Agenda Item No:	9
Report To:	Cabinet
Date:	14th April 2016

ASHFORD
BOROUGH COUNCIL

Report Title:	**Elwick Place Development** **Proposal for the:** **1. purchase of a mixed use leisure development incorporating cinema, hotel, food, beverage and Car Park and retail use in Elwick Road (the "Development"), and** **2. to provide development funding for the Development**
Portfolio Holders:	Cllr Clarkson, Leader of the Council Cllr Shorter, Portfolio Holder for Finance & Budget, Resource Management Cllr Galpin Portfolio Holder for Town Centres Focus and Business Dynamics
Report Author:	Paul Mckenner Head of Corporate Property and Projects

Summary:

In October 2015 Cabinet members approved the Council's Five-Year Corporate Plan, in which a key priority is encouraging economic investment and growth. The scheme is vitally important to the town centre's continuing development and regeneration. By investing to facilitate an early start on development, the Council will ensure the scheme is brought forward without further delay. Whilst this is the primary objective, investment also provides the Council with an opportunity to generate an income stream to assist in achieving its goal of delivering additional income each year, as required in the Medium Term Financial Plan to compensate for expected government grant reductions.

Following the positive reaction from residents and the local and national trade press to planning permission being granted at Elwick Place the council is keen to both continue its sound commercial approach and strengthen its commitment to Ashford town centre. An opportunity to acquire this major town centre development has become available and the proposed involvement by the Council extends to providing development funding over the period of the development's construction.
The proposed development funding and acquisition is subject to a satisfactory outcome of the detailed due diligence and final negotiation

of the contracts. Please note that while the Council operates as transparently as it can at all times, there are instances such as this where its ability to act commercially would be hindered by the full disclosure of the figures involved and so it is necessary to act in this measured way.

The value of the proposed purchase (the specific details of which are commercially sensitive) exceeds the relevant financial limit and therefore the acquisition needs Council approval.

The proposed acquisition demonstrates the Council's commitment to securing early regeneration of the Town Centre and also improves the Council's support to borough wide service delivery.

Key Decision: No

Affected Wards: Victoria Ward Ashford

Recommendations: **The Cabinet be asked to recommend to Council that it:-**

I. note the contextual advice contained within the report

II. note the due diligence advice to date in Appendix C

III. authorise the Chief Executive, in consultation with the Leader of the Council, the relevant portfolio holders and the Chief Financial Officer and the Director of Law & Governance, be authorised to negotiate measures and take any other steps she considers prudent in the Council's interests in order to enable the transaction to proceed as a sound investment, and to approve final due diligence reports and a final risk analysis schedule which are satisfactory in her view. Subject to those matters recommendations IV- VIII become effective. In the event that these matters are not satisfactory, the proposal be reported back for decision by Cabinet

IV. agree to entering into an agreement to finance and ultimately purchase the development of Elwick Place with Stanhope PLC at a yield of 5.1% on the income generated by the scheme at an outlay currently estimated in Appendix A.

V. agree to providing construction finance from a mix of borrowing and internal cash as illustrated at paragraph 60 but with final discretion of the mix of funding delegated to the Chief Financial Officer in consultation with relevant portfolio holder, noting the possible need for a later report containing recommendations to amend Minimum Revenue Provision arrangements with the Council's Treasury Management Policy

VI. agree to fund the purchase of the Elwick Place development in line with the strategy outlined in paragraph 63 but with final discretion of the mix of funding delegated to the Chief Financial Officer in consultation with relevant portfolio holder

VII. agree the revised prudential indicators as outlined in Appendix E

VIII. to give authority to the Director of Law & Governance in consultation with the Head of Corporate Property and Projects to effect and complete all necessary documentation including the Development Funding Agreement to action the above recommendations.

Policy Overview:

Primarily the Elwick Place development secures the regeneration of an important town centre site and stands as one of the Council's top corporate priorities. Therefore enabling early commencement of construction of this site is of key importance for economic development in the town. Furthermore, the dynamic public sector environment has seen an ever increasing pressure placed on councils to strategically manage and operate their property assets and to think commercially about property decisions, investment and income-generating opportunities.

