

# Public

## Minutes of the Overview and Scrutiny Committee 16 January 2018

### Present:

Councillors:

S.C. Mooney	A.E. Friday	J.R. Sexton
J.R. Boughtflower	J.G. Kavanagh	R.A. Smith-Ainsley
S. Capes	D. Patel	B.B. Spoor
R. Chandler	A. Sapunovas	

**Apologies:** Councillors T.J.M. Evans, K. Flurry, A.L. Griffiths and D. Saliagopoulos

### **8/18 Election of Chairman**

It was proposed by Councillor A.E. Friday and seconded by Councillor J.G. Kavanagh and:

**Resolved** that Councillor S.C. Mooney be appointed Chairman of the Overview and Scrutiny Committee for the remainder of the Municipal Year 2017/2018.

### **9/18 Minutes**

The minutes of the meeting held on 28 November 2017 were approved as a correct record.

### **10/18 Election of Vice-Chairman**

It was proposed by Councillor S.C. Mooney and seconded by Councillor R.A. Smith-Ainsley and:

**Resolved** that Councillor J.G. Kavanagh be appointed Vice-Chairman of the Overview and Scrutiny Committee for the remainder of the Municipal Year 2017/2018.

### **11/18 Disclosures of Interest**

There were none.

### **12/18 Call-in of Cabinet decisions**

No Cabinet decisions had been called-in.

### **13/18 Management of the river Thames**

Maria Herlihy, Operations Manager and James Liney, Asset Performance Team Leader with the Environment Agency (EA) gave a presentation

(attached to these minutes) on their management of the River Thames and flood risk.

The additional information provided included:

- bathymetric surveys and shoal removal – EA identify 5-10 areas of most benefit for removal of silt. This is an ongoing programme.
- dredging – can be useful in some locations but only one option open to EA. Takes place where it is a cost effective and sustainable option.
- The EA has an annual maintenance programme for the locks and weirs.
- temporary flood defences are employed on a risk based assessment
- deployment plans for temporary flood defences will be tested over coming months. EA would like to engage with the Council and local communities on the location for test to take place.

In response to questions from members, Ms Herlihy and Mr Liney responded:

- the EA is in a better, stronger position than in 2014 to deal with future floods due to the temporary flood defence deployment plans, improved forecasting systems and resources located at the EA Sunbury depot.
- the EA has learned from the experience in 2014, how to better communicate information to residents.
- deployment plans have been computer modelled on different scenarios to ensure their use does not make the situation worse for other communities further down river.

They agreed to provide further information to the Committee following the meeting on:

- How can residents can sign up for flood warnings
- the location for the temporary flood defences deployment pilot
- progress being made with local plans that local communities were asked to prepare after the 2014 floods
- advice for residents on how to deal with groundwater flooding
- reasons why it was not cost effective/practical to plan a temporary flood defence for Sunbury

Finally they encouraged members to attend the planned information sessions on progress with the River Thames Scheme.

**Resolved** to note the presentation by the Environment Agency on management of the River Thames and thank Maria Herlihy and James Liney for attending.

#### **14/18 Business rates avoidance and evasion**

The Temporary Customer Services Operational Manager and the Internal Audit Manager presented the report on business rates - avoidance and evasion. They explained that due to resource challenges they were only able to investigate a limited number of cases. They highlighted the partnership with Reigate and Banstead Borough Council to procure a counter fraud resource, which supported and supplemented the existing investigatory resource at

Spelthorne focussing on Housing and Business rates, and had resulted in a positive outcome for the Council in terms of the amount of monies we had been able to recover.

The Chairman commended the fraud partnership as a good initiative which the Council should take opportunities to make greater use of.

**Resolved** to note the report on business rates.

**15/18 The Council's property investment strategy**

The Portfolio Holder for Finance, Councillor Howard Williams and the Chief Finance Officer jointly gave a presentation to the Committee on the Council's approach to risk management with respect to its commercial property acquisitions (attached to these minutes).

They explained: the drivers behind the Council's investment activity - reduced central government funding and budget pressures; a summary of the acquisitions made; the Council's approach to acquisitions through policies / strategies - Strategic Property Investment Parameters statement, Treasury Management Strategy, borrowing strategy; and the process undertaken before an acquisition was made, including evaluation of tenants, modelling exit strategies and using external advisors.

They responded to questions from members of the Committee.

**Resolved** to note the presentation on the Council's risk management approach to its property investment strategy.

**16/18 Treasury Management half-yearly report**

The Deputy Chief Accountant presented the Treasury Management half-yearly report on treasury performance for the first six months of the financial year to the end of September 2017. The Council had invested and borrowed substantial sums of money and was therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The report covered the council's treasury activity and the associated monitoring and control of risks.

**Resolved** to note the treasury position achieved during the first six months of 2017/18 and the financial environment in global markets.

**17/18 Update on Leader's Task Group for Economic Development**

Councillor Patel, the Chairman of the Economic Development Engagement Group highlighted progress with the work of the Group:

- Membership had been widened to achieve more input from the business community to include representatives from Surrey Chamber of Commerce and the chairman of Spelthorne Business Forum
- Surrey County Council will be looking to improve the traffic light system in Staines

- We are launching a competition with schools and photography groups to provide pictures for the website to promote the Borough.

**Resolved** to note the update on the Leader's Task Group for Economic Development.

**18/18 Cabinet Forward Plan**

The Committee noted the Cabinet Forward Plan.

**19/18 Work Programme**

The Committee considered its work programme for the remainder of the Municipal year.

**Resolved** to note the work programme for the remainder of 2017/18.

# **Environment Agency Management of the River Thames and flood risk**

**Maria Herlihy: Operations Manager**

**James Liney: Asset Performance Team Leader**

# Bathymetric Surveys & Shoal Removal



- Shoal removal at Sunbury in 2016
- Regular programme of bathymetric surveys and shoal removal
- Middle third of the Thames only, the Navigation

# Dredging



- Historic agricultural land use
- A need to drain the land for farming
- Systematic dredging of the Thames up to the 1990's.
- Changing land use late 20<sup>th</sup> century and into 21<sup>st</sup> Century
- Changes in government policy
- Ensure good value for money

