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18 April 2019

To: Chairman – Councillor Tony Mason  
Vice-Chairman – Councillor Nick Sample  
Members of the Audit and Corporate Governance Committee – Councillors  
John Batchelor, Mark Howell, Brian Milnes, Heather Williams and Eileen Wilson  
Quorum: 3

Dear Councillor

You are invited to attend the next meeting of **AUDIT AND CORPORATE GOVERNANCE COMMITTEE**, which will be held in **SWANSLEY ROOM A AND B - SOUTH CAMBRIDGESHIRE HALL** at South Cambridgeshire Hall on **TUESDAY, 30 APRIL 2019** at **9.30 a.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution *in advance of* the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully  
**Mike Hill**  
Interim Chief Executive

**The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.**

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## AGENDA

	PAGES
1. <b>Apologies for Absence</b> To receive Apologies for Absence from Committee members.	
2. <b>Declarations of Interest</b>	
3. <b>Minutes of Previous Meeting</b> To confirm the minutes of the meeting held on 26 March 2019 as a correct record.	1 - 4
<b>AUDIT REPORTS</b>	
4. <b>To receive a verbal update on the Audit Plan from Internal Audit</b>	
5. <b>To receive a verbal report on the Audit of 2017/18 Accounts from the External Auditors</b>	

**5 (a) Data Quality**

**5 (b) Use of Resources**

**DECISION ITEMS**

**6. Review of the Committee Terms of Reference 5 - 8**

**INFORMATION ITEMS**

**7. Issues arising from previous meetings 9 - 10**

**8. Purchase of Investment Property 11 - 24**

**9. Matters of Topical Interest**

**10. Date of Next Meeting**  
30 July 2019 starting at 9.30am

## **GUIDANCE NOTES FOR VISITORS TO SOUTH CAMBRIDGESHIRE HALL**

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#### **Banners, Placards and similar items**

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If a member of the public interrupts proceedings at a meeting, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared. The meeting will be suspended until order has been restored.

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# Agenda Item 3

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Minutes of a meeting of the Audit and Corporate Governance Committee held on  
Tuesday, 26 March 2019 at 9.30 a.m.

PRESENT: Councillor Tony Mason – Chairman  
Councillor Nick Sample – Vice-Chairman

Councillors: John Batchelor  
Peter Topping  
Eileen Wilson

Brian Milnes  
Heather Williams

Officers: Patrick Adams  
Rory McKenna  
Bob Palmer

Senior Democratic Services Officer  
Deputy Head of Legal Practice  
Interim Executive Director

Auditors: Kay McClennon  
Suresh Patel  
Jonathan Tully

Ernst & Young  
Ernst & Young  
Head of Shared Internal Audit

Councillors Dr. Tumi Hawkins and John Williams were in attendance, by invitation.

### 1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Mark Howell. Councillor Peter Topping was attending as his substitute.

### 2. DECLARATIONS OF INTEREST

Councillor John Batchelor declared a non pecuniary interest as an unremunerated Director of Ermine Street Housing. The Deputy Head of Legal Officer confirmed that Councillor Batchelor was permitted to take part in discussions on Treasury Management, which was an information item.

### 3. MINUTES OF PREVIOUS MEETING

The Minutes of the Meeting held on 25 September 2018 were agreed as a correct record.

It was agreed that actions in minutes should be responded to at the following meeting. The following matters were arising.

#### **Making tax digital**

The Executive Director reported that this Government scheme should make it easier for small businesses to complete their tax returns.

### 4. ANNUAL GOVERNANCE STATEMENT AND LOCAL CODE OF GOVERNANCE

The Head of Shared Internal Audit presented this report, which invited the Committee to approve the Annual Governance Statement for 2017/18.

The Committee raised the following concerns:

- The Committee had not met for six months.
- Many of the issues raised in the Annual Governance Statement for 2017/18 were

out of date.

- This made specific dates in the report more important.
- The signing off of the accounts had been delayed for three years in a row and this delayed the agreeing of the Annual Governance Statement.

The Chairman confirmed that the gap of six months between Committee meeting would not be repeated.

The Head of Shared Internal Audit explained that the Annual Governance Statement needed to be agreed before the Statement of Accounts.

It was suggested that using the term “positive” to mean less willing to take risks was misleading.

The Deputy Head of Legal agreed to ensure that the Constitution Task and Finish Group consider inviting representatives of the Committee to its meeting, when discussing the parts of the Constitution relevant to the Committee.

As the Accounts for 2017/18 had not been signed off the Committee agreed to **DEFER** this item to its next meeting.

## **5. EXTERNAL AUDIT PROGRESS REPORT - AUDIT OF THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2018**

Suresh Patel introduced this progress report on the status of the Audit of the 2017/18 accounts, which remained in progress. He listed the following areas where progress had been slower than anticipated:

- Property, Plant and Equipment
- Movement in Reserves Statement
- Collection Fund
- Debtors and Creditors

It was noted that the volume of audit queries had been a challenge for officers to deal with and this had resulted in delays to the audit.