At the same time understandably there is continuing pressure to provide better local services – building on Ashford's position within the top 50 places to live in the country and its status as the number one business location in Kent – and raise standards, providing additional regeneration and economic benefits to the Borough whilst operating under financial constraints. Many authorities are now acting to strengthen their funding base and reduce their reliance on Government grant by building asset portfolios that provide a commercial return.

Examples of which are:-

Chorley BC shopping centre with a capital value of £23m

Luton BC generates £620,000 of commercial income per year

Eastleigh BC , has a £100m of commercial assets

Harrow Council approved a new Commercialisation Strategy

Further details can be found in paragraph 20

Ashford Borough Council has adopted this proactive position for some time and already has a Strategic Property Fund allocated for purchases up to £2m in any given year. As this acquisition exceeds the criteria in terms of value, formal agreement needs to be sought from Cabinet and then by full council.

Financial Implications:

Subject to the final due diligence, the funding and then purchase of this development is considered sound investment for the Council to secure an important regeneration development, whilst also providing an income stream to increase the Council's financial resilience over time rather than be reliant on ever decreasing Government funding.

Accordingly, this potential income stream will assist the Council in achieving its goal of generating additional revenue each year as required in the Medium Term Financial Plan. The construction phase funding proposed is recommended to be financed from reserves and prudential borrowing with the mix and timing to be at the discretion of the Chief Financial Officer (the Head of Finance) in consultation with the Portfolio Holder for Finance & Budget, and Resource Management.

The funding of the investment is proposed to be funded by utilising a 50 year annuity loan from the PWLB but with final discretion of the mix of funding delegated to the Chief Financial Officer in consultation with relevant portfolio holder.

Risk Assessment	A Risk Assessment has been carried out and a draft is contained within Appendix B. This will be revised and completed following completion of the diligence work and consequential negotiations and the final version will be approved in accordance with recommendation III
Exemption Clauses:	**Exempt Appendix A, B & C Not For Publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.**
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Appendices	Exempt Appendix A – Funding and Investment Opportunity Exempt Appendix B – Risk Assessment Exempt Appendix C – Advisors reports Appendix D - Plan of the Development Appendix E - Prudential Indicators

Report Title: **Elwick Place Development**

Proposed purchase of a mixed use leisure development incorporating cinema, hotel, food, beverage, Car Park and retail use in Elwick Road (the "Development"), and to provide development funding for the Development

Purpose of the Report

1. To ask Cabinet to recommend to Council that the Development at Elwick Place is funded and purchased as outlined within exempt Appendix C.

2. To demonstrate to members the economic development value of strategic capital investment in the Town Centre, the impact such investments have in placing less reliance on government grants, and underline the clear message it sends out to residents and existing and future businesses of the Council's unwavering commitment to the town centre and the wider community.

Regeneration and Economic Development

3. The existing leisure offer in the town centre is very limited and the need to regenerate this part of the borough to both tackle decline and to create a new leisure and entertainment hub as part of the wider ambitions of Ashford Borough Council has long been recognised. Hence the Elwick Place site was acquired by SEEDA some years ago for regeneration purposes and SEEDA put in place a Development Agreement in 2010 with Stanhope PLC to construct a new leisure development on the site. In November 2015 the Council acquired the site from HCA, (SEEDA's successor) in order to maintain the focus on regenerating this key site.

4. In 2003 Ashford was identified as one of the 'growth areas' in the Government's Sustainable Communities Plan. The Growth Plan agenda set the context for the current Core Strategy. The Town Centre is at the heart of the Town's growth area role and is the economic driver that will help to provide a strong commercial and service centre to meet the rapidly expanding needs of the growing Town

5. Part of delivering this strategic objective is to ensure that sufficient amounts of development are delivered on sites within the Town Centre. Elwick Place is one of these. It falls within the Town Centre Core and was originally allocated for redevelopment in the Ashford Borough Local Plan 2000. The allocation was carried forward to the Core Strategy and, in turn, the Town Centre Area Action Plan which identifies Elwick Place as one of the largest and most important of the development sites in the Town Centre. It is envisaged to deliver a range of uses including retail, leisure and residential.

6. The Development, consisting of a 6-screen cinema, hotel, restaurants and cafes will revitalise with revitalise this part of the town centre and bring with it many advantages and the Council's involvement will ensure early delivery of the benefits:

- **Employment opportunities** – short term jobs will be generated during the construction of the Development. Long term the Development will support a range of employment opportunities that can be exploited by the local population. It is anticipated that many of these jobs will be retained in the Borough. This is based on experience elsewhere that shows that the retail and leisure employment does not have a wide catchment.

