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SHAREHOLDER SUB COMMITTEE

Tuesday 18 February 2020 at 2.00 pm

The members listed below are summoned to attend the Shareholder Sub Committee meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Councillor Eber Kington (Chairman)
Councillor Kate Chinn
Councillor Neil Dallen

Councillor Barry Nash
Councillor Clive Smitheram

Yours sincerely

A handwritten signature in black ink, appearing to read "J.C. Beldan".

Chief Executive

For further information, please contact Democratic Services, tel: 01372 732000 or democraticservice@epsom-ewell.gov.uk

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Questions from the public are not permitted at meetings of the Shareholder Sub Committee. [Part 4 of the Council's Constitution](#) sets out which Committees are able to receive public questions, and the procedure for doing so.

AGENDA

1. DECLARATIONS OF INTEREST

Members are asked to declare the existence and nature of any Disclosable Pecuniary Interests in respect of any item of business to be considered at the meeting.

2. MINUTES OF THE PREVIOUS MEETING (Pages 5 - 6)

The Committee is asked to confirm as a true record the Minutes of the Meeting of the Shareholders Sub Committee held on the 27 November 2018 (attached) and authorise the Chairman to sign them.

3. EEPIC ANNUAL BUSINESS PLAN 2020-21 AND ANNUAL REVIEW (Pages 7 - 210)

This reports seeks approval of the Annual Business Plan 2020-21 for Epsom & Ewell Property Investment Company Ltd ("EEPIC") and updates the Committee with an extended Annual Review of the Company's activities for the period 19 September 2017 to 31 March 2019.

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**Minutes of the Meeting of the SHAREHOLDER SUB COMMITTEE held on
27 November 2018**

PRESENT -

Councillor Eber Kington (Chairman); Councillors Tina Mountain, Clive Smitheram and Clive Woodbridge

Absent: Councillor Barry Nash

Officers present: Amardip Healy (Chief Legal Officer), Brendan Bradley (Chief Accountant) and Fiona Cotter (Democratic Services Manager)

1 DECLARATIONS OF INTEREST

No declarations of interest were made by Councillors in items on this agenda.

2 EEPIC SHAREHOLDER AGREEMENT

The Sub-Committee received and considered a report setting out the content and implications of the draft Shareholder Agreement recommended for approval and completion with Epsom and Ewell Property Investment Company Ltd.

The report highlighted that there were a number of differences between the shareholder agreement submitted to Council in 2017 and the one before the Sub-Committee. The proposed agreement was not more or less onerous than the previous agreement but there were differences in approach and extent of obligations, which it was considered would better suit the needs of the Council as Shareholder.

Following consideration, the Sub Committee:

- (1) Approved the draft Shareholder Agreement with Epsom and Ewell Property Investment Company subject to the deletion of clause 26 in Schedule 1 (remuneration of any employee, officer of or consultant to the company) and such other minor amendments as may be necessary as agreed by the Chief Legal Officer in consultation with the Chairman of the Shareholder Sub Committee, and
- (2) Authorised the Chief Legal Officer to complete the Shareholder Agreement.

The meeting began at 2.00 pm and ended at 2.38 pm

COUNCILLOR EBER KINGTON (CHAIRMAN)

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EEPIC ANNUAL BUSINESS PLAN 2020-21 AND ANNUAL REVIEW

Head of Service/Contact:	Mark Shephard, Head of Property and Regeneration
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	
Annexes/Appendices (attached):	Annex 1 – Property Investment Strategy 2017-20 Annex 2 - EEPIC Annual Review Year Ending 31 March 2019 Annex 3 - EEPIC Financial Statements Year Ended 31 March 2018 Annex 4 - EEPIC Financial Statements Year Ended 31 March 2019 Annex 5-10 - Confidential Annual Business Plan 2020-21
Other available papers (not attached):	Reports to Council and Strategy & Resources Committee 19 September 2017 and 25 September 2018.

Report summary

This reports seeks approval of the Annual Business Plan 2020-21 for Epsom & Ewell Property Investment Company Ltd (“EEPIC”) and updates Committee with an extended Annual Review of the Company’s activities for the period 19 September 2017 to 31 March 2019.

Recommendation (s)

That the Committee:

- (1) notes the Annual Review of EEPIC for the period 19 September 2017 to 31 March 2019;**
- (2) notes the Companies House Financial Statements for the years ending 31 March 2018 and 2019;**
- (3) approves the proposed Annual Business Plan 2020-21 in accordance with the Shareholder Agreement;**

(4) approves the appointment of Brendan Bradley (the Council's Chief Accountant) as Director.

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 Having a property company allows the Council to support the delivery of its four year Corporate Plan and the Medium Term Financial Strategy. One of the key priorities is Effective Council, and the structure helps the Council to:

- Maximising returns from properties and other investments
- Identify new sources of revenue and maximising our existing income

2 Background

- 2.1 The Council established a Local Authority Property Investment Company (EPPIC) at an Extraordinary Meeting on 19 September 2017. At that meeting, Council ratified Strategy and Resources Committee's decision to establish a Shareholder Sub-Committee to discharge the functions of the Council as the Shareholder in the Company
- 2.2 The business of EPPIC is to operate as a commercial company to buy, rent or lease land, and to develop and or construct and or refurbish land or property.
- 2.3 Epsom & Ewell Borough Council is the sole shareholder of EPPIC, making the Company a wholly owned trading company of the Council.
- 2.4 The objectives and anticipated annual activities of EPPIC are set out in the Company's Business Case and Annual Business Plan respectively, both of which were approved by Council when the formation of the Company was agreed.
- 2.5 EPPIC provides the Council with the flexibility to undertake commercial trading activities in property investment. All acquisitions must be compliant with the Council's approved Property Investment Strategy 2017-20 (attached at Annex 1).
- 2.6 The Shareholder Sub Committee was set up and first appointed to in September 2018.
- 2.7 The Council entered into a Shareholder's Agreement with EPPIC on the 28th December 2018. The Agreement sets out terms upon which the Council will participate in the company as its shareholder.

- 2.8 The Company's 2017/18 and 2018/19 accounts were filed to Companies House by 31 December 2018 and 2019 respectively, a statutory deadline.

3 EEPIC Annual Review

- 3.1 The Annual Review for EPPIC is attached at Annex 2.
- 3.2 The Financial Statements (Companies House filed accounts) for the Year Ended 31 March 2018 and the Year Ended 31 March 2019 are attached at Annex 3 and 4 respectively.

4 Suspension of out-of-Borough purchases

- 4.1 At its Strategy & Resources Committee meeting held on 25 September 2018, the Committee noted as part of a report on Treasury Management, the 'suspension of further out of Borough investment property acquisitions, where the main purpose is purely to profit, until further notice or case law is published that clarifies the Council's related vires'.
- 4.2 The decision was necessary as new Statutory Guidance on Local Government Investments introduced by the Ministry for Housing, Communities and Local Government, which took effect from 1 April 2018. The driver behind the guidance was to restrict the ability of Local Authorities to purchase out-of-Borough investment properties.
- 4.3 The guidance does not impact on EEPIC's existing out-of-Borough acquisitions.
- 4.4 There could still be circumstances where out of Borough investments may be acceptable. The question which needs to be addressed is whether the purpose for buying is purely to raise revenue.

5 EEPIC Annual Business Plan 2020-21

- 5.1 The Shareholder's Agreement requires the Council's approval (as shareholder) before EPPIC can implement a revised annual Business Plan.
- 5.2 The proposed Annual Business Plan 2020-21 is attached at Annexes 5-10 and are confidential for reasons of commercial sensitivity.

6 Company Resignations and Appointments

- 6.1 During annual the review period, the company received the following resignations:-

Name	Role	Resignation Date
Simon Young	Director	17 January 2018
Louise Mathie	Company Secretary	28 December 2018

- 6.2 Subject to approval, it is proposed that EEPIC's Finance Director, Lee Duffy (the Council's Chief Finance Officer and Section 151 Officer) be replaced by Brendan Bradley (the Council's Chief Accountant). This will act to strengthen the Company's governance by ensuring that the Council's Section 151 Officer's duty to the Council is never conflicted by a Director's duty to the Company.

7 Financial and Manpower Implications

- 7.1 A final dividend of £424,063 was paid to the Shareholder in respect of the financial year ended 31 March 2018, which represented the company's full profit after tax.
- 7.2 A dividend of 4.334 pence per share was paid for the financial year ending 31 March 2019, which represented a dividend of £1,045,235 to the Shareholder, meeting budgeted expectations.
- 7.3 **Chief Finance Officer's comments:** Since its inception, EEPIC has met the Council's budgeted expectations, making valuable contributions towards the delivery of the services in both 2017/18 and 2018/19.
- 7.4 For 2019/20, the dividend from EEPIC to the Council is forecast to be £1.39m. Once net interest payments and contributions to reserves are taken into account, the result will be a net £1.06m contribution towards the delivery of services to residents in the Borough.
- 7.5 In order to further strengthen governance, it is important that the duties of the Council's Section 151 Officer and the company Finance Director be segregated. The proposed change of Director will achieve this outcome.

