



Please reply to:

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Date: 23 June 2023

Notice of meeting

Development Sub-Committee

Date: Monday, 3 July 2023

Time: 7.00 pm

Place: Council Chamber, Council Offices, Knowle Green, Staines-upon-Thames TW18 1XB

To the members of the Development Sub-Committee

Councillors:

S.N. Beatty
M. Beecher
M. Bing Dong
T. Burrell

R. Chandler
M. Gibson
K. Howkins
N. Islam

L. E. Nichols
J.R. Sexton
H.R.D. Williams

Substitute Members: Councillors C. Bateson, J.T.F. Doran, S.M. Doran, S.A. Dunn, A. Gale, M. Arnold and K. Rutherford

Councillors are reminded that the Gifts and Hospitality Declaration book will be available outside the meeting room for you to record any gifts or hospitality offered to you since the last Committee meeting.

Spelthorne Borough Council, Council Offices, Knowle Green

Staines-upon-Thames TW18 1XB

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Agenda

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1. Nominations for Chair and Vice-Chair

To elect a Chair for this meeting of the Development Sub-Committee.

To seek nominations for Chair and Vice-Chair of this Committee and make recommendations to Council for these appointments.

2. Apologies for absence & Substitutions

To receive any apologies for non-attendance and details of Member substitutions.

3. Minutes

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To confirm as a correct record the minutes of the meeting held on 19 June 2023.

4. Disclosures of Interest

To receive any disclosures of interest from members in accordance with the Members' Code of Conduct.

5. Questions from members of the Public

The Chair, or his nominee, to answer any questions raised by members of the public in accordance with Standing Order 40.

At the time of publication of this agenda no questions were received.

6. Ward Issues

To consider any issues raised by ward councillors in accordance with Standing Order 34.2

At the time of publication of this agenda no ward issues were received.

7. Urgent Actions

To consider any urgent action that have arisen since last meeting.

8. Forward Plan

15 - 16

The Committee noted the Forward Plan for Development Sub-Committee business.

9.	Frequency of Development Sub-Committee meetings	Verbal Report
	To consider the frequency of Development Sub-Committee meetings.	
10.	Terms of Reference	17 - 20
	To consider the Terms of Reference for the Development Sub-Committee.	
11.	PIR Action Plan	21 - 44
	To note the proposed actions to address the recommendations in the Public Interest Report.	
12.	Exclusion of Public and Press (Exempt Business)	
	To move the exclusion of the Press/Public for the following items, in view of the likely disclosure of exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006.	
13.	Local Authority Housing Fund (LAHF) Property Acquisitions	45 - 66
	To consider a report on Local Authority Housing Fund Residential Acquisitions.	
14.	2nd Floor, Charter Building - Separation Works	67 - 74
	To receive a verbal update from the Asset Manager on the Tender Report (attached).	
15.	Oast House Update	Verbal Report
	To receive a verbal update from the Asset Management Contractor.	

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**Minutes of the Development Sub-Committee
19 June 2023**

Present:

Councillors:

S.N. Beatty	T. Burrell	K. Howkins
M. Beecher	R. Chandler	J.R. Sexton
M. Bing Dong	M. Gibson	H.R.D. Williams

Apologies: Councillors L. E. Nichols

66/23 Nominations for Chair and Vice-Chair

It was proposed by Councillor Sexton and seconded by Councillor Beecher that Councillor Williams be appointed as Chair for the meeting.

The Committee **resolved** to appoint Councillor Williams as Chair for the meeting.

The Committee **resolved** that nominations for Chair and Vice-Chair for municipal year 23/24 would be postponed to the next meeting of the Development Sub-Committee.

67/23 Apologies for absence & Substitutions

Apologies were received from Councillor Nichols. Councillor Bateson was nominated as his substitute but was unable to attend.

Councillor Chandler informed the Sub-Committee that she would be late.

68/23 Minutes

The minutes of the meeting held on 17 April 2023 were agreed as a correct record of proceedings.

69/23 Disclosures of Interest

Councillors Beatty, Beecher, Burrell, Howkins, and Williams advised the Committee that they were members of the Planning Committee and therefore would not be making comment on any applications due to come before the Planning Committee.

70/23 Questions from members of the Public

There were none.

71/23 Ward Issues

There were none.

72/23 Urgent Actions

There were no urgent actions.

73/23 Forward Plan

The Committee **noted** the forward plan.

74/23 Refresh of remit of Development Sub-Committee

The Group Head - Assets presented an introduction and re-refresh of the approach to project management of assets, and a summary of the schemes being managed.

The Asset Management Contractor presented a summary of the Investment Portfolio and the Regeneration Portfolio.

Councillor Gibson arrived at 11:30am, Councillor Chandler arrived at 11:50am

It was proposed by Councillor Williams, seconded by Councillor Sexton and **resolved** that the public and press be excluded during the remainder of the consideration of this item and the following agenda items, in accordance with paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) because it was likely to disclose information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in being able to undertake even-handed negotiations and finalising acceptable contract terms.

The Committee **noted** the presentation.

75/23 Exclusion of Public and Press (Exempt Business)

The Committee **resolved** to move the exclusion of public and press under the previous item.

76/23 Local Authority Housing Fund Residential Acquisitions

The Committee received a report from the Group Head – Assets, and the Strategic Lead – Housing Options on the acquisition of further properties from the Local Authority Housing Fund.

The Committee **resolved** to agree to the recommendations set out in the report and as amended in the meeting.

The Committee **resolved** to add a discussion of the Terms of Reference to the next meeting of the Development Sub-Committee.

Councillor Sexton proposed that the meetings of the Development Sub-Committee be moved to take place in the evening. This was seconded by Councillor Gibson.

The Committee **resolved** to agree that the meeting time for the Development Sub-Committee be moved to the evening. Officers would provide a recommendation at the next meeting.

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Spelthorne Borough Council Services Committees Forward Plan and Key Decisions

This Forward Plan sets out the decisions which the Service Committees expect to take over the forthcoming months, and identifies those which are **Key Decisions**.

A **Key Decision** is a decision to be taken by the Service Committee, which is either likely to result in significant expenditure or savings or to have significant effects on those living or working in an area comprising two or more wards in the Borough.

