

Business Case

Appendix 2

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1 Executive Summary

Arle Nursery is located off Old Gloucester Road within the Springbank ward, west of Cheltenham. Cheltenham is one of the few remaining authorities to have an in-house nursery. It is used to grow the bedding plants for Cheltenham's public realm spaces, and supplies bedding plant material to 19 other local authorities, the income from which subsidizes the supply and maintenance of its own seasonal displays. Each year some 500,000 plants are grown on from plugs for spring and summer bedding by the nursery team, comprising two full time staff and seasonal workers, under the supervision of the nursery manager (post is currently vacant).

The aim of this strategic review is to examine the options for sourcing a mix of annual and perennial plants for the public realm, comparing retention versus disposal of Arle Nursery site.

This document explains how the review options will contribute to the delivery of the council's strategy. It states its objectives, projected benefits, critical success factors, financial implications and concludes with a recommendation.

2 Strategic Fit

The following emerging factors have prompted the need to review the long term future of Arle Nursery;

- A Cabinet decision was taken in December 2017 to adopt a mixed public realm planting scheme within the borough. As a result, there will be a reduced requirement for annual bedding plant stocks to be grown at the nursery. Specifically, annual bedding plants will remain in the Long Garden and Imperial Gardens, and perennial planting will be introduced in all other locations. For these reasons, it is prudent to review the long term future and viability of the nursery.
- Revenue from the nursery sales of bedding plants for commercial use has reduced year on year as organisations move to alternative more sustainable planting regimes and public sector cuts drive reductions in contract values. This reduction in income means there is less to subsidise the Council's bedding plants, and therefore the cost to the council for its own planting is increasing. See Appendix A –Profile of Arle Nursery bedding contracts.
- The nursery requires substantial investment to ensure that the existing buildings are fit for current purpose. A further independent review was commissioned on 8th November 2017 from Kirkham Pryer, a firm of Chartered Building Surveyors based in Cheltenham, to assess the condition of Arle Nursery and provide a view on the investment sum necessary in order for the facility to continue to operate well in the future and satisfy its commercial contractual obligations. Their report identified an immediate spend in year 1 of £332,658.00. If CBC were to retain the facility this would be a minimum investment spend, but there are some important big-ticket items in years 2-5 which amount to approx. £208,200.00. To bring the Nursery up to a 'fit-for-purpose' standard within a single improvement project, an investment of £541,000.00 (excluding professional fees) should be considered.
- In addition to the maintenance programme, and in view of the mixed planting approach, operational equipment requires replacement and has been assessed in developing the options.
- As part of the recently approved Gloucester, Cheltenham and Tewkesbury Joint Core Strategy (JCS), the area of land at the nursery site has been removed from green belt designation. This opens up options for its redevelopment which will result in a substantial increase in the commercial value of the land. In December 2017, the Planning committee approved an application for 90 homes on land adjacent to the nursery site.

- An independent review of a number of CBC owned sites was commissioned from Origin 3. The nursery site was advocated as a site which was suitable for residential development.

2.1 Supporting Council Strategy

Specifically, this review supports the following action captured within the corporate strategy to review CBC's property portfolio and make recommendations for investment / disinvestment or development opportunities in order to deliver additional income to support the MTFS (VFM5).

2.2 Delivering Outcomes

The options appraisal assesses the value of asset retention versus disposal.

2.3 Working with partners to meet customer needs

CBC has engaged with Ubico and Publica to determine the financial cost and fully assess the impact of each option.

2.4 National Strategic Drivers

All local authorities continue to face severe budget constraints.

2.5 Key Benefits

The following high level benefits are associated with the recommended option:

- Substantial capital receipt sum from the nursery site asset disposal.
- Opportunity to release land for housing.
- Delivery of additional council tax revenue, within the JCS boundary.
- Potential opportunity for local plant growers to tender for CBC annual bedding supply contracts.
- Avoidance of significant maintenance costs and replenishment of operational equipment.

