

Notice of Meeting

Strategic Investment Board

**Date & time**

Wednesday, 30
October 2019 at
10.00 am

Place

County Hall, Kingston
upon Thames, Surrey
KT1 2DN

Contact

Angela Guest, Democratic
Services Officer
Room 122, County Hall
Tel 020 8541 9075

Chief Executive

Joanna Killian

angela.guest@surreycc.gov.uk
k

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9122, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email angela.guest@surreycc.gov.uk.

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Angela Guest, Democratic Services Officer on 020 8541 9075.

Elected Members

Mr Mel Few (Cabinet Member for Finance), Dr Zully Grant-Duff (Cabinet Member for Corporate Support), Mr Colin Kemp (Deputy Leader) and Mr Tim Oliver (Leader of the Council)

AGENDA

1 APOLOGIES FOR ABSENCE

2 MINUTES OF THE PREVIOUS MEETING - 25 JUNE 2019

(Pages 5
- 8)

To approve the minutes of the meeting held on 25 June 2019.

3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

- (i) Any disclosable pecuniary interests and / or
- (ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

4 SOUTH RIDGE DEVELOPMENT (SRD) LLP - DEVELOPMENT FUNDING

(Pages 9
- 14)

The Council has entered into a Limited Liability Partnership (LLP) with Places for People (PfP). The purpose of the LLP is to undertake developments within the County of Surrey and the surrounding area over an initial term of 15 years, with an option to extend for a further five years.

This report considers funding arrangements for the initial developments and in conjunction with the Part 2 report, demonstrates why the Council part financing the first phase of developments will deliver best value to our residents.

NB: There is a Part 2 annex at Item 7.

[The decisions on this item can be called in by the Resources & Performance Select Committee]

5 DISPOSAL OF AN ASSET IN THE MOLE VALLEY AREA – REPORT TO FOLLOW

To approve the sale of a Site in Mole Valley as detailed in the Part 2 report.

NB: There is a Part 2 annex at Item 8.

[The decisions on this item can be called in by the Resources & Performance Select Committee]

6 EXCLUSION OF THE PUBLIC

That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

7 SOUTH RIDGE DEVELOPMENT (SRD) LLP - DEVELOPMENT FUNDING

(Pages
15 - 20)

This Part 2 annex contains information which is exempt from Access to Information requirements by virtue of paragraph 3 – Information relating to the financial or business affairs of any particular person (including commercially sensitive information to the bidding companies).

[The decisions on this item can be called in by the Resources & Performance Select Committee]

Confidential: Not for publication under Paragraph 3

Information relating to the financial or business affairs of any particular person (including the authority holding that information)

8 DISPOSAL OF AN ASSET IN THE MOLE VALLEY AREA – REPORT TO FOLLOW

This Part 2 annex contains information which is exempt from Access to Information requirements by virtue of paragraph 3 – Information relating to the financial or business affairs of any particular person (including commercially sensitive information to the bidding companies).

[The decisions on this item can be called in by the Resources & Performance Select Committee]

Confidential: Not for publication under Paragraph 3

Information relating to the financial or business affairs of any particular person (including the authority holding that information)

9 PUBLICITY FOR PART 2 ITEMS

To consider whether the item considered under Part 2 of the agenda should be made available to the Press and public.

**Joanna Killian
Chief Executive**

Published: Tuesday, 22 October 2019

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

Those attending for the purpose of reporting on the meeting may use social media or mobile devices in silent mode to send electronic messages about the progress of the public parts of the meeting. To support this, County Hall has wifi available for visitors – please ask at reception for details.

Anyone is permitted to film, record or take photographs at council meetings with the Chairman's consent. Please liaise with the council officer listed in the agenda prior to the start of the meeting so that the Chairman can grant permission and those attending the meeting can be made aware of any filming taking place.

Use of mobile devices, including for the purpose of recording or filming a meeting, is subject to no interruptions, distractions or interference being caused to the PA or Induction Loop systems, or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

MINUTES of the meeting of the **STRATEGIC INVESTMENT BOARD** held at 10.00 am on 25 June 2019 at County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its meeting on Tuesday, 23 July 2019.

Elected Members:

(*Present)

- * Mr Mel Few
- * Dr Zully Grant-Duff
- * Mr Colin Kemp
- * Mr Tim Oliver

In attendance

Cllr Edward Hawkins	
Leigh Whitehouse	Executive Director of Resources
Anna D'Alessandro	Director of Corporate Finance
Julian Wain	Senior Property Advisor
Nick Fowles	Asset Manager
Sonia Sharma	Strategic Finance Manager
John Stevens	Interim Property Investment Portfolio
Andrew Peacock	Advisor
CBRE	

1 APOLOGIES FOR ABSENCE [Item 1]

An apology for lateness was received from Dr Zully Grant-Duff who arrived at 10.12am.

