

<b>Bath &amp; North East Somerset Council</b>		
MEETING/ DECISION MAKER:	<b>Shareholder – Leader of the Council</b>	
MEETING/ DECISION DATE:	<b>On or after 7th October 2023</b>	EXECUTIVE FORWARD PLAN REFERENCE:
		<b>E 3483</b>
TITLE:	<b>Market Sale of 7 Riverside View apartments owned by Aequus Developments Ltd (ADL)</b>	
WARD:	<b>All</b>	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Exempt Appendix 1</b> Commercially Confidential Information – Property Portfolio Analysis		
<b>Appendix 1 is exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A) – information relating to the financial or business affairs of any particular person (including the authority holding that information).</b>		

## **1 THE ISSUE**

- 1.1** As a number of ADL rental properties are highly geared, the company is impacted by rising interest rates which, are now having a negative effect on the company's profitability, cash position and potential long-term viability. A full review of the ADL property portfolio was carried out property by property to ensure that the individual properties remain profitable at current much higher interest rates and, provide a positive cash contribution after making the principal loan repayments.

## **2 RECOMMENDATION**

- 2.1** The Shareholder is asked to approve the reserved matter below to allow ADL to progress with the disposal of 7 Riverside View apartments on the open market using a phased approach using the surplus monies to reduce the level debt on the 5 remaining apartments to ensure continued viability.

- **Reserved Matter 22 – approval of total asset disposals that will exceed £500,000 but less than £5M**

### 3 THE REPORT

- 3.1 A full review of the ADL Property portfolio was carried out on a property by property basis, to provide assurance that the individual properties remain viable at higher interest rates on the related debt. A copy of this is available as Exempt Appendix 1.
- 3.2 The review identified that the 12 Riverside View apartments purchased from Aequus Construction Limited, although purchased at a market discount price, are becoming increasingly unviable given the level of gearing and significantly rising interest rates.
- 3.3 To mitigate this risk, ADL have prepared a model and identified that 7 of the 12 apartments could be sold to the market, and the resulting surplus used to reduce the outstanding debt on the remaining properties. This will ensure the viability of the remaining properties as shown in the table below:

	Flat 3 Riverside View	Flat 4 Riverside View	Flat 18 Riverside View	Flat 19 Riverside View	Flat 20 Riverside View
Current Rent	13,800.00	13,800.00	13,800.00	13,800.00	13,800.00
Cost of Sales	3,132.00	3,132.00	3,132.00	3,132.00	3,132.00
EU reference rate @ 5.75% plus 1%	8,374.68	8,374.68	8,374.68	8,374.68	8,374.68
Gross Profit	2,293.32	2,293.32	2,293.32	2,293.32	2,293.32
Principal Repayment	1,240.69	1,240.69	1,240.69	1,240.69	1,240.69
Cash after principal repayment	<b>1,052.62</b>	<b>1,052.62</b>	<b>1,052.62</b>	<b>1,052.62</b>	<b>1,052.62</b>

- 3.4 In order not to flood the market with the Riverside View apartment sales, ADL will release the apartments for sale on a phased basis as they become vacant, or tenancies expire. The relevant market values have been provided by Gregory's Estate Agents

### 4 STATUTORY CONSIDERATIONS

- 4.1 ADL is a 100% owned Local Authority company, the recommendation to dispose 7 of the Riverside View apartments has been approved by the ADL Board and is now subject to Shareholder Approval in accordance with the reserved matters in the Shareholder Agreement.
- 4.2 The definition of a key decision does not apply to proposals or decisions of the Leader acting in their capacity as Shareholder of a Local Authority Company owned or operated by the Council. (Section 1.12 of the Constitution).
- 4.3 Proposals and decisions of the Leader acting in their capacity as Shareholder of a Local Authority Company owned or operated by the Council cannot be called-in. (Section 3.2.30 of the Constitution).

### 5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 The resourcing implications are set out in the body of the report and propose actions to reduce the impact on the company of rising interest rates.

## 6 RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management

6.2 The benefits of this risk mitigation approach are summarised below:

- ADL is anticipated to receive £1.76m for the sale of the 7 apartments and in turn will repay the outstanding loan to the Council for those together with further repayments of £330k against the current loan for the remaining 5 Riverside View properties in line with the loan agreement.
- This improves the overall viability of the ADL portfolio.

## 7 EQUALITIES

7.1 Not applicable

## 8 CLIMATE CHANGE

8.1 ADL seeks to ensure that where practicable all properties achieve at least an EPC C. The Riverside View apartments are mainly EPC C rated and were designed and constructed to incorporate sustainability measures including composite double-glazed windows with costs-saving, low energy LED lighting.

## 9 OTHER OPTIONS CONSIDERED

9.1 ADL could retain the 7 Riverside View apartments however this would lead to a loss on ADL profitability, a drain on ADL's cash and a negative impact on ADL's overall viability.

## 10 CONSULTATION

10.1 Director Regeneration & Housing, S151 Officer and Monitoring Officer

<b>Contact person</b>	Simon Martin, Director Regeneration & Housing
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	