

BATH AND NORTH EAST SOMERSET

RESOURCES POLICY DEVELOPMENT AND SCRUTINY PANEL

Wednesday, 17th May, 2017

Present:- Councillors Sarah Bevan (Chair), Bob Goodman (Vice-Chair), Christopher Pearce, Jasper Becker, Colin Barrett and Andrew Furse

1 WELCOME AND INTRODUCTIONS

The Chair welcomed everyone to the meeting.

2 EMERGENCY EVACUATION PROCEDURE

The Chair drew attention to the emergency evacuation procedure.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Chris Dando had sent his apologies.

4 DECLARATIONS OF INTEREST

Councillor Goodman stated that he had clients who own properties in the Commercial Estate and so he declared an 'other' interest.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIRMAN

There was none.

6 ITEMS FROM THE PUBLIC OR COUNCILLORS - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS RELATING TO THE BUSINESS OF THIS MEETING

There were none.

7 MINUTES

The Panel confirmed the minutes of the previous meeting as a true record and they were duly signed by the Chair.

8 COMMERCIAL ESTATE STRATEGY

Derek Quilter – Divisional Director of Property and Project Delivery introduced the report. He explained that a number of reports would be brought to the Panel in the coming months (Review of the Property Market; Review of Commercial Estate objectives; Generating Income and Review on performance of the Commercial Estate). He explained that acquisitions are an important part of our income and two

acquisitions alone (Melksham and Aztec West – details in the report) have achieved the 2017-18 target.

Panel members made the following points and asked the following questions:

Councillor Goodman referred to the fact that two acquisitions form 10% of the Commercial Estate income – he asked if there is a break clause which may put this figure at risk and also asked if the officer thinks it could be dangerous to have 10% of income based on two acquisitions. The officer explained that there are a large number of small tenants and the authority has been advised to diversify with some larger clients. The officer also explained that a risk analysis is always done where issues such as these are concerned. The Cabinet Member for Finance and Efficiency added that he had asked for a second opinion before this decision was made.

Councillor Goodman asked about the risks associated with 107% borrowing for new acquisitions in the commercial market. Richard Long – Head of Property explained that due diligence was explored as part of the Single Member decision on this. Regarding a query from Councillor Goodman on stamp duty, the officer stated that he would check and come back on that issue. Andrew Pate – Strategic Director, Resources explained that the report provides a summary only and the details are in the original decision report. He further explained that the main idea behind acquisitions is to diversify the asset base and deliver extra income. Borrowing on the commercial estate portfolio as a whole is low. Derek Quilter assured the Panel that there is an extensive sifting process and that 7-8 properties have been turned down due to risk.

Responding to a query from Councillor Pearce about protection from interest rate rises, the officer explained that it is a fixed term loan for 25 years. Councillor Becker asked if Local Authorities could be crowding out commercial investors (as they cannot get the 25 year fixed rate deals). The officer explained that Local Authorities are sometimes outbid. The Strategic Director explained that a number of Local Authorities invest to grow their income in order to put the money towards essential services such as social care.

Councillor Barrett asked for information on housing acquisitions. The officer explained that a report on ADL is coming to the July meeting of the Panel.

[Further information on these questions is contained in a note attached to the minutes.]

Richard Long, Head of Property talked through the section on risk (page 30 of the report)

Panel members made the following points and asked the following questions:

Councillor Furse stated that he felt that balancing away from retail is prudent but we must be mindful of any unintended consequences such as selling a retail property to a commercial buyer may result in empty properties in the city and also using public works and loan board money means Local Authorities have cheaper borrowing rates than the commercial sector – is this right? The Cabinet Member responded by

explaining that the approach to diversifying is acquisition not disposal, only underperforming assets would be considered for disposal and these are few and far between. He added that acquisitions are there to broaden the base not replace existing assets. Regarding Councillor Furse question, the Cabinet Member stated that he is confident that an appropriate approach is being taken and the beneficiaries of actions are residents. He added that the Local Authority is a good landlord and he strongly supports the line taken.

Councillor Barrett asked that the figures in the table on page 32 of the report be replaced with a live example next time as the figures do not add up in this example. The officer agreed and confirmed that the example given is for illustrative purposes only. *[This is also referred to in the attached note.]*

Councillor Goodman referred to the Paribas reports' example of the well run commercial estate in Shaftsbury, London and asked if officers had been in contact. Richard Long stated that he has not been in contact with them yet.