Suresh Patel could not guarantee that External Audit would be in a position to sign off the accounts by the end of April.

It was noted that the extra work carried out by External Audit would inevitably increase their audit fee. It was estimate that these fees could be £60,000 to £80,000 more than expected.

The Executive Director stated that this was the third year that the Council had not managed to get the accounts signed off within the Government’s deadline and he acknowledged that this was not acceptable. He stated that a new full-time accountant was being employed to replace the part-time arrangements that were in place under shared services. The Committee thanked the Executive Director for his efforts and hoped that a structure could be put in place to avoid such a lengthy delay in the future. It was suggested that the Committee should set up a Task and Finish Group to help facilitate this. It was also suggested that members of the Committee should have received regular updates on continuous delays to signing off of the 2017/18 accounts.

Disappointment was expressed that the issues raised by External Audit in 2016/17 had not be resolved for the 2017/18 accounts. It was noted that the delay in signing off 2017/18

accounts would inevitably cause delays in the signing off of the 2018/19 accounts, as there was currently no starting balance for this year's accounts.

The Committee **NOTED** the report.

## **6. ANNUAL TREASURY MANAGEMENT (OUTTURN) REPORT 2017/18**

The Committee considered the annual treasury report, which reviewed the treasury management activities and the actual prudential and treasury indicators for each financial year. The Executive Director explained that the figures in the report would not change due to the work still to be done on the accounts for 2017/18. It was suggested that the word "draft" should be added to the report, because the 2018/19 report was not signed off.

It was noted that the Council's investment in Ermine Street Housing Ltd had achieved a return of 3.73% in 2017/18. The Council's performance on Waited Average Rate of Return, excluding the loan to Ermine Street Housing Ltd, was 0.81%, which exceeded other similar sized authorities that made up our benchmarking group who achieved 0.63%.

The Committee **NOTED** the report.

## **7. HALF-YEAR TREASURY MANAGEMENT REPORT 2018/19**

The Executive Director presented this item, which provided a half-year treasury management report for 2018/19, as required by the Chartered Institute of Public Finance (CIPFA) Code of Practice on Treasury Management.

It was noted that the amount the Council was investing with local authorities had increased from £4 million to £16.5 million. The Executive Director agreed to provide a list of these local authorities. It was understood that investing with other local authorities was low risk.

The Committee agreed that there should be a review process, which allowed the Committee to assess the risks associated with the Council's investments. The Head of Internal Audit agreed to bring a report on this to a future meeting of the Committee.

The Committee noted the report.

## **8. REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) AMENDMENTS TO POLICY & UPDATE ON USE OF RIPA**

The Deputy Head of Legal Practice on the revised Regulation of Investigatory Powers Act (RIPA) and an update on the use of RIPA powers since June 2018.

It was noted that the RIPA powers had been used once between June 2018 and February 2019. This had not resulted in any useful evidence being gathered and had been cancelled on 1 October 2018.

It was noted that the Council had been inspected by the Investigatory Powers Commissioner's Office in May 2018 and the report concluded that the policy, training and oversight regime was very good. It made no recommendations for improvement.

### **Amendment to the RIPA policy**

The Deputy Head of Legal Practice recommended that Mike Hill, who had been authorising officer since 2011, became the Senior Responsible Officer and Rob Lewis and Geoff Clark become authorising officers.

The Committee

**AGREED** the amendments to the Council's RIPA policy at Appendix A

**NOTED** the Council's limited use of surveillance powers between June 2018 and February 2019.

**9. MATTERS OF TOPICAL INTEREST**

**Workshop**

In response to a request from the Committee, Suresh Patel agreed to run a workshop for councillors on how to serve effectively on an Audit Committee.

**Accountancy**

The Executive Director reported that following the decision not to go ahead with shared services, two part-time officers were being replaced by a single full-time officer, who will serve as the Council's Deputy Section 151 Officer.

**10. DATE OF NEXT MEETING**

It was agreed that the next meeting of the Committee will take place on Tuesday 30 April at 9:30am in the Swansley Room.

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**The Meeting ended at 12.20 p.m.**

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# Agenda Item 6



**REPORT TO:** Audit and Corporate Governance Committee  
**LEAD OFFICER:** Executive Director (Corporate Services)

30 April 2019

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## Review of the Committee Terms of Reference

### Purpose

1. The purpose of this report is to introduce a revised Terms of Reference for the Audit & Corporate Governance Committee. This is not a key decision.

### Recommendations

2. It is recommended that Committee approves the updated Terms of Reference.

### Reasons for Recommendations

3. It is good practice to periodically review the Committee Terms of Reference to ensure that it is accurate and relevant. The role of the Committee has not changed, however new legislation and guidance has resulted in changes to terminology and language which should be reflected. The Council is currently undertaking a review of its Constitution and this work contributes to that overall review.