2.6 Key Risks

The following initial high level risks have been identified:

- Public response to asset disposal.
- Impact of flood risk, site constraints to land including adjacent sites, and value of nursery site. Risk of flooding is estimated to be 1:1000.
- Site disposal timescales – an uncoordinated approach with the two adjacent land parcels will reduce the nursery site value.
- If the council significantly invests in the nursery facility to make it fit for purpose, there is a risk that the council will not see an appropriate level of return on that investment as more local authorities move away from annual bedding plant schemes.

2.7 Critical Success Factors

IF the recommendation to dispose of the nursery is approved (option 2), then success will depend upon the following critical elements;

- CBC realising the optimum asset value for the benefit of the Medium Term Financial Strategy (MTFS).
- Arle nursery site constraints are mitigated i.e. flood risk, location of services, access, ancient monument and their associated impact on land values.
- Arle nursery site is appropriately promoted and designated for housing and corresponding permission is granted.
- Ability to secure outlined planning permission.
- Resolution of the nursery tenancies to the satisfaction of all parties.

- Regardless of the decision on which option to adopt, media coverage on the review itself and the subsequent outcome will need to be, overall, of a positive nature.
- Ability to identify a 'holding bay' for street trees delivered to the council prior to planting.
- Ability to find a solution to the temporary storage / phased delivery of annual bedding plants for the 2 remaining locations, Imperial and Long Gardens, ahead of planting.

3 Options Appraisal

Set out in this section are the options considered as part of this review.

3.1 Option 1 Asset Retention

| Asset Retention: Implications | |
|--------------------------------------|--|
| Community | No implications. |
| Economic | <p>Historically, the nursery has commercially supplied other councils with bedding plants. As those councils move away from annual bedding plants, the external contract values relied upon to fund the nursery diminishes, thereby increasing the net cost of plant cultivation to CBC for its own public realm mixed planting scheme.</p> <p>The nursery is operating in a shrinking market place, confirmed by reduced demand for bedding plants. Net profit for the last five years has progressively declined towards only breaking even, meaning the cost to the Council for its own plant requirements has been increasing. Appendix A refers.</p> <p>A more aggressive pursuit of contract tenders would be essential to ensure that the nursery is more commercially viable. Financial projections for this option only provide for the cost of fulfilling existing contracts. Nursery performance is recognised as sub-optimal in respect of bedding plant production commitments and associated resources. Growing capacity is under occupied yet standing costs are incurred for heating and watering the whole greenhouse.</p> <p>Significant investment is essential in order to keep the nursery fit for purpose. A substantial programme of planned and reactive maintenance is required. Concerns exist regarding our ability to satisfy 19 current contracts if the repair programme is not sanctioned. Nursery viability becomes questionable when the required investment sums are accounted for.</p> <p>Longer term, even after investment has been made to make the facility fit for purpose, it could struggle to maintain current income levels due to the trend of Local Authorities adopting sustainable planting, in which case the future of the nursery is potentially limited. There is a risk that the council will not see an appropriate level of return on its investment.</p> <p>The recruitment of a nursery manager to replace the previous (retired) and oversee the commercial enterprise would remain essential and has been costed.</p> |
| Environment | <p>The glasshouse is inherently energy inefficient, and it is further compounded by obsolete climate control requirements.</p> <p>Significant resources are used, including clean water and energy, in order to fulfil bedding plant supply contracts for other local authorities.</p> |

| Asset Retention: Implications | |
|--------------------------------------|--|
| Legal | If the council is unable to fulfil its current supply contracts it will need to negotiate with its customers to either vary or terminate the contracts to avoid being in breach. |
| HR | No implications. |
| Technological | Plant and machinery is considered to be 'end of life'. High ticket items include the automated and complex gas heating system. |

