

Notice of Meeting

Strategic Investment Board



| <u>Date and Time</u> | <u>Place</u> | <u>Contact</u> | <u>Web:</u> |
|-------------------------------------|---|--|---|
| Monday, 24 July 2023 10.30 am | Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF | Huma Younis, Committee Manager huma.younis@surreycc.gov.uk | Council and democracy Surreycc.gov.uk Twitter: @SCCdemocracy  |

Board Members:

Natalie Bramhall, David Lewis, Tim Oliver and Denise Turner-Stewart

If you would like a copy of this agenda or the attached papers in another format, e.g. large print or braille, or another language, please email Huma Younis, Committee Manager on huma.younis@surreycc.gov.uk.

This meeting will be held in public at the venue mentioned above and may be webcast live. Generally the public seating areas are not filmed. However, by entering the meeting room and using the public seating area or attending online, you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes. If webcast, a recording will be available on the Council's website post-meeting. The live webcast and recording can be accessed via the Council's website:

<https://surreycc.public-i.tv/core/portal/home>

If you would like to attend and you have any special requirements, please email Huma Younis, Committee Manager on huma.younis@surreycc.gov.uk. Please note that public seating is limited and will be allocated on a first come first served basis.

AGENDA

1 APOLOGIES FOR ABSENCE

To note any apologies for absence.

2 MINUTES OF THE PREVIOUS MEETING: 17 APRIL 2023

(Pages
5 - 6)

To agree the minutes from the last meeting.

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 QUESTIONS AND PETITIONS

To receive any questions or petitions.

5 HALSEY GARTON RESIDENTIAL LTD SHORT TERM COMPANY STRATEGY 2023-2025

(Pages
7 - 14)

To approve the short-term strategy for the Company's approach to its existing assets in light of financial performance and SCC policy aims.

N.B There is a part 2 annex at Item 7.

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 HALSEY GARTON RESIDENTIAL LTD SHORT TERM COMPANY STRATEGY 2023-2025** (Pages 15 - 28)

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).

- 8 HALSEY GARTON PROPERTY LTD BUSINESS CASE FOR THE REDEVELOPMENT OF THE FORMER DEBENHAMS SITE IN WINCHESTER** (Pages 29 - 54)

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).

**Joanna Killian
Chief Executive**

Published: Friday, 14 July 2023

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Anyone is permitted to film, record or take photographs at Council meetings. Please liaise with the committee manager prior to the start of the meeting so that the meeting can be made aware of any filming taking place.

The 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 any Council equipment or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

Thank you for your co-operation.

QUESTIONS AND PETITIONS

Cabinet and most committees will consider questions by elected Surrey County Council Members and questions and petitions from members of the public who are electors in the Surrey County Council area.

Please note the following regarding questions from the public:

1. Members of the public can submit one written question to a meeting by the deadline stated in the agenda. Questions should relate to general policy and not to detail. Questions are asked and answered in public and cannot relate to “confidential” or “exempt” matters (for example, personal or financial details of an individual); for further advice please contact the committee manager listed on the front page of an agenda.
2. The number of public questions which can be asked at a meeting may not exceed six. Questions which are received after the first six will be held over to the following meeting or dealt with in writing at the Chairman’s discretion.
3. Questions will be taken in the order in which they are received.
4. Questions will be asked and answered without discussion. The Chairman or Cabinet members may decline to answer a question, provide a written reply or nominate another Member to answer the question.
5. Following the initial reply, one supplementary question may be asked by the questioner. The Chairman or Cabinet members may decline to answer a supplementary question.

MINUTES of the meeting of the **STRATEGIC INVESTMENT BOARD** held at 10.30 am on 17 April 2023 in the Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey ,RH2 8EF.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:

(*present)

- * Natalie Bramhall
- * David Lewis
- * Tim Oliver
- Denise Turner-Stewart

In attendance

Simon Crowther, Director - Land and Property
Anna D'Alessandro, Director - Corporate Finance and Commercial
Neil Jarvey, Strategic Finance Business Partner
Charles Maxlow-Tomlinson, Managing Director - Halsey Garton Property Ltd
Colin Galletly, Assistant Director for Estates

9/23 APOLOGIES FOR ABSENCE [Item 1]

Apologies were received from Denise Turner-Stewart.

10/23 MINUTES OF THE PREVIOUS MEETING: 13 FEBRUARY 2023 [Item 2]

These were agreed as a correct record of the meeting.

11/23 DECLARATIONS OF INTEREST [Item 3]

There were none.

