Councils have splashed out on commercial property worth more than the UK's aircraft carrier fleet, as 24 local authorities own shopping centres, office blocks and industrial buildings worth twice their core budgets.

Woking borough council in Surrey now owns nearly £400 million in commercial property — spending £100 million of that since 2017 — despite critics calling this practice a "disaster waiting to happen".

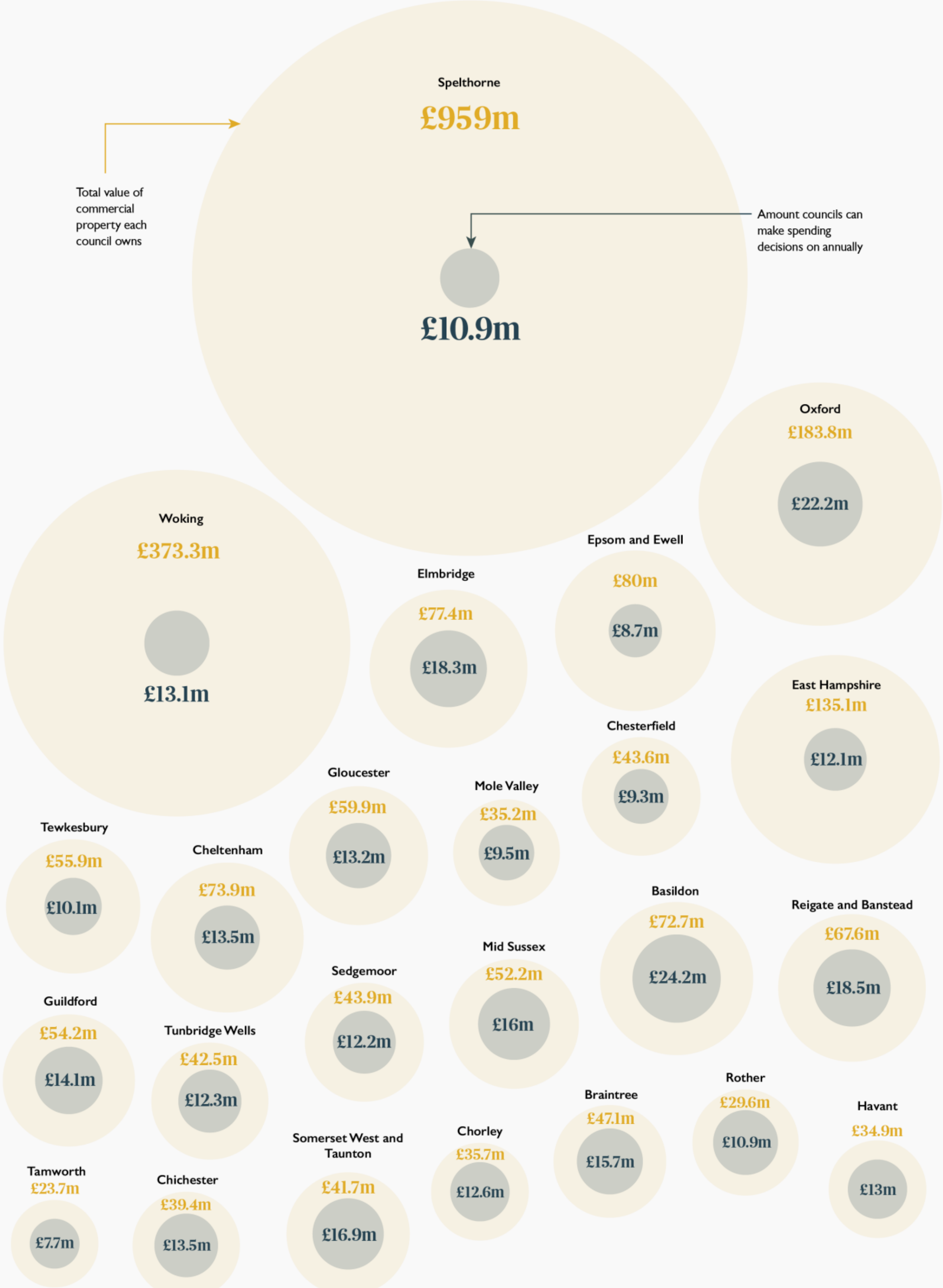
Campaigners say council taxpayers are being put at risk by the huge bets local authorities are making on commercial property.

Analysis by *The Times* shows that UK councils have accumulated at least £6.4 billion of commercial property. By comparison, the development costs of the UK's aircraft carriers HMS Queen Elizabeth and her sister ship HMS Prince of Wales were £6.2 billion.