3.2 Option 2 Asset Disposal

| Asset Disposal: Implications | | | | | | | | | | | | | |
|-------------------------------------|--|----------------|--------|----------------|--------|--------------|----------------|------------------|--------|--------------|--------|--------------|------------------------------|
| Community | It is reasonable to anticipate mixed public reaction to the disposal of the nursery. Some may have an adverse reaction to the proposal to develop the site for residential housing, whilst some may respond favourably and welcome local development of much needed housing in a sustainable location. | | | | | | | | | | | | |
| Economic | <p>A sensitivity analysis has been undertaken on the anticipated capital receipt sum, which will be counted in year one following sale of the land for residential development. The impact of a potential purchase price has been assessed.</p> <p>A one year timeline has been provisioned for the transition to asset disposal.</p> <p>Sale of the land provides an opportunity to develop additional residential housing and drive growth in the local economy.</p> <p>There would be no requirement for a nursery maintenance programme.</p> <p>Following the decision to move away from annual bedding plants in all locations except Imperial and Long Gardens, CBC's own residual annual bedding plant statistics will be as follows;</p> <table> <tbody> <tr> <td>Spring numbers</td> <td>87,000</td> </tr> <tr> <td>Summer numbers</td> <td>89,000</td> </tr> <tr> <td>Total</td> <td>176,000</td> </tr> </tbody> </table> <p>Of which:</p> <table> <tbody> <tr> <td>Imperial Gardens</td> <td>52,000</td> </tr> <tr> <td>Long Gardens</td> <td>41,000</td> </tr> <tr> <td>Total</td> <td>93,000 still required</td> </tr> </tbody> </table> <p>Committed for next season.</p> <p>Plant stock for the mixed planting regime would need to be sourced externally plus resource to manage and maintain that stock has been built into the financial projection.</p> <p>A temporary safe holding area for plants, baskets and street trees would be needed if Arle Nursery were to be developed. Space requirements include;</p> <ul style="list-style-type: none"> • 30 m2 for each bedding plant delivery on a weekly basis during the season • 100 trees taking up circa 100 m2 delivered on a separate seasonal time line • Summer hanging baskets requiring 400 m2 when planted up prior to being placed in position. | Spring numbers | 87,000 | Summer numbers | 89,000 | Total | 176,000 | Imperial Gardens | 52,000 | Long Gardens | 41,000 | Total | 93,000 still required |
| Spring numbers | 87,000 | | | | | | | | | | | | |
| Summer numbers | 89,000 | | | | | | | | | | | | |
| Total | 176,000 | | | | | | | | | | | | |
| Imperial Gardens | 52,000 | | | | | | | | | | | | |
| Long Gardens | 41,000 | | | | | | | | | | | | |
| Total | 93,000 still required | | | | | | | | | | | | |

| Asset Disposal: Implications | |
|-------------------------------------|---|
| | <p>A number of options have been considered including;</p> <ol style="list-style-type: none"> 1. Phased supplier deliveries, directly to the intended green space destination, thereby avoiding storage needs. Where possible, CBC would strive for deliveries to be directed to the green space destination, rather than be held in storage. 2. Temporary storage at the depot, which Ubico are confident can be accommodated. 3. Temporary storage at the disused nursery at the cemetery and crematorium. For access purposes, this would require deliveries to be transported on smaller trucks, as opposed to the existing larger heavy goods vehicles. A cost may be incurred. 4. Entering into a commercial arrangement with a local nursery for plant supply, associated equipment storage and delivery of stock. 5. Pay for storage, at a local commercial nursery, where externally sourced plant stocks and CBC associated items can be delivered and held temporarily for the GSDT to collect as and when required according to the planting schedule. <p>As such, a provisional sum has been included in the financial assessment for alternative provision to be made in the event that the depot or cemetery cannot be used.</p> <p>Sourcing plants externally provides an opportunity for local growers to supply the residual annual bedding which potentially supports other businesses in what is clearly a challenging market.</p> |
| Environment | Following a change in status from green belt to unallocated land, the potential to sell the land for residential development arises. |
| Legal | <p>Sale of the nursery site would require legal support to follow due process. Two residential occupiers would require legal resolution as part of the land sale. Costs have been factored in for these matters, and CBH engaged to facilitate a smooth transition.</p> <p>Procurement in accordance with the Council's contract rules and the Public Contracts Regulations 2015 will be required to source plants from external providers. If the decision to dispose of the asset is made at Cabinet on 10th July, then the proposed priority is to close the facility with immediate effect and outsource plant production. This approach will facilitate the re-homing of the tenants currently on site at the Nursery, rather than risk frustrating this objective by requiring them to be on site in order to manage the production of bedding plants for the next season.</p> <p>Disposal would require a variation order to be raised to reflect the new arrangement in the service level agreement with Ubico.</p> <p>Current local authority supply contracts are all entered into on an annually renewable basis. Notice would have to be given to these clients on 1st August 2018. It is not envisaged that any fees or other liabilities will be incurred.</p> |
| HR | There are HR implications arising for Ubico Ltd and these are being managed by the Publica HR team. No temporary seasonal staff required, which reduces cost. |