- **More choice** - the Development will have a positive impact on the vitality and viability of the Town Centre by delivering an increase in leisure provision. It will provide much needed facilities, increasing choice for the residents of the borough; in particular the post-work and evening offer which is currently very limited.
- **Attracting Visitors from outside of the Borough** – the Development will not only attract visitors from the borough but also those from further afield,
- **Increase in linked trips** – currently there is relatively few linked trips between different shops and other facilities in the Town Centre resulting in significant leakage of spend to other centres (Canterbury, Maidstone). Visitors are often looking for convenience and look to combine leisure, retail and dining experiences. The Development by increasing the leisure offer should prevent this, generating linked trips and increasing Town Centre footfall.
- **Safe family environment** - offering families a safe and fun place to spend time together;
- **Catalyst for wider investment** - it will act as a key catalyst for wider investment and development in the Town Centre. The success of the Development and increased number of visitors to the Town centre will attract wider investment and development in the area.
- **Car Parking** – providing necessary facilities as the town centre grows

Developing a Commercial Council

7. In addition to approving the council's Five-Year Corporate plan, members have received a number of reports outlining the Council's financial position. Today more than ever, there is increasing pressure being applied on the public sector to strategically manage and operate its property portfolio and to consider corporately property decisions and investment and income-generating opportunities. At the same time the Council must continue to provide better, cost-effective local services and raise standards whilst operating under budgetary constraints.

8. It is becoming clear that asset management is at the heart of achieving and delivering efficiency in the public sector whilst also meeting performance targets and delivering the services residents rightly expect.

9. Asset management is a key part of the business planning that connects strategic level decisions within an organisation's business with the deployment of both its resources and future investment requirements. The economic prosperity of the Borough and the Council's financial position are intrinsically linked and as such underpin the success of the delivery of the corporate plan. This proposal further demonstrates the Council's commitment in helping to shape the needs of the borough now and in the future.

10. The Council currently receives £2.1 m by way of Central Government Formula Grant funding which is just over 15% of the net expenditure budget. Formula grant funding will be £1.3m in 2016/17 reducing to £0 by 2019/20. The Council has had a long held ambition to become independent of government grant and as early as July 2014 this became a stated pillar of the Council's financial strategy. Cabinet report of July 2014 "Informing the Next 5 Years" showed forecasts with government grant being forecast to reduce to nil and the council needing to consider a balance of measures to address the shortfall. This included a commitment to savings totalling £1.6m on service expenditure, controlling inflationary pressures, and having a Borrowing and Acquisitions strategy. This was in addition to the

Council's support for growth in business rates through the Big 8 and other economic development issues.

11. The Council has sought to generate income from commercial sources, looking to increase the income generated from its existing assets (such as the Civic Centre and International House) to the acquisition of the Wilko's store in the town centre. All these initiatives will generate a return to the Council, with International House budgeted to generate a surplus of £867,000 before financing costs, a significant endorsement of its commercial decision-making. These assets have been financed through a combination of internal borrowing and reserves.

12. The Council currently has external long term borrowing (more than one year) of £119,664,000, this all relates to the Housing Revenue Account (the subsidy buy-out arrangement) which had assets valued as at 1st April 2015 of £241,575,000. The General Fund does not hold any external long term borrowing, however does have an underlying need to borrow of around £8m (following the purchase of International House) which is being funded from internal cash balances at this time. The Council regularly reviews the borrowing position and will take out borrowing when it is advantageous to do so. The Council takes decisions on borrowing to fund asset purchases on a case by case basis based on the ability of the project cash flows to fund the borrowing.

13. Cabinet has received a number of reports that have documented the impact of central government's policy to control spending and the effect that reducing the national deficit has had on this authority. Over the last parliament the public sector has experienced funding reductions of over 40% and Ashford Borough Council has coped well with this, delivering savings totalling £5.5m through a number of initiatives seeking to review how services are procured and provided. In addition to this the Council has purchased International House and some other smaller commercial investments with a view to growing its income – being proactive and adopting a model that is recognised by central government.

14. The Medium Term Financial Plan was presented to Cabinet in October. That report highlighted the tension between the growing cost base in the council (through inflation and demand-led pressures) and a frozen or reducing funding base with the council forecast to lose £2m in formula grant over the next 3 years and many income streams being capped or controlled centrally. The forecast included the Council setting a target for the generation of additional income along with the implementation of the remaining budget savings previously identified, assumptions on housing and business rate growth and a 2% per annum growth in Council Tax also assumed. With all of these factors taken into consideration the plan still showed that there was a budget gap and the report outlined a strategy to make further savings from the Council's leisure provision and the restructuring of management team, which would focus on closing the gap.

15. The report sought and received members' continued commitment to the Borrowing and Acquisitions strategy that was developed to encourage the identification and pursuit of opportunities that would unlock new income streams for the council.

16. The Chancellor of the Exchequer then announced the outcome of the Comprehensive spending review where he re-affirmed his commitment to enabling local authorities to become self-funding with the removal of formula grant and the commitment for the full retention of business rates (although there is the intention to transfer new responsibilities to the sector). The recent budget contained further fiscal tightening for government spending and some reforms to business rates that will reduce receipts from that funding source. These reforms have also transferred risks to local government from central government.

17. The Medium Term forecast was updated and included within the full budget report to the February Cabinet. The forecast reflected the impact of the spending review and local

government financial settlement along with the proposed changes to New Homes Bonus, and includes business rate growth assumptions for a number of development sites that had progressed through the planning process.

Medium Term Financial Plan 2016-2021

	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000's	£'000's	£'000's	£'000's	£'000's
Revenue Support Grant	(1,270)	(615)	*(213)*	*0*	*0*
S31 Grant NNDR reliefs	(538)	(549)	*(560)*	*(571)*	*(582)*
Retained Business Rates	(3,410)	(3,478)	*(5,248)*	*(5,316)*	*(5,422)*
New Homes Bonus (50% allocated to support base budget)	(3,782)	(2,947)	*(2,380)*	*(2,760)*	*(2,439)*
Total Government Funding	**(9,000)**	**(7,589)**	**(8,400)**	**(8,647)**	**(8,443)**
Council Tax	(6,490)	(6,708)	(6,969)	(7,212)	(7,482)
Total Income Receipts (Including Specific Grants)	(48,037)	(48,080)	(48,137)	(48,283)	(48,430)
Base Budget Gross Expenditure	63,135	63,135	63,916	64,450	65,558
Contribution to/from NHB reserve	311	(992)	(1,428)	(719)	(604)
Budget Increases		822	534	1,108	1,529
Budget Reduction Strategy		(41)	0	0	0
BUDGET GAP	**(81)**	**547**	**(484)**	**697**	**2,128**

Embracing the Commercialisation of Local Government

18. Given the scale of funding reductions from central government witnessed now and anticipated in the future, the Council will need to replace the £2m formula grant it currently receives to be able to budget at a standstill position, maintaining services at their existing level. Given the scale of the reductions proposed there has been a real impetus around commercialism, entrepreneurialism and innovation within local government to meet future challenges in providing effective services.

19. It is important to note that operating in a more commercial way, specifically by investing in assets for economic development purposes, is not a new or unknown exercise for councils. There are examples in Kent of local authorities investing to underpin wider regeneration ambitions. Sevenoaks Council has recently approved a substantial investment in a hotel with car parking; the development has the potential to deliver economic benefits to the District through the provision of a much needed Hotel and additional car parking at Sevenoaks Station.

20. Other examples that are in the public domain include:-

- In December 2015 **Chorley BC** became the new owner of the town centre Market Walk shopping mall. The 35-unit mall, which houses 26 national retailers plus independent shops, was bought by the council for £23m after being put up for sale. The town centre site will play a vital role in the council's vision for the town centre, and will bring an income stream from shop rentals that will not only cover the cost of the loan repayments, but will also bring in additional funds to invest in the town centre or council services.

- From early 2013, **Luton BC** adopted a much more commercial approach to managing its property assets. This involved selling off properties that provided a low return on the capital tied up, and investing instead in buildings likely to provide a more substantial rental income. That included investing outside the borough boundary. As a result, Luton council now owns office buildings in neighbouring Milton Keynes as well as in Chatham (Kent). The net income is about £620,000 per annum.

- Similarly, **Eastleigh BC's** main area of commercialisation for the last five years has been in respect of property. By 2015, expenditure (financed principally by borrowing) will have reached over £100 million and includes a range of assets such as shops, banks, pubs and offices (one of which, following refurbishment, is now their headquarters). The Council is landlord to a high profile mix of businesses including B&Q, Lloyds Bank, Weatherspoons, Matalan, Halfords, Pets at Home, Costa Coffee and Travelodge as a result of the freehold purchase of land and buildings. The most ambitious acquisition has been the Ageas Bowl, home of Hampshire Cricket, where the council is investing £40 million, including the construction of a 4 star Hilton Hotel.

- **Harlow Council** recently approved a new 'Commercialisation Strategy', key to which will be a refreshed Investment Strategy, including investigating –*"*Opportunities for investing in a portfolio of commercial property will also be explored as well as other potential investment opportunities such as energy generation."

21. The Council has successfully purchased a number of high profile assets in the Borough, which have already delivered significant revenue benefits without which the Council would have had to make significant cuts in services. The foresight of Cabinet Members supported by the Council at large to embrace this new agenda by placing a greater emphasis on the development of a property portfolio which would help balance the budget, providing the risks of carrying out these types of investment were clearly understood and a strategy was in place to mitigate against those risks, should be noted.

Economic and Regeneration Benefits and Commercial Opportunity

22. Members will be aware that last July leading UK developer Stanhope Plc submitted a planning application for the development of Elwick Place with the aim of transforming a vacant brownfield site in the heart of Ashford Town Centre into a potentially thriving leisure and food and beverage area including a boutique cinema, a family hotel and a number of restaurants. The scheme was unanimously approved at Planning Committee in December 2015.

23. This flagship 2.6 hectare (6.42 acre) site, opposite Debenhams was originally part of the location of the town cattle market and will deliver new facilities that will transform the town's night-time economy.

24. The detail of the proposed arrangement with Stanhope Plc is commercially sensitive and therefore is included within an Exempt Appendix A.

Due Diligence

25. In readiness for the decision, the Council has commenced the due diligence process and has commissioned a number of external leading advisers in their field. Due diligence forms the basis of the risk assessment and risk management work within this report.

26. This scope of work includes the following:-

- Full valuation and specialist advice on the commercial yield (from CBRE a leading London Commercial agent, who has been involved in the leisure development on Junction 9)
- Financial review on the structure of the loan finance and proposed purchase (Council's Treasury Management Advisers, Arlingclose)
- Tenancy reviews and lease investigations and covenant strength of tenants (Craddick Retail)
- Development and funding agreement review and commentary thereon (lawyers, Thompson Snell and Passmore)
- Review of the cost of construction, Combination of In-house service and external QS specialists, Pellings
- Specialist Tax advice including VAT and Stamp duty (KPMG)
- EU procurement and state aid (external lawyers and HCA)

27. The due diligence process will not have been fully completed when this report is issued, but the work so far is set out in Appendix C. The risk analysis in Appendix B will be finalised when the due diligence work is complete.

28. Progression of the purchase will be subject to full completion of the due diligence work and recommendation III deals with the handling of this.

Financial

29. The Council's Treasury Management advisers have assessed Stanhope's financial strength and commented on the financial strength of the potential cinema and hotel operators and details are set out in their draft report is contained within Exempt Appendix C.

30. The net annual surplus from this proposal (i.e. after professional fees, the council's finance, management and risk provision costs) will support the revenue budget in future years helping meet the income targets that have been included within the Medium Term Financial Plan.

31. The potential investment has been appraised by the Council's treasury management advisors, utilising a number of options to fund the acquisition and stress test the financial model. A copy of their draft report is contained within Exempt Appendix C

32. The financial model on of the draft report represents a base case of a 50 year PWLB annuity loan for the council against which other and more flexible funding opportunities will be considered, principally using shorter term finance as part of the financing to reduce revenue costs against the base case. However, short term finance may create a re-financing risk (as interest rates could increase in the future) potentially impacting upon the surplus generated for the general fund.

