

## 1 Purpose

- 1.1 To give the Committee the opportunity to consider a draft Business Plan prepared by Aylesbury Vale Estates LLP (AVE) for 2018 – 2021 and to pass their comments on to Cabinet.

## 2 For decision

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| 2.1 Whether the Committee wishes to make any comments on the draft Business Plan (set out at Appendices 1 – 3 in the confidential pages of this report) for consideration by Cabinet. |
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## 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 three representatives - currently Cllr Whyte, Cllr Julie Ward and Teresa Lane (Assistant Director Commercial Property and Regeneration). Akeman Asset Management LLP (the appointed Asset Managers) 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 Management.
- 3.3 The Partnership Members' Agreement requires AVE to update the Business Plan on an annual basis for approval by the shareholders. In the case of AVDC this is through Scrutiny and Cabinet.
- 3.4 The updated 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 attached draft Business Plan is in the confidential pages as Appendix 1. It covers the period 2018 – 2021 with the detail focus on the 2018/2019 financial year. Members are asked to note that in order to reflect any consequences of the AVE Business Plan in the AVDC budget setting, the timing of this report means that the attached business plan can only review performance of the 17/18 Business Plan for the period 1 April – 30 September 2017. A full review of the 17/18 performance, will, therefore, be reported to the June 2018 Scrutiny and Cabinet meetings.
- 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 plans of tenants and trends in 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.

### ***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 summarising in this covering open report. The financial information relating to the asset management initiatives /developments are contained within the confidential pages.

### **Looking back**

#### Distributions

- In the first quarter of 2017/2018 a distribution of £580,000 (shared between the two partners) was made against an agreed distribution of £400,000.

### Asset management initiatives /developments

- Sales of low income generating assets – High Street Winslow, Cornwall's Meadow, and Mitre Street, Buckingham were completed.
- The Kennel Club headquarters at The Gateway site was completed within time and budget delivering a net profit to AVE.
- The Phase 1 Gateway affordable housing development by AVE was finally completed. The delay had a negative financial impact on AVE and the Section 106 payments which it is seeking to reduce through negotiation.
- Lidl signed a contract with AVE to buy and build a store on the front part of the Askey's site. The final sale price will depend on the final scheme getting planning approval and any conditions attached particularly in respect of highway improvement work.
- Roofing works at Rabans Lane were completed in July 2017 generating an increase in occupancy and rental income.
- Following Sony serving notice in January 2017 to break their long lease, discussions are on-going with the occupier of the site, Cinram. AVE is also considering the longer term potential of the site.
- New signage has been erected on the Rabans Lane multi-let industrial site and a new website has been designed with the launch imminent.

### Key Performance Targets

- The vacancy across the entire portfolio as at 30 September 2017 was 3.4%, down from 5.6% at the end of the previous financial year. The portfolio remains on track to hit its 2017/18 financial year end vacancy target of 8.1%.
- The total return of the portfolio over the 12 months to 31 March 2017 was 16.64%. Since inception, investors have received an annual return of 15.3% (assuming set up costs are spread evenly over the period of the Partnership).
- Total budgeted portfolio income for the financial year ending 31 March 2017 was less than 1% variance on the forecast and so well within the +/-10% permitted. For the first 6 months of 2017/18, actual income received is 4.15 ahead of the forecast budget.
- No bad debts have been written off in the first quarters of 2017/2018.
- The 3-month collection rate for the portfolio for the September 2017 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 99.9%, 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 – 1 April 2018 onwards**

