

Agenda Item No: 6

Report To: Cabinet

Date: 8 September 2016

Report Title: Corporate Property Performance Annual Report 2015/16

Report Author: Stewart Smith, Senior Commercial Development Manager

Portfolio Holders: Cllr Shorter, Portfolio Holder for Finance, Budget and Resource Management



Summary: The revenue generated by the Council's corporate property portfolio contributes significantly to the Council's income. The income generated for the financial year ending March 2016 is shown in the Corporate Property Income Schedule attached at **Appendix 1**.

Exploring options to increase the profitability of the portfolio, as well as opportunities for further investment, are constantly ongoing. Those options currently being considered for implementation during the next financial year are explained in this report.

Key Decision: No

Affected Wards:

Recommendation: That Cabinet is asked to;

- i. note the revenue performance of the Council's corporate property portfolio during the previous twelve months as provided for in the Corporate Property Income Schedule attached at **Appendix 1** and;
- ii. note the options currently being explored to increase profitability during the next financial year.

Policy Overview: The Council's five-year Corporate Plan includes, as one of its underpinning principles supporting the four identified priorities, delivering "*a viable and sustainable replacement for Formula Grant, generating an additional £2m per annum by 2020 through investing in the borough*". The Council's investment in commercial property and development opportunities is crucial to achieving this target and also in facilitating the regeneration of the borough.

Financial The financial implications are considered in detail in the

Implications: Corporate Property Income Schedule attached at **Appendix 1**.

Risk Assessment As part of the medium financial plan and budget process the situation is risked assessed on a regular basis through the monthly reports prepared internally and the budget monitoring updates.

Community Impact Assessment Not applicable.

Exemption Clauses: None.

Appendices: **Appendix 1 – Corporate Property Income Schedule**

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Report Title: Corporate Property Performance Annual Report 2015/16

Purpose of the Report

1. This report, which will come to Cabinet annually, will report on the revenue performance of the Council's corporate property portfolio during the previous twelve months. It will also advise of the opportunities being explored to increase the profitability of the portfolio during the coming twelve months where commercial confidentiality allows.

Background

2. In March this year the Government produced a four year financial settlement for Local Government, the net effect of which will be to reduce revenue support grant funding to zero by 2019/20. The Council, having been aware of the impending changes for some time, has been taking steps to mitigate against the impact of this so as to ensure the uninterrupted delivery of Council services.
3. The role that commercial property investment can play in income generation and borough wide regeneration was formally recognised back in January 2014 with the creation of the Property Acquisition, Investment and Disposal Panel, the aim of which was to enable decisions to be made in a timely and efficient manner, following strict criteria, in respect of the acquisition of, and investment in, commercial properties and development opportunities. Subsequently came the Town Centre Regeneration Board and most recently the Economic, Regeneration and Investment Board, all with the same focus. This has resulted in the Council's property portfolio, and the income generated therefrom, increasing significantly in recent years with the most sizable investment returns coming from the purchase of International House in April 2014.
4. The Council's intention is to continue to expand its investment portfolio. Whilst the emphasis so far has been on commercial property, following the result of the EU referendum, there has been increased uncertainty in the commercial market and the prevailing view is that residential development may offer less risk and a more favourable return in the current market. This is something that is being considered. To guide future investment making decisions and, in accordance with the Corporate Plan and existing Council Policy and Strategy, a Commercial Investment Strategy is being prepared and will be reported to Cabinet early next year.

Financial Implications

5. The income generated from the Council's corporate property portfolio during the period April 2015 to March 2016 is provided for in the Corporate Property Income Schedule attached at **Appendix 1**. The return is calculated in respect of the historical cost of the asset (the purchase price). Please bear in mind when considering the income generated by

Park Mall shopping centre, that it was not acquired as an investment but rather for regeneration purposes.

Options being considered to Increase Income;

i. Alternative Property Management Arrangements

6. The Council currently contracts with external providers for the provision of property and facilities management services. Alternative property management arrangements are currently being explored. The potential benefits identified include;

- costs savings - although property management fees are passed on to the Council's tenants via the service charge, any cost saving that can be made will result in a reduction in the service charge, therefore reducing the overall cost of letting the property and making it more attractive to the market,
- improved quality of service, reinforcing the view of the Council as a quality provider of commercial real estate.