12/23 QUESTIONS AND PETITIONS [Item 4]

There were none.

13/23 HALSEY GARTON PROPERTY INVESTMENTS LTD COMPANY STRATEGY [Item 5]

The report was introduced by the Cabinet Member for Property and Waste who thanked the Managing Director for Halsey Garton Property Investments Ltd for compiling the Company Strategy. The Strategy provided a good summary of where the company was at the current moment and how it would be progressing moving forward. It was explained that the Company would prepare an initial Company Business Plan by April 2023 to deliver the Strategy, which would be reviewed by Shareholder Investment Panel and agreed by the Strategic Investment Board. The Managing Director for Halsey Garton Property Investments Ltd stated that the Strategy set out the future strategic principles for the company which would be supported by an Annual Business Plan approved by the Company Board.

It was explained that there had been a thorough discussion on the Company Strategy at the last Strategic Investment Board meeting and minor amendments had been made to the strategy as a result.

Resolved:

The Strategic Investment Board endorsed the Halsey Garton Property Investments Ltd Company Strategy.

Meeting ended at: 10:37

Chairman



Part 1: for Strategic Investment Board July 2023
Short Term Company Strategy
2023 – 2025

Background

This Report reviews the strategic pathway for Halsey Garton Residential Ltd (the “Company”). It sets out the future strategic principles and delivery opportunities.

The current structure of the companies is as follows:



The Company was incorporated in July 2014 and began trading in August 2020. It currently holds 80 residential properties on long-term leases, the majority of which are inside the Surrey County boundaries.

Market Commentary

Economic Overview

The real estate market took a significant downturn in the second half of 2022, with the cost-of-living crisis, the rise in interest rates and inflationary pressure. Inflation in the UK has been relentlessly moving upward over the past 18 months. Initially this reflected a marked post-Covid pick-up in consumer demand, coupled with global supply chain issues. This has been exacerbated by rising energy prices resulting from Russia's invasion of Ukraine.

To contain inflation, the Bank of England has continuously increased interest rates, with the base rate being 0.75 bps in March 2022 rising to 5.0% by June 2023. Inflation has been at its highest level in 40 years. Core inflation, which strips away fuel and food items has continued to increase, suggesting that underlying inflationary pressures are still strong.

Q4 2022 was dominated by the September 2022 mini-budget. Whilst property values had already started to decline by this time, this sped up the downwards trajectory and market movements forced the Bank of England to intervene by buying up Government Bonds at an urgent pace to restore orderly market conditions, in order to protect vulnerable parties like pension funds. Whilst this had a stabilising effect, it was not enough to stem the surge in bond yields.

Property Market

The UK real estate market was already facing headwinds prior to the September 2022 mini-budget announcement, notably due to construction cost inflation and the rising cost of debt weighing heavily on the market. This has resulted in an increased level of uncertainty in the property market and some softening of pricing across all sectors, particularly those sectors of the market that are assessed in line with gilt markets such as long dated income.

With the cost of borrowing and uncertainty in the market, investment across the UK declined in Q4 2022. The reduction was largely attributable to the volatility surrounding the government's Autumn mini-budget and its timing leading to the crucial fourth quarter of the year. Challenging economic conditions and recession forecasts further contributed to cautious investor sentiment. Although 2022 started strongly with a record £16.1 billion transacted in Q1 alone, volumes decreased through the year. The impact of the reduced transactional activity has been felt across the board with all sectors seeing below average investment volumes in the second half of the year.

There are clear signs of downward pressure on property values as on-going transactions falter in the face of market uncertainty and rapidly changing funding requirements.

Housing Sector

Average UK house prices increased by 4.1% in the 12 months to March 2023, down from 5.8% in February 2023. The market looks set to further slow in the coming quarters as pressures on household budgets intensify and labour market conditions start to soften, while mortgage rates remain well above the lows prevailing in 2021.

In the lettings market, tenant demand continues to outstrip supply causing rental levels to rise. However, due to forthcoming legislative changes coupled with the rising cost of capital loans, the number of buy-to-let landlords looking to sell their properties continues to increase.

Company Background

HGR Company Profile & Business Case

The Company was incorporated in June 2014, to fully implement the recommendations of the Investment Strategy approved by Cabinet in May 2014. The Company enables the Council to invest and lease out residential assets to deliver an alternative revenue stream and enhance the Council's financial resilience over the longer term.