2 MINUTES OF THE PREVIOUS MEETING [Item 2]

The Minutes of the previous Investment Board and Shareholder Board were dealt with in Part 2 of the meeting.

3 DECLARATIONS OF INTEREST [Item 3]

There were none.

4 ANNUAL SHAREHOLDER BOARD REPORT [Item 4]

The Board considered the Annual Shareholder Board report. As part of its strategy to innovate in developing new models of delivery and to benefit from the freedoms introduced by the Localism Act, Surrey County Council had made investments and created trading companies to deliver income and efficiencies and in doing so had established a Shareholder Board, which reports annually to the Council. The purpose of the Board was to safeguard the council's interest as shareholder and to take decisions in matters that require the approval of the Council as owner of a company.

RESOLVED:

That the Annual Shareholder Board report be endorsed.

The Strategic Investment Board RECOMMENDS that the County Council:

Notes the Annual Shareholder Board report:

Reason for decision:

To inform the Council about the activities of the Shareholder Board.

The Shareholder Board has been established in accordance with best practice governance to ensure effective oversight and alignment with the strategic objectives and values of the council.

5 CBRE ADVISOR REPORT [Item 5]

The board received updates on the market and the Council's portfolio by way of a presentation from CBRE. Opportunities and risks around the portfolio were discussed. It was noted that an upcoming workshop around the future strategy for the investment portfolio could be tailored to include specific issues.

Resolved:

To note the market and portfolio update from CBRE.

6 ASSET MANAGEMENT UPDATE - NEXUS [Item 6]

The Board received a verbal update from the Asset Manager that he was expecting legal documents to be agreed by the end of the week. Part of the third floor was vacant and being marketed but there had been no interest in it as yet. He also reported that the air conditioning would be fixed when the refit was finished on the second floor.

The Senior Property Officer reported that a s.278 agreement was still awaited and requested the Leader speak with the Leader at West Sussex to move it along.

RESOLVED:

1. That the verbal update on Nexus be noted.
2. That the Leader would speak with the Leader at West Sussex regarding the s.278 agreement.

Reason for decision:

To expedite the s.278 agreement.

7 RANGER HOUSE, STATION APPROACH, GUILDFORD [Item 7]

The Board considered a report on Ranger House which explained how Guildford Rail Station was set to be redeveloped by Network Rail (NRIL). Ranger House currently had the benefit of 71 spaces in the Station Car Park. Under the terms of the lease if NRIL required this area as part of the redevelopment, it is only obliged to provide 48 spaces in an alternate location.

Surrey County Council (SCC) would then need to source 23 parking spaces in the local vicinity, in order to meet its lease obligations to the tenants of Ranger House.

Separately, it had become apparent that the proposed NRIL development plans encroach on a protected Station Piazza area in front of Ranger House. SCC have reached agreement whereby it will amend the Station Piazza covenant to allow this building encroachment, in favour of retaining the full allocation of 71 car parking spaces on the same terms as the current lease.

It was reported that the covenant was in place because under the current layout the Piazza provided access to the Station. The Ranger House car parking spaces will be moved to a temporary location within the vicinity whilst the station redevelopment works are undertaken.

RESOLVED:

1. That approval be given to the agreement with Network Rail, under which the Council will vary the Station Piazza covenant and receive the benefit of 71 parking spaces on the same terms as the current lease.
2. That solicitors document the agreement, with the Council's legal costs being covered by Network Rail.

Reasons for decision:

Taking into account the extent of the wider Station redevelopment, the additional effect to Ranger House of NRIL building on the encroached Station Piazza area is not deemed significant.

In the short term the agreement avoids SCC having to lease 23 spaces at an alternate location in order to satisfy tenant lease obligations. In the medium/long term SCC will benefit from the full allocation of 71 spaces within the Station Multi-Storey Car Park. This will have meaningful value to Ranger House.

8 EXCLUSION OF THE PUBLIC [Item 8]

RESOLVED: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting during conversation of the following items of business on the grounds that they involve the likely disclosure of exempt information under paragraph 1 of Part 1 of Schedule 12A of the Act.

9 ASSET MANAGEMENT UPDATE: DEBENHAMS WINCHESTER [Item 9]

The Asset Manager verbally updated the Board that feasibility work was being undertaken to review the strategic options for the site. This will be reported on further at the Board meeting in September 2019.

RESOLVED:

That the update be noted.

