

SWT Corporate Scrutiny Committee - 2 June 2021

Present: Councillor Gwil Wren (Chair)

Councillors Ian Aldridge, Benet Allen, Marcus Barr, Sue Buller, Norman Cavill, Simon Coles, Habib Farbahi, Ed Firmin, John Hassall, Libby Lisgo, Nick Thwaites, Danny Wedderkopp and Loretta Whetlor

Officers: Paul Fitzgerald, Andrew Randell, Marcus Prouse, Clare Rendell and Joe Wharton

Also Present: Councillors Caroline Ellis and Ross Henley

(The meeting commenced at 6.15 pm)

11. Appointment of Vice-Chair

Councillor Thwaites was appointed as Vice-Chair of The Corporate Scrutiny Committee.

12. Apologies

Councillors Allen and Cavill attended virtually via Zoom.

13. Minutes of the previous Corporate Scrutiny Committee held on 19 May 2021.

The minutes of the meeting of the Scrutiny Committee held on 19 May were approved as an accurate record.

14. Declarations of Interest

There were no new declarations of interest.

15. Public Participation

Jefferson Horsley provided the following statement:-

Question to the Leader of the Council re Forward Plans and Risk Management

May I congratulate the Leader of the Council on attaining through the previous work of Liberal Democrat Councillors £14million from central government towards rebuilding the Taunton Town Centre following the Covid19 pandemic? (I am aware that there are strict conditions attached by central government as to how this should be spent and how this fund would be added to by local fund raising contributions – this not to be included as part of the question i.e for info only)

This achievement is remarkable against the background of increasing signs of the collapse of retail businesses, and the greater number of charity shops that are now dominating the centre of Taunton. This is to the detriment of all local businesses and other town centre users many local shops and businesses we cherish.

Can she reassure me how this money will be spent? Can she also pledge that she will consult widely as possible with the local business community and other town centre users on how this can be done most efficiently?

Is there a danger that the Executive will have pre-determined this?

16. **Corporate Scrutiny Request/Recommendation Trackers (verbal update).**

A verbal update was provided to the committee with a new tracker to be finalised and provided following the meeting.

17. **Corporate Scrutiny Committee Forward Plan**

The Corporate Scrutiny Forward Plan was noted.

An item of the Shadow Council and Unitary transition was requested to be added to the forward plan for a future committee date. This would be followed up outside of the meeting with The Chief Executive.

18. **Executive and Full Council Forward Plan**

The Executive and Full Council Forward Plan was noted.

19. **Executive Cllr PFH Session - Portfolio Holder for Culture**

Councillor Caroline Ellis was thanked for her attendance to the Scrutiny Committee at short notice, she introduced an update for her Portfolio and work undertaken in the last month around the Culture Strategy.

During the debate the following comments and questions were raised:-

- The Committee congratulated Councillor Ellis on her new role as the Portfolio Holder.
- Advertising the cultural offer across the district from areas outside of Taunton was encouraged.
- It was recognised that live music and stage performances in West Somerset needed greater support and promotion.
- Increased bus services were needed as part of an improved culture offering to enable access across the district.
- Open discussions were encouraged with Councillors in relation to the culture strategy and promotion of culture.
- An update around the Regal Theatre was requested. There had been a new roof and ventilation system installed. The dialogue had been positive, members of the Committee were reminded this didn't receive Council funding which the Brewhouse benefitted from.
- It was questioned if the County Council were worked with in respect of the Cultural strategy.
- Arts Taunton benefitted from private sponsorship. The Brewhouse was also sponsored.

- Events and the cultural offering promoted by Brendon Books were encouraged to be sponsored further by the local authority.
- Encouraging participation for all members of society as parts of the local arts and culture offering was emphasised.
- The future of the cultural offering in Taunton was considered alongside a new venue and the future of the Brewhouse.
- The committee thanked the Portfolio holder for her attendance.

The Corporate Scrutiny Committee noted the Portfolio Holder update.

20. **Review of the Commercial Property Investment Activity and Performance Report**

The Commercial Property Investment Strategy (CPIS) was approved in December 2019 and refreshed in December 2020. A requirement of the strategy (Clause 10.4) is that a report is brought to full Council every six months to report on the commercial property investment activity and the performance of the portfolio. These would report the position as at 30 September and 31 March each year.