8 Legal Implications (including implications for matters relating to equality)

- 8.1 The Shareholder Agreement between the Council and the EPPIC sets out the relationship upon which the Council will participate in the Company as Shareholder. There are a number of matters with the Agreement requires express Shareholder Consent before EPPIC makes or takes decisions.
- 8.2 The Shareholder Agreement requires EPPIC to circulate a revised version of the then current Business Plan to the Council as Shareholder by the end of November of each year and invite the Council as Shareholder to provide comments or its consent to the Plan. The Council then has to the end of February to respond.
- 8.3 Each Business Plan, unless the parties agree otherwise, must be substantially in the format for the first Business Plan and shall be for a one year period. In the event a Business Plan has not been approved by the Shareholder, the current or immediately preceding Business Plan continues as the Plan.

8.4 Following on from the business case supporting the set up of EPPIC, the annual business plan sets out the objectives of the business, how they are to be achieved and standards met, adjusted in the light of experience and changing circumstances. It is a comprehensive analysis of the business situation at a particular point in time.

8.5 *Monitoring Officer's comments: none arising from the contents of this report.*

9 Sustainability Policy and Community Safety Implications

9.1 None arising

10 Partnerships

10.1 None arising

11 Risk Assessment

11.1 The Shareholder approved Property Investment Strategy 2017-20 provides a robust and viable framework for the acquisition of commercial and residential property investments. It includes a risk Scoring Matrix to enable the relative merits of an investment opportunity to be measured and assessed against a minimum target threshold of 70%.

11.2 All Company acquisitions comply with the Property Investment Strategy 2017-20.

12 Conclusion and Recommendations

12.1 Notes the Annual Review of EEPIC for the extended period 19 September 2017 to 31 March 2019.

12.2 Approves the proposed Annual Business Plan 2020-21 in accordance with the Shareholder Agreement.

12.3 Approves the appointment of Brendan Bradley (the Council's Chief Accountant) as Director.

Ward(s) affected: (All Wards);

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Epsom and Ewell Borough Council Property Investment Strategy

2017-20



September 2017

Introduction

The Property Investment Strategy (“the Strategy”) aims to provide a robust and viable framework for the acquisition of commercial and residential property investments.

The purchase of suitable commercial property investments will assist the Council generate additional income to support the delivery of the Council’s services by investing in a diversified and balanced property portfolio. It will improve the financial resilience of the Council and support its longer term ambition to become financially self-sufficient from central government funding.

The Strategy governs the acquisition of both directly held Council investment property as well as indirect purchases made through the Council’s 100% wholly owned property trading company - Epsom & Ewell Property Investment Company Ltd.

The three underlying objectives of the Strategy are:-

- **Investment Criteria** – to identify suitable property investment opportunities.
- **Risk Management** – to balance the requirement for income return with an acceptable level of managed risk.
- **Governance Arrangements** – to provide an agile decision making framework.

The asset management of the Council’s existing property estate (comprising operational and commercial investment properties) is defined in the Asset Management Plan (AMP). The AMP will subsequently apply to all property investments acquired under this Strategy to ensure that assets are appropriately managed long term.

Investment Criteria

In common with all forms of investment at their most basic level, property investment is a trade-off between risk and return. A traditional well-diversified, prime property portfolio spread across different property sectors will deliver a balanced long term return with minimal risk.

A balanced portfolio of prime property (i.e. high quality buildings let to financially strong tenants) will typically provide a steady income yield of 4.5%-6% with the additional prospect of capital growth.

The Strategy will adopt the same underlying principle of diversification in acquiring a balanced portfolio of property investments offering a similar income yield profile. The three main property sectors will be included (industrial, office and retail) and in turn, these will be diversified on criteria including location, the tenant's financial (covenant) strength, lease term (income duration) and investment lot size. This will ensure that should a property investment cease to be income producing (for example, it is undergoing refurbishment or awaiting a new tenant), then the loss of income will not adversely affect the portfolio's total return.

Underpinning the Strategy's diversification is a confidential Property Investment Portfolio Policy report prepared for the Council by Knight Frank Research. The confidential Part II report is attached at Appendix A.

The Knight Frank report considered the following key elements in building a diversified and balanced property investment portfolio:-

- Real estate portfolio theory and types of risk.
- Historic performance of the UK commercial real estate market.
- Forecasts for the UK commercial property market.
- Implications for portfolio composition, asset selection and flexibility.

Of particular relevance to the Council's income driven strategy, the Knight Frank report demonstrated that:-

- UK real estate has a very stable income return, in part due to long lease contracts and upwards only rent reviews. Average lease lengths have gradually reduced over the past decade and there is some variation between property sectors. However, tenants generally do not exercise break options, leading to the possibility that tenant risk can be overstated in a portfolio.
- Chasing the highest level of total return (income and capital growth combined) can increase portfolio risk and may lead to the inclusion of lower income assets, which may not be appropriate for an income driven strategy. In contrast, property types that are less reliant on capital growth for returns are typically compensated with a higher income return component.
- The biggest gains in risk reduction come at the early stages of portfolio diversification, involving a small number of properties, and therefore, loosely pursuing a diversification strategy can still be worthwhile. Applying a deep understanding of the market to make well-informed purchasing decisions can enhance the rate at which risk is reduced.

- Diversification amongst property sectors within a region is better for risk reduction than diversifying solely within a property sector. This suggests that investors with local market knowledge should prioritise their intelligence advantage over regional expansion.
- For some property assets that become vacant in the future, the optimal use may no longer be commercial, but residential. The conversion to residential use, where permitted, may be seen to provide an added level of security in relation to the capital values of specific assets in the portfolio.
- Research shows that there can be benefits to risk reduction from investing in larger, better quality stock over smaller, poorer quality stock. However, investors have to weigh these benefits against the downsides of larger lot sizes, which naturally reduce the number of assets that a portfolio of a finite size can purchase, and therefore the scope for diversification.

In pursuing a well-balanced diversified portfolio, a Scoring Matrix allows the relative merits of an investment opportunity to be measured and assessed against a target threshold. The Matrix is attached at Appendix B and includes the following scoring criteria:-

- **Location** - property is categorised as either prime, secondary or tertiary in terms of its locational desirability. For example, a shop located in the best trading position in a town would be prime, whereas a unit on a peripheral neighbourhood shopping parade would be considered tertiary.
- **Tenant Covenant** – the financial strength of a tenant determines the security of the property’s rental income. A financially weak tenant increases the likelihood that the property will fall vacant. The minimum acceptable financial strength for any given tenant will be determined through financial appraisal of company accounts and the use of appropriate methods of risk assessment and credit scoring. To minimise management and risk, the preference will be for single occupancy investments wherever possible.
- **Building Quality** – a brand new or recently refurbished building will not usually require capital expenditure for at least 15 years. This is attractive for income investors requiring long term rental income with the minimum of ongoing capital expenditure.
- **Occupational Lease Length** – the lease term will determine the duration of the tenant’s contractual obligation to pay rent. The most attractive investments offer a long lease with a strong tenant covenant.
- **Tenure** – anything less than a freehold acquisition will need to be appropriately reflected in the price.

- **Tenant Repair obligations** – under a Full Repairing & Insuring Lease (FRI), the tenant is responsible for the building's interior and exterior maintenance / repair. The obligation is limited to the building's interior under an Internal Repairing & Insuring Lease (IRI). The preference will be to favour FRI terms (or FRI by way of service charge i.e. all costs relating to occupation and repairs are borne by the tenants and administered through a service charge).
- **Lot Size** – to maintain portfolio balance the preference will be for no single property investment to exceed £20m. However, there may be exceptional circumstances in which an acquisition greater than £20m will be considered – for example, a prime property let on a long lease (greater than 15 years) to a financially secure tenant. Exceptional circumstances will be justified in the individual property's business case and considered as part of the overall risk management process.

High scoring properties will typically be freeholds let long term to a single tenant with a strong financial covenant. Occasionally, opportunities will arise that do not score highly on the matrix criteria; for example, an empty property that falls within the Council's designated Plan E regeneration zone or one adjacent to an existing Council ownership. In these circumstances, the Matrix will not preclude low scoring properties being considered on their own individual regeneration / economic development merits, but the decision to purchase will be taken by either the Strategy & Resources Committee or full Council as appropriate.

