

**SURREY COUNTY COUNCIL****CABINET****DATE: 18 JULY 2017****REPORT OF: TIM OLIVER, CABINET MEMBER FOR PROPERTY AND BUSINESS SERVICES****LEAD OFFICER: JOHN STEBBINGS, CHIEF PROPERTY OFFICER****SUBJECT: INVESTMENT BOARD ANNUAL REPORT****SUMMARY OF ISSUE:**

The Investment Strategy agreed by Cabinet in July 2013 was developed in response to the requirement for the Council to enhance its financial resilience in the longer term. In facilitation of this strategy, Cabinet approved the business case for the creation of a property company and associated subsidiaries in May 2014 in order to achieve a balanced property portfolio (across sectors and geographies) to generate an income for the Council. The property company, Halsey Garton Property Ltd, and its subsidiaries are referred to in this report as “the Halsey Garton Property Group” (HGP).

The Investment Board was created in March 2017 to approve property investment acquisitions, property investment management expenditure, property investment disposals and the provision of finance to HGP for the purposes of the strategy. Prior to this an Investment Advisory Board was in place to make recommendations for Cabinet decision. This annual report providing details of the investment property portfolio forms part of these changed governance arrangements.

**RECOMMENDATIONS:**

It is recommended that the Annual Report of the Investment Board is endorsed.

**REASON FOR RECOMMENDATIONS:**

To inform the Cabinet about the activities of the Investment Board. The Investment Board are responsible for the delivery of the agreed Investment Strategy. The Investment Strategy was created by the council to deliver an ongoing and resilient source of income to provide financial support to the council's front line services. Investments undertaken as a result of the strategy agreed in 2013 are successfully delivering a net income stream to the council.

**DETAILS:****Background**

1. The Investment Strategy agreed by Cabinet in July 2013 was developed in response to the requirement for the Council to enhance its financial resilience in the longer term. The main principles of the Investment Strategy are as follows;

- The creation of a diversified and balanced portfolio of investments to facilitate future service provision, manage risk and secure an ongoing annual overall return to the Council
  - Use of the established Revolving Investment and Infrastructure fund (the Investment Fund) to meet the initial revenue costs of funding initiatives that deliver savings and enhance income in the longer term.
  - The Investment Fund is to be used to support investments that generate additional income to support the delivery of the Council's functions and services.
  - To undertake investments that have the potential to support economic growth in the county of Surrey, and,
  - Retaining assets where appropriate and undertaking effective property and asset management, and if necessary associated investment, to enhance income generation.
2. The investment portfolio of the Council is a combination of assets acquired or developed by the Council for future service needs, economic development and those acquired or developed by the property company. Cabinet approved the business case for the creation of the Property Company and associated subsidiaries in May 2014 in order to deliver the Investment Strategy and achieve a balanced property portfolio. The companies making up the Halsey Garton Property Group (HGP) were incorporated between June and July 2014.
  3. The governance for the Investment Strategy is provided by the Investment Board (IB), established following the Cabinet report in March 2017. Previously this role was fulfilled by the Investment Advisory Board.
  4. The Investment Board is comprised of members of the Cabinet and the Chief Executive, supported by officers. The IB is responsible for making investment decisions in accordance with the framework established by the agreed Investment Strategy and for the strategic management of the overall portfolio consistent with the aims of the Investment Strategy. The IB monitors the portfolio to ensure that an appropriately balanced and diversified portfolio is created over time, across the combination of directly Council-owned assets and those owned by HGP. Officers, supported by independent specialist professional advisors, support the IB. These specialist advisors periodically evaluate the recommended portfolio of property investment, taking into account market conditions and achievable returns.
  5. The Annual report of the Investment Board is attached as Annex A to this report. A further report providing more detailed information is provided as a PART TWO confidential Annex (agenda item 19).

<b><u>CONSULTATION:</u></b>
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6. The council's Investment Strategy was created following consultation with a number of stakeholders.

<b><u>RISK MANAGEMENT AND IMPLICATIONS:</u></b>
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7. The Investment Strategy means that the council is managing different financial risks. Investments will be subject to inherent economic and market risks which requires a balanced portfolio of investments to be built over time. The performance of the portfolio is monitored by the Investment Board. The strategy notes a preference toward assets within Surrey that are of good quality, in good or growth locations, however, in order to create a diversified portfolio a mix of geographical locations is required.
8. Development opportunities by their nature will have a higher risk profile but will also provide the opportunity for a greater rate of return. The strategy gives priority to development opportunities within Surrey where the wider benefits to the county will be taken into consideration, such as the provision of housing, new business premises or town centre regeneration.
9. The governance process put in place is designed to mitigate these risks. All investment expenditure is undertaken on the basis of a robust business case which takes into account due and proper consideration of the balance between risk and reward and an assessment of the underlying security of the investment to comply with the fiduciary duty the council holds.

#### **Financial and Value for Money Implications**

10. The objective of the Investment Strategy is to invest in income generating assets to partially offset the impact of reductions in government grants and to protect service provision. The Council may fund investments through the use of its reserves, capital receipts and prudential borrowing. All borrowing will be undertaken in accordance with the Prudential Code that requires the borrowing to be affordable, sustainable and value for money. All investments will continue to require a robust business case before proceeding and all investments are required to demonstrate a return in excess of the opportunity cost of capital and other associated costs of delivery.
11. The Investment Board is responsible for monitoring the financial performance of the portfolio and monitoring the progress made in respect of achieving an appropriately balanced and diversified portfolio over the longer term.

#### **Section 151 Officer Commentary**

12. There are no new financial implications arising from this report. The Investment Board ensures effective governance over the investment portfolio. The governance arrangements ensure that each investment is supported by a robust business case. In approving a business case, the Investment Board will satisfy itself that the investment is within the council's legal powers, it has properly considered the advice from its specialist advisors (both internal and external) and that its structure provides the best value for money taking into account all financial considerations. Full due and proper consideration is given to the balance between risk and reward and the underlying security of the investments proposed to ensure compliance with the fiduciary duty to ensure that the financial standing of the council is protected.

#### **Legal Implications – Monitoring Officer**

13. There are no direct legal implications arising from this report. The Council's overarching property investment strategy is underpinned by its powers to acquire properties for current or future service use, to dispose of properties

surplus to service requirement and by the “general power of competence” introduced by the Localism Act 2011. Properties acquired for a commercial purpose are purchased by HGP, which is a company within the meaning of s.1(1) Companies Act 2006.

#### **Equalities and Diversity**

14. There are no equalities and diversity implications arising from the annual report.

#### **WHAT HAPPENS NEXT:**

The Investment Board will continue to grow the investment portfolio in accordance with the aims of the agreed strategy.

#### **Contact Officer:**

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(Secretary to the Investment Board), Tel 020 8541 7588

#### **Consulted:**

Investment Board

#### **Annexes:**

Annex 1: Investment Board Annual Report (including Terms of Reference)

Annex 2: Investment Board Annual Report **PART TWO** (Portfolio in detail)

#### **Sources/background papers:**

Cabinet Report July 2013 – Investment Strategy

Cabinet Report May 2014 – Establishment of a Property Company

Cabinet Report March 2017 – Investment Strategy Review