



Report to Cabinet

Date:	6 January 2022
Reference number:	N/A
Title:	Aylesbury Vale Estates (AVE) – Review of performance 2021/2022 and draft business plan 2022/2025
Relevant councillor(s):	Cllr John Chilver
Author and/or contact officer:	John Reed
Ward(s) affected:	Not specific
Recommendations:	<p>Cabinet note the performance of AVE against the current business plan for the current financial year.</p> <p>Comment on the strategy and action plan as set out in the draft business plan for 2022-2025, the detail of which is set out in Appendices 1 and 2 of Part 2 of this report.</p>

1.0 Executive summary

- 1.1 Aylesbury Vale Estates (AVE), is required to present a rolling three year business plan for comment and sign-off by the council as 50% shareholder. The business plan sets out the strategy for achieving the core objectives of AVE (as agreed in 2009), during the plan period. The detail of the plan is focused on the first year ie 2022/2023. The strategy for years 2023/2024 and 2024/2025, will be kept under reviewed to enable new opportunities and challenges to be responded to. This report also summaries the performance to date in the current financial year.

2.0 Overview of Aylesbury Vale Estates (AVE)

- 2.1 AVE was formed in 2009 as a 20-year Joint Limited Partnership (JLP), following a 15-month full OJEU procurement process.
- 2.2 It's a 50-50 partnership between the council and private investors who collectively form Akeman Partnership LLP.

- 2.3 Akeman Asset Management provide the day to day management of the portfolio with the 'Board' meeting formally every quarter with more informal monthly interim meetings.
- 2.4 A Members' Agreement, signed by both sides of the Partnership, sets out in detail the governance arrangements, roles and responsibilities, fee calculation, Key Performance Indicators and Key Performance Targets.
- 2.5 As an LLP, AVE doesn't have a "board" of directors as such but representatives of both parties have 3 seats at the table. The council is currently represented by two cabinet members - Cllr Peter Strachan and Cllr Steve Bowles and one officer - the Assistant Director of Property & Assets. Each party of the JV has one vote at any decision making stage.
- 2.6 The key objectives of AVE are to:
1. Improve, repair and maintain the property
 2. Enhance, maintain and improve Buckinghamshire Council's income stream generated from the property
 3. Positively influence and promote development and economic growth in the area through development, improvement and maintenance of the portfolio, together with pro-active asset management
- 2.7 Financially, AVE is designed to distribute surplus profits both from revenue and capital sales, but it is not allowed to distribute any of the original equity. This means that if an asset acquired for £1m is sold for £1.25m, £250,000 could be distributed but the remaining £1m must be reinvested.
- 2.8 AVE is now over 12 years old and overall has performed well. The starting portfolio was valued at £36.1m and the purchase of the portfolio was financed by non-interest bearing loans from each member of £4m plus two loans from AVDC. The senior loan was for £27.08m at 6% interest and the second £3.61m of mezzanine loan at 20% pa interest. After set-up costs this gave the members a combined net asset value of £5.9m
- 2.9 The senior loan was not repayable for 20 years but did have amortisation at known rates commencing in year three of the partnership. The mezzanine debt had no amortisation but was repayable after five years. AVE paid down the expensive debt as soon as it was able.
- 2.10 A further loan was made to AVE to enable it to purchase the Hale Leys Shopping Centre. The acquisition was felt to be important to the longer-term regeneration plans of the town centre given its strategic location and its adjacency to other council owned (AVDC), assets. The first loan was for £2.9m at 7% interest. £1m of this has already been paid back and AVE intends to pay back the

remainder of this loan in 2023/2024. The second loan replaced the HSBC loaned at point of purchase - £5.5m at 4%.

- 2.11 The current outstanding debt is just under £33m in line with the agreed amortisation schedule.
- 2.12 The council's and private investors net asset value of their ownership of AVE has now risen to £17.020m from the original £8m investment which shows an annualised return to investors once distributions and set up costs are paid, of 16.93% per annum.
- 2.13 The portfolio is usually valued annually but was not in 2020 due to Covid. At the end of March 2021, the portfolio was valued at just under £44m. This is a slight drop from the 2019 valuation, attributable to value impairment of the Hale Leys Shopping Centre. However, the value of the Centre is expected to increase, as footfall builds following the various lockdowns, supported by the signing of a number of new lettings – see paragraph 3.7 for further details.

3. Summary of the 2021-2022 business plan and performance to date

- 3.1 The overall aim for the past few years has been to produce a self-sufficient portfolio, not reliant on sales, which pays all AVE overheads, all amortisation and distributes £600,000 pa and still retains an annual profit.
- 3.2 The strategy in 2021-2022 to achieve this (approved by Buckinghamshire Council) is:
- Sale of high value/low income assets for reinvestment in the portfolio through redevelopment of current sites.
 - Redevelopment of key assets and renewal/upgrade of old industrial stock.
 - A target annual distribution of £660k pa (£300k per shareholder)
 - Maintain current levels of occupancy within the industrial portfolio.
 - Hale Leys – maintain current tenants, let vacant units and improve future income stream.
 - Review all non-core and Category B assets and sell/develop where possible.
 - Pay off expensive debt to reduce the costs of finance and reduce amortisation.
- 3.3 **Sale of high value/low income assets for reinvestment in the portfolio through redevelopment of current sites**

- £2,448,500 capital receipt has been received from the sale of three industrial units in Gatehouse Close and a smaller unit in Telford Close. All three were sold significantly above valuation due to the favourable vendor market which outweighed the benefits of the rental income being achieved.

The sales were approved by the council in accordance with the Members' Agreement.

3.4 Development of key assets and renewal/upgrade of industrial stock

- Planning applications submitted in 20/21 for the redevelopment of the site at Raban's Lane and Stocklake, were progressed – see paragraphs 4.2- 4.3 for further details.
- As units become vacant, investment is being made where needed. All units are currently let. Tenants are currently being consulted on the feasibility of introducing a range of sustainable energy initiatives including the provision of EV charging points and solar panels. AVE is liaising with the council Sustainable Energy Team on these proposals.

3.5 Target Distribution:

- A distribution of £600,000 will be paid in March 2021 as forecast.

3.6 Maintain current levels of occupancy within the industrial portfolio

- The vacancy level across the main multi-let industrial estate has remained very low over the last three years ie between 0% and 2%. Despite the pandemic, there are currently no vacant industrial units and a number of tenants are waiting for larger units to become available to upsize. There is a limited amount of office space available in the Edison centre.

Demand remains high, hence the strategy to build out and retain commercial units on both the Raban's Lane and Stocklake development sites.

3.7 Maintain current tenants at Hale Leys, let vacant units, and improve future income

- The Centre has continued to diversify its offer with the New York Kitchen due to open in December followed by Wimpy UK. Both these offers, will create active frontage onto the High Street, be open beyond Centre opening hours helping to increase the revenue stream.

3.8 Review all non-core and category B assets and sell/develop where possible

Non-core assets are the assets which generally sit outside the main industrial

portfolio. They are individual sites with relatively low values. Category B assets are the assets which at the time of transfer in 2009, were classified as community assets eg a scout hut. None of these assets can be sold without the explicit approval of the council. In 2021/22 the following transactions have taken place with the required council approval:

- Telford Close
- Dover Hedge and Oakfield Road scout huts to the relevant Scouts Association/club

3.9 Pay off expensive debt to reduce cost of finance and reduce amortisation

- AVE has received a number of capital receipts from the sale of assets but agreed to retain some funds for re-development purposes. Paying off expensive debt has been deferred to 2023/2024 of the new business plan
- 3.10 In conclusion, AVE's performance to date in the current financial year, has been positive with good progress made against all strands of the strategy. During the pandemic, AVE has worked proactively with all its tenants, signposting them to grants and support available as well as putting in place appropriate payment plans to help them continue trading with a reduced customer base or in the case of Hale Leys, re-open as lockdowns were lifted. The success of this approach is evidenced by the nil vacancies in the main industrial estate and the retention of tenants in Hale Leys. As at end of October 2021, 87% of all rent invoiced across the portfolio, had been collected

4.0 Summary of the 2022-2025 business plan and strategy

- 4.1 The objectives for 2022-2025, remain the same as the current business plan (paragraph 2.6). However, there are some variations in the proposed strategy to achieve these:

- Reinvestment of sale funds into key development sites – Stocklake and Rabans Lane.
- Target a distribution of £600,000 pa increasing towards the end of the business plan as income increases particularly from the new commercial developments at Stocklake and Rabans Lane.
- Pay off expensive debt to reduce the cost of finance and reduce amortisation.
- Reinvest any excess funds to further enhance the income stream.