10 SHAREHOLDER BOARD MINUTES - (25 APRIL 2019) [Item 10]

RESOLVED:

The Part 2 Minutes of the Shareholder Board of 25 April 2019 were agreed as a correct record.

11 INVESTMENT BOARD MINUTES (20 MAY 2019) [Item 11]

RESOLVED:

The Part 2 Minutes of the Investment Board of 20 May 2019 were agreed as a correct record.

12 PUBLICITY FOR PART 2 ITEMS [Item 12]

RESOLVED:

It was agreed that non-exempt information may be made available to the press and public, where appropriate.

Meeting ended at: 10.51 am

Chairman

SURREY COUNTY COUNCIL**STRATEGIC INVESTMENT BOARD****DATE: 29 OCTOBER 2019****REPORT OF: MR MEL FEW, CABINET MEMBER FOR FINANCE****LEAD OFFICER: LEIGH WHITEHOUSE, EXECUTIVE DIRECTOR – RESOURCES****SUBJECT: SOUTH RIDGE DEVELOPMENT (SRD) LLP – DEVELOPMENT FUNDING****SUMMARY OF ISSUE:**

Surrey County Council (SCC) has entered into a Limited Liability Partnership (LLP) with Places for People (PfP). The purpose of the LLP is to undertake developments within the County of Surrey and the surrounding area over an initial term of 15 years, with an option to extend for a further five years.

This report considers funding arrangements for the initial developments and in conjunction with the Part 2 report, demonstrates why SCC part financing the first phase of developments will deliver best value to our residents.

Due to the commercial sensitivity of the funding arrangements, the financial and commercial details are covered in the Part 2 report.

RECOMMENDATIONS:

It is recommended that:

1. The Council should in principle seek to provide development funding to South Ridge Development LLP at up to 50% of the total requirement, subject to approved Site Development Plans (SDPs).
2. Actions are put in place to draw up a development funding agreement, including seeking external legal advice at an estimated cost of up to £10,000.

REASON FOR RECOMMENDATIONS:

The funding will enable the LLP to carry out development activity in line with the objectives agreed with the Council which include:

- To accelerate growth in terms of housing completion and jobs on Council owned assets
- To ensure that the LLP works to the benefit of all Surrey residents in terms of outcomes;
- To create profitable and transparent relationships with commercial enterprises which deliver financial and regeneration benefits;

- To capture financial benefits and the opportunities available to a dedicated delivery vehicle that can benefit from agile operating arrangements
- To maximise development and minimise risk to the Council by providing dedicated delivery arrangements and property and commercial expertise, bring scale and pace to the programme.

DETAILS:

Background

1. Cabinet agreed in December 2017 that Surrey County Council (SCC) would set up a joint venture (JV) company with PfP to undertake developments within Surrey utilising surplus assets, accelerating growth and minimising risk.
2. SCC has the right to provide up to 100% of SRD LLP's funding requirements provided that this is loaned on terms available on the open market or in relation to a sum equal to the amounts that the LLP agrees to loan from PfP.

Latest Status

3. Indicative Site Development Plans (ISDPs) have been issued by the LLP for the first nine sites under consideration. As part of preparing the SDPs for these sites, which will seek the final approval from SCC to go ahead, PfP have asked the Council to clarify their intentions regarding the provision of development loan financing. A decision is required so that this can be factored into the supporting financial models and furthermore it determines the extent and timing of when any third party funders need to be engaged by the LLP.

Key Considerations

4. In making the decision to provide development funding the Council will need to take into account the risks involved, our legal powers to enter into these arrangements and the latest CIPFA guidance relating to prudential property investment.
5. The risks and legal implications are set out below in specific sections of this report. The latest guidance for local authorities sets out three main considerations for local authorities in determining whether they can borrow to invest in property:
 - Does the local authority have the legal power to borrow for the purchase (or development) of a property?
 - Is the use of that legal power reasonable?
 - Is the local authority acting within its own policies and strategies?
6. Our initial interpretation of the guidance leads us to conclude that the Council is in principle able to provide development funding to the LLP. Further due diligence will be completed as part of the preparation of the formal report to approve the facility in order to evidence our compliance and confirm we are acting lawfully, reasonably and in accordance with the prudential code.

CONSULTATION:

7. A joint letter from the Leader of the Council and Chief Executive in October 2016 outlining the JV, programme of work and benefits went to third party organisations, including Surrey's District & Borough Councils, along with other public sector organisations across the South-East.

