

Commercial Assets Update Report

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Purpose of the Report

1. To update members on commercial investments and management of the existing asset portfolio since the last half yearly update in June 2018.

Forward Plan

2. This report appeared on the District Executive Forward Plan with an anticipated Committee date of 6th December 2018.

Public Interest

3. This report is to update members on progress made to date since the previous update in June 2018 in purchasing new commercial investments that have been acquired to deliver the objectives of SSDC's Financial Strategy agreed in September 2017 and the Commercial Strategy agreed in August 2017. The aim of this report is to give Members and the public an update on the performance and impact of the commercial strategy to date including its contribution to mitigating the impact of reductions in Government funding and protecting services.
4. Due to the sensitive commercial nature of investment acquisitions, and the need to manage risk and protect the value of the Council's investments over the long term, certain detailed information is included in a confidential appendix and not to be disclosed.

Recommendations

5. That the District Executive:
 - a. Note progress made to date in acquiring new commercial investments
 - b. Note progress being made in securing income from our existing assets
 - c. Note progress being made in disposals and transfers of existing assets, resulting in a reduction of future liabilities associated with these assets.

Background

6. While presenting the "Commercial Services Income Update" report to District Executive in February 2018, members requested regular updates to show progress made in meeting the Commercial Strategy (approved by Council in August 2017). Following the update to Members in June 2018, this report is for noting the progress made to date by the newly

appointed Commercial Property Team and their work on new investments as well as management of the existing asset portfolio.

7. This report is a succinct update of high level figures for new investments since June 2018. It also updates members on work being carried out to increase income from existing assets and reduce liabilities. The Commercial Property Team has undergone some recent staff changes and now comprises of the following staff members:

Robert Orrett, MRICS	-	("RO") Commercial Property, Land and Development Manager (also service Manager for current Property and Engineering teams)
Brendan Fisher, MRICS	-	("BF") Property and Development Project Manager
Dan Bennett	-	("DB") Property and Development Project Manager
Rebecca McElliott	-	("RM") Property & Development Project Manager

8. RO has been newly appointed and now manages the Property and Engineering Team. In addition to the existing Property and Engineering team, SSDC recruited BF and DB to work in the Commercial Property, Land and Development Team on investment and strategic acquisitions, disposals and maximising potential from our existing assets, as well as providing support to priority and strategic projects and other key developments. Both teams will become the Commercial Property, Land and Development Team following full Transformation and are currently transitioning to the new operating model, ready for 2019.
9. SSDC has a wide and varied range of assets that have been accumulated via various means over the years. The creation of South Somerset Homes (SSH) in 1998 meant that many assets were transferred via a Large Scale Voluntary Transfer (LSVT) to SSH, now Yarlinton, albeit numerous tranches of land were retained for strategic purposes, i.e. potential ransom strips.
10. After the LSVT, SSDC retained a portfolio of assets that mainly comprised of operational offices, listed buildings, industrial units, car parks and an assortment of land, i.e. grass verges, open spaces and ransom strips. These assets do not generate a substantial annual income and are now in many cases costing SSDC money through increased maintenance and running costs. Some, however, provide opportunities to generate value through development, sale receipts and development to also provide Council Tax, business rates and New Homes Bonus grant funding.
11. As part of the Commercial Strategy, Council approved a commercial approach to Land and Property management in August 2017.

Commercial Investments

12. Since the introduction of the Commercial Strategy, SSDC has purchased a number of investment properties. This report summarises the high level figures to demonstrate the annual income achieved via rent or sales.

13. The total amount invested to date is £26.2m on four commercial investments. These have been funded through a combination of reserves and borrowing. The costs and funding of each investment is set out in Confidential Appendix 1, Table 1.
14. The financial strategy includes an ongoing annual income target of £2m for commercial investment income. This target is net of the costs of increased capacity within the Commercial Property Team as outlined above. The investments made to date are therefore making good progress towards this target.

M&S Yeovil

15. Continues to provide strong annual revenue to SSDC. M&S has just announced a 7% increase in profits this year, whilst it continues its own Transformation programme between 2018 and 2022. There are no indications from M&S that there is any intention to leave Yeovil.

Wilko Yeovil

16. Continues to provide strong annual revenue to SSDC and performs well as an anchor store to the town. There are no indications from Wilko that there is any intention to leave Yeovil. With the recent sale of Glovers Walk and regeneration of this area of town on the horizon we expect that this will remain the case for the foreseeable future.

Residential Development, Marlborough

17. This development progresses well and is expected to be completed in the early months of 2019 and sold out prior to the end of 2019. Latest agents' forecasts for the Marlborough location show that the capital value of similar residential units has grown this year and the sales of completed units should generate a healthy receipt for SSDC, that can be reinvested into our town centre regeneration schemes. The additional community benefit of this scheme is that whilst it is out of SSDC area we are using local contractors wherever possible, aiding the local economy.

