

# Spelthorne Borough Council

## Review of debt/investment risk profile

### July 2023

A Report by:

The Chartered Institute of Public Finance and Accountancy

July 2023

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This review was undertaken in March 2023, and all of the information gathered, and the data analysed by CIPFA was correct at the time of writing this report. The data provided in this report has been reproduced with the permission of the council and is derived from various council reports.

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# 1 Executive summary

This report for the Department for Levelling Up, Housing and Communities (DLUHC), examines Spelthorne Borough Council's (SBC) indebtedness. We have looked at the overall position, the associated challenges, and the council's capacity to manage them. The background, DLUHC's requirement and our approach are set out in section 1. Our work has identified several areas of concern.

In section 2, we examine SBC's indebtedness position and the associated risks in detail. The council's c.£1 billion commercial property portfolio is managed in a reasonably professional and proactive manner. However, the portfolio has an anticipated 50-year lifespan. It would benefit from a more long-term management approach. This should be characterised by clear strategic principles and underpinned by assessments of the interplay of net income, building specification, maintenance, and prudential saving. It should also feature a sensibly managed approach to disposals.

Alongside the portfolio, SBC has ambitious affordable housing plans. These plans represent £325.2 million of borrowing over the next four years. The council's approach is problematic. SBC's position is such that it will seemingly face exacting challenges and serious costs whether it proceeds with these housing plans or discontinues them altogether. The plans require an immediate and detailed review.

The expansion of SBC's risk profile represented by the affordable housing programme cannot be divorced from the fact that the council already has high indebtedness owing to the commercial portfolio. These factors in turn have implications for the management of the revenue budget, the sinking fund, reserves and the overall Medium Term Financial Plan (MTFP) position.

There are also concerns about the council's capacity to manage this array of challenges, examined in detail in section 3. Finance is shorthanded, internal audit arguably so. There are potential long-term sustainability challenges even in the management resources for commercial property. We have noted issues in the recent decisions around the affordable housing scheme, specifically around process and oversight, as well as the timeliness of the financial information and its integration with wider budget reporting. In any case, the history of SBC's approach to affordable housing is not encouraging in terms of the current programme's prospects for delivery. There are governance issues in SBC affecting the quality, transparency and consistency of decision-making, not aided by the council's precarious political composition. There are conflicts of interest, which although transparent and declared may impair effective decision-making.

Given these factors, we have set out a series of recommendations in section 4. We believe that SBC needs additional resources to move forward effectively. **We recommend that DLUHC should deploy expert independent support into SBC to assist the council with its immediate and ongoing financial challenges.** These experts would establish a **programme team** to put in place a series of **risk mitigations**. We have suggested eight areas of mitigation, including an immediate review of the affordable housing plans, the agreement of strict borrowing limits, a fundamental assessment of the management of the commercial portfolio and a thorough examination of the Council's governance and decision-making culture.

## 2 Introduction

### 2.1 Background

Since May 2022, DLUHC has been working with and monitoring several councils with high levels of indebtedness relative to their revenue budgets, reserves or Council Tax base. Spelthorne Borough Council (SBC) is one such council.

Working with partners, CIPFA is leading a programme of DLUHC-commissioned reviews to examine the financial management and sustainability of selected councils. As part of this programme, in early 2023, the Department asked CIPFA to review the debt conditions and management arrangements in SBC.

### 2.2 Requirement

Following an initial 2-day 'triage' assessment of each of the affected authorities, conducted in January/February, CIPFA and the Department concluded that each council required a substantial review. A further 29-day investigation was allocated to each council. Work was to be undertaken in February and March 2023, and draft investigations and findings presented to the Department, subject to any unavoidable constraints, by the end of the week beginning 20 March 2023.

Emailing the authorities to advise them of project commencement, DLUHC summarised the review work as follows:

#### **Objectives**

First, to assess the level of risk that the council is exposed to due to its current debt and investment profile and future capital plans. In assessing this, the review should consider both the inherent risk and the council's arrangements to manage risk. The review must consider the forward position of the council and the level of risk to financial stability due to sensitivity to changes in future assumptions.

Secondly, to include as part of the considerations of the review whether it is appropriate and necessary for the council to take actions to reduce its risk (for example, by reducing debt), and the options by which the council may do this and the viability of such options. The report should provide recommendations that can reasonably inform the government's and council's consideration of further actions.

The focus of the review is intended to be on the financial risks arising due to the council's investment and debt profile; we expect the review to consider other elements of the council's finances so far as they are relevant.

#### **Review areas**

The review will cover, but is not limited to, the following main areas in pursuit of the above objectives:

1. An assessment of the council's financial risk due to its profile of investments and debt (current and planned). Investments includes both financial and non-financial investments (property) that generate commercial income. This is not limited to investments purely or primarily for profit. The review is expected to take a risk-based approach and identify and focus on those investments which present the highest potential financial risk (by value, complexity or sensitivity).

2. An assessment of the council's capacity, capability and arrangements for managing its investment and debt risks, and whether these are sufficient and appropriate for the council's activity. Review Area 1 sets out a review of the council's inherent risk exposure, the intent of Review Area 2 is to assess the council's arrangements to manage and mitigate its risk position.
3. An assessment of actions the council can reasonably take to reduce its debt and commercial exposure, or other actions it can take, with respect to reducing its overall level of risk over the short, medium and long-term. The government has set out that any actions to reduce capital risk should seek to avoid unintended consequences or risks to value for money. The review should consider options and consider their viability.

During the course of their work, the reviewers may request information, data and interviews they deem appropriate to meet the objectives and cover the review areas. The Department for Levelling Up, Housing and Communities appreciates the co-operation of the council with this review.

## 2.3 Methodology

To address DLUHC's 3 questions, the broad approach was as follows:

### *Desktop analysis*

DLUHC provided an extensive document library. This in turn had largely been supplied to them by the affected councils. We reviewed the SBC material and made supplementary document requests to the council and also examined other relevant materials for purposes of comparison. We would like to record our gratitude to SBC officers for their ready compliance with our requests for reports and data.

### *Specialised inputs*

Some comparative data analyses were conducted on issues such as commercial property, revenue spend, and indebtedness. Where relevant they have been used in the body of the report. The Good Governance Institute conducted a separate light-touch assessment of governance and decision-making in each affected council. Following this, it was decided in SBC's case to conduct a further investigation. Its findings are woven into this narrative.

### *Interviews*

The bulk of the fieldwork comprised interviews. These provided the invaluable 'triangulation' of our analysis. Council officers, members, auditors and other experts were invited to give views and respond to queries provoked by documentary evidence. We would like to thank everyone involved for their courtesy and constructiveness.

### *Report drafting, feedback and fact-checking*

The above inputs were then analysed and subjected to our professional and expert judgement. The result is this report.

The reports belong to DLUHC and are thus submitted 'sight unseen' from the viewpoint of the affected councils. Nevertheless, we have kept SBC abreast of our work. Specifically, we have made them aware of what to expect from our conclusions, in particular those set out in Section 4 of this report, to minimise 'surprises'.

We have also endeavoured to fact-check figures and their implications with the affected authorities. It is worth sharing, however, several limitations on this checking.

In SBC's case, the lead investigator has iteratively checked data and any extrapolations based upon it. Council finance officers have done their utmost to respond. However, the data and associated analysis are inevitably somewhat volatile.

A conventional finance review might examine revenue allocations and outturns for a service with some certainty. Councils might even be able to provide information on capital spending with some assurance, notwithstanding the unpredictability of the construction market, especially where contracts have placed constraints on expenditure. But debt-funded investments are affected by many variables, some changing in real time. This limits the accuracy of any statements concerning them almost from the moment they are set down.

Further, we have encountered challenges relating to complexity. On the one hand, managing large portfolios, comprising perhaps commercial property, regeneration interventions, housing programmes, support for council companies, and even loans to or shares in local enterprise, is a skilled, time-consuming and exacting business. On the other hand, the logistical, delivery and investment problems in one large programme could have knock on effects for other aspects of council business. Either case may create difficulties for council officers in responding to queries. These difficulties have called into question the suitability of 'traditional' council finance professionals, whatever their abilities, as custodians of complex portfolios or multifaceted and far-reaching investment initiatives without extensive expert support.

Fact-checking in SBC's case has been somewhat constrained by emerging complexities associated with a new approach to its affordable housing programme. Nevertheless, the review team is confident that only the most fundamental shifts to the figures cited here would have any material bearing on our recommendations.

## 3 Current and future financial risk profile

### 3.1 Analysis summary

#### **Context**

Between December 2016 and August 2018, Spelthorne Borough Council (SBC) purchased 8 investment properties at a total cost of around £1 billion. These properties were an investment to enable SBC to generate income to support its revenue budget and thus maintain a wide range of discretionary services. At the time, this commercial and entrepreneurial approach was justified as being consistent with government policy.

Total SBC borrowing at 31 December 2022 stood at some £1,096.5 million of which some £1,084 million is from the Public Works Loans Board (PWLB). This borrowing is offset by SBC cash investments of some £127.7 million, leaving initial net borrowing of £968.8 million. The council's investment property portfolio was valued at 31 March 2022 at £916.4 million. This leaves the council with final net borrowing of £52.4 million.

In 2023/24 the council will spend some £60.345 million gross, with a net budget of some £25.170 million before taking into account investment income. Investment income of some £10.832 million contributes towards 43% of this net spending. Together with other income sources and adjustments that leaves some £8.764 million to be met by local taxpayers.