3.3 Option 3 Asset Development

Suggestions include the development of Arle Nursery into a retail garden centre, or a wholesale grower with a view to selling stock on to retailers. Neither option has been costed because they are not considered to be viable for the following reasons;

- The Nursery is not designed to be run as a commercial enterprise.
- To be able to run a business, the council could only do so through an existing or new company e.g. Ubico, due to provisions contained in the Localism Act 2011 and Local Government Act 2003. Ubico is not set up to run it as a business providing plants for sale to the general public.
- Planning permission would have to be obtained to develop the initiative which would need to consider site development implications including impact on the highway.
- Careful planning currently ensures that the nursery produces the right amount of plants to satisfy its contractual commitments. As a result, there is little surplus stock. Historically, this surplus has been advertised for sale to the public, typically at cost. This approach triggered complaints from local garden centres who considered the council to be competing for sales at the detriment of their own business. This potentially conflicts with CBC's values in respect of enabling local businesses to thrive.
- Evidence suggests that demand for annual bedding plants is reducing, as opposed to orders being placed elsewhere, which significantly impacts upon the viability of the business venture.
- To provide a comparable service offering to retailers and wholesalers a significant investment in the infrastructure would be required at the site and wider and more diverse plant stocks would have to be purchased, marketed and sold. Decent returns on investment and good profit levels would be essential. This is a huge challenge and undertaking, especially in view of the commercial competition presented by already well established garden centres and nurseries in the area. To compete requires a full commitment to invest in a robust commercial venture that becomes a 'go to' destination because it provides a proper retail consumer experience. Most garden centres and nurseries offer more than plants and seedlings for sale e.g. homewares, seasonal gifts, clothes, ornaments, ironware, fencing, possibly an eatery / coffee shop, sometimes a children's play area (outdoor and / or indoor), even aquariums, tropical fish, ponds, liners, pumps, filters and other aquatic equipment. CBC has no experience in this sector and it is not considered core business for local authorities.
- The current infrastructure does not exist to support sales to the public i.e. there are no cash handling or credit card facilities, no resources to ensure that stock taken from the nursery match the sales recorded. There are no designated car parking spaces for people. This poses health and safety risks. Restricted parking would have to be designated, which has an initial cost impact and thereafter would need to be managed properly. There are no appropriate WCs to serve the public.

4 Financial Assessment

The summary table herein shows the total costs including programmed maintenance costs for 10 years, deducting any income generated. A negative value means that the income outweighs the costs. While retaining the nursery would mean that CBC could carry on growing bedding plants for Imperial Gardens, The Long Garden, public realm hanging baskets and containers, as well as for external customers, disposing of the nursery would not prevent us from buying in ready planted hanging baskets and bedding plants.

Option 1 Asset Retention:

- This option requires significant planned maintenance to keep the nursery viable as a business that produces plants for our customers. Advisory quotes from Kirkham Pryer have been used to model the business case.
- Equipment would have to be replenished.
- The nursery requires significant investment to make it fit for purpose for the next 10 years. The necessary maintenance costs have been profiled, and are higher in the early years. It may be practical and financially beneficial to tender for packages of maintenance work rather than instruct contractors to complete tasks in a piecemeal fashion. These additional costs are not included in the MTFs.
- While keeping the nursery as a going concern would achieve external sales, the costs of sales in addition to the planned maintenance would be cost neutral. In addition, based on the actual reduction in achieved income between 2013 and 2016, the future sales are forecast to reduce by approximately 5% each year. The 2017/18 sales were at £135k against a budget of £194k. Therefore, we are currently not managing to achieve targeted income within this area and this continues the reducing position since 2013.

Option 2 Asset Disposal:

- Developing houses on the site would generate additional Council Tax revenues. This would depend on the banding and number of properties built, but for illustration, 47 properties at band D would generate approximately £9k per annum additional revenue for the council, and £65k per annum to fund county council and police services.
- More housing would generate a new homes bonus (NHB) for the Council. At the same number of dwellings, this might be as much as £84k over 6 years. But ongoing changes by the Government to the calculation of NHB make this significantly more uncertain, and therefore the figure has not been included in the business case.
- Site disposal may generate a significant capital receipt, but there may be a reduction in the number of properties that could be built due to site constraints as a result of the presence of a high pressure gas main under part of the site which could impact on the site value.
- The council could choose to use the capital receipt to invest in another scheme that supported the financial strategy, use the money to pay down borrowing thus saving interest, or apply the money to reserves. Ultimately, it is a council decision on how to best use any capital receipt.
- If the site were disposed of, the managerial position currently standing vacant would not need to be filled. Other staff including the tenants would be redeployed within Ubico, therefore no other changes to staff costs would be foreseen.

| NURSERY COST PROJECTIONS SUMMARISED 2018-2028 | | | | |
|--|---|-------------------|---|-------------------------------------|
| | OPTION 1: | Option 1 | OPTION 2: | Option 2 |
| | Based on the mixed planting scheme - annual bedding in Long Gardens & Imperial Gardens | | | |
| | Retain nursery | | Dispose of nursery | |
| Account | Description | TOTAL | Description | TOTAL |
| Ubico Staff Costs | Assuming slight reduction regarding mixed planting | 694,316 | Seasonal Staff reduction, and assumes redeployment of permanent employees | 642,850 |
| Premises running costs excluding Programmed Maintenance | Repairs and cleaning, but excludes programmed maint. | 339,500 | Year 1 only | 29,650 |
| Programmed Maintenance | Required to continue operations at the Nursery | 1,023,296 | Year 1 only | 58,062 |
| Maintenance / Replacement of Operational Equipment | Required to continue operations at the Nursery | 200,000 | Year 1 only | 20,000 |
| Transport Costs | Transport of bedding plants | 100,940 | Transport of plants still required from depot to gardens | 100,940 |
| Supplies & Services Costs | All net costs except plants and shrubs | 89,580 | | 89,580 |
| Purchase of Material | Bedding Plants & Shrubs (for all customers, mainly seedlings) | 788,451 | Bedding plants and hanging baskets bought in | 1,042,551 |
| Support Services | | 310,500 | | 310,500 |
| TOTAL COSTS | | 3,546,583 | | 2,294,133 |
| Sales - external | Sale of Plants / Floral Displays | 991,120 | Year 1 only | -130,000 |
| Miscellaneous sales | Sale of excess plants to the public | -30,200 | Year 1 only | -8,200 |
| GROSS INCOME | | -1,021,320 | | -138,200 |
| ESTIMATED ONGOING COST OF SERVICE FOR 10 YEARS | | 2,525,264 | | 2,155,933 |
| | | | | Figure excludes capital receipt sum |

5 Recommendation

The recommendations are to;

- 5.1. Adopt **option 2**; dispose of Arle Nursery site;
- 5.2. Delegate to the Head of Property and Asset Management the disposal of the asset in consultation with the cabinet member for finance; and
- 5.3. Outsource the procurement of plants for our public realm planting.