Please direct any enquiries about this Plan to CommitteeServices@spelthorne.gov.uk.

Spelthorne Borough Council

Service Committees Forward Plan and Key Decisions for 21 June 2023 to 1 September 2023

Anticipated earliest (or next) date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Development Sub-Committee 03 07 2023	Local Authority Housing Fund (LAHF) Property Acquisitions	Non-Key Decision	Private	Coralie Holman, Group Head Assets
Development Sub-Committee 03 07 2023	2nd Floor, Charter Building - Separation Works	Non-Key Decision	Private	Jeremy Gidman, Asset Management
Development Sub-Committee 03 07 2023	Oast House Update	Non-Key Decision	Private	Richard Mortimer, Asset Management Contractor
Development Sub-Committee 03 07 2023	PIR Action Plan	Non-Key Decision	Public	Coralie Holman, Group Head Assets
Development Sub-Committee 03 07 2023	Terms of Reference	Non-Key Decision	Public	
Development Sub-Committee 17 07 2023	12 Hammersmith Grove - Annual Business Plan	Non-Key Decision	Public	Jeremy Gidman, Asset Management
Development Sub-Committee 17 07 2023	Unit 4 Summit Centre, Sunbury	Non-Key Decision	Public	Jeremy Gidman, Asset Management
Development Sub-Committee 31 07 2023	White House Residential	Non-Key Decision	Private	Richard Galland, Development Manager

Development Sub-Committee

Objective:

Within the overall policies and strategies set by the Council, to provide leadership, decision making and accountability for the implementation of the Council's planned programme of capital works, both housing and large - scale non-housing schemes, as well as decision making in respect of the management of the Council's Assets.

Membership

11 Members reflecting political balance.

Functions

1. Acquisitions

- (a) To receive recommendations from officers (where officer/member delegation financial limits are exceeded) as to possible new property acquisitions
- (b) Following (a) above, to give an initial steer on whether to investigate further those potential acquisitions
- (c) Following (b) above and any subsequent reports from officers, to make recommendations to the Corporate Policy & Resources Committee to proceed with particular acquisitions in accordance with relevant Council procedure rules.

2. Disposals

- (a) To receive recommendations from officers (where officer/member delegation financial limits are exceeded) as to the potential freehold (or long leasehold) disposal of property assets
- (b) Following (a) above, to give an initial steer on whether to investigate further those potential disposals
- (c) Following (b) above and any subsequent reports from officers, to make recommendations to the Corporate Policy & Resources Committee to proceed with particular freehold (or long leasehold) disposals in accordance with relevant Council procedure rules.

3. Management of Strategic Investments and residential developments

- (a) To approve leasehold disposals (lettings) in residential developments, investment and retail properties (where officer/member delegation financial limits are exceeded)
- (b) To approve the transfer of residential property assets from and to Knowle Green Estates Ltd if deemed necessary for the appropriate and effective management of the estate
- (c) To receive quarterly reports on the management of the investment assets, including rental income, potential letting opportunities, significant assignments and any other estate management issues based on officer recommendations.
- (d) To approve the exercise of a break option under the terms of lease of land or property where officer/member delegation financial limits are exceeded.
- (e) To approve or agree to the surrender of a lease of land or property where officer/member delegation financial limits are exceeded.

4. Management of Municipal Portfolio

- (a) To approve leasehold disposal (lettings) of municipal properties which exceed officer/member financial delegation limits
- (b) To approve the exercise of a break option under the terms of lease of land or property where officer/member delegation financial limits are exceeded.
- (c) To approve or agree to the surrender of a lease of land or property where officer/member delegation financial limits are exceeded.

5. Development

- (a) To fully review the business case for all potential development projects including scheme detail, build costs, risks and issues and financial performance including viability
- (b) To oversee the budget for each approved project and the effective implementation of the council's development programme
- (c) To approve the award of development contracts over the Public Contracts Regulations threshold or where the requirement is strategic/critical in accordance contract standing orders
- (d) To receive reports from officers and make decisions as set out on the Development-Gateway stages - Appendix A to this document. This includes instances (at any point in the Gateway stage process) where there has been any variance of projected costs over and above the agreed budget (whether the budget was set by the P&R Committee in a specific report, or in the Capital Programme).
- (e) To receive bi-monthly 'Red, Amber and Green' rating reports on all approved development projects. To include high-level finance projections, risk registers and project timeline.
- (f) To receive bi-annual presentations of the longer-term expenditure plan across the development portfolio which is to indicate future funding streams and expectations.
- (g) To receive an annual report on progress and success, setting out performance against any targets (including projected expenditure and costs).

Appendix A – Development-Gateway stages

Five stages of sign off:

1. Acquisition/Feasibility
2. Outline design
3. Detailed design prior to planning permission application
4. Construction
5. Transfer to business as usual

Stage	Decision	Reference back to CP&R	Documentation required
Acquisition/feasibility	To undertake initial design development up to feasibility stage. Appointment of consultants if decision at	For actual purchase if appropriate.	Project brief

	committee level is under contract standing orders.		
Outline design	To progress to Concept design (RIBA stage 2) up to planning submission	If supplementary expenditure required	Outline design and project progress report
Detailed design	To sign off detailed design (RIBA stage 3-4) post grant of planning permission. Sign off tender for contractor if required under CSOs.	If supplementary expenditure required	Detailed design and project progress documentation
Construction	To award the contract for the contractor if required under CSOs. To progress to construction	If supplementary expenditure required	Tender report and project progression documentation
Transfer to business as usual	To make any transfer to KGE. Project sign off	Report to note on outcome	Project completion documentation.

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Development Sub Committee – 3rd July

Audit Committee - 27th July 2023



Title	Public Interest Report Recommendations – Action Plan
Purpose of the report	To provide an update on the proposed actions to address recommendations in the Public Interest Report (PIR)
Report Author	Coralie Holman, Group Head of Assets and Paul Taylor, Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	This item is not in the current list of Corporate Priorities but still requires a formal report to the Audit Committee.
Recommendations	Committee is asked to: To note and agree the proposed actions to address the recommendations in the Public Interest Report
Reason for Recommendation	To ensure the Development Sub Committee and Audit Committee have fully noted and agreed to the strategy for monitoring the rental income performance of the investment portfolio, mitigating risk and the suite of KPIs that determine the success of this performance and connected risk.

