Cheltenham Borough Council
Cabinet Report – 11th July 2017
Cheltenham Enterprise Centre

Accountable member	**Cabinet Member for Finance, Councillor Rowena Hay**
Accountable officer	**Head of Property & Asset Management, David Roberts**
Ward(s) affected	**St. Peter's**
Key/Significant Decision	**Yes**
Executive summary	Cheltenham Borough Council owns the freehold of the Cheltenham Enterprise Centre. Planning consent was granted in 2003 to build 8 light industrial units (this was later revised to 7 units). The construction of the first phase was completed in 2007 and comprised of 4 units, from which the council receives a rental income. It is proposed to build the additional units (Phase II) as part of the council's Property Portfolio Strategy as approved by Cabinet on the 6th December 2016.
Recommendations	**That Cabinet:** **1. Approves the further development of Cheltenham Enterprise Centre as part of the council's Property Portfolio Strategy, funded from unapplied capital receipts.** **2. Authority to be delegated to the Head of Property Services and the Borough Solicitor to proceed with the required contractors tendering process to develop the site.**

Financial implications	In order to build 3 new units on Enterprise Way, it is estimated that this will cost £585k (to be confirmed via tender process). This is to be funded from capital receipts. These new buildings should deliver £53k per annum in rental income for the council based on current similar rental properties. After known costs this returns a yield of over 8% per year. This is above the council target of 5% and should return over £45k a year to the council once up and running. The leases will be full repairing leases so therefore there will be no risk to the council for repairs. There will also be additional business rates income to the council once these properties are occupied. **Contact officer: Andrew Knott, Andrew.knott@cheltenham.gov.uk, 01242 264121**

Legal implications	The Authority has power to develop land under section 2 of the Local Authorities (Land) Act 1963 for the benefit or improvement of its area. Also, section 1 Localism Act 2011 gives the Authority *a power of general competence which allows it to do anything that an individual has power to do, provided there is no limitation or prohibition on that course of action in other legislation.* The Authority's Contract Rules and the Public Contracts Regulations 2015 will need to be followed to appoint the required contractors and professionals (e.g. employer's agent). The Authority should seek collateral warranties from those professionals and sub-contractors appointed by the build contractor. Once the units are developed, the Authority has power to let them under s123 of the Local Government Act 1972. Best consideration should be obtained where such leases are for terms exceeding 7 years. **Contact officer: Rose Gemmell, rose.gemmell@tewkesbury.gov.uk, 01684 272014**
HR implications (including learning and organisational development)	No direct HR implications arising from this report. **Contact officer: Julie McCarthy, julie.mccarthy@cheltenham.gov.uk @cheltenham.gov.uk, 01242 264355**
Key risks	Investment in property and carrying out development activities carries risks. Property rentals, values and occupancy rates typically fluctuate broadly in line with regional, national and global economies. It is also uncertain how Brexit will affect the UK economy in the short and long term. However, these units have proven to be very popular and there would appear to be a demand for similar sized units within Cheltenham.
Corporate and community plan Implications	The proposal will help to 'sustain and grow Cheltenham's economic and cultural vitality'.
Environmental and climate change implications	None
Property/Asset Implications	As outlined in this report **Contact officer: David Roberts@cheltenham.gov.uk**

1. Background

2. At a meeting on 12th December 2016, the council agreed to set aside £1m of unapplied capital receipts and £9m of prudential borrowing, a total pot of £10m, to support development of the investment property portfolio. In order to maximise the contribution to the MTFS, it is proposed that the building of additional units at Enterprise Way be funded 100% from the capital receipts allocation. The Council also approved a recommendation that any transaction under £5m, can be approved by Cabinet, in consultation with Asset Management Working Group and the chairman of the overview and scrutiny committee funded from unapplied capital receipts.

2.1 As a consequence of granting full planning consent (00/01026/FUL) for the development of the former Indalex site, adjoining Kingsditch Lane and Tewkesbury Road, a Section 106 Agreement required the developers to construct substitute light industrial units in order to create employment within Cheltenham. This resulted in the construction of the existing units on the Cheltenham Enterprise Centre.

2.2 Cheltenham Enterprise Centre is owned by the council. The former Fellmongers site is a former tannery located off Arle Lane. Planning consent (02/01616/FUL) was granted in 2003 for the construction of eight light industrial units within classes B2 and B8. The first phase of the development required the construction of four light industrial units as per the S.106 Agreement. These were completed 2007 with the remainder of the land being undeveloped.

2.3 The existing units have been fully occupied since completion and generate an annual rental income of £44,675 for the council.

2.4 Phase II will provide an additional three units of similar size, one unit will be approximately 175 square metres in size and two units will be 229 square metres in size. Construction of the units will be financed from the council's Capital Programme. Though planning consent granted the development of eight units, due to the land constraints and a vehicle turning area (as required by planning), it is not physically possible to construct an eighth unit. Enquiries have been made to the adjoining property owners investigating the possibility of purchasing approximately 5m of land. No response has been received.

2.5 The construction period including the tendering process, will take approximately 12-18 months and cost approximately £585,000 (subject to tenders). A new planning application is not required for the development this has been confirmed by the council's planning department.

2.6 The predicted annual rental income from the combined seven units will be in the region of £98,000 pa.

2.7 The lease agreements between the council and tenants are on a full, repairing and insuring basis, with all costs for common areas being recovered by way of a service charge. The management of the property is handled by the council's Property & Asset Management Department.

3. Reasons for recommendations

2.1 To allow the Council to increase income through strategic property investment, in response to the current financial pressure, reducing the reliance on government grant by building asset and investment portfolios that provide a commercial return which supports the MTFS.

2.2 The proposed development will support the place making strategy, assist the economic well-being of the Borough, increase business rates income and create jobs.

4. Alternative options considered

4.1 There are limited options available. If the land remained undeveloped, the council would continue

not realizing a rental income from the land. The entire property could be sold, but the rental income provides the council with a substantial capital return. The remainder of the land could be let for storage purposes (cars), with a likely rental of £15,000pa. However the ground requires levelling and surfacing.

5. Consultation and feedback

5.1 The proposal was discussed at a Property Acquisition Assessment Group (PAAG) meeting on the 12th May 2017. Members of the group supported the proposal and requested further investigations as to whether or not an additional fourth unit could be built. The outcome of the investigation is outlined above within paragraph 1.4.

5.2 Ward Members were consulted by email on the 19th May 2017.

5.3 The proposal was discussed and supported at Asset Management Working Group on 21st June 2017.

6. Performance management –monitoring and review

6.1 Property & Asset Management in consultation with PAAG and the Borough solicitor will execute the delivery of the development.

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Appendices	**1. Risk assessment** **2. Plan** **3. Financial Model**

Risk Assessment

Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likeli-hood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If the council does not increase the size of its investment portfolio, then it will not deliver its MTFS target of £300k p.a. by 2019/20.	Simon Hodges	19/05/2017	4	3	12	Reduce	Cabinet to approve.	19/05/2017	Simon Hodges	

Explanatory notes

Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)

Likelihood – how likely is it that the risk will occur on a scale of 1-6

(1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)

Control - Either: Reduce / Accept / Transfer to 3rd party / Close