Risk Management

Market Forces

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 conditions, acquisitions will be made on the basis that the Council is willing and capable of:-

1. Holding property investments for the long term i.e. 50 years +. This will ensure income and capital returns are considered over the long term thereby smoothing out any cyclical economic / property downturns.
2. Fixing borrowing liabilities. The Council can borrow from the Government's Public Works Loan Board at the lowest fixed interest rates for 20 years. Fixing borrowing rates at historically low levels will protect the Council from any future increases in financing rates.

Management

To mitigate the risk of void periods where the property is either partially / fully vacant or a tenant has defaulted on its rental obligations, the investment portfolio will be actively managed in accordance with the Council's adopted Asset Management Plan. This includes identifying property for disposal where opportunities arise or the portfolio requires rebalancing to achieve acceptable risk diversification.

In addition, the investment criteria specified in the Scoring Matrix will favour secure property investments i.e. high quality buildings in prime locations - thus mitigating the risk of void periods on re-letting.

Opportunities

The availability of suitable high quality investment property is generally limited and consequently, opportunities may be lost where vendors employ competitive bidding processes. Furthermore, the property investment market is often characterised by "off market" investment activity where, for a variety of reasons, opportunities are not freely marketed.

To mitigate the likelihood of lost opportunities, the Head of Property will actively build relationships with the investment agency community. The ability of the Council to make (and act upon) investment decisions at short notice is a key requirement for seeking out investment opportunities. It is proposed a dedicated Investment Property Group is established by the Council for this purpose.

Governance Arrangements

Investment Property Group (IPG)

A dedicated Investment Property Group will authorise the acquisition (and disposal where appropriate) of property investments taking account of the overall investment and risk management criteria defined in this Strategy.

The IPG will apply to both directly held Council investment property as well as indirect purchases made through the Council's 100% wholly owned property trading company - Epsom & Ewell Property Investment Company Ltd (EPIIC Ltd).

Subject to full Council approval, the IPG will receive delegated authority to make property investment decisions up to a defined budget / borrowing facility limit. Any subsequent amendments to the budget / borrowing limit will require full Council approval.

IPG membership will comprise:-

- Strategy & Resources Committee Chairman
- Strategy & Resources Committee Vice-Chairman
- Chief Executive
- Section 151 Finance Officer
- Head of Property
- Head of Legal & Democratic Services

The IPG will ensure that all investment opportunities appraised and undertaken by EPIIC Ltd are subject to the same degree of scrutiny as those that the Council would undertake in its own capacity.

The Chief Executive will call IPG meetings to discuss and respond to investment opportunities as they arise. The Chief Executive approves the agenda for each meeting and ensures subsequent actions are recorded.

Full transparency between the Council and EPIIC Ltd is maintained at all times as IPG members have the following dual EPIIC Ltd roles:-

- Shareholder representative (Strategy & Resources Committee Chairman)
- Shareholder representative (Strategy & Resources Committee Vice-Chairman)
- Chair of Board of Directors (Chief Executive)
- Managing Director (Head of Property)
- Director (Section 151 Finance Officer)
- Director (Head of Legal & Democratic Services)

This is entirely consistent with a trading company operating at “arm’s length” where the staff of the shareholder may also be the appointed company directors.

For a potential property investment to be considered by the IPG, it must:-

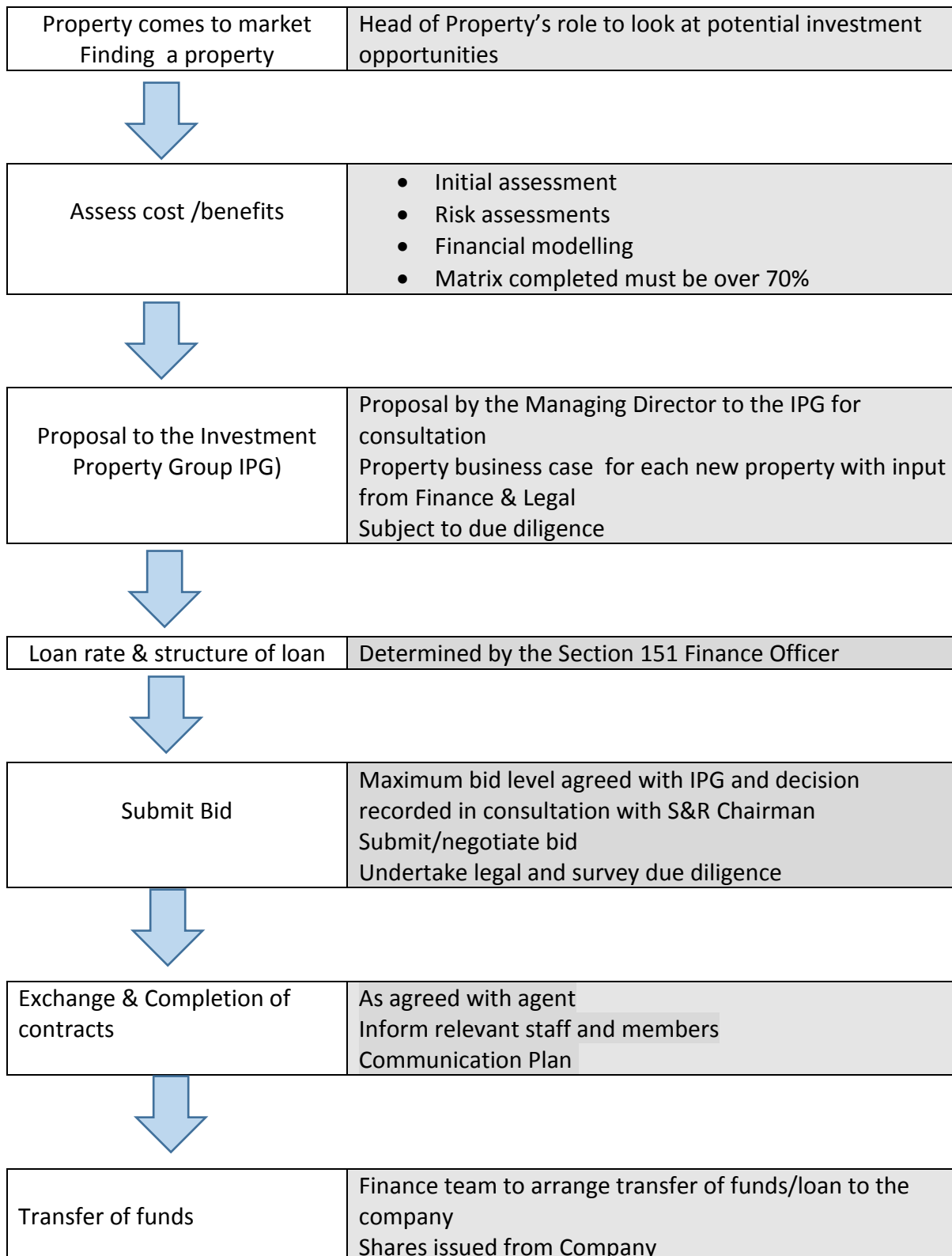
- 1) Achieve a minimum weighted score of 70 from the investment criteria matrix
and
- 2) Be accompanied by a full individual business case.

The business case will be prepared by the Head of Property in consultation with finance and legal colleagues. Each potential property investment will undergo qualitative and quantitative appraisal to establish portfolio suitability and the legal / financial implications of the purchase. The Head of Property will seek external investment / technical expertise where specialist property market knowledge is required.

All acquisitions will be subject to building survey, purchase report and valuation. In view of the potential value of acquisitions, it is envisaged that the Council will be externally represented for each transaction by a property investment agent and legal firm. In almost all cases, the purchase report and valuation will be provided as part of the property investment agent’s introductory fee.

A flow chart detailing the process for acquiring property is shown overleaf.

Process for Acquiring Property



Appendix A (Part II Confidential)

Property Investment Portfolio Policy

Knight Frank Research

Appendix B – Investment Criteria Scoring Matrix

Criteria	Weighted Score	Excellent	Good	Acceptable	Marginal	Poor
		5	4	3	2	1
Location	20	Major Prime	Micro Prime	Major Secondary	Micro Secondary	Tertiary
Tenant Covenant	20	Single tenant with strong financial covenant	Single tenant with good financial covenant	Multiple tenants with strong financial covenants	Multiple tenants with good financial covenants	Tenants with poor financial covenant strength
Occupational Lease Length	20	Greater than 10 years	Between 6 and 10 years	Between 3 and 6 years	Between 2 and 4 years	Less than 2 years or vacant
Building Quality	15	Modern or recently refurbished with nominal capex required	Good quality with capex likely to be required within the next 20 years	Good quality with capex likely to be required within the next 10 years	Good quality with capex required within the next 5 years	Non-compliant with capex required within the next 5 years
Tenure	10	Freehold	Lease 125 years plus	Lease between 100 and 125 years	Lease between 50 and 100 years	Lease less than 50 years
Tenant Repair Obligations	10	FRI	FRI – partially recoverable	IRI – 100% recoverable	IRI – partially recoverable	Landlord responsibility
Lot Size	5	Between £10m & £15m	Between £5m & £10m or £15m & £17.5m	Between £2.5m & £5m or £17.5m & £20m	Between £1m & £2.5m or £20m + (subject to otherwise high matrix scoring)	Less than £1m
Maximum Weighted Score	100					

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Shareholder Annual Review

*Covering the extended period
19 September 2017
-
31 March 2019*

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Foreword

During the last 18 months, the Company has purchased two high quality, high performing investment properties situated in the affluent Thames Valley – Marlow and Bracknell.

