

18th September 2018

Policy, Projects and Resources Committee

Asset Development Programme Update

Report of: *Chris Leslie – Executive Director of Commercial Services*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 The aim of the Council's Asset Development Programme ("ADP") is to realise the potential of the Council's property asset base so as to deliver improved revenue streams from the portfolio but at the same time securing the regeneration, economic development and housing objectives of the Council. This report provides an update on the work of the Asset Development Programme Project Board ("Project Board") to date.
- 1.2 This report outlines the progress made by the Project Board on a) the Joint Venture Partner Procurement, b) the wholly owned Company (Seven Arches Investments Ltd), c) the Early Successes Programme and other in-house items including the Memorial Wall project.

2. Recommendation(s)

- 2.1 **To approve the direction of the Asset Development Programme**

3. Introduction and Background

- 3.1 The Project Board advises on all projects relating to the ADP, which includes projects relating to Corporate Asset Management, Property Joint Venture Partnerships and Seven Arches Investments Ltd. It will in turn be informed by the work of the Corporate Asset Management Group.
- 3.2 On 19 September 2017 this Committee approved a hybrid approach for delivering the asset development programme. The hybrid approach involves the self-development of simple sites by the Council, while more complex sites would be undertaken jointly between the Council and a procured joint venture partner.

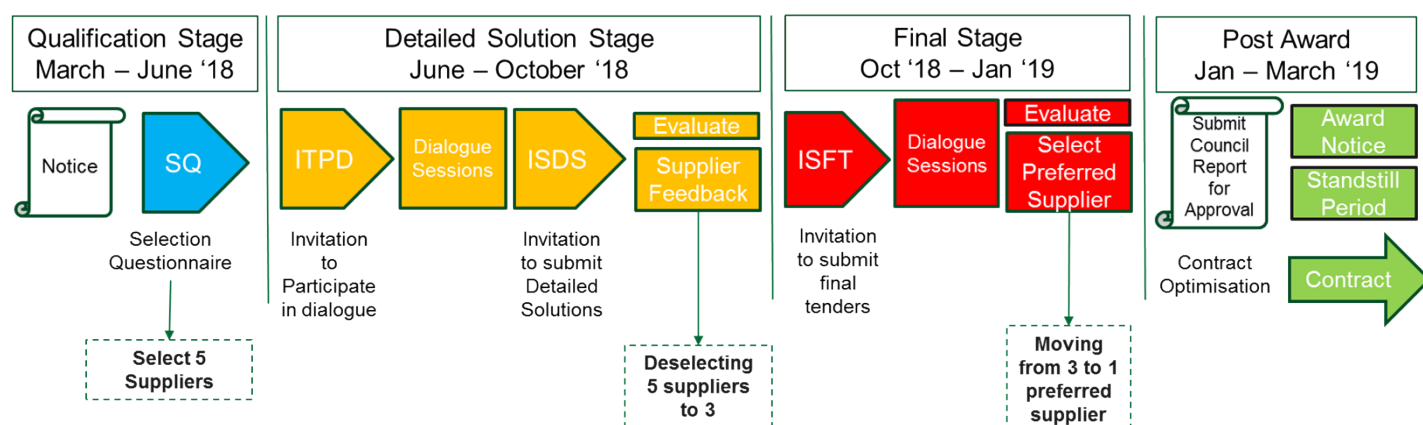
- 3.3 To maintain a revenue stream for the Council the self-developed sites will be leased out on a commercial basis. The Localism Act 2011 allows local authorities to do anything an individual can do. However, section 4 of the act requires that any commercial activity must be undertaken through a company.
- 3.4 Therefore, to comply with the requirements of the Localism Act 2011 the Council established a wholly owned company, Seven Arches Investments Ltd ("SAIL") on 12th April 2018.
- 3.5 The wholly owned company will seek to engage in a variety of commercial activities that will be asset based initially, and subject to appropriate business cases and financial sustainability could be extended into other areas such as service provision.
- 3.6 Sites developed with a partner may also require the establishment of a separate company to comply with legislative requirements and to formalise the partnership. This will likely be in the form of a limited liability partnership (LLP) with ownership split 50:50. The best arrangement will be assessed through the procurement process, currently underway.