### Background

4. The Audit and Corporate Governance Committee is a key component of the Council's corporate governance framework. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
5. The purpose of the committee is to provide independent assurance, to the members, of the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks; and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
6. Audit committees in local authorities are necessary to satisfy the wider requirements for sound financial management and internal control. For example, the Accounts and Audit (England) Regulations 2015 state that a local authority is responsible "*for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective, and includes effective arrangements for the management of risk*". In addition, section 151 of the Local Government Act 1972 requires every local authority to "*make arrangements for the proper administration of its financial affairs*".

7. The Committee has a Constitution which is published on the [website of the Council](#)<sup>1</sup>. *Document Part 3 - Responsibility for Functions* includes the [Responsibility for Council Functions](#)<sup>2</sup>, which documents the membership and functions of the Audit and Corporate Governance Committee. This was published in January 2013 and requires updating to reflect new terminology and current practice from recent events such as the Accounts and Audit Regulations 2015, Audit Commission responsibilities transferring to the Cabinet Office and Public Sector Audit Appointments, plus the new Public Sector Internal Audit Standards.
8. The appropriate functions and roles of Audit Committees are informed by the overall governance structure of the Council. CIPFA (The Chartered Institute of Public Finance & Accountancy) has published relevant guidance for Local Authorities to help develop a Terms of Reference. This recommends that audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
  - a. act as the principal non-executive advisory function supporting those charged with governance;
  - b. be independent of both the executive and the scrutiny functions and consider including an independent member where not already required to do so by legislation;
  - c. have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups; and
  - d. be directly accountable to the authority's governing body i.e. the Council.
9. As part of its review of the Constitution, the Constitution Review Task and Finish Group is due to consider the Terms of Reference of committees at its next meeting.

### **Considerations**

10. Officers have reviewed the Terms of Reference, using the guidance published by CIPFA. The updated version is included in "Appendix A – Proposed Terms of Reference" for review. It has been produced in a text format for ease of review, and minor formatting changes may be required once it is transferred to the Constitution as this is historically presented in tabular format.

### **Options**

11. Members of the Committee should review the proposed Terms of Reference and consider if any other amendments or additions could be included.

### **Implications**

12. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, there are no significant implications identified.

### **Background Papers**

- Council Constitution

### **Report Author:**

Jonathan Tully – Head of Shared Internal Audit

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<sup>1</sup> <http://scambs.moderngov.co.uk/ecCatDisplay.aspx?sch=doc&cat=389&path=0>

<sup>2</sup> <http://scambs.moderngov.co.uk/documents/s106698/01%20-%20Responsibility%20of%20Committees.pdf>

## **Appendix A – Proposed Terms of Reference**

### **Audit and Corporate Governance Committee Membership**

1. The terms of reference set out the committee's position in the governance structure of the Council.
2. Membership includes seven councillors, who are not members of the Cabinet, appointed in accordance with the rules of political balance.
3. The Chairman of the Scrutiny and Overview Committee shall not be eligible to Chair the Committee although he / she may be a member of it.

### **Functions**

#### *Governance, risk and control*

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4. To review the council's corporate governance arrangements against the good governance framework, ethical frameworks, and to consider the Local Code of Governance.
5. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
6. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
7. To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
8. To monitor the effective development and operation of risk management in the council, and to monitor progress in addressing risk-related issues reported to the committee.
9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
10. To review the assessment of fraud risks and potential harm to the council from fraud and corruption, and to monitor the counter-fraud strategy, actions and resources.
11. To review the governance and assurance arrangements for significant partnerships or collaborations.
12. To maintain an overview of the main instruments of financial control, such as Standing Orders in relation to contracts, Financial Regulations; and, where appropriate, make recommendations to the Council for improvement.
13. To receive quarterly updates on the Council's use of Regulation of Investigatory Powers Act 2000 (RIPA) powers and to review the policy on an annual basis.

#### *Internal audit*

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14. To approve the Internal Audit Charter, and provide free and unfettered access to the Audit Committee Chair for the Head of Internal Audit, including the opportunity for a private meeting with the committee.
15. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.
16. To approve the Risk-Based Internal Audit Plan, including internal audit's resource requirements, and the approach to using other sources of assurance.

