DATA LABEL: PUBLIC

CORPORATE POLICY AND RESOURCES POLICY DEVELOPMENT AND SCRUTINY PANEL

ASSET MANAGEMENT STRATEGY AND TEN YEAR CAPITAL PROGRAMME

REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES

A. PURPOSE OF REPORT

The report provides the Corporate Policy and Resources Policy Development and Scrutiny Panel (PDSP) with an update on the approach to developing the council's ten year capital programme for the period 2023/24 to 2032/33, which meets the longer term approach to asset investment and planning agreed by West Lothian Council on 15 February 2022.

B. RECOMMENDATION

It is recommended that the Panel:

1. Notes the work undertaken to date by officers to prepare an asset management strategy and a ten year capital programme for the period 2023/24 to 2032/33;
2. Notes that the Head of Finance and Property Services will present a report to West Lothian Council on 21 February 2023 on the capital asset management strategy and the capital programme for the period 2023/24 to 2032/33;
3. Notes that the report to Council in February 2023 will meet the requirements agreed by Council in February 2022 and the requirements of the Prudential Code.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	Being honest, open and accountable, making the best use of resources, focusing on our customers' needs and working in partnership.
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	The council's approach to capital planning must comply with the provisions of the Prudential Code and the best value requirements of the 2003 Local Government (Scotland) Act. Risks in relation to the capital programme and asset strategy will be managed in accordance with the council's corporate approach to risk.
III	**Implications for Scheme of Delegations to Officers**	No implications at this stage.
IV	**Impact on performance and performance Indicators**	An effective capital and asset strategy is vital to supporting corporate and service performance, however ongoing government restraint has implications for the council's budget and performance.
V	**Relevance to Single Outcome Agreement**	Effective prioritisation of resources is essential to achieving key outcomes.

VI	**Resources - (Financial, Staffing and Property)**	Following the publication of the local government finance settlement circular published on 21 December 2022, and the revised circular issued on 10 January 2023, an assessment of resources indicates that a prudent, affordable and sustainable capital investment programme for 2023/24 to 2032/33 is £277.7 million.
VII	**Consideration at PDSP**	This report is part of the ongoing process of briefing elected members on the approach to future asset management strategy and capital investment.
VIII	**Other consultations**	The approach outlined in this report is based on the capital and asset management methodology, previously agreed by elected members, taking into account current circumstances.

D. TERMS OF REPORT

D.1 BACKGROUND

At West Lothian Council on 15 February 2022, it was agreed that officers should develop a new ten year capital programme and an updated corporate asset management strategy. The substantial reduction in future capital grant funding has meant that, as agreed by Council, a full-scale review of the capital programme has been undertaken for the ten year period 2023/24 to 2032/33. Key considerations of this review were to maximise resources from other areas, such as capital receipts, and to consider options to reduce the requirement for asset related expenditure, for example by rationalisation or transfer of assets.

It was agreed that future capital programme would take a longer term approach to asset investment and planning with the following elements:

- Investment proposals would be produced for each of the four general services asset categories - property, roads and related assets, open space and information and communication technology (ICT).
- A ten year capital programme would be produced for 2023/24 to 2032/33.
- Projects would be phased for each individual year up to 2032/33.
- Block budgets, such as planned improvements and cyclical investments, would be detailed at individual project level, where possible, and phased to individual years for 2023/24 to 2025/26.
- Block budgets would be shown as phased to individual years but not split down to individual project level for 2026/27 and 2027/28.
- Strategic level block budgets will be prepared for the period 2028/29 to 2032/33.

The approach to developing the medium term capital investment has followed the well-established and successful approach, which is based on an assessment of available capital resources, development of Strategic Outline Business Cases (SOBCs) and a robust options appraisal process. The process for capital planning and asset management involves:

- A comprehensive and corporate approach to asset management, covering all council assets.
- Capital and asset management plans that clearly link with corporate objectives, asset performance, service modernisation and external change drivers and need.
- The preparation of SOBCs for all potential capital investment.
- A capital planning and option appraisal framework which assists officers and members in developing and agreeing a capital plan.