Valued at almost £60m, the out-of-Borough property portfolio provides a secure net income and meets the Company's budgeted expectations.

This allowed the Company to pay its sole shareholder (the Council) a final dividend of 4.240 pence per share for the year ended 31 March 2018 (a payment of £424,063).

A dividend of 4.334 pence per share (a payment of £1,045,235) has also been paid for the year ended 31 March 2019.

The dividends reflect the Company's strong financial standing and the Directors look forward to exploring further opportunities as they arise.

K Beldon
M Shephard
L Duffy
R Brown

29 March 2019

Shareholder Annual Review

1. Background

Epsom & Ewell Borough Council (the “Shareholder”) established EEPIC (the “Company”) on 19 September 2017 following an Extraordinary Council meeting of the same date.

Epsom & Ewell Borough Council is the sole shareholder of EEPIC and the Company is therefore a 100% wholly owned trading company of the Council.

EEPIC provides the Shareholder with the flexibility to undertake commercial trading activities in property investment. This includes out of Borough investment acquisitions and the holding of residential properties.

The objectives and anticipated annual activities of EEPIC are defined (as previously approved by Extraordinary Council) in the Company’s Business Case and Annual Business Plan respectively.

EEPIC’s current objective is to acquire prime, well located investment properties let to financially strong tenants. The Company takes advantage of its ability to arbitrage, that is, generate a net rental income where rental income exceeds the cost of borrowing.

All acquisitions must be compliant with the Shareholder’s approved Property Investment Strategy 2017-20.

2. Acquisitions

The Company has acquired two high quality, well located commercial property investments:-

- The Cobham Centre, Globe Park, Fourth Avenue, Marlow SL7 1TF

High quality HQ office building let for 20 years to Chelton Ltd – a world leader in the design and manufacture of aviation communication systems and navigation antennas. The lease is subject to annual fixed uplifts of 2.5% pa and is guaranteed by Cobham PLC.

It provides the Company with long term secure net rental income.

Cobham Centre - External Elevation



Cobham Centre – Office Accommodation



- Venture House, 2 Artlington Square, Downshire Way, Bracknell RG12 1WA

High quality HQ office building let for 10 years to Bracknell Arlington Square Centre Ltd trading as the serviced office provider, Regus. The lease is guaranteed by Regus PLC for a period of 1 year following tenant default during the lease term.

The property is located in the heart of the town centre next to The Lexicon Bracknell, a recently opened £240m retail and leisure destination. It provides the Company with good quality, long term net rental income.

Bracknell - External Elevation



Bracknell – Office Environment



Both properties are located within the prosperous Thames Valley and offer the following income profiles:-

	Purchase	Price	Rent	Income Yield
Marlow	13/10/17	£31,000,000	£1,733,531 (2.5% pa uplift)	5.25%
Bracknell	20/11/17	£25,500,000	£1,770,300 (Jan 21 Rent Review)	6.5%
Total		<u>£56,500,000</u>		

In addition, the properties offer the potential for capital growth over the Company's 50-year investment horizon. UK demographic trends indicate an increasing population which will continue to place upwards pressure on property asset values over the longer term.

Further detail of each property's tenancy and financial business case is summarised in the next two sections.

3. The Cobham Centre, Globe Park, Fourth Avenue, Marlow

Description

The Cobham Centre is situated on the well-established Globe Park which is the premier office location in Marlow, situated in the heart of the Thames Valley on the border of Berkshire and Buckinghamshire.

It is a highly desirable and affluent commercial and residential location by virtue of its close proximity to Henley and the River Thames together with excellent communications to London and the wider South East area. This combination has attracted a wide range of major multi-national corporate occupiers to Marlow including TNT, Dun & Bradstreet, Veolia, Allergan, Data Select, Emerson Network Power and HPS Group.

The Cobham Centre provides high quality HQ office accommodation with an ancillary R&D facility providing a total area of 80,974 sq ft (7,523 sq m). The Grade A office specification includes open plan offices arranged over ground and first floors, air conditioning, suspended ceilings, raised floors, 13 person passenger lift and full height entrance / reception area.

The property is set within an attractive landscaped environment and benefits from 235 car parking spaces, reflecting an excellent car parking ratio of 1:270 sq ft.

Building	Sq Ft	Sq M
Office Ground Floor	32,087	2,980.96
Office First Floor	32,087	2,980.96
Total	64,174	5,961.91

R&D/Ancillary warehouse		
Ground Floor	16,800	1,560.76
Total	80,974	7,522.67

Tenancy

The property is let in its entirety to Chelton Limited on a 20 year lease from 29th September 2016 and guaranteed by Cobham PLC (March 2017 market capitalisation of £2.21bn).

The current rent is £1,733,531 per annum which reflects approximately £21.40 psf overall. By comparison, office rents in Maidenhead (nearest competing office centre) are c£30 psf and those in Epsom are c£25 psf. Marlow therefore offers good value office rents in the context of the South East.

The rent is subject to annual fixed uplifts of 2.5% pa as follows:-

Rent Review Date	Rent
29 September 2016	£1,650,000
29 September 2017	£1,691,250
29 September 2018	£1,733,531.25
29 September 2019	£1,776,869.53
29 September 2020	£1,821,291.27
29 September 2021	£1,866,823.55
29 September 2022	£1,913,494.14
29 September 2023	£1,961,331.49
29 September 2024	£2,010,364.78
29 September 2025	£2,060,623.90
29 September 2026	£2,112,139.50
29 September 2027	£2,164,942.99
29 September 2028	£2,219,066.56
29 September 2029	£2,274,543.22
29 September 2030	£2,331,406.80
29 September 2031	£2,389,691.97
29 September 2032	£2,449,434.27
29 September 2033	£2,510,670.13
29 September 2034	£2,573,436.88
29 September 2035	£2,637,772.81

The above annual uplifts are tabled in the lease and automatically take effect each year i.e. removing the need for the traditional rent review and thereby providing certainty of future income levels.

It is a Full Repairing & Insuring (FRI) Lease i.e. the cost of insurance, repairs / maintenance and all other outgoings are met by Chelton Ltd. There is no tenant option to break the lease and reflects the tenant's requirement to be located in the vicinity of its skilled workforce.

Chelton Limited (formerly Chelton (Electronics) Limited), is a world leader in the design and manufacture of communication systems and navigation

antennas to enable people and systems to communicate on land, in air and at sea.

Employing 200 staff, the business was founded in 1947. In 1989 Chelton (Electronics) Limited and its holding company, Chelton Limited, became a wholly owned subsidiary of Cobham PLC.

For the financial year ended 31st December 2015 Chelton Limited (company no. 00896823) reported a turnover of £80.60m, pre-tax profit of £17.16m and net worth of £40.6m.

The lease is guaranteed by the parent company, Cobham PLC (company no.00030470), which has a reported turnover of £2.21bn and market capitalisation of £3bn as at March 2017.

Cobham PLC is an international company engaged in the development, delivery and support of leading edge aerospace and communications components. The company has four principal divisions employing more than 11,000 people across five continents, with customers and partners in more than 100 companies.

In February 2013 Cobham launched a new product called Axell Wireless which is developed and run from the Marlow facility. The product is an in-building coverage solution for mobile phone operators to allocate capacity to locations where and when it is needed. The product is one the company's leading global sales products.

Cobham Centre Financial Business Case

The rent payable at the time of acquisition was £1,650,000 pa.

The property returns a secure long term income rental stream that commenced at a net initial income yield of 5% pa (based on the initial rent of £1,650,000) and inflates at a guaranteed 2.5% per annum.

As seen from the earlier rent review tenancy schedule, the current rent is £1,733,531 pa and reflects a current income yield of 5.25% pa.