33. The Council does have internal reserves that could be used to fund some of this investment. If the Council does choose to use some internal reserves (similar to the International House

financing) it would forfeit the investment income that would be generated on the cash balance. However, at the present time the Council currently generates between 0.5% and 1% on cash investments. By using balances to support the development finance the council t would save between 2-2.5% in interest costs by comparison with the base case.

34. The Councils debt portfolio is monitored by its Treasury advisors and they will make recommendations to the Chief Financial Officer on ways to optimise the return and manage the re-financing risk.

Risks

35. There are a number of other risks that need to be taken into account when carrying out the due diligence including making proper checks in relation to the covenant strength of the developer and the proposed tenants and ensuring that the Council is fully and that the terms represent a sound investment at a yield of 5.1%

36. A draft Risk Assessment is attached at Appendix B.

The EU referendum

37. There has been press coverage of the uncertainty over the referendum result, particularly for the possible effects for foreign investment into the London property market. Stanhope Plc has not experienced any changes affecting its views on the development or the level of interest for the remaining leases despite the uncertainty arising from the referendum.

38. The way that the arrangement is structured, provides a measure of risk management within it, as the price to be paid for the purchase is driven by the yield on the leases in place.

Development Risks

39. The Council will fund the construction costs. The risks of cost over run rest with the developer because the price paid for the development will be determined by the income from the leases divided by the yield of 5.1%. (Yield is defined as the income return on an investment). Therefore if the cost of the development were higher this would not affect the price paid for the development. If construction costs (ie: the loan advanced) exceed the price payable for the development, there will be refund or capping provisions in the Agreement. The Council's interests are protected should construction costs be lower than anticipated as there is an overage clause allowing the Council to share in any growth in profit from the development.

40. The structure of the arrangement passes the risk of units being void at practical completion to the developer, if they are unable to let the vacant units the price for the development will be less.

41. The risk assessment highlights these issues in more detail however the main risk that has been highlighted is the concentration risk of the investment in Ashford and the risk to the council if the development were to fail at some future point. The Council has engaged commercial and real estate advisers CBRE to examine the risks within the leisure market, and advise on the recommendation that the council purchases the investment at the offered yield of 5.1%. Further work is being carried out and will not be available until shortly before the Cabinet meeting. This advice will be tabled at the meeting.

42. Voids. Lease terms for the Cinema and, Hotel will be for 25 years and with proposed terms for the restaurants for 10 years. The covenant strength of each of the tenants will be tested

for financial robustness and the same would apply at the commencement of new leases being entered after the initial period has ended. There are requirements within the development funding agreement which permit the Council to have a measure of control over future tenancies. The Council intends to review covenant strengths of the tenants independently each year to allow it to review its Investment Strategy.

43. Maintenance. The individual leases contain provisions where the repairing liability falls with the tenant. The Council would have responsibility for the common parts which would be recovered through a service charge. It is proposed where these costs can not be accommodated within the service charge an allowance should be made within the revenue budget for these eventualities.

44. Inflation. The leasing strategy in place is upwards only rent reviews with a number of caps for the leases for the Hotel and the Car Park. Upward inflation pressure on costs would apply to both service charges and non recoverable costs. This would be more than offset against the additional revenues generated.

45. Consideration has been given to the life expectancy of the cinema and what will happen at the end of the lease period. We need to remember that the town has a cinema at Junction 9 which is over 20 years old. Whilst we are seeing that there is a need for a refurbishment and some re-design of the offer, the life expectancy of a cinema can be viewed at more than 25 years. However the location of the site and other development that is planned within the town and the level of growth that is indicated within the local plan suggest that there will be alternative uses for the site, should social and economic factors become a consideration in the long-term.

46. An important consideration is the concentration risk of having this significant investment within the town centre and with Stanhope Plc. Given that the leases will have to comply with minimum requirements in the funding agreement we can be reasonably confident that this is not a short term risk, however it will be a consideration for the medium term when there are lease events that would need to be managed. It needs to be remembered that in the event that the Elwick Place development deteriorates there will be a significant impact on the council regardless of whether it has a financial interest in the site or not.

47. However it would be prudent to consider ways to mitigate this risk. Arlingclose have advised that it would be a viable strategy to seek to sell or transfer the asset into a property fund which would then provide the council an income stream but diversify the council's geographical risk. It is advised that the Council's treasury advisors be retained to monitor the market to identify when it would be advantageous to the Council to consider such a transaction and provide advice at that time to inform the decision making process. In any event subject to approvals, the site could be redeveloped eg: for residential purposes should the Council decide to do so in the future.