The process is an aid to decision making for officers and elected members, rather than a definitive method of arriving at investment decisions. It provides a robust and transparent process for supporting decision making and prioritisation.

It was agreed that the new capital programme should focus on the following categories of investment:

- Core investment (sustaining the council's existing asset base)
- New council funded investment (new council funded assets)
- Externally funded investment (such as developer funded and grant funded infrastructure)

D.2 MEDIUM TERM STRATEGY FOR ASSET MANAGEMENT AND CAPITAL PLANNING

Following the established methodology, the asset management strategy and capital programme has been prepared for the ten year period 2023/24 to 2032/33, linking with corporate priorities. This demonstrates the key linkages between financial and corporate plans and ensures that they are complementary in delivering vital services to communities.

D.3 APPROACH TO ASSET MANAGEMENT

D.3.1 Asset Categories

Continuing current practice, the corporate asset management strategy has been grouped into six asset categories:

- Property
- Roads and Related Assets
- Open Space
- ICT
- Housing
- Fleet

The housing asset category is covered by the housing capital and revenue programmes being reported to Council on 7 February 2023.

Officers have reviewed best practice for procuring vehicles and have determined that leasing continues to represent best value for the procurement of vehicles. As such, procurement of fleet has not been considered as part of the general services capital programme.

D.3.2 Overall Vision

The proposed vision of the corporate asset management strategy is:

"Managing assets efficiently and effectively to support the achievement of corporate priorities and outcomes."

To achieve this, each asset category will continue to have its own asset management plan. The asset management plans will be reported to relevant PDSPs for consideration following agreement of the overall asset strategy and capital investment programme for the period 2023/24 to 2032/33.

D.3.3 Asset Management Strategic Outcomes

To demonstrate efficient and effective asset management, there are eight asset management strategic outcomes, which are:

- Compliance
- Condition
- Suitability
- Sufficiency
- Utilisation
- Accessibility
- Sustainability
- Annual Performance Reporting

D.3.4 Asset Management and Capital Planning

Continuing with current practice, the general services capital programme will group investment into four asset categories:

Property Assets

Property assets are essential to supporting the services delivered by the council. Managing these assets is a structured process which seeks to ensure best value for money and improved performance in meeting strategic needs.

West Lothian Council currently has a property portfolio of 1,005 properties. This consists of two distinct types of property:

- Operational Properties – properties which directly support council service delivery, for example schools, service centres and partnership centres, including properties operated by West Lothian Leisure. There are 267 operational properties.
- Non-Operational Properties – properties which are used to stimulate economic development and provide the council with a stable income stream. There are 738 non-operational properties.

Proposed investment in property assets covers a wide range of capital works including essential statutory compliance, as well as the maintenance of front line buildings such as schools, partnership centres and care homes. As part of the process, it has been crucial to determine the investment required to support statutory priorities in addition to honouring legal commitments. Given the severely restricted resources, it will be necessary to rationalise the number of property assets as the council does not have sufficient revenue and capital budgets to maintain the current number of assets.

Roads and Related Assets

The road and footpath network is the council's largest and most observable asset. The network includes roads, footpaths, street lighting, bridges, flood prevention and road casualty reduction schemes. As it is a highly visible part of the council's asset portfolio, adequate maintenance is essential to ensuring existing infrastructure continues to support West Lothian.

As there are limited resources, maintenance is being prioritised to restrict as far as possible any decline in road condition. The aim of the road's capital programme is to provide a quality, safe, maintained and sustainable network, helping to generate and promote growth in business, leisure and everyday living in West Lothian.

Open Space Assets

West Lothian's urban settlements and villages contain a full range of open space provision including country parks, public parks, formal sports provision, amenity green space, play areas, green corridors and semi-natural spaces. Open space assets maintained by the council include:

- Three country parks
- 2,600 hectares of open space and countryside land
- 104 urban parks
- 33 cemeteries and churchyards
- 18 war memorials
- 396 play assets including play areas, ball courts, skate parks and outdoor gyms
- 100 hectares of woodland
- Seven sites of special scientific interest

The aim of this element of the capital programme is to provide fit for purpose open spaces that support high quality service delivery and meet the needs of communities, whilst minimising costs and future liabilities

Information and Communication Technology (ICT) Assets

The council owns and uses a significant range of ICT assets. These include:

- Data centre facilities
- Communication lines and network equipment
- 126 physical servers supporting 766 virtual guest servers
- Approximately 27,000 access devices, desktop/laptop, phones, printers and smart devices
- 38,000 user and email accounts
- 250 Tera-Byte of data storage
- IT network infrastructure in 160 council/partnership properties

The ICT capital programme aims to make efficient, effective, economical and ethical use of ICT assets to support the council's strategies, service delivery and modernisation.

