

**PROPOSED COMMERCIAL PROPERTY INVESTMENT STRATEGY**  
**Councillor Bowles**  
**Deputy Leader and Cabinet Member for Commercial Property &Regeneration**

**1 Purpose**

- 1.1 The purpose of this report is to invite Cabinet allow to recommend Council to approve a Commercial Property Investment Strategy, and the proposals for its funding and implementation.
- 1.2 The Strategy has been developed to support the Council's commercial agenda to generate new streams of income to help offset the significant cuts to Government funding and finance the continued delivery and investment in services to the local community. Its modelled on an ten year plan.
- 1.3 A similar report has been prepared for the Finance and Services Scrutiny Committee and any comments will be reported orally to the Cabinet.

**2 Recommendations**

That Council be recommended to:-

- (1) Approve the proposed Commercial Property Strategy described in this report, including a capital fund of £100m to be met from borrowing from the Public Works Loans Board, and a revenue budget of £100k from the New Homes Bonus (NHB) Fund, both to be reimbursed, together with the objectives, investment criteria and governance arrangements set out in Appendix 2 (contained in the confidential section of this agenda).
- (2) Approve the necessary changes required to the current approved and operational borrowing limits as set out in the Treasury Management Strategy, in order to accommodate the increased prudential borrowing requirement as set out in this report.
- (3) Authorise the Chief Executive in conjunction with the Director with responsibility for finance, and after consultation with a Panel comprising the Leader and Deputy Leader of the Council, the Cabinet Member for Finance, Compliance and Resources and one Member to nominated by the opposition groups represented on the Council, to approve expenditure within the overall limit of the Strategy, subject to them being satisfied with the business case and risk assessment.
- (4) Require the officers to bring annual reports to Cabinet, the Finance and Resources Scrutiny Committee and Council on the progress of the Strategy and also to provide whatever information might appropriately be included in the Quarterly Financial Digest.

**3 Executive summary**

- 3.1 The overall aim of the Strategy is to acquire and build a commercial property portfolio that generates income for the Council using a strong, stable, financial model with an acceptable degree of risk. Commercial income generated from property acquisitions will be used to help fund the delivery and enhancement of services to the local community and support the delivery of the district's growth.

- 3.2 To do this, the primary objectives of the proposed Strategy are to:
- Create a diverse portfolio with a range of risk, returns and property uses.
  - Provide security of income by the strength of covenant and length of lease.
  - Have a focus on high growth prospects of the district with some development risk.
  - Meet the commercial aim and if possible utilise and lever the knowledge, existing assets base and expertise of the Council to invest in ways which support the strategic growth of the Vale.
- 3.3 The above objectives have enabled a number of parameters and guidelines to be developed to ensure that proposed acquisitions meet one or more of the objectives. These parameters and guidelines are set out in Appendix 2 (Attached in the confidential part of the agenda).
- 3.4 The proposal is for a property acquisition capital fund of £100m sourced from a loan from the Public Works Loan Board. An additional revenue sum of £100k is also requested to support the fees needed as part of the acquisition process e.g. agents, legal and stamp duty. These fees would be deducted from the purchase price to give a NET yield against the purchase price and recovered from the income over time.
- 3.5 Depending on the number of assets acquired, the in-house asset management capacity needed to manage the asset after acquisition will be reviewed. Each acquired asset will require an asset management plan and any additional capacity needed to deliver this, will be factored into the business case for acquisition and recovered from the income over time.
- 3.6 Strong governance is needed coupled with agile decision making to ensure that suitable opportunities which come to the market, can be effectively bid for. It is therefore proposed that a Commercial Property Investment Panel is established to consider the business cases put forward for acquisition (and disposal) for any property with delegated authority given to the Chief Executive in conjunction with the Director with responsibility for Finance and after consultation with the Panel.
- 3.7 The Strategy and performance against the objectives would be reviewed annually by the Financial Services Scrutiny Committee, Cabinet and Council with a high level summary report being included in the Quarterly Financial Digest.
- 3.8 Town centre developments or other developments which have a stronger orientation towards regeneration/place making are not included in the Strategy which is purely commercially driven.
- 3.9 The Council already owns a number of commercial assets and the intention is that, if approved, these assets and their performance would be measured against the Strategy and the objectives to inform decisions about their future.

## 4 Supporting information

- 4.1 The specific supporting information used to shape and develop the Strategy is set out in Appendix 1 (also attached in the confidential section of the agenda).
- 4.2 AVDC has an established interest in property. It currently owns and manages a range of properties – from industrial units at Pembroke Road to its former offices at 66 High Street. These properties generate an income offset by the asset management costs and any capital repayment. AVDC is also a 50% owner of Aylesbury Vale Estates which was set up as a joint venture with Akeman LLP in 2009. Whilst the recession during that period proved challenging, the value of the portfolio has grown and both the Council and the private investor have now received a dividend payment. Further dividends are forecast alongside the investment of capital receipts in new properties to generate further revenue.
- 4.3 AVDC has also in recent years built a number of properties in Aylesbury town centre. These include Waitrose, Travelodge, and the University Campus Aylesbury Vale. AVDC will also own and receive a rental income from the commercial space which forms part of phase one of The Exchange (formerly known as Waterside North) currently under construction. These assets as opposed to those described in paragraph above, are orientated towards the Council's leading role in place shaping and regenerating the town centre. They generate income through rental but the benefits of their provision and therefore, the reason for AVDC investment, is wider than purely commercial. By helping to generate footfall and confidence in the town, these new services have, for example, acted as a catalyst for investment in the Friars Square Shopping Centre, attracted new restaurant operators and encouraged the conversion of long term empty office space to homes.
- 4.4 Property is increasingly proving to be an attractive way to generate income due to the ways that risk can be managed, its long term nature, and stable cash flow characteristics. The Council's ability to access the Public Works Loan Board to borrow capital at favourable rates, additionally provides the opportunity to maximise its return on capital investment. Whilst AVDC intends to continue its partnership in AVE, the Strategy provides an opportunity to enhance the Council's existing portfolio and have direct control over the financial benefits it can deliver.
- 4.5 The Strategy set out in Appendix 2, has been developed with the support of Montagu Evans, leading experts in the property sector.

Many councils have recently turned to property investment to support their budget. Some have made investments without going through the rigorous process of understanding what the objectives of the strategy are and setting clear parameters to make sure that acquisitions, help meet those objectives. This has resulted in reputational damage to those councils and extended scrutiny of those council's overall ability to effectively manage budgets and deliver services. The input of Montague Evans with their experience in the market both in the private and public sector community, has helped shape a Strategy which avoids the mistakes which other council's have made and has clarity, strong governance, and a clear delivery plan.

## **5. Resource implications**

- 5.1 The capital (£100m) and revenue (£100k) resource implications of the Strategy are set out in the recommendations.
- 5.2 If approved, changes will be required to the Treasury Management Borrowing limits for 2017/18 and reference is made to this within the report on Treasury Management appearing elsewhere on this agenda.
- 5.3 It should be noted that the purpose of the Strategy is to generate an income stream for the Council so it is expected that over the 10 year life of the Strategy, the capital and revenue expenditure will be recovered leaving a net income.

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Background Documents

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None