

Mandate Proposal
To Develop an Industrial Estate Growth Strategy

Introduction and background

The Commercial Property Investment Programme is an initiative in the Savings Programme which aims to increase rental income and add capital value from the Council's investment property portfolio. Asset Management was tasked with generating additional rental income of circa £830k per annum above its base budget to contribute towards a reduction in the Council's overall budget deficit of circa £6m over the next 5 years.

Due to a difficult post-Covid property market, changes in requirements for borrowing from the Public Works Loan Board (PWLB) and changes to the Minimum Energy Efficiency Standards (MEES), the Council decided at its Executive meeting on Tuesday 25 January 2022 to widen the remit of the property redevelopment/strategic acquisition fund to enable the Council to invest in its existing investment portfolio.

The Council owns four industrial estates within the Borough: Slyfield, Lysons, Woodbridge Meadows and Middleton. Following on from the success of the Middleton Redevelopment Programme, the Council wishes to procure an overall growth strategy and an overarching vision for the remaining estates. This will enable the Council to:

- develop a strategy for each individual estate
- identify where increased rental income and capital value can be added
- identify opportunities to acquire, dispose and redevelop land, individual buildings and whole estates
- develop full business cases for individual projects to take to the Executive for approval and funding
- meet corporate priorities e.g., increase employment (economic) and improve energy performance (environmental).
- meet occupier property demand for the Borough
- set out a framework for how the strategy can be delivered both internally and externally

The work would draw upon the Council's Corporate Plan, emerging Economic Strategy, the Local Plan, traffic infrastructure projects, the Asset Strategy, Asset Investment Strategy 2020, and regeneration projects including Weyside Urban Village and Shaping Guildford's Future.

This mandate requests CMT to consider the proposal and agree to fund the development of a strategy and subsequent redevelopment of its estates.

1. Why should a project be started, or growth bid considered now?

Covid-19

The outbreak of the Novel Coronavirus (COVID-19) led to national and international lockdowns and impacted global financial markets. Commercial property market activity was impacted across various sectors resulting in a lack of suitable stock in the market and the Council acquiring only one property in 2020/21. With the relaxation of the COVID-19 restrictions, it was hoped that market activity would increase in 2021/22 and generate opportunities to acquire. However, it has continued to prove challenging for officers to source the appropriate quality of investment stock at the right price within the Borough.

The Commercial Property Investment Programme

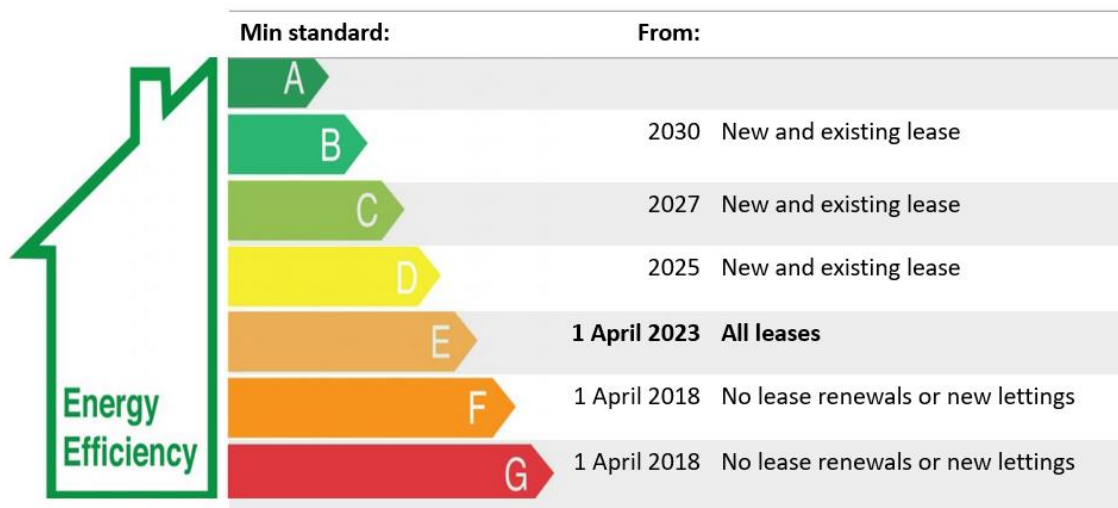
This Programme has been set up for Asset Management to achieve additional rental income of £826k per annum above the 2020-21 base budget through the investment of capital monies in the capital programme for both the original asset investment programme (pre PWLB changes) and the current strategic asset investment which are now combined as one.