17. To consider reports from the Head of Internal Audit during the year, including updates on the work of internal audit, key findings, issues of concern and actions.
18. To consider the Head of Internal Audit's annual report, including:
  - a. the results of the Quality Assurance and Improvement Program, plus conformance with the Public Sector Internal Audit Standards and the Local Government Application Note;
  - b. the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion

#### *External audit*

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19. To support the independence of external audit through consideration of the external auditor's annual assessment of its independence; and review of any issues raised by Public Sector Audit Appointments, or the authority's auditor panel, as appropriate.
20. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
21. To consider specific reports as agreed with the external auditor.
22. To comment on the scope and depth of external audit work and to ensure it gives value for money.
23. To commission work from internal and external audit.
24. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

#### *Financial reporting*

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25. To review the annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
26. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

#### *Accountability arrangements*

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27. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
28. To publish an annual report on the work of the committee, and report on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

# Agenda Item 7



**REPORT TO:** Audit and Corporate Governance Committee

30 April 2019

**LEAD MEMBER:** Lead Cabinet Member for Finance

**LEAD OFFICER:** Interim Executive Director - Corporate Services

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## Issues arising from previous meetings

### Purpose

1. At the last meeting of this Committee, a member of the Committee stated that a few questions had been asked at the 31 July meeting of the Committee and that no answers had been provided.
2. The answers provided below cover questions raised at both the July and March meetings of this Committee.

### Recommendations

3. That the answers provided are debated and, if found satisfactory, noted.

### Reasons for Recommendations

4. To conclude the issues arising from previous meetings.

### Issues Arising

5. Question – How is the Council responding to the introduction of IFRS 9, 15 and 16?
6. Response – IFRS 9 Financial Instruments – Two particular areas of potential difficulty have been highlighted with IFRS 9, collective investment schemes and the need to consider impairments on loans to subsidiaries. The Council does not currently use collective investment schemes and so this is not a concern. The Council does have a substantial loan to Ermine Street Housing (ESH), however the value of the properties owned by ESH exceeds the value of the loans and there is no expectation of default. This is illustrated by the ESH business plan, presented as part of the budget papers in February 2019, showing that the 277 properties acquired for £46.56m had increased in value to £50.10m.
7. Response – IFRS 15 Revenue from Contracts with Customers. The original briefing note that generated the question stated that the impacts “for most entities...are likely to be immaterial”. Discussions within the finance team have confirmed that this is the case and implementation of IFRS 15 will have little effect.
8. Response – IFRS 16 Leases. The implementation of this standard will have a more significant impact, but this has been delayed for a year. A working group will be

established to identify and evaluate leases, so the Council will be able to implement the requirements of IFRS 16 when necessary.

9. Question – Will the need to comply with Making Tax Digital (MTD) cause the Council any problems?
10. Response – The MTD date for local authorities has been moved back from April to October 2019. To comply with MTD it is necessary to have a compatible financial ledger system in place and the T1 system is listed by HMRC as being a compliant system. Therefore, no significant difficulties are anticipated although to test this a trial run will be scheduled before October.
11. Question - The Council's investments as at 30 September 2018 included £16.5m with other local authorities, please provide an analysis.
12. Response – see table below

<b>Council</b>	<b>% Rate</b>	<b>Duration in days</b>	<b>Principal (£'000)</b>
LB Bexley	0.70	7	3,500
Hull City	0.82	167	2,000
Bury MBC	1.00	361	2,500
Bury MBC	0.80	181	1,000
Coventry City	0.73	103	2,000
Coventry City	0.83	225	3,000
Coventry City	0.80	206	2,500

### **Background Papers**

No background papers were relied upon in writing of this report.

**Report Author:** Bob Palmer – Interim Executive Director of Corporate Services  
Telephone: (01954) 713094

# Agenda Item 8



**REPORT TO:** Audit and Corporate Governance  
Committee

30 April 2019

**LEAD MEMBER:** Lead Cabinet Member for Finance

**LEAD OFFICER:** Interim Executive Director - Corporate Services

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## **Purchase of Investment Property**

### **Purpose**

1. At the last meeting of this Committee, a report was requested on the purchase of the investment property in the Cambridge Science Park. No specific information was requested and so there are no specific issues to address.
2. To allow the Committee to put themselves in the same position as the Property Investment Governance Board, it is appropriate to provide the decision notice to proceed with the investment and the report that was made to the Board. As the Chairman of the Scrutiny and Overview Committee has also asked about the purchase, a copy of the report to the Scrutiny and Overview Committee is attached.

### **Recommendations**

3. There are no recommendations as the report is in response to a request for information and the decision to purchase the investment has already been taken.

### **Reasons for Recommendations**

4. Not applicable.

### **Documents Attached**

5. The first attachment is the decision notice dated 11 March 2019. This document sets out how the requirements of the Constitution were met in treating the decision as urgent and waiving call in. It then sets out purpose of and background to the decision as well as the reasons for taking the decision.
6. The second attachment is the report to the Property Investment Governance Board on 4 March 2019. This report provides details of the investment and a summary of the financial modelling. The report also includes the evaluation matrix that was approved as part of the Investment Strategy and shows how the proposed investment scores on the matrix.
7. The final attachment is a report to the Scrutiny and Overview Committee on 16 April. This report was written to answer six questions raised by the Chairman of the Scrutiny and Overview Committee.