1. Summary of the report

- 1.1 On 8th December 2022, the Council considered and agreed a response to the recommendations made within the Public Interest Report (PIR) issued by KPMG.
- 1.2 Recommendation 4 of the PIR set out **“The Council should develop its investment property portfolio modelling to bring these in line with the expected practice of an institutional investor. This should include robust stress testing and sensitivity analysis which incorporates scenarios that cover the highest level of risk for expenditure, revenue, tenant behaviour and external socio-economic factors. Consideration should also be given to the diversification of the portfolio and whether this should be addressed over medium to longer term.”**
- 1.3 Recommendation 5 of the PIR set out, **The Council should develop an action plan as part of the management of its investment portfolio which addresses each of the weaknesses identified in paragraph 6.9 (of the**

PIR). It was suggested this action plan should be linked to a portfolio risk register, which monitors each of the KPIs, tenant performance and risk to the debt repayment strategy for each investment property asset.

- 1.4 On 23rd March 2023, a follow up report was taken to Audit Committee, where it was agreed an action plan would be developed to address recommendations within the PIR and reported back to Audit Committee in July 2023.
- 1.5 Finance and the Group Head of Assets have now developed an action plan which is appropriate to continue to monitor and action the risk attached to the Council's Investment Assets, refreshes the Sinking Funds earmarked reserves modelling over a fifty year period, which centres on a suite of appropriate Key Performance Indicators (KPIs), linked to an Assets specific risk register with focus on tenancy performance and risk to the debt repayment strategy for each investment property asset.

2. Key issues

- 2.1 The Council purchased 8 investment assets prior to Autumn 2018 as part of a Capital Strategy to generate sufficient long-term income to offset the impact of the disappearance of Government grants, to support the provision of services for residents.
- 2.2 The investment programme benefitted from low-cost fixed (which means the Council is not now exposed to the risk of the interest rates on those loans rising) interest rates to buy high quality investment assets which will generate an income stream. The income generated is significantly greater than the financing costs of which approximately £10m was used in 2022/23 to help maintain Council services, and moving forwards is budgeted to contribute £10m per annum to support the Council's Budget.
- 2.3 When the Council took the decision to purchase the assets, external expertise was used to inform decisions on specific acquisitions to purchase. The Council strategy was always extremely focused on identifying and managing risk. Only high-quality assets were acquired after extensive due diligence both on the assets and the tenants.
- 2.4 The Council's assets team proactively engaged with tenants during the COVID-19 pandemic to ensure tenants continued to pay rent and continues to employ this approach post covid to manage risk. The Council's investment assets have continued to perform extremely well despite the economic downturn. For 2020-21 financial year the Council collected 99% of the rental income invoiced, in 2021-22 we collected 99.8% of investment assets rent invoiced, currently for 2022-23 we have achieved 99,2% with more rent to be received.
- 2.5 Despite several challenges to the portfolio post-pandemic, the occupancy rate across the investment portfolio stands at 87.27% which is better than the industry benchmark for Southeast office assets (84%). During Financial Year (FY) 2023/2024 the occupancy rate will increase above 90%, as the vacant accommodation at 12 Hammersmith Grove is re-let. In addition lettings are

due to be completed on vacant space at Charter Building, Elmbrook House and 3 Roundwood Avenue.

- 2.6 The Council's approach has been focussed on a long term 'hold' of the assets with financing and risk modelling being undertaken over a 50-year period. This modelling includes the future risk of their being dips in rental income when existing leases have break clauses exercised or end potentially resulting in dips of income when space becomes vacant and then rent-free incentives need to be offered.
- 2.7 The Council is setting aside sufficient funds in its sinking funds reserves to ensure that it can cover such dips in income without any impact on the Council's budget or council. During the pandemic and the "Cost of living crisis" the Council has continued to set aside funds from part of the rental income stream into sinking funds to ensure it has contingency funds to cover future potential dips in rental income. At the end of 2022/23, the funds in the sinking funds reserves totalled £37.8m. Our Finance team will actively manage the sinking fund to ensure the contingency funds remain at the appropriate level.
- 2.8 The Council has always had an asset management strategy that sets out how it proactively manages all its assets to ensure they continue to perform well, and all risk is appropriately managed. The KPMG PIR provided an opportunity to reflect on how our assets are performing 5 years after the initial acquisitions and ensure our asset management strategy continues to be robust to manage the risk associated with our investment portfolio.
- 2.9 This report focuses solely on sinking funds modelling, the KPIs, associated risk register for investment assets and management of our tenant performance to minimise risk and set out the debt repayment strategy for our assets, however in the Autumn a further report will be taken to Corporate Policy and Resources Committee updating our Asset Management Strategy (AMS) to which the individual Asset Investment Strategies and Business Plans form part of. The AMS will also set out how KPIs are monitored to demonstrate how the assets are performing, plus how this will be reported.
- 2.10 Sitting under the Asset Management Strategy are a suite of specific investment specific documents that set out the portfolio Asset Investment Strategy (AIS) (Appendix 1) for the forthcoming 12 months. This strategy includes Asset specific appendices (Appendix 2) and is supplemented by Asset specific Business Plans which look at the longer 3–5-year period. The management approach set out in these documents is linked to the agreed Key Performance Indicators (Appendix 3). These KPIs are captured within the risk register (Appendix 4) which shows the associated risk scoring before the management strategy is applied and the reduced risk with the management approach in operation. These KPIs will be reported on going forward twice yearly if agreed.
- 2.11 At the Corporate Policy & Resources Committee meeting held in February 2023, the Committee agreed to the following:

- (a) The Sinking Fund Policy, which will be reviewed every five years or earlier in the event of a material change (Appendix 5).
 - (b) The Sinking Fund is to cover unplanned short-term issues, to minimise risk, protect the Council's Revenue Budget and Council Taxpayers from exposure to short term dips in rental income and build sufficient cash backed reserves to provide the Council with future options, which may include funding refurbishments (net of dilapidations) development and or sale of any of the current property portfolio, in particularly in 14 years' time, when BP could exercise their lease break and vacate the entire site at Sunbury.
- 2.12 Officers agreed to develop a 50-year model of the Council's Sinking Funds to further define and produce more detailed scenario planning, so that Council could review and agree:
- (a) The annual contribution to the Council's revenue budget (General Account)
 - (b) The annual contribution to be made into the Sinking Fund from the General Account
 - (c) The annual payments to be made from the Sinking Funds to the General Account.
 - (d) The level of the Sinking Fund balance to meet future Council objectives, plans and contingencies.

