



<b>Decision maker:</b>	<b>Officer: Director of economy, communities and corporate</b>
<b>Decision date:</b>	<b>28 July 2015</b>
<b>Title of report:</b>	<b>Council acquisition of the Three Elms Trading Estate, Hereford HR4 9PU</b>
<b>Report by:</b>	<b>Head of corporate asset management</b>

## Classification

Open.

## Key Decision

This is not a key decision.

## Wards Affected

Bobblestock.

## Purpose

To approve the council's purchase of the Three Elms Trading Estate from the Homes and Communities Agency (HCA) at market value (£1.75m), which will enable the council to release value from its adjoining land.

## Recommendation(s)

**THAT:**

- (a) **The acquisition be approved.**

## Alternative options

- 1 The council withdraw from the sale and allow the Homes and Communities Agency to dispose of the estate on the open market. This is likely to deny the council the

opportunity to benefit from any future commercial growth of the estate and have the direct ability to offer space for business relocation in the event of future regeneration schemes requiring such measures.

## Reasons for recommendations

- 2 There are several reasons why the council should purchase the estate, the main ones being as follows:
  - Financial return. Purchase of the estate has a positive financial benefit for the council over the short to medium term. Assuming terms can be agreed to purchase for £1.75m, the net rental income would cover the annual borrowing costs of £98k. There is a risk that the income may reduce should units become vacant or expenditure increase. Occupancy levels would need to fall to below 65% before borrowing costs exceeded the net rental income.
  - There is further opportunity to improve the quality and occupancy of the estate by carrying out additional works including drainage and access improvement totalling £850k. The borrowing cost of this would be £66k per annum and will be met from rental income if current occupancy levels are maintained.
  - To support business growth and economic development in the city/county. Currently there are limited employment sites within the city north of the river and none in council ownership. Those employment sites there are have in the past, been subject to successful planning applications/appeals to change the use to residential, which has inhibited the retention/growth of some business. By securing ownership the council is not reliant solely on planning policy to control the future use of the site, it is also able to deliver development at a time that meets with the demands of business rather than be influenced by other private sector objectives.
- 3 The key decision to purchase the Three Elms Trading Estate was approved on 19 November 2014 by Cabinet. The sum of £2.6m was approved on 12 December 2014 as part of the 2015/16 capital programme. The Director of Economy, Communities and Corporate was delegated to complete the purchase.

## Key considerations

- 4 The Three Elms Trading Estate was purchased by Advantage West Midlands in 2006/7 and transferred to HCA in 2011. It comprises a site of approximately seven acres of which approximately two acres is undeveloped and in conjunction with the council's adjoining 0.9 acres is capable of accommodating approximately 60,000 sq ft of new industrial/warehouse space. There is currently some 61,500 sq ft of existing buildings. The leases are all relatively short term i.e. will expire or with break clauses within the next five years and some units are currently occupied under licence pending completion of a lease. The site was purchased in support of the council's delivery of the city centre regeneration scheme, primarily as a key employment site for the relocation of business from within the Edgar Street Grid (ESG) area. While a significant part of the ESG scheme has been delivered i.e. retail quarter, further elements remain such as the link road and urban village. As such this key employment site still has a role in meeting the demand for business relocation and its ownership by a body that is committed to supporting the delivery of key council objectives is desirable.

- 5 It should be noted that the council does not propose to undertake any direct development of new buildings. It is envisaged that new development will take place by the council working with occupiers or developers who will provide the funding for any new buildings. Although the option of direct development should not be ruled out, subject to there being funds available and a robust business case presented at the time.
- 6 The council owns approximately 0.9 acres of land adjacent to the northern boundary of the estate, which carries an estimated value of £200k as employment use land. Whilst this land has outline planning permission for employment use, it cannot be accessed or serviced other than through the trading estate. The council can only release the value of this area of land by either, purchasing the trading estate and merging the two land areas to effectively increase the overall size of the trading estate; or, by purchasing access rights and easements from the owners of the trading estate. The HCA has indicated that they would consider this but only if the land were to be sold at the same time as they sell the estate and the council share the sale proceeds of its land on a 50/50 basis, i.e. the council would only receive 50% of the commercial value of its land. A new owner may not be prepared to grant access or easements.
- 7 If the HCA offers the property for sale on the open market then a new purchaser will have different objectives and pressures and, while it may be possible for the council to establish a relationship that will result in some recognition of council priorities, these will only be secondary and therefore delivery of council objectives may be delayed or frustrated.
- 8 The council already has an existing property portfolio and is experienced in owning and managing property of this type i.e. Rotherwas industrial estate. It has been managing the estate on behalf of HCA for the last three years, albeit with short term management objectives which would need to change once owned by the council. Initially existing staff from the property services and economic development teams would manage the property, but additional support may be needed to manage the further investment and this would be funded from the surplus rental income or from the allocated capital budget.

