

Notice of Meeting

Strategic Investment Board



<u>Date and Time</u>	<u>Place</u>	<u>Contact</u>	<u>Web:</u>
Monday, 17 February 2025 10.30 am	Surrey County Council, 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 @SCCdemocracy X

Committee Members:

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

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If you would like to attend and you have any special requirements, please email Huma Younis, Committee Manager at 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

(Pages
5 - 6)

To agree the minutes from the last Board 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 RANGER HOUSE, GUILDFORD SALE & REFURBISHMENT

(Pages
7 - 16)

The purpose of this report is to approve the future strategy for the Council's investment asset known as Ranger House, Station Road, Guildford. This is a non-operational investment property asset held for the purposes of generating revenue whilst maintaining capital value.

(The decisions on this item can be called-in by the Resources and Performance Select Committee)

N.B There is a Part 2 report 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 RANGER HOUSE, GUILDFORD SALE & REFURBISHMENT

(Pages
17 - 34)

The purpose of this report is to approve the future strategy for the Council's investment asset known as Ranger House, Station Road, Guildford. This is a non-operational investment property asset held for the purposes of generating revenue whilst maintaining capital value.

(The decisions on this item can be called-in by the Resources and Performance Select Committee)

8 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.

Terence Herbert
Chief Executive

Published: Friday, 7 February 2025

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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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 13 May 2024 at Committee Room, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

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

Elected Members:

(present *)

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

In attendance

Neil Jarvey, Strategic Finance Business Partner
Anna D'Alessandro, Director - Corporate Finance & Commercial and Interim Section 151 Officer
Asmat Hussain, Interim Director of Law and Governance
Simon Crowther, Director- Land and Property
Charles Maxlow-Tomlinson, Managing Director, Halsey Garton Property Investments Ltd

7/24 APOLOGIES FOR ABSENCE [Item 1]

There were none.

8/24 MINUTES OF THE PREVIOUS MEETING: 21 MARCH 2024 [Item 2]

These were agreed as a correct record of the meeting.

9/24 DECLARATIONS OF INTEREST [Item 3]

There were none.

10/24 QUESTIONS AND PETITIONS [Item 4]

There were none.

11/24 EXCLUSION OF THE PUBLIC [Item 5]

RESOLVED: 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.

12/24 HALSEY GARTON PROPERTY INVESTMENTS LTD ANNUAL BUSINESS PLAN 2024/25 [Item 6]

The Board had a discussion around the Halsey Garton Property Investments Ltd Annual Business Plan for 2024/25. The Managing Director for Halsey Garton Property Investments Ltd attended the meeting to present the business plan and answer any questions from the Board. The Board approved the annual business plan.

A separate confidential minute was done for this item.

RESOLVED:

1. That the Strategic Investment Board approves the Halsey Garton Property Investments Ltd Annual Business Plan for 2024/25.

Reasons for Decision:

To inform the Council about the activities of HGPI.

(The decisions on this item can be called-in by the Resources and Performance Select Committee)

13/24 MATTERS TO BE REFERRED TO CABINET [Item 7]

The Interim Director of Law and Governance stated that as the Board was a sub-committee of Cabinet, the purpose of the item was to give the Board the opportunity to refer anything they wanted to Cabinet. It was agreed that there was nothing to refer to Cabinet.

14/24 PUBLICITY FOR PART 2 ITEMS [Item 8]

The Leader explained that the item was commercially sensitive and there was nothing that needed to be flagged with the public.

Meeting ended at: 11:31

Chairman

SURREY COUNTY COUNCIL
STRATEGIC INVESTMENT BOARD



DATE: 17 FEBRUARY 2025

REPORT OF CABINET MEMBER: NATALIE BRAMHALL, CABINET MEMBER FOR PROPERTY, WASTE AND INFRASTRUCTURE

LEAD OFFICER: SIMON CROWTHER, EXECUTIVE DIRECTOR FOR ENVIRONMENT, PROPERTY AND GROWTH

SUBJECT: RANGER HOUSE, GUILDFORD SALE & REFURBISHMENT

ORGANISATION STRATEGY PRIORITY AREA: HIGH PERFORMING COUNCIL

Purpose of the Report:

The purpose of this report is to approve future strategy for the Council's investment asset known as Ranger House, Station Road, Guildford. This is a non-operational investment property asset held for the purposes of generating revenue whilst maintaining capital value.

