

EXTRACT FROM EMERGENCY COUNCIL MEETING 21 MAY 2020

4.7 ASSETS

ASSETS COVID-19 IMPACTS

There has been no new work requirement by Government or the Council for the Assets team as a result of the COVID-19 pandemic. However the pandemic has had a significant impact on the level of the workload within the team, and has required a very different approach to the investment and municipal portfolio, in particular.

The COVID-19 crisis has had a significant impact on business, with offices and retail units being closed and staff working at home, being furloughed or being made redundant. This will impact on cashflows moving forwards, and officers will ensure the impact is kept under constant review. 'Lockdown' coincided with the March quarter rent collection. With a £1bn property portfolio, it was critical that the income was received. In order to do this, the workload of the team has increased significantly. Three members of the team, plus the manager, have been focused almost exclusively on maximizing rent receipts. In a normal quarter around 25% of their time would be allocated to rent collection at quarter end. During March and April this has increased to a minimum of 75% of their time.

Central Government announcements around how landlords should be treating business, and rent collection in particular, has had a significant impact on how the team have approached March quarter. Very early on in the COVID-19 crisis the Government advised that landlords would not be allowed to forfeit leases for non-payment of rent. It has been widely reported nationally that a number of companies have taken this as a 'green light' not to pay their March quarters rent, as landlords cannot force them to do so, regardless of the strength of their balance sheet.

In light of the importance of the portfolio to the financial health of the authority, the Council has radically altered the way that it deals with rent collection within its investment portfolio:

- It has set up a weekly rent review meeting (covering investments, retail and municipal). This meeting includes senior politicians, Management Team and the Assets Team;
- All requests from tenants are being considered on an individual case by cases basis;
- No blanket policy was put in place in terms of concessions that would be 'offered' to tenants;
- Where appropriate considering 'win-win' initiatives (e.g. leases can be re-structured with rent free periods in return for removal of impending break clauses to provide longer term benefit to the Council in return for short term easing of cashflow for the occupier)
- The March quarter day, i.e. rents falling due on 25 March, followed a quarter of near normal business operating (i.e. COVID-19 had not impacted their business at that stage) and therefore we have worked from the standpoint that tenants would largely be in a position to pay;
- The principle of whether a tenant 'can't pay' or 'won't pay' has been applied. A large percentage of the portfolio is focused on the office sector. Whilst buildings are physically closed, the companies are still operating remotely. They therefore have a large degree of in-built resilience;

- Robust one-to-one engagement with those who in the opinion of the Council were taking a stance of ‘won’t pay’. This has included frequent direct conversations at director and board level, setting out in particular the Council’s unique position as a landlord (e.g. not an institutional investor – the income goes direct to support provision of Council services and our housing delivery programme). This has borne fruit in a number of instances where organisations have agreed to depart from the norm they have pursued elsewhere;
- Where tenants have clearly demonstrated that they can’t pay (and this has been assessed by the property managers and is deemed acceptable) then the focus has been on securing service charges. This has primarily been in connection with a number of the retail units in the Elmsleigh Centre;
- Developed a Red, Amber, Green (RAG) rating system (watch list), drawing on a number of data sources, to help make informed decisions on recovery of rent arrears including a final guarantor rent deposit spreadsheet;
- Updated covenant strength against payment records for all tenants;
- Undertaken weekly cashflow modelling and stress testing on the investment portfolio to assess the resilience of the accrued sinking fund;
- Cashflow quarterly income for a five year period based on (1) current position (2) base case - default only (3) base case – default and deferment (4) worse case – default and deferment, including refurbishment costs to ensure that even in the worst case scenario that the Council has sufficient sinking funds to insulate the Revenue Budget and council taxpayers from adverse impacts;
- The Elmsleigh Centre was sharply impacted by COVID-19. The lockdown was immediate and mandatory except for a couple of key stores. Tenants were strongly pressed to meet their March quarter payments, however retailer concerns about future trade and footfall even after lockdown is lifted, caused them to focus on preserving their businesses. The majority withheld rent. Government has restricted any meaningful landlord actions for nonpayment, however the Council has not waived any rental and these remain on the ledger to be revisited at a later juncture. Through considerable negotiation with senior personnel in the retailer companies, the Council has managed to collect circa 60% of the March quarter service charge, and expects to improve on that figure by the end of the quarter period. The team has also worked to reduce costs and expenditure at the Centre during this quarter to mitigate the impact of short payments; at the same time ensuring the Centre remains fully compliant, and therefore in a position to reopen without delay once the government imposed lockdown on retail is lifted.

