

MINUTES of the meeting of the **RESOURCES AND PERFORMANCE SELECT COMMITTEE** held at 10.00 am on 18 October 2024 at Council Chamber, Woodhatch Place, Reigate.

These minutes are subject to confirmation by the Committee at its meeting on Friday, 6 December 2024.

Elected Members:

- Nick Darby
- * Tim Hall
- * David Harmer
- * Edward Hawkins
- * Robert Hughes (Chairman)
- * Riasat Khan
- Robert King
- r Andy Lynch
- * Steven McCormick (Vice-Chairman)
- John O'Reilly
- * Lance Spencer
- * Lesley Steeds (Vice-Chairman)
- * Hazel Watson

(* =present at the meeting r=remote attendance)

29/24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies had been received from Cllr John O'Reilly.

30/24 MINUTES OF THE PREVIOUS MEETINGS: 18 JULY 2024 [Item 2]

The committee **AGREED** the minutes as a true and accurate record of the meeting.

31/24 DECLARATIONS OF INTEREST [Item 3]

None declared.

32/24 QUESTIONS AND PETITIONS [Item 4]

One public question was received in advance of the meeting and was published as a supplement to the agenda. The Chairman noted that the answer was circulated before the meeting.

33/24 CABINET RESPONSE TO THE DB&I RECOMMENDATIONS [Item 5]

Witnesses:

Cllr Bob Hughes, Chairman

Cllr Steven McCormick, Vice-Chairman

Key points raised during the discussion:

1. The Chairman stated that all 18 recommendations had been accepted by Cabinet.
2. The Cabinet member for Finance outlined that he had emphasised to officers that the recommendations would be used as a checklist for future projects.
3. A Vice-Chairman explained that the task group's intention was to make the recommendations tangible and workable within the organisation, as well as a learning tool for other organisations. The Vice-Chairman suggested the monitoring of the recommendations' progress should be added to the Committee's Forward Work Programme. The Cabinet Member for Finance and Resources suggested the committee not look at the stabilisation work too early, noting the intention to complete the work by the end of March 2025.

The Committee **NOTED** the responses to the recommendations.

Actions/requests for further information:

The Scrutiny Officer is to ensure that any updates on the implementation of the DB&I report's recommendations are added to the FWP for after March 2025.

34/24 STRATEGIC INVESTMENT BOARD (SIB) ANNUAL REPORT [Item 6]

Witnesses:

David Lewis, Cabinet Member for Finance and Resources
Andy Brown, Deputy Chief Executive & Executive Director Finance & Corporate Services (Section 151 Officer)
Diane Wilding, Director - Land and Property
Charles Maxlow-Tomlinson, Managing Director - Halsey Garton Property
Neil Jarvey, Strategic Finance Business Partner - Commercial
Bill Harrow, Senior Finance Business Partner - Commercial

Key points raised during the discussion:

1. Prior to the discussion, Cllr Edward Hawkins noted he was previously, but no longer, a council appointed governor for Halsey Garton Properties (HGP).
2. The Strategic Finance Business Partner - Commercial provided a brief introduction to the report.