Councillor Becker stated that there is a view that prolonged low interest rates can lead to inflation of property over the country, he asked if the authority is vulnerable to this. The Cabinet member explained that, as the level of borrowing for this authority against Capital Estates is minimal, and our estate has been built up over 200 years, we are in a strong position.

Councillor Pearce stated that he is hearing from residents that there is a large number of empty shops in Bath and asked if this is true. Derek Quilter, Divisional Director of Property and Project Delivery, replied that it had been noted that there had been some business failures and maybe more than usual. He explained that the national void rate is 12% and for BANES it is below 6%. He added that all voids are on the Council website and, in many cases, there is already an interested party. Many of these voids are not Council owned.

Councillor Goodman stated that the Paribas report of 11th November reported that the vacancy rate in Shaftsbury, London is 2.6%;- he also asked if the Council pay rates on unlisted buildings. Richard Long, Head of Property, also explained that not all empty shops are owned by the Council and that the department works with tenants in difficulty and monitors the time it takes to let units. Derek Quilter added that sometimes temporary lets are used – especially during the Christmas period.

Councillor Becker asked if business rates could be reduced for retail outlets in Bath. The Cabinet Member explained that the Council does not set business rates, only collects them.

9 CABINET MEMBER UPDATE

The Cabinet Member for Finance and Efficiency, Councillor Charles Gerrish updated the Panel on the following:

- A report on ADL will come to the Panel in due course;- there are now 15 units let. Planning consent has been granted for the Riverside building in

Keynsham to be made into units and a contractor appointed. The units will be let by the end of 2019. ADL revenue is ahead of projected figures.

- Community Asset Transfer – a long running transfer has come to fruition (Bath Canoe Club).
- Regarding the financial report to the Panel – the end of year figures will come to the July meeting.

Panel members made the following points and asked the following questions:

Councillor Goodman asked if any of the units at Riverside would be let at reduced rate, to which the Cabinet Member replied that the units will be let on the open market.

Councillor Barrett asked about the Guild – the Strategic Director explained that the Guild is part of regeneration activity.

10 FUTURE WORKPLAN REPORT

Andrew Pate – Strategic Director, Resources introduced the report which set out suggested items for consideration at the Panel’s future meetings.

Panel members made the following points and asked the following questions:

Councillor Barrett asked if the appointment of the West of England Mayor impacted the panel workplan. The Strategic Director explained that there was no direct effect on the Resources Panel remit and there are separate scrutiny arrangements.

The Panel noted the items listed in the report and agreed that the Chair of the Panel and Strategic Director would programme these items into the forward plan.

11 PANEL WORKPLAN

The Panel noted the workplan

The meeting ended at 6.00 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Resources Policy Development & Scrutiny Panel minutes

Supplementary information – Commercial Estate

Set out below is some supplementary information to complete the answers to three questions raised at the recent Resources PDS panel on 17th May 2017. All the other questions raised by the panel were fully answered at the time and the detail is set out in the minutes.

- *The section in the PDS report referring to stamp duty used last year's information and, whilst it is true these figures were typical, the new rate is 5% as was discussed at the meeting. The figures used in business cases to support (single member) acquisition decisions have used the correct prevailing rate.*
- *With regards to the apparent casting error in the example evaluation table, this was unfortunately due to the use of a real example where one row of obsolete data had been removed. Unfortunately the editing of that data subsequently resulted in what appeared to be mathematical errors; although I would stress this table was presented for indicative purposes only, as stated within the report and was intended to illustrate the criteria adopted in examining potential acquisitions. The original version of this matrix works correctly and acts as a useful tool in assessing the alignment of any prospective purchase with the Council's investment requirements.*

The other matter raised concerned a break clause relating to premises that had recently been acquired by the Council. This investment opportunity was independently reviewed by our external property advisers and, at the request of the portfolio holder, also reviewed by our "critical friend" BNP Paribas. All relevant risks were taken into account as was the potential for sustained good quality returns and this gave rise to the conclusion that the property represented a sound investment which also helped diversify the commercial estate property portfolio.

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