Asset disposal enables CBC to;

- Realise the capital receipt sum which can be deployed elsewhere
- Support the JCS, place shaping and economic development agenda
- Reduce seasonal staff costs
- Save property costs – no planned maintenance and no requirement to replace operational equipment

6 Officer Time and Costs

There will be some level of officer resource costs for disciplines including but not limited to Communications, Finance, HR, ICT, Legal and Project Management. Allowances for these inputs in order to support the project and deliver the anticipated outcomes have not been calculated within the options appraisal and corresponding financial assessment. Instead they may require costing depending upon needs determined during the project.

7 Timescales

A decision is being sought at Cabinet on 10th July 2018.

Other time dependencies include;

- Closure of Arle Nursery, preparation of the site for sale and completion of the sale.
- Notice would have to be given to the local authorities to which plants are currently being supplied on 1st August 2018.

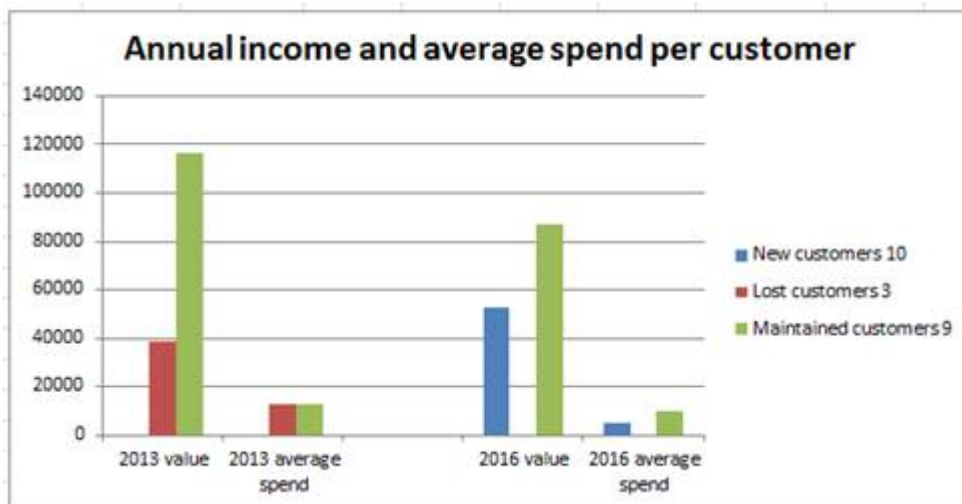
Appendix A: Profile of Arle Nursery bedding supply contracts

Arle Nursery has 19 contracts, up from 12 three years ago. However, the decline in average spend means that the total values of sales have dropped, despite new business wins. This indicates a trend by local authorities to move away from annual bedding plants to perennial planting schemes. Net profit for the last five years has progressively declined towards only breaking even.

Impact

The profile of Arle Nursery bedding contracts means that the cost to the Council for its existing bedding plant requirements has progressively increased.

| | |
|---|---------------------|
| Between 2013 and 2016/17: | |
| 10 new customers, at an average value of £5,200 | £ 52,800.00 |
| 3 lost customers, at an average value of £12,800 | -£ 38,400.00 |
| 4 customers cutting spend by an average of 52% | -£ 43,688.98 |
| 4 customers increasing spend by an average of 54% | £ 14,036.29 |
| 1 customer spending same amount | £ - |
| reduction in contract sales value | -£ 15,252.69 |
| | |
| Average contract size 2013/14 | 12940 |
| Average contract size 2016/17 | 7365 |
| Decrease in average spend in 3 years: | -43% |



Appendix A continued: Profile of Arle Nursery bedding contracts