3. The Chairman outlined the report's statement that unaudited pre-tax net profits of £1.3m were achieved this year, a reduction of £1.1 million (m) on the £2.4m achieved last year. The Chairman asked if an explanation could be given about the property disposal and bad debt provision that preceded this. The Strategic Finance Business Partner - Commercial explained that the £1.1m drop mainly related to Halsey Garton Property (HGP). The disposal of Melksham contributed to this, which was a positive outcome for the Council as it had an element of long-term risk and was sold at a profit. Melksham was disposed of part way through the year which resulted in no ongoing rent, a loss of £0.7m, offset by £0.5m of additional interest. The £0.8m rental incentive for Melksham, originally expected to be amortised over the lease term, had a £0.8m impact due to its disposal. There was a £400,000 annual difference due to bad debt, and a one-off benefit where a debtor paid off their debt in 2022/23 which was accumulated in the Covid-19 pandemic and a benefit from having lower voids through less vacancies around HGP. Overall, HGP had undergone a £0.7m annual profit reduction, due to items related to one-off events or Melksham's disposal. There was a further £0.4m drop in Hendeca due to one-off items and a change in the mix of business.
4. A Vice-Chairman asked for clarification on an apparent disparity in HGP's interest payments to the Council which was quoted on page 62 of the agenda as £14.3m and £14.8m on page 49 of the agenda. The Strategic Finance Business Partner - Commercial clarified that the £14.3m related to HGP and the £14.8m referred to all the subsidiaries including around £0.4m from Halsey Garton Residential (HGR) and around £0.1m from Surrey Choices.
5. In response to the Vice-Chairman's query regarding what trend was exhibited in the £14.8m of interest paid to the council, the Strategic Finance Business Partner - Commercial explained those were longer-term loans expected to continue annually. HGP has a fixed rate of interest of around 6%, which would return £14.3m of interest annually for the duration of the loans, while HGR's was an annuity loan with a slight difference between the principal and interest each year, for example £0.1m relating to Surrey Choices ran until 2029 and reduced annually because Surrey Choices paid principal. The Vice-Chairman asked if there was an upward trend in the interest received by the Council. The Strategic Finance Business Partner - Commercial explained that dividends were more variable, noting that there were £0.4m in dividends in 2022/23 which dropped to around £22,000 in 2023/24, mainly because of a reduction in Hendeca's profits, so could not pay dividends. The TRIC Consortium Ltd's dividends were consistently between £70,000 to £90,000, but due to one-off items in their 2023/24 Profit and

Loss statement, they were unable to pay a significant dividend, they added, before noting that this was expected to return to normal levels.

6. Regarding page 64 of the agenda, which stated that a key HGR principle was to retain and repurpose existing assets forecasted to deliver Council policy, the Chairman asked what policies HGR was serving. The Strategic Finance Business Partner - Commercial explained that there was interest in essential worker housing when the strategy was produced in 2023 with the idea that the Council could repurpose some of their properties to support an essential worker policy, though this has since been put on hold. The intention was that properties that could not support an essential worker policy or were not financially viable for the Council would begin to undergo a process of disposal, with HGR revisiting the policy requirement from the Council within the next 12 months and deciding whether HGR needed to repurpose or potentially dispose of more properties. The Managing Director - Halsey Garton Property added that government legislation, such as the Renters Reform Bill and Decent Home Standard legislation, would likely make it more expensive for landlords to hold residential property for the leasing market. At the current time, they added, SIB, as the shareholder, decided not to repurpose some of HGR's assets for an essential worker housing policy, so the agreed company strategy for the short- to-medium term was to divest properties when tenancies came to renewal.
7. A member asked about the taxation implications of a large-scale disposal programme of HGR's residential properties. The Strategic Finance Business Partner - Commercial explained there was not a tax impact for disposing of HGR's properties as the freehold was retained by the Council.
8. Regarding freedoms awarded by the Localism Act to generate revenue in future years, a Vice-Chairman asked how the Council was looking to explore those freedoms and how well the Council's trading and investment activities helped to improve financial resilience, considering the previously referenced decreases in dividends and pre-tax profits. The Strategic Finance Business Partner - Commercial replied that the Council intended to conduct a refreshed review of all their investments over the next 12 months, and that financial reviews of two subsidiaries were conducted in the last 12 months, recommendations from which are being implemented. When the long-term financing of Halsey Garton Property Investments Ltd (HGPI) was reviewed, a whole strategy of the investments would be produced to examine whether it would, for example, deliver long-term financial resilience. They clarified that an updated strategy would be produced to consider alternative options, and

that case-by-case reviews are currently being conducted. The Vice-Chairman asked if the refreshed review, when complete, could be added to the Committee's Forward Work Programme.