The Company financed the acquisition by way of a secured loan from the Shareholder charged at a commercial interest rate of 5% per annum. The loan was for 60% of the purchase price with the remaining 40% provided by shareholder equity funding. A secure legal charge (debenture) is registered in favour of the Shareholder.

In compliance with the Shareholder's approved Property Investment Strategy, the property was assessed on the Scoring Matrix. The Matrix allows the relative merits of an investment opportunity to be measured and assessed against a minimum target threshold of 70%.

For the Cobham Centre, the Scoring Matrix achieved a very high 93%. Criteria preventing it achieving a maximum score included:-

- Location – the building achieved a weighted score of 16% (out of a possible 20%) to reflect the out of town location.
- Lot Size – the building achieved a weighted score 2% (out of a possible 5%) due to the purchase price being above the ideal range of £10m - £20m. However, the high acquisition cost reflects the long term security of 19 year income to a financially strong tenant. As the portfolio grows, it will become diversified in line with the Property Investment Strategy.

On all other criteria, the investment scored the maximum Matrix marks confirming the financial strength of the tenant and quality of the building.

4. Venture House, 2 Arlington Square, Downshire Way, Bracknell

Description

Developed between 1992 and 2008, Arlington Square is Bracknell's premier office location comprising four self-contained office buildings set within landscaped grounds.

Bracknell benefits from excellent transport communications and is strategically located within easy reach of the M4, M3 and M25 motorways. High profile Bracknell office occupiers include UK and European headquarters for 3M, Dell, Fujitsu, Honda, Honeywell and Hewlett-Packard.

The town centre has recently undergone a major £240m regeneration project – The Lexicon, a joint venture between Bracknell Forest Council and Legal & General - which has provided high quality retail and leisure accommodation. Retailers include M&S, Waitrose, Fenwicks, H&M, Primark, together with various well-known restaurant operators. The Lexicon will only add to the appeal of Bracknell as an attractive South East office location.

2 Arlington Square was built in 2001 and provides high specification Grade A office accommodation over ground and three upper floors, totalling 88,537 sq ft.

The Property offers the following accommodation:-

Floor	Sq Ft	Sq M
Third – Offices	21,442	1,992
Second - Offices	21,387	1,987
First – Offices	21,195	1,969
Ground – Offices	20,614	1,915

Reception – GF	899	84
Storage – GF	66	6
Atrium – GF	2,934	273
Total	88,537	8,226

Tenancy

The property is let in its entirety to Bracknell Arlington Square Centre Ltd (company number 8808394), trading as the serviced office provider, Regus. The lease is guaranteed by Regus PLC for a period of 1 year following default by the tenant to meet its lease obligations.

It is a Full Repairing & Insuring (FRI) Lease i.e. the cost of insurance, repairs / maintenance and all other outgoings are met by Bracknell Arlington Square Centre Limited.

Regus has been the sole occupant of the Property since its construction in 2001 (they agreed to pre-let it in 2000). Bracknell Arlington Square Centre Limited renewed its FRI lease from 15 January 2016 for a term of 10 years expiring 14 January 2026 i.e. c7 years unexpired. There is no tenant option to break the lease within the 10 year term.

A 5th year rent review takes effect from 15 January 2021 and the current rent is £1,770,300 pa reflecting £20 per sq ft. This is relatively low as prime rents in the town are approximately £24 per sq ft and therefore provides a realistic prospect of future rental growth.

By comparison, EEPIC's Marlow property rental equates to just over £21 psf, with Maidenhead (nearest competing office centre to Bracknell) at c£30 psf and those in Epsom at c£25 psf. Bracknell therefore offers competitive South East office rentals retaining its position as one of the Thames Valley's most established office centres.

IWG (International Work Group) PLC, formerly Regus, is a multinational corporation that provides a global serviced office workplace. IWG PLC reported 2016 group revenues of £2.2bn and includes the British serviced office brands, MWB Business Exchange Plc, HQ and Regus.

Regus operate each of their serviced office locations as standalone businesses and their business model becomes profitable when a building in its portfolio reaches 50% occupancy level.

A good performing Regus building would be expected to maintain 60% - 70% occupancy level and where this occurs in their portfolio, they typically remain at the location long term. Regus has confirmed that since 2008, 2 Arlington Square has consistently maintained occupancy in the 60% - 80% range, making it their Thames Valley flagship office complex.

Bracknell Financial Business Case

The Property represented an attractive opportunity to secure a well located, successful Regus facility at a favourable net initial yield of 6.5% pa. Whilst considered highly unlikely, EEPIC could not ignore the possibility that Regus may relocate in 2026.

Furthermore, if the serviced office sector was to fall out of favour (again, highly unlikely), the consequence of Regus leaving the Property would almost certainly be its conversion to a multi-let building. Whilst not EEPIC's preference, a multi-let building would carry the advantage of attracting higher rental levels – albeit at the cost of greater management resource. The financial projections on acquisition prudently allowed the sum of £1.75m for the possibility of major capital works in the event that Regus vacate the Property.

As with Marlow, the Company financed the acquisition by way of a secured loan from the Shareholder charged at a commercial interest rate of 5% per annum. The loan was for 60% of the purchase price with the remaining 40% provided by shareholder equity funding. A secure legal charge (debenture) is registered in favour of the Shareholder.

In compliance with the Shareholder's approved Property Investment Strategy, the property was assessed on the Scoring Matrix. The Matrix allows the relative merits of an investment opportunity to be measured and assessed against a minimum target threshold of 70%.

For 2 Arlington Square, the Scoring Matrix achieved a solid 79%. Criteria preventing it achieving a maximum score included:-

- Tenant Covenant – as the Regus PLC covenant is only applicable for 1 year, it was considered necessary to down grade the rating from “good” to “acceptable”.
- Occupational Lease Length – achieved a “good” rating as opposed to “excellent” as the lease term is less than 10 years.
- Build Quality – achieved an “acceptable” rating to reflect the potential for capital expenditure at lease expiry in 8 years.
- Lot Size – achieved a “marginal” rating due to the relatively large lot size of £25.5m.

On all other criteria, the investment scored the maximum Matrix marks confirming the quality of the building's location and the FRI nature of the lease.

5. Property Management

Day to day property management is currently provided by the Shareholder's Property Services Team and includes property inspections, service charge

administration, general tenant liaison and asset management strategy.

The Company retains the option to appoint an external managing agent should Directors consider this to be in the best interests of the Company. Whilst no such appointment is being considered, the Directors will continue to monitor the existing arrangement at its quarterly board meetings.

Management highlights:-

- There are no arrears by either tenant.
- Regus queried the level of insurance premium charged by EEPIC on the Bracknell building. The matter was successfully resolved and the insurance premium was paid.
- The rent payable for Marlow (The Cobham Centre) increased from £1,691,250 pa to £1,733,531.25 pa with effect from 29 September 2018. This represents the annual 2.5% fixed rental increase as per the terms of the lease. The next rent increase to £1,776,869.53 is due from 29 September 2019.
- The rent payable for Bracknell (2 Arlington Square) is £1,770,300 pa. It is subject to an upwards only rent review on 15 January 2021.

Tenant corporate activity:-

- During the year, Bracknell's guarantor IWG (formerly Regus and worth £2.8bn) was the subject of potential takeover activity. Several prominent private equity groups showed interest including Guy Hands' Terra Firma Investments, Onyx, and Brookfield Private Equity.
- Several prominent private equity investment groups including Terra Firma Investments (Guy Hands), Onyx, Prime Opportunities (Los Angeles based group) and Brookfield submitted takeover bids to IWG. By the end of August 2018, all were rejected and shortly afterwards, IWG terminated all discussions with potential suitors.

In anticipation of a takeover, the shared price had risen by approximately 20% over summer 2018 and not surprisingly, fell back to its previous level following withdrawal from takeover discussions.

IWG justified its withdrawal on the basis that potential bidders had not fully valued IWG's positive interim results (issued during takeover discussions). They showed a rise in revenue of 7.4% to reach £1.204bn and whilst operating profit was 29% lower at £60m, this was partly due to the major investment that the business made in pursuing growth opportunities and increased marketing. It expects to meet forecasts for the current year in which shares will record a rise in earnings of 13%. Further growth of 21% is due next year as the business continues to perform well.

