

19th March 2019

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 **That the Council submits an expression of interest for the Future High Streets Fund by 22nd March 2019.**

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 The Council established a wholly owned company, Seven Arches Investments Ltd ("SAIL") on 12th April 2018. The 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.
- 3.5 Sites developed with a partner will require the establishment of a separate company to comply with legislative requirements and to formalise the partnership. This will be in the form of a limited liability partnership (LLP) with ownership split 50:50.

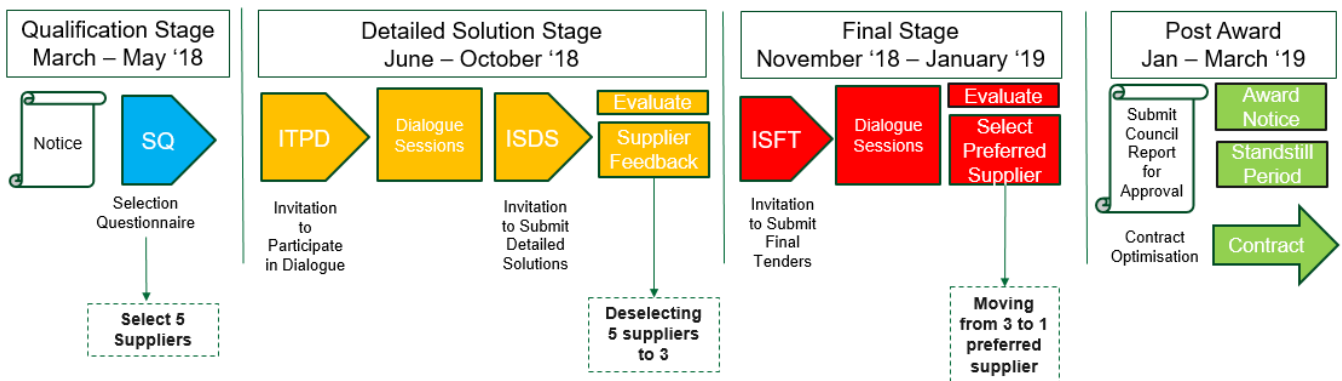
4. Loan Drawdown Facility

- 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 A further drawdown of £7.5m was made in February 2019 in respect of an investment property purchased in Chichester.
- 4.3 Further requests to utilise the loan drawdown facility will continue to be presented to the Project Board following due diligence work.

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 2018.
- 5.2 The 15 bids were evaluated based on who best met the Selection Questionnaire (SQ) criteria and the successful five were put forward to Competitive Dialogue and to submit detailed solutions.

- 5.3 Competitive dialogue commenced on Monday 11th June 2018, with dialogue sessions taking place during June and July 2018. Bidders' Detailed Solutions were then submitted, and subsequently evaluated by the procurement team. Following evaluation, three bidders were selected to progress to the final stage.
- 5.4 Final submissions were received from the bidders on 12th December 2018 and evaluation subsequently undertaken on these. Council approval will be required to award the contract.
- 5.5 The original timescales and the procurement stages are shown in the following diagram.



6. Future High Streets Fund

- 6.1 In the 2018 budget the government announced a £675m fund to support high streets in a response to changing consumer patterns and spending increasingly moving online. Subsequently, on 26 December 2018 the Ministry for Housing, Communities and Local Government (MHCLG) announced details of how Council's could bid for the fund.
- 6.2 The Fund will operate as a two-round fund with two stages to the application process. This first stage of the application process, Phase 1, calls for places to come forward with Expressions of Interest by 22 March 2019 setting out their challenges and strategic approach to regenerating town centres. These Expressions of Interest will be assessed against criteria set out in the bid documentation and an announcement on which places will move forward to Phase 2, development of full business cases, will be made.
- 6.3 During this second phase, shortlisted places will receive some revenue funding to support the development of their high street strategies which shall include specific project plans and associated business cases setting out how

they shall regenerate these places. These business cases will be assessed in accordance with departmental and HM Treasury Green Book appraisal methodologies and criteria to be published in due course.

