

# **ECONOMY AND BUSINESS DEVELOPMENT SCRUTINY COMMITTEE**

**3 September, 2013**

**PRESENT:** Councillor Miss P Lewis (Chairman), Councillors Mrs Bloom, Mrs Davies, Mrs Glover, Hawkett, Lambert, Monger, Mordue, Mrs Phipps, Poll, Richards, Strachan, Stuchbury and Tyndall.

1. **APOLOGY:** Councillor M Smith.

2. **MINUTES**

RESOLVED –

That the Minutes of the meetings held on 4 and 26 June, 2013, be approved as correct records subject to the inclusion of Councillor Patrick being inserted in the list of attendees at the 26 June meeting.

3. **AYLESBURY VALE ESTATES – UPDATE ON PERFORMANCE**

Philip Ingman and Graham Cole (Akeman) both tendered apologies for this item.

Members received a report and a comprehensive, confidential, but still draft, Business Plan that provided Members with an update on annual performance and the business strategy to be adopted for the forthcoming year.

Following consideration by this Committee the draft Plan, together the Committee's comments will be reported to Cabinet on 22<sup>nd</sup> October.

The Committee was reminded that AVE (Aylesbury Vale Estates LLP) had been incorporated in October 2009 and was owned 50/50 by the Council and Akeman LLP with the partnership governed by a formal Membership/Partnership Agreement and an Asset Management Agreement.

The Council's representation on the Partnership Board consisted of the Deputy Chief Executive and AVDC Members Bowles and Rand.

The Members' Agreement required the Business Plan to set out AVE's objectives for the life of the Partnership (i.e.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 was 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.

The draft Business Plan tabled at the Board meeting in April and attached as confidential Appendix 1, was accompanied by an Asset Management Strategy and detailed plan for each portfolio asset. The Asset Strategy was included as confidential Appendix 3. A three year budget forecast was also attached as confidential Appendix 4.

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 made up about a quarter of the total portfolio value of AVE, hence it had its own dedicated business plan, attached at Appendix 2.

Once approved the Partnership Business Plan provided the framework within which the Partnership Board works. Accordingly if the Board wished to pursue any substantive action which was 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.

From October 2014, as per the original Members Agreement, AVE is permitted to repay in full the five year mezzanine loan provided to it by AVDC at 20% interest. Doing so would have beneficial consequences for AVE and, as a 50% shareholder, the Council would also benefit from, but there would be shorter-term detrimental consequences to the Council's general revenue budget.

A five year term for the mezzanine loan was agreed as it was believed at the time that, by 2014 the commercial property recession might largely be over, and the portfolio rental income should have grown back to a point where dividend income returns to the council could replace the loan income derived from this mezzanine debt.

From AVE's perspective, the mezzanine loan note is at a cripplingly high rate of interest, and it made absolute commercial sense to repay this at the earliest opportunity.

From the Council's perspective, AVE's repayment of the mezzanine loan would generate a sizeable capital receipt but would leave a sizeable hole in the Council's revenue budget in the short term.

The key objective of this business plan was for the company to continue to pursue a policy of disposal of non-strategic assets generating low returns (principally long ground leases), in order to accumulate sufficient capital to repay the mezzanine loan in full at the earliest opportunity in October 2014. Further than this, the company intended to generate surplus cash than that strictly needed to repay the mezzanine debt, in order to pursue the policy of asset acquisitions to risk balance the portfolio in the manner described above.

The Committee were therefore invited to consider and comment on the draft Plan.

Members were generally supportive of the direction of work being carried. However, there were a number of issues concerning which Members expressed a view on or commented generally, including the following:-

- Members emphasised the importance of ensuring that all documents produced, especially spread sheets containing lines of figures, are produced at a size that makes them readable.

(All future documents of this nature would be printed on A3 size paper.)

- Some Members expressed the view that it was unacceptable the Akeman were unable to send any representative to the meeting.
- A request was made for the Councillor Board Members on AVE to be asked to attend future meetings.
- Members were interested to note AVE's intent to dispose of non-strategic assets but asked that caution be exercised on the disposal of "community assets" and to ensure that assets were not disposed of at prices below their community value.

Members were advised that AVDC's view was to focus on income rather than capital receipts and to have core estates of commercial assets with opportunistic peripheral properties without the burden of existing low ground rent properties that did not give the required return. The sale program therefore focused on repaying the existing loan and realising investable capital for potential assets within or adjacent to the Vale that offered longer lease opportunities.)

- Comments were made that the Business Plan should have a reference to the strategic aim of improving the prosperity of the Vale.
- Members were of the view that, whilst AVE could not be forced to take up a further loan, AVDC should look at ways of providing a loan that would be of benefit to both parties.

- Reference was made to the amount of focus being made to the loan situation rather than placing more emphasis on the Business Plan, how AVDC will react to the impending funding gap and their strategies for future years.
- Comments were made on the strategy for achieving revenue rents from tenants with charity status and the situation on discussions for the future of the Pembroke Road estate.
- Members were pleased to hear that AVE was forecasting growth from their retail assets but had concerns regarding the amount tenancies that were due to expire within the next two years.

RESOLVED –

That the Economy and Business Development Scrutiny Committee note the report and Business Plan submitted and recommend to Cabinet that the Plan be agreed because “The Business Plan is acceptable, forward looking and offers long-term benefits to the community and this Council”.

## 5. SKILLS PROVISION

Members received a short report to update Members on the progress made by the Task and Finish Group following the meeting on 4 June 2013.

Following the discussion at that meeting, it was agreed that a Task and Finish Group be established to help take forward the issues highlighted in the Skills Report and the various presentations received regarding this matter.

The Task and Finish Group met on the 30 July and the notes and key issues were attached as appendices to the report. The group comprised Cllrs Lambert, Miss Lewis, Monger, Mordue, Richards, and Stuchbury.

The group proposed that there could be a number of actions that could be taken forward grouped under three key themes:

- A skills and employment conference
- Advertising/promotional campaign and
- Partnership working

Members were conscious of the limitations to their remit and issues beyond the control of Aylesbury Vale District Council. With this in mind it was decided to go ahead with a skills and employment conference targeted at young people with strategic input from some of Aylesbury Vale District Council’s prominent partners.

Advice was given on the work currently being carried out by the LEP Skills Group on which most partners had a representative and the opportunities to AVDC if the Economy and Business Development Committee could become involved.

Following further discussion it was –

RESOLVED –

That the Committee notes the progress made by the Task and Finish Group and asked that a further meeting of the Group be arranged with representatives of the LEP Skills Group invited to attend.

## **6. ECONOMY SCRUTINY COMMITTEE - WORK PROGRAMME 2013 - 2014**

A Work Programme for the period to end March 2014 was presented for Members approval. Following a short discussion it was

RESOLVED –

That the Work Programme as presented be approved with the following amendments:-

1. The Major Employment Sites report for 28 October 2013 to be moved to the 29 January 2014 meeting.
2. The report on the Aylesbury Vale Visitor Economy Action Plan to be moved from the 28 October to the 11 December 2013 meeting.
3. A Skills Update report to be inserted for the 28 October meeting.
4. Insert a report on LEPs for 28 October 2013.

Following a short discussion it was

RESOLVED –

- That an further meeting of the Economy and Business Development Scrutiny Committee Working Group be convened as soon as possible.
- That the Work Programme as presented be amended to include the above and items re-allocated to balance the programme between the meetings