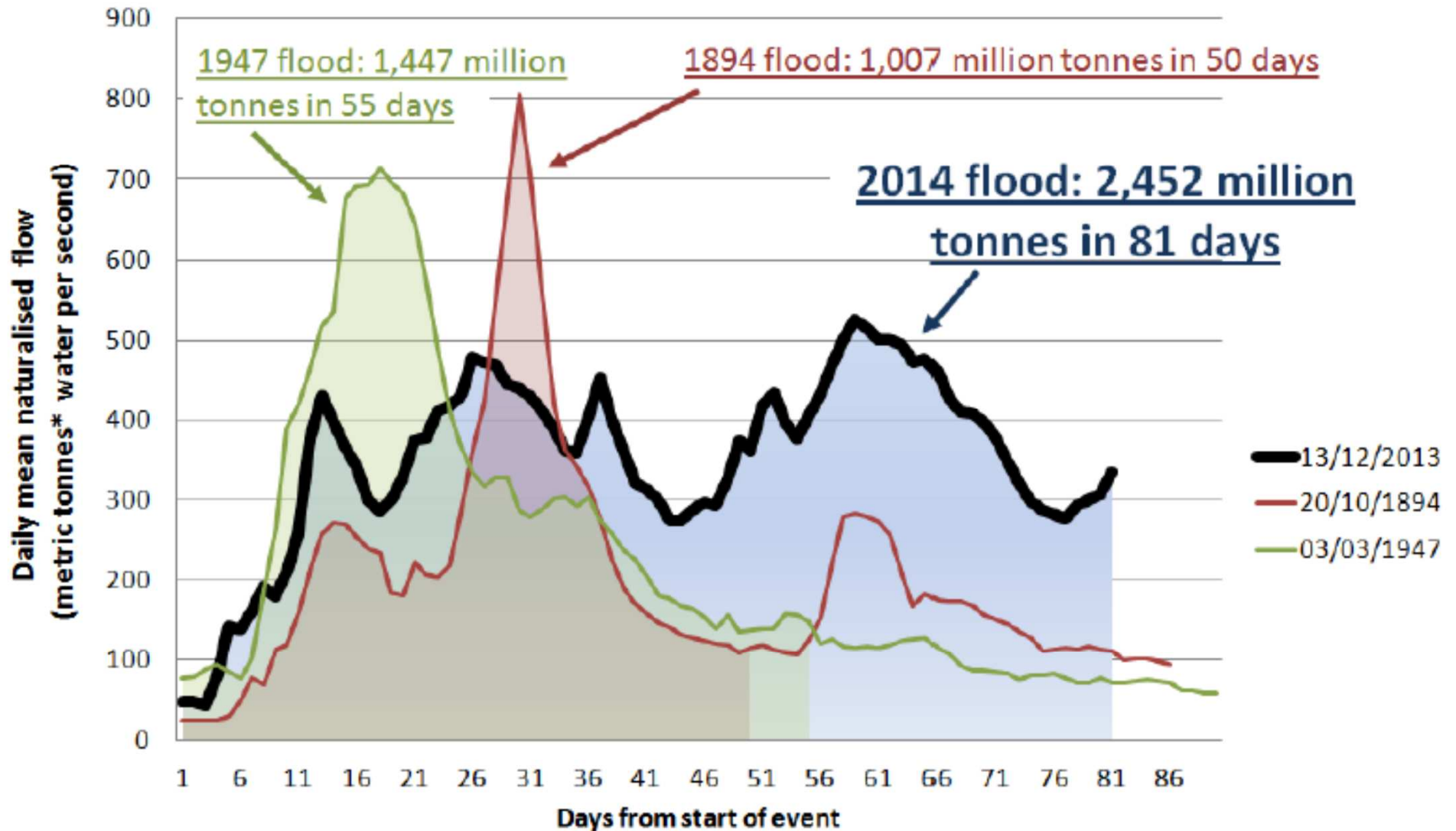


# Silt flushed out to sea in 2014 floods





## Comparison of the largest flood events on the River Thames at Kingston



Prepared by Chris Beales, Environment Agency - Evidence South East - 4 Mar 2014. Notice flows for recent event are unverified and may be subject to change. \*1 metric tonne = 1 cubic metre

# River Thames Scheme

**Meeting 1 Goddard Room 29 January 2018. 4pm – 5pm**

Staines Ward - This meeting will focus on the scheme upstream of channel 2

**Meeting 2. Goddard Room 29 January 2018. 6pm – 7pm**

**Meeting 3. Trevor baker Room 1 February 2018. 4pm – 5pm**

Riverside & Laleham Ward

Laleham & Shepperton Green Ward

Shepperton Town Ward

Both of these meetings will cover Channel 2 and 3 of the RTS

**Meeting 4. Trevor Baker Room 5 February 2018. 4pm – 5pm**

Haliford & Sunbury West Ward

Sunbury East Ward

This meeting will cover the weir works and downstream of the Desborough Cut

There will be a short presentation explaining flooding in Spelthorne, how the scheme works, cost and benefits including local factors and community resilience. This will be followed by a Q&A session.

# Floating Pennywort



- Picture shows removal at Sonning
- 50 tonnes removed Autumn 2017
- Clearance at Rivermead Island, Sunbury, happening this week
- Spraying programme starts in Spring

Report sightings of invasive species to [thameswestfrb@environment-agency.gov.uk](mailto:thameswestfrb@environment-agency.gov.uk), or via the plant tracker app on android or iOS.

