AYLESBURY VALE ESTATES BUSINESS PLAN 2019/122 Andrew Small

1 Purpose

1.1 To give the Committee the opportunity to consider a draft Business Plan prepared by Aylesbury Vale Estates LLP (AVE) for 2019 – 2022 and to pass their comments on to Cabinet for consideration.

2 For decision

2.1 To agree the comments the Committee wishes to make on the draft Business Plan (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, 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.

3.2 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.

3.3 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.

3.4 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.

3.5 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

3.6 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..

3.7 The draft Business Plan is contained within the confidential pages as Appendix 1. It covers the period 2019 – 2022 with the detail focus on the 2019/20 financial year. Members are asked to note that in order to reflect any consequences of the AVE Business Plan in the 2019/20 AVDC budget setting, the timing of this report means that the attached business plan can only review performance of the 18/19 Business Plan for the period 1 April – 30 September 2018. A full review of the 2018/19 performance, will, therefore, be reported to the June 2019 Scrutiny and Cabinet meetings.

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

3.9 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 in Section 3, a 'base case' Business Plan is presented on the assumption that certain scenarios are likely to occur and an 'enhanced case' is also presented but on the understanding that these scenarios whilst possible, are less likely to occur.

The 2018/19 Business Plan was presented on a 'base case' only.

4. Summary of key issues in the Plan

4.1 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.

Progress against the 2018/19 Business Plan

Distributions

- AVE is on track to make the planned £600k distribution to its Members ie £300k each. The timing of the distribution is likely to be in the last quarter of the 18/19 financial year following the capital receipt from the sale of one of its high value, low income generating assets for development.

Asset management initiatives/developments

- Sales of other low income generating assets have been completed or are underway- Aylesbury Town Hall Arches has been sold to Bucks County Council. The sale of the former Scout Hut site in Adams Close, Buckingham is pending subject to achieving planning permission. Both these sales were approved by AVDC Cabinet in line with the Members' Agreement and the governance procedures for the sale of either non-core assets or community assets.
- Lidl signed a contract with AVE to buy and build a store on the front part of the Stocklake site partly occupied by Askeys. The application was considered in August 2018 and was deferred with approval delegated to officers pending the resolution of some conditions, the key one relating to traffic management. The final sale price will be determined when approval is granted.
- Contracts have been exchanged with a residential developer for the area of land known as Gatehouse phase 2. A reserved matters application was submitted in August 2018 and is still being dealt with. As with the Stocklake site, the final sale price will be determined when the reserved matters which are the responsibility of AVE have been discharged.
- Whilst it is good news that a new lease is in place with Cinram Novum Ltd for the Sony site, progress has been made on the longer term plans for redevelopment of the site for commercial//residential. A planning application is expected to be submitted in early 2019.
- New signage has been erected on the Rabans Lane industrial estate and a new website has been designed with the launch imminent.

Occupancy levels

- The multi-let industrial estate has seen an unprecedented demand for units and as at end of September the vacancy level was 2.1%. Various asset management initiatives to improve the estate ranging from new signage (as referred to above), new quarterly' tenants meetings, and completing works to refurbish the units, has contributed to the demand for the units.
- As a reflection of the demand, 2018/19, has seen a focus (as agreed) on reducing the non-commercial tenants occupying space on the estate. Several community organisations occupying space on a 'free basis' until demand increased were offered the opportunity to stay and pay the market rate discounted or move. Whilst the AVE Board appreciated the important work these community groups contributed, its overriding obligation was and is to meet the objectives set out in the Members' Agreement.
- 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 and during this financial year, a number of tenants have been persuaded to relocate to Friars Square Shopping Centre including Clarks and Vision Express. The Asset Managers are working hard to let the vacant units and reduce the vacancy from the 23% recorded at the end of September.

Key Performance Targets

The information below is a combination of 2017/18 year end performance information and part year information.

- The vacancy across the entire portfolio as at 30 September 2018 was 7.08% (23.2% Hale Leys and 2.1% AVE portfolio). The year end target vacancy is 3.8%. Letting Hale Leys will remain the focus but the challenge to enable this target to be met. .
- The total return of the portfolio over the 12 months to 31 March 2018 changed from positive from the previous year to a negative one. This was due to the difficult trading conditions in the retail market. The independent valuation of the whole portfolio takes place at each year end but since inception, investors have received an annual return of 12.7% (assuming set up costs are spread evenly over the period of the Partnership).
- The budgeted portfolio income for the financial year ending 31 March 2018 was exceeded by 1.4% and AVE is on target to meet its income target for 2018/2019.
- No bad debts have been written off to date in 2018/19 although it is noted that a number of payment plans are in place..
- The 3-month collection rate for the portfolio for the September 2018 quarter was 91.7%. 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 falling slightly short of hitting the 12 month KPT of 100%.

- The Loan to Value as at 31 March 2018 was 72.2%, just below the maximum limit of 75%.

Looking forward – 1 April 2019 onwards

4.2 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

4.3 The key strategies identified in order to achieve these core aims for 2019/2022 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

4.4 It is encouraging to note that AVE has submitted both a base case and an enhanced case for the 20/19/2022 Business Plan period. The details of each of the strategies under the two scenarios are set out in the confidential pages of the report. However, it is reasonable to say that from shareholders' perspectives, the ability of the Partnership to sustain the target distribution may be a challenge unless the capital receipts relating to the Stocklake and Gateway sites can be secured and preferably close to the net sales forecasts set out in the 2018/19 Business Plan. These receipts will enable AVE to deliver on some of its other strategies ie in the first instance pay of expensive debt in 2019/20 and in 2020/21, invest in new income generating properties to increase the surplus revenue available to comfortably cover operating costs.

4.5 After the sale of the two sites mentioned in Section 3 above, AVE will have almost completed its review of the portfolio and the opportunity to sell the high value, low income generating sites within the portfolio. It's therefore important that AVE continues to explore the potential for developing the former Sony site but not only from the point of view of generating a capital receipt but also as an income generating opportunity by retaining some of the site to potentially build out new commercial space to let. This would capitalise on the increased market demand for space (providing it is of the right size and type) whilst helping to support the local economy and encourage employment growth in the area. New income would also give more certainty around the distribution payment.

4.6 The management initiatives taken in 18/90 to improve the multi-let industrial estate are to be welcomed. It is hoped that AVE will continue to develop these so that relationships with tenants are further strengthened to help ensure that break clauses and lease expiries during the Business Plan period are converted (where desirable) to lease renewals.

4.7 Clearly the retail market and the vacancy rate within Hale Leys is of concern. Whilst it is accepted that much of the market position is directly outside the control of AVE, it is vital that every effort is made to secure quality tenants and help maintain the value of the Centre both in terms of its wider contribution to the town centre offer and the repayment of the debt to AVDC for purchase of the Centre.

4.8 AVE's intention to review the assets which are classified as either non-core or community assets (Section 3.6 of Appendix 1), 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.

4.9 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 8 of the Business Plan.

5. Resource implications

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

5.2 The efficient and effective running of the portfolio will remain a focus and in 2019/2020, benchmarking of a range of fees (as required by the Members' Agreement) will continue to ensure value for money is being achieved.

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Background Documents	AVE Business Plan 2018/2019 AVE Business Plan 2019/2020