Battery Storage Facility, Taunton

18. The roll out of this operational facility for green energy is on time and in budget to date. It is progressing well and should be operational in early 2019. There will be more to report back on at completion and at the next asset update report.

Market Commentary

19. It has been apparent over the last six months that returns achievable in the market are tightening in some sectors; and as can be seen from the number of units rejected SSDC's property team are being very selective over those investments of interest to us and even then we have not secured all that we have bid for, as we have not been prepared to pay more than our own professional advice obtained for the benefit of SSDC. However, we are progressing a number of investments as noted above that have not yet completed in time for this update

report and progress continues to be made towards reaching our revenue shortfall and achieving the objectives set in the Commercial Strategy for 2021.

Commercial Investments Considered and Rejected

20. SSDC has considered a number of other potential investment acquisitions including:

- A car showroom in Newcastle
- A retail warehouse in Corby and Norwich
- Industrial units (x2) in Salisbury
- An industrial estate in Eastleigh
- A business centre in Winchester
- Industrial units (x2) in Eastleigh
- A supermarket in Ampthill
- A supermarket in Haywards Heath
- A multi-let development in Brighton
- An office building in Southampton
- A retail unit in Chichester
- A multi-let retail centre in Clevedon
- An industrial unit in Telford
- A car showroom and gym in Portsmouth
- An office development in Southampton
- A multi-let industrial estate in Newquay
- An industrial unit in Poole
- A hotel development in Gosport
- An industrial unit in Andover
- A number of food retail outlets
- A retail unit in Brighton
- An industrial unit in Bridgwater
- A retail unit in Yeovil
- An office building in Andover
- A trade park in Oswestry
- A car servicing unit in Redditch
- A multi-user entertainment estate in Plymouth
- A business park in Birmingham
- A business centre in Gillingham
- A multi-let industrial centre in Hitchin
- An industrial development in Weston-super-Mare
- An industrial unit in Scunthorpe

21. However, these have either been rejected by the IAG or were rejected prior to consideration by the IAG. This has been for a variety of reasons arising in the assessment and due diligence process including:

- a. The asking price being in excess of the valuation placed on the investment by SSDC.
- b. Unacceptable risk to income in future years

- c. Unacceptable risk to SSDC in the development of the project
 - d. Potential investments placing SSDC's portfolio out of balance through over exposure to a sector or market; and
 - e. Non-compliance with the Commercial Strategy aims and objectives.
22. Part of SSDC's approach includes developing an effective working relationship with agents. Feedback from agents is that there is limited stock currently available generally within the market, resulting in some price inflation. The Commercial Property Team are working to ensure that SSDC does not overpay for property due to the lack of supply, and is not exposed to undue risk, for example within the retail sector, where significant changes are currently occurring nationally. SSDC's Commercial strategy also aims to create a risk-mitigated and balanced portfolio and therefore we will be selective to agree the best investments and negotiated terms that we can to meet our strategy objectives. Further details of investments considered are included in Confidential Appendix 1.

Asset Management Update

23. Since the previous update to District Executive in June 2018, a number of enquiries have been received regarding the potential disposal of SSDC assets. These disposals can deliver estate management savings to SSDC, reducing our asset costs for the future and in turn improving the overall quality, values and returns of the wider portfolio.
24. DB has recently been appointed to the Property Development Project Manager role, jointly funded by Yarlinton Housing Group for the first year. DB has identified a number of sites that SSDC own, and can progress for small scale housing development. The first of these sites has been reviewed in detail and a draft design has been produced for a pair of semi-detached houses. A planning 'pre app' for this site will be made and if a favourable response is received then we will consult with members and work towards making a full planning application. If planning consent is granted then the site could be sold at auction and would likely generate a receipt. Receipts such as these can be reinvested to provide greater community benefit for our residents such as our town regeneration schemes, or used towards revenue producing investments to support council services where there is a known revenue shortfall.
25. There are a number of other sites in SSDC ownership currently under review and a report will be brought to DAG for consideration and reported retrospectively to District Executive in due course and included in future District Executive 6 monthly update reports outlining the aspirations and potential gain from the wider project.

