



**Agenda Item No:** 6

**Report To:** Cabinet

**Date:** 14 September 2017

**Report Title:** Corporate Property Performance Annual Report 2016/17

**Report Author:** Stewart Smith, Senior Commercial Development Manager

**Portfolio Holders:** Cllr Shorter, Portfolio Holder for Finance and IT  
Cllr Galpin, Portfolio Holder for Corporate Property

**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 2017 is shown in the Corporate Property Income Schedule attached at **Appendix 1**.

The Council has had a good year both in respect of the income it has generated, which amounts to £2.26m, and in the success it has enjoyed in securing lettings at Park Mall and in negotiating the continued letting of Block B International House to the year 2028.

The Council is constantly exploring both ways to make the existing portfolio more profitable and additional investment opportunities. An update on the work done in this regard is provided in the report.

The report also advises of a decision taken by the Chief Executive under her delegated authority for urgent matters to enter into a Protective Provisions Agreement with High Speed 1 Ltd in respect of the Council's landholding on Elwick Road.

**Key Decision:** No

**Affected Wards:** None specifically

**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 work undertaken to increase profitability and

investment activity during the previous twelve months and going forward.

- iii. note the Chief Executive's urgency decision to authorise the execution of an agreement with High Speed 1 Ltd as described in the report.

**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 Implications:** The financial implications are considered in detail in the Corporate Property Income Schedule attached at **Appendix 1**.

**Legal Implications:** There are none.

**Other Material Implications:** There are none.

**Risk Assessment** The portfolio is risk assessed on a regular basis through the monthly reports prepared internally and the budget monitoring updates.

The risks relating to each property are assessed as part of the insurance renewal process and where the tenants change any change in the risk category is also assessed at that time.

**Equalities Impact Assessment:** Not applicable.

**Appendices:** **Appendix 1 – Corporate Property Income Schedule 2016/17**

**Background Papers:** None.

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**Report Title:** Corporate Property Performance Annual Report 2016/17

### **Purpose of the Report**

1. This report, which comes to Cabinet annually, reports on the revenue performance of the Council's corporate property portfolio during the previous twelve months. It will also advise of the work undertaken to increase the profitability of the portfolio and investment activity during past twelve months and going forward.

### **Background**

2. In March last 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 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 the Panel 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 the Town Centre Regeneration Board and most recently the Economic, Regeneration and Investment Board have been formed, all with the same focus. This has resulted in the Council's property portfolio, and the income generated therefrom, increasing significantly in recent years.
4. The Council's intention is to continue to expand its investment portfolio. Whilst the emphasis so far has been on direct commercial property investment within the Borough, the increase in investment activity required to generate the level of return that the Council is targeting has resulted in a wider range of investment options being explored than was originally anticipated. This work, once completed, will result in the Council's Commercial Investment Strategy due to come to Cabinet in October 2017.

### **Financial Implications**

5. The income generated from the Council's corporate property portfolio during the period April 2016 to March 2017 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). It should be borne 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 and to reinvigorate the Town centre. In this respect it is performing well with a number of units having been let

in the past twelve months and just two remaining vacant at the time of writing.

## **Progress Update Following Last Year's Report**

6. Members will recall that last year's report made reference to a number of activities and initiatives being undertaken to either increase the profitability of the existing real estate portfolio or increase investment activity. Below is an update in respect of each of these.

### **i. Alternative Property Management Arrangements**

7. Following an options appraisal which considered the different options available for managing the Council's corporate real estate portfolio, the decision was taken to go out to tender for property management services in respect of two of the Council's properties; International House and Park Mall.
8. The tender exercise tested the market to ensure that both best value and appropriate levels of service are being received by the Council and its tenants reinforcing the view of the Council as a quality provider of commercial real estate. This has now been completed and contracts have been awarded to two companies. In respect of International House, the property management service will continue to be provided by GVA. In respect of Park Mall, the contract has been awarded to Stiles Harold Williams, a firm of Chartered Surveyors based on the south coast whom replace Jones Lang Lasalle.

### **ii. Garage Commercialisation Strategy**

9. Last year an Officer Working Group was established to undertake a study in respect of the Council owned garages. The garages make a significant contribution towards the Council's income each year (see **Appendix 1**) and the objective of the Working Group was to see whether the profitability could be improved upon.
10. Over the last twelve months the Group has collated and analysed data considering garage demand, use and condition within the geographical context of the individual estates. It has also reviewed existing management practices and procedures. This work has resulted in a series of recommendations, which will form part of the Garage Commercialisation Strategy, which will come to Cabinet in November 2017. The Strategy will go beyond making recommendations in respect of improving existing practices to address new areas including;
  - marketing and advertising,
  - scoping and appraisal for alternative uses of poorly performing sites,
  - the introduction of automated digital infrastructure.