Recommendations:

It is recommended that the Strategic Investment Board approves:

1. The sale of Ranger House to Surrey Property Group (previously known as Halsey Garton Property Investment Ltd (HGPI), in accordance with the red book valuation dated 29 January 2025 and delegated authority to be given to the s.151 Officer to agree that amount.
2. Provision of a loan by the Council to Surrey Property Group (SPG), secured against the Ranger House property, to partly fund SPG's purchase and redevelopment of the property. Delegated authority to be given to the s.151 Officer to agree the loan details.
3. To give the SPG Board delegated authority to proceed with required refurbishment works to provide suitable accommodation to lease out to third parties for the purposes of maximising income for revenue generation purposes and maximising capital value of the asset once it is fully let.
4. Note that all of the above are subject to separate agreement by SPG Board in accordance with its own governance.

Reason for Recommendations:

1. There are currently 2 tenants of Ranger House, the largest of which has a tenant option to break in November 2025 (which it would need to serve by May 2025). It currently leases and occupies 20,842 sq. ft Net Internal Area (NIA).
2. The Council is currently incurring void service charges, business rates and insurance costs at Ranger House.
3. Informed by advice from MAC Consulting (M&E advisors) and Oktra (design and build office fit out specialists), the professional team (Colliers and Owen Isherwood) has carried out initial surveys and occupational research to inform a Business Plan. This has focused on making necessary building improvements at minimal non-recoverable landlord capital expenditure to achieve maximum rental income.
4. Transferring the asset from SCC to SPG moves the short-term risk of year-to-year-net income fluctuations on the property from the Council to its wholly owned property investment subsidiary company. The subsidiary can then plan for dividends and interest payments in consideration of those forecast movements and its overall portfolio profitability, smoothing out a degree of year-to-year volatility of net income to the Council. The longer-term capital asset value risk of prolonged voids is unchanged by holding the asset in the subsidiary as fluctuations would still impact net income (albeit via loan or dividend payments) and still impact asset value (via potential credit loss adjustment).
5. A positive NPV is forecast to be generated, including the capital receipt to the Council and future benefits to SPG that would flow to the Council over time. The Council's Central Income and Expenditure budget would also benefit.

Executive Summary:

Background

6. Ranger House is located in a prime position immediately adjacent to the Guildford Station, which is currently undergoing a major redevelopment. It was purchased in April 2013, for the purposes of income generation and to provide potential occupational accommodation under the then emerging Agile Office Programme. In March 2024, the council decided that the property was not suitable for this purpose and should be retained for revenue generation purposes, whilst acknowledging the need to preserve and improve its investment capital value.
7. The property is situated within a major town centre within the county boundary and given the Council's wider corporate objectives to support socio-economic opportunities, economic regeneration and social value, this provides an opportunity to invest in its own building which in turn will support economic growth through the generation of new tenant business within the County.
8. The property comprises an office providing a total of 41,135 sq. ft NIA of offices on ground and 3 upper floors and is currently part let to two tenants. Approximately 16,322 sq. ft (c.40%) is currently vacant.

9. In addition, there are a total of 71 car parking spaces contained in a separate car park area which forms part of the Guildford Station car park. These spaces are held on a 999-year lease from 9/3/1990 from British Railways Board at a peppercorn rent. This provides a significant advantage for future tenants.
10. Upon advice received from the appointed leasing agents, the vacant building space is in a tired state of repair with a current layout that does not meet the expectation of potential occupiers. Consequently, the accommodation is therefore currently deemed effectively unlettable.