## **Community impact**

- 9 There is unlikely to be any immediate community impact following acquisition of the trading estate by the council. However, over time following implementation of the investment, the built environment of the estate will improve and this should have a positive impact on the adjoining houses and users of the public open space. Further investment will over time result in more job opportunities for local people and more and better quality premises for business growth.

## **Equality and human rights**

- 10 There are no equality and human rights issues associated with this project. The marketing and letting of vacant units will be compliant with equality and human rights policy.

## **Financial implications**

- 11 The purchase price was subject to negotiations based upon independent valuations.

- 12 It was proposed that the council would use prudential borrowings of £2.6m to fund the project, being £1.75m for the purchase of the freehold and the balance of £850k for the site improvement works. The annual cost of borrowing the total amount would be £164k for 25 years. This is made up of £98k for the purchase of the freehold and £66k for improvement works. The funds were approved as part of the capital programme 2015/16 on 12 December 2014.
- 13 It is anticipated that as planned improvement works are carried out occupancy and rents will increase or part disposals will generate capital receipts then the borrowings could be reduced.
- 14 After meeting borrowing costs, any surplus income will contribute to the council's overall budget position. There is sufficient capacity of unlet units to enable the projected income to be easily realised.
- 15 Purchase of the trading estate will also enable the council to realise and retain 100% of the value of its adjoining land (£200k) which already has outline planning permission for employment use.

## **Legal implications**

- 15 General powers of acquisition (meaning purchase or lease for money or money's worth) are conferred on local authorities by the Local Government Act 1972 ('LGA 1972'). Under s.120 of the LGA 1972 a principal council (a non-metropolitan county, London borough or district council) may acquire by agreement any land inside or outside its area for the purposes of (a) any of its statutory functions or (b) the benefit, improvement or development of its area.
- 16 Further specific powers of acquisition exist under enactments concerned with development and the provision of housing. S227 of the Town and country Planning Act 1990 enables the acquisition of land by agreement (a) to facilitate the carrying out of development, re-development or improvement on or in relation to the land or (b) which is required for a purpose which it is necessary to achieve in the interests of the proper planning of an area in which the land is situated.
- 17 The council has a power to borrow money under the Local Government Act 2003 for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs subject to not breaching its own limits for borrowing or those imposed by the secretary of state.

## **Risk management**

- 18 There are the normal risks associated with owning commercial property i.e. non-payment of rent or arrears due to tenant cash flow/trading problems, tenant bankruptcy, empty property costs, unrecoverable repair and maintenance costs etc. Through the council's existing staff resources and procedures, careful and active management, these risks will be managed and reduced where possible.
- 19 A down turn in the economy or increased borrowing costs may squeeze the rental income or increase the expenditure. However, a number of sensitivity tests have been carried out and the project can stand an approximate 20% variance to income or expenditure while still maintaining a self-funding position.

- 20 As part of the selling process reports are being commissioned on the condition of the existing buildings and services; once these are available the future investment plan will be finalised in accordance with the priorities and available budget.
- 21 In the event that the council should not purchase the estate from HCA it will need to work with HCA to agree a communication statement regarding the disposal.

## **Consultees**

- 22 In addition to the seven internal consultees, the economic development manager has been consulted and is supportive of the report and its recommendations. We have consulted with HCA regarding the council's potential interest in purchasing the property. The local member is supportive of the recommendation.

## **Appendices**

Appendix 1 – map of the estate and adjoining council land.

## **Background papers**

None identified.