

AYLESBURY VALE ESTATES
Councillor Bowles
Deputy Leader and Cabinet Member for Economic Development

REPORT A – TRANSFER OF THE AVDC SHAREHOLDING TO THE BUCKINGHAMSHIRE COUNCIL ON 1 APRIL 2020

1 Purpose

- 1.1 This report explains what will happen to Aylesbury Vale Estates (AVE) on 1 April when the new Buckinghamshire Council comes into being

2. For decision

- | |
|--|
| 2.1 Cabinet is asked to note that on 1 April, the AVDC shareholding in AVE LLP will transfer to the new Buckinghamshire Council alongside the Members' Agreement and Loan Agreement which together set out how the joint vehicle will operate. |
|--|

3. Supporting information

- 3.1 AVDC is currently 50% owner of AVE LLP. The other 50% is owned by private investors. On 31 March, AVDC will cease to exist and on 1 April Buckinghamshire Council will come into being. In order for AVE to continue to operate, AVDC's interest in the joint venture will need to transfer to the new council. How the joint venture operates is enshrined in a Members' Agreement together with a Loan Agreement. These too will transfer.

- 3.2 AVDC is currently represented on AVE by two councillors and an officer. From 1 April it will be for the new council to decide who its representatives are going forward.

4. Resource implications

- 4.1 Some legal work will be required to transfer the AVDC interest. The costs of this will be met from the unitary workstream budget set aside for changes required for all the companies the five different councils have an interest in.

REPORT B – The AVE DRAFT BUSINESS PLAN FOR THE PERIOD 2020 – 2023.

1. This report gives a high level summary of the draft Business Plan prepared by Aylesbury Vale Estates LLP (AVE) for 2020 – 2023. The full draft of the Business Plan together with the financial cash flows is set out in the confidential pages of the report.
2. Akeman Asset Management, who are appointed by AVE to manage the portfolio, will present the business plan to Cabinet and answer any questions members may have.

3. For Decision

- | |
|--|
| 3.1 Cabinet is asked:-

(i) comment on the draft business plan so that Akeman Asset Management can feedback AVDC's views to the private investors for consideration. |
|--|

- | |
|--|
| (ii) Agree how the views of the Economy and Business Development Scrutiny Committee can be sought (next meeting 21 January 2020) and fed back to Cabinet and then AVE. |
|--|

4. **Context of the Partnership**

- 4.1 AVDC and Akeman Partnership LLP (Akeman) set up AVE as a Limited Liability Partnership (LLP) in October 2009. The selection of the Council's private sector partner (who make up 50% of the Partnership) followed a competitive dialogue procurement process and upon completion of the agreement the Council sold the majority of its industrial and commercial estate to AVE LLP at market value.
- 4.2 The original objectives of AVE (which remain) were to:
1. To improve, repair (if applicable) and maintain the Property
 2. To enhance, maintain and improve AVDC's income stream generated from the Property:
 3. To positively influence and promote development and economic growth in the Area through the development, improvement and maintenance of the Property, together with pro-active asset management.
- 4.3 The Partnership is governed by a formal, detailed 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 against the original objectives and Business Plan and monitor performance of the appointed Asset Managers.
- 4.4 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 this Scrutiny Committee and Cabinet. The private sector partner have their own separate mechanism for reviewing and agreeing the business plan and this process is complete by the time the draft Plan is considered by the Scrutiny Committee. Any amends to the Business Plan after consideration by AVDC's committees, have also to be agreed to by the private sector partners. To date this process has not presented any difficulties.
- 4.5 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
- 4.6 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 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 Partnership LLP – the private sector partner..
- 4.7 The draft Business Plan is contained within the confidential pages as Appendix 1. It covers the period 2020 – 2023 with the detail focus on the 2020/21 financial year. Members are asked to note that in order to reflect any consequences of the AVE Business Plan in the 2020/21 AVDC budget setting, the timing of this report means that the attached business plan can only review performance of the 19/20 Business Plan for the period 1 April – 30 September 2019. A full review of the 2020/21 performance, will be a matter for the new unitary council.
- 4.8 The AVE cash flows based on different scenarios are attached as Appendix 2 and the Hale Leys cash flows are attached as Appendix 3.
- 4.9 Members are asked to note that 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 throughout the Plan, a ‘base case’ Business Plan is presented on the assumption that certain scenarios are likely to occur. An ‘enhanced case’ is also presented for the AVE portfolio (but not Hale Leys) but on the understanding that these scenarios whilst possible, are less likely to occur. A ‘downside scenario is also included for both the AVE portfolio and Hale Leys.
- 5. Summary of key issues in the Plan**
- 5.1 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.

Strategy

The strategy to achieve the core aims was as follows:

- Sale of high value land with low income
- improved planning consents to maximise land value of low-income sites, for either development or sale and reinvestment
- Pay off expensive debt in order to reduce cost of finance and de-risk the portfolio
- Reduce amortisation, which soaks up surplus income
- Target a distribution of £600,000 pa
- Occupancy levels:
 - Maintain high levels of vacancy within the industrial portfolio
 - Maintain current tenants at Hale Leys, let vacant units and improve future income stream

Sale of high value land with low income

- Stocklake – The long-awaited sale to Lidl for part of the Stocklake site completed in April 2019.
- Adams Close, Buckingham – After the Scouts departed, the site sale completed to Brickhill Properties in July 2019. Development is underway for 4 x 3 bed houses.
- Gateway Phase 2 – contracts for sale of this site have been exchanged with Sorbon Estates subject to obtaining detailed planning permission. Anticipated completion is January 2020.