PWLB

The Government's Spending Review in November 2020 introduced changes to the PWLB lending terms which were intended to stop Councils relying on this funding source to invest primarily for commercial return e.g., yield and rental income, and thereby removing their ability to borrow from the PWLB. To qualify under the new rules, any acquisition must meet strategic objectives such as regeneration, delivery of services or corporate priorities. This additional requirement has added to the difficulties in acquiring suitable commercial property investments.

MEES

The Government is committed to setting a long-term target to reduce carbon emissions from non-domestic rented properties. Unless exempt, all leased properties must achieve a MEES rating of E by April 2023, D by 2025, C by 2028, and B by 2030. The regulations will include all existing leases and landlords will not be able to continue leasing a property unless it meets the MEES regulations; only the Midleton redeveloped units would comply as of 2030. As a result, upgrade works to improve energy efficiency will be required to many properties, subject to certain exemptions which include a seven-year payback test, the inability to obtain third party consent and whether the measures would significantly devalue the property. A separate project is underway to review this issue, but the Council should not underestimate the significant impact of MEES on future acquisitions and its existing investment assets.



2. What is the problem to be solved and the good idea to resolve it?

Some of the Council's industrial estate assets are not achieving their full potential, there is a degree of obsolescence, and some are reaching the end of their economic lifespan which is likely to result in loss of income commencing from March 2023 onwards due to the introduction of the MEES legislation. A different approach is therefore required to protect the Council's income; given the current challenges in acquiring new commercial property investments for increased income, and following the success of the Midleton Redevelopment Programme, the Council has now widened the remit of the redevelopment/strategic acquisition fund to allow investment in its existing investment portfolio.

The good idea is to undertake a detailed review and assessment of the Council's three remaining industrial estates to identify all redevelopment, acquisition and disposal opportunities that will enable to Council to protect and grow its financial returns and achieve its strategic objectives. This work will develop into an overarching strategy that will realise the future growth of the Council's industrial portfolio.

3. What is the purpose of the project? What will be delivered? What are the success criteria?

The purpose of this project is to identify opportunities across the remaining three industrial estates for significant investment, major redevelopment, and possible disposal.

The project will be carried out in two phases. The first phase will provide a high-level report outlining the status of the Council's estates including all issues, risks, constraints, dependencies and opportunities. The second phase will provide the overarching vision and future growth strategy, detailing the development programmes, the level of investment required by the Council and the duration of the projects, all of which are currently unknown. This piece of work will:

- Identify strategies for each estate including the most suitable uses and occupation.
- Identify individual projects within each estate to develop into full business cases to take to the Executive for approval and funding.
- Identify opportunities to acquire land and buildings that are crucial to unlocking our aspirations for growth and redevelopment.
- Justify future infrastructure investment within the estate as well as necessary local and regional infrastructure projects.
- Assist the Council in its journey towards becoming a net-zero carbon organisation by 2030, alongside the Government's MEES legislation.
- Improve the ongoing management and performance of our assets which is linked to the Asset Investment Strategy 2020.
- Ensure the Council is positioned to proactively respond to any approaches received from tenants or third parties who wish to re-gear, surrender, extend leases, take more space, or dispose of their freehold interests.
- Improve the overall and long-term management of the industrial estates, proactively engaging with occupiers to identify growth opportunities, possible business improvement district bids, branding, signage and improved telecommunication connectivity.
- Inform us how to plan for the future of our property asset investments, identifying assets or groups of assets to buy, improve or sell.

As a result, the success criteria are to:

- Protect and grow existing income and generate additional new income.
- Assist the Council in achieving its corporate priorities e.g., creation of employment opportunities through regeneration, support for our business community and attracting new inward investment.
- Assist in the ongoing evaluation of the investment portfolio to meet the Council's priorities.
- Ensure that our industrial portfolio is fit for purpose.
- Create new employment opportunities via regeneration of land and building assets.
- Provide support for the business community & attract new inward investment.

4. What priority, corporate objective or strategy is fulfilled by this project?

This will allow officers to continue to contribute to the Savings Strategy along with the Council's Capital and Investment Strategy 2022/23 – 2026/27 and as such, help the Council achieve financial excellence and value for money. It will also enable the Council to make the best use of its resources and it therefore underpins the Council's strategic framework and the delivery of the corporate plan. The strategy would assist in meeting the success criteria as set out in 3, above.