The following provides an overall update:

Agreed terms on SSDC existing assets (further detail shown in Confidential Appendix 1):

- Disposal of land North of Pent House, Penn Hill Park (Yeovil)
- Renew lease for business based in Dovecot building, Bruton

- Sale of Amenity Land at 74 Holyrood Terrace
- Sale of Amphora House in Langport
- Licence for access to rear of 180 Sherborne Road
- Grant of Easement at Essex Close, Chard, to facilitate housing development
- Working in partnership with Yeovil College to ease local parking issues

Current Negotiations on SSDC existing assets

- Extension of Chard Cemetery on SSDC owned land (yard at Zembard Lane and rear of 2 Crimchard)
- Boden Centre, Chard – negotiating with a number of potential occupiers on a short term lease basis
- Churchfields, Wincanton potential redevelopment (subject to the relocation of occupants) a report will be brought to District Executive with a final recommendation when negotiations and research has been completed.
- Land rear of Poppy Close and Jasmine Close – potential disposal of land for garden extension
- Potential grant of easement in Furzehill, Chard for two properties
- Lifting of restrictive covenant to facilitate housing development in Crewkerne

Disposals to Parish Councils & CAT's of SSDC Assets

- Ash Recreation Ground by way of Community Asset Transfer to Ash Parish Council

Completions relating to SSDC Assets

- Bridge Barns – surrendered lease on Area North offices, vacated by end of December 2018
- Disposal of The Follies
- Lease re-gearred at 6/7 South Western Terrace to allow local restaurant to expand and facilitating disposal as an investment property
- Re-letting of Units 6, 8 and 15 at Yeovil Small Business Centre
- Renewal of Western Gazette lease at Yeovil Innovation Centre
- Grant of new lease for office space to Julian House at Petters Way, Yeovil

- Two small parcels of highway land at Beercrocombe

Transactions relating to SSDC jointly owned assets

- Lufton 2000 JV
 - a. Sale of Plot 24/25 Completed October 2018
 - b. Sale of Plot 32/34 – Sold subject to planning permission due December 2018

Acquisitions

- Land to rear of 30 Fore Street, Chard to facilitate the Chard Regeneration Scheme

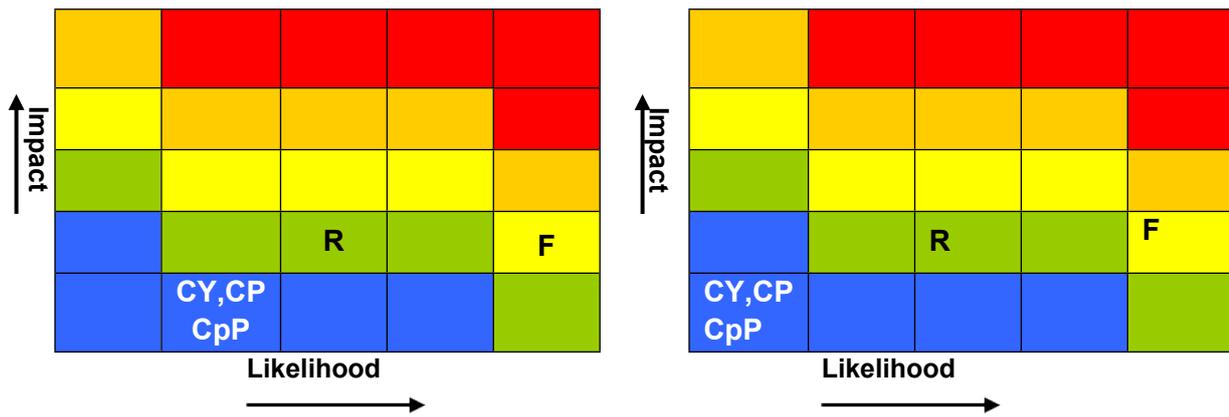
Financial Implications

26. The financial implications for the progress with commercial investments and of asset management activity are set out above within the report and also in further detail in the Confidential Appendix 1.
27. SSDC has approved a large sum for commercial investment. The commercial strategy has been live for fifteen months, and good progress has been made in establishing the team to deal with acquisition, ongoing management and ultimate disposal of land and property assets including investment properties.
28. This report demonstrates that a number of acquisitions have been progressed, and some have been considered and rejected for a variety of reasons. This demonstrates the strategy is working, with the overall outcome that SSDC is making good progress in acquiring a balanced portfolio of investments that is on track to meet overall income generation targets within the financial strategy.
29. Detailed and robust due diligence has been completed with extensive involvement of SSDC's finance and legal specialists together with external advisors (e.g. valuers, tax specialists, legal advisers, sector specialists) to support the property team in completing robust business cases that underpin recommendations and investment decisions. The decisions made have been through the agreed governance arrangements as approved by SSDC with the Investment Assessment Group providing unanimous recommendations to the Chief Executive and Council Leader for final decisions.
30. The financial implications of completed acquisitions including costs, income and funding arrangements will continue to be incorporated in budget setting and monitoring processes, in line with SSDC's financial procedures framework.

Risk Matrix

Risk Profile before officer recommendations

Risk Profile after officer recommendations



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Council Plan Implications

This report links to the following Council Plan objectives:

- Actively manage assets and resources to ensure the best financial or community return
- Seek business opportunities for SSDC
- Work with businesses and use our assets

Carbon Emissions and Climate Change Implications

None

Equality and Diversity Implications

This report is for information purposes only

Privacy Impact Assessment

There is no personal information included in this report

Background Papers

- SSDC Commercial Strategy 2017