



Agenda Item No: 9

Report to: Cabinet

Date: 13 September 2018

Report Title: Corporate Property Performance Annual Report 2017/18

Report Author: Stewart Smith, Senior Development and Regeneration 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 2018 is shown in the Corporate Property Income Schedule attached at **Appendix 1**.

The Council has had a good year in respect of the income it has generated, which amounts to just over £2m after internal recharges.

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.

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.

Policy Overview:	The Council's five-year Corporate Plan includes, as one of its underpinning principles supporting the four identified priorities, delivering " <i>a viable and sustainable replacement for Formula Grant, generating an additional £2m per annum by 2020 through investing in the borough</i> ". 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.
Exempt from Publication:	Appendix 2 and 3 - NOT FOR PUBLICATION by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as the public interest in maintaining the exemption outweighs the public interest in disclosing the information
Other Material Implications:	There are none.
Risk Assessment:	<p>The portfolio is risk assessed on a regular basis, prior to any acquisition and during the budget monitoring updates.</p> <p>The risks relating to each property are assessed at the time of acquisition, as part of the insurance renewal process and where the tenants change.</p>
Equalities Impact Assessment:	Not applicable.
Appendices:	<p>Appendix 1 – Corporate Property Income Schedule 2017/18</p> <p>Appendix 2 – Schedule of Tenant Interest for Carlton Road (Exempt)</p> <p>Appendix 3 - Schedule of Tenant Interest for Elwick Road Phase 1 (Exempt)</p>
Background Papers:	None.
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Report Title: Corporate Property Performance Annual Report 2017/18

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 also advises 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 2015 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. This approach includes the acquisition of property for investment purposes which can bring with it the additional benefits of borough wide regeneration.

Financial Implications

3. The income generated from the Council's corporate property portfolio during the period April 2017 to March 2018 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). The surplus for this period (before internal recharges) (£2,249,671) is slightly down on the surplus for April 2016 to March 2017 (£ 2,268,616).
4. Significant variations on the figures from last year include an increase of £93,112 in the rents from Stanhope shops as a consequence of rent reviews. Landlord upgrading works increased expenditure for Park Mall by £98,145 and, as Members have already been advised, the reduced rent received from International House is as a consequence of two floors having been vacant; one since Nov 2017 and one for the preceding twelve month period. One of these floors has since been let for a nine year term from May of this year.
5. The Income Schedule includes two pieces of information not included in previous years reports. The first is "rent income from general fund". This distinguishes the rents collected from third parties to those rents charged to other Council services. An example of this is the rent of £42,980 paid by Environmental Health for One You, the health and wellbeing unit at Park Mall. The second change to the Schedule is the inclusion of internal recharges. Internal recharges are overheads and expenses apportioned pro-rata to each asset. The inclusion of internal recharges results in a more accurate calculation of return on investment.

6. 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. When acquired, Park Mall had a vacancy rate of approximately a third. At the time of writing Park Mall is fully tenanted. Footfall is increasing year on year and this together with the increased and improved retail offer is having a noticeable impact on the town centre in terms of the social value that it brings to businesses and residents alike.

Progress Update Following Last Year's Report

7. Over the previous twelve months a number of activities and initiatives have been undertaken with a view to improving the management and profitability of the real estate portfolio. An update on the progress made is below.

i. Property Management Strategy

8. In April this year the Council's Corporate Property Management Strategy 2018 to 2021 was presented to Cabinet. This Strategy, which replaced the Council's Property Strategy 2009 to 2012 and came following the recommendation of the Mid Kent Audit in May 2017, sets out the Council's high level strategic framework for managing its corporate property portfolio and seeks to align property management in the wider sense to the corporate vision, plan and policies of the Council. The strategy comes at the same time as the implementation of the new CIPFA property management software and the reorganisation of the property and asset management team all of which have been implemented with the objective of improving the management, efficiency and profitability of the portfolio. The Strategy and CIPFA software will be reviewed in April and reported in next years' outturn report.

ii. Garage Commercialisation Strategy

9. In November 2017 the Garage Commercialisation Strategy was presented to Cabinet. The Council's garage holding makes a significant contribution towards the Council's income each year (see **Appendix 1**) and the objective of the Strategy was to identify ways to improve upon the management and profitability of those garage sites that were viable and to look for alternative uses for those sites which are not.
10. Since the Strategy was adopted considerable progress has been made. The once paper-based application and lettings process has been digitised so that the system is fully automated. This new working practice has both improved customer service and resulted in efficiencies and savings.
11. In spring of this year an options appraisal of each of the garage sites was completed. Each site was categorised and those identified as being underutilised and with development potential are in the process of being appraised. This exercise is expected to be completed by August of this year whereby a decision will be made on which sites to bring forward.