## **Background Papers**

Relevant background papers have been attached to this report.

**Report Author:** Bob Palmer – Interim Executive Director of Corporate Services  
Telephone: (01954) 713094

Published 14/2/19  
 WS. 20/3/19

**SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL  
 RECORD OF EXECUTIVE / CHIEF OFFICER DECISION**

This form should be used to record key decisions made by Chief Officers and both key and other decisions made by individual Portfolio Holders. The contact officer will ensure that the signed and completed form is given to Democratic Services as soon as reasonably practicable after the decision has been taken.

**Call in and Urgency**

Scrutiny and Overview Procedure Rule 12.19 provides that the call-in procedure shall not apply where the decision being taken by the executive decision taker is urgent. A decision will be urgent if any delay likely to be caused by the call-in process would seriously prejudice the Council's or the public's interests. The record of the decision, and notice by which it is made public, shall state whether in the opinion of the decision-making person or body, the decision is an urgent one, and therefore not subject to call-in.

Where a key decision has not been included in the notice of forthcoming decisions for at least 28 clear days, Access to Information Procedure Rule 16 provides that if by virtue of the date by which a decision must be taken Rule 15 (general exception) cannot be followed, then the decision can only be taken if the decision taker obtains the agreement of the Chairman of the Scrutiny and Overview Committee that the taking of the decision cannot reasonably be deferred. As soon as the decision maker has obtained agreement, the Proper Officer will make a copy of a notice available at the offices of the Council and on the Council's website, setting out the reasons why the decision is urgent and cannot reasonably be deferred.

The Chairman of the Council and Chairman of the Scrutiny and Overview Committee are required to agree both that the decision proposed is reasonable in all the circumstances and to it being treated as a matter of urgency. The decision is urgent as the vendor requires an urgent response from bidders for the property. Any delay in making a decision will greatly reduce the Council's chances of success.

The Chairman of the Council and Chairman of the Scrutiny and Overview Committee have agreed that the decision is an urgent one and cannot reasonably be deferred and should therefore not be subject to call-in based on the risk of the Council not being able to acquire the investment property.

<b>Portfolio</b>	Finance
<b>Subject Matter</b>	Purchase of 140 Cambridge Science Park
<b>Ward(s) Affected</b>	All
<b>Date Taken</b>	11 <sup>th</sup> March 2019
<b>Contact Officer</b>	Bob Palmer, 01954 713094, bob.palmer@scambs.gov.uk
<b>Key Decision?</b>	Yes, this is a key decision because it results in the authority incurring expenditure which is significant having regard to this Council's budget for the service or function to which the decision relates.
<b>In Forward Plan?</b>	No.
<b>Urgent?</b>	Yes.

<b>Purpose / Background</b>
Approve the purchase of a 'Stream 1' investment property for up to £13,000,000 plus purchaser's costs of 6.17%
The decision has been considered previously by members of the Property Investment Governance Board and the Lead Cabinet Member for Finance on 25 <sup>th</sup> February and 4 <sup>th</sup> March 2019

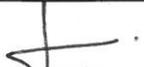
<b>Declaration(s) of Interest</b> <i>Record below any relevant interest declared by any executive Member consulted or by an officer present in relation to the decision.</i>
None

<b>Dispensation(s)</b> <i>In respect of any conflict(s) of interest declared above, record below any dispensation(s) granted by the Council's Monitoring Officer or Civic Affairs Committee.</i>
None

<b>Consultation</b> <i>Record below all parties consulted in relation to the decision.</i>
The Interim Executive Director consulted with the Property Investment Governance Board members before this decision was taken.

<b>Other Options Considered and Reasons for Rejection</b>
The other option would be to not buy the property. This has been rejected as the property meets the requirements of the Investment Strategy.

Final decision	Reason(s)
To proceed with the purchase of 140 Cambridge Science Park for £13,000,000.	<p>The Investment Strategy has 3 requirements for a Stream 1 property –</p> <ol style="list-style-type: none"> <li>1. Minimum weighted score of 100 from the investment criteria matrix. The high quality of the proposed investment is illustrated by the weighted score of 150, which comfortably exceeds the minimum.</li> <li>2. Net initial yield of 5% after allowance for purchaser's costs. The net initial yield is 5.63% after purchaser's costs and so this requirement has been satisfied.</li> <li>3. Be accompanied by a full business case. At the meeting of PIGB on 4<sup>th</sup> March Carter Jonas presented a market appraisal and valuation report which supported the purchase of the property for £13m.</li> </ol> <p>The proposed investment has satisfied the requirements of the Investment Strategy and is consistent with its aims. Therefore, the acquisition is deemed a suitable and prudent investment for the Council.</p>

Signed	Name (CAPITALS)	Signature	Date
Leader	Cllr Bridget Smith		11/03/19
Deputy Leader	Cllr Aiden van de Meyer		11/3/19
Lead Cabinet Member for Finance	Cllr John Williams		11/03/19
Chief Officer	Mike Hill		11/3/19
Executive Director	Bob Palmer		11/03/19

**Further Information**

Report to Property Improvement Governing Board 4th March 2019; and report from Carter Jonas, 1st March 2019 (Exempt by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972). VAT advice was provided by Constable VAT Consultancy LLP.



