Report to Cabinet

Date:	16 February 2021
Reference number:	N/A
Title:	Overview of Aylesbury Vale Estates (AVE), and draft business plan 2021-2024
Relevant councillor(s):	Cllr John Chilver
Author and/or contact officer:	John Reed
Ward(s) affected:	Not specific
Recommendations:	Cabinet note the performance of AVE against the strategy and action plan for 2020-2021 Comment on the strategy and action plan as set out in the draft business plan for 2021-2024, the detail of which is set out in Appendix 1 and 2 of Part 2 of this report.
Reason for decision:	summarise why the recommended option is preferred

1. Executive summary

1.1 This report provides an overview of how the joint venture Aylesbury Vale Estates (AVE), which is 50% owned by the council, operates. It also summarises how AVE is performing against the current business plan and presents the draft business plan for 2021-2024 and the strategy for delivery. The Cabinet is invited to provide comments on the future business plan for consideration by the AVE Board.

2. Content of report

Overview of Aylesbury Vale Estates (AVE)

2.1 AVE was formed as a 20-year Joint Limited Partnership (JLP) after a 15-month full OJEU procurement process completing in October 2009.

2.2 It's a 50-50 partnership between the council and private investors who collectively form Akeman Partnership LLP.

2.3 At the time of the OJEU procurement process, AVDC owned and managed a substantial and varied property portfolio comprising commercial, community and operational assets. However, with falling rents and increasing voids, AVDC was looking to find an alternative business model – a model which would provide access to bespoke, private sector asset and property management expertise, improve the performance of the portfolio, whilst allowing the AVDC to replace insecure rents with security of interest payments on loans made by the council to the new vehicle.

2.4 In addition, there was an expectation that as the portfolio performance strengthened, partners would receive a distribution, but the timing and amount would be a matter for the Board to decide.

2.5 Most of the portfolio was transferred to AVE thus contained but operational buildings assets were excluded. Several community assets such scout huts, doctors' surgeries were also transferred but no sale or development could take place without AVDC approval.

2.6 As part of the joint venture formation with Akeman Partnership LLP, the management was also contracted at the time of formation from AVE to Akeman Asset Management LLP. The latter was granted a 20-year contract to operate the portfolio from rent collection, asset management, debt management, accounting and reporting.

2.7 A Members' Agreement, signed by both sides of the Partnership, sets out in detail how the Partnership will operate including the process if the council and the private sector partnership do not agree on a voting issue.

2.8 The management contract provides for quarterly asset management and financial reports to be presented at a meeting of the AVE representative members, with interim monthly reports as necessary. The agreement sets out in detail the delegation process, responsibilities, fee calculation, Key Performance Indicators and Key Performance Targets. Akeman report on these quarterly with an annual review.

2.9 As an LLP, AVE doesn't have a "board" of directors as such but representatives of both parties have 3 seats at the table. BC is currently represented by two cabinet members and one officer. Each side of the JV has one vote at any decision making stage.

2.10 The stated aims of the JV are as follows: -

1. to improve, repair (if applicable) and maintain the Property to support AVDC's aims as set out in AVDC's Corporate Plan;

2. to enhance, maintain and improve AVDC's income stream generated from the Property;

3. to facilitate the improvement of the Property to provide new opportunities for the local economy;

4. to positively influence and promote development and economic growth in the Area through the development, improvement, maintenance of the Property and pro-active asset management;

5. to enhance the economic vitality of the Area to its full potential and promote economic, social and environmental improvement and well-being for local residents; and

6. to maintain current business activity and employment in the Area and create new employment opportunities.

2.11 Financially, the JV is designed to distribute surplus profits both from revenue and capital sales, but it is not allowed to distribute any of the original equity. This means that an asset acquired for £1m if sold for £1.25m, then £250,000 could be distributed but the remaining £1m must be reinvested.

2.12 The JV is now nearly 10 years old and overall has performed well over this period. The starting portfolio was valued at £36.1m and the purchase by the JV was financed by non-interest bearing loans from each member of £4m plus two loans from AVDC. The senior loan was for £27.08m at 6% interest and the second £3.61m of mezzanine loan at 20% pa interest. After set up costs this gave the members a combined net asset value of £5.9m

2.13 The senior loan was not repayable for 20 years but did have amortisation at known rates commencing in year 3 of the partnership. The mezzanine debt had no amortisation but was repayable after 5 years. AVE paid down the expensive debt as soon as it was able.

2.14 A further loan was made to AVE to enable it to purchase the Hale Leys Shopping Centre. The acquisition was felt to be important (particularly by AVDC) to the longer term regeneration plans of the town centre and recognised, Hale Leys strategic location and its adjacency to other AVDC assets. The first loan was for £2.9m at 7% interest. £1m of this has already been paid back. The second loan replaced the HSBC loaned at point of purchase - £5.5m at 4%.