### **iii. Ellingham Expansion Plan**

11. The proposed new units at Ellingham Industrial Estate totalling 1800 sq ft of development were completed on time in September 2016 and all three units are tenanted. The units generate gross annual income of £13,200. In addition to this, the units deliver business rates and create work-space and employment opportunities within the Borough. There is very low tenant turnover of 8% to 10% per annum, and there remains a tenant waiting list for space at Ellingham.
12. In addition to the above, the Council's proposed development of light industrial units at Carlton Road, on a site adjacent to the Grounds Maintenance Depot, has progressed and a separate report dealing with this matter is on this agenda.

#### **iv. Commercial Investment Strategy**

13. As referred to at paragraph 4 above, the Council is in the process of undertaking a project to develop a strategy to guide and assist with the identification and delivery of further investment. As a consequence of the level of investment the Council is anticipating to enable it to deliver the target return, a wider range of investment options are being explored than was originally anticipated. The strategy, which initially was intended to guide direct real estate investment making decisions and process, will now go beyond this to examine additional funding opportunities and indirect investment through Real Estate Investment Trusts and/or property funds together with other asset classes. This has delayed delivery but, it is hoped, will ultimately result in a Commercial Investment Strategy which will help deliver a diversified investment portfolio which meets the Council's expectations both in relation to risk and return. The Strategy will come to Cabinet in October 2017.

#### **v. Elwick Place**

14. Following Cabinet's and Council's approvals last year to fund the Phase 1 leisure and car park development on Elwick Place subject to the completion of due diligence, the commercial and legal negotiations with the developer and others continued and were brought to conclusion during the spring. During these, High Speed 1 Ltd, owners of the HS1 railway line immediately to the rear of Elwick Place, requested the Council as landowner to enter into a Protective Provisions Agreement (PPA) with them for the whole of the Council's landholding in Elwick Road, rather than just Phase 1. This was partly to facilitate the future development of Phases 2 and 3, although also relevant to the Council's own temporary car park there, which has recently opened. Phases 2 and 3 were not expressly covered by the Council's decision to fund the development of Phase 1, but in order to complete the legal agreements to enable the Phase 1 works to start, the Chief Executive determined, under her delegated authority for urgent matters, that the decision was urgent and that it was not necessary to call a special meeting of Members. Her urgent but non-key decision, taken after the required consultations, to authorise the execution of the PPA, is now reported to Members as required by the Constitution, Part 3, Appendix 5, para. 4.9.
15. Having secured acceptable terms with good quality anchor tenants, namely Picturehouse Cinemas Ltd. and Travelodge Hotels Ltd., the

development funding agreement with Stanhope plc became unconditional on 4 May 2017. Works on site commenced immediately. With development funding now being advanced to Stanhope, the project will generate net income (interest) to the Council of circa £1m per annum from March 2018.

### **Risk Assessment and Management**

16. The portfolio is risk assessed on a regular basis through the monthly reports prepared internally and the budget monitoring updates.
17. The risks relating to each property are assessed as part of the insurance renewal process and where the tenants change any change in the risk category is also assessed at that time.
18. In order to manage the risk of voids, the property management undertaken internally ensures that tenancies are monitored and either re-marketed or negotiation with existing tenants commenced no later than six months prior to the end of any lease term. An example of this happening recently is in respect of Block B, International House. The Department of Work and Pension's lease (17,000 square feet) was due to come to an end in March 2018 however, through early negotiation, this will now be extended for a further ten years and is currently with solicitors.

### **Other Options Considered**

19. 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 profitability and investment activity. As such, it is not appropriate to consider alternative options at this time.

### **Conclusion**

20. The Council's is continuing to make 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) means that the Council is on course to achieve its goal of generating an additional £2m per annum by 2020.

### **Portfolio Holder's Views**

21. This report demonstrates the effectiveness of our capital investment programme. The Council is making considerable progress in filling the funding gap left by the phasing out of Government Formula Grant by 2019/2020. Our portfolio is growing, supported by detailed due-diligence and risk assessment to ensure mitigation when necessary. Additionally, all projects are monitored for return on investment, lettings, leases and management. The Elwick Road development is subject to a monitoring

meeting between myself with Cllr Shorter, our officers and contractors to check progress and monitor spend.

22. I look forward to the new Commercial Investment Strategy and Garage Commercialisation Strategy to help us to maximise our returns, and note the new management arrangements for International House and Park Mall. I commend this report and the Chief Executive's urgency decision on the PPA to the Cabinet. *(Cllr G Galpin, Portfolio Holder for Corporate Property).*

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## Appendix 1 - Corporate Property Income Schedule 2016/17

	*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	433,084	461,412	93,112	314,000	525,374	27,900	38,932	1,699,827	106,776	69,529	23,190	58,256	3,851,391
Total expenditure	90,561	75,773	0	0	516,612	1,482	143	706,509	73,000	78,847	0	39,848	1,582,775
Suprplus/Deficit	342,522	385,639	93,112	314,000	8,762	26,418	38,789	993,318	33,776	-9,319	23,190	18,407	2,268,616
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	12.3%	13.7%	9.0%	8.8%	1.1%	12.2%	8.3%	12.6%	16.6%		12.5%	1.8%	

\* Based on 2007 Historical value

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

Civic Centre costs based on 15% of overall costs