7. The property management options currently being considered include;

- moving property and facilities management services in-house – the Council has lots of expertise in the field of property management. It may be that a better more efficient service can be provided by the Council.
- going out to tender for property management services. Testing what the market has to offer will ensure that the best service is procured at the best price available,
- a mix of the above whereby some of the services are provided by the Council and some are contracted to a third party,
- continuing with the existing management arrangements.

ii. The Garage Commercialisation Strategy

8. The Council's garage holding provides a significant income each year (see **Appendix 1** attached). A study is underway to analyse the income and see whether the profitability can be improved upon. This will require a condition survey of the garage stock (see para 12 below) and will result in the preparation of a business case proposing a strategy in respect of which garage sites should be retained and those which are beyond economic repair and may provide for other opportunities. The outcomes from the study will be reported back to Cabinet later this year.

iii. The Ellingham Expansion Plan(s)

9. Three new units (totalling circa 1800 sq ft in total) at Ellingham Industrial Estate are under construction and due to be completed in September this year. Tenants have been found to occupy the units on completion. The gross additional annual income this will produce will be circa £13,500 (representing a 3.2% return on investment). In addition to this, the development will deliver business rates and create employment opportunities in the borough.
10. In addition to the above, the Council is currently appraising an additional light industrial estate development forming part of the Carlton Road site, adjacent to the Grounds Maintenance Depot. Demand for the units at Ellingham exceeds supply and advice received from local agents confirms that there is a general shortage for this type of space in the borough. A further report will be presented to Cabinet once the appraisal is completed.

iv. Commercial Investment Strategy

11. As referred to at paragraph 4 above, a Commercial Investment Strategy is in the process of being prepared which will be reported to Cabinet early next year. The aim of the strategy will be to assist in identifying and guiding future investment making decisions in accordance with the Corporate Plan and existing Council Policy and Strategy. In preparing the Strategy, an updated Corporate Property Income Schedule will be developed incorporating two additional elements to that attached at Appendix 1. Firstly, open market valuations of the Council's assets will be obtained. This will enable the return to be calculated not just in respect of the historical cost of the asset, as is the case now, but in the context of the current value of the asset on the open market. This will enable an investment and return comparison exercise to be carried out across the range of the Council's assets which will in turn feed in to the Strategy and guide future decision making. Secondly, expenditure on assets will be broken down to include capital charges, financing charges and internal re-charges, for example staff costs. Again this will provide for more accurate investment analysis and both will also assist the Council in managing the portfolio against recognised benchmarks so helping to identify areas that require attention/action.

v. Asset Review

12. The garage condition survey (referred to at para 8 above) will form part of a larger piece of work undertaken in respect of all Council owned assets, the Asset Review. This document will report on the condition of the Council's assets so that a planned maintenance and repair programme can be delivered, the costs associated with which will be included in the Medium Term Financial Plan. The forecast service under-spend of £183,000, reported elsewhere in this agenda, is being allocated to a repair and renewal reserve fund to help meet this cost once identified.

Risk Assessment

13. As part of the medium financial plan and budget process the situation is risked assessed on a regular basis through the monthly reports prepared internally and the budget monitoring updates.

Other Options Considered

14. The purpose of this report is to advise on the revenue performance of the Council's corporate property portfolio during the previous twelve months and of opportunities being explored to increase the profitability of the portfolio during the coming twelve months. As such, it is not appropriate to consider alternative options at this time.

Conclusion

15. The Council's is making good progress with its commercialisation agenda. The income currently being generated, when combined with the income forecast to be generated from the proposals referred to above (and those projects which are already underway and which have been the subject of separate reports to Cabinet) should mean that the Council achieves its goal of generating an additional £2m per annum by 2020.

Portfolio Holder's Views

16. I am pleased with the progress the Council in making in respect of its investment and income generating activities. What is being proposed both in terms of the Commercial Investment Strategy and the Asset Review will continue to ensure a consistent and informed approach is taken by the Council when it comes to taking decisions. The income currently being generated, together with that which the Council will earn from the various other projects on the horizon (Elwick Place for example), should mean that the Council not only achieves its goal of generating an additional £2m per annum by 2020, but that also this income is generated as a consequence of inward investment in the borough.

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Appendix 1 - Corporate Property Income Schedule

Appendix 1

	*Industrial Estates	*Garages	Stanhope Shops	Wilkinson 1 Park Mall	Park Mall	*Bockhanger Com Props & Centre	*Brookfield Com Prop	International House	*Civic Centre	Tenterden Gateway	Sustainable Energy Project	*Minor Holdings	Total
Total income	(435,322)	(456,727)	(105,662)	(270,341)	(417,640)	(31,554)	(45,400)	(1,223,198)	(92,175)	(64,590)	(22,223)	(57,883)	(3,222,716)
Total expenditure	60,720	27,402	0	16,258	414,391	2,688	4,473	309,709	79,170	63,975	0	51,769	1,030,554
Suprplus/Deficit	(374,602)	(429,324)	(105,662)	(254,083)	(3,249)	(28,867)	(40,927)	(913,489)	(13,005)	(615)	(22,223)	(6,115)	(2,192,162)
Historical Cost	2,780,000	2,820,200	1,032,000	3,560,000	823,500	217,000	467,200	7,900,000	202,900		185,000	1,045,700	
Return	13.5%	15.2%	10.2%	7.1%	0.4%	13.3%	8.8%	11.6%	6.4%		12.0%	0.6%	

* Based on 2007 Historical value

Expenditure does not include capital charges/financing charges or internal recharges for staff costs etc

Civic Centre income based on 5% of building value