2.15 The portfolio is valued annually and at the end of March 2019, the portfolio was valued at £44.94m with total debt of £32.42m giving members a net asset value of £12.5m an increase over the 9 years of 111% or £6.59m. When considering returns to members over the life of the JV, the total return earned (income distributed plus value gained) comes to 11.2% per annum average over those 9 years.

2.16 AVE produces an annual 3 year rolling business plan towards the end of each calendar year for the members to agree. Comments from the council democratic process are fed back to the AVE Board where the private investor partnership has the opportunity to review and raise any concerns. If this were the case, the matter would be referred back by the AVE Board to the council. Once agreed the plan is instituted for the following financial year which commences at the end of March. The AVE portfolio ie the assets included in the original transfer, is always reported separately to Hale Leys which has a sperate account.

Summary of the 2020-2021 business plan and performance to date

2.17 The overall aim for the past few years has been to as to produce a self-sufficient portfolio, not reliant on sales, which pays all the AVE overheads, all amortisation and distributes £600,000 pa and still retains an annual profit.

2.18 The strategy in 2020-2021 to achieve this is:

- Maintain high levels of occupancy across the commercial industrial and wider portfolio
- Maintain current tenants at Hale Leys
- Target annual distribution of £600,000
- Sale of high value land with low income - £300k for the council
- Improve Raban's Lane management

2.19 **Occupancy Levels:**

- Very low (0%-2%) vacancy rates for past 2-years across the main multi-let industrial estates
- As at 30 Sept, the overall vacancy for the combined portfolio was 6.3% v 5.8% year-end target (Mar-21). This is due to Askeys surrendering their lease at the Stocklake site.
- Hale Leys vacancy of 7.7% and AVE (rest of portfolio) – 5.9%

2.20 **Maintain Current Tenants at Hale Leys:**

- Boots continues to be an important tenant for Hale Leys and a driver of footfall. It renewed its lease is 2019.
- In 2020, the Centre continued to diversify its offer, with The Manor restaurant opening alongside Soft Play.
- The Centre trading will have been impacted by the latest lockdown – still to be assessed.
- Negotiations are on-going for vacant units which include another food and beverage offer.

2.21 **Target Distribution:**

- Distribution of £600,000 for 2019/20 paid in November 2020
- Distribution of £600,000 for 2020/21 will be forecast to be paid in March 2021

2.22 **Sale of High Value Land with Low Income:**

- Gateway Phase 2 – sale to Shanly Homes - completed April 2020*.
- Hayloaders, Brill – sale to Emblem Developments (occupier) - completed July 2020*.
- Moreton Road – sale to Romdox UK - completed September 2020*
- Meadowcroft Surgery – sale to occupier - completed October 2020*.

***** These sales were all above the valuation.

2.23 **Raban's Lane Management:**

- Relationship development – on-going tenant's meetings*
- On-going roof, drainage and tree works
- Improvements to the Edison Workspace

*****Since Covid, the tenant relationship work has intensified across the portfolio contributing to the relatively successful rent collection rate and low voids.

2.24 It is difficult to predict with great certainty (because of the on-going Covid impact), what the final performance of the portfolio will be at 31 March. However, demand for industrial units continues to be high and as and when a unit becomes vacant, new potential tenants are quickly coming forward

2.25 During 2020-2021, AVE have also been working hard to bring forward development sites at Stocklake and Raban's Lane. These developments which will significantly impact the 2021-2024 business plan (summarised in the next paragraphs and described in more detail in Part 2 of the report). A planning application has already been submitted for a mixed commercial/residential development at the site in Raban's Lane, and a planning application for a commercial development at the Stocklake site, is expected to be submitted in early 2021.

2.26 AVE expects to be able to meet its on-going amortisation payback commitments to the council. The risk of not being able to do this is considered by AVE to be low.

Summary of the 2021-2024 business plan and strategy

2.27 The objectives for 2021-2024, remain the same as the current business plan. However, there are some variations in the proposed strategy to achieve these:

- Sale of high value/low income assets, for reinvestment in the portfolio through redevelopment of current sites
- Redevelopment of key assets and renewal / upgrade of old industrial stock
- Pay off expensive debt 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 Category B (community assets) and sell/develop where possible

2.28 In the 2021-2024 draft business plan, AVE is presenting a base and enhanced case for the AVE portfolio but just a base case for Hale Leys. Each case is based on a different set of assumptions relating to the above strategy. The assumptions are largely based around timing, value and market conditions.

The AVE **base** case

2.29 More detail covering the whole period of the business plan, is set out in Part 2 of the report but in summary, the base case for 2021-2022 assumes:

Anticipated Sales

- The sales of part of the land at Raban's Lane

Reinvestment

- No new property investments are made, and instead surplus funds are used to pay-down debt and / or fund redevelopment of existing properties.