RISK MANAGEMENT AND IMPLICATIONS:

8. In progressing these arrangements SCC will be participating in additional risks through financing development activity. By entering into the LLP with an established national partner who has significant experience in developing, constructing and managing completed assets across the country SCC will mitigate and manage these risks.
9. All sites to be developed by the LLP require SCC approval of a business case to guarantee that sites are providing value for money. Each site or basket of sites will undergo options appraisal in order to evaluate development of the site(s) and ensure the return on investment and/or uplift in value is secured.
10. To manage the performance of SRD LLP there is an open book approach with the provision of monthly management accounts and annual audited statutory financial reports. The performance of the LLP will be measured through the production and review of progress against an Annual Business and agreed set of KPI's. These will be considered periodically by both the LLP Board and Shareholder & Investment Panel.
11. The ability of the LLP to repay the development loan and to cover interest payments needs to be considered in the context of risks relating to the planned development activity, the housing market and also PfP's financial standing. PfP have over 50 years' experience in the placemaking business, building sustainable communities for everyone. Due diligence was completed on the PfP covenant as part of the procurement process for the joint venture development partner and will be reviewed in detail again in the lead up to approval of the first SDPs and preparation of a development funding agreement.
12. Further, a funding agreement will be signed between SCC and the JV (and PfP as required) to ensure that the terms of the funding are fair and provide appropriate security.
13. Weighing up the overall risks involved in comparison to the potential financial returns leads us to conclude that at this stage we should limit our funding offer to a maximum of 50% of the total development funding required. This will be subject to review as the developments progress and complete, with a view to SCC increasing its funding commitment to up to 100% where the LLP has a proven track record. A separate decision would be taken on the funding profile for each phase of developments.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

14. If the Council opts to fund the development it will do so through its reserves, capital receipts and prudential borrowing under the Council's powers. Any borrowing will

need to be made in accordance with the conditions of the Prudential Code, which includes the Council approving any changes required to the prudential indicators. The Code requires borrowing to be affordable, sustainable and proportionate. The return on any investment will therefore need to be in excess of the capital financing costs of the borrowing.

15. The Part 2 paper provides further detail on the financial implications.

SECTION 151 OFFICER COMMENTARY

16. The creation of SRD LLP Joint Venture company and provision of development funding is expected to have a positive financial impact and alter the risk profile of the Council. The LLP will enable the council's surplus sites to be developed (subject to SDP approvals), increasing the number of development projects that are underway at any one time. Development and financing risks have been mitigated by the engagement of an experienced partner. Further, the inherent financial risks would be mitigated by ensuring appropriate legal agreements are in place.

LEGAL IMPLICATIONS – MONITORING OFFICER

17. Section 3(1) of the Local Authorities (Land) Act 1963 states that “where a local authority are satisfied that it would be for the benefit or improvement of their area, they may, subject to the provisions of this section, advance money to any person for the purpose of enabling him —

(a) to acquire land; or

(b) to erect any building or carry out any work on land.”

18. Additional conditions apply to this power, including that the advance must be secured by a mortgage on the land and that it cannot exceed nine-tenths of the total land value. There is some uncertainty over whether these conditions can be satisfied in this particular circumstance and further investigation will be necessary.

19. If the above Section cannot apply, the General Power of Competence in Section 1 of the Localism Act 2011 allows the Council to do anything which an individual may do, anywhere in the United Kingdom or elsewhere, subject to some limitations and restrictions. This power enables the Council to provide loan finance to the LLP joint venture of which it is a part and has negotiated certain rights to do so. Use of the general power may impact upon whether the loan can be financed by the Council through direct borrowing under the CIPFA guidance and the prudential code.

20. In either event, state aid restrictions will not apply so long as the interest charged and general terms upon which the loan is given are either fully ‘arms-length’ (i.e. market standard) or no more favourable than any private sector parent company would provide in similar circumstances.

21. Specialist legal representation will be sought to prepare the loan documentation to ensure the Council is adequately protected.

EQUALITIES AND DIVERSITY

22. There are no equalities and diversity issues for the Council in undertaking this proposal.

ENVIRONMENTAL SUSTAINABILITY:

23. The intention will be for all developments to be designed and built to the latest Building Regulations and take into account the Home Quality Mark developed by the Building Research Establishment Environmental Assessment Method.

WHAT HAPPENS NEXT:

24. In accordance with the timetable for approval of the first Site Developments, the Executive Director – Resources will put in place arrangements to:

- a) procure external legal advisors to provide necessary legal due diligence and prepare funding agreement; and
- b) advise Corporate Finance Team of the decision and the expected profile of the loan requirement.

Contact Officer:

Sonia Sharma – Strategic Finance Business Partner, Commercial

sonia.sharma@surreycc.gov.uk

Sources/background papers:

- Joint Venture Development Partner – Contract Award (Cabinet, December 2017)
 - Asset and Place Strategy (Cabinet, April 2019)
-

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank