

1 Purpose

- 1.1 To give the Committee the opportunity to consider a draft Business Plan prepared by Aylesbury Vale Estates LLP (AVE) for the 2016/2017 financial year and pass their comments on to Cabinet.

2 For decision

- 2.1 Whether the Committee wishes to make any comments on the draft Business Plans (set out at Appendices 1 – 4 in the confidential pages of this report) for consideration by Cabinet.

3 Supporting information

Context of the Partnership

- 3.1 As the Committee will be aware, the Council and the Akeman Partnership LLP (Akeman) set up AVE as a Limited Liability Partnership (LLP) in October 2009, following a competitive dialogue procurement, to manage, improve and develop the Council's commercial property portfolio and provide an income stream to the Council. Upon completion of the agreement the Council sold the majority of its industrial and commercial estate to AVE LLP at market value.
- 3.2 The partnership is governed by a formal Members' Agreement and managed by a partnership board on which the Council has 3 representatives (Cllr Whyte, Cllr Rand and Teresa Lane) but this does not affect voting rights as the respective partners vote collectively. Akeman produced a draft Partnership Business Plan for AVE as part of their bid, which was approved by the Cabinet in June 2009. The final version of the Plan formed part of the completion documentation approved in October 2009. The Board meets on a regular basis to review progress on the Business Plan and monitor performance of the Asset Manager, Akeman Asset Management LLP.
- 3.3 The Members' Agreement requires AVE to prepare a new Business Plan before the end of their accounting year (which now mirrors the Council's financial year) and circulate this to the Council and Akeman for approval. The Agreement also provides that the Council and Akeman will use all reasonable endeavours to agree the Business Plan within 90 working days. A draft plan was first presented to the Partnership Board at their meeting in October but it was decided by AVDC, and also the private sector partners, to refine it at subsequent Board meetings and delay submitting it to Akeman and AVDC. A number of iterations followed, and the Board agreed to recommend the attached draft plan for approval at its meeting on 3 March. Following consideration by this Committee the draft Plan, together with the Committee's comments, will be reported to Cabinet on 12 April.
- 3.4 The timetable of the last few years for preparing the draft Plan and subsequent consideration by the Scrutiny Committee and Cabinet, means that approval is retrospective and does not enable any financial implications for AVDC eg the distribution (ie dividend) by AVE, to be reflected in the Council's annual budget setting process. With the agreement of the private investor, the timetable for future draft Business Plans will be changed to an earlier Committee and Cabinet cycle ie January, to achieve this alignment.

- 3.5 The Members' Agreement requires the Business Plan to set out AVE's objectives for the life of the Partnership (ie 20 years) and the annual overarching objectives for each accounting period. In particular the Plan must include a statement that AVE's business shall be operated with a view to producing the best risk adjusted profit obtainable and to maximise the risk adjusted rate of return to the Council and Akeman. Subject to agreement between AVE, Akeman and the Council, the Plan is also expected to include the following matters (based on a 3 year projection where appropriate):-
- Strategic business objectives and targets
 - Gross and net rental income projections, including assessment of operating costs, rental voids, rent arrears and any other losses and receipts
 - Annual portfolio valuation prepared to a standard acceptable for AVDC financial reporting purposes
 - Confirmation that the financial covenants regarding loan to value and interest cover are being maintained
 - Projections of estimated receivable rent and confirmation of compliance with maintaining portfolio income levels
 - Proposals for working capital budget, any new capital investments and reinvestments plus any distributions to partners
 - Performance against key indicators and targets indicate levels of achievement
- 3.6 Once approved, the Partnership Business Plan provides the framework within which the Partnership Board works, similar in effect to the Budget and Policy Framework set by Full Council for the Cabinet. Accordingly if the Board wish to pursue any substantive action which is not provided for in the Business Plan they must obtain specific authority from the Council (either by a Cabinet or Cabinet member decision) and Akeman. The Committee are, therefore, invited to consider and comment on the Plan as drafted to date.

Index to the Business Plan and Supporting Documentation

- 3.7 The draft Business Plan is attached in the confidential pages as Appendix 1.
- 3.8 The draft Business Plan identifies that the 'core assets' within the portfolio - those assets which have the greatest collective bearing on the portfolio in total, and are therefore the subject of greatest management attention - are the estates at Rabans Lane North, Rabans Close, Edison Road, Bessemer Crescent, Stocklake, Gatehouse Way and Hale Leys Shopping Centre. For this reason, these assets will have their own dedicated Asset Management Strategy which will be submitted to the Board for approval.
- 3.9 During the 2012-13 financial year, AVE purchased the Hale Leys Shopping Centre, creating a separate special purpose vehicle, Hale Leys LLP, to own and manage the centre. By value, the shopping centre makes up about a quarter of the total portfolio value of AVE. A separate cashflow for the Centre is in the confidential pages as Appendix 2.

- 3.10 The Business Plan necessarily includes a range of assumptions about the future behaviour of tenants and the wider market. Some of these may come to pass, some may not. In order to provide Members with an improved understanding of the impact which these events may have on the performance of the business, two 'cases' are presented: a pessimistic 'base' case and an optimistic 'enhanced' case. (The expectation is that reality will fall somewhere between these two extremes). The cashflows supporting the base and enhanced business plan are included in the confidential pages as Appendix 3 and 4.

Analysis and summary of key issues in the Plan

- 3.11 The Business Plan is introduced by a number of key headlines, some of which are worth repeating in the covering open report:

Looking back

- During 2015, the UK market finally started to see more confidence from the occupier market spread outside central London which has benefited locations like Aylesbury. However, the retail market remained volatile.
- The core aims of the company remained the same ie:
 - increased investor revenue flows and
 - support for the Council's economic development ambitions
- After the last few years of rationalisation and stabilisation of the portfolio, through the recession, the focus has been on redevelopment, investment and portfolio growth.
- During the 2015/16 financial year, the following progress has been made:
 1. Sale completed of the Whitehill Surgery and Ardenham Lane car park to the medical practice who occupied on a long and unsatisfactory lease.
 2. Sale of the Pembroke Road estate to AVDC to allow expansion of their depot, is due to complete before the AVE year end.
 3. The Phase 1 Gateway affordable housing should complete later this year.
 4. To date, lettings have occurred across the portfolio in line with expectations with 23 new leases completed, 10 vacating (4 of which relocated to AVE premises elsewhere), and 8 renewing.
 5. The AVE portfolio has started to see the ripple of confidence and property. The overall vacancy level for the multi let estates has decreased and is now as low as 7.8% for some parts of the estate although it remains stubbornly high, over 25%, for

other areas. (See comment under Looking forward section).

6. Despite the volatility of the market, Hale Leys Shopping Centre is 100% occupied.
7. A distribution to members of AVE was deferred until 2016/17. (See comment under Looking forward section).
8. A refurbishment of Bessemer Crescent units has been highly successful and resulted in an increase in lettings with an end year forecast of 7.8% vacancy.

Looking forward

- With the delay in the rating revaluation, occupiers are still paying rates based on historic inflated valuations which holds down rents achievable.
- Although the UK economy is generally doing well compared to many other countries, there are still many uncertainties it needs to cope with including the impact of an exit from the EU, continued austerity and the Chinese slow down.
- During the next 12 months, the focus will be on:
 1. Continuing and extending the refurbishment programme to improve the multi let estates to reduce vacancies, increase rent and help generate employment through the increased lettings.
 2. Making a distribution to members of the partnership.
 3. Identifying investment opportunities to grow/diversify the portfolio and enhance its value. This will include consideration of any opportunities arising from the emerging Vale of Aylesbury Local Plan.
 4. Bringing forward a number of developments including:
 - Completion of the office building on the Gateway site (Phase 1)
 - Bringing forward Gateway Phase 2
 5. Securing the renewal leases of key tenants of the Hale Leys Shopping Centre and engagement in the process to develop the next phases of the Waterside North development.
 6. The transfer of 'community assets' where there is a demand to do so and it makes economic sense from AVE's perspective.