The council's capital spending plans for the years 2023 to 2027 amount to some £446.407 million towards which it intends to borrow a further £332.214 million. £272.704 million of this borrowing is scheduled for the financial years 2024/25 and 2025/26. The council has set its Authorised Limit (the maximum amount of borrowing it can incur) at £1.45 billion for the 4 years. It has projected debt financing costs of some £39.7 million. This equates to 3.2 times its net revenue stream, a key prudential indicator.

#### **What is the level of risk?**

SBC considers its commercial property investments relatively low risk because:

- historically asset values have increased over time. council officers have quoted a figure of 3% appreciation per annum
- there is inherent land value in the sites, which provides options for them to be converted for other industrial or residential uses
- SBC has purchased top grade assets that will always attract prospective tenants
- the properties are located in areas with a high demand for office space.

In addition to the 8 properties in the investment portfolio, SBC has purchased 3 further properties for regeneration purposes. These also produce rental income in the short to medium term.

Deloitte noted in 2020 that these projects increased the risk and complexity of managing the investment portfolio. They commented that:

*Property level risks have increased as SBC have acquired more complex, higher risk properties over time. The first assets purchased were single-let properties requiring less asset management attention. The next tranche of acquisitions were multi-let properties, requiring more management focus. Then three regeneration projects were bought, two development propositions and a shopping centre investment, requiring much higher levels of asset management attention.*

Deloitte Report: Property Portfolio Review – July 2020.



In 2020 the pandemic posed unprecedented challenges to all property portfolios. It is to the council's credit that they managed these effectively, meeting all their obligations and ensuring contributions were made to council services, while paying money into a sinking fund to help offset future risks.

### *Income Risk*

Property portfolios are never risk-free. As physical, comparatively illiquid assets, they are suboptimal in responsiveness to market conditions.

More specific risks related to SBC's portfolio include:

- limited diversification, in that:
  - 95% of properties managed by the council are office buildings
  - 10 tenants account for 75% of lettings income
  - the top 5 account for 62% of income
  - buildings account for 67% of the entire portfolio (source: Asset Management Plan 2020/25)
  - majority of properties are in the Heathrow area
  - one business, BP, provides over £18 million of rental income per annum
  
- lease terms, in that:
  - 47% of leases end within 10 years
  - 94% of leases end within 15 years

The council is aware of these risks and has tried to mitigate them through:

- focusing on high quality tenants:
  - 80% of tenants are considered low risk as they are commercial tenants on long-term leases
  - SBC keeps the credit status of its tenants under regular review
  - SBC carries out extensive due diligence work to establish the credit worthiness of prospective new tenants
  
- a strong track-record on rent collection:
  - SBC collects 99% of all rents due, above the industry norm
  - SBC is proactive in making arrangements with tenants to ensure rent is collected

Although SBC has effective mitigations in place, this cannot provide complete protection. The loss of a major tenant (as has already happened because of the impact of Russia's invasion of Ukraine, which resulted in a £4 million loss, including £2.4 million from the loss of a Russian-owned tenant) can impair commercial income. Over the next 2 years the council faces an income shortfall of some £10 million owing to the loss of key tenants.

Section 2.2 gives additional consideration to income collection for the investment portfolio.

### *Repair Risk*

In the medium to long-term there are also risks related to repairs and maintenance.

Under the terms of their lease, tenants pay a service charge, covering the cost of general repairs and maintenance. They are also required to make good any alterations to their building at the end of their tenancy. Nevertheless, further risks still remain.

- **Reconfiguration of buildings.** When a tenancy ends it may be necessary to reconfigure a building to make it attractive to a new tenant or even to sub-divide the building to attract multiple tenants. SBC would need to meet these costs.
- **Top quality office accommodation.** The council's investment portfolio is focused on delivering top quality office space, which in turn attracts the highest rents and valuation. SBC intends to hold its portfolio for 50 years. So considerable investment in the buildings will be needed over time to ensure they continue to meet the grade, especially as definitions of the very best in office accommodation will change.
- **Mechanical and electrical installations.** 50 years is a very long time to hold a building. During that time key mechanical and electrical works may need to be replaced. It is unlikely that all of this will be covered by a service charge for tenants, typically occupying the building for as little as 5 to 10 years. This risk was highlighted in an early review undertaken by Deloitte, who stated that, '*Offices are capital intensive buildings and the expected useful life of the mechanical and electrical plant, and potentially certain items of building structure, are less than the 50-year term of the acquisition loan; replacement of these items could not be expected through service charge recoveries.*' (Deloitte report 2019.)

The above risks, likely to materialise in the medium to longer term, are of course hard to quantify. However, it does not appear that the council has assessed them as yet.

#### *Valuations*

The council has instructed experts to value its commercial property portfolio on an annual basis. Properties are assessed in line with the Fair Value definition below:

*The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*

Table 1 shows valuations of the investment and regeneration properties.

*Table 1: Investment and Regeneration Properties*

<b>Building</b>	<b>Built</b>	<b>Purchase Price (£m)</b>	<b>Value (£m) 2019</b>	<b>Value (£m) 2020</b>	<b>Value (£m) 2021</b>	<b>Value (£m) 2022</b>
Elmbrook House	1995	7.16	7.46	7.24	7.23	6.25
Roundwood Avenue,	1990	21.40	20.55	20.10	18.34	18.40
WBC 4	2018	47.25	47.00	45.80	46.00	45.10
Hammersmith Grove	2016	170.00	170.80	165.90	162.00	162.00
Charter Building	2016	135.98	135.40	131.20	105.00	99.00
Porter Building	2017	66.47	71.40	69.90	62.00	57.35
Sunbury Business Park	2000/14	384.90	389.08	391.73	393.00	386.80
Thames Tower	1970	119.32	127.20	126.80	113.80	109.84
<b>Total Investment Properties</b>		<b>952.18</b>	<b>968.89</b>	<b>958.67</b>	<b>907.47</b>	<b>882.74</b>
<b>Regeneration Properties</b>			<b>15.40</b>	<b>67.33</b>	<b>55.00</b>	<b>56.55</b>
<b>Total Properties</b>			<b>984.29</b>	<b>1026.00</b>	<b>962.47</b>	<b>939.29</b>

Source: Property Annual Reports. **Notes:** Thames Tower was refurbished in 2017. Regeneration Properties comprise Communications House Staines (Offices £14.7 million), Elmsleigh Centre, Staines (Retail £27.85 million) and The Summit Centre, Sunbury (Offices/Industrial £14 million).

The investment portfolio's value has fallen by some £70 million (7.3%) since initial purchase, the regeneration portfolio by some £11 million. This should be viewed in the context of:

- short-term market disruption as a result of the pandemic and the war in Ukraine
- SBC's long-term (50-year) ownership timescale

Most buildings in the investment portfolio were constructed after 2000, with the exception of the Thames Tower, which was refurbished recently. This provides good assurance around the medium-term longevity of the buildings.

While the Fair Value basis of valuation is reasonable, over time the council should consider valuing the buildings against inherent land value. This could become more appropriate in the long term as SBC may face considerable challenges in:

- re-letting its largest buildings if the current lease terms are not extended
- maintaining buildings at the highest standard to uphold current rental levels
- competition as alternative non-council office sites emerge

SBC has used the same valuers since it purchased its property portfolio. Accordingly, the properties have been valued consistently since then. However, there has not been access to an alternative opinion. It may therefore be good practice to time-limit valuer incumbency in line with procurement best practice.

### *Balancing risks*

There is an inter-relationship between the income, repair and valuation risks.

The sinking fund, put in place by SBC, is intended to manage income fluctuations. But as we shall see it must be sufficient to cover both income and repair risks, so that its depletion in addressing one does not eliminate its scope to address the other.

Valuations may also play an important role in risk management. SBC may need to consider disposal as an option if it cannot viably maintain an asset and purchasers may wish to put land to alternative use. Therefore, SBC will need a wide valuation perspective.

### **Financial resilience risk**

#### *Commercial income dependency*

Commercial income represents a substantial revenue source for SBC. At £10.832 million it offsets some 43% of net revenue spend. This exposes SBC to significant financial risks should anticipated income fail to emerge.

Table 2 shows projected commercial income net of landlord costs as set out in the Asset Management Plan 2020/25, together with projected financing and other charges.

*Table 2: Commercial Income*

	<b>£m</b>	
Interest	23.028	45%
Repayments	11.052	22%
Set Aside (management costs)	0.536	1%
Contribution to Sinking Fund	6.405	13%
Contribution to Council Budget	10.144	20%
<b>Total</b>	<b>51.165</b>	

Source: *Asset Management Plan 2020/25*

A 20% fall in commercial income would mean the commercial portfolio would contribute nothing to revenue budgets unless the sinking fund contribution was scaled back. Indeed a prolonged reduction of 10% in commercial income could result in an ongoing loss of some £5 million income for the revenue budget. A prolonged drop in income of over 33% would mean SBC would also have to contribute to debt costs from revenue budgets.

SBC's net revenue budget for 2023/24 is £25.170 million, before taking into account commercial income. Every 1% drop in net commercial income (£500,000) that is not mitigated by the sinking fund is equivalent to a 2% net budget reduction.

The council does not allocate commercial income to specific services, treating it rather as a 'below the line' adjustment that effectively reduces net service costs. SBC's Asset Management Plan states that commercial income contributes to discretionary services.