- EEPIC's other tenant guarantor for Marlow, Cobham PLC, continues to trade consistently in the £1 - £1.40 per share range. Its Interim Results Highlights for the half year ended 30 June 2018 were released in August and included growing order intakes from £0.92bn to £1.3bn with full year 2018 underlying profit expectations remaining unchanged.
- More recently, trading updates have been released by Cobham and IWG.
- Cobham PLC released its trading update covering the period 1 January 2018 to the end of October 2018 on 14 November 2018 and stated:-

*“At a Sector level, underlying operating profit in Mission Systems and Communications and Connectivity has been stronger than in the prior year, which offsets weaker performances in Advanced Electronic Solutions and Aviation Services.
Overall, the Board’s expectations for the full year 2018 remain unchanged from those set out in the Interim Results on 3 August 2018.
As in prior years, there remains significant trading activity in the final two months of the year.”*
- IWG PLC (International Workplace Group), released a 3rd quarter trading update on 6 November 2018 and included the following highlights:-
 - Strong Q3 open centre revenue growth of 13.2% at constant currency
 - Improvement in Q3 mature revenue growth, up 3.9% at constant currency and a further improvement on Q2
 - Mature occupancy improved 70 basis points to 74.3% in Q3
 - Underlying cash generation for the year to date of £120.3m
 - Net debt of £433.9m after net growth investment of £204.9m year to date
 - 204 new locations added year to date
 - The Board remains confident that the Group will deliver a full year result in line with management’s expectations
- Both IWG’s and Cobham’s corporate activity is monitored as a matter of good management practice.
- The Managing Director is not aware of any financial or operational issues with EEPIC’s direct tenants at either Marlow or Bracknell.

6. Balance Sheet Asset Valuations

To comply with its financial reporting obligations, the Company is required to have its investment property portfolio valued on an annual basis. The basis of

valuation for investment properties is fair value and is the same as market value.

External valuations were undertaken by Epsom based firm of Chartered Surveyors, Huggins Edwards & Sharp (HES). At the request of the Shareholder, HES were instructed to provide consistency with their instruction to value the Shareholder's directly owned property assets.

HES have not been involved in either EEPIC property purchase and can therefore provide an independent, external assessment of the two acquisitions.

	Valuation @ 31/12/18	Purchase Price / Date	Variance
	£	£	£
Marlow	32,000,000	31,000,000 13/10/17	1,000,000
Bracknell	25,800,000	25,500,000 20/11/17	300,000
Total	57,800,000	56,500,000	1,300,000

The valuation returns a portfolio value increase of £1.3m for the last 14 months. Whilst the Company's business case is specifically to hold property long term (to smooth out the inevitable gyrations of the UK property market), it is nevertheless welcome that the acquisitions have recorded a 2.3% capital increase. This is in addition to the strong current income running yields of 5.25% and 6.5% for Marlow and Bracknell respectively.

Although underlying property valuations have increased by £1.3m since acquisition, the 2018/19 accounts are expected to show a downward revaluation of £2.1m, as previously capitalised stamp duty and other acquisition costs (such as legal and investment agent costs) totaling £3.4m are written out from the company's balance sheet.

Valuation highlights include:-

"The South East letting market is viewed as resilient with net take up of stock in a sector that is characterised by a severe lack of speculative development and stock eroded by Permitted Development. This is considered likely to continue to drive returns and draw investors into the office sector.

The Thames Valley is reported as seeing a welcome surge in leasing activity in 2018 with well over 1.7m sq ft transacted, 26% up on the previous year and the highest level since 2011.

With availability dropping and the lack of speculative schemes under construction there are predictions of demand outstripping supply in 2021/22 for the first time in 20 years."

7. Company Accounts

The Company's accounts are externally prepared by Williams & Co, an Epsom based firm of Statutory Auditors.

The accounts are attached at Appendix A for the period 18 August 2017 to 31 March 2018 and for the year ending 31 March 2019.

Financial highlights for the period 18 August 2017 to 31 March 2018 include:-

- Property portfolio of £59.9m (this is higher than the actual property acquisition prices described above due to financial reporting requirements. Please note the combined total property acquisition price was £56.5m).
- Profit before tax of £0.5m
- Dividend proposed of £0.42m

Financial highlights for the year ending 31 March 2019 include:-

- Property portfolio of £57.8m (this reflects the true property valuations indicating a combined capital value increase of £1.3m (£57.8m - £56.5m).
- Profit before tax of £1.53m
- Dividend proposed of £1.05m

Williams & Co have provided the Company with a first class accounting service at a competitive price. It is therefore envisaged that Williams & Co will be retained by the Company to prepare future year-end accounts.

8. Future Acquisitions

At its Strategy & Resources Committee meeting held on 25 September 2018, the Shareholder suspended any further out-of-Borough property investment acquisitions until further government guidance or case law is published. This is necessary to ensure the Shareholder can comply with the MHCLG's new Statutory Guidance on Local Government Investments introduced from April 2018.

The guidance aims to restrict the ability of Local Authorities to purchase out of Borough investment properties, through the following clause 46:-

"Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".

The new guidance means that future out of Borough acquisitions that are funded by borrowing and where the intention is purely to profit from the investment, would not meet the requirements of the guidance in terms of borrowing.

However, there could be circumstances where out of Borough investments may be acceptable if, for example, the property was close to the Shareholder's boundary and the main purpose for the investment was not for profit, but for regeneration.

The new guidance does not affect EEPIC's existing property acquisitions.

Appendix A

EEPIC Financial Statements

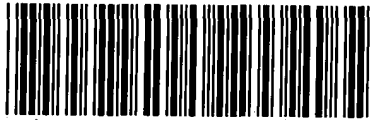
For the Period 18 August 2017 to 31 March 2018

For the Year Ended 31 March 2019

**Report of the Directors and
Financial Statements
for the Period 18 August 2017 to 31 March 2018**

for
Epsom & Ewell Property Investment ~~Co Ltd~~ *Company Limited*
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A10	31/12/2018	#160
COMPANIES HOUSE		

A7KOLG02

A22	13/12/2018	#29
COMPANIES HOUSE		

**Contents of the Financial Statements
for the Period 18 August 2017 to 31 March 2018**

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Statement of Income and Retained Earnings	6
Balance Sheet	7
Notes to the Financial Statements	8
Trading and Profit and Loss Account	12

**Company Information
for the Period 18 August 2017 to 31 March 2018**

DIRECTORS:

Ms K Beldon
L G Duffy
M D C Shephard
R Brown

SECRETARY:

Ms L Mathie

REGISTERED OFFICE:

Town Hall
The Parade
Epsom
Surrey
KT18 5BY

REGISTERED NUMBER:

10922872 (England and Wales)

AUDITORS:

Williams & Co
Statutory Auditors
8-10 South Street
Epsom
Surrey
KT18 7PF

**Report of the Directors
for the Period 18 August 2017 to 31 March 2018**

The directors present their report with the financial statements of the company for the period 18 August 2017 to 31 March 2018.

INCORPORATION

The company was incorporated on 18 August 2017 and commenced trading on 13 October 2017.

PRINCIPAL ACTIVITY

The principal activity of the company in the period under review was that of property rental.

EVENTS SINCE THE END OF THE PERIOD

Information relating to events since the end of the period is given in the notes to the financial statements.

DIRECTORS

The directors who have held office during the period from 18 August 2017 to the date of this report are as follows:

Ms K Beldon - appointed 21 September 2017
L G Duffy - appointed 21 September 2017
M D C Shephard - appointed 18 August 2017
S D Young - appointed 21 September 2017 - resigned 17 January 2018
R Brown - appointed 21 September 2017

POLITICAL DONATIONS AND EXPENDITURE

None.

BUSINESS STRUCTURE

The company is wholly owned by Epsom & Ewell Borough Council.

COMPANY HIGHLIGHTS

- Property portfolio of £59.9m.
- Gross profit of £1.4m.
- Profit before tax of £0.5m.
- Dividend proposed of £0.42m.

BUSINESS MODEL

Our strategy is to build a diversified, balanced and low risk property portfolio to provide income over the long term to our ultimate shareholder, Epsom & Ewell Borough Council.

Finance is secured through a balance of debt and equity obtained from Epsom and Ewell Borough Council.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

**Report of the Directors
for the Period 18 August 2017 to 31 March 2018**

STATEMENT OF DIRECTORS' RESPONSIBILITIES - continued

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Williams & Co, will be proposed for re-appointment at the forthcoming Board Meeting.

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

ON BEHALF OF THE BOARD:



M D C Shephard - Director

31 May 2018

Opinion

We have audited the financial statements of Epsom & Ewell Property Investment Co Ltd (the 'company') for the period ended 31 March 2018 which comprise the Statement of Income and Retained Earnings, Balance Sheet and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information in the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.

Report of the Independent Auditors to the Members of
Epsom & Ewell Property Investment ~~Co Ltd~~ Company Limited *LLP*

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption from the requirement to prepare a Strategic Report or in preparing the Report of the Directors.

Responsibilities of directors

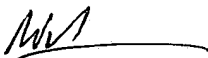
As explained more fully in the Statement of Directors' Responsibilities set out on pages two and three, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Our responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a Report of the Auditors that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.