Development

- Finance is procured for the redevelopment of the Stocklake and Raban's Lane site

The AVE **enhanced** case

2.30 Whilst the strategy remains the same, the enhanced case makes different assumptions around:

1. The level and timing of capital receipts that will be generated based on the planning approvals granted and specifically in the case of the Raban's Lane site the number of residential units permitted
2. The rent levels that will be achieved from both AVE and Hale Leys

The Hale Leys **base** case

2.31 The Hale Leys base case makes a key assumption about the level of rent that might be collected during 2021-2022 and assumes:

Letting assumptions:

- Amended ERV assumptions to reflect market conditions
- Vacant units do not re-let

Capital expenditure is incurred to:

- Extend unit 1-2 with frontage to High Street
- Enhance/modernise Market Square entrance

2.32 The 2021-2024 business strategy also proposes a review of what are classified as 'non-core assets'. These are listed in the Part 2 of the report but include small areas of land with a low valuation and no ERV. They may, however, be incurring costs to AVE such as maintenance.

The risks and challenges

2.33 It is important that the planning applications for the Stocklake and Raban's Lane sites are processed in a timely manner. A pre-app agreement has already been entered into for the Raban’s Lane scheme. The Stocklake application will be submitted early in the New Year.

2.34 The timing of any decision will impact AVEs ability to fund re-development of the above sites which are fundamental to improving portfolio revenue flows.

2.35 The impact of Covid will require on-going proactive management of the portfolio by the Asset Managers to support and retain existing tenants and where vacancies occur, attract new tenants. AVE will seek to continue to diversify the offer within Hale Leys as it has done in the last few years.

3. Other options considered

3.1 This report does not present alternative options to the current joint venture business model but it does invite comment on the proposed strategy and alternative actions.

4. Legal and financial implications

Legal

4.1 As detailed in the Appendix the high-level requirements for the operation of AVE are set out in the Members Agreement and associated documents and are also briefly summarised in the Appendix. The ongoing operation of AVE is based on the agreed Business Plan and any actions pursuant to the Business Plan will not generally be a breach of AVE's obligations. Any material variation to the Business Plan must be approved by the members.

Financial

4.2 As at 30th September, gross rent for 2020/21 was forecast to be below budget mainly due to reduction in rent invoiced and anticipated shortfall due to the impact of covid. This is reflected in the cash flows (appendix B). Capital receipts are forecast to be significantly higher than budget through realisation of four freehold sales. Appendix B also reflects the cash flow forecasts for the budget period 2021/24. The distribution target for these years will remain at £600k per annum.

4.3 AVE currently has three loans outstanding with the council. The main loan (arising from when AVE was first set up with a 6% coupon), acts like a residential repayment mortgage, the quarterly payments from AVE to the lender stay constant but the proportion of interest and amortisation change as the debt gets paid down. The schedule was designed to get the loan to value ration down to 50% by the end of the 20th year and AVE is on track to do this. There are two loans outstanding on the purchase of Hale Leys Shopping Centre with 4% and 7% interest rates. Both these loans can be paid off at any time by AVE without penalty and in 2019, AVE paid down £1m of the loan with the 7% interest rate.

4.4 The distributions received in 2020/2021 (£600k in total to the council by 31 March 2021), were not fully planned for in the baseline budget so have helped reduce pressure on the revenue budget.

4.5 AVE's strategy in 2021-24 to focus on delivering developments combining capital receipts with creating an on-going revenue stream should enable future distributions to be made, amortisation commitments to the council to be met and the value of the portfolio maintained and preferably enhanced. The financial detail of this is strategy is set out in the cash flows which form Appendix B.

5. Corporate implications

a) Property - the AVE portfolio includes some assets adjacent to the council's assets which may provide added opportunities for the benefit of both parties. Collaboration on the requirements of new tenants to ensure that voids in either the council or AVE portfolio are minimised is also advantageous to both parties.

b) HR – no impact

c) Climate change – no impact. AVE has its own programme of investment in carbon reduction measures as and when feasible opportunities arise.

d) Sustainability - AVE has its own programme of investment in carbon reduction measures as and when feasible opportunities arise

e) Equality - no

f) Data - no

g) Value for money – the objectives of the partnership set out the financial expectations each side of the partner can expect over the life of the partnership.

6. Consultation with local councillors & community boards

6.1 The AVE business plan is not subject to consultation with local councillors and community boards.

7. Communication, engagement & further consultation

7.1 The draft business plan has been reviewed by the Property Board and will be considered by the Finance and Resources Select Committee on 28 January.

8. Next steps and review

8.1 All feedback on the draft business plan will be reported back to the Board for consideration. If the Board feels unable to make any changes required to the plan as a result of the feedback, this will be reported back to the council.

9. Background papers

9.1 Aylesbury Vale Estates Business Plan 2021-2024
Aylesbury Vale Estates Business Plan 2020-2023

10. Your questions and views (for key decisions)

10.1 If you have any questions about the matters contained in this report, please get in touch with the author of this report. If you have any views that you would like the cabinet member to consider, please inform the democratic services team. This can be done by telephone 01296 382343 or email democracy@buckinghamshire.gov.uk