Refurbishment Options Considered

11. The professional team (Colliers and Owen Isherwood) considered 5 options. In summary:

Option	Comments
1. Do Nothing	Not Viable – building will be rendered effectively unlettable due to appearance, incurring considerable void costs, which will rise if existing tenants vacate. Furthermore, delay in resolving the M&E will result in significant Health & Safety issues rendering the property unsuitable for occupation.
2. Do Minimal (replace M&E and refurbish vacant space)	Not Recommended – building will continue to prove challenging to lease out given that competing buildings have been refurbished to a higher specification, resulting in on-going void costs and discounted rental levels.
3. Do Medium (Replace M&E, refurbish vacant accommodation to Grade A spec, enhance internal common parts ground floor only, minor exterior works)	Not Recommended – whilst the building will attract high quality tenants seeking a prominent location that has been refurbished to a good standard, some tenants will prefer competing schemes that have been refurbished to a higher standard and specification.
4. Do Maximum (Replace M&E, upgrade vacant accommodation to Grade A spec, new reception area, WC's & shower blocks on all floors, enhanced external works to maximise customer arrival experience)	Recommended – building will attract the widest pool of high-quality tenants seeking a prominent location that has been refurbished to a high standard.
5. Dispose	Not Recommended –the value is subject to a red book valuation being conducted.

12. The estimate cost of works for Option 4 has been provided by MAC Consulting as M&E advisor, and Oktra as design and build office fit out specialist. However,

this is an estimate only and is subject to a procurement exercise and therefore may increase or decrease when the actual cost is known.

13. Option 4 is recommended as it minimises the risk of existing tenants vacating which would incur longer term void costs. Furthermore, by completely refurbishing the vacant accommodation and common parts, significantly improving the exterior visual appearance and replacing all defective M&E within the building, it will attract the widest possible number of prospective new tenants, given the building will then offer high specification accommodation in a prime location. On balance therefore, the additional cost to deliver Option 4 is preferable to Option 3, as it reduces the risk of some tenants preferring competing schemes that have been refurbished to a higher standard.
14. The Option 4 proposed landlord works are estimated to result in annual cost savings by way of service charge expenditure. This is in line with competing buildings in the locality and will make the property much more attractive to prospective tenants.
15. Please note that for all options considered, planning permission is not required and therefore works can commence on conclusion of the Council's procurement process. Note that minimal disruption from the works is expected to existing tenants.
16. Three financial considerations were made. They are detailed further in the Financial and VFM Implications section. The summary of the assessments is that:
 - a. The NPV forecast shows it is most favourable for the Option 4 refurbishment to be carried out.
 - b. A comparison of the benefits of selling the asset to SPG to refurbish versus retaining in the Council to refurbish showed there is no significant financial difference. However, ownership by SPG provides the benefit of some protection for the Council's budget from year-to-year income fluctuations at Ranger House.
 - c. The Council's Central Income and Expenditure budget would be improved by an average £776k per year over the first 5 years as a result of the sale and refurbishment by SPG.

Consultation:

17. Property Panel, Shareholder & Investment Panel.

Risk Management and Implications:
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	Risk Description	Mitigation
1	Voids / achievable rent	Whilst leasing agents have advised on the estimated void periods and achievable rents for the various refurbishment options considered, macro-economic circumstances affect occupational demand and consequently the actual achievable will rise and fall in line with tenant demand at the time of marketing.

2	Reputation due to condition	Negative publicity if building remains in current poor condition.
3	Construction health & safety	All Health & Safety matters to be considered by qualified professional Project Managers alongside the County's externally appointed Property Manager.
4	Surveys	All surveys to be completed prior to commencing works to mitigate the unexpected.
5.	Cost of refurbishment works	The estimated cost may increase following outcome of the tender procurement exercise.
6	If sold to SPG: Corporation tax on potential capital gains from a disposal by SPG	This could be extinguished by aligning the timing of the disposal with that of another asset at a loss.
7	If sold to SPG: Reduced tax-allowable loan interest benefits to SPG in the event of a lower than forecast post-refurbishment asset value, leading to less post tax profits to benefit the Council as shareholder	This will be subject to uncontrollable macro-economic factors, as well as property specific factors. Limited mitigation opportunity and the impact would be that retaining the asset in the Council would have been relatively better.
8	If sold to SPG: Potential increased demand on the Council to provide loans to SPG for future reinvestment needs for their existing portfolio, due to utilising cash for Ranger House.	Long term planning to ensure any potential requirement is included in SPG Financial Planning and Council planning.