D.4 APPROACH TO CAPITAL PLANNING

D.4.1 Summary of Process

The agreed approach to asset management and capital investment, is summarised as follows:

- Estimate available resources
- Prepare SOBCs for potential capital investment
- Consider all potential investment
- Scoring of the SOBCs to undertake a prioritisation exercise using the agreed methodology, based on the following four categories:
  - Non-financial considerations (statutory compliance, asset performance, demographic need and sustainability)
  - Service delivery (service effect, community demographic, achievability)
  - Corporate priorities
  - Financial assessment (revenue consequences, whole life cost, prudential borrowing/ affordability)
- Use the above information to prepare a recommended capital programme

D.4.2 Overall Resources

Projected capital resources over the next ten years are constrained, with available resources being substantially less than previous years. This is due to various factors including the reducing availability of capital receipts, reduced capital grant funding from the Scottish Government and reduced revenue resources to support the cost of prudential borrowing. The funding sources for capital investment are as follows:

- General Capital Grant – this is the capital grant distributed by the Scottish Government to support overall capital investment.
- Specific capital grants for a specific purpose (e.g. Cycling, Walking and Safer Routes and other ring-fenced capital grants). This grant income has to be utilised for specific purposes and not general investment.
- Capital Receipts – this is income received from the sale of surplus land and property assets.
- Core Borrowing – core borrowing is the underlying need to borrow for capital expenditure (capital financing requirement) net of receipts, grant income, capital funded from current revenue (CFCR) and other sources of income such as developer contributions.

- Developer Contributions – this is investment that will be funded by developers through Supplementary Planning Guidance (SPG). In most circumstances developer contributions are for specific projects, and are therefore classified as external funding, however due to the council forward funding some developer funded investment previously there are some general resources available for the core programme
- Capital Fund – the level of treasury management costs in any given year will be influenced by a variety of factors and is likely to fluctuate. For sustainability of capital and treasury activity, the council created a capital fund in 2004/05 which provides a reserve to meet future needs and cover budget fluctuations.

A review has been completed to consider all potential funding sources. The aim of the review was to determine if any other potential sources of funding could be utilised to maximise the level of funding available to deliver the new capital programme. The review incorporated the following:

- Third Party Funding
- Tax Incremental Financing
- Loans from Local Government Pension Funds
- Local Income Generation Opportunities to Fund Prudential Investment
- Local Asset Backed Vehicles (LABVs)
- Local Authority Bonds
- Sale and Leaseback
- Private Funding/Joint Ventures

D.4.3 Projected Capital Resources for 2023/24 to 2032/33

Officers have carried out a high level exercise that suggests that the value of a prudent, affordable and sustainable core investment programme for 2023/24 to 2032/33 is estimated to be £280.6 million.

Based on the factors outlined above, projected total resources, including income from specific capital grants, prudential borrowing funded from revenue savings and developer contributions, over the ten year period is summarised as follows:

Proposed Resources	**£'m**
Scottish Government Grants	159.8
Capital Fund and Receipts	37.6
New Borrowing	24.3
Other Funding Including Developer Contributions	58.9
Total Projected Resources	**280.6**

The proposed resource assumptions are assessed as achievable, although there are various risks that will require careful management. These risks include:

- Ability to deliver an ambitious asset disposal programme due to uncertainties regarding the timing of disposals, school capacity constraints and the potential transfer of sites at nil value through community asset transfer provisions.
- Assumed increases in Scottish Government grant do not materialise, especially if the Scottish Government earmarks additional capital funding for specific initiatives.
- Substantial delays in the receipt of developer contributions creating cash flow implications for the council.
- General economic risks from factors which may affect the council's ability to generate capital receipts.

