

COUNCIL REFERRED MOTION

Head of Service:	Mark Shephard, Head of Property and Regeneration
Report Author	Mark Shephard
Wards affected:	(All Wards);
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Appendices (attached):	Appendix 1 – Motion 1

Summary

At the Meeting of the Full Council on 22 July 2025, a Motion (attached at Appendix 1) was submitted under FCR 14 of Appendix 4 of the Constitution.

The Council resolved by a majority vote to refer the Motion to Strategy & Resources Committee.

This report addresses the Motion for Committee to consider.

Recommendation (s)

The Committee is asked to:

- (1) **Note the Motion and agree that no action be taken on any of the items within it, having considered the advice as set out in this report.**

1 Reason for Recommendation

- 1.1 The Council faces significant financial pressures and has a statutory obligation to maintain and deliver essential services to its residents.

2 Background

- 2.1 The Motion is attached at Appendix 1.

3 Committee considerations

- 3.1 The Motion's four requests are considered below.

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Reduce the Property Income Equalisation Reserve to £1m with the remaining £5.694m being equally divided between the General Fund Working Balance and Capital Reserves, from the 1st of September.

3.2 The three reserves each have a clearly defined purpose and use. The policies for the reserves are contained in the Financial Plan 2024-2028 as approved by Full Council in February 2024. The policy notes that minimum reserve levels should remain as currently specified within the Medium-Term Financial Strategy:

- **Capital Reserves** are used to invest in future capital expenditure for services and assets i.e. future planned expenditure.

Minimum balance: £1m

- **The General Fund Working Balance** is maintained to safeguard against unexpected potential financial risks beyond those for which specific contingencies have been created i.e. unforeseen current expenditure.

Minimum balance: £1.5m

- **The Property Income Equalisation Reserve (PIE)** was specifically created to hold sufficient funds to mitigate the risks associated with future rental income streams from commercial properties acquired through borrowing.

Target balance: c£6m (the reserve's target is to hold sufficient funds to cover the potential loss of 1 year's rental income from each property acquired through the use of external borrowing).

The reserve's target balance has been attained and exceeded at times to temporarily hold one-off capital receipts associated with the acquisitions.

3.3 Whilst the purpose of the Capital and General Fund Working Balance Reserves is self-explanatory, the PIE was established in 2017 shortly after the Council created its Commercial Property Acquisition Fund at Extraordinary Council (21 November 2016).

3.4 The Commercial Property Acquisition Fund was initially £20m and subsequently increased to £80m following Strategy & Resources (7 February 2017). The Fund was resourced from prudential borrowing via the Public Works Loan Board (part of the Treasury).

3.5 The Council borrowed £64.4m to assist the acquisition of six commercial properties, including two properties held by the Council's 100% wholly owned property investment company (Epsom & Ewell Property Investment Company Ltd - EEPIC).

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- 3.6 The purpose of the PIE is specifically to mitigate the risk of acquiring commercial property with externally borrowed funds. The highest risk is loss of rental income, for example, the lease is not renewed at expiry, or the tenant becomes insolvent.
- 3.7 In the absence of a tenant, the Council would become liable for various costs including (but not limited to) borrowing costs, vacant rates liability and security. The former property asset would quickly become a property liability immediately impacting the Council's limited budgets.
- 3.8 Furthermore, at lease expiry, a commercial property will potentially require a landlord's refurbishment to ensure the rent achievable is maximised and the property remains attractive to potential occupiers. Again, the purpose of the PIE is to mitigate the cost of any future works.
- 3.9 The above risks are well known to private property companies, and they will typically hold sufficient cash reserves to not only acquire non-income producing property assets (i.e. pre-refurbishment / construction) but to also mitigate against unforeseen tenant eventualities.
- 3.10 The PIE therefore serves a very defined and prudent role to mitigating the risks associated with commercial property assets acquired using external borrowed funds. By purchasing such assets, the Council is exposed to the same risks as private property companies and therefore, it is only responsible and prudent to ensure it holds a similar reserve and adopts a similar approach to the private sector.
- 3.11 As a £50m property investment company, EEPIC best portrays the potential level of risk the PIE aims to mitigate. Holding two commercial property assets with a combined gross rental stream of £3.78m per annum, any loss of future rent would potentially have an immediate and significant impact on the Council as the Company's sole shareholder.
- 3.12 In light of the above, reducing the PIE to £1million, equivalent to just 2% of EEPIC's valuation and approximately three months' gross rental income, would not be a prudent course of action. At best, it would be considered extremely high risk and at worst, reckless.
- 3.13 It is recommended that this Motion request is noted but no action taken.