9. Regarding the report's reference to changes in Public Works Loan Board (PWLB) borrowing rules (page 59 of the agenda), a member asked what long-term effects this was expected to have on the Council's ability to generate revenue through Local Authority Trading Companies (LATCs). The Strategic Finance Business Partner - Commercial explained that the Council can protect and maintain assets already invested in, for example, if the Council needed to invest into one of the buildings within the HGP portfolio and the company was not able to fund this, the Council would be able to add further investment to protect the value and ensure the best return. They also stated that the Council may not necessarily want to invest more into property or commercial assets due to its present level of risk, regardless of the fact that the Prudential framework and PWLB rule changes now prevent any local authority from making further investment purely for commercial purposes. The Council was comfortable with the level of investment it had and there was no indication the Council needed to divest of anything, they added. The member asked whether the Council could borrow money for the purchase or improvement of property under the current rules. The Strategic Finance Business Partner - Commercial explained that if profit could be deemed as a secondary benefit to a service purpose or regeneration, then it could, though this was not the case for HGP as its purpose was to produce commercial returns for the Council.

10. A member asked what assessment had been made of the quality of the services provided by the different investment vehicles, as well as how cost effective they are. In terms of cost effectiveness, the Strategic Finance Business Partner - Commercial provided the example of Connect2Surrey, where the Council paid a lower rate for the recruitment than under the previous third-party arrangement and agreed to share this figure after the meeting. Regarding the quality of services, the Strategic Finance Business Partner - Commercial outlined Connect2Surrey's financial benefits to the Council such as that they recruited exclusively for the Council and the rates of pay, markups and margins were fixed through a framework. They further added that Surrey Choices was subject to a financial sustainability review including an approximate comparison to market pricing, and that their contract ran to the end of March 2025. A revised commissioning strategy was being prepared, with a procurement exercise likely to follow as it was deemed prudent to reevaluate the market alternatives, they added.

11. The member asked about other organisations that provide services, such as TRICS Consortium Ltd, and if a similar assessment would be undertaken. The Strategic Finance Business Partner - Commercial explained there has not been a similar assessment of TRICS Consortium Ltd (TRICS). The majority of TRICS's business was outside of the Council, with 6 local authority partners as well as the wider market. Therefore, the Council was not compelled to use TRICS Consortium Ltd. There is an emerging intention to review the Council's shareholding in TRICS, they said; the Council also has to ensure that TRICS afforded the same opportunity to its other shareholders. Therefore, the Council intended to ask for an annual general meeting-style review of TRICS's business plans.
12. The Chairman asked about Surrey Choices' employability performance in terms of the Council's objectives. The Strategic Finance Business Partner - Commercial agreed to provide an answer after the meeting.
13. In reference to page 14 of the Annual Report (page 64 in the agenda) which referred to "[...] pending legislation changes which are considered to be a significant risk.", a member asked what those expected legislative changes were and what their likely effects would be. The Managing Director - Halsey Garton Property noted the main legislative change was the Renters Reform Bill, the effects of which would include the ability to remove disruptive tenants, as well as those causing issues to properties and with neighbours. They also noted the Decent Home Standards legislation, which would be expensive for some landlords to comply with, particularly with the changes to Energy Performance Certificate (EPC) levels, adding that HGR would be impacted by this. The officer went on to point out that a vast majority of HGR's properties, despite being well-maintained, would not comply with the required EPC levels because of their style and age and that a minimum estimate of £10,000 per property has been made for bringing them up to the required Decent Home Standard. The member asked what the plans were to tackle those issues. The Managing Director - Halsey Garton Property explained that each individual property has been identified in HGR's budget, with each having individual condition reports, stating that a cost of anywhere between £10,000 to £100,000 on any specific asset was put in place for the expected cost to comply with the new legislation. Responding to the member's question as to whether this is considered affordable, the Managing Director - Halsey Garton Property clarified that it was not. This was why the HGR's two-year company strategy, approved by the Strategic Investment Board (SIB) on 24 July 2023, stated it as the reason the Council was looking to not renew properties and divest assets as it was not sustainable for the future viability of HGR.