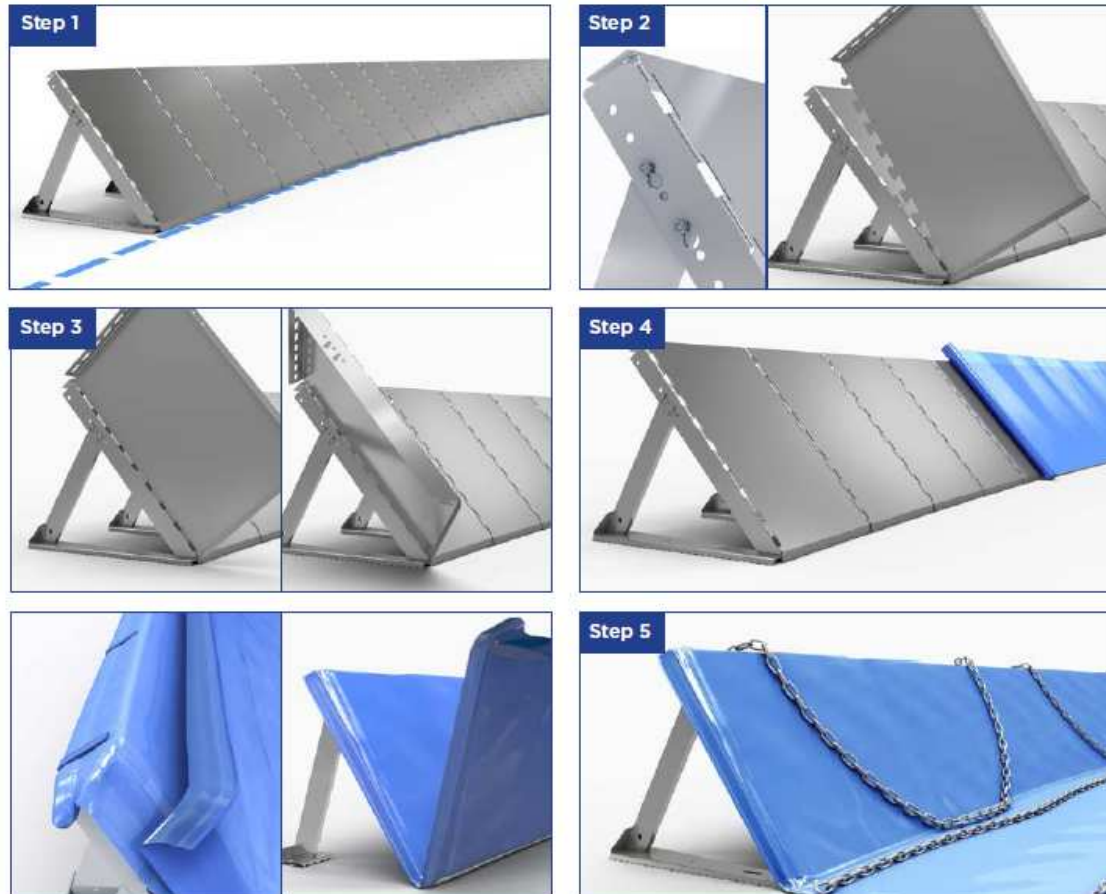
# Maintenance Programme 2018

- Our following assets in Spelthorne are on our 2018-19 maintenance programme
  - Shepperton Weir A and B: Replace rubber seals on weir and formalise fishing platform and access
  - Sunbury Weir B & Lock Island: replace weir summer boards & improve site security

# Temporary flood defences

- Improved flood mapping & forecasting. Can do more in advance
- Reduce risk of flooding to communities, preparing plans we can implement
- Will not use temporary defences if a risk they may be unsuccessful
- May use temporary defences to reduce risk of flooding from rivers where:
  - they are technically and economically viable
  - our flood forecasting provides enough lead time to deploy the defences
  - it will not make the situation worse for others
  - there is support from local authority, partner organisations & community
- Cannot guarantee temporary defences will all be used. Will depend on circumstances at the time

# Temporary flood defences



Aquobex K50 is a temporary (or portable) flood barrier, requiring no permanent ground fixings.



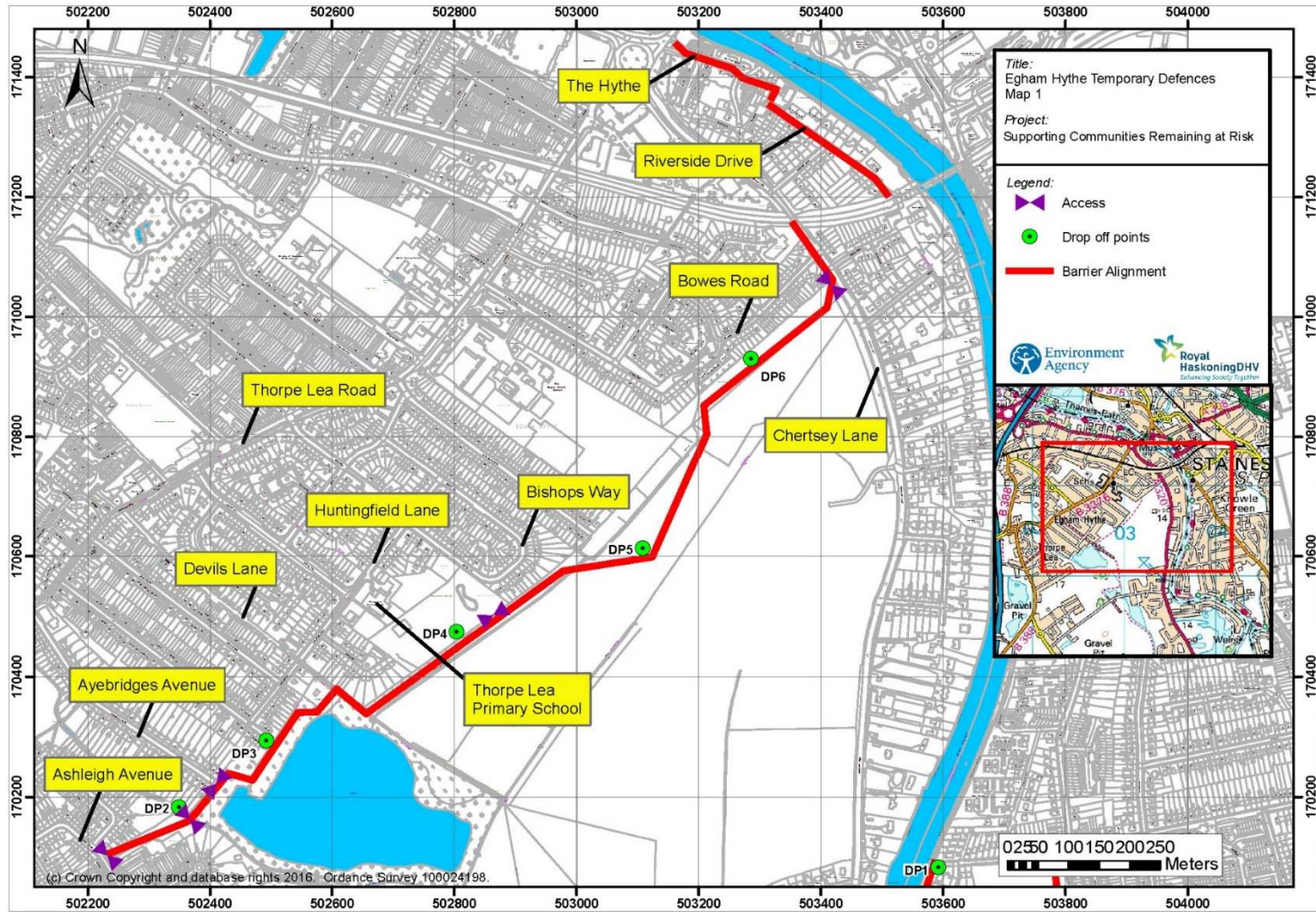
# Temporary flood defences

Four locations in Spelthorne:

- Egham Hythe
- Littleton Lane
- Shepperton
- Staines-upon-Thames



# Egham Hyte



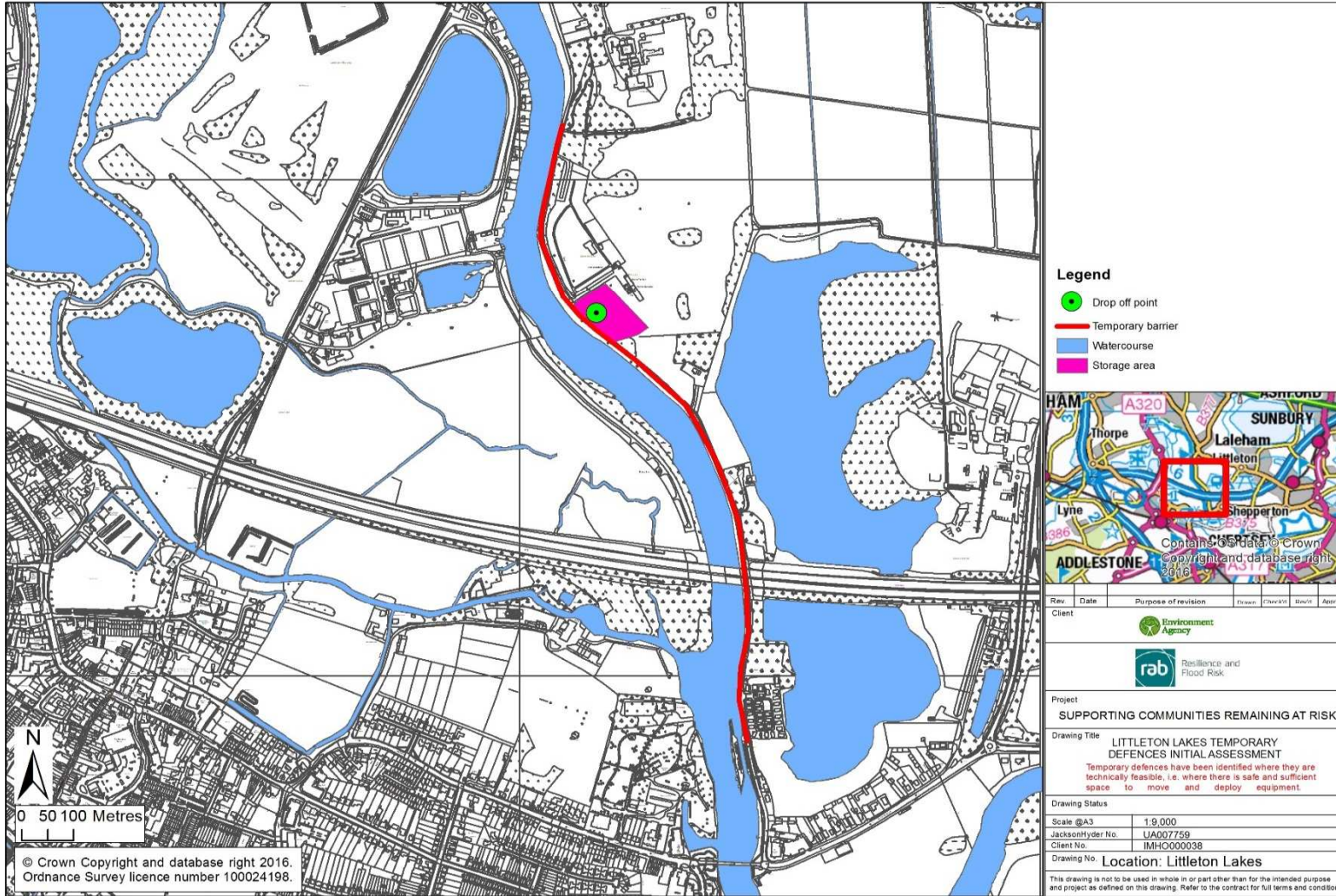
# Proposed Deployment Plans

Image A. Garages at The Hythe

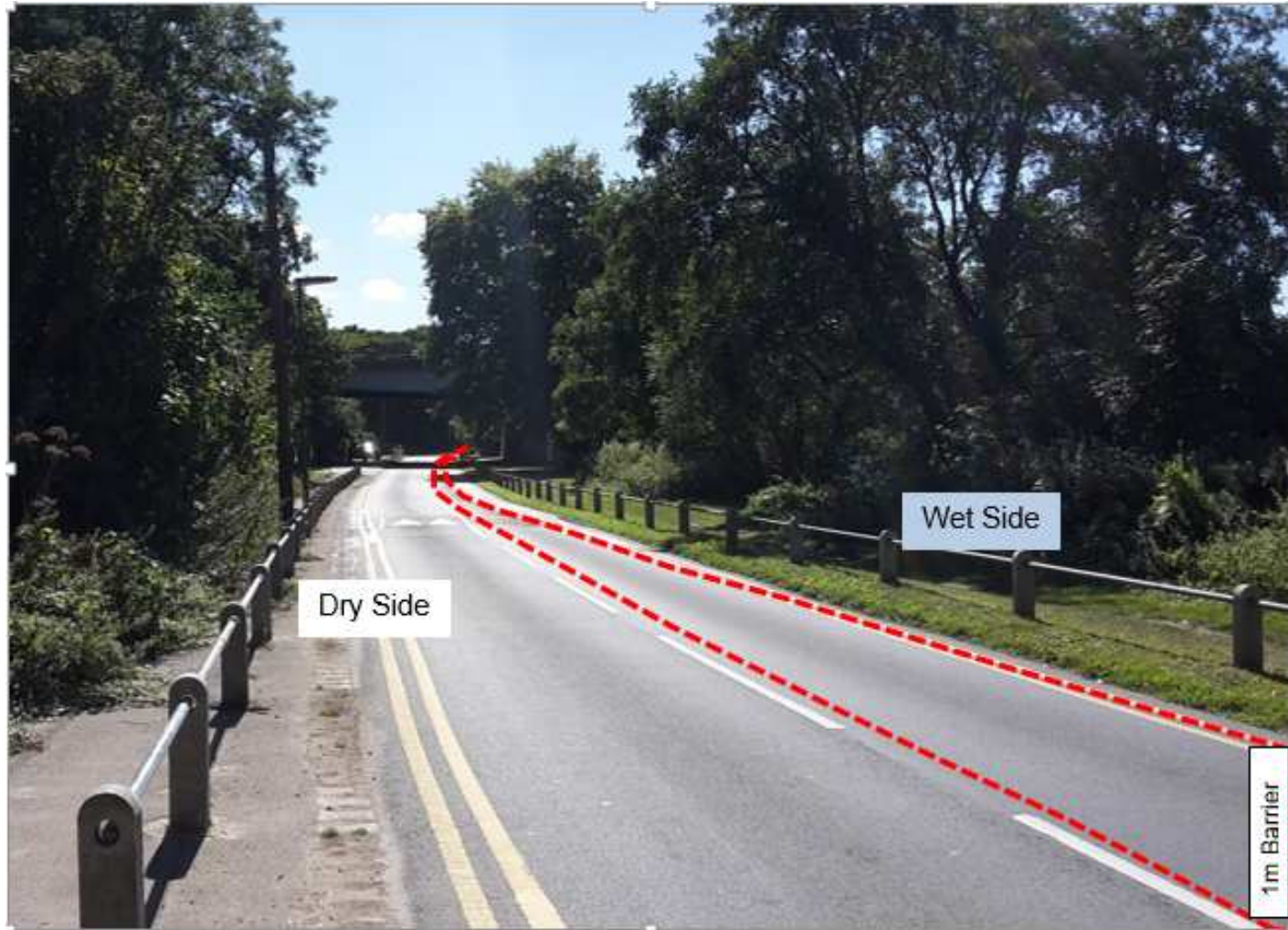




