

Cheltenham Borough Council
Cabinet Report – 10th September 2019
Cheltenham Enterprise Centre

Accountable member	Cabinet Member for Finance, Councillor Rowena Hay
Accountable officer	Head of Property & Asset Management, Dominic Stead
Ward(s) affected	St. Peter's
Key/Significant Decision	Yes
Executive summary	<p>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.</p> <p>Cabinet previously approved the Phase II development on the 11th July 2017. However, due to delays in tendering, the anticipated development cost has risen from £585,000 to £1,003,600 million, but a budget of £1.1m is requested to allow for contingencies.</p>
Recommendations	<p>That Cabinet:</p> <ol style="list-style-type: none"> 1. Approves the further development of Cheltenham Enterprise Centre as part of the Authority's Property Portfolio Strategy. 2. Approves an additional budget allocation of £515,000 in accordance with the delegation provided by Council on 12th December 2016. 3. Accept the tender received from RG Carter Construction to build the additional units with a total scheme cost not to exceed £1.1 million. 4. Authority to be delegated to the Head of Property Services, in consultation with the Borough Solicitor to; <ol style="list-style-type: none"> 3.1 Conclude the construction contract with RG Carter Construction. 3.2 Take all necessary steps and undertake all necessary procedures including the entering into of any legal arrangements or other documentation as may be required to implement or facility the development.

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Financial implications	<p>At a meeting on 12th December 2016, the council agreed a budget allocation 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 approved a recommendation that any transaction under £5m, can be approved by Cabinet, in consultation with the Asset Management Working Group and the chairman of the overview and scrutiny committee.</p> <p>With an estimated minimum of £10 per sq/ft rental, this build would give a return of 6.42% assuming a build cost of £1,003,600. The business case and net yield calculations can be found in appendix 2.</p> <p>Contact officer: Andrew Knott, Andrew.knott@publicagroup.uk 01242 264121</p>
Legal implications	<p>The Authority has power to improve its land, and in doing so in this instance would be increasing the revenue from its assets. When the units are ready for letting, it is likely that the authority to approve the grant of the individual leases would lie within the existing delegation to the Cabinet Member.</p> <p>The Council's Contract Rules would have had to have been followed in selecting a contractor.</p> <p>Contact officer: Donna Ruck, Solicitor donna.ruck@tewkesbury.gov.uk 01684 272696</p>
HR implications (including learning and organisational development)	<p>No direct HR implications arising from this report.</p> <p>HR Manager – Operations Contact Officer julie.mccarthy@publicagroup.uk 01242 264355</p>
Key risks	<p>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. In the event of voids, the council will be liable for the service charge of the unit/s. The site is a former tannery, so there may be areas of undiscovered contamination.</p>
Corporate and community plan Implications	<p>The proposal will help to 'sustain and grow Cheltenham's economic and cultural vitality'.</p>
Environmental and climate change implications	<p>None.</p>
Property/Asset Implications	<p>As per this report.</p> <p>Contact officer: Dominic.Stead@cheltenham.gov.uk</p>

1. Background

- 1.1** The delay in the tendering and construction of Phase II, is due to the new crematorium which took priority..
- 1.2** The original building costs of £585,000 was calculated using the industry standard and recognised SPON's Architects' and Builders' Price Book (142nd edition). SPON's lists detailed construction prices based on a square metre (square foot) basis.
- 1.3** Having recently tendered for the contract, the build cost has risen to £1,003,600. The rise is due in part to the current political uncertainty and the lack of construction workers e.g. a significant element of construction workers are working at Hinckley Point. It is therefore recommended that the budget be increased by £515,000 to £1.1m which also allows for contingency and unforeseen problems i.e. the site is a former tannery so there may be undiscovered contamination.
- 1.4** Since July 2017 light industrial rents have risen from £7.50 per square foot to £10 per square foot for modern units of the size proposed to construct.
- 1.5** 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.
- 1.6** 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 in 2007 with the remainder of the land being undeveloped.
- 1.7** The existing units have been fully occupied since completion and generate an annual rental income of £44,675 for the council.
- 1.8** Phase II will provide an additional three units of similar size, one unit will be approximately 176 square metres in size and two units will be 227 square metres in size. The projected rental income from the additional units is likely to be in the region of £67,780 per annum (subject to negotiations).
- 1.9** The predicted annual rental income from the combined seven units will be in the region of £112,455 pa.
- 1.10** 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.
- 1.11** A new planning application is not required for the development, this has been confirmed by the council's planning department.

2. 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.

3. Alternative options considered

3.1 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.

4. Consultation and feedback

4.1 Asset Management Working Group on the 5th September.

5. Performance management –monitoring and review

5.1 Property & Asset Management will execute the delivery of the development.

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Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Business Case (Exempt)
Background information	<ol style="list-style-type: none">1. Approved Cabinet Report as of 11th July 2017 (https://democracy.cheltenham.gov.uk/documents/s22436/2017_07_11_CAB_Enterprise%20Way.pdf)2. Executive Decisions Notice, reference Agenda 9 (https://democracy.cheltenham.gov.uk/documents/g2579/Decisions%2011th-Jul-2017%2018.00%20Cabinet.pdf?T=2)3. Tender Acceptance Report (Exempt)

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 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 £100k pa in 2020/21.	Simon Hodges	13/08/2019	4	3	12	Reduce	Cabinet to approve	10/09/2019	Simon Hodges	
	If new tenants are not identified to take on leases within the new units then there may be an impact on income projections and business rates.	Simon Hodges	13/08/2019	4	3	12	Accept	Active marketing has been undertaken which supports demand for these new units.	31/03/2020	Simon Hodges	
	Political uncertainty and economic conditions may result in tenants exercising break-clauses and/or not renewing leases, which may impact on future income projections and net returns.	Simon Hodges	13/08/2019	3	3	9	Accept	Should tenants serve notice, the Council will have 6 months prior notice to find new tenants	On-going	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											