14. A Vice-Chairman stated that the report referred to the fact that the expenditure plans in the Medium-Term Financial Strategy (MTFS) were dependent on achieving expected net investment income. If this was not achieved, the Vice-Chairman asked what steps would be taken to remedy the shortfall and what effects this may have on the expenditure and related services. The Strategic Finance Business Partner - Commercial explained that most of the current income - £14.3m out of the £14.8m - came from HGPI, which has around 55 tenants across 16 buildings, providing a means of potentially being able to withstand potential issues. They noted that the council tried to plan around the risks of HGP's buildings. The Strategic Finance Business Partner - Commercial used Melksham as a good example of asset planning - the council had to be aware that at some point reinvestment or repurposing of a building may be needed to make it more attractive to tenants or the Council may decide to dispose of the building, they said. If this was the case, the ability to service the current loans that continued to pay £14.3m of interest could be impacted in the long term. They stated that, when doing the piece of work looking at the strategy and the long-term financing of HGPI, the Council should be mindful of reviewing the potential risks and what reinvestment requirement might be needed to ensure planning ahead, and that a possible outcome could be Council deciding that £14.3m was not affordable in the long term. The Council was looking ahead, and the Managing Director - Halsey Garton property has conducted asset planning to improve understanding and factor the assets into SCC's long-term financial planning. They further added that there is always the risk that a big tenant could fail, but it was hoped that because HGPI was spread across 16 buildings, the Halsey Garton Property Team would monitor the market or if there are any tenants that present risks. They noted that a decision could be taken to divest or repurpose a building to mitigate the risk, as long as it was factored into the long-term planning, then the Council had mitigated against the risk.
15. A Vice-Chairman asked if the scenario of a big tenant failing had been considered and worked through, such as what the impact of this would be on the Council and on HGPI, and what the mitigations could be employed against this. The Managing Director - Halsey Garton Property explained that each year there was an annual HGPI business plan which was submitted or endorsed by the Shareholder Investment Panel (SHIP) and then approved by SIB. This sets out the risk of each individual tenant and asset, they said, and a detailed business analysis and a business review of each individual asset was done within HGPI, which then modelled this around what would happen in the event that a tenant entered administration or something happened to the property. The Director - Land and Property reassured members that extra care was taken to ensure that the correct

commercial expertise was available and that there was the right balance of risk across the different sectors of industrial, commercial and retail.

16. A Vice-Chairman asked if SIB's annual business report could be provided to the Committee. The Strategic Finance Business Partner - Commercial clarified that what went to the committee was the SIB annual report (which is largely retrospective), that there had been discussions with the Interim Director of Law & Governance (Monitoring Officer) and Democratic Services concerning this format, and that the intention was to bring a Part 2 paper detailing plans to the committee around mid-year, between each annual report where the business plans of each company are discussed. The Vice-Chairman asked if the previous years' annual business reports could be shared with the Committee. The Strategic Finance Business Partner - Commercial confirmed these could be shared.

17. A member asked about the total amount of capital the Council had invested into the general activity and how much income these generated last year. The Strategic Finance Business Partner - Commercial explained that the amount of income that came into the Council on a company-by-company basis can be found in the group statutory accounts of interest paid, and that he would provide an exact answer after the committee. Regarding HGPI and HGR, The Managing Director - Halsey Garton Property explained there are specific company accounts available which set out the total income coming into each of those companies, the total capital invested, the total annual income received and the cost of the company. The Director - Land and Property added it was long term investment, where different years would show different returns.

The Committee **NOTED** the report.

Actions/requests for further information:

1. The Scrutiny Officer is to add an item to the Forward Work Programme considering the review of council investments over the next 12 months.
2. The Strategic Finance Business Partner - Commercial to share with the committee figures relating to the cost-effectiveness of services provided by the council's different investment bodies e.g. Connect2Surrey.
3. Strategic Finance Business Partner - Commercial to provide information on Surrey Choices and the benefits that it delivers to the council in employability.