The Strategy will continue to be implemented over the course of the coming twelve months.

iii. Carlton Road and Elwick Place

12. In September 2017 Cabinet approved the development of light industrial units on land at Carlton Road. The development which will total c. 46,000 sq ft is being carried out by Gallaghers and is due to complete in October of this year. Whilst to date no agreements for lease have been entered into the development is being actively marketed and there is significant tenant interest. A schedule of tenant interest is attached at **Exempt Appendix 2**.
13. The Elwick Place Phase 1 leisure and car park development was approved by Cabinet in April 2016 and is due to complete in November of this year. Once completed, the Council will own the completed buildings deriving long-term income from the cinema, hotel, restaurants and car park. Having secured acceptable terms with good quality anchor tenants namely Picturehouse Cinemas Ltd and Travelodge Hotels Ltd, the remaining units are at various stages of negotiating and marketing. A schedule of tenant interest is attached at **Exempt Appendix 3**.

Risk Assessment and Management

14. The portfolio is risk assessed on a regular basis through the monthly reports prepared internally and the budget monitoring updates.
15. The risks relating to each property are assessed at the point of acquisition, as part of the insurance renewal process and where the tenants change.
16. 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.

Other Options Considered

17. 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

18. The Council's is continuing to make good progress with its commercialisation agenda. New Strategies are resulting in improved management practices improving the overall efficiency of the real estate portfolio. The next twelve months will see the continued implementation of these strategies with an internal initial review due to be carried out in

April 2019. The results of this review will be reported back to Cabinet. New investment opportunities are continuing to be explored in accordance with the criteria identified in the Corporate Property Management Strategy 2018 to 2021.

Portfolio Holder's Views

19. "This report demonstrates a strong and consistent progress in supporting the General Fund as Government Grants are removed.

The % returns remain significantly higher than other forms of low risk investment. It is important to note that Park Mall was never seen as a revenue maker, hence the lower returns in monetary terms is tolerable especially given the social impact its revitalisation has had on Ashford Town.

New investment in Carlton Road and Elwick Road will begin to provide a good return in the next cycle.

Improvements in management processes means that our corporate asset base is subject to better checks and controls, hence we are in a better position to manage voids and leases.

This is a very positive outturn with the promise of an even better outturn next year and I commend this to cabinet."

(Cllr G Galpin, Portfolio Holder for Corporate Property)

20. "This report firmly underlines the decision made by ABC to actively engage in revenue raising activities rather than reducing services to the residents of Ashford borough in response to central governments removal of the revenue support grant. This process will need to be further developed to enable residents to benefit from our entrepreneurial activities and commercial ambition."

(Cllr N Shorter, Portfolio Holder for Finance and IT)

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Appendix 1 - Corporate Property Income Schedule 2017/18

	*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	452,460	481,679	160,537	314,000	592,934	35,412	45,965	1,515,310	100,002	56,602	13,759	62,864	3,831,525
Total expenditure	(6,051)	(78,696)	(3,000)	(3,604)	(614,757)	(1,191)	(2,402)	(731,929)	(70,051)	(66,064)	(345)	(3,764)	(1,581,854)
Surplus/Deficit	446,409	402,983	157,537	310,396	(21,823)	34,221	43,562	783,382	29,951	(9,462)	13,414	59,100	2,249,671
Less internal recharges	(103,430)	(3,909)	(127)	0	(47,096)	(8,900)	(3,639)	(49,996)	0	(6,201)	(194)	(78,393)	(301,887)
Rent income from GF	0	0	0	0	42,980	0	0	0	0	16,823	0	0	59,803
Net income after recharges	342,979	399,074	157,410	310,396	(25,939)	25,321	39,923	733,386	29,951	1,160	13,220	(19,294)	2,007,588
Return on investment including recharges	12.3%	14.2%	15.3%	8.7%	(3.1%)	11.7%	8.5%	9.3%	14.8%	0.0%	7.1%	(1.8%)	
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	0	185,000	1,045,700	
Return	16.1%	14.3%	15.3%	8.7%	(2.7%)	15.8%	9.3%	9.9%	14.8%	0.0%	7.3%	5.7%	

* Based on 2007 Historical value

Civic Centre costs based on 15% of overall costs