Mark Williams FCA (Senior Statutory Auditor)
for and on behalf of Williams & Co
Statutory Auditors
8-10 South Street
Epsom
Surrey
KT18 7PF

Date: 31 May 2018.

**Statement of Income and Retained Earnings
for the Period 18 August 2017 to 31 March 2018**

	Notes	£
TURNOVER		1,466,680
Cost of sales		<u>37,384</u>
GROSS PROFIT		1,429,296
Administrative expenses		<u>141,592</u>
OPERATING PROFIT		1,287,704
Interest payable and similar expenses	4	<u>764,169</u>
PROFIT BEFORE TAXATION		523,535
Tax on profit	5	<u>99,472</u>
PROFIT FOR THE FINANCIAL PERIOD		424,063
Dividends		<u>(424,063)</u>
		<u><u> </u></u>

The notes form part of these financial statements

**Balance Sheet
31 March 2018**

	Notes	£	£
FIXED ASSETS			
Investment property	6		59,938,483
CURRENT ASSETS			
Debtors	7	33,275	
Cash at bank		<u>1,466,449</u>	
			1,499,724
CREDITORS			
Amounts falling due within one year	8	<u>1,116,359</u>	
NET CURRENT ASSETS			<u>383,365</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			60,321,848
CREDITORS			
Amounts falling due after more than one year	9		(36,175,650)
PROVISIONS FOR LIABILITIES	11		<u>(29,098)</u>
NET ASSETS			<u><u>24,117,100</u></u>
CAPITAL AND RESERVES			
Called up share capital	12		100
Other reserves	13		<u>24,117,000</u>
SHAREHOLDERS' FUNDS			<u><u>24,117,100</u></u>

The financial statements have been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

The financial statements were approved by the Board of Directors on 31 May 2018 and were signed on its behalf by:

L G Duffy - Director



M D C Shephard - Director



The notes form part of these financial statements

**Notes to the Financial Statements
for the Period 18 August 2017 to 31 March 2018**

1. STATUTORY INFORMATION

Epsom & Ewell Property Investment Co Ltd is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES

Basis of preparing the financial statements

These financial statements have been prepared in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Significant judgements and estimates

Investment properties are professionally valued using methodology outlined by the Royal Institute of Chartered Surveyors. Market values and market rents are taken into account when establishing the valuation. There is a degree of judgement involved in that each property is unique and value can only be reliably tested in the market itself.

Turnover

Turnover represents rental income, service charge income and insurance income, exclusive of value added tax.

Investment property

Investment property is measured initially at its cost at recognition, including transaction costs. The fair value shall be measured at each subsequent reporting date with changes in fair value recognised in profit or loss.

No revaluation is required at the reporting date of the first year of acquisition.

No depreciation is charged on investment property.

Taxation

Taxation for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

**Notes to the Financial Statements - continued
for the Period 18 August 2017 to 31 March 2018**

2. ACCOUNTING POLICIES - continued

Recognition of income and expenditure

Income from rents, service charges and insurance is recognised over the period for which the service is provided.

Expenses are recognised as expenditure when the services are consumed.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.

3. EMPLOYEES AND DIRECTORS

During the period, no staff were directly employed by Epsom & Ewell Property Investment Company Ltd

4. INTEREST PAYABLE AND SIMILAR EXPENSES

Loan interest	£ <u>764,169</u>
---------------	---------------------

5. TAXATION

Analysis of the tax charge

The tax charge on the profit for the period was as follows:

Current tax:	£
UK corporation tax	70,374
Deferred tax	<u>29,098</u>
Tax on profit	<u>99,472</u>

6. INVESTMENT PROPERTY

	Total £
FAIR VALUE	
Additions	<u>59,938,483</u>
At 31 March 2018	<u>59,938,483</u>
NET BOOK VALUE	
At 31 March 2018	<u>59,938,483</u>

The company's investment properties were valued at the time of purchase by an independent, professionally qualified valuer. The valuations are undertaken in accordance with the Royal Institution of Chartered Surveyors' Valuation- Global Standards 2017.

7. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Trade debtors	£ 15,679
Prepayments	<u>17,596</u>
	<u>33,275</u>

Notes to the Financial Statements - continued
for the Period 18 August 2017 to 31 March 2018

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£
Tax	70,374
VAT	229,388
Accruals and deferred income	<u>816,597</u>
	<u>1,116,359</u>

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	£
Amounts owed to group undertakings	<u>36,175,650</u>

Intra-group loans totalling £36,175,650 have been provided by Epsom & Ewell Borough Council. The loans are interest only and the interest rate on each loan is 5%. All loans are due to be repaid in full fifty years from the original loan draw down.

10. SECURED DEBTS

The following secured debts are included within creditors:

	£
Other loans	<u>36,175,650</u>

The loans from Epsom & Ewell Council are secured by way of a 1st charge over the properties and a debenture.

11. PROVISIONS FOR LIABILITIES

	£
Deferred tax	
Accelerated capital allowances	<u>29,098</u>

	Deferred tax
	£
Provided during period	<u>29,098</u>
Balance at 31 March 2018	<u>29,098</u>

12. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:			
Number:	Class:	Nominal value:	£
100	Ordinary	£1	<u>100</u>

100 Ordinary shares of £1 each were allotted and fully paid for cash at par during the period. On 27th April 2018 the company issued 24,117,000 Ordinary shares of £1 each at par.

**Notes to the Financial Statements - continued
for the Period 18 August 2017 to 31 March 2018****13. RESERVES**

	Retained earnings £	Other reserves £	Totals £
Profit for the period	424,063		424,063
Dividends	(424,063)		(424,063)
Shares awaiting issue	-	24,117,000	24,117,000
At 31 March 2018	-	24,117,000	24,117,000

14. RELATED PARTY DISCLOSURES

Costs totalling £160,615 were recharged to Epsom & Ewell Property Investment Company Limited by Epsom & Ewell Borough Council in relation to staff, support services and insurance.

15. POST BALANCE SHEET EVENTS

On 27th April 2018 the company issued 24,117,000 Ordinary shares of £1 each at par to its parent company, Epsom & Ewell Borough Council.

16. ULTIMATE CONTROLLING PARTY

The ultimate controlling party is Epsom & Ewell Borough Council by virtue of its 100% shareholding.

**Trading and Profit and Loss Account
for the Period 18 August 2017 to 31 March 2018**

	£	£
Turnover		
Rental income	1,429,296	
Service charge income	17,152	
Insurance income	<u>20,232</u>	
		1,466,680
Cost of sales		
Service charge	17,152	
Insurance	<u>20,232</u>	
		<u>37,384</u>
GROSS PROFIT		1,429,296
Expenditure		
Staff and support services	140,383	
Computer costs	85	
Sundry expenses	<u>1,101</u>	
		<u>141,569</u>
		1,287,727
Finance costs		
Bank charges	23	
Loan interest	<u>764,169</u>	
		<u>764,192</u>
NET PROFIT		<u><u>523,535</u></u>

**Report of the Directors and
Financial Statements
for the Year Ended 31 March 2019
for
Epsom & Ewell Property Investment
Company Limited**



**Contents of the Financial Statements
for the Year Ended 31 March 2019**

	Page
Company Information	1
Report of the Directors	2
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Income Statement	6
Balance Sheet	7
Notes to the Financial Statements	8

**Company Information
for the Year Ended 31 March 2019**

DIRECTORS:

Ms K Beldon
L G Duffy
M D C Shephard
R Brown

REGISTERED OFFICE:

Town Hall
The Parade
Epsom
Surrey
KT18 5BY

REGISTERED NUMBER:

10922872 (England and Wales)

AUDITORS:

Williams & Co
Statutory Auditors
8-10 South Street
Epsom
Surrey
KT18 7PF

**Report of the Directors
for the Year Ended 31 March 2019**

The directors present their report with the financial statements of the company for the year ended 31 March 2019.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of property rental.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 April 2018 to the date of this report.

Ms K Beldon
L G Duffy
M D C Shephard
R Brown

POLITICAL DONATIONS AND EXPENDITURE

None.

BUSINESS STRUCTURE

The company is wholly owned by Epsom & Ewell Borough Council.

COMPANY HIGHLIGHTS

- Property portfolio of £57.8m.
- Gross profit of £3.5m.
- Profit before tax (excluding property revaluations) of £1.53m.
- Dividend paid of £1.05m.

BUSINESS MODEL

Our strategy is to build a diversified, balanced and low risk property portfolio to provide income over the long term to our ultimate shareholder, Epsom & Ewell Borough Council.