*Annually these contribute approximately £10 million net to the council's revenue budget, enabling the council to continue to deliver services that would otherwise have to be cut, including for example such valued services as Meals on Wheels or community centres.*

*(Asset Management Plan 2020/25).*

The Capital Strategy sets out the purpose of the investment portfolio as follows:

*In 2016, the council embarked on an ambitious capital programme with a plan to invest over £1 billion in investment properties, to generate sufficient funds to: (a) Support council services (b) Support the regeneration and transformation of the borough (c) Deliver much needed affordable housing for our younger residents and families in the borough.*

The sinking fund is in part intended to offset sudden reductions in commercial income. The council has contributed to the fund since it purchased investment properties. It now stands at £33.8 million for investment properties with a further £5 million set aside for regeneration properties. SBC plans to withdraw £10 million from the fund over the next 2 years to cover anticipated income shortfalls. (The sinking fund is covered in more detail below and in 2.1.4).

The Revenue Budget includes savings of some £435,000 with further growth of some £975,000, a net service investment of some £550,000. A significant budget deficit of some £9.306 million is projected over the next 3 financial years, as set out in Table 3.

*Table 3: Medium Term Financial Projections*

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
		<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>
<b>Projected Deficit</b>	<b>Nil</b>	<b>3.853</b>	<b>6.339</b>	<b>9.306</b>

Source: *Detailed Budget Report to Council (20<sup>th</sup> February 2023)*

The above projections assume that:

- SBC will continue to capitalise substantial costs of c.£1.2 million in relation to properties purchased for future affordable housing developments
- it will capitalise a further deficit of £400,000 per annum related to Benwell (Phase 2) borrowing costs, which are currently creating a deficit within Knowle Green Estates
- the Business Rates retention scheme will continue in its current form to 2025/26 with associated income of £1.9 million falling to £1.2 million in 2026/27
- investment income will recover after 2024/25 without the need for any further compensatory withdrawal from the sinking fund

Council finance officers have indicated that the Medium Term Financial Plan does not fully reflect the financial implications of SBC decisions on future investment in affordable housing developments following the Extraordinary Council Meeting (ECM) on 2 February 2023. There is potential that this could add further to borrowing costs and adversely impact the budget deficit. SBC has highlighted a significant risk concerning properties already purchased by the council for the developments. The issues are set out in more detail below. But essentially if the developments do not prove viable, SBC would need to recharge capitalised revenue costs of some £8.9 million to the revenue budget.

This would have a major and immediate financial impact, given that SBC’s general revenue reserves currently stand at £2.2 million. Finance officers have indicated that the council would need to use current revenue reserves or the sinking fund to cover the deficit. This would require a council resolution since it would be inconsistent with the sinking fund’s stated purpose. It would impair the fund’s ability to meet the risks to which it is properly dedicated.

Table 4 shows the overall level of SBC reserves.

*Table 4: Council Reserves*

<b>Earmarked Reserves</b>	<b>£'m</b>
Revenue Grants Unapplied	3.689
Capital Fund	1.443
Insurance Fund	0.050
Planned Spending Funds	14.877
Funds for Acquired Properties	33.823
Youth Fund	0.020
Local Environmental Assessment Fund	0.163
Contributions from Developers	9.507
<b>Earmarked Reserves at 31 March 2022</b>	<b>63.372</b>
General Fund Balances	2.002
<b>Total Reserves</b>	<b>65.374</b>

Source: *Draft Statement of Accounts 2021-22*

In addition, the council faces further potential losses of some £18 million if its affordable housing programme is not viable and it has to dispose of properties that it has already purchased. This would further strain reserves and the sinking fund.

Council finance officers recognised the considerable risks within the council's financial plans, when outlining the future reserves strategy:

*“Officers currently have sufficient cash back reserves to manage the council’s affairs and therefore the council is a going concern. However, a reuse of reserves, or a large call on our reserves, would cause grave concern for Officers and council’s ability to remain a going concern.”*

*(Para 2.13 – Capital and Reserves Strategy Report to Corporate Policy and Reserves Committee 16 January 2023)*

At this stage the council has not established clear saving plans or a transformation programme to address the current MTFP deficits. There are digital and shared services initiatives, but they lack projected timescales or worked-up savings targets.

SBC believes it takes a prudent approach to setting budgets and that there is potential for the commercial portfolio to generate additional income, which may help to offset future projected deficits. The Revenue Budget Report approved by council states that, *“Officers will also be working to identify additional cashable service improvements and savings through all the services over the next four years.”*

If the forthcoming assessment of the affordable housing schemes does not find them viable, SBC will have little option but to sell the properties purchased for these schemes. This will place significant pressure on the revenue budget, reserves, and the sinking fund.

The revenue budget also faces further potential pressure from:

- the Sinking Fund Review. This may indicate that the council should set aside more money, reducing contributions to the revenue budget

- increased borrowing costs. The council may need to borrow significant sums over the next two years to complete existing capital programme schemes including a new Leisure Centre with a projected £47 million cost

In summary, the Revenue Budget, already projecting significant deficits over the period of the MTFP, faces further significant pressures, which could further increase the deficit. The council does not as yet have robust plans for managing this challenge.

### **Capital Investment Plans**

The council's Capital Strategy is clear that its future capital expenditure will meet the requirements of the PWLB lending criteria:

*"In September 2021, the PWLB implemented new lending criteria so that councils focus on housing delivery, regeneration, and service delivery projects rather than invest for a return to support services. The council intends to only undertake capital expenditure which relates to these categories."*

*(Para 12.2 Capital Strategy 2023/24)*

The council has significant capital investment plans over the next 4 years which total some £446.607 million as set out in Table 5.

*Table 5: Capital Programme 2023/27*

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
	<b>(£'000s)</b>	<b>(£'000s)</b>	<b>(£'000s)</b>	<b>(£'000s)</b>	<b>(£'000s)</b>
<b>Capital Programme</b>	<b>56.803</b>	<b>148.667</b>	<b>165.152</b>	<b>75.785</b>	<b>446.607</b>
Funded By					
Capital Receipts	3.000	3.000	3.000	41.000	50.000
Homes England Grants	7.031	26.504	4.110	17.300	54.946
Other Grants & Contributions	2.775	2.528	1.973	1.973	9.247
<b>Anticipated Borrowing</b>	<b>43.997</b>	<b>116.635</b>	<b>156.069</b>	<b>15.512</b>	<b>332.214</b>

Source: *Capital Programme 2023/27 Report to Council 23/2/2023*

The programme is intended to deliver:

"

- Several large-scale developments to deliver 558 apartments as part of our Housing Strategy and commitment to the residents of the Borough, particularly young families.*
- A new leisure centre in Staines-upon-Thames the first of its kind being built in the UK to Passivhaus standards, to deliver a greener building, to protect the wellbeing of our residents over the coming years and making the building carbon neutral.*
- Continued investment in municipal infrastructure, such as local parks.*
- An ongoing investment in digital transformation, where we aim to utilise technology to continue to deliver efficient, good quality services."*

*Extract Capital Programme 2023/24 to 2026/27 Report to Council 23 February 2023*

The most significant of the above schemes is the council's planned investment in affordable housing, estimated at £325.2 million. Council officers believe there is a strong level of commitment within SBC to deliver these projects and emphasise that:

- Spelthorne, near London, but with lower economic prosperity than much of Surrey, has a significant need (established within its Housing Strategy) to ensure a better supply of affordable housing (including private rentals) to meet residents' requirements
- affordable housing is one of SBC's 5 Corporate priorities. The council set up Knowle Green Estates (KGE), an affordable housing company, since the market had failed to provide the housing required
- SBC is seeking to deliver key Government policy priorities, including a mixed development scheme at the Oast House. This will include one of the new national pilot NHS health and wellbeing centres, intended to move more care out of hospitals into communities, while providing fit for purpose GP facilities for residents
- the schemes are consistent with SBC Local Plan targets, delivering homes on brownfield sites rather than green belt

The affordable housing programme comprises 7 projects. One is completed. 4 projects will deliver 538 affordable units, including a new mixed housing project at Tothill, estimated to deliver 179 units. A further 3 projects will deliver 199 units for private rental (Table 6).

The four affordable housing projects when developed will be transferred to KGE. However, it will only take them on if it considers them financially viable at the time of transfer. Essentially this means that projected rental income must suffice to meet all costs associated with the properties, including borrowing and repairs, over a 50-year financing period.

*Table 6: Affordable Housing Schemes*

<b>College</b>	<b>Affordable Units</b>	<b>Scheme Estimate (£'000s)</b>	<b>Grants (£'000s)</b>
Oast House	184	115,500	58,250
Ashford MSCP Site	48	41,391	18,570
Victory Place	127	36,250	10,310
Tothill MSCP	179	82,000	20,000
<b>Total Affordable Housing</b>	<b>538</b>	<b>275,141</b>	<b>107,130</b>
Benwell – Phase 1 (completed)	55		
Benwell – Phase 2	39	8,662	-
Thameside	105	41,391	-
<b>Total Private Sector Housing</b>	<b>199</b>	<b>50,053</b>	<b>-</b>
<b>-Total All Schemes</b>	<b>737</b>	<b>325,194</b>	<b>107,130</b>

Source: *Capital Programme Report 2023*

**Note:** The grant funding for the Oast House Project is split between Homes England Grant (£23,250,000) and NHS Funding (£35,000,000)

As mentioned, the council has purchased a number of sites to enable these projects to proceed at an original purchase price of some £35.534 million. It considers their current value to be approximately £17.6 million, a reduction of some £17.834 million. The most significant fall (£14.5 million) relates to the Oast House. Here, the council has restricted



future development to 10 storeys. These assumptions were not in play at purchase. SBC has not fully explained whether the current valuation is based on existing development plans or the value if maximum potential were realised, including through different assumptions about height.