## 140 Cambridge Science Park

### Purpose

1. The purpose of this report is to present PIGB with a 'Stream 1' investment opportunity.
2. This is a key decision because it results in the authority incurring expenditure which is, or the making of savings which are, significant having regard to this Council's budget for the service or function to which the decision relates.

### Recommendations

3. It is recommended that the Council invests up to £13,000,000 plus purchaser's costs of 6.17% in the acquisition of 140 Cambridge Science Park.

### Reasons for Recommendations

4. 140 Cambridge Science Park is a rare prime office investment opportunity which scores 150 out of a possible 184 of the financial matrix set out in the Council's Investment Strategy (see attached)
5. The net initial yield (after purchaser's costs) is 5.63%, which reflects the level of security that this investment offers. The initial yield is equivalent to an income of £776,970 per annum. There is a rent review due in 2020, which is anticipated to increase the income to around £840,000 per annum for the following 5 years, a yield of 6.09%.
6. PWLB finance could be used to acquire the property however it is proposed to use internal funding, as sufficient cash resources are available.

### Background

7. Full council approved the Investment Strategy on 21<sup>st</sup> February 2019, as part of the approved budget
8. The Strategy aims to provide a robust and viable framework for the acquisition of commercial property investments and pursuance of redevelopment and regeneration opportunities that can deliver positive financial returns for the Council.
9. Stream 1 Investments are defined within the Strategy as: *Prime and close to prime commercial real estate investment let on long leases to good covenants which will provide a secure long-term income over and above their ability to pay back the purchase price debt.*
10. The contributions from Stream 1 investments will include:
  - Yield / profit
  - Long term capital uplift
11. For a Stream 1 property investment to be considered it must:
  - Achieve a minimum weighted score of 100 from the investment criteria matrix;
  - Have a Net Initial Yield of 5% after making allowance for purchaser's costs;
  - Be accompanied by a full business case.
12. All acquisitions, where relevant, will be subject to building and plant survey, independent advice and valuation.

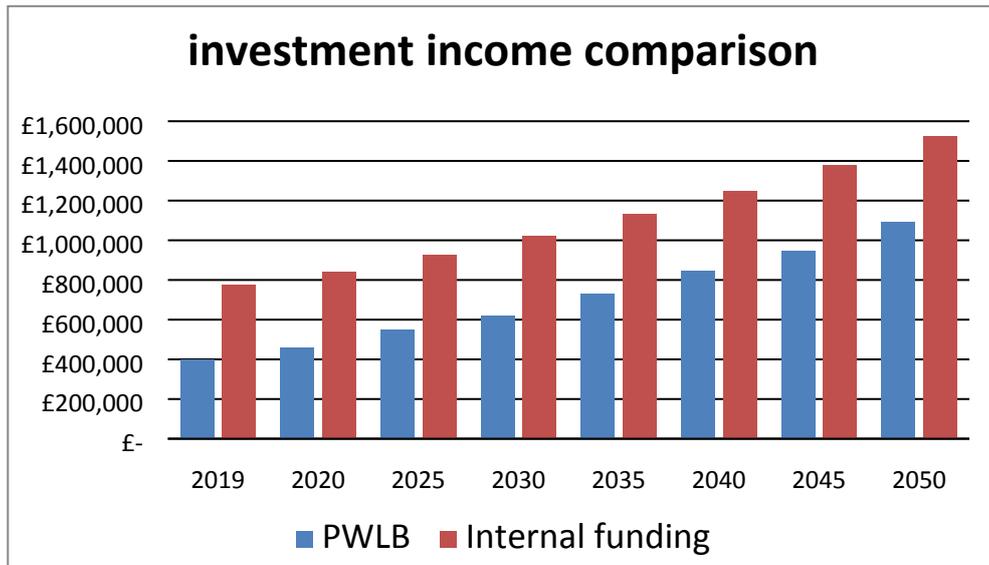
## Options

13. The options are:
  - a) To make the investment using our own funds
  - b) To make the investment using PWLB
  - c) To advise the owners that the Council does not wish to proceed with this investment opportunity

