

**20<sup>th</sup> November 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.
- 1.3 Approval for a property ownership transfer between Housing and General Fund is being sought, detailed in section 7.

**2. Recommendation(s)**

- 2.1 **To approve the direction of the Asset Development Programme**
- 2.2 **To approve the transfer of 4 Coptfold Road from Housing ownership to General Fund ownership at the independently sourced valuation.**

**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 12<sup>th</sup> April 2018.
- 3.5 The wholly owned company is seeking 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.
- 3.7 A Governance & Decision-Making Process schematic has been developed to clarify roles, responsibilities and reporting between the Council and both the Joint Venture and the Wholly Owned Company. This is attached at Appendix A for information.

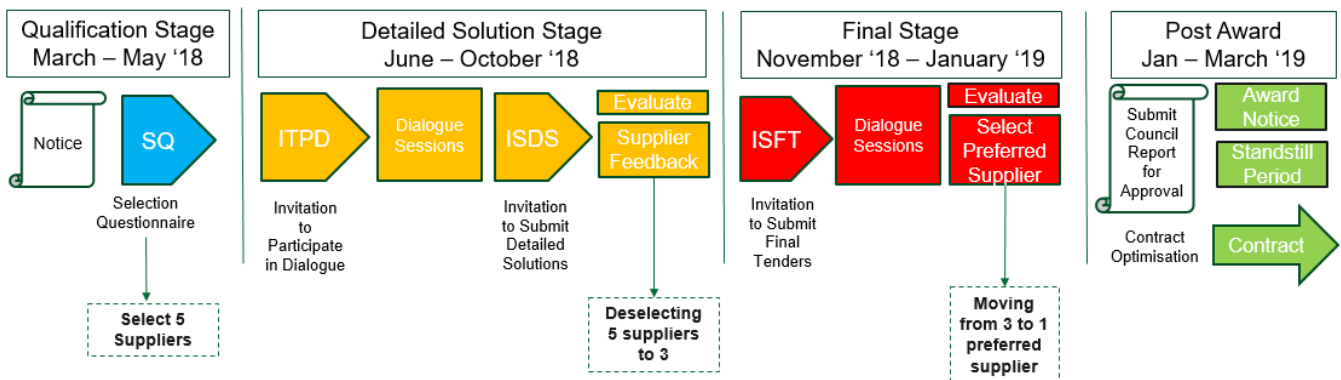
#### **4. Loan Drawdown Facility**

- 4.1 As reported in September, a Loan Drawdown Facility was set up following due approval in June 2018. The first drawdown of £6m was made in August in respect of the purchase of SAIL’s first investment property and for working capital going forward.
- 4.2 The Facility has not been called upon since, but further opportunities have been presented by the appointed Property Investment Advisors which are currently undergoing initial due diligence. It is usual for more potential purchases to be turned away, due to lack of suitability, than taken up.

- 4.3 The Property Investment Advisors have, following meetings held with officers and the Project Board, produced an Investment Strategy for SAIL which will make it easier for them to put forward the most appropriate opportunities going forward to match the Council's objectives.

## 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 23<sup>rd</sup> March 2018 there were 15 organisations who submitted applications by the deadline of 4<sup>th</sup> 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 Competitive dialogue commenced on Monday 11<sup>th</sup> June, with dialogue sessions taking place during June and July. Bidders' Detailed Solutions were then submitted, and subsequently evaluated by the procurement team. Comments were then fed back in time for the following round of dialogue sessions.
- 5.4 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 2<sup>nd</sup> 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 Following the purchase of its first property, Investment opportunities continue to be put forward for consideration.

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

- 7.1 As previously reported a Master Assets List has been developed.
- 7.2 From this master list, a number of sites were approved in September to be treated as “Dormant” or “Closed” as applicable. These lists have now been put to one side to enable a more focussed approach to the remaining “live” assets which may have a greater potential than their current use allows. A “Top 10” priority list of these was produced and subsequently worked through.
- 7.3 Progress is being reviewed at Corporate Asset Management Group fortnightly and then reported to the Project Board. One of the Top 10 has now been completed (sold) and one has been practically concluded (with solicitors), therefore 5 more “replacement” properties have been identified, resulting in a slightly larger priority list of properties currently being “triaged” with a view to improving the return to the Council.