Financing Risk

48. The Council has access to money markets and can borrow from the Public Works Loans Board whose lending rates are linked to government gilt rates. This means that the Council has the opportunity to fix its borrowing costs and minimise its refinancing and interest rate risk. The Council's treasury advisors have reviewed their outlook for interest rates and considered an optimum strategy for the council to follow to finance the investment, taking advantage of cheaper funding available for short dated borrowing whilst providing certainty for the majority of the funding. It is therefore considered that this risk can be managed within the construction of a loan portfolio for this investment.

Other Options Considered

The option of not investing in the development would lead to further delay whilst alternative funding was explored. The Council has not been offered the opportunity to provide construction finance in isolation of the investment proposition.

Conclusion

49. Taking this bold decision makes a significant statement about the borough council's commitment to Ashford town centre. It underlines the importance of the town centre to the Council and shows residents, existing businesses and those considering Ashford as a location for their business that Ashford is a place of positive action with a can-do authority that continues to place its faith in a revived and reinvigorated town centre both during office hours and into the evening.

50. The Council's commercial property portfolio is an important source of funding for Council services and provides a reliable income even during difficult economic conditions.

51. If the Council decides to provide the short term finance and to purchase the Development, it would provide a regular income stream and secure ownership of an important asset for both the Council and the town centre.

Portfolio Holder's Views

52. This investment has the potential to significantly contribute to the Council's ability to be sustainable with reducing grants. The concept of investing in long-term assets producing a net income is both logical and practicable. The Council would be acting in the community's best interests as it will enable services to be maintained, even enhanced, with the potential of further improvement over time. It is vital that the Council acts in a commercial manner to ensure it achieves the priority for replacing Formula Grant Funding with income from other sources. The due diligence must be complete before the purchase is completed.

53. Additionally, this report emphasises the business acumen of the Council, building on its successful acquisitions of International House from a commercial viewpoint and Park Mall from both a strategic and commercial viewpoint. Furthermore, I ask fellow Cabinet Members to note that the vast majority of this work has been undertaken in-house by our skilled and knowledgeable officers. The paper sets out the continued innovation of this Council and follows the agreed path set out in the "Informing the next 5 Years" document and the Five-Year Corporate Plan. I am therefore pleased to commend the recommendations to the Cabinet.