## Implications

14. Financing Risk - As with all investments, there are risks that capital values and rental values can fall as well as rise. To mitigate against future unfavourable market forces, Stream 1 acquisitions will be made on the basis that the Council is willing and capable of holding property investments for the long term i.e. 35 years +. This will ensure income and capital returns are considered over the long term thereby smoothing out any cyclical economic/property downturns.
15. The tenant has an option to break the tenancy after 10 years (by 2025) and there is a risk that they may decide to move elsewhere and that the Council would need to find a new tenant. The tenant is required to give 12 months clear notice and must reinstate the premises to the condition it was when refurbished in 2015.
16. A rent deposit guarantee of £932,364 is secured in the lease as a security for any default by the tenant. If the tenant failed to reinstate the premises these funds could be used to fund the works and offset rent loss as a result of rectifying any dilapidations.
17. Financial Modelling – The investment has been modelled over a 35-year cashflow (attached). An allowance has been made to model the impact of further capital investment (capex) of £31.70 per ft<sup>2</sup> (£821,155) at the end of the initial term (2030) in order to attract a new tenant.
18. A further capex allowance has been made in year 30 of the cashflow. Upwardly only rent reviews have been modelled every 5 years on a basis of 2% RPI after the initial advised Estimated Rent review (ERV) of £32.47/ft<sup>2</sup> in 2020.
19. The attached cashflow shows the scheme funded with: a) cash, and b) PWLB at a rate of 2.75%
20. The table below summarises out the expected revenue using either cash or PWLB.
21. Purchasers Costs – these are comprised of the following:

SDLT due		£	639,500.00
agent fees (proposed)	0.75%	£	97,500.00
Legal (estimated)	0.50%	£	65,000.00
<b>purchaser costs</b>	<b>6.17%</b>	<b>£</b>	<b>802,000.00</b>



### Legal

22. Time is of the essence. If Members decide they wish to proceed 3C legal services need to be instructed to agree Heads of Terms. Any undue delay in agreeing Heads of Terms may result in the vendor seeking an alternative purchaser.
23. Extensive information has been provided by the vendor to allow due diligence to be expedited; however local searches will still need to be undertaken.

### Effect on Strategic Aims

#### A modern and caring Council

- We will generate new and innovative sources of income to invest in services for local people by developing an option to generate income by investing in the district in line with the criteria set out in the Council's investment strategy.

### Background Papers

Where [the Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012](#) require documents to be open to inspection by members of the public, they must be available for inspection: -

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

**Report Author:** David Ousby – Delivery & Innovations Manager  
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140 Cambridge Science Park

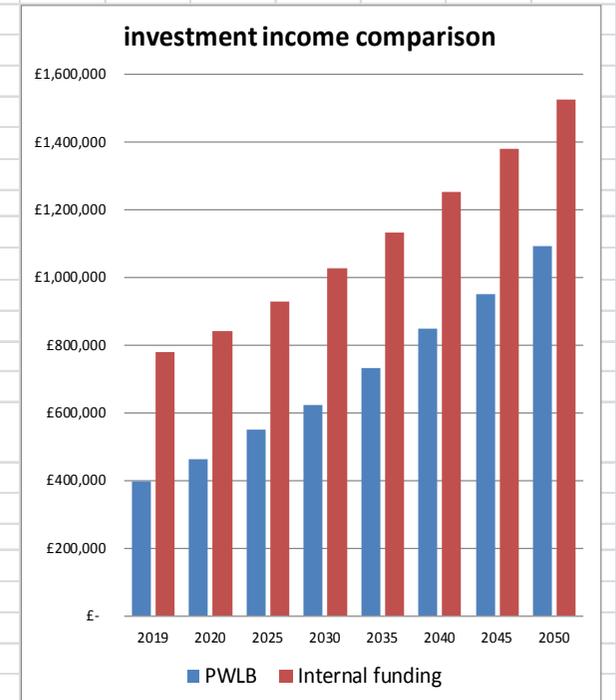
Score	150	4	3	2	1	0
Scoring Criteria	Weighting Factor	Excellent / very good	Good	Acceptable	Marginal	Unacceptable
Location	12	Major Prime	Micro Prime	Major Secondary	Micro Secondary	Tertiary
Tenancy Strength	10	Single tenant with strong financial covenant	Single tenant with good financial covenant	Multiple tenants with strong financial covenant	Multiple tenants with good financial covenant	Tenants with poor financial covenant strength / vacant
Tenure	9	Freehold	Lease 125 years plus	Lease between 50 & 125 years	Lease between 20 & 50 years	Lease less than 20 years
Occupiers lease length	5	Greater than 10 years	Between 7 and 10 years	Between 4 and 7 years	Between 2 and 4 years	Less than 2 years; vacant
Building Quality / obsolescence	4	Newly Built	Recently refurbished	Average condition and likely to continue to be fit for current use for 25+ years	Aged property with redevelopment potential	Nearing end of useful life / unlikely to continue when lease expires
Repairing terms	4	Full repairing and insuring	internal repairing – 100% recoverable	Internal repairing – partially recoverable	Internal repairing – no recoverable	Landlord
Lot size	2	Between £6m and £12m	Between £4m & £6m or £12m and £18m	Between £2m & £4m or £18m and £20m	Between £1m & £2m or £20m & £25m	Less than £1m or more than £25m