# Littleton Lane

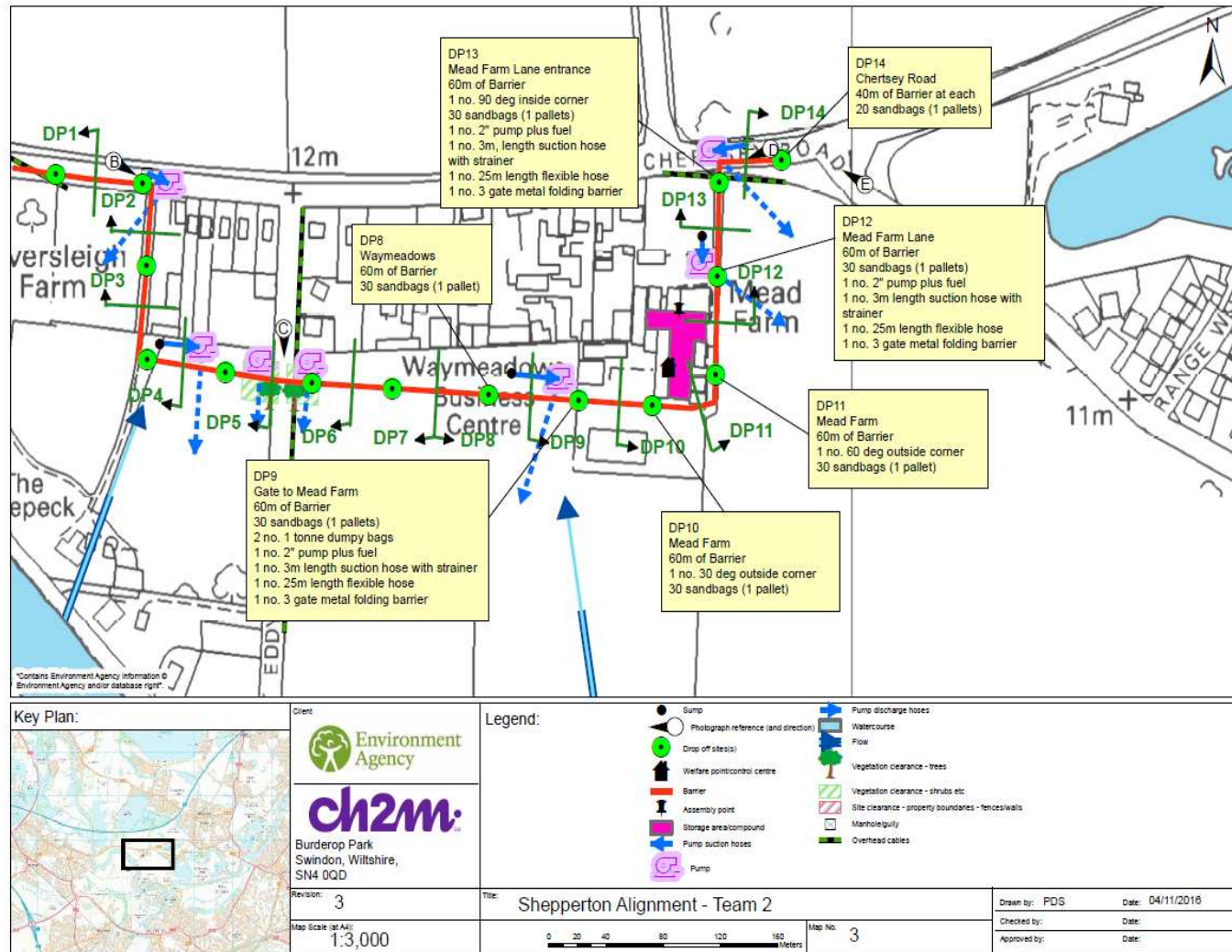


# Proposed Deployment Plans

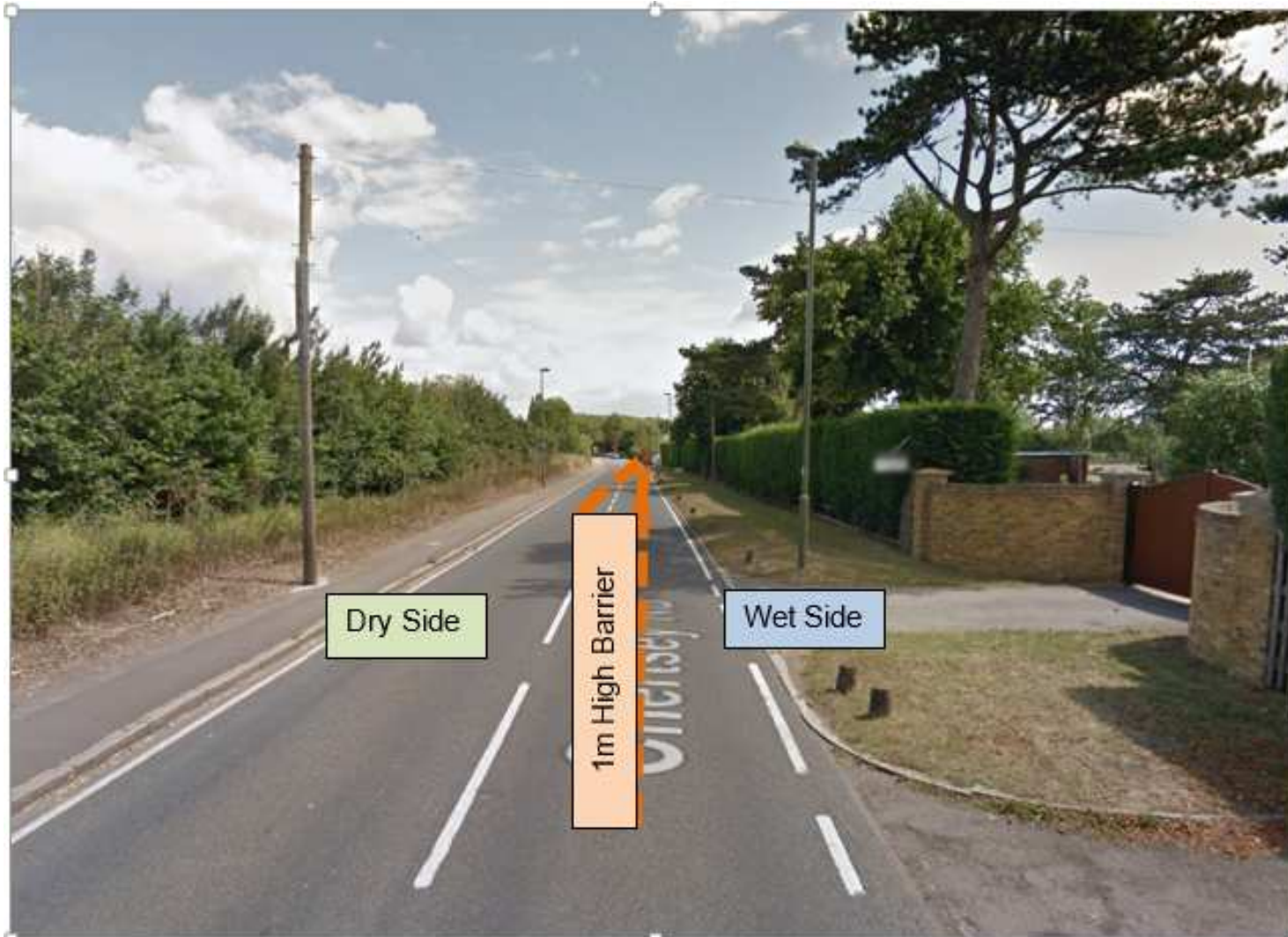




# Shepperton

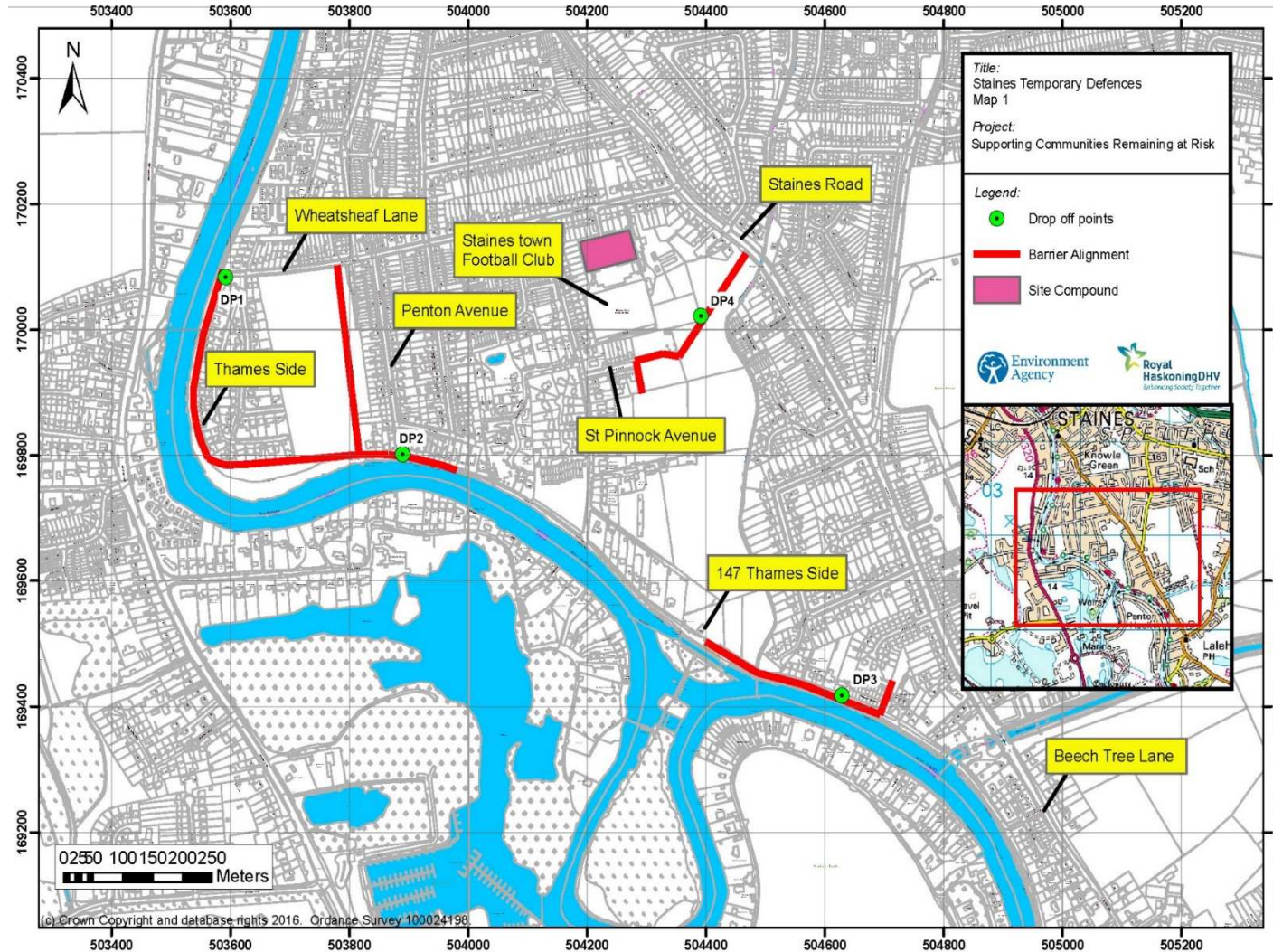


# Proposed Deployment Plans





# Staines-upon-Thames





# Proposed Deployment Plans



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# Spelthorne's approach to management of risk with respect to commercial property acquisitions