Urgently dispose of 66 High Street, 70 East Street and any underperforming Council owned commercial properties, and the capital receipts to be placed in Capital Reserves.

- 3.14 66 High Street (a retail property located on the Spread Eagle Junction, Epsom), is not recognised as underperforming. It is commercially leased at market rent to a good tenant and contributes £59,000 pa to the Council's frontline service budgets. The net income yield reflects an attractive and secure 7.1% pa which the Council would be unable to finance a similar rate of return in the current market.

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- 3.15 As approved at 6 May 2025 Full Council, it was agreed that the revised Strategic Priorities 2025-2027 would no longer include the proposed office move to 70 East Street.
- 3.16 Instead, 70 East Street was included in the revised Strategic Priorities 2025-2027 Priority 3: *Investigate future options for the existing Town Hall, 70 East Street*; and will be reported to Council as soon as the work is complete (anticipated to be through S&R committee in November 2025).
- 3.17 As regards “*and any underperforming Council owned commercial properties*”; none are currently identified within the Council’s commercial property portfolio.
- 3.18 The Council is fortunate to hold a high performing c£65m commercial property portfolio, the majority of properties being held on long term (30+ year) leases to secure commercial tenants. A further c£50m of commercial property is held indirectly by the Council through EEPIC.
- 3.19 The commercial tenants are responsible for all outgoings and the only non-income producing asset is 70 East Street – a result of LGR as per paragraph 3.16 above.
- 3.20 The Property & Regeneration Team was established in August 2016 to proactively asset manage the existing commercial property portfolio and increase its size through carefully identified commercial property acquisitions.
- 3.21 To demonstrate the Portfolio’s strong performance, the Council’s net rental income (that is, after the deduction of any borrowing or other running costs from the gross rental income) was £1,546,524 pa for the financial year 2018/19.
- 3.22 In contrast, the current 2025/26 published budget for the Council’s expected net rental income is £3,055,686 pa i.e. a near doubling in income. To consistently achieve a year-on-year net income increase requires rent reviews to be actively exercised / negotiated and vacant properties relet as soon as possible.
- 3.23 It would not be in either the Council or EEPIC’s interests to hold underperforming commercial properties. As mentioned, 70 East Street is the subject of a separate Strategic Priority workstream and a direct consequence of LGR.
- 3.24 It is recommended that this Motion request is noted but no action taken.

Urgently explore disposal of underperforming properties owned by EEPIC, the capital receipts to be used for increased dividends to be placed in Capital Reserves.

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- 3.25 For 2025/26, dividend income from EEPIC is expected to be £1.35m and there are no rent arrears with both properties leased on long term commercial leases. Neither of the two properties owned by EEPIC are recognised as being underperforming.
- 3.26 As explained in paragraphs 3.6 – 3.12, the risk of holding EEPIC's £50m assets is mitigated by the Property Income Equalisation (PIE) reserve.
- 3.27 It should be noted that if the PIE was reduced to £1m or extinguished altogether, then the risk of holding the EEPIC properties would be considered untenable by EEPIC directors. Directors would have little alternative but to dispose of its assets and dissolve the Company.
- 3.28 Dissolving EEPIC carries its own risk as there are currently limited purchasers in the commercial property market i.e. a sale could take anything from several months to several years.
- 3.29 It is recommended that this Motion request is noted but no action taken.