3. Asset Portfolio Management Action Plan

- 3.1 The Investment Assets Portfolio Risk Register (Appendix 4) sets out the key risks to the Council if the investment portfolio is not managed effectively. This document also sets out our approach to manage each of those risks, with scoring methodology used to demonstrate the level of risk pre and post mitigation action.

The mitigation actions set out the basis of our management strategy to ensure the portfolio is effectively managed to protect our income from the assets. In summary this mitigation is a proactive approach to understanding the performance, needs and plans of our tenants. This is achieved via:

- regular and early engagement in respect of lease events i.e., break options and lease renewals.
- external checks on tenant performance financial strength
- regular engagement with external consultants in respect of market conditions, tenant demand and rental levels.
- instructing external expertise where necessary i.e., letting of new space
- Annually prepared Investment Strategies for each asset, together with medium term 3–5-year business plans, all informed by (a) – (d) above.
- Regular budget setting and monitoring over a 5-year period, based upon the information within the AIS and business plans.
- Using budget information and lease event data to prepare sinking fund projections and budgets.

- 3.2 The documents within the appendices set out an approach that supports an annual review of the portfolio performance, together with focused actions for the forthcoming 12-month period and a medium-term view on the future of the asset, tenants, and void costs.
- 3.3 The performance of each asset can be measured via a robust set of KPIs, linked to the risk register demonstrating the increased risk without a proactive management approach being adopted.
- 3.4 The development of the 50-year financial model, will provide even greater confidence that the Council will be able to manage its Investment and Regeneration portfolio properties and ensure that it will continue to provide the annual revenue contribution to support services, housing and regeneration plans in the Borough over the coming years.

4. Options

- 4.1 Option 1 – Agree the action plan to adopt a robust asset and tenancy management strategy that manages tenant risk, reduces void periods and empty premises costs, and delivers certainty of income receipt which supports the debt repayment strategy set out for each asset. Approve the proposed KPIs. **This is the recommended option.**
- 4.2 Option 2 – Develop an alternative action plan to manage tenant risk. **This option is not recommended** on the basis the action plan set out within this report is comprehensive, robust and includes the recognised measures and industry standard approach to understanding tenant risk and performance.
- 4.3 Option 3 – Do not formally record an action plan to set out the approach for managing tenant risk, which in turn allows tenant failure, tenant vacation of premises and other indicators that impact on the certainty of rental income to be forecast in advance. Instead rely on there being strong market demand with financially sound occupiers to move into accommodation as space becomes vacant. **This option is not recommended** as it will impact on certainty of income, with longer than necessary void periods and vacancy costs having to be incurred by the council.

5. Financial implications

- 5.1 The PIR Action Plan is intended to build on existing arrangements and further enhance our ability to mitigate and manage financial risk.
- 5.2 By developing the 50-year model, Council will be able to advise Officers of their strategy and how they would propose to grow the Sinking Fund Reserves, to meet the Council future aspirations for the Borough, particularly in 2036.

6. Risk considerations

Please refer to the risk register in Appendix 4.

7. Legal considerations

- 7.1 The Local Audit and Accountability Act 2014 (“2014 Act”) governs and prescribes the way in which the Council should deal with an external auditor’s formal Report in the Public Interest.
- 7.2 The recommendation in this report demonstrates that the Council has considered the Public Interest Report in accordance with the 2014 Act and is taking the necessary action to address matters raised regarding management of the investment portfolio in a longer term financial model.

8. Other considerations

None.

9. Equality and Diversity

N/A

10. Sustainability/Climate Change Implications

The performance and expenditure in relation to our portfolio is where appropriate and cost effective to do so based on implementing ‘green’ and sustainable initiatives that support the on-going effective day to day running of the portfolio.

11. Timetable for implementation

Immediately

Autumn – Asset Management Strategy report to be considered by CPRC

12. Contact

Coralie Holman (c.holman@spelthorne.gov.uk) and Paul Taylor (p.taylor@spelthorne.gov.uk)

Background papers: Appendix 1 Asset Investment Strategy
Appendix 2 Asset Business Plan Summary Template
Appendix 3 Key Performance Indicators
Appendix 4 Portfolio Risk Register
Appendix 5 Sinking Fund Policy

**PORTFOLIO ASSET INVESTMENT & REGEN STRATEGY
APRIL 2023 – MARCH 2024**

1. Portfolio Overview (as at 31 March 2023)

No of assets	11 (8 Investment & 3 Regeneration)
No of tenants	97 across all assets
Rental income	£46.16m per annum (sinking fund, debt servicing, revenue contribution)
Av. lease length	8.15 years (Industry average 7 yrs)
Vacancy rate	
(Investment)	15.41% (SE Office av. vacancy rate 16%)
(Regen)	7.22%
Portfolio (NI Yield)	5.29%
Capital Value	£776.3m

Chart showing capital & income for Investment & Regen portfolios 2018-2023

Chart showing vacancy rate and WAULT for both portfolios 2018-2023

2. Key Asset Management Initiatives Delivered 2022-2023 (Rank Order by income)

Property	Tenant	Initiative (Date)	Impact on income	Comment

3. Key Lease Events 2023-2024 (Rank Order by income)

Property	Tenant	Event (Date)	Income £pa	Comment
Charter Building	IWG/Spaces	Rent Review (23/6/23)	£	Ground floor to be reviewed to 50% of Market Rent

4. Major Revenue Expenditure Projects 2023-2024 (Rank order)

Property	Tenant	Description	Expenditure	Comment
Charter Building		2 nd floor separation	£	In 22/23 budget

5. Anticipated Voids plus Associated Costs and Mitigation 2023-2024

Property/Tenant	Lease Event (Date)	Current Rent (£pa)	Holding Costs (Rates, Service charge, insurance)	Mitigation
Part ground floor, Charter Building	Break Operated/Disputed & Lease Surrender	£	£	Tenant has completed refurbishment to agreed spec and in funds for surrender to complete.