### **4 Coptfold Road**

- 7.4 One of the properties on the priority list is 4 Coptfold Road, a property that was being let by Housing via Brentwood Housing Trust to Council Tenants. It was allowed over time to fall into considerable disrepair and some months ago became unlettable. From quotes obtained, the property will require in the region of £50,000 for renovation works to bring it back to a lettable standard.
- 7.5 As significant investment is required it is not cost effective for Housing to renovate this property given that the property rental value would remain at a social rent level. It has therefore been offered to the General Fund which has a capital budget available for such asset renovations.

- 7.6 An independent professional valuation report has been obtained which indicates that the freehold of the property in its current state of repair is valued at £315,000 but when fully refurbished this would increase to between £350,000 and £375,000. If let on an Assured Shorthold Tenancy, an achievable rent would be £15,000 per annum (£1,250 per month).
- 7.7 A business case for this project is set out in Appendix B.
- 7.8 Authority is now required from this Committee to transfer the asset from Housing ownership to General Fund ownership at the value obtained of £315,000. For clarification this means that an adjustment will be made by reducing the level of outstanding Housing debt and increasing the level of General Fund Debt by this amount.

### **The Memorial Wall**

- 7.9 The Memorial Wall project is now practically complete. There were some delays experienced in the summer with the manufacture and delivery of the granite Sanctums (Vaults) and Columbaria, but at the time of writing these are nearly all installed.
- 7.10 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. The first point of marketing will be with the various Funeral Directors within the Borough. The Council’s website will also be utilised. A fair amount of interest has already been shown by the public who have seen the works taking place and enquired about advance orders.
- 7.11 Officers will later 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.
- 7.12 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**

**Name & Title: Jacqueline Vanmellaerts, Interim Chief Finance Officer**

**Tel & Email: 01277 312829/jacqueline.vanmellaerts@brentwood.gov.uk**

- 10.1 The asset development programme is anticipated to provide substantial income for the Council.
- 10.2 Costs associated with the Joint Venture are to be met from the Organisational Transformation Reserve.
- 10.3 The £50k required to improve 4 Coptfold Road is to come from the capital funds set aside for the Asset Development Program.
- 10.4 Where an asset is held to achieve a rental return and/or capital appreciation as in the case here, regarding Coptfold road, the correct accounting classification is an Investment Property.
- 10.5 The decision to transfer between HRA and General Fund, transfers the risks and rewards from the HRA to the General Fund. The maintenance and managing of the property will be the responsibility of the General Fund.
- 10.6 Asset Transfers between the HRA and General Fund are dealt with by means of Capital Financing Requirement (CFR) adjustments.
- 10.7 The General Fund CFR will be increased by the equivalent amount of the valuation of the property (£315k). The cost of servicing this debt will be met from the income generated by the asset.
- 10.8 This property will not be subject to an annual depreciation charge, but instead will be subject to annual revaluation due to being classified as an Investment Property.

- 10.9 The transfer of the property allows the income to be increased to market rates. The annual income generated means that the payback period of the investment is just under 6 years.
- 10.10 The Memorial Wall project even though slightly delayed remains within budget.
- 10.11 The financial position on SAIL remains unchanged. However, opportunities and investments are being proposed and reviewed to develop the commercial aspect for the Council.
- 10.12 Investments carry a degree of risk and the company will need to be sustainable in the long term.

**Legal Implications**

**Name & Title: Daniel Toohey, Monitoring Officer**

**Tel & Email: 01277 312860/daniel.toohey@brentwood.gov.uk**

- 10.13 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.
11. Appendices to this report

Appendix A – Governance and decision making process – Asset Development Programme

Appendix B – Business Case for renovating – 4 Coptfold Road

**Report Author Contact Details:**

**Name:** Ray Inns – Project Accountant

**Telephone:** 01277 312500

**E-mail:** ray.inns@brentwood.gov.uk