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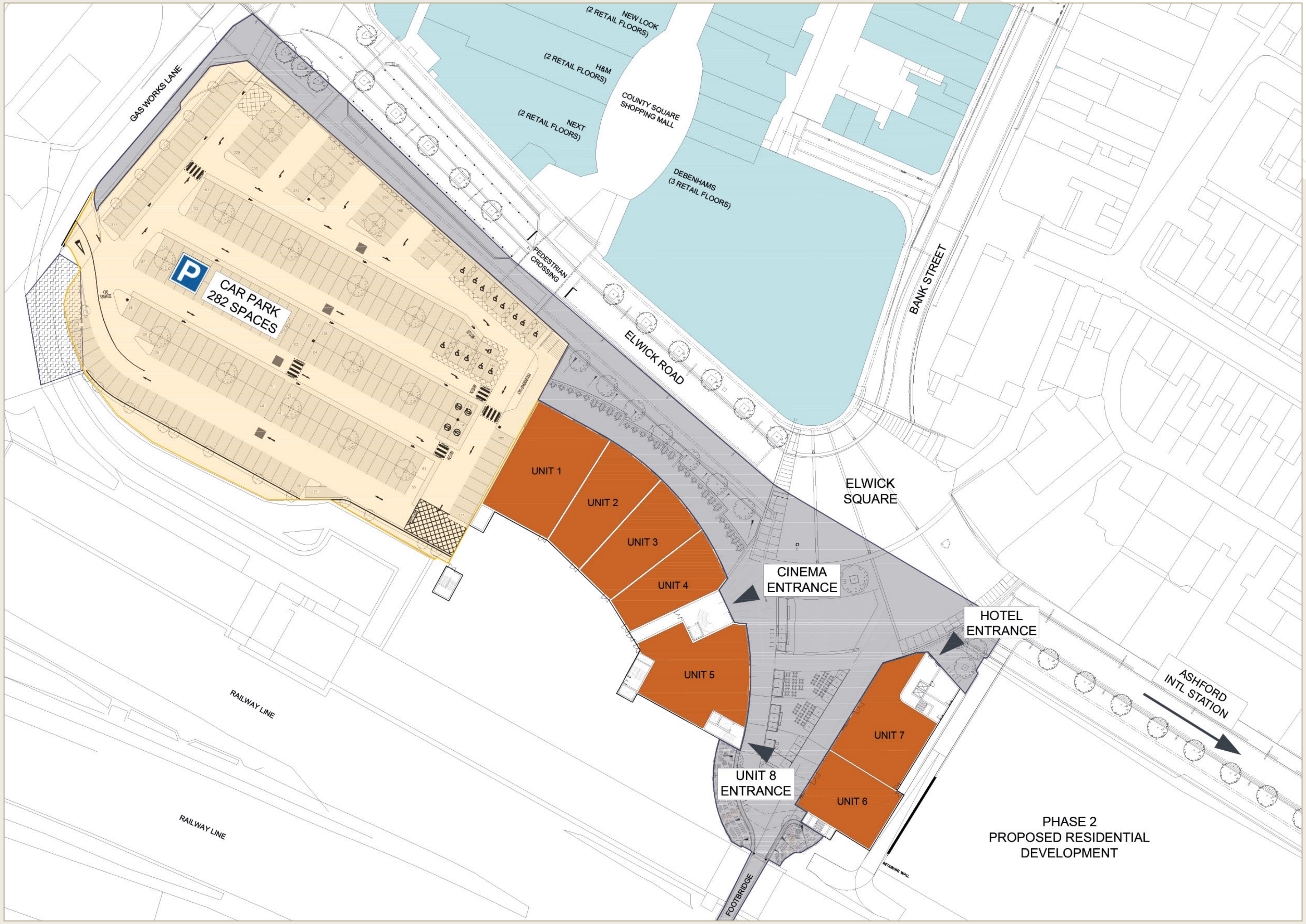
Appendix D

Location Plan

APPENDIX D

Location Plan



Appendix E

Prudential Indicators 2016/17 to 2018/19 – Revised for Elwick Project

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure:

Capital Expenditure and Financing	2015/16 Revised £,000	2016/17 Estimate £,000	2017/18 Estimate £,000	2018/19 Estimate £,000
General Fund	6,196	27,986	22,158	45,614
HRA	10,494	9,775	4,962	5,267
Total Expenditure	**16,690**	**37,762**	**27,121**	**50,881**
Capital Receipts	165	165	165	165
Reserves	6,949	10,240	5,060	5,267
Borrowing	5,233	24,595	20,622	45,129
External Grants	4,342	2,761	1,274	320
Total Financing	**16,690**	**37,762**	**27,121**	**50,881**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.16 Revised £,000	31.03.17 Estimate £,000	31.03.18 Estimate £,000	31.03.19 Estimate £,000
General Fund	15,464	42,524	65,748	113,128
HRA	146,067	146,067	146,067	146,067
Total CFR	**161,531**	**188,591**	**211,815**	**259,195**

The CFR is forecast to rise by £12.66m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.16 Revised £,000**	**31.03.17 Estimate £,000**	**31.03.18 Estimate £,000**	**31.03.19 Estimate £,000**
Borrowing	0	35,200	58,424	105,804
HRA	119,664	117,664	114,664	113,664
PFI liabilities	27,159	26,719	26,217	25,649
Total Debt	**146,823**	**179,583**	**199,305**	**245,117**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	**2015/16 Revised £,000**	**2016/17 Estimate £,000**	**2017/18 Estimate £,000**	**2018/19 Estimate £,000**
Borrowing	123,000	156,000	177,000	223,000
Other long-term liabilities	28,000	27,000	27,000	26,000
Total Debt	**151,000**	**183,000**	**204,000**	**249,000**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2015/16 Revised £,000**	**2016/17 Estimate £,000**	**2017/18 Estimate £,000**	**2018/19 Estimate £,000**
Borrowing	344,000	375,000	385,000	495,000
Other long-term liabilities	25,000	25,000	25,000	25,000
Total Debt	**369,000**	**400,000**	**410,000**	**520,000**