6. Key Asset Management Initiatives 2023-2024

Investment Portfolio

Property	Tenant	Description	Impact on Income FY23/24	Target Date
2 nd Floor, Charter Building		Complete separation works and target two new lettings by end Mar-24	£Nil (assume in rent free)	Mar-24

Regeneration Portfolio

Property	Tenant	Description	Impact on Income FY 23/24	Target Date
Elmsleigh Centre	Matalan	Secure new lease at renewal	Nil	Mar-23

7. Summary 12-month strategy 2023-2024

Focus on maintaining and improving income to both Investment & Regeneration portfolios through the letting of significant voids such as Charter Building (60,000 sq ft). Maintain focus on lease break options at Thames Tower with a view to extending medium term income through rent free periods etc.

8. Medium Term Strategy 2024-2028

Consider the timing of redevelopment, re-positioning or alternative use on assets such as Elmsleigh Centre through feasibility reports and impact analysis on income returns.

CHARTER BUILDING, UXBRIDGE

A. Business Plan Summary

Financial Year Ending	2024/2025	2025/2026	2026/2027
Predicted Rental Income pa	£	£	£
Predicted Vacancy Rate	%	%	%
Rent Variance from Market Rent	%	%	%
Irrecoverable Revenue Expenditure *	£	£	£

Key Asset Management Initiatives (in rank order)		Target date	Impact on Income £	Capital Value Impact
1	Undertake separation works to 2nd floor to enable next phase of lettings	Jun-23	TBC	£
2	Secure lettings on 2nd floor - assume 15,000 sq ft let by June-23 and next 15,000 sq ft by Dec-23 and Jun-24 respectively. 5 year lettings at ERV (£32-£34 psf +/- growth) with 15 months rent free.	Jun-23	-	-
3	Complete proposed lease of ground floor retail unit to Tempur Sealey (lease until 2030 at £30 psf with 6 months rent free)	Mar-23	TBC	TBC
4	Installation of Building Manager's office, plus occupier totem to north elevation	Mar-23	£	£
Key Sustainability Initiatives (in rank order)		Target Date	Estimated Cost £	Capital Value Impact
1	Review current sustainability credentials for the building and identify areas for improvement	Jun-23	£	£
2	Implement BUBL energy management system to all new occupiers in the building, to reduce energy use and allow greater tenant control of heating and cooling within their specific areas	Jun-23	£	£
3	Install additional EV charging points within basement car par. Assume 10 installed in 2023 and an additional 10 in 2024	Jun-24	£	£
Threats (in rank order)		Target date	Impact on Income £	Capital Value Impact
1	Leasing activity is affected by market downturn- assume no new leases entered into during FY23/24	Dec-23	£	£
2	LB of Hillingdon implement completion notices on vacant accommodation and charge for all business rates	Apr-23	£	£
3	Spaces default on Ground Floor and 1st floor leases	Sep-23	£	£

B. Progress Since Business Plan (approved January 2023)

- 2nd floor separation works inc building managers office being tendered – completion due August 2023
- Tracelink – dispute over Ground Floor West suite – surrender completing w/c 12 June; all monies paid to end March 2023 and fully separated and

refurbished suite handed back, ready for marketing. Net additional income of £178k secured since May 2022 break operated.

- Review of EV charging being undertaken. Potential for tenants to pay for the costs of installing dedicated charging stations, or for SBC to pay in return for lease regears.
- BUBL energy management system continues to be rolled out to new occupiers
- Filming licence agreed on 2nd floor with HTM (“Trigger Point 2”) between March and May 23.
- Caffe Kix turnover and profit continues to improve
- Tempur Sealy lease delayed while tenant confirms proposed fit out
- Terms proposed to Pizza Express for lease on 2nd floor of c 5,500 sq ft

C. 12 month Strategy for period commencing April 2023

- Maintain Charter Building profile as best office building in Uxbridge town centre through tenant engagement/events; updated website and marketing; and continued letting success with announcements in industry press and via social media.
- Aim to reduce vacancy rate to approximately 8% in line with business plan by financial year end, through new lettings on 2nd floor.
- Enhance rents in the building from current (April 2023) levels through new lettings on 2nd floor and former Tracelink unit on ground floor.
- Secure uplifts from June 2023 rent reviews on ground and 1st floor leases to IWG/Spaces.
- Maintain current position with LB Hillingdon to ensure business rates are appropriately mitigated
- Caffe Kix performance to be monitored with potential soft marketing to other coffee shop operators in Q2/Q3 2023, so that break option can be operated in June 2024 (Dec-23 notice) if necessary.

D. Medium Term Strategy 2023-2026

- To enhance income and reduce void costs through new lettings on the 2nd floor, plus retaining existing tenants through active asset management (i.e. removing break options and early renewal of leases).