6.4 The following is the timetable provided by MHCLG:

- December 2018: Phase 1 opens and Expressions of Interest invited;
- 22 March 2019: deadline for Expressions of Interest;
- Summer 2019: announcement on places moving to Phase 2;
- Late 2019: first round of final business cases to be submitted;
- Spring 2020: all remaining final business cases to be submitted;
- Not before 2020: Second round of applications opens.

6.5 The Fund will contribute up to a maximum of £25 million to each successful place. However, it is expected to see a range of project sizes coming forward, many of which are in the region of £5-10 million per town centre. As such MHCLG do not expect to allocate that full amount to each area. When making funding decisions, they will consider the funding available in each financial year.

6.6 To be eligible for funding the Council must demonstrate a need for investment and have projects co-funded by the private sector. Brentwood can only submit a bid for one high street in the Borough.

6.7 Through the Joint Venture the Council can meet the co-funded criteria. Additionally, the Council will have a partner who can support the bid and provide the resources to help deliver the projects. Given the work undertaken to date, in relation to the town centre by the Council and the JV partner, it is likely the Council will be able to have funding fast-tracked if successful. MHCLG are keen to fast track funding where possible.

7. Progress to date – Seven Arches Investments Ltd

7.1 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.

7.2 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”.

7.3 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. This led to an Investment Strategy being produced by Montagu Evans.

- 7.4 At the end of February 2019, SAIL was successful in completing the purchase of its second Investment Property.
- 7.5 A professional 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. The property will be managed on SAIL's behalf by Montagu Evans.
- 7.6 Details of the purchase are in the following table:

Address	44 East Street, Chichester: The property is situated in the prime pitch on East Street. East Street is the main shopping street in Chichester.
Property Details	The property is a purpose built, modern, retail unit constructed in 2015. The retail accommodation is provided for across the ground and part first floors with access via an escalator and lift. There are five apartments across the first and second floors, which have all been sold off on a long leasehold basis and are separate from the retail unit.
Tenure	Freehold
Purchase Price	£7,075,000 (£7,493,000 including purchase costs)
Vendor	Aberdeen Standard Investments
Tenants	TJK UK (TK Maxx) who have the best possible risk and financial rating with Dun and Bradstreet (5A1).
Lease Details	Full Repairing and Insuring to December 2030 with a tenant break option in December 2027.
Rent	£450,000 a year with an upward only review in December 2020. Management and contingency costs of 15% have been allowed in the business plan (£67.5k a year).
Net Initial Yield	6.4% (6.0% incl purchase costs)

- 7.7 Investment opportunities are constantly being put forward for consideration and reviewed with all necessary due diligence.

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

- 8.1 As previously reported a Master Assets List of the Council's general fund assets have been produced, with the intention to identify potential opportunities.

- 8.2 In consultation with the Project Board the list has been reviewed and sites prioritised accordingly to manage the work. Priorities are constantly evolving as investigation progress.
- 8.3 Approval to advantage opportunities identifies will be brought to Committee where required.

The Memorial Wall

- 8.4 The Memorial Wall project is now complete and has entered an operational phase. Marketing has commenced with some initial interest being shown.
- 8.5 Any future reports on this item will be made to the relevant committee as required.

9. Reasons for Recommendation

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

10. References to Corporate Plan

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

11. Implications

Financial Implications

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- 11.1 The asset development programme is anticipated to provide substantial income for the Council.
- 11.2 Costs associated with the Joint Venture are to be met from the Organisational Transformation Reserve.
- 11.3 Once the joint venture is established, the financial model will be reflected in the Council's Medium-Term Financial Plan.
- 11.4 The future high street fund is a welcomed source of funding. Resources required for the application process will be met through existing budgets.

- 11.5 The Memorial Wall project even though slightly delayed remains within budget.
- 11.6 The financial position on SAIL remains unchanged. However, opportunities and investments are being proposed and reviewed to develop the commercial aspect for the Council.
- 11.7 The Council ensures that the Business Plan of SAIL and the Council's Medium-Term financial plan are aligned. The financial performance of SAIL is regularly monitored to ensure the commercial targets are to be met.
- 11.8 Investments carry a degree of risk and the company will need to be sustainable in the long term.

Legal Implications

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- 11.9 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.

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