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CABINET

17 DECEMBER 2019

PRESENT: Councillor A Macpherson (Leader); Councillors S Bowles (Deputy Leader), P Irwin, H Mordue, C Paternoster, Sir Beville Stanier Bt, P Strachan, J Ward and M Winn.

1. MINUTES

RESOLVED –

That the Minutes of 12 November 2019 be approved as a correct record.

2. RISK, PERFORMANCE AND FINANCE REPORT

Cabinet received a report presenting the financial digest, the Corporate Plan progress against targets and the Corporate Risk Register, which was available to view in full on the Council's web site. A similar report had been submitted to the Finance and Services Scrutiny Committee on 11 November, 2019.

Members commented generally as follows:-

- Members felt there was a need to ensure harmonisation of the risk register with those of the other authorities that would make up the new Buckinghamshire authority. Officers confirmed that this was in progress, particularly with regard to performance indicators.
- It was considered that reference should be made in the risk register to the improvement notice served on an Aylesbury property (in the wake of the Grenfell fire).
- The reference to SEMLEP should be removed from the section on growth.
- It was noted that the Bucks Growth Board, established as part of the transition to a unitary authority, was still in its infancy.
- It was felt that the wording in item 5 relating to growth should be amended to make it clear that there was clarity around engagement with communities in relation to planning issues impacting the Vale.
- There was a need to continue with the contingency planning for a “no deal” Brexit.
- In relation to the Corporate Plan, it was felt imperative that the importance of Aylesbury Vale as the birth place of the Paralympics should be emphasised to the new unitary authority as was the need to promote to that authority the importance of continuing with funding the Flame Lighting Ceremony and all other events which set Aylesbury Vale apart from other authorities in terms of community functions.
- There was a need for clarity around the data relating to the delivery of affordable homes.
- It was important to continue with the programme of review of Conservation Areas, within the context of the transition to a unitary authority.

With regard to the key financial management messages for the organisation for the remainder of the financial year, based upon the year to date financial position as set out in the latest financial digest:-

- The need to reduce agency spend and dependency on temporary staffing solutions.
- The identification of where services could be provided more efficiently and at reduced cost.
- The maximisation of opportunities to increase income.
- The reduction of spend on non pay items where possible.
- The management of financial uncertainties arising from external factors and in particularly the unitary decision.

RESOLVED –

That subject to the comments referred to above, the reports on finance, performance and the risk register/corporate plan, be noted.

3. AYLESBURY VALE ESTATES BUSINESS PLAN

AVDC currently owned 50% of Aylesbury Vale Estates LLP (AVE). The other 50% was owned by private investors. On 31 March 2020, AVDC would cease to exist and on 1 April the new Buckinghamshire Council would come into being. In order for AVE to continue, AVDC's interest in the joint venture would transfer to the new authority. How the joint venture operated was enshrined in a Members' Agreement together with a Loan Agreement. AVDC was currently represented on the AVE Board by two Members and an Officer. From 1 April 2020, it would be for the new authority to decide upon representation.

Cabinet received a high level summary of the AVE Draft Business Plan for the period 2020 to 2023. The full Business Plan which included the cash flows was attached to the confidential section of the agenda. In order to consider the financials, it was necessary to resolve to exclude the public from that part of the meeting under section 100(A)(4) of the Local Government Act, 1972 (Paragraph 3 of Schedule 12A of the Act).

Representatives from Akeman Asset Management attended the meeting and gave a presentation on the highlights of the draft Business Plan. The Business Plan provided the framework within which the AVE Board would operate. The Council's approval to the Business Plan was required.

A summary of the key issues in the Plan was given:-

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 redevelopment or reinvestment.
- Pay off expensive debt in order to reduce the cost of finance and de-risk the portfolio.

- Reduce amortisation, which soaked up surplus income.
- Target a distribution of £600,000 p.a.
- Maintain high levels of occupancy in the industrial portfolio, maintain current tenants at Hale Leys, let vacant units and improve income streams.

Sale of high value land with low income

- The long awaited sale to Lidl of part of the Stocklake site had been completed in April 2019.
- After vacation by the scouts, Adams Close, Buckingham had been sold and was being developed with 4 three bedroomed houses.
- Contracts for the sale of the Gateway phase two site had been exchanged subject to detailed planning permission. Anticipated completion was January 2020.

Distributions

- The timing of the distribution for 2019/20 and the amount included in the cash flow for each partner was dependent on the delivery of a number of asset management initiatives. AVDC had included in its own revenue budget a more cautious forecast dividend. The timing of the distribution was likely to be in the last quarter of the 2019/20 year.