Notes

** Revenue includes holding costs for vacant accommodation (business rates, service charge etc) and/or costs associated with a new letting (e.g. refurbishment costs, letting and legal fees etc).*

** CapEx of £ each year for installation of additional electric vehicle charging points*

ELMSLEIGH SHOPPING CENTRE, STAINES-UPON-THAMES

A. Business Plan Summary

Financial Year Ending	2023/2024	2024/2025	2025/2026
Predicted Gross Income pa	£	£	£
Predicted Vacancy Rate	%	%	%
Rent Variance from Market Rent	%	%	%
Irrecoverable Revenue Expenditure	£	£	£

Key Asset Management Initiatives (in rank order)		Target date	Impact on Income £	Capital Value Impact
1	Let vacant units and convert temp let to permanent lets and improve terms, eg Blue Inc to HMV, eg Johnsons to ShoeZone.	On going	£	£
2	Secure library in MSU2 (Ex Decathlon) or alternative occupier	Sept 2022	£	£
3	Attempt to reduce occupational costs (service charge and rates)	On going	Nil	Nil
4	Open negotiations to re-gear Matalan lease which expires Feb 2023. The base case model assumed that Matalan would leave upon expiry and then expect 18 months rent free; therefore the news that they are now remaining, subject to contract.	Oct-22	£	£
5	Investigate ways to improve attractiveness of MSCP - May require investment in lighting, cleaning/redecoration.	On going	Nil	Nil
6	Potential redevelopment of 91-93 High St to create new ground floor retail and 12 flats in upper parts. At the present time the viability of the scheme is being established.	Mar-23	£	-£
Key Sustainability Initiatives (in rank order)		Target Date	Estimated Cost £	Capital Value Impact
1	Investigate feasibility of Solar panels on roof of centre/ car park	Sept 2022	£	-
2	Audit all equipment to see if further energy savings can be made and likely pay back period	Sept 2022	£	-
3	Waste recycling	Mar-2022	£	-
4	Seek to secure CSAS powers for centre security team to help reduce antisocial behaviour in town centre	Oct-22	-	-
Threats (in rank order)		Target date	Impact on Income £	Capital Value Impact
1	Macro economy - reduced disposable is likely to lead to reduced demand retailers profitability and ability to pay rent.		£	£
2	Exposure to fashion			
3	On line retail			
4	Impact of inflation on service charge levels, especially energy costs		£	£

B. Progress Since Business Plan

- Lettings to HMV and Shoezone now completed
- Matalan lease renewal agreed and engrossments issued for new 5 year lease from 2/23

C. 12 month Strategy from April 2023

- Secure Agreement for Lease with Barclays Bank into the current Waterstones.
- Agree relocation of Waterstones into unit 35/36 pre lease expiry in Nov 23.
- Work up plans for potential new unit to include Clintons, Mobile Bitz, first floor of 35/36 and part mall to satisfy potential requirements for retailers being relocated from Two Rivers.
- Reinstate Planned maintenance programme following suspension during Covid.
- Improve visibility and enhance common areas to car parks and work with car parking to improve cleanliness and useability.
- Conclude discussions with Vodafone to secure VP and facilitate the future development of 91-93 High Street.
- Progress carious outstanding lease renewals including Timpsons and Holland and Barrett.
- Finalise discussions with Surrey re the relocation of the library and establish momentum to the transaction

D. Medium term 2023-2026

- Continue to monitor and implement lease renewals where appropriate to maximise income.
- Maintain rental projections and review other income generative opportunities.
- Monitor and assess impact of potential new ownership of Two Rivers/development of northern site.
- Analyse relevance of tenant mix and adapt where necessary/possible to maintain vibrant shopping centre.
- Ensure footfall momentum is maintenance in upwards trajectory.
- Maintain rental projections and review other income generative opportunities.
- Assess and work in conjunction with development team to create potential new anchor under Tothill car park redevelopment.

Notes

** Revenue/Capital Expenditure includes holding costs for vacant accommodation (business rates, service charge etc) and/or costs associated with a new letting (e.g. refurbishment costs, letting and legal fees etc).*

Appendix 3 – Key Performance Indicators

KEY PERFORMANCE INDICATORS (INVESTMENT & REGENERATION PORTFOLIOS) PERFORMANCE INDICATORS					
	Responsibility	Reason	Data Source	Benchmark	Comments
FINANCIAL (INCOME)					
Portfolio Income Growth	Asset Management	To assess how SBC portfolio compares to budget in terms of net receivable income	Monitoring reports/financial outturn (May each year?)	To achieve or exceed Budgeted income outturn	Letting agents are used to secure new tenants on Market terms.
FINANCIAL (EXPENDITURE)					
Irrecoverable Revenue Expenditure	Asset Management	To monitor expenditure on refurbishments and holding costs against Budget	Monitoring reports/financial outturn	Expenditure is no greater than budget allowance	MSCI would provide a benchmark. A suite of documents including the Asset Management Plan, Annual Investment Strategy and individual Asset Business plans set out proposed investment needed to ensure it is recoverable via the service charge or met from capital budgets
LEASE EVENT MANAGEMENT					
Rent Reviews	Asset Management	To avoid delays in recording rental uplifts and for good estate management reasons		All reversionary rent reviews to be instigated prior to rent review date unless by exception	Reports are run 12-18 months in advance of lease event dates to ensure work can be programmed and external advice sought where necessary

Appendix 3 – Key Performance Indicators

Lease Expiries	Asset Management	To avoid delays in recording rental uplifts and for good estate management reasons		All contracted out expiries to be instigated prior to expiry date unless by exception	Reports are run 12-18 months in advance of lease event dates to ensure work can be programmed and external advice sought where necessary
	Responsibility	Reason	Data Source	Benchmark	Comments
TENANT RISK					
Regular review of occupier credit ratings	Asset Management	To ensure that current and future occupier risk is identified and mitigated against	Dun & Bradstreet & Experian	Target = bi-annual reporting	Suggest bi-annual 'RAG' update from credit monitoring source on high risk / high value occupiers with annual review of whole portfolio.
Rent collection (lease rent only, exc turnover)	Asset Management	Regular monitoring of rent collection to assist with Finance budgeting and to identify problem tenants	Cushman JLL	80% within 14 days 90% by Qtr end	Bluebox (BP), External Managing Agents (Investment) and Customer Services via Integra (Municipal) undertake the rent demand Monitoring in place Rent Arrears report issued D&B reports and alerts Regular communication with tenants
PORTFOLIO RISK					
Portfolio Weighted Average Unexpired Lease Term to exceed market average lease length on new letting <i>[Current SE Office index is 7.9 years]</i>	Income	To ensure strategies are in place to preserve longevity of income	Annual Valuation	Carter Jonas – MSCI benchmark	Letting agents are used to secure new tenants on Market terms

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Investment Portfolio Risk Register