Local authority investing for commercial return is not a new concept, albeit the scale of it has seen an increase over recent years as many councils have used this to respond to reduced Central Government funding. Investment has been connected to both regeneration and income generation. The practice of commercial investment peaked during the period 2016-2019 when approximately £6.6bn was invested across the UK. This precipitated greater scrutiny and new guidance, which culminated in HM Treasury stepping in and restricting access to the Public Works Loan Board (PWLB) for all councils that intended to invest 'primarily for yield'.

The Company is governed by a strategy that was last reviewed when it commenced trading, in August 2020. Since this time, the Company has:

- Appointed a Managing Director
- Reviewed the quality of service and reappointed the External Property Management Supply Chain; and
- Confirmed the PWLB funding position.

Consequently, it is now timely to review the Company's historic performance, and to agree a medium to long-term strategy for the strategic realignment of the Company.

Governance

The governance process for the Company is set out in Appendix 1.

Original Purpose and Strategy of the Company set by the Shareholder and Returns

When The Company was incorporated, its purpose was to generate commercial returns from investment in a specific portfolio of residential property for the Shareholder. The Company was not set up to purchase or develop any additional assets.

Future Strategy of the Company

In considering the future strategic principles for the Company, the Board has reviewed the historic financial performance of the Company and taken into account pending legislation changes which are considered to be a significant risk.

Performance to date has been broadly in line with the original Business Case.

However, due to recent increases in interest rates, the Company is returning considerably lower than the Shareholder's annual risk-free opportunity cost, which demonstrates that from a financial perspective it is better to dispose of the properties than continue to operate them.

In addition, the Company has identified future risks, some of which include capital expenditure :

- 12 properties in the portfolio have been identified as requiring significant capital expenditure to bring them to an appropriate standard to lease out.
- Pending legislation change regarding the minimum Energy Performance Certificate (EPC) will require significant capital expenditure to ensure that all the properties are compliant.
- The introduction of the Renters Reform Bill which will end 'no-fault' evictions by repealing S.21 of the Housing Act 1988, and the introduction of the Decent Homes Standard to the private rented sector, will require significant capital expenditure.

Future Strategic Principles

Given the identified capital pressures and performance of the Company compared to the risk-free opportunity cost outlined above, the Future Strategy of the Company has been set against the principles below. On this basis the Company will:

1. Not renew existing occupational tenancy agreements when they come to expiry.
2. Divest assets that do not deliver Surrey County Council Policy (SCC)*.
3. Retain and repurpose existing assets forecast to deliver SCC policy.

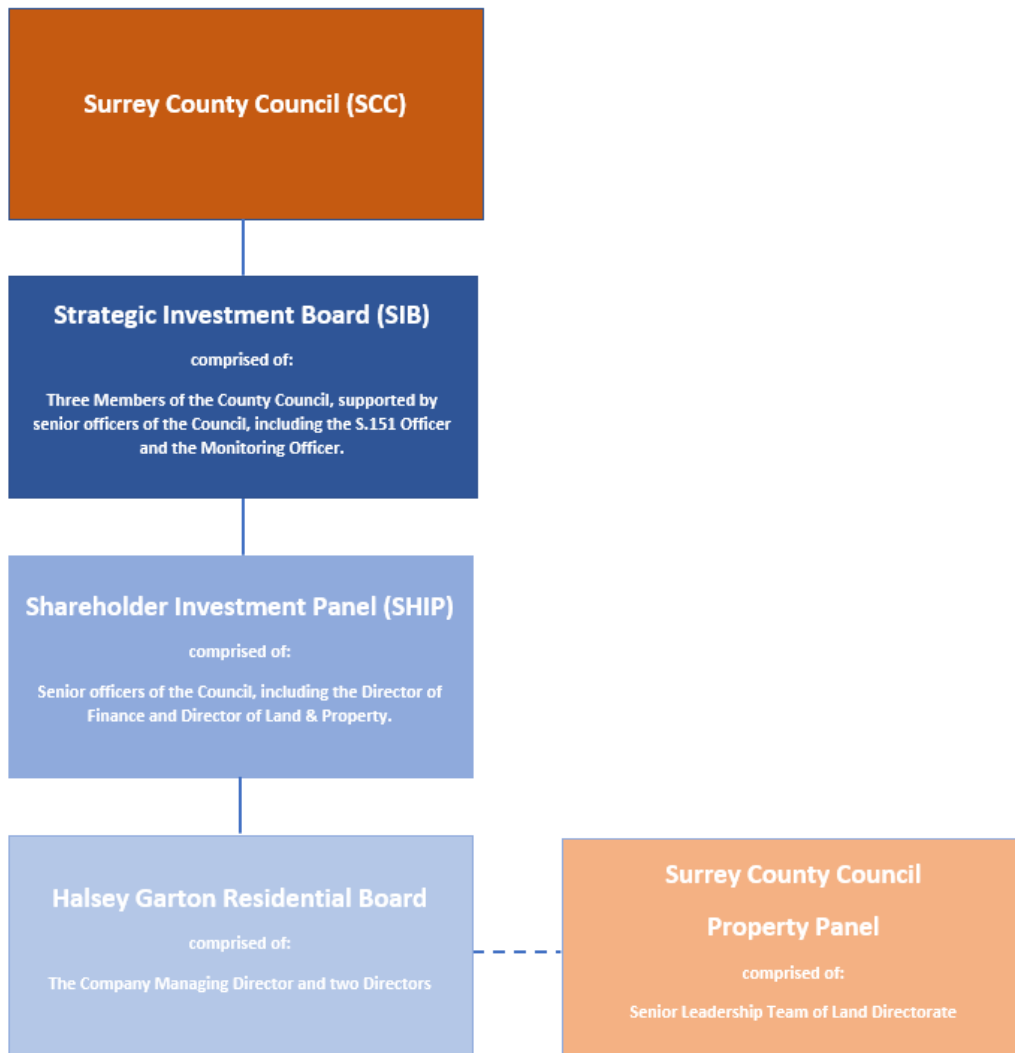
*Subject to confirmation from the Shareholder that those identified to deliver SCC policy under point 3 are confirmed as such and are agreed to proceed at that time.