Considering these factors, it would not be prudent to significantly bring forward or increase resource assumptions. Resources will continue to be reviewed and phased to reflect both investment requirements and effective treasury management practices. This should minimise the risk of the programme becoming unaffordable, unstainable or imprudent and will help to make sure that use of capital resources and treasury management activities represent best value for the council. Taking account of all relevant factors the programme is assessed to be at the maximum limits of affordability.

Due to the financial position faced, it is unlikely that material changes to proposed resources could be accommodated Any material change will therefore result in the projected capital programme becoming unaffordable, meaning compensating reductions to the programme would be required.

D.4.4 Strategic Outline Business Cases (SOBCs)

The utilisation of business cases has been an essential element of effective capital planning by the council. Since their introduction, the format of SOBCs has been reviewed as required, for example to reflect recommendations by the councils internal audit team on best practice. Integrated relevance assessments are completed as part of this process and integrated impact assessments carried out if the proposal has a potential impact on protected characteristics.

As capital funds are constrained, investment proposals must be assessed, planned and programmed to deliver key corporate priorities and outcomes. SOBCs will continue to be an essential tool in ensuring information is available to support all investment proposals. Each SOBC includes sections on strategic context, investment options, financial and supporting information and contribution to council priorities and the outcome agreement.

SOBCs are required for all capital investment including existing projects, asset maintenance, prudential investment and potential new projects.

D.4.5 Option Appraisal Framework

The previously agreed and successful approach to option appraisal has been utilised, incorporating current circumstances. This helps ensure that capital investment supports delivery of council services and improves outcomes. The option appraisal framework includes consideration of the type of investment, the non-financial benefits, the impact on service delivery and relevant financial details.

Prudential investment proposals are self-financing and are funded via revenue savings or developer contributions. Due to the investment being self-financing, prudential investment can be considered as and when potential proposals are identified.

D.5 THE PRUDENTIAL CODE

The development of the capital programme must follow the Prudential Code. The Prudential Code for Capital Finance in Local Authorities is a professional code of practice to support local authorities in making capital investment decisions and has been in place since 2004. New editions of the Prudential Code were issued in December 2021. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 7 of the Local Government in Scotland Act 2003. The code provides local flexibility in determining capital investment strategy, on the basis that spending plans should be affordable, proportionate to the council's overall financial capacity, and are within prudent and sustainable levels. The code also requires councils to take account of a range of other factors, including asset management and option appraisal. Each year the council is asked to approve a set of prudential indicators as part of the revenue budget report, covering capital expenditure, affordability, financial prudence, treasury management and external debt. Updated prudential indicators were approved at Council in February 2022.

The prudential code requires the council to take account of a number of factors when agreeing capital investment. The following elements will be considered in reports to elected members on a proposed capital investment programme for the period 2023/24 to 2032/33:

- Affordability, prudence and sustainability
- Value for money and best value
- Stewardship of assets
- Risk management and uncertainties

D.6 STRUCTURE OF ASSET MANAGEMENT AND TEN YEAR CAPITAL PROGRAMME 2023/24 TO 2032/33 REPORT TO COUNCIL

Officers are currently developing the capital programme report based on the parameters and considerations outlined in this report. It is proposed that the structure of the report will incorporate the following elements:

- Corporate Asset Management Strategy
- Summary of approach to preparation of the new ten year capital programme
- Summary of SOBC scoring
- Projected resources
- Proposed capital programme, including projects, block budgets and strategic block budgets
- Other factors, including adherence to the Prudential Code, requirement for Best Value and risks and uncertainties

The proposed appendices for the report to the budget setting meeting are as follows:

- Appendix 1 – Corporate Asset Management Strategy, outlining the integrated approach to asset management and capital planning framework for 2018/19 to 2027/28
- Appendix 2 – Projected Capital Resources for 2023/24 to 2032/33
- Appendix 3 – Asset Category Proposed Investment, including details of individual projects and block budgets as set out in section D.1

The Panel is asked to consider if the above content will provide elected members with the information needed to reach informed decisions and if there is any additional information that would be helpful to be included in the budget report.