Risk Owner	Risk	Impact	Risk scoring before mitigation			Mitigation/ Current Control	Risk scoring with mitigation		
			Likelihood	Impact	Total		Likelihood	Impact	Total
Asset Management	Lack of Rental income growth in a buoyant market	Will not match or exceed budget income and maintain rental levels in line with market rates	4	3	12	Letting agents with knowledge and expertise in the local geographic area are used to secure new tenants on Market terms	2	2	4
Asset Management	Lease events are not planned for or progressed in a timely manner	Opportunities for growth in rental income may be missed and increased rent not achieved in a timely manner, statutory rights may be obtained, resulting in SBC losing control of decision making	3	3	9	Reports are run 12-18 months in advance of lease event dates to ensure work can be programmed and external advice sought where necessary	2	2	4
Asset Management	Poor/Failing Tenant financial strength	Tenant failure, tenant arrears and bad debt	4	3	12	Dun & Bradstreet & Experien credit reports are reviewed prior to enter into a new letting and bi-annually thereafter	2	2	4
Asset Management	Significant expenditure on buildings that is not recoverable	Reduction in net income and contribution towards sinking fund and cost of council services	3	3	9	A suite of documents including the Asset Management Plan, Annual Investment Strategy and individual Asset Business plans set out proposed investment needed to ensure it is recoverable via the service charge or met from capital budgets	2	2	4
Asset Management	New lettings not achieving average market lease lengths	Impact on security of income and asset value	3	3	9	Letting agents are used to secure new tenants on Market terms	2	2	4
Asset Management	Delay in rent collection and/ or Tenant default	Loss of income, impacting the Council's income, revenue budget, financial position and service delivery.	3	3	9	Bluebox (BP), External Managing Agents (Investment) and Customer Services via Integra (Municipal) undertake the rent demand Monitoring in place and reported to both Member and Office forums. Rent Arrears report issued D&B reports and alerts Regular communication with tenants	2	2	4

Asset Management	Non compliance with H&S Legislation (investment)	Serious injury / Loss of Life Fines Reputational damage	4	4	16	External managing agents employed to manage risk, they have a dedicated team dealing with H&S	2	3	6
Asset Management	Non compliance with H&S Legislation (Municipal)	Serious injury / Loss of Life Fines Reputational damage	4	4	16	Spelthorne Building Services team instruct contractors to carry necessary tasks out, supporting the H&S compliance	2	3	6
Asset Management	Not meeting new legislation deadline for EPC's (Municipal)	Unable to grant new leases Loss of income	4	3	12	Building Consultancy team instructed to carry out EPC's where needed and action any works required.	2	2	4
Asset Management	Vacant properties	Loss of income. Exposure to void rates	4	3	12	Monitor lease events. Maintain close professional relationships with tenants. Appoint agents to actively promote and market to secure new tenant.	2	2	4

Corporate Policy & Resources Committee

20 February 2023

Title	<i>Sinking Fund Policy as at February 2023</i>
Purpose of the report	To note
Report Author	<i>Paul Taylor Chief Accountant</i>
Ward(s) Affected	All Wards
Corporate Priority	Service delivery
Recommendations	<p>Committee is asked to note:</p> <ol style="list-style-type: none"> 1. The Sinking Fund Policy, which will be reviewed every five years or earlier in the event of a material emergency, as defined in 1.3 below. 2. The Sinking Fund is to cover <u>unplanned</u> short-term issues, to minimise risk, protect the Council's Revenue Budget and Council Taxpayers from exposure to short term dips in rental income and build sufficient cash backed reserves to provide the Council with future options, which may include funding refurbishments (net of dilapidations) development and or sale of any of the current property portfolio, in particularly in 14 years' time, when BP could exercise their lease break and vacate the entire site at Sunbury.
Reason for Recommendation	<p>The Committee requested that the previous report was restructured to focus on the policy and ultimate aim of the Sinking Fund to:</p> <ul style="list-style-type: none"> • Gain a better understanding of the long-term use of the Sinking Fund, • Acknowledge that only Council can authorise a draw down from the Sinking Fund, either through the annual budget setting process or via a special report seeking Council approval.

1. Summary of the report

1.1 The purpose of the Sinking Fund Policy is:

- (a) to minimise risk and protect the Council's Revenue Budget and Council taxpayers from exposure to **unplanned** short term dips in income.
- (b) to ensure that the Council build sufficient cash backed reserves to provide future options at each property, including:
 - i) refurbishments (net of dilapidations),

- ii) development of a site, particularly in 14 years' time in the case of the Sunbury Campus, when the tenant could exercise their lease break and vacate the entire site at Sunbury.
 - iii) Repayment of PWLB Loans in the event of a tenant default.
- 1.2 The Sinking Fund Policy will be reviewed every five years or earlier, in the event of a material emergency issue (such as another Pandemic) facing the Council's Investment & Regeneration Property Portfolio.
- 1.3 **Material Unplanned Events**
- 1.4 Material is defined as a multi-million pound challenge, that cannot be resolved through the annual budget setting process or reduces the annual contribution from the investment and regeneration property portfolio below £10.8m.
- 1.5 Payments from the Sinking Fund, for unplanned items that occur, could include:
 - (a) a tenant going into insolvency and after deducting the lease guarantee held, there could be a small residual balance required to balance the books, as happened recently at one of the Council's Investment & Regeneration Properties.
 - (b) The impact of the war in Ukraine, was a material unplanned event, which has adversely affected the Council's rental income, at one of its Investment & Regeneration properties and whilst the premises are soon to be vacant, the Council has taken the opportunity to bring forward planned upgrades to the building, rather than wait until the premises are reoccupied, this expenditure under the Sinking Fund policy, would be funded from the Sinking Fund Reserve.