<b>scheme name</b>	<b>140 Cambridge Science Park</b>		
initial rent	ft2	p.a	m2
NA	25,899		2,406
rent	£ 30.00	£ 776,970	£ 322.92
gross yield	6.37%		
value	£ 13,000,000		
capital value psf	£ 501.95		
net initial yield (if PVL)	2.88%	PVLB rate 2.75%	
NY (cash)	5.63% (including purchasers costs)		
lease start date	04/10/2015		
term (yrs)	15		
terms	FRI		
break option (yrs)	10		
tenants	1		
<b>purchasers costs</b>			
SDLT	%		
purchase price		£ 13,000,000	
1st 150k	0	£ -	
150-250k	2%	£ 2,000	
250k+	5%	£ 637,500	
SDLT due		£ 639,500	
agent fees	0.75%	£ 97,500.00	
legals	0.50%	£ 65,000.00	
Total purchaser costs	6.17%	£ 802,000.00	
<b>total investment for cashflow.</b>	<b>£ 13,802,000</b>		
<b>PVLB interest rate</b>	<b>2.75%</b>		
<b>RPI</b>	<b>2%</b>		

psf base year  
 capex rate at term £ 25 2019  
 assumed a mix of short & long term loans averaging 2.75% maturity

average net yield with PVLB borrowing	Year	PVLB	Income
	2019	2.88%	£ 397,415
	2020	3.34%	£ 461,462
	2025	3.98%	£ 548,996
	2030	4.26%	£ 623,059
	2035	4.99%	£ 729,762
	2040	5.80%	£ 847,571
2045	6.03%	£ 947,845	
2050	6.95%	£ 1,091,454	

average net yield using reserves	Year	Internal funding	income
	2019	5.63%	£ 776,970
	2020	6.09%	£ 841,017
	2025	6.73%	£ 928,551
	2030	7.01%	£ 1,025,195
	2035	7.74%	£ 1,131,899
	2040	8.55%	£ 1,249,707
	2045	8.78%	£ 1,379,778
	2050	9.70%	£ 1,523,386



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**REPORT TO:** Scrutiny and Overview Committee

16 April 2019

**LEAD MEMBER:** Lead Cabinet Member for Finance

**LEAD OFFICER:** Interim Executive Director - Corporate Services

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## **PURCHASE OF INVESTMENT PROPERTY**

### **Purpose**

1. To respond to a request from the Chairman of the Committee for answers to specific questions in relation to the purchase of 140 Cambridge Science Park.

### **Recommendations**

2. There are no recommendations as the purchase has already been completed.

### **Reasons for Recommendations**

3. Not applicable as there are no recommendations

### **Executive Summary**

4. The opportunity to purchase 140 Cambridge Science Park, as an investment property, came up without notice. To proceed promptly with the transaction, it was necessary to treat the purchase as an urgent decision and waive the call-in procedure. The necessary authorities were obtained in line with the Council's Constitution and the purchase completed on 3<sup>rd</sup> April.
5. As the Chair of this Committee was on holiday the Vice Chair was consulted and raised many questions to scrutinise the purchase. The Chair has now raised a series of questions and asked for answers to be presented to this meeting.

### **Detail**

6. Question – Where did the money for the purchase come from?
7. Answer – The money comes from the Council's cash resources. The total cash resources represent accumulated past surpluses, reserves and collection fund balances.
8. Question – If there is a loan involved, what is the cost of borrowing?
9. Answer – There is no long-term borrowing, but because the purchase had not been anticipated it has been necessary to take some short term borrowing while other time deposits mature. As £3m was readily available, three short term loans for a total of

£10m were taken out. The loans comprise amounts of £2m for 2 months at 0.93%, £3m for 3 months at 0.90% and £5m for 6 months at 1.03%.

10. Question – What is the envisaged rent each year?
11. Answer - The current annual rent is £776,970. There are 5-yearly upwards only open market rent reviews, the first of which is due in October 2020.
12. Question – What is the term of the tenancy?
13. Answer – The lease is 15 years from 5 October 2015. There is a break option at the end of the tenth year on 12 months prior written notice.
14. Question – Who is the tenant?
15. Answer – The tenant is DisplayLink (UK) Ltd, a leading chip and software company whose technology is utilised in the products of some of the world's leading PC and peripheral brands.
16. Question – What's the covenant?
17. Answer - The covenant strength of the tenant is excellent, achieving the highest Dun & Bradstreet rating of 5A1. The Credit Safe check rating is A100 (very low risk). In the year to 31 December 2017 the company had a turnover of £53,907,886 and a pre-tax profit of £20,007,088.

### **Background Papers**

No background papers were relied upon in the writing of this report.

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