Finance is secured through a balance of debt and equity obtained from Epsom and Ewell Borough Council.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Report of the Directors
for the Year Ended 31 March 2019**

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

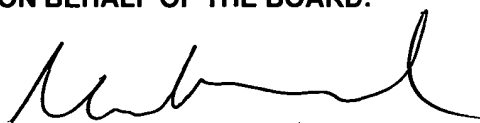
So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Williams & Co, will be proposed for re-appointment at a subsequent Board Meeting.

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

ON BEHALF OF THE BOARD:



M D C Shephard - Director

21 May 2019

Opinion

We have audited the financial statements of Epsom & Ewell Property Investment Company Limited (the 'company') for the year ended 31 March 2019 which comprise the Income Statement, Balance Sheet and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information in the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption from the requirement to prepare a Strategic Report or in preparing the Report of the Directors.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page two, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a Report of the Auditors that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Mark Williams FCA (Senior Statutory Auditor)
for and on behalf of Williams & Co
Statutory Auditors
8-10 South Street
Epsom
Surrey
KT18 7PF

21 May 2019

Income Statement

for the Year Ended 31 March 2019

	Notes	Year Ended 31.3.19 £	Period 18.8.17 to 31.3.18 £
TURNOVER		3,592,823	1,466,680
Cost of sales		<u>109,322</u>	<u>37,384</u>
GROSS PROFIT		3,483,501	1,429,296
Administrative expenses		<u>140,789</u>	<u>141,592</u>
		3,342,712	1,287,704
Other operating income		<u>700</u>	<u>-</u>
OPERATING PROFIT		3,343,412	1,287,704
(Loss) on revaluation of investment property		<u>(2,138,483)</u>	<u>-</u>
		1,204,929	1,287,704
Interest payable and similar expenses	4	<u>1,808,783</u>	<u>764,169</u>
(LOSS)/PROFIT BEFORE TAXATION		(603,854)	523,535
Tax on (loss)/profit	5	<u>286,073</u>	<u>99,472</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		<u><u>(889,927)</u></u>	<u><u>424,063</u></u>

The notes form part of these financial statements

Balance Sheet
31 March 2019

	Notes	2019		2018	
		£	£	£	£
FIXED ASSETS					
Investment property	6		57,800,000		59,938,483
CURRENT ASSETS					
Debtors	7	17,500		33,275	
Cash at bank		<u>1,835,635</u>		<u>1,466,449</u>	
		1,853,135		1,499,724	
CREDITORS					
Amounts falling due within one year	8	<u>1,248,740</u>		<u>1,116,359</u>	
NET CURRENT ASSETS			<u>604,395</u>		<u>383,365</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			58,404,395		60,321,848
CREDITORS					
Amounts falling due after more than one year	9		(36,175,650)		(36,175,650)
PROVISIONS FOR LIABILITIES	11		<u>(46,807)</u>		<u>(29,098)</u>
NET ASSETS			<u>22,181,938</u>		<u>24,117,100</u>
CAPITAL AND RESERVES					
Called up share capital	12		24,117,100		100
Other reserves	13		-		24,117,000
Fair value reserve	13		(2,138,483)		-
Retained earnings	13		<u>203,321</u>		-
SHAREHOLDERS' FUNDS			<u>22,181,938</u>		<u>24,117,100</u>

The financial statements have been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

The financial statements were approved by the Board of Directors on 21 May 2019 and were signed on its behalf by:


L G Duffy - Director


M D C Shephard - Director

**Notes to the Financial Statements
for the Year Ended 31 March 2019**

1. STATUTORY INFORMATION

Epsom & Ewell Property Investment Company Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES

Basis of preparing the financial statements

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" including the provisions of Section 1A "Small Entities" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets.

Significant judgements and estimates

Investment properties are professionally valued using methodology outlined by the Royal Institute of Chartered Surveyors. Market values and market rents are taken into account when establishing the valuation. There is a degree of judgement involved in that each property is unique and value can only be reliably tested in the market itself.

Turnover

Turnover represents rental income, service charge income and insurance income, exclusive of value added tax.

Investment property

Investment property is measured initially at its cost at recognition, including transaction costs. The fair value shall be measured at each subsequent reporting date with changes in fair value recognised in profit or loss.

No depreciation is charged on investment property.

Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes to the Financial Statements - continued
for the Year Ended 31 March 2019

2. ACCOUNTING POLICIES - continued

Recognition of income and expenditure

Income from rents, service charges and insurance is recognised over the period for which the service is provided.

Expenses are recognised as expenditure when the services are consumed.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.

3. EMPLOYEES AND DIRECTORS

During the period, no staff were directly employed by Epsom & Ewell Property Investment Company Ltd

4. INTEREST PAYABLE AND SIMILAR EXPENSES

	Year Ended 31.3.19 £	Period 18.8.17 to 31.3.18 £
Loan interest	<u>1,808,783</u>	<u>764,169</u>

5. TAXATION

Analysis of the tax charge

The tax charge on the loss for the year was as follows:

	Year Ended 31.3.19 £	Period 18.8.17 to 31.3.18 £
Current tax:		
UK corporation tax	268,364	70,374
Deferred tax	<u>17,709</u>	<u>29,098</u>
Tax on (loss)/profit	<u>286,073</u>	<u>99,472</u>

6. INVESTMENT PROPERTY

	Total £
FAIR VALUE	
At 1 April 2018	59,938,483
Revaluations	<u>(2,138,483)</u>
At 31 March 2019	<u>57,800,000</u>
NET BOOK VALUE	
At 31 March 2019	<u>57,800,000</u>
At 31 March 2018	<u>59,938,483</u>

Notes to the Financial Statements - continued
for the Year Ended 31 March 2019

6. INVESTMENT PROPERTY - continued

The company's investment properties were revalued on the 31st March 2019 by chartered surveyors, regulated by RICS.

The valuations were carried out in accordance with the RICS Valuation Professional Standards Global and UK 2017, with the CIPFA guidance incorporated.

Fair value at 31 March 2019 is represented by:

	£
Valuation in 2019	(2,138,483)
Cost	<u>59,938,483</u>
	<u>57,800,000</u>

7. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £	2018 £
Trade debtors	-	15,679
Prepayments	<u>17,500</u>	<u>17,596</u>
	<u>17,500</u>	<u>33,275</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £	2018 £
Trade creditors	4,499	-
Tax	268,364	70,374
VAT	149,616	229,388
Accruals and deferred income	<u>826,261</u>	<u>816,597</u>
	<u>1,248,740</u>	<u>1,116,359</u>

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019 £	2018 £
Amounts owed to group undertakings	<u>36,175,650</u>	<u>36,175,650</u>

Intra-group loans totalling £36,175,650 have been provided by Epsom & Ewell Borough Council. The loans are interest only and the interest rate on each loan is 5%. All loans are due to be repaid in full fifty years from the original loan draw down.

10. SECURED DEBTS

The following secured debts are included within creditors:

	2019 £	2018 £
Other loans	<u>36,175,650</u>	<u>36,175,650</u>

The loans from Epsom & Ewell Council are secured by way of a 1st charge over the properties and a debenture.

Notes to the Financial Statements - continued
for the Year Ended 31 March 2019

11. PROVISIONS FOR LIABILITIES

	2019 £	2018 £
Deferred tax		
Accelerated capital allowances	<u>46,807</u>	<u>29,098</u>
		Deferred tax £
Balance at 1 April 2018		29,098
Provided during year		<u>17,709</u>
Balance at 31 March 2019		<u>46,807</u>

12. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:			2019 £	2018 £
Number:	Class:	Nominal value: £1		
24,117,100	Ordinary		<u>24,117,100</u>	<u>100</u>

24,117,000 Ordinary shares of £1 each were allotted and fully paid for cash at par during the year.

13. RESERVES

	Retained earnings £	Other reserves £	Fair value reserve £	Totals £
At 1 April 2018	-	24,117,000	-	24,117,000
Deficit for the year	(889,927)			(889,927)
Dividends	(1,045,235)			(1,045,235)
Transfer to share capital	-	(24,117,000)	-	(24,117,000)
Transfer gain/loss on revaluation	<u>2,138,483</u>	<u>-</u>	<u>(2,138,483)</u>	<u>-</u>
At 31 March 2019	<u>203,321</u>	<u>-</u>	<u>(2,138,483)</u>	<u>(1,935,162)</u>

14. RELATED PARTY DISCLOSURES

Costs totalling £130,528 (2018: £160,615) were recharged to Epsom & Ewell Property Investment Company Limited by Epsom & Ewell Borough Council in relation to staff, support services and legal fees.

EEPIC also paid £1,808,783 (2018: £764,169) in loan interest to Epsom & Ewell Borough Council.

15. ULTIMATE CONTROLLING PARTY

The ultimate controlling party is Epsom & Ewell Borough Council by virtue of its 100% shareholding.

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