Officers will continue to develop the asset management strategy and ten year capital programme and will prepare the report for Council on 21 February 2023 based on the key areas outlined above.

D.7 GOVERNANCE OF THE CORPORATE ASSET MANAGEMENT STRATEGY AND CAPITAL PROGRAMME

The corporate asset management strategy and capital programme provides a strategic framework for securing best value in the use of the council's capital resources and asset infrastructure. To ensure that the strategy is translated into ongoing delivery at operational level, the following governance arrangements are suggested:

- Officers will complete a monthly risked based exercise to monitor progress on asset management and the capital programme.
- Officers will meet quarterly, with quarterly monitoring reports being presented to the Council Executive outlining progress on the asset strategy and capital programme.
- Officers will report to Local Area Committees annually on progress on capital investment in each ward.
- Officers will report to the relevant PDSP on asset management plans for each of the six asset categories before the summer recess in 2023.
- Reports of asset performance for each of the six asset categories will be presented to the appropriate PDSP on an annual basis.

E. CONCLUSION

This report provides an update on the development of the capital programme and sets out that, as part of the medium term financial strategy, officers will prepare a report on an asset management strategy and a ten year capital programme for the period 2023/24 to 2032/33 for presentation to the council budget setting meeting in February 2022.

F. BACKGROUND REFERENCES

General Services Capital Programme 2022/23 – 2027/28 – Report by Head of Finance and Property Services to Council 15 February 2022

Appendices/Attachments:
Appendix 1 – Summary of Other Potential Funding Sources

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26 January 2023

<u>Appendix 1 – Summary of Other Potential Funding Sources</u>

1. <u>Third Party Funding</u>

   The council has a successful history of obtaining third party grant funding from a number of national and local bodies for specific capital investment programmes. This funding becomes available as projects are developed therefore any opportunities will be brought forward for approval as they occur in line with current established practice.

2. <u>Tax Incremental Financing</u>

   Tax Incremental Financing (TIF) is a means of funding public sector infrastructure needed to unlock regeneration in an area which may otherwise be unaffordable to local authorities. The overarching goal is to use limited public finances available to assist regeneration through helping to lever in additional private sector capital. TIF uses future additional revenue gains from taxes (i.e. non domestic rates) to finance the borrowing required to fund public infrastructure improvements that will create those gains. Any proposal for a TIF project must demonstrate that:

   - the enabling infrastructure will unlock regeneration and sustainable economic growth
   - it will generate additional (or incremental) public sector revenues (net of a displacement effect)
   - it is capable of repaying, over an agreed timescale, the financing requirements of the enabling infrastructure from the incremental revenues

   Due to the nature of TIF, there is a risk to the council that there is a timing difference between the loan charges expenditure and the additional non domestic rates income or the additional income is not received as programmed to cover the full repayment of the borrowing. Guarantee mechanisms can be used to help manage the annual risk around loan repayments, however this does not remove the risk that additional income is not forthcoming to cover the full cost of borrowing. TIF is considered a risky option for financing due to the cash flow implications relating to the reimbursement of grant funding.

   As the primary objective of TIF is to unlock development potential, therefore this source of funding could realistically only be used within one of the council's core development areas (CDAs) to forward fund infrastructure which should have been developer funded.

   At this stage it is not proposed to utilise TIF for any of the council's CDAs. The council has been successful in securing other methods of financing infrastructure for to support CDAs (e.g. Winchburgh City Deal).

3. <u>Loans from Local Government Pensions Funds</u>

   Local Government Pension Funds can invest in local infrastructure projects providing it is consistent with the fund's statement of investment principles and any associated risk is measured and managed. Funds currently invest in a range of areas including: 26% in UK equities, 45% in overseas equities and the balance mostly in gilts (7%), bonds (6%) and property (7%).