Appendix 1

Company Governance

Company Governance

The governance process for the Company is as follows:



The HGR Board has the delegated authority to make formal decisions which support the ongoing strategy and day to day operations of the Company. Decisions relating but not limited to, a change in company strategy, capital investment, and acquisition and disposal of Assets are restricted by the Shareholder within the reserved matter of the Company's Articles of Association.

The decision-making Board on reserved matters is the Strategic Investment Board (SIB), with some matters in turn referred to Cabinet. The SIB monitors the Council's trading activity and its investments in companies to ensure satisfactory performance and effective risk management.

The Shareholder Investment Panel (SHIP), an Officer led panel, chaired by the Director of Finance – Corporate and Commercial (Deputy s151), works within delegated authority limits set by the SIB. The

Panel's remit is to review and challenge the Company's performance in year and assist with the approvals and operational workings of the Company.

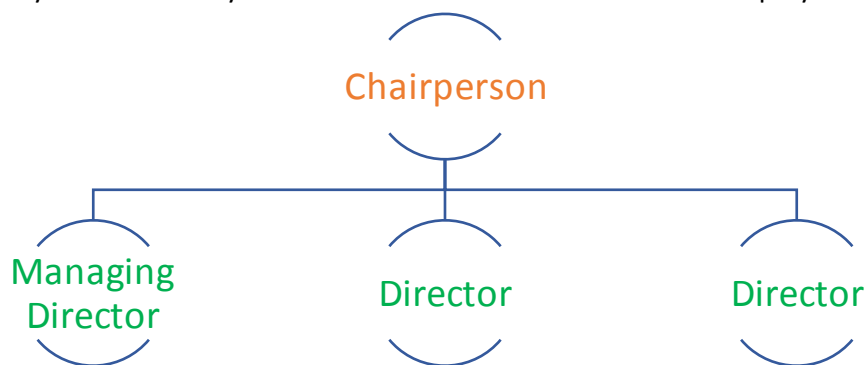
SHIP has delegated authority by SIB to approve:

- Addition and removal of Directors
- Capital Investment between £0.1m - £1.0m (the Company has authority to approve up to £0.1m in a single accounting period)
- Approval and ongoing review of annual business plans aligned to the SIB approved strategy of the Company.

Prior to consideration at SHIP, any property related proposals relating to HGR will be considered at SCC Property Panel for endorsement. This is to ensure proposals are compatible with other activities within the property estate of the Shareholder.

Company Board

The Company Board currently consists of three Directors who are also employees of the Shareholder.



All Board Members are required to ensure that the decisions are made in the best financial and commercial interests of the Company and Shareholder. In addition, the skills and experience expected from each position is summarised below:

Director(s):

- Provides expert knowledge from associated fields to the one that the Company operates.

Managing Director:

- Provides expert property investment and asset management knowledge.

The role of Chairperson is undertaken alternately by the current Directors of the Company.

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