The affordable housing projects have been subject to considerable delay. This has had a significant impact on affordability, as set out in Table 7.

*Table 7: Impact of Delays on Affordable Housing Projects*

	<b>£m</b>
Increased construction costs due to inflation	33.799
Offset by savings from a smaller development.	-22.690
Increased Interest Charges – due to increases in long-term borrowing rates	90.294
Loss of Rent – due to height restrictions on projects within Staines	91.658
Other Costs	3.666
<b>Total Additional 50-year costs</b>	<b>196.637</b>

Source: *Extraordinary Council Meeting: 2 February 2023.*

The cost changes outlined in the table above mean the project is now predicting negative cashflows of some £55 million over the 50-year financing period. Members have been informed that the impact of increased interest charges is a further £87 million reflecting a change of projected interest rate from 3.4% to 4.4%. This has increased the projected 50-year costs to some £283 million.

The council has approached Homes England, who have indicated that there is potential to provide grant funding of some £55 million to assist project viability. This comes with a condition that KGE applies for Registered Social Landlord (RSL) status. The council has also made considerable changes to the original projects to maintain their financial viability. This has resulted in 2 of the original 6 schemes being designated for private housing. Effectively this has reduced the potential number of affordable units by 199.

The council intends to take a stake in KGE of some £33 million to assist with the company’s overall viability. SBC is also bringing forward a scheme to develop Tothill Car Park for mixed housing, including affordable units, which is also to be part funded by Homes England. This will deliver some 179 affordable housing units to compensate for the loss of units mentioned above. Importantly, this is also expected to cover a residual anticipated £1.25 million per annum viability gap, as stated in recommendation 4 of the report to the Extraordinary Council Meeting (ECM) on 2 February 2023:

*“That Officers bring forward the Tothill Car Park Staines-upon-Thames town centre regeneration development (Scenario 2 below) with a view to ensuring that there are sufficient additional apartments to cover the current non viability at KGE, to cover the £1.25m per annum shortfall in income from KGE as a result of the reduced number of apartments that can be delivered on other sites caused by the height restrictions”*

*Report to Extraordinary Council Meeting: 2 February 2023.*

The council states that it still considers the affordable housing projects viable but recognises considerable project delivery obstacles. The report to the ECM lacks sensitivity analysis on viability risk in terms of:

- construction cost inflation
- interest rate movements

Finance officers say they have nevertheless carried out detailed sensitivity analyses, with the programme being most vulnerable to interest rate changes. We are concerned that officers did not provide a full sensitivity analysis for these projects and believe that this should be carried out as soon as possible with the results made available to the council so that they can see the overall financial implications of these projects.

In addition, there are other risks, which do not appear to have been assessed fully:

- **Right to acquire.** The implication of property sales should tenants exercise their right to acquire during the 50-year period could be significant
- **Planning.** This may impact development costs if planning conditions are stringent
- **Eligibility for Homes England grant.** The council will not fulfil the requirements for funding from Homes England if KGE refuses to accept the transfer of properties on completion because costs and/or market conditions mean projects no longer meet its viability criteria. This would likely also apply to any attempts to transfer them to another RSL (the council's suggested fallback option)
- **Timing.** The Tothill Scheme appears to be the least developed project as it has only just been added to the programme, but the other projects seem to rely on it proceeding first. This scheme therefore may carry the greatest development risk and cause delays for other schemes.

The report for the 2 February 2023 Extraordinary Council Meeting considered, briefly, the option to stop the council's affordable housing programme, but it did not provide a detailed risk assessment of the relative impacts of cancellation versus continuance. The meeting resulted in changes to report recommendations, since officers tabled an option not covered within the papers.

There is concern, therefore, that:

- there is insufficient clarity on the intended funding model for affordable housing
- SBC's consideration of the full range of risks associated with continuation of the projects or disposal of the sites has been insufficiently thorough
- the council may not ultimately be able to satisfy Homes England's funding conditions should changes make the projects inviable for KGE
- there may not be sufficient assurance around both project viability and their impact on the MTFP, already predicting a rising deficit over the next three years

The council has indicated that evaluation will continue on a scheme-by-scheme basis. While schemes will be taken through planning (to maximise the value of the sites) works would not commence until both council and KGE are comfortable that finances are sustainable in the long term. The inter-relationship between schemes creates concerns that individual assessments may not fully reflect overall programme viability. Some projects rely on a subsidy from other projects. Finance officers nevertheless maintain that they consider each project viable in its own right.

Mutual dependency between schemes, along with disparate timescales, the problem of timing, transfer viability assessment and funding eligibility are serious matters. Officers have stated that they are open to considering a wide range of further options if the deliverability of schemes becomes compromised. These options appear to involve converting affordable housing to either private rented or private sales. This could compromise Homes England funding and create further losses. Moreover, the risks associated with progressing the

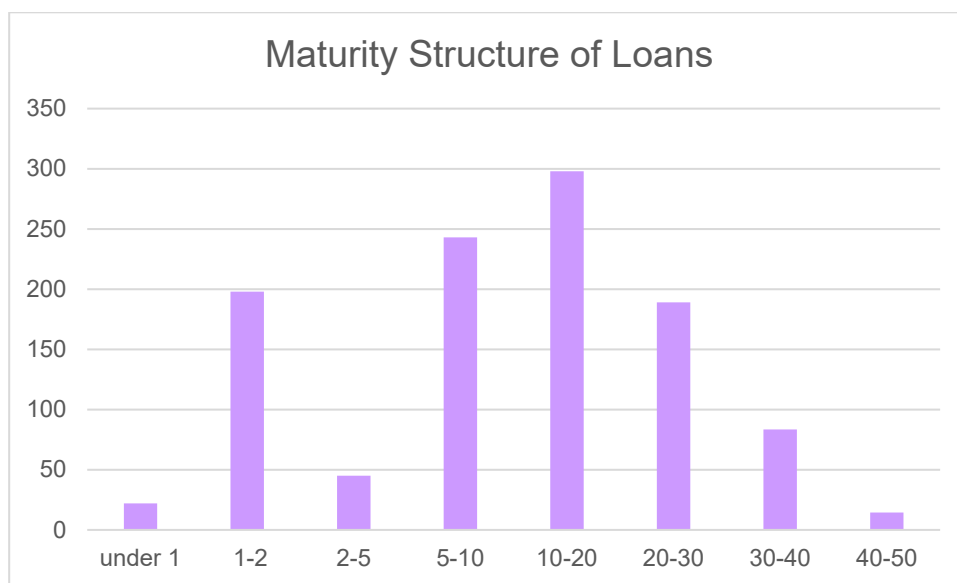
schemes cannot be divorced from SBC's wider debt position, especially given the criteria that have triggered this DLUHC review.

To date, the council has been so focused on avoiding losses through sales that it might have underplayed the potentially greater risks associated with continuing the programme. It is accordingly essential that there is a clear and realistic assessment of the alternative options. This assessment may also need to revisit the valuations for individual properties in particular the Oast House to consider the site's potential value if developed to its maximum potential.

## **Borrowing**

Table 8 shows the maturity structure of loans at 30 September 2022, as set out in the latest half-year Treasury Management report submitted to the Corporate Policy and Resources Committee in November 2022.

*Table 8: Maturity structure of loans*



A considerable proportion of the current portfolio (£198.1 million) matures within the next 2 years.

Council finance officers have indicated that the maturity profile reflected previous capital spending plans and that the quantum of debt financing now required is lower than that anticipated in October 2022 (when the profile was produced). They also consider that grants from Homes England will impact the borrowing that they were originally intending to incur as part of this profile, not to mention the fact that the complexity of the programme means that there will be potential slippage. The council says it will use short-term borrowing until individual development schemes are completed to take advantage of lower short-term rates. This will be repaid with a consolidating PWLB loan at a fixed rate over the next 50 years to eliminate interest-rate movement risk. On completion there will be a rental income stream to cover financing costs. This suggests that borrowing is being used for working capital, which is a risk, but a thorough detailed review would be required in order to establish whether this is the case.

SBC has given a separate indication that it will use internal borrowing where possible before seeking external borrowing. Such internal transactions could of course have implications for commercial income and the sinking fund.

The council considers that there is no need to refinance loans related to investment properties since all were financed on 40 to 50-year fixed (blended annuity) rates.

SBC has so far borrowed from the PWLB but the Treasury Management Strategy notes:

*“The Council will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce overreliance on one source of funding, in line with the CIPFA TM Code.”*

*Treasury Management Strategy Report – February 2023*

While it is not unusual for councils to borrow from other councils and alternative funding sources (and this is often a suggestion made by treasury management advisers), the scale and reasons for such borrowing can lead to financial risk. For example, the nature of the borrowing (i.e., whether it is for financial gain), the period over which the borrowing is taken, and the repayment arrangements, should all be considered to minimise the risk to the council.

#### *Minimum Revenue Provision (MRP) Policy*

SBC’s MRP policy states:

*“For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.*

*For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, and will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.*

*The Council was debt-free before 2016/17, and MRP was not applied until 2017/18. MRP has been determined using finance models for specific major property acquisitions for which PWLB loans were obtained, with principal repayments calculated over 50 years based on the annuity rate applicable at the time of the loan. Capital expenditure incurred will not be subject to an MRP charge until the asset is brought into use.”*

*Treasury Management Report – February 2023*

The council has recently reviewed its MRP calculations in consultation with Arlingclose, its Treasury Management Advisors. The results are shown in Table 9.