Page 25



Minute Item 15/18



# Objective



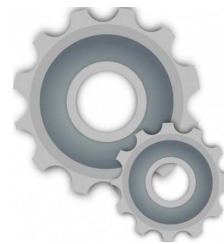
Illustration by Chris Gash



<http://cliparts.co/sherlock-holmes-c>

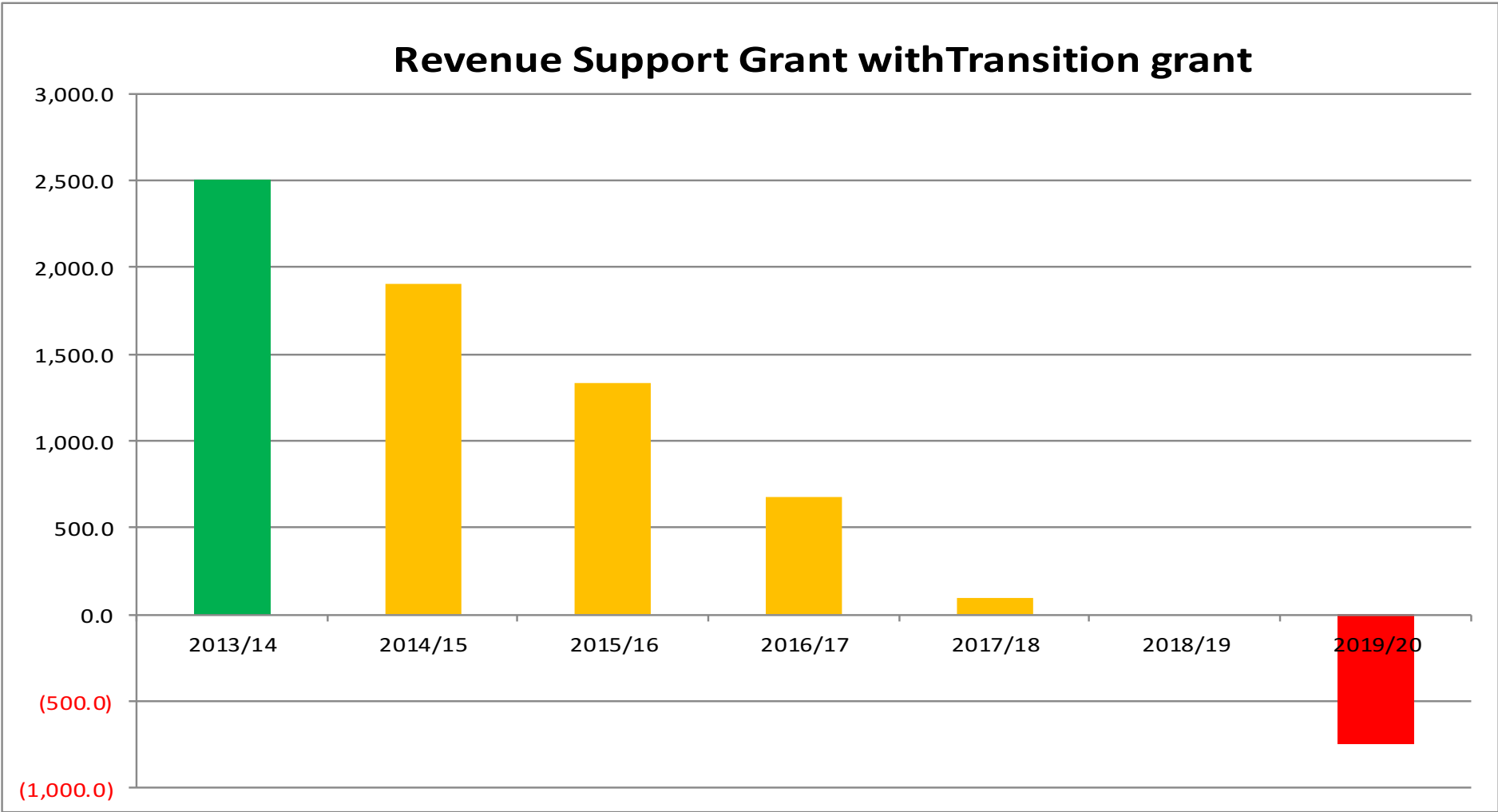
# Agenda

- WHY: Cuts/budget pressures as investment activity drivers
- WHAT: Summary of acquisitions made
- HOW: Approach to acquisitions
  - Policies/Strategies
    - Strategic Property Investment Parameters statement
    - Treasury Management Strategy
    - Borrowing strategy
  - Process
    - Steps
    - Evaluation of tenants
    - Modelling exit strategies
    - External advisors
- Summary and questions



# Reducing central government funding

Page 28



# Budget Pressures including housing and lost recycling credits

- SCC pressures (recycling, street lights, verges) in total adding approx. half million to budget gap
- Rising demand for B&B temporary housing accommodation
- Homelessness Reduction Act implemented in April 2018 adding additional responsibilities with significant resourcing implications
- Roll out of Universal Credit continuing which will mean by 2019-20 loss of the **£0.5m overpayments** net credit we have been achieving- delay in process benefits SBC
- Expectations around funding of Thames Flood Relief Scheme (**£20 million?**)



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Page 30 Homelessness Reduction Act implemented in April 2018 adding additional responsibilities with significant resourcing implications

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- Expectations around funding of Thames Flood Relief Scheme (**£20 million?**)

SBC's annual revenue budget = approx. £13 million

# “Given the funding cuts how can you afford to buy so much?”

- This is a common question
- It is precisely because of the funding reductions that we are looking for long term sustainable income streams

Page 31 We only borrow if a deal generates a significant annual revenue surplus to support the provision of services to residents

- This annual revenue surplus is calculated after deducting
  - Interest
  - Principal repayments
  - Supervision set asides
  - Sinking fund set aside contributions to build funds to cover potential refurbishment, rent free, void costs= ***provisions as risk mitigants***