4. The Scrutiny Officer is to follow-up on the possibility of the mid-year report of the Strategic Investment Board returning to the Select Committee for consideration.
5. The Scrutiny Officer to collate previous years' SIB annual business reports to share with the select committee.
6. The Strategic Finance Business Partner – Commercial to update on where the public can view the total amount of income received and capital invested by the council in its investment companies, on a company-by-company basis. Officers to provide specific company accounts to the committee if not already available elsewhere.

35/24 EXCLUSION OF THE PUBLIC [Item 7]

RESOLVED:

That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for 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.

The committee went in Part 2 at 11.00am

36/24 STRATEGIC INVESTMENT BOARD ANNUAL REPORT 2023/24 - SCC PROPERTY PORTFOLIO [Item 8]

Witnesses:

David Lewis, Cabinet Member for Finance and Resources
Andy Brown, Deputy Chief Executive & Executive Director Finance & Corporate Services (Section 151 Officer)
Diane Wilding, Director - Land and Property
Charles Maxlow-Tomlinson, Managing Director - Halsey Garton Property
Neil Jarvey, Strategic Finance Business Partner - Commercial
Bill Harrow, Senior Finance Business Partner – Commercial

Key points raised during the discussion:

See Exempt Minute E-24-24

RESOLVED:

1. The select committee notes the report and recommends that a risk profile of capital expenditure and forecasts come back before this select committee for further oversight and scrutiny.

2. Recommends that the select committee receive a further update on the leasing strategy in relation to letting premises within the Landlord and Tenant Act 1954 (as amended).
3. Recommends that the select committee receive an overview of the asset management strategy for properties owned by the council and Hasley Garton Property Ltd.
4. Recommends that the Resources and Performance Select Committee receive an update on the capital investment in the Brightwells Regeneration Scheme at Farnham, with reference to the Economic Prosperity Strategy.

Actions/requests for further information:

1. The Scrutiny Officer and Managing Director of Halsey Garton Property to investigate potential scrutiny consideration of the council's ownership of Park Lodge, prior to this report going to the Strategic Investment Board, as well as a report regarding Ranger House, subject to what is appropriate under present delegated authorities.
2. The Strategic Finance Business Partner – Commercial is to report to the committee on current policies and practices concerning any sub-contracting in the council's Local Authority Trading Companies.

37/24 STRATEGIC INVESTMENT BOARD ANNUAL REPORT 2023/24 - HALSEY GARTON PROPERTY PORTFOLIO [Item 9]

Witnesses:

David Lewis, Cabinet Member for Finance and Resources
 Andy Brown, Deputy Chief Executive & Executive Director Finance & Corporate Services (Section 151 Officer)
 Diane Wilding, Director - Land and Property
 Charles Maxlow-Tomlinson, Managing Director - Halsey Garton Property
 Neil Jarvey, Strategic Finance Business Partner - Commercial
 Bill Harrow, Senior Finance Business Partner – Commercial

Key points raised during the discussion:

See Exempt Minute E-25-24.

RESOLVED:

The select committee notes the report, and recommends that this committee receives further updates on any financing requirements of Halsey Garton Property LTD after consideration by the Halsey Garton board and by the council's Shareholder Investment Panel (SHIP).

Actions/requests for further information:

The Scrutiny Officer is to consult with officers about adding an item on the long-term financial plans of the Strategic Investment Board to the select committee's work programme.

38/24 PERFORMANCE MONITORING SESSION NOTES - 19 SEPTEMBER 2024 [Item 10]

The committee **AGREED** the performance monitoring session notes.

39/24 FORWARD WORK PROGRAMME AND RECOMMENDATION TRACKER [Item 11]

The committee **NOTED** the forward work programme and recommendation tracker.

40/24 DATE OF THE NEXT MEETING [Item 12]

The Committee **NOTED** the date of the next meeting on 6 December 2024.

Meeting ended at: 12.36pm

Chairman