Since the last report was prepared, despite difficult market conditions resulting from Covid, four further properties have been purchased. These were a retail warehouse in Ayr occupied by B&Q, a retail warehouse in Birmingham occupied by Wickes, a car dealership in Stockton-On-Tees, trading as a Jaguar Land Rover franchised dealership, and an office in Birmingham occupied by the Highways Agency. Additional investment totals £28.70m taking the total amount invested in the portfolio to £44.06m by 31 March 2021 and increasing gross rental income of the portfolio to £3.25m per annum.

As part of the Financial Strategy agreed in 2019 the Executive set a net income target of £2m+ per year through commercial property investment. Due to a reduction in financing cost assumptions the updated financial strategy for 2020 increased this target to £2.9m.

The latest Medium Term Financial Plan forecasts, as set out in the General Fund Budget Report to Council in February 2021, included a projected Budget Gap rising to £3.5m in 2022/23 and reaching £6m by 2025/26. This gap took into account the targeted £2.9m income from commercial property investment.

The primary reasons for the scale of budget gap included a sharp reduction in core income to the Council from business rates and New Homes Bonus grant, which underlined overall funding volatility faced by the Council. Business rates and NHB combined to give £9.5m of annual funding in 2020/21 but this was projected to reduce to only £4.3m by 2023/24 – a fall of some £5.2m. Council tax increases alone were not adequate to offset funding reductions and service cost pressures, with a 1% increase in council tax income generating around £90k per annum in additional income.

The portfolio build was on track with a further acquisition completed in April and two properties currently under offer and scheduled for completion by the end of April which if completed will take the total amount invested to £68.6m of the approved £100m fund.

During this period borrowing costs remained low and therefore the Council's average borrowing costs were still predicted to be around 1.5% per annum.

The Net Income budget for 2020/21 is £0.440m, reflecting an estimate of the pace of investment during the first year and part year rents on completed assets. Actual net

income reported for the year is £0.614M, providing a surplus of £0.174M (40%) against budget.

Despite the challenging economic conditions facing UK businesses and the economy the performance of the portfolio had been strong. To date there had been no material rental defaults and during the period of September 2020 and March 2021. The market had seen a great deal of yield compression particularly in the retail warehousing and industrial markets. As a result the retail warehouse assets contained in the portfolio which were purchased earlier in 2020 would already have increased significantly in value potentially adding £1.75M of capital value to the value of the property.

Risk factors to property investment continues to be monitored. The immediate risks around Brexit continued to be assessed. The Covid pandemic remained and was continuing to cause difficulties to trading business and the UK economy as a whole. It is still too soon to know what the long term effects of the pandemic would be but a large number of investors had returned to the UK property market with demand increasing for secure income investment which had in turn been forcing up Capital values. Occupier performance and covenant strengths would continue to be monitored to identify any tenants that may be affected by the current market restrictions. In general it was not considered that the level of risk had changed materially since the last report in December 2020.

During the debate the following comments and questions were raised:-

- The risk around receiving income based on rents was questioned.
- Discussion took place around the target related properties and notional figures differed.
- Rent payments had been received in advance, this related to the period of the end of this financial year, the incomes had been delayed to reflect the period, and this was common for tenants who paid in advance.
- It was questioned if agents were used for the tenants and further information was requested on rent defaults and future rent increases.
- The future market demand for commercial buildings was considered, the impact on the long term commercial market was understandably uncertain in the long term.
- Concerns over interest rates were questioned, this was a recognised risk however the market remained strong.
- Potential revisions in anticipated income was always possible in the future depending on the recovery and market demand.
- Investor's interest on returns resulted in property which in turn created a net income through rental opportunities.
- The Committee considered that communications underpinning the strategy needed to be reconsidered, allowing for the large sums of money involved and the risks of the circumstances
- The commercial legacy of properties would be incorporated at the December meeting.

The Corporate Scrutiny Committee reviewed performance against the Commercial Property Investment Strategy (CPIS) and supported the following recommendations to the Executive;

1. For transparency, gross and net income from the commercial investments to be made more readily available from the six monthly reviews with a link to be provided in future reports to the SWT website where this information is posted.
2. The communications underpinning the CPIS both internally and externally need to be improved upon considerably, as it was considered important that people understood what the Council was trying to do and why, and how this work inter-linked with the Corporate Priorities of the Council.
3. The Corporate Scrutiny Committee was pleased to be informed that the legacy commercial properties will be incorporated in the next scheduled review paper that is to go to Full Council in December, but in advance of this, a light-touch document is requested to be circulated to the Committee.

(The Meeting ended at 8.15 pm)