Government guidance was updated on 23 April introducing a temporary ban on landlords from issuing statutory demands and winding up orders (called a 7 day letter); and preventing the use of the Commercial Rent Arrears Recovery procedure (CRAR) where rent arrears are less than 90 days overdue. The Assets Team are actively reviewing the approach the Council now needs to take. Whilst statutory demands can still be issued, the authority cannot progress them. This is a further challenge to securing outstanding rent from tenants. The cost implications are that the Council are unlikely to recover monies in a number of cases.

The Council’s sinking fund currently stands at approximately £20m. With the onset of the COVID-19 emergency in March 2020, the Council has had to pro-actively engage with some of its tenants and discuss their cashflow issues. At the time of writing, **more than 90% of the March quarter rent due on commercial assets has been received, and of the 10% outstanding all but 3.6% has been addressed through rent deferral plans** agreed between the Council and the tenants. Retail is in a more precarious position. Notwithstanding this, at

the time of writing the Council forecast to **realistically recover 29% of rent, and 71% of service charges, by the end of this Quarter period, a combined total of 39%**. In a time of crisis this is testament to the huge amount of time and effort put in by a team of highly qualified and skilled staff.

To put this in some context, major private sector landlords with substantial retail focused portfolios have reported weaker collection statistics on the March quarter of 29% (Intu) and Hammerson (37%).

While balance sheet value post COVID-19 has largely remained at acquisition levels, net income has been significantly increased through leasing and pro-active asset management during the Council's ownership. Despite this initially strong position, the Council recognises that COVID-19 poses the most extreme economic stress test for more than two centuries. Obviously we do not yet know how long the pandemic will impact and when/how the lockdown will be wound down. The Council will continue to keep under active review its sinking funds projections. With even the most adverse of these scenarios, the sinking funds are sufficient to offset potential drops in rental income. This means that the Council is confident that the its sinking funds are sufficient to insulate the Council's Revenue Budget and in turn council taxpayers from any potential reductions or delays in commercial rent received adding to the Revenue Budget gap. The contribution from commercial assets towards the Revenue Budget is protected by the sinking funds.

As a result of our investments, we have improved the financial resilience of and increased service delivery resources in areas such as homelessness and independent living. This has enabled the Council to pro-actively and rapidly move in response to COVID-19 to meet the needs of its vulnerable communities without reliance on Government funding in advance. As an example, even though it is not our role, we have put in place arrangements for our staff to contact 93% of Category A (shielded) residents in the borough and arrange food parcels and welfare support for those in need.

The Government announced on 10 May its 'conditional plan' to begin lifting England's Coronavirus lockdown (Our Plan to Rebuild: The UK Government's COVID-19 recovery strategy). Government has set out a two-step process whilst we are in what is being called Phase 2: smarter controls. We are now moving into step 1. Government has advised that for the foreseeable future workers should continue to work from home wherever possible. This advice will apply to virtually all our investment tenants (bar a few small food retailers in some of our offices).

Subject to assessment of data and a review of whether the Government's five tests are being met, the Government have indicated that non-essential retailers will be able to open from 1 June subject to them meeting the COVID-19 guidelines. This will enable our retailers in the Elmsleigh Centre to reopen and the Centre's management team is working up a detailed exit plan and liaising closely with retailers in preparedness. However, it has been made exceptionally clear that if the infection rate increases then both these measures may be delayed or even reversed.