Financial and Value for Money Implications:

18. This section is broken down into three parts. The first, "Refurbishment," refers to discounted cash flow modelling of the refurbishment irrespective of the ownership, supporting the decision to proceed with that. The second, "Ownership and Funding," refers to Council cashflows, comparing different ownership and funding options. The third is "Budget Impact on Central Income and Expenditure."

Refurbishment

19. The cash flows from the refurbishment scenarios above were financially modelled over 20 years, taking into account the inherent risk of voids. The Net Present Values (NPVs) are based on the discounted cashflow, ignoring the sunk cost of the original asset purchase. After 20 years the residual value is assumed to be the same as the March 2024 valuation due to an anticipated need to re-invest into the property at that point.

20. The preferred financial option is the "Do Maximum" (Option 4) scenario as this provides the best financial outcome and limits potential void risk. There is also

the opportunity to dispose after say, three years, when the property is fully let, and the capital value of the asset is maximised. SCC's external valuer (CBRE) estimate that on completion of the works and once the property is fully let and income producing, the Net Initial Yield in today's market would significantly improve resulting in a significant increase in capital value.

Ownership and Funding

21. Various funding models were considered in respect of recommended Option 4. These were:

- A. Retain in SCC and fund redevelopment through increased borrowing
- B. Sell asset to SPG to redevelop, funded by 3rd party lender
- C. Sell asset to SPG to redevelop, funded part by existing SPG funds and part by SCC loan
- D. Sell asset to SPG to redevelop, funded part by existing SPG funds and part by interest payments holiday on loan from SCC to SPG
- E. Sell asset to SPG to redevelop, funded part by existing SPG funds and a future disposal of an existing asset

The sale price in Options B, C, D and E is modelled at the January 2025 valuation of £7.8m. Also relevant for those options, the Council is currently holding a dilapidations receipt from a previous tenant for specific works to the 3rd Floor that are excluded from the cost of refurbishment. Either the works would need to be carried out by the Council prior to transfer or an allowance made for that in the disposal transaction.

22. Option B has been dismissed due to there being no viable funding offer explored at the current time.

Option D has been dismissed as it would necessitate a bad debt provision in the Council's accounts, impacting the revenue budget.

Option E is feasible without impacting the Council's revenue budget. It would, however, likely result in an existing SPG asset being sold at less than acquisition price, and with the timing for a disposal from SPG being difficult to predict then it may impact SPG's ability to purchase Ranger House.

This leaves Options A and C as the most viable. Note that the viability of Option C relies upon the sequence of events being for a sale to SPG followed by SPG carrying out the refurbishment.

23. Comparison of Ownership and Funding Options A and C to Current MTFS: the financial merits of Ownership and Funding Options A and C are broadly the same.

Budget Impact on Central Income and Expenditure

24. Under the recommended sale and refurbishment option, MTFS forecast for Central Income and Expenditure is expected to be increased by £776k average per year in the first 5 years. The primary driver of the increase is interest from SPG, with the remainder mostly from potential profit distributions from SPG or increased ability for SPG to service existing debt to the Council.

Section 151 Officer Commentary:

25. The Council continues to operate in a very challenging financial environment. Local authorities across the country are experiencing significant budgetary pressures. Surrey County Council has made significant progress in recent years to improve the Council's financial resilience and whilst this has built a stronger financial base from which to deliver our services, the cost-of-service delivery, increasing demand, financial uncertainty and government policy changes mean we continue to face challenges to our financial position. This requires an increased focus on financial management to protect service delivery, a continuation of the need to deliver financial efficiencies and reduce spending in order to achieve a balanced budget position each year.
26. In addition to these immediate challenges, the medium-term financial outlook beyond 2024/25 remains uncertain. With no clarity on central government funding in the medium term, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This places an onus on the Council to continue to consider issues of financial sustainability as a priority, in order to ensure the stable provision of services in the medium term.
27. The proposed approach (sale to SPG and refurbishment) maximises the capital value and revenue potential of the investment property asset. It also mitigates the risk of short-term income fluctuations impacting the Council's revenue budget by way of transferring ownership to a subsidiary.