*Table 9: MRP calculations*

		Based On: Unfunded Expenditure (per SoA )	Actual SoA /Estimate Budget Plans	Variance	Charge per ledg	Variance to Actual SoA
		(a)	(b)	(c) = (b) - (a)		
		£	£	£ (+) Overprovided -underprovided	£	£
2017/18	31-Mar-18	4,576,215	4,517,000	-59,215	4,517,081	81
2018/19	31-Mar-19	7,115,102	7,844,734	729,632	7,844,734	0
2019/20	31-Mar-20	10,269,465	11,051,697	782,232	11,051,697	0
2020/21	31-Mar-21	11,257,477	11,902,900	645,423	11,902,900	0
2021/22	31-Mar-22	11,538,305	12,327,200	788,895	12,327,200	0
	<b>Sub-Total</b>	<b>44,756,565</b>	<b>47,643,531</b>	<b>2,886,966</b>	<b>47,643,612</b>	<b>81</b>
2022/23	31-Mar-23	12,094,527	12,279,800	185,273	0	
2023/24	31-Mar-24	12,396,797	12,279,800	-116,997	0	
2024/25	31-Mar-25	12,770,521	12,279,800	-490,721	0	
2025/26	31-Mar-26	13,785,441	12,279,800	-1,505,641	0	
2026/27	31-Mar-26	14,128,290	12,279,800	-1,848,490	0	
	<b>Total</b>	<b>95,803,851</b>	<b>109,042,531</b>	<b>-889,609</b>	<b>47,643,612</b>	<b>81</b>

There is a potential MRP over-provision in the financial years to 31 March 2022 of some £2.8 million. However, while these figures have been reviewed by the council's Treasury Management Advisors, it is worth noting that SBC has not had its statement of accounts finalised since 2017/18, creating considerable uncertainty in capturing the financial benefit from these calculations.

The calculations also indicate potential greater pressure in future years with higher than projected levels of MRP payments. The council appears to have reflected this in the MTFP.

### Prudential Borrowing

In October 2022, SBC's former external auditors issued a public interest report as part of their work on the 2017/18 statement of accounts. This covered the purchase of three investment properties: 3 Roundwood Grove, Stockley Park, World Business Centre 4, Heathrow, and Hammersmith Grove. The report concluded:

*"[W]e have serious concerns about the lawfulness of the borrowing and investments for the year 2017/18, which the Council does not accept. In other circumstances an application to the Court under section 28 LAAA 2014 for a declaration that the relevant items of account are contrary to law may therefore have been appropriate. In this case, we have decided that on balance a public interest report is more appropriate in circumstances where the Council's commercial property programme has been brought to a close, and the PWLB restrictions will make it more difficult for similar transactions to be made in the future. There is a public interest in clarifying the law in this area, but the financial burden of doing so would fall on the Council's taxpayers. Given the low risk of similar conduct in the future, a declaration does not therefore seem appropriate."*

Source: Public Interest Report, October 2022

As the report suggests, considerable disagreement remains between SBC and its former auditors. Nevertheless, the council has accepted all key auditor recommendations covering its management of the investment portfolio and approach to future capital investment.

The council approved its Treasury Management Strategy and detailed Treasury Management Practices statement in line with the Prudential Code.

## ***Sinking Fund***

As mentioned, SBC has established a commercial property sinking fund. It should provide protection to the revenue budget from:

- substantial short-term drops in investment income
- significant major alterations to reconfigure buildings
- rent-free periods required to attract new tenants

The sinking fund is resourced from net proceeds of commercial income. Essentially, SBC chooses how much net income goes into the fund and how much goes into revenue to support council services.

It is important that SBC gets this balance right over time.

This process is made even more difficult given the range of long-term property management risks the council may face (mechanical/electrical works, buildings/estate reconfiguration, updating the estate to meet rising quality thresholds). While difficult to assess the value and extent of these risks it is important to attempt to do so, allowing a long-term view of the issues the sinking fund is designed to address and informing contribution calculations.

While the sinking fund reserve has been established for a number of years, SBC has only recently set a policy concerning its use. Given the level of concern around this issue, we have made a specific recommendation in relation to reviewing the sinking fund (recommendation 4).

The sinking fund policy says that:

*“The Sinking Fund is to cover unplanned short-term issues, to minimise risk, protect the Council’s Revenue Budget and Council Taxpayers from exposure to short term dips in rental income and build sufficient cash backed reserves to provide the Council with future options, which may include funding refurbishments (net of dilapidations) development and or sale of any of the current property portfolio, in particularly in 14 years’ time, when BP could exercise their lease break and vacate the entire site at Sunbury.”*

*Recommendation 2 to the Sinking Fund Policy Report – Corporate Policy and Reserves Committee 20 February 2023*

The above recommendation was amended by members on the casting vote of the Leader to extend the use of the sinking fund to cover unforeseen repairs and maintenance.

The sinking fund stood at £33.623 million at 31 March 2022. It accounts for 51% of the council’s overall reserves (£65.374 million) and covers the 8 commercial and 3 regeneration assets.

The council considers that the fund provides considerable reassurance on overall financial resilience. Indeed it has one of the highest ratios of reserves to net revenue expenditure of any district council. It is important however to view this provision in the context of the £1 billion investment portfolio (which is highly unusual and represents the second highest debt to financial size ratio of all district councils) and the risks associated with it.

The 2023/24 Revenue Budget estimates that the sinking fund reserves will be reduced by some £9 million over the next 2 years, owing to substantial income shortfalls caused by unexpected loss of key tenants, one of which relates to the war in Ukraine. The significant scale of withdrawal so early in the lifespan of these commercial assets points to the level of risk they carry. The loss of one or two key clients can have a significant impact on council funding, in turn depleting the sinking fund.

While the council does not set out any projections in revenue budget papers, other projections indicate the fund could stand at £25 million at March 2025, of which some £22.5

million relates to investment properties. This could be further reduced by other calls to cover additional repairs or incentives for new tenants.

The council has projected forward the sinking fund value to 2031. As reported to the Asset Portfolio Working Group on 2 February 2023, the council estimated for that date a positive balance of £6.765 million on the *expected* case scenario and a deficit balance of £6.62 million on the worst case scenario. This highlights the potential insufficiency of the sinking fund even in the near-immediate term.

There is also a limitation in comparatively short, ten-year projections. They focus more on possible income shortfalls rather than the ongoing challenges of refurbishment and reconfiguration. This was highlighted in the Public Interest Report by the council's Auditors:

*“The Council should develop its investment property portfolio modelling to bring these in line with the expected practice of an institutional investor. This should include robust stress testing and sensitivity analysis which incorporates scenarios that cover the highest level of risk for expenditure, revenue, tenant behaviour and external socio-economic factors. Consideration should also be given to the diversification of the portfolio and whether this should be addressed over medium to longer term.”*

*Public Interest Report October 2022*

The need for a longer-term strategic view was also highlighted by Deloitte, commissioned in 2019 to advise on managing the Commercial Investment Portfolio:

*SBC is very sensitive to income changes and the long potential hold period of c.50 years is beyond the typically accepted useful life of much of buildings' plant and equipment; we therefore recommend that a more detailed modelling exercise is undertaken to set this at a level that explicitly allows for future voids and rent-free allowances at lease expires, together with an explicit plan over the life of the loan repayments to cover Lifecycle Replacement Works, including mechanical and electrical plant within the buildings;*

The council does not appear to have carried out detailed stock condition surveys on a regular basis or projected forward the costs of longer-term repairs and maintenance.

SBC has now committed to carry out a 50-year assessment of the sinking fund, modelling risks over the commercial portfolio lifespan. This will be carried out however after the council has already made a significant withdrawal from the fund. The review may nevertheless require SBC to make higher contributions over time, potentially impacting the revenue budget. The review must obviously be informed by prudent and cautious projections for the sustainability of commercial revenues.

The council intends to use external expertise to support this assessment. This will provide councillors with assurance that the sinking fund is being operated effectively and appropriate provision being made.

## 3.2 Income projections

Table 10 summarises the projected income for the 8 properties within the Commercial Portfolio plus the income for the 3 regeneration properties.

*Table 10: property income*

Commercial Properties (£'000)	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Gross Income	39,028	35,642	38,366	44,191	45,685	42,719
Borrowing Costs and Set Aside	- 31,758	- 31,289	- 31,203	- 31,255	- 31,397	- 31,716
Net Commercial Income	7,270	4,354	7,162	12,936	14,287	11,003
Sinking Fund Contributions to (-)/from	544	5,473	3,150	- 2,360	- 2,800	- 200
Net Contribution to Budget	7,814	9,827	10,312	10,576	11,487	10,803
Regeration Properties (£'000)	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Gross Income	4,363	2,898	2,327	2,668	2,116	2,105
Borrowing Costs and Set Aside	- 2,237	- 1,782	- 1,998	- 2,069	- 2,041	- 2,067
Net Commercial Income	2,126	1,116	328	598	75	38
Sinking Fund Contributions to (-)/from	- 566	1,530	850	250	-	-
Net Contribution to Budget	1,560	2,646	1,178	848	75	38
Total All Investment Properties	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Gross Income	43,391	38,541	40,692	46,859	47,801	44,824
Borrowing Costs and Set Aside	- 33,995	- 33,071	- 33,202	- 33,324	- 33,438	- 33,783
Net Commercial Income	9,396	5,470	7,491	13,535	14,362	11,040
Sinking Fund Contributions to (-)/from	- 22	7,003	4,000	- 2,110	- 2,800	- 200
Net Contribution to Budget	9,374	12,473	11,491	11,425	11,562	10,840

**Note:** When the Council acquired the Charter Building, it included rent guarantees which finished on September 2022, at that time Council had unused funds of £6,794,600, which was as a result of improved occupancy rates. Officers therefore took the decision to release the unused sum in 2022/23 rather than carry it forward, as the terms of the rent guarantee had finished. This increases, the net commercial income to £16.190 million in 2022/23.

An analysis of this data raises questions about the extent to which the budget contribution is sustainable in the medium to long term if the council is to make an adequate contribution to reserves.

Areas of further concern include:

- the extent of withdrawal from the sinking fund early in the lifespan of the commercial assets when returns should be maximised as buildings are at their highest quality
- the extent of withdrawal from the sinking fund to cover rent free periods and building reconfiguration again early on in tenancies for new buildings

Concern in these areas is significant and lies behind our recommendation regarding the sinking fund review (recommendation 4).

Offsetting these concerns are:

- potential inflationary uplifts in rental and service charges for some of the council's largest tenants, which have not been accounted for in these projections
- the Assets Team's new focus on maintaining closer relationships with tenants to ensure occupancy rates improve
- commitments to improve budgetary control of landlord costs, particularly repairs and refurbishments, with tough choices having to be made

The council anticipates that it will achieve surpluses on the portfolio operation in the current year. This relates in part to a projected overpayment of MRP referred to above, as well as under-recovery of third-party expenses and general underspending. At this point officers consider this could help increase the sinking fund to some £40 million at the year end.

The council anticipates a significant rise in rental income following the rent review of a major tenant. Finance officers indicate that this could enable the council to increase the contribution from commercial properties to the revenue budget. They suggest that this may in turn offset further financial risks within KGE.



The key question is whether the medium to long-term income target is a realistic and achievable. The council should reassess income targets as part of a 50-year review of the sinking fund.

### 3.3 Conclusions

SBC faces considerable financial risks. Taken together, they could seriously impact the viability of the council as a going concern, as highlighted in the report of the Chief Accountant in January 2023. The most immediate financial risk stems from affordable housing development.

There is a potential need to dispose of assets that the Council has purchased, potentially resulting in a charge of some £9 million to the revenue budget and losses on asset disposals of some £18 million. The prospect of asset disposal hinges on the viability of new affordable housing schemes. Some two years of delay in taking forward these projects coupled with council-imposed development restrictions has seriously impacted that viability.

SBC is contemplating steps to avert losses through making the projects viable by:

- taking a significant equity stake in its council-owned company KGE
- converting the affordable element of some projects to private sector rentals
- bringing forward an affordable and commercial housing scheme at Tothill
- seeking funding of some £55 million from Homes England

While the council believes that the projects are now viable, it has not fully demonstrated their ability to withstand interest rate movement or indeed planning risk from further member-imposed restrictions.

The new arrangements are complex. Some projects subsidise others, creating sequencing and timing issues. That success in later schemes is predicated in part on the Tothill development, which is in its infancy, is a particular concern. And KGE itself will only accept viable projects on completion.

The affordable housing projects account for the largest share of the council's £447 million capital spending plans, which require borrowing of some £332 million.

SBC may be exposing itself to more significant and long-term risk by pursuing its affordable housing strategy rather than facing the immediate challenge of asset disposal, especially as disposal losses may be overstated given valuation assumptions previously discussed.

## 4 Capability, capacity, governance

### 4.1 Corporate and financial capacity and expertise

#### ***Property capacity and expertise***

SBC established a dedicated Asset Management Team in 2017/18. It is run by a property consultant, who acts as Team Head. The consultant has specific and extensive expertise around the Heathrow market, highly relevant to the commercial portfolio. They are supported by three other asset managers with considerable experience in commercial property, one of whom is also employed on a consultancy basis.

All property managers are chartered surveyors (including a RICS registered valuer) bringing over 90 years' combined experience in different specialisms: development (BAA Lynton, Hines), fund management (ING), investment, valuation, asset management (JLL/Carter Jonas), and property management (JLL).

The current Head of Asset Management is soon to leave the team and is being replaced by an existing Head of Property at another local authority with a public sector background. There have also been some other recent changes.

The Asset Team is further supported by a dedicated property accounts function and administrators. The wider Estates Team managed by the Head of Property also has responsibility for SBC's major capital development projects including a new Leisure Centre and the affordable housing programme. The remainder of the team focuses on residential lettings and facilities management.

Until recently the Assets Team has managed and maintained the council's sinking fund. Responsibility for this is now being moved to Finance.

The team is further supported by contracts with Cushman and Wakefield, which manages day-to-day tenancy issues associated with the commercial portfolio. Carter Jonas undertakes annual valuations of the portfolio.

Overall, the team appears proactive in day-to-day portfolio management. Examples include:

- periodic reviews of tenants' financial standing and ability to meet their commitments
- proactive engagement with tenants before tenancies end to explore options to extend
- swift response to the termination of a major tenancy with heads of terms already under consideration for a new tenant, thereby reducing the existing void level of 13% to 8%

The Estates Team produces Asset Management Business Plans for all key Council Investment properties. These provide detail on:

- asset management refurbishment plans
- key threats
- income expectations
- valuations
- SWOT analysis
- future plans

SBC is also prepared to look at alternative uses for its commercial buildings, including potential residential and industrial usage/disposal.

Member and senior officer oversight of the portfolio, detailed in Section 3.2, means considerable specialist officer time is devoted to meetings and information requests. This impacts on the time available to focus on:

- the full range of risks facing the portfolio, particularly for repairs, maintenance, and reconfiguration over the lifespan
- the medium to long-term realism of assumptions around income and void levels

SBC has not commissioned an independent review of its portfolio since the pandemic.

The council is considering increasing team capacity to assist in implementing the affordable housing programme. This will undoubtedly help but the project complexity will still place significant pressure on senior management time.

### ***Finance Team capacity and expertise***

The Finance Team is under considerable pressure. Currently, it must:

- establish a balanced budget and address the underlying deficit
- develop plans to ensure the viability of SBC investment in affordable property
- review the sinking fund to move it to a 50-year basis
- conclude the closure of accounts for the last 4 financial years following the issue of a Public Interest Report concerning the 2017/18 statement of accounts

These challenges are managed by a team that is currently shorthanded. The council is recruiting to fill the gaps, seeking two principal accountants and a permanent treasury management and capital accountant. This last post has been filled temporarily by a contractor for the past year. Previously the council has had to fill the key Chief Accountant role on an interim basis.

The pressure on the Finance Team is further increased by arrangements for Knowle Green Estates. The S151 Officer currently acts as KGE Chair. The Chief Accountant effectively carries out the company's Finance Director role and undertakes detailed modelling of future potential capital investment. Over the last year this has affected the production of timely reports, particularly those monitoring SBC's existing capital and revenue spending.

While the council is taking steps to improve the capacity in Finance, the level of pressure and reliance upon the two key roles of S151 officer and the Deputy S151 officer/Chief Accountant cannot be underestimated. It may already be impacting the quality and breadth of financial reporting and advice available to members. For example:

- the risk analysis in the report to the Extraordinary Council Meeting was limited and did not highlight the full range of risks associated with affordable housing
- the 50-year costs of affordable housing schemes appear to have been understated by £90 million in that report
- the MTFP was not updated following the ECM to reflect the material impact on future budget deficits
- revenue budget reporting did not provide detailed analysis of current or projected future reserves
- the Capital Programme Report did not set out clearly the proposed additions and adjustment to the programme, although they were included in an appendix
- the Section 25 statement of the S151 officer does not fully set out all risks associated with the council's capital investment plans and their potential impact on the future viability of the council as a whole

### ***Corporate governance capacity and expertise***

The Head of Corporate Governance acts as the council's Monitoring Officer and heads its legal department. Other responsibilities include Democratic Services, Procurement, and Internal Audit.

The council has a legal team of some 10 FTE solicitors, including the Monitoring Officer, who also acts as the KGE Company Secretary. The legal team manager is currently employed on an interim basis, and there are two further vacancies. The team ensures that council reports include legal implications of decisions and provides a range of legal support.

Corporate Governance also includes an internal audit team of 1.75 Full Time Equivalent employees. The Internal Audit Manager is also responsible for risk management. The Risk Management Board is chaired by the S151 officer. Internal audit also has had access to £30,000 to purchase specialist expertise, though this was reduced by £10,000 in the recent budget.

The Internal Audit Plan includes some 12 to 14 days annually for the commercial investment portfolio. The work is guided by the Head of Assets towards particular areas of focus and risk. A recent audit examined the system for collecting commercial rents and its interface with other core Council systems.

The S151 officer considers SBC's audit team to be in line with other similar sized authorities. This view is not shared by the Monitoring Officer, who considers it inadequate. Similar authorities are unlikely to have a £1 billion commercial property portfolio together with a complex affordable housing programme.

### ***Senior management capacity***

The commercial investment portfolio requires significant senior management focus. Most of the meetings outlined in section 3.2 include statutory officers and senior management. At one point the portfolio became such a focus for the council's Executive Management Team that it precluded other business. This resulted in the establishment of a separate senior officer meeting focused on the portfolio.

The Chief Executive and his senior management team are heavily involved in portfolio management. Sustaining this level of skill and expertise over the portfolio's 50-year lifespan will be challenging. Any loss of focus however will expose the council to considerable risk.