Municipal assets

The Council owns a large number of municipal assets which provide services to residents and businesses in the borough. Within this portfolio the Council holds a number of buildings and pieces of land which are leased out to community organisations (such as Stanwell Moor Village Hall, Bagster House in Sunbury and Dramatize in Ashford). As a Council we ensured that all these facilities were closed as soon as relevant government guidance was issued. A

significant number have been directly impacted by the COVID-19 crisis. Halls, for example, rely on bookings and this cannot happen as gatherings have been banned. Others rely extensively on charitable funding to supplement their income and this has diminished considerably. These organisations have a valuable place in our community and will be increasingly relied upon once we move out the other side of the pandemic.

Where requests have been received from lessees, officers have considered them on an individual case-by-case needs basis. This has included consideration of payment plans (for example moving from quarterly to monthly), rent deferrals, rent holidays and reduced rents. A new process has been set in place to ensure that these are considered quickly and effectively at both officer and Councillor level. Revised arrangements are now in place for a number of tenants. The Council are keeping the matter under active review, and considering all requests that are submitted to it.

As an authority we have taken specific action in order to assist those parts of the community most directly impacted by the crisis. Stanwell is one of our communities which, for a whole host of reasons, currently relies in Food Bank provision more than other parts of the borough (the numbers of food parcels are referred to elsewhere in this report). Stanwell Food Bank currently occupies Stanwell Pavilion. However, the space is not very well configured and this limits the effective delivery of the Food Bank service (which will continue long beyond the end of the COVID-19 pandemic). As a Borough we are therefore undertaking some internal alterations to the building (at our own cost and not that of the voluntary organisation) to enable this to happen.

Development

In terms of the development work, Central Government made it clear that it expected development and construction work to continue (whilst ensuring social distancing/hygiene measures are met) throughout the COVID-19 pandemic. It has been very clear from the outset that the country needs to be in the best position possible in economic terms once the pandemic subsides. Development and construction are central drivers in achieving this. This view was re-enforced by the fact that the government defined construction staff as essential workers (alongside NHS, health and local government staff).

Government advice (Gov.uk update dated 27 March 2020) is that 'Construction Sites have not been asked to close, so work can continue if it is done safely.' The Government advice also references the Construction Leadership Council Guidelines.

All Council development sites are fully adhering to the Industry Guidance for Building Sites during COVID-19 (produced by the Construction Leadership Council)

The effect on this side of the Asset Team has been twofold. Firstly the development team have continued in their work of bringing forward planning applications for consideration by the Local Planning Authority. Two applications have been or are about to be submitted during this period. The first is for a significant residential development at Thameside House in Staines-upon-Thames, and the second is for a residential schemes at Victory Pace in Ashford. Together they will eventually deliver around 250 units of much needed housing in the borough. The latter will bring forward 115 units of key worker accommodation (with a Memorandum of Understanding between the Council and Ashford and St Peter's Hospital Trust, which gives NHS staff first refusal).

Secondly the Assets Team has a number of projects under construction, namely at White House in Staines-upon-Thames (single person homeless accommodation), Harper House in

Ashford (temporary accommodation), West Wing of the Council Offices (affordable rental housing) and at Ceaser Court in Sunbury (affordable rented and private rented). Not only was it important to keep this work going from a construction (and employment) point of view, it was critical to keep moving these projects forward in terms of housing delivery. The first two schemes have secured between them over £3m of funding from Homes England (HE). Whilst HE have said they are sympathetic to any delays as a result of COVID-19, as a Council we need to ensure that these developments are not delayed. The project manager has therefore undertaken twice weekly inspections of all the active construction sites and liaised with our contractors on a daily basis to ensure the safety of their teams is maintained by ensuring that social distancing measures are in place. This proactive work has enabled all the Council's construction sites to continue to operate throughout this pandemic except for a two week delay on one of the sites during April – which is now back up and running.

As a Council we also have a small active residential portfolio (at Churchill Way and the Bugle). The Facilities and Estates Manager has been in regular contact with our tenants to see if any are suffering from COVID-19 symptoms and whether particular measures need to be put in place. We are also reminding tenants about the need for social distancing.