Distributions

- The timing of the distribution for 19/20 and the amount (included in the cash flow as £600k – 50% for each partner) is dependent on the delivery of a number of asset management initiatives. AVDC has included in its own revenue budget a more cautious forecast of £200k. AVE are currently on track to pay the £600k dividend as planned but this will be kept under review. The timing of the distribution is likely to be in the last quarter of the 19/20 financial year.

Occupancy levels

- The multi-let industrial estate has seen an unprecedented demand for units and as at end of September the vacancy level was 2%. Various asset management initiatives to improve the estate ranging from new signage, new quarterly tenants meetings, and completing works to refurbish the units, has continued to contribute to the demand for the units. 11 new leases and renewals have been completed since 1 April 2019.

The Edison Workspace has been upgraded and refurbished significantly reducing running costs. More work is planned to further improve the look of the premises.

- Hale Leys, like all other shopping centres in sub-regional towns similar to Aylesbury's size, has continued to feel the pressure of the internet. The main casualty at Hale Leys was Brighthouse which has closed will continue to pay all occupational costs until February 2020.

A CVA was agreed with Accessorize and Thomas Cook went into liquidation in September. However, discussions with Hays travel to take over the unit are expected to be concluded shortly.

A number of new tenants are trading. Bargain Buys, and Bar Noosh. In addition Stay and Play opened in November. The Manor House restaurant and roof top terrace bar is expected to open in early 2020 are extensive fit-out works.

Key Performance Targets

- The vacancy across the entire portfolio as at 30 September 2019 was 7.1% (23.1% Hale Leys and 2.0% AVE portfolio). The year end overall target vacancy is 9.28% (3.4% for AVE and 27.7%). Letting Hale Leys will, therefore remain the focus so that AVE can achieve an overall year end target of 3.0%.
- The total return of the portfolio over the 12 months to 31 March 2019 was -1.4% due to the loss of value on Hale Leys. The independent valuation of the whole portfolio takes place at each year end but since inception, investors have received an annual return of 11.5%. This figure is derived from the net increase in asset value plus distribution and assumes set up costs are spread evenly over the period of the Partnership.
- The budgeted portfolio income for the financial year ending 31 March 2019 was exceeded by a positive 1% variance on budget.
- The 3-month collection rate for the whole portfolio for the September 2019 quarter was 90.5% just meeting the 3 month KPI of 90%. The 12 month collection rate was 98.6%, outperforming the 12 month KPI of 95%.
- The Loan to Value as at 31 March 2019 was 72.2%, just below the maximum limit of 75%.

Looking forward – 1 April 2020 onwards

- 5.2 The core aims remain the same in line with the original objectives agreed in 2009:
- a. Increased investor revenue flows; and
 - b. Support for the Council's economic development programme
- 5.3 The key strategies identified in order to achieve these core aims for 2020/2023 are in summary:

- Sale of high value assets with low income, for reinvestment into higher income assets
 - Pay off expensive debt in order to reduce cost of finance and reduce amortisation
 - Target a distribution of £600,000 pa
 - 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 community assets and sell/develop where possible (subject to AVDC approvals required).
- 5.4 As in 19/20 AVE has submitted both a base case and an enhanced case for the 2020/2023 Business Plan period for the AVE portfolio. However, in addition, a 'downside scenario has been included to reflect some concerns around the security of a key tenant. The strategies underpinning the different scenarios are set out in the confidential pages of the report but all set out the aim of paying off expensive debt to take the portfolio to a position where the revenue flows from rent alone can comfortably cover all running costs, asset enhancements and amortisation and leave a surplus for distribution to investors on an ongoing basis - one of the core aims.
- 5.5 Whilst it is excellent news that there is now only one vacancy on the multi-let industrial estate, the relationship development plans now in place will be important in ensuring that leases coming up for breaks or expiries are renewed at favourable terms.
- 5.6 AVE's plans to redevelop the Stocklake site are understood to include a large element of new industrial space. This is to be welcomed not only because of the income stream it could generate but the employment opportunity it could deliver on that side of town which would hopefully at least replace the employment lost from the Askey's closure.
- 5.7 Clearly the retail market and the vacancy rate within Hale Leys continues to be a concern. The different uses appearing in the Centre are creating successful diversification but this work needs to be on-going to help preserve and increase rental income and protect the Centre from any further fall in valuation.
- 5.8 AVE's intention to review the assets which are classified as either non-core or community assets, is noted. After consideration by the Board, AVE will be expected to seek formal approval from AVDC for the disposal or change of use of any assets where required by the terms set down in the Members' Agreement.
- 5.9 The key performance targets (KPTs) and indicators are predetermined and form part of the Members' Agreement for the Partnership so in this respect they do not change. However, shareholders are able to suggest additional KPTs and whilst these cannot be used technically to evaluate performance and effect for example, the Asset Management fees paid, they are required to be measured and reported to the Board. There are a number of KPT's in this category which are set out in Section 7 of the Business Plan.

6. Resource implications

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

Contact Officer Andrew Small 01296 585006

Background Documents AVE Business Plan 2019/2020
AVE Business Plan 2020/2023