4. Loan Drawdown Facility

- 4.1 The Project Board has received several initial investment opportunities that have been presented by the appointed property investment advisors. From these opportunities and the recommendations of the property investment advisors it became apparent that access to a loan drawdown facility would be more commercially appropriate than tranches of loans.
- 4.2 The drawdown facility allows more than one potential investment to be pursued at a time, preventing lost opportunities for relatively small amounts and allowing greater diversification. It also allows the company to operate in a more commercially competitive manner. A facility of £30m was deemed appropriate at this stage.
- 4.3 Approval for the increased drawdown facility was approved by this committee on the 19th June 2018 and subsequently ratified by Full Council on the 27th June.
- 4.4 The first drawdown of this facility was for £6m being in respect of the purchase of SAIL's first investment and for working capital going forward.

5. Progress to date – Joint Venture Partner Procurement

- 5.1 Following the publication of an Official Journal of the European Union (OJEU) Notice and a dedicated website on 23rd March 2018 there were 15 organisations who submitted applications by the deadline of 4th May.
- 5.2 The 15 bids were evaluated based on who best met the Selection Questionnaire (SQ) criteria and the successful 5 were put forward to Competitive Dialogue and to submit detailed solutions.
- 5.3 First competitive dialogue commenced on Monday 11th June, and further dialogue sessions took place during June and July. The procurement timetable continues on track and at the time of writing bidders' Initial Detailed Solutions are being evaluated by the procurement team. The evaluation will conclude by Friday 21st September, with an expected 3 bidders progressing to the next stage.
- 5.4 The next stage will be the "Invitation to Submit Final Tenders". This is expected to involve 3 dialogue sessions during October with subsequent evaluation taking place between mid-November and Mid-January.
- 5.5 Timescales and the procurement stages are shown in the following diagram.



6. Progress to date – Seven Arches Investments Ltd

- 6.1 Seven Arches Investments Limited ("SAIL") was officially registered with Companies House on 12th April 2018. It has subsequently had its own Bank Account set up and been registered for VAT.
- 6.2 The procurement of Property Investment Advisors during April resulted in two City firms being appointed: Montagu Evans LLP and Carter Jonas LLP.

These firms will advise when the best property investments become available, either “on market” or “off market”.

- 6.3 On the 2nd August, Montagu Evans held a session with the Project Board to provide insight into Property Investment which would then allow the Project Board to gain a greater understanding of the investment process and to assist the Board in undertaking its function in relation to SAIL. The Board were also able to provide direction to the advisors in terms of the types of investment properties that would be suitable.
- 6.4 As previously reported to this Committee, sample sites have already been supplied by both firms of advisors. Since then one property passed initial due diligence and the Project Board gave a recommendation to SAIL Directors to enter into a two-stage bidding process. Subsequently, SAIL’s offer was acceptable.
- 6.5 A top-quality team of solicitors, surveyors and valuers were put in place who worked closely with SAIL and its Property Investment Advisors to undertake final due diligence and legal process. As a result, the completion of the transaction was secured at the end of August.
- 6.6 The property will be managed on SAIL’s behalf by Montagu Evans.
- 6.7 Details of the purchase are in the following table:

Address	One Curo Park, St Albans, AL2 2DD
Property Details	The property is situated on the Curo Business Park, approximately 3 miles to the south of St Albans and 2 miles from the M25/ M1 junction. It comprises a well specified office building developed in 2003 and extending to 17,532 sq ft (1,628.7 sq m), with 70 on site car spaces.
Tenure	Freehold
Purchase Price	£4,965,000 (£5,300,000 including purchase costs)
Vendor	RPMI Railpen
Tenants	John Sisk & Sons Ltd
Lease Details	Full Repairing and Insuring to July 2033 with no breaks. Guaranteed by parent company Sicon Ltd.
Rent	Outstanding review from July 2018 where there is a guaranteed rental increase to a minimum of c £291,000. Further reviews are due in July 2023 and 2028.
Net Initial Yield	5.9% (5.5% incl purchase costs)

7. Progress to date – Early Success Programme / in-house schemes

- 7.1 A Master Assets List has been developed which will be used to keep track of Early Successes/Disposals/Redevelopments/Corporate Landlord etc which were previously kept under separate records.
- 7.2 Out of this master list, a number of sites have been identified into two separate lists being shown as “Dormant” or “Closed” as applicable. These lists have been approved by Project Board and are attached for Members’ information at Appendix A. This will leave just the “Live” cases to be investigated, which will be prioritised. The Top 10 of these will be focussed on and progress reported accordingly.
- 7.3 Progress will be reviewed at Corporate Asset Management Group fortnightly and then brought to the Project Board. A list of properties currently “leased out” and earning rental income for the Council will also be kept and monitored separately.
- 7.4 The Memorial Wall project is well underway. By the time of this committee, ground works will have been completed and the install of the granite Sanctums (Vaults) and Columbaria will be nearing completion.
- 7.5 An “Exclusive Rights of Burial” agreement to formalise the terms and conditions of use of the Vaults and Columbaria will have been completed by this time and marketing arrangements put in place. It is envisaged that the first point of marketing will be with the various Funeral Directors within the Borough. The Council’s website will also be utilised.
- 7.6 Officers will soon be turning their attention to developing the second phase of this project which will be to focus on an area designed for the placing of ashes if a family chooses not to renew the rights to their Sanctum or Columbarium. If this situation does occur, then the authority will need to have a location where remains can be either scattered or placed in the ground without using up existing burial plots.
- 7.7 In the meantime, an area of boundary fencing that requires renewal will also be set up to form an area for the public to place memorial plaques for their beloved pets. Animal ashes are not intended to be accepted at this stage due to complex procedures having to be followed. Progress will continue to be reported to this Committee.

8. Reasons for Recommendation

- 8.1 To update the Committee on the progress of the Asset Development Programme.

9. References to Corporate Plan

- 9.1 This fits with the Council's Transformation Vision, to explore new income generating ideas and opportunities.

10. Implications

Financial Implications

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- 10.1 The asset development programme is anticipated to provide substantial income for the Council.
- 10.2 However, investments carry a degree of risk and the company will need to be sustainable in the long term.
- 10.3 Currently costs associated with the Joint Venture Partner Procurement are to be met from the Organisational Transformation Reserve.
- 10.4 The Memorial Wall Project is captured within the existing Capital Program, this has a current budget of £100k and is on target to be spent by 31st March 2019.
- 10.5 SAIL has borrowed £6 million from Brentwood Council to finance the purchase of One Curo Park as well as financing the working capital for SAIL to operate as an ongoing business. The Council will finance the loan through borrowing.
- 10.6 SAIL's Business Model has been updated to reflect the purchase of One Curo Park. The business model continues to be reviewed by officers to ensure SAIL is sustainable long term.

Legal Implications

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- 10.1 Legal implications are referred to in the body of this report. Legal Services, working with external legal advisers and specialists, will be providing advice and assistance going forward.

Other Implications (where significant) – i.e. Health and Safety, Asset Management, Equality and Diversity, Risk Management, Section 17 – Crime & Disorder, Sustainability, ICT.

- 10.2 None

- 11. Background Papers** (include their location and identify whether any are exempt or protected by copyright)

- 11.1 None

12. Appendices to this report

Appendix A - Summary of Closed and Dormant Asset Reviews

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