Legal Implications – Monitoring Officer:

28. Recommendation 1 refers to the disposal of this property by the Council to SPG. Section 123 of the Local Government Act 1972 ('LGA 1972'), local authorities have the power to dispose of land in any manner they wish, subject to the disposal being for the best consideration reasonably obtainable. In pursuing any option to dispose, the Council should ensure that the price for any such disposal is 'market value' to company with Section 123 LGA 1972. These requirements will still apply to a sale to SPG as a local authority trading company.
29. If the property will be sold at an undervalue, the Council may be able to rely upon general consents issue by the Secretary of State under LGA 1972 to dispose of land for less than best consideration, provided the relevant requirements are met. The general consents are only available where the purpose of the disposal is likely to contribute to the promotion or improvement of the economic, social or environmental wellbeing of the local authority's area, and the extent of the undervalue must not exceed £2 million.
30. Where the Council is providing a loan, the disposal will need to be assessed as to whether the terms provide a subsidy to the purchaser and if so, how the Council will comply with the requirements of the Subsidy Control Act 2022 (insofar as it may apply). Legal advice should be sought to ensure that any requirements are met, the loan documentation is appropriately drafted, and a legal charge secured against title to protect the Council's position.

31. In the event that the Council will carry out refurbishment works to the property, the Council has extensive development powers to do so under Section 2(1) of the Local Authorities (Land) Act 1963. The Council may, for the benefit or improvement of its area, erect, extend, alter or re-erect any building and construct or carry out works on land. Insofar as they may be required, the Council should ensure that it obtains any necessary planning permission, building regulation certificates and such other consents which may be required for the works.
32. Cabinet is under fiduciary duties to local residents in utilising public monies and in considering this business case, Cabinet Members will want to satisfy themselves that it represents an appropriate use of the Council's resources.
33. Legal advice should be sought to ensure the Council meets its obligations throughout all stages of the transaction.
34. In procuring the works outlined in this report the Council must comply with the Council's Constitution and any relevant National legislation, alongside the Council Procurement and Contract Standing Orders (PSCOs) and the Public Contracts Regulations 2015 or Procurement Act 2023, as appropriate.

Equalities and Diversity:

35. There are no implications of this report on Equality and Diversity.

Economy & Growth:

36. Guildford is the County town of Surrey. Given the Council's wider corporate objectives to support socio-economic opportunities, economic regeneration and social value, this provides an opportunity to invest in its own building which in turn will support economic growth through the generation of new tenant business within the County.

Other Implications:

Sustainability & Regeneration Implications:

37. The County is committed to supporting its wider agenda of Net Zero emissions by 2030. This commitment is to be accounted for both in terms the impact on construction costs and the impact on value of the completed project.
38. The redevelopment proposals consider the whole life carbon emissions of the building which consist of:
 - Operational Carbon – those associated with the use of energy for the running of the building.
 - Embodied Carbon – those associated with the reuse and recycling of the building structure and materials.
39. The property currently has an EPC rating of E, which is valid until November 2030. From April 2023, landlords are not allowed to continue letting non-domestic property on an existing lease if that property has an energy rating of F or G. Taking this into account, whilst the property does comply with the Minimum

Energy Efficiency Standards, the recommended refurbishment proposal (Option 4) will seek to target an EPC rating of a B.

What Happens Next:

40. The indicative project timetable is as follows:

February 2025	Disposal and loan to SPG
February 2025	Design development
March 2025	Issue tender documentation for landlord works to potential contractors
April 2025	Tenders returned and Contractor appointed.
June 2025	Contractor starts on site
October 2025	Practical Completion of landlord works

To progress Landlord refurbishment works and due diligence surveys and thereafter to secure new occupational tenants to maximise revenue generation.

Report Author: Diane Wilding – Director, Land and Property,
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Annexes:

Part 2 report

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

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