- Maintain current levels of occupancy within the main industrial portfolio.
 - Hale Leys – maintain current tenants, let vacant units and improve further income stream
- 4.2 In 2022/2023, the main focus for AVE will be on achieving planning approval for the Stocklake and Raban's Lane development sites. This will enable the residential element of the Raban's Lane scheme to be sold with outline planning consent and contribute to the area's housing target. It will also enable AVE to proceed with the commercial developments at Stocklake and Raban's Lane to generate a future income stream as well as generating employment opportunities.
- 4.3 In the detailed business plan set out in the Part 2 confidential pages of this report, AVE have made a number of key assumptions about these specific development sites:
- Planning permission being considered and granted. Both are due to be considered by the Central Area Planning Committee before the end of this financial year.
 - The timing, and purchase price for the residential element of Raban's Lane and timing of capital receipt(s).
 - When the new commercial developments at Stocklake and Raban's Lane will be built out, let and likely rent per sq ft.
- 4.4 The realisation of these assumptions will enable AVE to deliver other strands of the strategy. In particular:
- Target a distribution of £600k in 2022/2023 and 2023/2024 and increase to £1.44m in 2024/2025.
 - Pay off expensive debt – AVE anticipates paying off the £1.9m Hale Leys debt in 2023/2024.
- 4.5 During 2022/2023, AVE will aim to maintain the current levels of occupancy in the main industrial estate by:
- Building on its strong relationships with existing tenants.
 - Working to improve the estate and deliver any sustainability initiatives identified from the current consultation with tenants.
 - Ensuring vacant units are refurbished swiftly and to a high standard.

4.6 AVE will also continue to review its non-core assets and community assets bringing forward any proposals for the council's consideration. The sale of the two scout huts to the relevant scout club/association are good examples where assets of low value/income to AVE were sold for the higher benefit to the local community.

4.7 As the new Buckinghamshire Local Plan take shape, AVE will be keeping the portfolio under review to identify if any sites should be out forward under the call for sites stages of the planning process.

5.0 Other options considered

5.1 This report does not present alternative options to the current joint venture business model but it does invite comment on the proposed strategy and actions.

6.0 Legal and financial implications

Legal

6.1 As detailed in the Appendix the high level requirements for the operation of AVE are set out in the Members' Agreement and associated documents, and are also briefly summarised in the Appendix. The ongoing operation of AVE is based on the agreed Business Plan and any actions pursuant to the Business Plan will not generally be a breach of AVE's obligations. Any material variation to the Business Plan must be approved by the members.

Financial

6.2 The council currently has two loans outstanding with AVE with interest rates of 7% and 4%. The loans are being paid down in accordance with the agreed schedule although AVE, can if it so wishes pay off one of the loans at a faster rate if it wishes to do so.

6.3 The distributions forecast to be paid in March 2022 (£300k), form part of the council's revenue budget.

6.4 AVE's strategy in 2022-25 to focus on delivering developments combining capital receipts with creating an on-going revenue stream should enable future distributions to be made, amortisation commitments to the council to be met and the value of the portfolio maintained and preferably enhanced.

6.5 AVE's forecast to increase the distribution to be made in 2024/2025, is at this stage dependent on a number of assumptions being realised so the increase will not be added to the revenue budget. AVE's performance and its ability to make this

increase, will instead be monitored and only added to the future revenue budget when there is a better degree of certainty about the revised target being met.

➤ 7.0 Corporate implications

Property - the AVE portfolio includes some assets adjacent to the council's assets which may provide added opportunities for the benefit of both parties.

Collaboration on the requirements of new tenants to ensure that voids in either the council or AVE portfolio are minimised is also advantageous to both parties.

- a) HR – no impact
- b) Climate change – no impact. AVE has its own programme of investment in carbon reduction measures as and when feasible opportunities arise.
- c) Sustainability - AVE has its own programme of investment in carbon reduction measures as and when feasible opportunities arise. It is exploring further sustainable measures with tenants. The Section 206 agreement for Raban's Lane includes a contribution to the proposed Garden Way.
- d) Equality - no
- e) Data - no
- f) Value for money – the objectives of the partnership set out the financial expectations each side of the partner can expect over the life of the partnership.

➤ 8.0 Consultation with local councillors & community boards

- 8.1 The AVE business plan is not subject to consultation with local councillors and community boards.

➤ 9.0 Communication, engagement & further consultation

- 9.1 The draft Business Plan has been reviewed by the Property Board and will be considered by the Finance and Resources Select Committee on 17 February.

10.0 Next steps and review

- 10.1 All feedback on the draft business plan will be reported back to the Board for consideration. If the Board feels unable to make any changes required to the plan as a result of the feedback, this will be reported back to the council.

➤ 11.0 Background papers

Aylesbury Vale Estates Business Plan 2021-2024

12.0 Your questions and views (for key decisions)

If you have any questions about the matters contained in this report, please get in touch with the author of this report. If you have any views that you would like the cabinet member to consider, please inform the democratic services team. This can be done by telephone 01296 382343 or email democracy@buckinghamshire.gov.uk

