

UK local government finance

Council builds £1bn property portfolio to sidestep UK austerity

‘Cunning plan’ boosts income but is labelled ‘a massive gamble’ by opponents



Spelthorne council announced a deal in 2016 to buy BP's business campus in Sunbury-on-Thames for £358m © Greg Balfour Evans/Alamy

Judith Evans in Staines-upon-Thames FEBRUARY 17, 2019

Opposite a portrait of Margaret Thatcher in the office of Ian Harvey, Conservative leader of Spelthorne council, stands a backdrop reading “Spelthorne means business”.

This is a common phrase, but in Spelthorne it can almost be taken literally. The borough council represents a clutch of leafy towns in south-east England with a population of about 100,000 — but it has also turned itself into what is in effect a commercial property company with a portfolio worth almost £1bn.

The local authority in Surrey has pioneered the large-scale use of cheap government-backed loans to buy real estate to generate rental income to offset austerity-driven cuts in funding.

Other English councils have followed Spelthorne's example, while critics have questioned the wisdom of local authorities investing in commercial property, saying it could leave them badly exposed in market downturns.



Ian Harvey: 'Until somebody comes up with a better "cunning plan", this is the way that we are going to seek to deliver the services that residents want' © Spelthorne Borough Council

But Mr Harvey, who has led the council since 2016, has few doubts about his property strategy.

“If our predecessors had done this when this council was first formed in 1974, we would now be sitting on £1bn worth of property, unencumbered [by loans], with a £50m annual rental income,” he said. “This is the legacy that we will hopefully be leaving for the residents.”

Mr Harvey, who is up for re-election in May, added that his critics were “devoid of realistic alternatives”.

“Until somebody comes up with a better ‘cunning plan’, this is the way that we are going to seek to deliver the services that residents want,” he adds. “It’s not an ego trip.”

BP business campus deal sparked buying spree

Spelthorne entered the commercial property market with a bang: in 2016 it announced a deal to buy BP’s business campus in Sunbury-on-Thames for £358m.

That marked the start of a series of property purchases — in Surrey, Reading, London and the UK capital’s outskirts — that amassed a portfolio worth £914m.

Last year Spelthorne extended its borrowing limit with the Public Works Loan Board, a government agency, to £1.5bn.

Spelthorne’s property buying spree has prompted a backlash, with the Labour opposition on the council calling the BP deal “a massive gamble with residents’ money”.

Private-sector property companies grumbled privately that cheap, fixed-rate funds from the

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Ian Harvey, Spelthorne council leader

massive cuts to meals on wheels, bins being emptied once a month.”

The council's real estate income makes up for the cuts, as well as for reductions in other funding sources, such as grants through the county council.

Spelthorne says rent from the properties contributed a net £4m to its budget in 2017-18, after capital repayments, interest and other costs. The property portfolio — which has recently expanded — is expected to generate a net £7.5m in 2018-19 towards an annual budget of about £22m, and a net £10m the following year.

But councils' property purchases have prompted warnings from Cipfa, the professional body for accountants in public services, that local authorities' finances could be put under strain in downturns.

Don Peebles, Cipfa's head of policy, said last year that a plunge in the property market could cut into rents and add to vacancies.

“This could mean that authorities will need to cover future borrowing costs from other funds,” wrote Mr Peebles. “Fluctuations in property values in our history shows that this is almost a given.”

Focus is on blue-chips, not struggling shopping centres

In 2017-18, English councils spent about £4bn on commercial property. While Spelthorne has bought only offices, other local authorities have ploughed millions into struggling shopping centres.

Mr Harvey and his finance chief, Howard Williams, said Spelthorne had been prudent in its investments.

Public Works Loan Board gave Spelthorne an unfair advantage in bidding for real estate.

But Mr Harvey, who has worked in property finance, said he had little choice. When he became council leader, the local authority had a £2m annual deficit and was eating into its financial reserves.

Cuts since 2014 have gradually eradicated £2.5m of central government revenue support grants that Spelthorne received that year.

Without the property income, said Mr Harvey, “we would have been looking at very simple things like

They added the council only bought properties rented for 10 years or more to “blue-chip” companies, and stress tested their purchases against a range of scenarios, including tenant failures.

On the BP complex, Spelthorne’s 50-year borrowing is divided into a series of loans lasting one year, two and so on, up to 50.

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This enables the council to repay the principal on a staggered basis, and to minimise interest costs. The loan with the longest maturity, of 50 years, carried an interest rate of 2.08 per cent, said Mr Williams.

Spelthorne’s real estate investments led to questions from KPMG, the council’s auditors, who demanded a revision of the local authority’s 2017-18 accounts to “appropriately reflect” property purchases and loans.

Mr Williams said KPMG — who will be replaced by BDO this year — “struggled to perform a judgment on the value for money and accuracy of the accounts . . . that’s kind of no surprise, given that it’s the first time any local authority has done anything like this”.

Mr Harvey added that Spelthorne’s focus would now shift. “We are now at the stage where we don’t necessarily need to do these big property deals, because we have met our need to shore up the council’s finances, to develop a war chest,” he said.

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