INVESTIGATION

Council estates

There are 24 local authorities where the value of their commercial property portfolio is greater than their spending budget from central government and council tax



Source: Freedom of information disclosures to Taxpayer's Alliance

Much of the property bought by councils has been accumulated over the past decade, as local authorities have sought to plug gaps in budgets due to cuts in central government grants.

Woking’s portfolio includes three shopping centres worth more than £100 million and Dukes Court, a luxury office building in the centre of the town worth £50 million.

This is an exposure of £3,700 per resident and is 28 times larger than the borough’s core annual spending power of £13 million.

The council has flagged the risks this high exposure poses in its own investment strategy report.

“Should there be a significant permanent reduction in income, due to the environment post Covid-19, service provision would need to be reviewed,” the document said.

Extensive commercial property holdings leave councils vulnerable to falling property prices, with at least one council that invested large sums in this manner having to declare effective bankruptcy last year.

Analysis of freedom of information disclosures obtained by the Taxpayers’ Alliance (TPA) and shared with *The Times* show 37 councils now own commercial property worth more than their annual spending power. For 24 councils, their commercial holdings were double the core spending.
Spelthorne borough council is the most exposed, holding nearly £1 billion in commercial assets including BP’s £360 million campus in Sunbury. The council’s commercial property portfolio is worth 88 times its annual core spending power of £11 million.

The council was warned by its auditors that its approach might be unlawful because the authority failed to have regard to the statutory code prohibiting borrowing purely to profit from investments, and a council investigation found significant transparency shortcomings.

This core spending power represents the sums over which local authorities can take spending decisions in a year, including central grants and council tax receipts. It excludes ring-fenced grants and income that must be passed on to other organisations, such as school funding.

High-value council investments include Manchester city council's ownership of Manchester Airport — worth £180 million —and Southwark council's ownership of £90 million of luxury commercial premises at Courage Yard on the south bank of the Thames.

Despite concerns about the performance of commercial investments, councils either did not complete, or refused to provide, yield forecasts for 6,000 properties.

Such forecasts are an important part of local government financial planning, allowing them to see how their investments are performing and to estimate how much council budgets can rely on the income these investments are intended to provide.

Seventy-five councils refused to provide the TPA with these figures, claiming the information was too commercially sensitive to provide, despite legal precedent that this information should be released.

A landmark ruling by a judge against Thurrock council this year required the local authority to disclose details of its £800 million in borrowings from 150 other councils to invest in a series of green energy projects, finding a clear public interest in transparency.

Croydon council had to declare itself effectively bankrupt last year, stopping all spending on services that were not a legal responsibility for it to provide, after commercial assets it had invested in failed to pay off.

Dukes Court, an office building in the centre of Woking, is worth £50 million
ALAMY

This included a hotel that closed last year, and a retail park that has also struggled with pandemic restrictions. The council took itself out of emergency spending constraints this year after government support.

In November the Treasury tightened the rules so that local authorities could not so easily invest in commercial property. Despite moves to discourage the practice, councils have been able to find ways to make large commercial investments.

Warrington council approved a £151 million loan last year to help finance the construction of properties for e-commerce giant THG, previously The Hut Group. A local Conservative MP said the Labour-run council had approved the deal without being transparent about its terms.

Tony Travers, a visiting professor at the LSE department of government, said the more a council is exposed to commercial property in volatile market conditions, the greater risks that it faces that the yields returned are not what it had expected, or changes in market conditions could mean their value needs to be downgraded on councils books.

"One or both of these outcomes could lead to higher council taxes, or more likely cuts to council services already weakened by a decade of austerity," he said.

John O'Connell, chief executive of the TPA, said: "As we emerge from the coronavirus crisis, new controls and restrictions may be needed if we are going to make sure this doesn't become a disaster waiting to happen for local authority finances."

Richard Lloyd-Bithell, senior policy manager at Cipfa, the professional body for public sector accountants, said councils that invest in this manner are “putting taxpayer’s money at significant risk”.

Spelthorne council said it collected 99 per cent of the investment rental income it invoiced for 2020-21, and set aside part of its income to account for underperforming assets.

Simon Ashall, the deputy leader of Woking borough council, said: “I have announced a programme of financial reforms to provide mitigations to the risks presented not just by this but by Covid-19 and other potentially adverse factors.

“But in the medium and long-term, strategic, well-managed and sound investments within our borough will safeguard services and benefit the economic and social wellbeing of all of our residents.”

Other councils said that they had measures in place to handle any losses of income from underperforming assets. Some councils said they owned their commercial properties outright, and did not borrow to invest.

A spokesman from the ministry of Housing, Communities and Local Government said: “Councils should not take excessive risks with taxpayers’ money in pursuit of commercial income.”