The list of what is a material unplanned events is not exhaustive nor is it prescriptive.
- 1.6 The remaining items on the Sinking Fund are deemed to be operational in nature.
- 1.7 Once this Committee/Council confirms its strategic objectives and plans for each site, the operational model for our Sinking Fund, shown below can be adjusted and end balances quantified, that is why is it important that Council exercises in strategic judgement and provides Officers with notice of its intentions at the earliest possible moment, so they can look at the operational issues and provide Council with feedback on their plans or adjust the budget in order to meet these objectives.
- 1.8 As a benchmark, Officers would suggest to the Committee the following operational milestones, until the Committee confirms its strategic objectives, having ensured that each year, the Council receives £10.8m towards funding frontline services, affordable housing and regeneration programme:
 - (a) The first milestone should be to accumulate Sinking Fund balances of at least £37m to ensure that the Council would be able to repay the loans in light of a major catastrophe
 - (b) In fourteen years' time, the Sinking Fund balance should be in the order of £60m and this would enable the Council to pump prime any redevelopment of the Sunbury site, in the event our existing tenant vacates the premises.

- (c) Put an average net payment of £3.5m per annum into the Sinking Fund reserve.

2. Options Analysed

2.1 **Stick with the existing policy** - this was considered and rejected, as Officers believe that the Council should ensure that the planned income and expenditure is incorporated into the budget setting process, and that the use of the Sinking Funds (a reserve) is not delegated to a subcommittee but remains with CPRC/Council for a formal decision, in the overall scheme of the Council's finances.

- (a) **Stick with the existing strategic objectives** – which are vague and not quantified.

2.2 **Amend the policy as per the report (Recommended)** – this provides greater clarity to Council on how the Sinking Funds should be utilised and restores control of the Sinking Fund (a reserve) back to CPRC/Council. The definition of material unplanned event clarifies when the Sinking Fund can be used.

- (a) **Updating Strategic Objectives** – the Committee is asked to provide Officers with a revised/updated set of Strategic Objectives for the Sinking Fund, to enable them to prepare the 50 year projections and accept the interim objectives set out in 1.8 (a), (b) and (c) above, until the new objectives have been agreed

3. Operational Model for the Sinking Fund

3.1 As part of the budget setting process, Assets and Finance Officers update the rolling 5 year financial plan for each individual property that makes up the Investment & Regeneration portfolio.

3.2 The Annual Budget Setting process and Medium Term Financial Strategy provide Council with the expected cashflow movements and anticipated contributions in to and out of the Sinking Fund Reserve, for the 4 years ahead.

3.3 The annual Sinking Fund movements (in/out) form part of the overall operational management of the investment and regeneration properties portfolio that aims to deliver at least £10.8m annual contribution to the Council's affordable housing programme, regeneration programme and the delivery of key frontline services.

3.4 The model is made up as follows:

- (a) Asset Acquisition Income - Gross rental income as per the current signed lease for all our tenants.

Less the following:

- (b) Landlord Costs, these are typically known and or planned costs, and would include (not an exhaustive list) the following:
 - i) Voids arising from break/lease terminations
 - ii) Capital & Revenue (rent free) contributions for new tenants
 - iii) Planned repairs and enhancements, particularly after a tenant change.

- iv) Short term leases reductions.
- (c) Minimum Revenue Payments, provided fully against the capital repayment element of each PWLB loan.
- (d) Interest payments based on the charge for each Public Works Loan Board loan.
- (e) Set aside – the Council provides funding of up to £0.63m per annum from rental income to cover all the new costs, i.e., staff in support functions, consultancy costs etc.
- (f) Contributions to the Sinking Fund reserves, are predetermined each year and approved by Council (to date have ranged between £5m and £9m per annum), aiming to build sufficient funds to cover unplanned:
 - i) Voids
 - ii) Rent free periods, business rates, repairs, and enhancements (not covered by service charges or dilapidations).

These costs should be budgeted for, within the five-year business cycle, under Landlord Costs in 2.2 above and from 2024-25 will require a separate revenue and capital growth bid to be submitted as part of the Council Budget setting process, for maximum transparency.

3.5 Every 5 years or in the event of a major catastrophe Officers will review the Sinking Funds and prepare revised 50 year forecasts for the Sinking Funds.

3.6 The Committee will need to agree the strategic objectives for the Sinking Fund, to enable the Finance Team to model the next 50 years and ensure that it is operationally possible to deliver the outcomes. Once received the Finance Team will commence work on modelling the next 50 years, noting that:

- (a) Due to the current workload pressure on the Finance Team with Budget Setting and preparing the Annual Accounts, between December and April, as well as implementing a new budget monitoring system by 1 October 2023. Together with the volume of work this Committee has to deal with between January and February each year, to agree the annual budget, Officers will work to build a robust and updated financial model to deliver the 50 year review of the Sinking Funds based on the Committees updated strategic objectives and present their report to this Committee by June 2024.

4. Financial implications

4.1 The financial implications have been highlighted in the report above.

5. Risk considerations

5.1 There are no further risk considerations.

6. Procurement considerations

6.1 There are none.

7. Legal considerations

7.1 Further to the Local Government Act 1992, the Council has a duty to produce a 'balanced budget'. Proper management of the Sinking Fund helps to

strengthen the Council's financial position which will assist with setting a balanced budget in future and mitigate against exposure to financial risks.

8. Other considerations

8.1 There are none.

9. Equality and Diversity

9.1 There are none.

10. Sustainability/Climate Change Implications

10.1 There are none.

11. Timetable for implementation

11.1 From 1 April 2023:

- (a) managing the Sinking Funds becomes a function for the Finance Team and will be reported annually in the Capital & Reserves.
- (b) All expenditure for the Investment & Regeneration Properties will be dealt with under Landlord Costs (which are made transparent in the below the line detailed budget analysis).
- (c) At the end of the year, as part of Outturn and the Capital & Reserves Strategy, Officer will make recommendations for any additional funds to be paid into the Sinking Fund.
- (d) Based on the definition of material unplanned events in 1.3 above or to maintain the level of contribution of £10.8m to Council from the Investment & Regeneration Properties, Officer will make recommendations to this Committee for approval, as to the aggregate amount of support required from the Sinking Fund, over and above those amounts set in the annual budget.

11.2 June 2023 - to be implemented with the 2024-25 Budget Setting Process – the Investment & Regeneration portfolio, should complete a Service Plan for this Committee to review.

11.3 June 2024 – Report on 50 year projections on Sinking Fund.

12. Contact

12.1 Paul Taylor p.taylor@spelthorne.gov.uk

Background papers: There are none.

Appendices – There are none.

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