   Pension funds continue to review their position in relation to investments, with the balance of portfolios changing to reflect priorities and risks. Councils cannot borrow from their own pension fund, therefore West Lothian Council could not borrow from the Lothian Pension Fund. Historically pension funds have invested in housing infrastructure and, although there are limits on the value they can invest in any one area, officers will continue to monitor potential opportunities to secure funds at attractive rates from pension funds. Historically the borrowing rate from pension rates tends to be higher than the rates that are available from the Public Works Loan Board (PWLB).

4. Borrowing from the European Investment Bank (EIB)

The EIB provides finance for sustainable investment projects that contribute to the European Union (EU) policy objectives of innovation and skills, small and medium sized enterprises, infrastructure and the environment. It aims to improve the future of Europe and its partners by supporting sound investments which further EU policy goals.

Loans are granted for individual specific projects with a value greater than €25 million and which comply with strict technical, environmental and social standards. Although the minimum value is €25 million, the EIB tend to lend for major projects in excess of €150 million. Decisions to lend are made on the merits of each individual project and rates can be cheaper than the PWLB.

Given the minimum level of loan, and that a loan will only be granted for a specific project rather than a general programme, it is unlikely that the council will be able to access the European Investment Bank as a source of borrowing for the new ten year capital programme. In addition, the protracted nature of a loan application means that the timeline for achieving the borrowing is in excess of six months. If any projects of this nature are forthcoming, officers will reconsider the potential for EIB funding on a case by case basis.

5. Local Income Generation Opportunities to Fund Prudential Investment

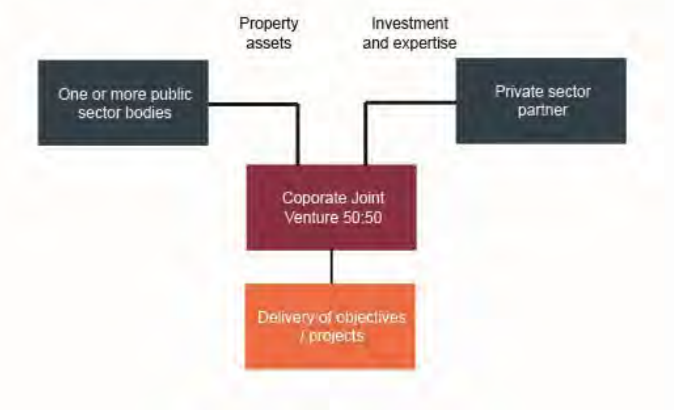
The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) enables councils to make decisions about capital investment that meet local circumstances and available funding. The benefits of the Code is that it integrates capital investment into corporate planning, enables effective asset management, facilitates prudent medium term financial planning and focuses on more rigorous option appraisal. On that basis, councils have the ability to undertake prudential borrowing for any project or programme of investment that would meet local needs and priorities.

Proposals for prudentially funded projects covered by budget savings will be considered as they emerge, however there is the opportunity for prudentially funded projects to be paid for by new income generation opportunities. The potential for the introduction of user charges to cover the financing cost of investment continues to be available to the council under the Prudential Code.

Given the financial pressures facing the council over the next five years, there may be limited scope for utilising additional income generation opportunities to fund prudential borrowing.

6. Local Asset Backed Vehicles (LABVs)

Local asset backed vehicles (LABVs) are used to combine private sector finance and skills with public sector real estate to facilitate development and investment. In the basic LABV model, a public sector body will create a corporate entity with a private sector partner. The public body transfers land and the private sector partner matches the value of the assets with funding.



These models have been used where a public sector body has significant land that it wants to develop over the medium term, while influencing what is delivered in terms of quality, infrastructure and timing. It can also enhance the value of the public sector body's investment portfolio.

The council has used LABVs in the past, most notably the Cowhill development land at Heartlands in Whitburn. Currently there are no suitable sites for this model, however there is the potential for developers to come forward to the council to develop the approach for specific sites held by the council. Finance and Property Services will investigate any potential LABV proposal as they emerge.

7. Local Authority Bonds

Bonds are the preferred form of financing for large capital investment projects that need long term financing. They can be issued directly by local authorities or through financial intermediaries. There are two types of bond – general obligation, which is secured against a revenue stream/taxing power, and revenue bonds which are backed by the specific income stream generated by the project.

