AYLESBURY VALE ESTATES BUSINESS PLAN 2017/18

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 2017/2018 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 – 3 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 - currently Cllr Whyte, Teresa Lane (Commercial Property and Regeneration) and one Cllr vacancy following the recent resignation of Cllr Rand). 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.

3.4 The Business Plan is a critical document. 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

3.5 Once approved, the Business Plan provides the framework within which the AVE 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.

3.6 The draft 2017/2018 Business Plan is attached in the confidential pages as Appendix 1. Members are asked to note that in the past, AVDC has retrospectively approved the Business Plan but the timetable for consideration of the 2017/2018 Plan has been significantly brought forward to enable any forecast distributions or other financial implications for AVDC to be reflected in the 2017/2018 budget. References to performance in 2016/2017 or issues occurring, are therefore only up until the end of September 2016.

3.7 The AVE cash flow is attached as Appendix 2 and the Hale Leys Business cash flow as Appendix 3.

3.8 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. Members will see that in Section 3 Financial and Investment Strategy, a ‘What if’ sensitivity analysis has been undertaken to assess the impact of both an upside and down side situation on each of the key assumptions in the cash flow based on the 2019/2020 financial position.

Summary of key issues in the Plan

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

Looking back

Over the last 12 months, the following progress has been made:

<u>Distributions</u>

- During the 2016/17 Financial Year a distribution was made as a result of the Pembroke Road sale to AVDC and a further smaller distribution has been forecast to occur before the end of the financial year. However, before authorising this further distribution the Board will need to be confident that sufficient progress has been made on the major projects in this Business Plan.

<u>Assets/developments</u>

- Signed contracts to develop a turnkey office building for the Kennel Club headquarters on the Gateway site resulting in a profitable land sale and a developer's profit. So far the project is ahead of budget and will be delivered to the Kennel Club on time.
- The Phase 1 Gateway affordable housing development by VAHT is still not completed but work is again progressing after a change of contractors.
- Commissioned roofing works at Edison Road and Bessemer Crescent to improve the stock for existing tenants and reduce vacancies.
- 26- 28 High Street Winslow - A full planning application for a change of use is being progressed.

<u>Key Performance Targets</u>

- The vacancy across the entire portfolio as at 30 September 2016 was 11.8%, down from 13.3% at the end of the previous financial year. The portfolio remains on track to hit its 2016/17 financial year end vacancy target of 9.2%.
- The total return of the portfolio over the 12 months to 31 March 2016 was 8.0%. Since inception, investors have received an annual return of 14.7% (assuming set up costs are spread evenly over the period of the JV).
- Total budgeted portfolio income for the financial year ending 31 March 2016 was variance to budget of less than 1% which is well within the KPT limit of +/-10%. For the first 6 months of 2016/17, actual income received is ahead of budget.
- Bad debts written off in the 2015/16 financial year, equating to 0.1% of total rent collected against the KPT limit of 0.2%.
- The 3-month collection rate for the portfolio for the September 2016 quarter was 95%. This outperforms the 3 month KPI of 90% but falls short of the 3 month KPT of 97%. The 12-month collection rate was 99.3%, outperforming the 12 month KPI of 95% but again falling only slightly short of hitting the 12 month KPT of 100%.
- The Loan to Value as at 31 March 2016 was 72.19%, below the maximum limit of 75%.

Looking forward

- There is an opportunity to dispose of non-income producing sites and together with income expected from other asset management projects, use the receipts to help grow the portfolio and increase revenue flows through reinvestment. The three-year business plan has been designed to take the portfolio to a position where these revenue flows can cover all running costs, asset enhancements and amortisation and leave a surplus for distribution to Members on an ongoing basis.

- The proposal is to invest AVE capital alongside new commercial debt to secure new assets. All new investment is assumed to deliver a net 8% income return on equity.
- The delivery of an ongoing annual distribution of £400,000 to Members is one of the key aims of the business plan. Members will need to appreciate that the quantum and timing of distributions in the short term may need to be flexible to achieve the long term aim of a robust positive net income stream and sustained annual distribution.
- Target forecast vacancy for the portfolio at the end of the 2017/18 financial year is 8.1%, which is a significant improvement on the vacancy position as at 30 September 2016 of 11.8%. Akeman is confident this forecast reduction can be achieved as the portfolio benefits from the asset improvements made to the portfolio during the 2016/17 financial year. The Raban's Lane area now has the best broadband in town, better CCTV security and a vibrant tenant line up whilst still having the lowest estate charge and competitive rental levels.
- The key focus of Hale Leys over the coming three years is to achieve 100% occupancy with longer-term leases and strategic lease renewals, and to continue to increase the rental income and reduce debt write-off.
- The financial target is to generate enough surplus annual income which after all costs and amortisation can be used to cover distributions to the Members. The AVE board will review other cash needs within the portfolio and set distributions each year at a level that does not hamper portfolio performance.
- As part of an ongoing review of expenditure, fees to external consultants will be benchmarked against other market providers.
- Section 7 sets out the key performance indicators and targets for AVE. The indicators are a fixed part of the Members' Agreement and are not subject to amendment. However, it is possible to add/amend the targets and a review of the current ones will take place and once finalised, will be attached to the Plan as an addendum.

Commentary on 3.9

3.10 A number of important asset management initiatives are now underway including the refurbishment of parts of the Raban's Lane multi-let industrial estate. These works are essential both to retain tenants, and compete with other unit providers so that all units can in time be fully met at market rent. The impact of the work has already been felt with demand for units increasing. Other improvements to the site eg providing broadband and CCTV have been exceptionally well received.

3.11 Two other schemes, the new headquarters of the Kennel Club and the VAHT affordable housing scheme – both at Gateway are progressing and once complete will result in income receipts to AVE. There is, however, some out going expenditure related to these sites in the form of Section 106 payments.

3.12 The question on whether a distribution to Members will be made as proposed in the 2016/2017 business plan (over and above the unexpected one made as a result of the Pembroke Road sale) is not yet clear. It will be disappointing if this does not materialise, as generating an annual distribution for Members was one of the key objectives when the Partnership was formed. However, operating costs, interest, amortisation and the costs of completing the improvement works, all have to be covered first.

3.13 Whilst there are many positive points to report, the future financial prospects are now heavily dependent on the sale and re-investment of receipts and new income producing assets This dependency and the lack of liquidity in the vehicle does give cause for concern. The risks are reflected in the downside case included within the Business Plan and should this materialise, the Council's prospect of receiving a return will be adversely affected.

4. Resource implications

4.1 Cashflow analysis supporting the Business Plan is set out in the confidential pages - Appendices 2 and 3.

4.2 The efficient running of the portfolio will remain a focus and in 2017/2018, a range of fees will be benchmarked to ensure value for money is being achieved. The benchmarking and market testing is a formal requirement of the Members' Agreement. It is overdue in some areas and AVE will be asked to bring this exercise forward if possible.

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Background Documents: AVE Business Plan 2016/2017
AVE Business Plan 2017/2018