Commentary on 1- 6

- 3.12 The proposals in this Business Plan reflect the growing confidence in the market and AVE is in a good position to capitalise on the district's increasing attractiveness as an investment location.
- 3.13 The void rates on some areas of the multi let industrial estate are still significantly higher than desired (up to 26%) but the first phase of refurbishment, alongside a more proactive marketing campaign, has been rewarding, with void rates falling for those particular units.
- 3.14 One of the Vale's economic strengths has been its small/medium sized business base, and so the AVE portfolio, and the plans to continue and expand the refurbishment programme, will make an important contribution to the district's growing economic success and AVDC's own economic development strategy. Stronger links are being formed with the Council's Economic Development team to help facilitate this.
- 3.15 Retaining tenants on the multi let sites by improving customer satisfaction is an objective of the AVE asset management strategy, particularly given the potential competition from other employment sites. The investment by AVE to upgrade the broadband to superfast has been welcomed by the tenants (see page 29 of Appendix 1) and in 2016/17, plans are in place to provide an estate wide CCTV system.
- 3.16 The first planned distribution to partners, is a significant milestone in the life of AVE. The challenges of the market in the last few years has prevented a distribution being made but the base and enhanced case shown on pages 4 and 5 of Appendix 1 show a distribution in this year and 2017/18 and 2018/19. The distribution sum in 2016/2017 is still to be agreed by the Board but a generally cautious approach will be taken to ensure that money is available to meet amortisation obligations and deliver the asset management plans set out in Appendix 1, pages 31 – 37.
- 3.17 As with all forecasts, there is less certainty about the later years and the ability to sustain a distribution at the forecasted level, will depend on the wider market position and the outcome of a number of other planned activities including for, example, the progression of Gateway phase 2.
- 3.18 The sale of the Pembroke Road site to AVDC for redevelopment will enable the council to meet its expanding waste and recycling service requirements, and progress a compatible commercial business). The receipt from the sale alongside other receipts, will be used to reinvest in new income generating assets. A proactive approach will be taken by the Asset Management Company, Akeman Partnership LLP, to identify and procure the best market offers. Although the current portfolio is dominated by industrial units, it does also include retail and land and an open minded an approach will be taken to future investments.
- 3.19 In addition to managing its own assets, AVE also has the ability to either enable new developments or act as a developer in its own right. Gateway In 2014, AVE received outline planning consent for a mixed use development of land at the Gateway for housing and commercial use. Phase 1 was packaged in a deal with VAHT to enable an affordable housing scheme to be built. For Phase 2, AVE will be looking for the land to be used for a private residential scheme. Whether or not it builds the housing itself or sells the land to a

developer, will be the subject of a more detailed business case to the AVE Board. In 2016/17, part of the site set aside for commercial building will be developed completing in 2017/18. Options on how to bring forward the remainder of the commercial site, will be kept under review.

- 3.10 The Hale Leys Shopping Centre occupies a strategic site in the town centre and how it can benefit from the development of the Waterside car park will be part of the development brief. Footfall in the Centre is impressive and all units are currently occupied. Discussions are on-going with tenants whose leases re up for renewal in the next couple of years.
- 3.11 The table set out on page 14, lists those assets in the portfolio which are considered 'community assets'. From time to time, when requested, assets in this category have been transferred to the local community. The Board has decided to take a more proactive approach and transfer all remaining community assets for a nominal price, where there is a community interest.

4. Resource implications

- 4.1 Cashflow analysis supporting both the base and enhanced case set out in the business plan are set out in the confidential pages - Appendices 2, 3 and 4.
- 4.2 As reported earlier, after a number of years of AVE struggling to make a distribution as anticipated, this will change in 2016/2017 as a result of growth income and the relief of not having to pay a high interest rate to AVDC on the mezzanine loan which it has already paid off. Part of the cashflow needs to continue to account for the amortisation AVE is required to pay to AVDC for the senior debt and the running expenses of the portfolio.
- 4.3 The last independent valuation of portfolio was carried out in March 2015 which showed an increase. The next independent valuation of the portfolio will be in March 2016 and is expected to show a continued increase in value which helps reduce the gearing.
- 4.3 There are a number of exciting developments, investment opportunities and asset management plans in the pipeline. There will be challenges in delivering these but it's important that AVE takes advantage of the improved market position not only for the wider economic benefit but to ensure that AVE fulfils its original objectives.
- 4.4 The efficient running of the portfolio will remain a focus and in 2016/2017, a range of fees will be benchmarked to ensure value for money is being achieved. This is in line with the Members' Agreement.

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Background Documents	None
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