Occupancy Levels

- The multi-let industrial estate had seen unprecedented demand for units and as at the 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 refurbishment works had continued to contribute to the demand for units. Eleven new leases and renewals had been completed since 1 April 2019.
- The Edison workspace had been upgraded and refurbished significantly reducing running costs. More work was planned to further improve the look of the premises.
- Hale Leys, like all other shopping centres in sub regional towns similar to Aylesbury, had continued to feel the pressure of the move to internet shopping. A number of tenants had ceased trading but conversely, a number of new tenants had started trading.

Key Performance Targets

- The vacancy across the entire portfolio as at September 2019, was 7.1% (23.1% Hale Leys and 2% AVE portfolio) The year end overall target vacancy was 9.28%. letting Hale Leys would remain the focus.
- The total return of the portfolio over the 12 months to 31 March 2019 had been - 1.4% due mainly to the loss of value on Hale Leys. The independent valuation of the whole portfolio would take place at the year end but since inception, investors had received an annual return of 11.5%. This figure was derived from the net increase in asset value plus distribution and assumed set up costs were spread evenly over the period of the partnership.
- The budgeted portfolio income for the financial year ending on 31 March 2019 had been exceeded by a positive 1% variance on budget.
- The three month collection rate for the whole portfolio for the September 2019 quarter had been 90.5%, just meeting the 3 month KPI of 90%. The 12 month collection rate had been 98.6%, outperforming the 12 month KPI of 95%.
- The loan to value as at 31 March 2019 had been 72.2%, just below the maximum limit of 75%.

Looking Forward – 1 April 2010 onwards

- The core aims remained the same in line with the original objectives agreed in 2009, i.e. increased investor revenue flows and support for the Council's economic development programme. The key strategies identified in order to achieve these aims for 2020 – 2023 were in summary:-

Sale of high value assets with low income for re-investment into higher income assets.

Pay off expensive debt in order to reduce the 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 streams.

Review all non core and community assets and sell/develop where possible (subject to AVDC approvals where required).

- As in 2019/20, AVE had submitted both a base case and an enhanced case for the 2020 – 2023 Business Plan. However in addition a “downside scenario” had been included to reflect some concerns around the security of a key tenant. The strategies underpinning the different scenarios were set out in the confidential part of the Cabinet agenda. All set out the aim of paying off expensive debt to take the portfolio to a position where the revenue flows from rent alone could comfortably cover all running costs, asset enhancements and amortisation, and leave a surplus for distribution to investors on an on-going basis – one of the core aims.
- Whilst it was excellent news that there was now only one vacancy on the multi-let industrial estate, the relationship development plans now in place would be important in ensuring that leases coming up for breaks or due for expiry were renewed at favourable terms.
- AVE's plans to redevelop the Stocklake site with a large element of new industrial space were welcomed, not only because of the income stream that this could generate but also the employment opportunities it could deliver on this particular side of Aylesbury which would offset to an extent the loss of employment at the Askey site.
- Clearly, the retail market and the vacancy rate within Hale Leys continued to be a concern. However the different uses appearing in the Centre were creating successful diversification. This would need to continue to help preserve and increase rental income and protect the Centre from any further fall in valuation.
- AVE's intention to review the assets which had been classified as either non core or community assets was noted. AVE would be expected to seek formal approval from the Council (successor Council) for the disposal or change of use of any assets where required by the terms of the Members' Agreement.
- The key performance targets and indicators were predetermined and formed part of the Members' Agreement for the partnership, so in this respect they would not

change. However, shareholders were able to suggest additional key performance targets and whilst these could not be used technically to evaluate performance, and for example, affect the asset management fees paid, they were required to be measured and reported to the Board.

Having commented that on a number of specific issues and in particular the propensity of AVE to dispose of assets for generating capital receipts as opposed to taking more opportunities to invest in on-going income generation, Cabinet

RESOLVED –

- (1) That it be noted that on 1 April, 2020 the AVDC shareholding in AVE LLP would transfer to the new Buckinghamshire Council alongside the Members' Agreement and Loan Agreement, which together set out how the vehicle operated.
- (2) That, subject to any views the Economy and Business Development Scrutiny Committee might have, the draft Business Plan (set out in detail in the confidential section of the Cabinet Agenda) for the period 2020-2023, be approved.
- (3) That the views of the Economy and Business Development Scrutiny Committee be sought formally at its meeting on 21 January, 2020 and that these be reported back to Cabinet at its February meeting.

NOTE : As Directors on the board of AVE, Councillor Mrs Ward and the Assistant Director responsible for property and regeneration each declared a prejudicial interest in this item and having remained to answer technical and general questions in relation to the company's activities, they left the meeting whilst Cabinet considered this matter.

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