As a credit rating is required before a local authority can issue bonds, and this requires a substantial investment of money and time, the ability to issue bonds is limited to only a few authorities. The authorities that can issue bonds are generally large and require substantial capital investment (e.g. the Greater London Authority and Transport for London). In addition, the minimum size of a bond issue is expected to be around £200 million to make it a cost effective option. A £370 million bond issue was undertaken by Aberdeen City Council in 2016 to fund their capital programme which included their City Deal. Aberdeen City Council took advantage of this option due to the large size of their capital investment programme (over £1 billion) but also to match repayment of debt to the income streams generated through the City Deal.

Potential issues and risks associated with bonds include:

- Bond issues are index linked which means the principal increases annually by RPI. Inflation is at its highest level in the last number of decades which will result in substantially additional costs for the issuing authority with the principal to be repaid increasing each year.

- With PWLB borrowing, the principal does not increase therefore there is certainty regarding the amount to be repaid on maturity. As the principal doesn't increase with inflation, the value of the PWLB principal amount has actually decreased in real terms.

- The cost of obtaining a credit rating is high, along with the annual charge to maintain the credit rating. Substantial investment of staff resources is also required to monitor and maintain the credit rating.

- The minimum size for a bond issue would be £200 million. As lenders generally don't want to defer monies lent through bonds, it is likely that there would be a significant cost of carry, in the current interest rate environment, until the funds were required for capital investment.

- The bonds take a long time to arrange and the interest rate has to be set in advance of the bond issue. Due to volatility in the markets and interest rates, this may mean that the bond issue does not represent the best rate available on the issue date. PWLB rates are updated twice a day therefore the council can immediately take advantage of any short term volatility in lower PWLB borrowing rates.

- The income that has been assumed to meet the repayment costs of a bond not being achieved. In the case of the Aberdeen bond, significant income has been assumed from a new Conference Centre. If this income is not forthcoming, it would create a budget pressure as the cost of borrowing is fixed and must be repaid whether the income is received or not.

- The substantial investment required to facilitate a bond issue, the risks around rates and the minimum bond value of £200 million means that the council will not look to progress development of a bond at this time.

8. <u>Sale and Leaseback</u>

A sale and leaseback arrangement is when an organisation sells a property to a third party who then leases the asset back to the seller. Sale and leasebacks are an alternative to standard financing as they allow the owner/occupier of the property to free up capital that has been invested in real estate, and use the monies raised to finance other priorities.

This type of arrangement converts property assets into capital without the occupier losing control of the building, can offer lower costs compared to standard borrowing and can transfer the risk of managing/maintaining property to a third party.

Potential risks and issues associated with sale and leasebacks include

- Any future appreciation in the value of the property is no longer available to the council.

- Council will be liable for rent payments and tenant responsibilities which is likely to be difficult to accommodate with continued constrained revenue budgets.

- If an agreement cannot be reached with the landlord at the end of the lease period, the council may need to move elsewhere.

- The council may lose a degree of control and flexibility when it comes to how they use the property.

- Finance Leasebacks should be rare in local government, because they would require the purchaser to be able to offer an interest rate implicit in the lease rentals that would be more attractive than PWLB borrowing rates. If a finance leaseback does not offer access to cheaper cash than an authority could otherwise get, there is no substantial point to it.

9. <u>Private Funding/Joint Ventures</u>

Joint venture can describe a range of different arrangements between two or more separate entities. Each party contributes resources to the venture and a new organisation is created in which the parties collaborate and share the risks and benefits associated with the venture. A party may provide land, capital, intellectual property, experienced staff, equipment or any other form of asset. Each generally has an expertise or need which is central to the development and success of the new organisation which they decide to create together. It is also vital that the parties have a ‘shared vision’ about the objectives for the Joint Venture.

The council currently has joint control and right to assets in West Lothian Integration Joint Board which is defined to be a joint venture. Previously the council had a joint venture relationship with a 50% holding in West Lothian Recycling Ltd until that organisation was wound up in October 2019.

At this stage no opportunities for joint ventures were identified, however officers will continue to review the merits of any potential arrangements as they appear to ensure that the council is maximising its position in partnership with external partners, stakeholders and bodies.