exists to provide funding to public bodies for capital projects. The interest payable on these loans was fixed at the time the loans were taken out at extremely low rates of interest. Statutory guidance from the Secretary of State and CIPFA governs the way that councils can borrow and how they must repay the money they have borrowed. In taking out this finance, the Council was advised by leading professional practices so that the decision was based on robust due diligence. The Council repays these loans on what is called a “fully prudential basis”, i.e. like a repayment mortgage it repays the principal loan alongside the interest as it goes along.

The significance of the BP acquisition is that it made a big contribution to council finances even after:

- Repaying the loans and interest
- Setting aside money for the management costs of the buildings (which are well constructed and well maintained by the tenants)
- Setting aside a sinking fund for refurbishment or redevelopment costs when the lease ends. This also provides a cushion to protect against potential periods between tenants leaving and new tenants starting to pay rent



The additional income provides significant funding on a long term ongoing basis to offset the loss of general Revenue Support Grant and to reverse the impacts of the previous years's salami slicing which was beginning to put the sustainability of services at risk

Longer term strategy for the BP Campus

With the leases for BP running for 20 years and with the finance running for 50 years, the obvious risk for the Council is that BP may give up its lease at the end of the contract. The Council considered that a number of likely alternative uses were highly probable; use as another business park with one or more tenants; redevelopment as housing or a use related to the near-by airport. It has already started the work of reviewing the options available at the end of the lease with a view to looking to the long-term uses for the site.

Diversification of the portfolio

Although the BP acquisition went a substantial way to stabilising the finances of the Council, a number of factors meant that the Council had to consider further acquisitions:

- The need to ensure that “not all the eggs were in one basket”
- Government policy to remove all council general grants
- Government policy to introduce negative grant allocations

Why the Council continued to invest in property after the BP deal

Residents will understand from recent newspaper headlines that many local authorities are having to cut services in order to adjust to the austerity measures imposed by the government budgets of since 2010. One council in Northamptonshire has already failed and questions have been asked about the sustainability of other local authorities including Surrey County Council and others. The National Audit Office has reported on the financial sustainability of local authorities in 2018. It is fair to say that there is, within local government, a major change to the way in which it was financed.

The BP acquisition provided a very helpful opportunity for the Council to stop making cuts and to put itself back onto a more sustainable footing. We have not had to make cuts in services because we have had better finances than most councils.

From 2016 to 2018 the focus of the Council was on achieving financial sustainability and making investments in order to bolster its revenue budget by deploying surplus income from investing in commercial property. This strategy has been successful and the 2019/20 budget of the Council will include around £10 million of net income for the revenue budget which is derived from successful investments made by the Council since the acquisition of BP in 2016.