Proactively use our increased Capital Reserves for an accelerated 2026/27 capital programme to addresses a backlog of deferred works and future needs in the EEBC Building Asset Management Plan 2020-2030.

- 3.30 The Council is already committed to an ambitious Capital Programme for 2025/26 that includes a variety of diverse and complex projects, such as:
- Stew Ponds desilting
 - Upper Pond Bank replacement
 - Ashley Centre Car Park Level 1 new waterproof membrane
 - Court Rec renewal of 3G football pitch
 - Playhouse Stage replacement lighting and dimmers
- 3.31 The process to identify projects for the 2026/27 Capital Programme will shortly commence. As with each year, it will take full account of the works highlighted in the EEBC Building Asset Management Plan 2020-2030 i.e. essential statutory and Health & Safety items considered first and operational / essential maintenance prioritised accordingly.
- 3.32 Representing the final financial year before LGR takes full effect, the 2026/27 Capital Programme is already expected to be equally ambitious as the current financial year. This will (and currently is) committing all available staff resource as evidenced by the recent additional UK Shared Prosperity Fund (UKSPF) works to both the Playhouse (upper bar refurbishment) and Bourne Hall (replacement windows and PV panels).

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3.33 Even if it is unrealistically assumed commercial assets could be sold at short notice, the risk then transfers to one of limited staff resource i.e. the Council may suddenly have significant funds to spend but the lack of staff resource and onerous public procurement procedures, will likely render the funds unspent before vesting day in April 2027.

3.34 It is recommended that the Motion request is noted with no action taken.

4 Risk Assessment

Legal or other duties

4.1 Equality Impact Assessment

4.1.1 Not applicable

4.2 Crime & Disorder

4.2.1 Not applicable

4.3 Safeguarding

4.3.1 Not applicable

4.4 Dependencies

4.4.1 None

4.5 Other

4.5.1 None

5 Financial Implications

5.1 The council is regularly monitoring the reserves balance, asset value and risk which the Council is exposed to in the current climate. The proposal to reduce the reserve balance to £1m may not be prudent in the current circumstances but we are reviewing the policy to determine if there are balances which may be considered as over prudent and can be released for other priorities.

5.2 **Section 151 Officer's comments:** The sale of assets that have a financial strain on Council budgets may be an option which will be assessed following the asset review which is expected to be completed by October/November 2025.

6 Legal Implications

6.1 **Legal Officer's comments:** None arising from the content of this report.

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7 Policies, Plans & Partnerships

7.1 **Council's Key Priorities:** The following Key Priorities are engaged:

- Priority 3: Investigate future options for the existing Town Hall, 70 East Street

7.2 **Service Plans:** The matter is not included within the current Service Delivery Plan.

7.3 **Climate & Environmental Impact of recommendations:** Not applicable

7.4 **Sustainability Policy & Community Safety Implications:** Not applicable

7.5 **Partnerships:** None

7.6 **Local Government Reorganisation Implications:**

7.6.1 The Council remains under a statutory obligation to achieve Best Value and ensure services can be delivered and maintained until LGR Vesting Day on 1 April 2027.

7.6.2 LGR does not represent an opportunity for the Council to make decisions and undertake activities it would otherwise not consider prudent in the absence of LGR.

8 Background papers

8.1 The documents referred to in compiling this report are as follows:

Previous reports:

- EEBC Strategic Priorities 2025-2027, Full Council 13 May 2025
<https://democracy.epsom-ewell.gov.uk/ieListDocuments.aspx?CId=146&MIId=1627>
- Budget Meeting, Full Council 13 February 2024
<https://democracy.epsom-ewell.gov.uk/ieListDocuments.aspx?CId=146&MIId=1514>
- Establishment of a Company, Strategy & Resources 7 February 2017
<https://democracy.epsom-ewell.gov.uk/ieListDocuments.aspx?CId=132&MIId=258>
- Commercial Property Acquisition Fund, Extraordinary Council 21 November 2016
<https://democracy.epsom-ewell.gov.uk/ieListDocuments.aspx?CId=146&MIId=364>