The council should consider whether this is sustainable in the long term given that senior management expertise and capacity will also be needed to:

- deliver the affordable housing strategy
- support KGE's portfolio expansion and RSL status
- transform council services to meet tight budget constraints set out in the MTFP
- manage the council's complex political environment

## **4.2 Decision-making, oversight and governance**

### ***Ongoing scrutiny of property portfolios***

The council has highlighted the significant number of member and officer meetings concerning investment portfolio management. They include:

- **Assets Portfolio Working Group.** 5 cross party councillors representing Corporate Policy and Resources Committee and Development Sub-Committee are briefed on current and emerging issues and given opportunity to express early views. Held fortnightly, unless cancelled for lack of relevant business.

- **Development Sub-Committee.** 11 councillors are appointed on a group proportional basis and act as a programme board, signing off business cases and project gateway stages. Two meetings held per month.
- **Corporate Policy and Resources Committee.** Including Chairs and Vice Chairs of all service committees, this considers significant finance and asset issues. Meetings of this committee take place 7 times a year.
- **Weekly officer Development and Investment Group.** This monitors progress of both investment assets and development schemes.
- **Knowle Green Estates Board.** This monitors both performance of the company's existing portfolio and receives project updates on pipeline schemes.

These meetings tend to focus on day-to-day portfolio management. Members attending them have a generally good appreciation of immediate tenancy issues and get engaged at a detailed level on matters such as the head of terms for new leases.

The meetings and associated member information requests plainly place considerable pressure on officer time, potentially at the expense of management responsibilities or strategy development. The short-term transactional focus of these meetings themselves probably reduces consideration of strategic matters. Apart from the annual Property Report, there is little engagement with what is needed in the medium to longer term to ensure the portfolio remains viable.

Moreover, these structures and their members may be taking insufficient account of portfolio risks. Officers have identified one strategic risk as follows:

*“Evolving externalities arising since the aftermath of the pandemic now compounded by the Cost-of-Living crisis and inflation continue to increase the Council’s exposure to financial risk, with possible implications for the investment portfolio, including loss of anticipated rental income from commercial assets and poor investment returns. This may impact on the financial position, leading in the worst-case scenario to the Council becoming financially unsustainable with associated reputational damage.”*

Source: (Corporate Risk Register – Risk Category 3)

The above risk is scored 9 – amber. This assessment has not changed in the last year when the council has faced significant commercial income shortfall. The council’s Corporate Management Team reviewed the risk on 7 March 2023 and upheld the existing score, though it then referred the matter to Audit Committee for further consideration.

The recent public interest report prepared by KPMG also highlights the limited nature of the risk assessment of the commercial portfolio:

*“The Council should develop an action plan as part of the management of its investment portfolio which addresses each of the weaknesses identified in paragraph 6.9. This should be linked to a portfolio risk register, which monitors each of the KPIs, tenant performance and risk to the debt repayment strategy for each investment property asset.”*

Source: Public Interest Report KPMG

SBC has accepted this recommendation and aims to carry out a more detailed risk review.

## **Members, committee oversight and the decision-making culture**

The main formal oversight of the commercial portfolio is within the Development Sub-Committee. The Sub-Committee is also responsible for managing the gateway process for capital investments exceeding £1 million. It is therefore heavily involved in the affordable housing plans. Effectively this means a considerable workload and oversight of very significant risks.

Councillors are fully involved in decision making related to the council's portfolio. However, they are concerned about their capabilities. One senior member stated that "they cannot go against the advice of professionals" and that overseeing the portfolio represented "a massive learning curve".

The issue here is not about elected members becoming financial experts. Training is important. Familiarity with the subject matter is desirable. But elected members should primarily provide representation, strategy, oversight and challenge. They are elected and accountable to electors, not defined by a job description or person specification.

Effective member decision-making is not a function of specialist knowledge. Rather, expert insights should be translated so as to allow members to execute their roles meaningfully. Members need access to objective advice, from officers or independent specialists, in a format accessible to as many of them as possible. Few councillors will have the background to understand financial matters presented to them in technical language. Members, in turn, must understand the comprehensiveness, exposure and accountability of their role. They should demand that officers help them fulfil this role by providing reports that are comprehensible and thorough, clearly setting out the implications of committee decisions.

We have found a few brief references to elected member training (the capital strategy makes mention of a training session for Audit Commitment members on risk in 2019). But we have found only limited evidence of a sharp awareness of member roles, responsibilities and their reasonable expectations/demands respecting information. Instead, we have heard several admissions that the quality of councillor decision-making is weak.

One interviewee, describing the council's capacity and capability to manage the commercial portfolio, related the oversight challenge to the committee system:

*"The Committee system presents additional issues in the management of the commercial portfolio with more members involved and as a result there is a more diverse and varied range of skills and expertise. A cabinet model made it easier to ensure that the key members involved had sufficient skills."*

Another councillor, who raised concerns about the "quality of elected members", also felt that member input into risk management was not comprehensive. Similar sentiments on the mechanics of member involvement in risk matters were expressed by the Monitoring Officer. Attempts are being made to improve member involvement in risk matters through a greater role for the Corporate Policy and Resources Committee.

Furthermore, as indicated above, the council's committee system itself has been identified to the review as an issue. The system, recently introduced, has widened the involvement of members in all council business. This system is in its early stages. As part of this process SBC has removed its overview and scrutiny committee, a possible loss in challenge to investment and strategic risks.

SBC also has a fragile political environment. There are 8 individual political groupings. The council is led by a minority administration, which has only recently taken over from a previous minority administration.

Getting consistency in strategic decision-making in a fragile political context is always difficult and arguably compounded by a committee system lacking cabinet oversight. There is evidence of this at SBC. Several interviewees have indicated that they believe that the

decision-making culture has impaired progress in the affordable housing programme. They also point to the adverse impact on the intent and value of a strategic land acquisition by subsequent decisions restricting land usage by height of build.

Officers are well advised to take such finely balanced and ultimately volatile political realities into consideration in the advice they provide. Such contexts impose special burdens on transparency and expectation management. They necessitate caution, even risk-averseness in what can be promised. Where complex undertakings are envisaged and then agreed, their full implications and 'givens' need to be clear at the outset. The impact of subsequent deviations and their implications for the finances – and indeed the reputation of the council – should be explicit.

We have noted specific concerns about the recent ECM on affordable housing strategy. The lack of prior committee consideration; the absence from the reports of an option cited in member briefings then subsequently adopted at the ECM; the absence of detail about these matters in the council's budget-setting meeting: these seem indicative of a defective process. In any case, in seeking to progress a complex affordable housing initiative, while simultaneously retaining a substantial commercial portfolio, SBC may be exhibiting a strategic appetite for risk at variance with its decision-making culture and instability.

#### *Disclosure*

The council is highly conscious of the commercial nature of decisions relating to the investment portfolio. They are managing the concerns of commercial tenants, who may be worried that a public landlord could disclose sensitive information related to their company. Most reports about the portfolio are confidential with little information, beyond the Annual Property Report, in the public domain. For example, on SBC's website the council's response to the Public Interest Report redacts the accompanying appendix, Investment Assets and Regeneration Assets Annual Report for 2021/22, which was due to go to the Corporate Policy and Resources Committee on 5 December 2022 in confidential form.

Investment strategies are complex and commercially sensitive. The council has a clear duty to protect itself, its partners and taxpayers. However, transparency is a cornerstone of good governance. SBC should accordingly strive to be as open as possible.

#### *Governance: strategic context for investments*

There is little evidence from the available materials that the council considers the investment strategy as much more than a means of generating revenue. The Corporate Plan 2021 to 2023 sets out service and strategic priorities clearly. But we have been unable to find much evidence of a governance framework covering investment priorities other than the broad objective of investments creating revenue headroom for service delivery.

Decisions on investments should sit within a strategic framework, widely understood and broadly supported across the council. A relevant consideration within any organisational setting, this is especially pertinent in a local authority context, where balancing competing priorities is integral to effective decision-making and governance.

That integration is especially imperative for a council already carrying significant debts now also pursuing a complex affordable housing strategy. We have encountered considerable concern about the lack of thorough explanation of how the housing programme will fit with the wider revenue budget and capital programme, themselves linked in turn to the investment portfolio and the dynamics of the sinking fund.

#### *Conflicts of interest*

Conflicts of interest exist within many boards. The specialist expertise they require is often in high demand but relatively short supply, resulting in individuals providing input to different

organisations. This is addressed through explicit disclosure of interests and careful management of conflicts by the organisations and individuals involved.

SBC has established a company, Knowle Green Estates, to manage its affordable housing provision. The council develops projects that are then “purchased” by the company with loan finance the council provides. Financing and maintenance costs will then be met through rents.

There is considerable overlap between KGE and SBC. The Council’s S151 Officer chairs the company. The Chief Accountant effectively acts as its Finance Director. SBC’s Monitoring Officer is KGE’s Company Secretary. The Vice Chair of Development Sub-Committee sits on the KGE board. (The board has two other non-executive members with a finance and social housing background respectively.)

The affordable housing plans will necessitate KGE’s significant expansion since it is unlikely to take on additional projects without new dedicated resources.

There are potential conflicts of interest here:

- the S151 Officer advises the council on the affordable housing schemes and is also involved in KGE decision-making on project viability
- the Vice Chair of the Development Sub-Committee plays a role in the gateway process for key Council projects, including affordable housing projects that will potentially impact KGE over the long term

The latter conflict is managed by the Vice Chair declaring an interest at the start of relevant meetings, although they still take part in decisions. When questioned, the Monitoring Officer indicated that she had not issued specific advice around KGE conflicts of interest.