# Income returns delivered by acquisitions

	Purchase Cost incl SDLT & fees	Gross Initial Annual Rental	Net initial Yield	Initial Lease length (WAULT)	Initial Full Year financing Cost	First full year set aside for mgt & refurb provision	Initial net Revenue Surplus available to support Services
	£	£	%	Yrs	£	£	£
<b>Commercial Investment Assets</b>							
<b>Completed</b>							
BP Main Campus	381,532,600	15,666,000	4.12%	20	-11,785,753	-550,000	3,330,247
BP South West Corner	28,288,142	1,905,000	6.78%	12	-1,022,202	-150,000	732,798
Elmbrook House	7,579,100	477,000	6.35%	10	-99,087	-50,000	327,913
3 Roundwood Avenue*	22,766,190	1,426,000	6.26%	10	-817,988	-130,000	478,012
12 Hammersmith Grove	179,067,914	9,530,865	5.32%	13	-6,255,221	-1,125,000	2,150,644
WBC4	49,148,758	2,446,958	4.98%	15	-1,702,575	-200,000	544,383
<b>Total above</b>	<b>668,382,704</b>	<b>31,451,823</b>	<b>4.71%</b>		<b>-21,682,827</b>	<b>-2,205,000</b>	<b>7,563,996</b>

# Strategic Property Investment Parameters



- Approved by Council December 2017
- Always undertake thorough due diligence in order to understand risk
- Preference is given to investing within borough, or in an adjoining area that is economically important to Spelthorne
- We have a clear view of the asset security curve
- We have a clear exit strategy, fully costed, at the various critical points in the investment (lease break points etc.)
- We do not make speculative investment for revenue-generation purposes. The properties should ordinarily be complete, free of any ongoing redevelopment work and occupied by creditworthy tenants with a minimum of 10 years' lease remaining

# Strategic Property Investment Parameters



- A simple, three-side summary in plain English approved by Cabinet
- Sets out three reasons for investment in property (usually using borrowed funds)
  - Income generation, social investment, strategic purposes

- Local
- Asset security curve
- Exit strategy
- Worst-case planning
- Full occupation, strong tenants, reputable
- No interest rate exposure
- Operationally simple
- Ongoing contract and asset management team
- No to certain sectors
- No to high-risk/high-reward
- <1/100 flood risk

Page 34

Staines-upon-Thames x 1  
Ashford x 2  
Sunbury x 4  
Upper Halliford x 1  
Heathrow x 1  
Stockley Park x 1  
Hammersmith x 1

**The furthest is just 14 Miles from the Council offices. All are within Spelthorne's economic orbit**

- Note:
  - An element of speculation may be appropriate for social investments (e.g. providing emergency accommodation and building affordable housing)
  - Social investments to benefit Spelthorne residents and not replace SCC obligations
  - Strategic investments supplement income generation/social investments



# Treasury Management Strategy

- Originally designed with cash management, managed funds and instant access cash investments in mind, increasingly influenced by borrowing strategy
- Economic background as a macroeconomic risk (interest rates/returns, returns on investment in certain sectors/funds)
- Exposure limits (funds/fund managers)
- Revenue versus capital growth
- Borrowing strategy includes alternative sources of borrowing and asset sales to generate capital, long/short term, fixed/variable
- We take advice from independent, external specialists (ArlingClose)
- Regular reviews, reports, credit ratings, ongoing and ad-hoc advice
- Always build a robust exit strategy

# Borrowing strategy



- Borrow bulk of funds from Public Works Loans Board (PWLB/part of Bank of England which lends to Councils) at rates nearly as cheap as Government can access

Page 36 Rates since Brexit referendum at historically low levels

• We fix rates so we know future financing liabilities

- We spread terms to mitigate interest rate risk.
- Diversifying funding sources to include other Local Authorities, banks etc.



# Process - Steps



- Expert property advisors identify and analyse opportunities
- SBC finance prepare ROI inc. provisions and borrowing options

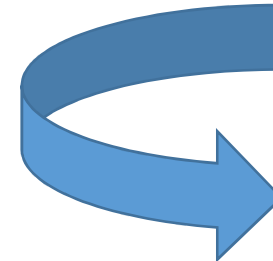
**As few as one in ten opportunities presented by them are considered by SBC...but improving**

## Risk factors identified and quantified

- Incl. credit scoring of tenants, S&P scoring, independent analysis of scoring
- All “what ifs” documented and exit strategies documented
- PoD and LGD documented

**80 pages of tenant scoring and exit scenarios in a recent case**

- Operational test for practicability and ongoing management
- Legal due diligence
  - Conveyancing, tenant lease contracts, QC opinion on “state aid” where appropriate
- Recommendation to Cabinet



**An iterative process leading up to and following Cabinet approval**



# Process - Evaluation of tenants

Thorough Standard and Poor's assessments on potential tenants

Ongoing monitoring of all tenants by S&P's alerts received if move outside of pre-determined limits

Look where possible for parent company guarantees/sureties

Advice from property advisers

Purchasing minimal shareholdings to give us company reports and voting rights

Modelling to ensure can withstand cashflow impact of a tenant getting into difficulties

# Process - Modelling exit strategies



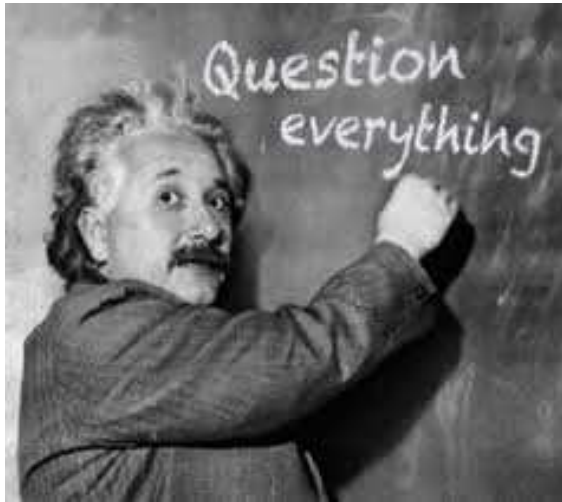
- Model impact of tenants getting into difficulties to ensure we can absorb without adverse impact on council revenue budget
- For most recent acquisition 6 different tenants, so modelled several different permutations – 2 independent reports/80 pages in total



# Process – External advisors

- External, expert property consultants
- External, specialist investment consultants
- External, specialist legal experts
- In-house staff/councillors with appropriate industry expertise
- Newly hired, dedicated property development team
- Recognised credit scoring agency and now formally subscribe to their software and services
- Forensic accounting team on occasion, when public domain information on tenants lacking

# Questions





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