SBC argues that where potential conflicts exist, these have been recorded. This is probably correct. The Chief Executive places significant emphasis on the ‘alignment of interests’ between SBC and KGE in mitigating conflicts. Others point to the role of the two Non-Executive Directors and their ‘golden share’ role within the board, effectively enabling them to veto proposals.

However, while the conflicts themselves may be open and managed, governance may still be suboptimal. The Monitoring Officer accepts that the S151 officer chairing the KGE company board is less than ideal. Our assessment is that the arrangements between KGE and SBC are potentially problematic. The S151 has a statutory duty to administer council affairs and advise members of the prudence and legality of financial decisions. It is worth considering how effectively these powers can be deployed on decisions about KGE given that the S151 chairs the KGE board. With officers and members serving both organisations decision-making could become muddled. We are not suggesting that these matters cannot be addressed. But good governance does not simply concern compliance with legal and administrative provisions. It is also about the robustness and effectiveness of people and process. Given our wider concerns about affordable housing, it is imperative that the KGE governance arrangements – and their practice – are as good as they can be.

## 4.3 Summary

The commercial investment portfolio clearly impacts the conduct of SBC business and senior management capacity. This impact is so significant that it can appear, on first acquaintance, as if SBC is not so much a council with a commercial property portfolio as a commercial investment company that happens to run a council. The portfolio certainly adds to the complexity of the senior managers’ tasks, places a considerable drain on their capacity, and raises SBC’s risk level considerably. There are also emerging issues affecting future financial sustainability, in particular the council’s affordable housing programme.



The fragility of the SBC political environment adds a further concerning dimension. It has arguably contributed to a projected £200 million increase in affordable housing programme costs, with associated impacts on viability. Persistent fragility could impact projects still further and exacerbate existing issues. The challenge of a £1 billion investment portfolio coupled with a £445 million capital programme is best served by strategic consistency and stability.

## 5 Recommendations

### 5.1 General: an independent financial advisory resource

The foregoing analysis should indicate that we are concerned at SBC's situation. We are also concerned that given the nature of the challenges it faces; the council may not have the capacity and expertise it needs.

Therefore, we recommend that DLUHC should work with SBC to deploy some **additional independent support**.

This support, comprising suitable financial expertise, would be independent of both the council and the Department. It would work with SBC to implement a series of risk **mitigations**. It would provide the Department with assurance on the viability of the affordable housing plan and any associated need to lift borrowing controls.

This extra resource would include an **independent advisor on the council's commercial portfolio**. Not dissimilar to an independent advisor to the Audit Committee, this member of the support team would be recruited to a clearly defined specification of necessary expertise. As well as providing an ongoing challenge to the management of the commercial portfolio, this expert would lead a review of the portfolio, including an assessment of options for disposal.

Given SBC's current composition and the sensitivities associated with this step, we recommend that both the announcement of new support and its deployment be delayed until after the local elections in May 2023. The Department would then agree success criteria on which removal of the independent resource would depend with an associated target timescale.

For both commercial property and affordable housing, some portion of the independent expertise deployed to support the immediate task of implementing the recommended mitigations could then be converted into suitable **'standing' resource**, distinct from but available to the Council as part of Business As Usual.

CIPFA is ready to assist the SBC and the Department by helping to assemble, deploy or be part of the independent expert support.

### 5.2 Recommendations

Working with SBC and the Department, the independent resource would pull together a **programme team**. This team would be led by the independent experts but would feature council officers. It would work to deliver the recommendations set out in this section 4.2.

<b>Recommendation number</b>	<b>Recommendation description</b>
1	<b>Deployment of DLUHC expert independent support into SBC to assist with its immediate and ongoing financial challenges</b>  We recommend that these experts establish a programme team to put in place a series of risk mitigations in line with the recommendations set out below.

2	<p><b>The council's affordable housing plan should be subject to a rigorous viability assessment and options appraisal</b></p> <p>The programme team would lead this work. It would:</p> <ul style="list-style-type: none"> <li>• stress test the existing financial plans for affordable housing</li> <li>• assess the impact of the current plans on the council's MTFP</li> <li>• carry out a thorough and detailed risk assessment on the existing plans</li> <li>• examine alternative options including the disposal of the properties purchased for the programme. Options should include realistic valuation of all properties based on their maximum development potential</li> <li>• review the council's existing regulatory decisions on development planning and control so that their financial impacts can be considered in the round</li> </ul> <p>It may be appropriate to ensure that independent expertise remains embedded within the affordable housing programme even after the resources deployed to support SBC in the immediate term have been withdrawn.</p>
3	<p><b>Set tight future borrowing limits, providing for schemes that have commenced and for statutory requirements</b></p> <p>Pending the independent assessment of the affordable housing plan, tight limits should be placed on future council borrowing, restricting it to a minimum.</p>
4	<p><b>Agree specific terms of reference for the review and treatment of the sinking fund</b></p> <p>The planned sinking fund review should make use of the independent resources provided. The review must take a long-term view of potential risks and their financial consequences. The council needs to set clear rules for the sinking fund in relation to its commercial investments and the overall financial resilience of the council.</p> <p>We believe that there may be wider policy implications here. DLUHC and the Treasury should consider the control they may want to exert to ensure that sinking funds intended to manage investment income risks cannot be depleted through use for other purposes, such as managing a budget deficit or facilitating new capital investment.</p>

5	<p><b>Subject the investment property portfolio to immediate fundamental assessment and ongoing review, including consideration of disposals</b></p> <p>It is important that SBC has independent specialist and strategic advice on the long-term management of its investment portfolio. It must also ensure that its future income projections are realistic and that the budget contribution predicted for the commercial portfolio is accurate and sustainable. To that end, an initial review, conducted by the programme team, would be led by the independent commercial property advisor. This review would be conducted alongside the sinking fund review. Thereafter, as with the ongoing independent support envisaged for the affordable housing, the expert could be converted into a Business As Usual 'challenge' resource for commercial property management.</p> <p>The initial review and ongoing challenge should identify potential opportunities to dispose of properties within the portfolio to reduce the council's exposure to long term risk, with consideration given to how this might be achieved within the council's Treasury Management Strategy. Disposals, which should be carefully and prudently timed, could potentially coincide with the end of key tenancies, for example the BP campus.</p> <p>As part of the wider consideration of Council financial management skills and capacity, both the initial review and ongoing challenge should consider the adequacy of internal management arrangements for the commercial portfolio. Transferring management to a specialist external team should at least be considered.</p>
6	<p><b>The council's financial management capacity and skills base should be assessed</b></p> <p>Throughout this report we have raised concerns about the council's capacity to the manage its considerable financial challenges. This capacity should be subject to an early baseline assessment then ongoing review by the programme team.</p>
7	<p><b>The council should increase the capacity of its internal audit team</b></p> <p>The programme team should consult SBC's external auditor on the size and capacity of the internal audit team given the risks inherent in its investments and housing ambitions.</p> <p>The council could then consider addressing any capacity issues by employing another internal auditor, increasing the provision for specialist audit input or by entering into shared service arrangements with another council.</p>

8	<p><b>The council's approach to financial governance and decision-making should be reviewed urgently</b></p> <p>Whatever the outcome of the next election, the council will need a comprehensive process of financial governance and the wider decision-making culture, including:</p> <ul style="list-style-type: none"> <li>• conception and business case stages, through formal political signoff, oversight, gateway reviews, right up to completion and ongoing management. SBC's formal committee structures should be examined</li> <li>• the quality of information provided to members and the training they receive. SBC processes and information handling should as transparent as is consistent with the most generous and legally permissible understanding of commercial openness</li> <li>• detailed financial assessments of all schemes should be produced prior to decision with the appropriate level of sensitivity analysis included for member decision</li> <li>• the programme team should make this mitigation an early priority, with the capacity of the Monitoring Officer and their team to oversee any emerging changes also reviewed</li> <li>• the practice of tabling options at meetings should cease, and members should be given sufficient time and provided with all relevant information before making major decisions</li> </ul>
9	<p><b>As part of the review of governance and decision making, any actual, perceptual or potential conflicts in relation to Council Officer/Member involvement with Knowle Green Estates and similar bodies should be assessed</b></p> <p>The assessment in relation to KGE specifically should consider the intrinsic role of the Council's two most senior Finance Officers within the company, and whether this should continue or whether alternative arrangements are needed.</p> <p>Advice should also cover the role of the Vice Chair of the Development Sub-committee within the gateway process for new projects involving KGE.</p> <p>Again, the programme team should work closely on this issue with the Monitoring Officer.</p>
10	<p><b>Time-limit property valuer incumbency</b></p> <p>In the current economic climate, in order to mitigate any immediate risks, we recommend that SBC obtains a second opinion valuation of its property portfolio as soon as practicable. In the longer term, by time-limiting valuer incumbency, the council will be able to engage different valuers and gain a broader and potentially more balanced view of the value of its property portfolio.</p>

11	<p><b>Commission a review of the use of short-term borrowing</b></p> <p>We are concerned that the use by SBC of short-term borrowing to fund development schemes, and its intention to repay that short-term borrowing with a consolidated PWLB loan over 50 years, may represent a risk similar to other local authorities that have found themselves in financial difficulty. We have had not the opportunity to identify the detailed financial implications of these loans and suggest that this should be done as a matter of urgency in the current climate i.e., with reference to the business case for each relevant scheme.</p>
12	<p><b>Ongoing review of business cases</b></p> <p>In relation to some of the concerns around the use of the sinking fund e.g., rent free periods, we strongly recommend that relevant business cases be reviewed, as a minimum, after 3 years of operation and then regularly through the life of the scheme to ascertain that the expected benefits are being realised.</p>

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