5. What are the strategic options available to GBC to deliver a solution?
<ol style="list-style-type: none"> 1. Do nothing – do not invest in or redevelop our industrial assets, with the strong risk of losing income from EPC F & G rated properties from March 2023 which progresses to C rated properties from March 2030. 2. Do minimum – undertake a review of the three remaining undeveloped Council owned industrial estates to develop a vision for the industrial portfolio and a strategy for each estate. 3. Do more – identify individual projects to bring forward e.g., redevelopment, acquisition, and disposal opportunities. 4. Do most – enter into discussions with third party owners of land identified as crucial to unlocking re-development sites and subsequently acquire sites in line with the commercial and strategic requirements of the PWLB lending criteria. <p>Officers would recommend options 2 and 3, progressing to option 4 if considered strategically and financially advantageous.</p>
6. Who are the lead Director and Service Manager and portfolio Holder (CIlr) who will lead and direct the project and use the products in live service
<ul style="list-style-type: none"> • Dawn Hudd – Strategic Services Director • Marieke van der Reijden – Head of Asset Management • Tim Anderson – Lead Councillor
7. What impact assessments have been undertaken? What are the impacts on other service leaders or projects?
<p>The main post responsible for this work has now been filled on an interim basis. As such, it is suggested phases 1 and 2 be undertaken in-house with the support of external advisors where necessary. However, the delivery of the programme will be decided upon within each individual business case.</p>
8. What general approach will be taken to deliver?
<p>The appointment of an Interim Asset & Property Manager focused on the investment portfolio has now been concluded on an interim basis to undertake the review and formulate the strategy for the Council's industrial estates. Once this piece of work is complete, the strategies will enable the Council to develop full business cases for specific identified projects to take to the Executive for approval and funding. The ownership of preparing these further mandates/business cases will sit within the Asset Management team with internal and external support from an identified project team as per below (question 11).</p>
9. When and why must the work/project start?
<p>To commence the strategy as soon as possible so that the Council can protect the continued receipt of rental income from those units which will not be capable of sustaining occupation from March 2023 as a result of the changes to energy performance measures being introduced by the MEES legislation.</p>
10. What stakeholders will need to be involved?
<p>CMT, Councillors, Asset Management, Finance, Planning Policy, Corporate Programmes, Strategy & Communications, Economic Development, Legal, Procurement, landowners and business occupiers.</p>

<p>11. What resources (internal and external) are needed to consider this mandate and to develop the business case or progress this request?</p>
<p>Internal – Asset Management, Finance, Planning Policy, Corporate Programmes, Strategy & Communications, Economic Development, Legal, Procurement</p> <p>External – it may be necessary to seek specialist external advice in relation to agency, planning, development, and valuation as and when required.</p>
<p>12. What are your best estimates for the Whole Life Costs of this request or investment proposed? Split by capital, revenue and income stream/savings for this and future years.</p>
<p>It is estimated that the initial piece of work could cost approximately £50,000 which remains available within the Asset Management Investment Programme. This programme is expected to assist in the generation of the c£830K per annum contribution to net revenue savings – any specific proposals will be evaluated at project level in a project business case, including likely Whole Life Costs.</p>
<p>12a. For projects, what are the potential resource costs to progress to the next stage/gate?</p>
<p>As with item 12.</p>
<p>13. What are the strategic issues?</p>
<ul style="list-style-type: none"> • Time is of the essence; the council cannot afford to delay the approval of a defined strategy in order to protect the £62,250 p.a. rental income post March 2023 that is currently received from those units with EPC ratings of F&G. • The loss of rental income may potentially increase to a total of £353,175 p.a. by March 2025 when those units with a E energy efficiency rating will not comply with further updates scheduled to the MEES legislation. • The scale of savings has been quantified in the Savings Strategy and is expected to provide c.£830K savings contribution but this will need to be refined through the programme. • Unable to quantify the projected cost of the work as we have yet to approach property consultants. • The success criteria have not been benchmarked therefore officers are unable to measure the overall success and performance of the project. • This review covers the investment assets within the industrial property portfolio; it does not include the Council's operational properties or HRA. The savings identified will not include savings from any operational or core/non-core assets even if savings are produced as a result of this work.
<p>14. What are the strategic assumptions?</p>
<ul style="list-style-type: none"> • Industrial market demand and growth continues or improves.
<p>15. What are the strategic risks?</p>
<ul style="list-style-type: none"> • The project is not sufficiently resourced to undertake the review, formulate a defined strategy, procure the work, write the specification, and coordinate each project. • The suggested net revenue savings contribution is unachievable within the remit of this review. • Any income generation may not be realised for several years. • Change in the property market (although the review should touch upon this). • Access to capital funding is not available.

16. What are the strategic dependencies?
<ul style="list-style-type: none"> • Property Asset Database system upgrade to enable the correct data to be extracted (completion due Nov 2022) • Internal stakeholders willing to engage and devote time to the project. • Availability of capital funding.
17. What are the strategic opportunities?
<ul style="list-style-type: none"> • Maintain/increase rental income received from and adding capital value to the industrial investment portfolio. • Acquire new property assets and dispose of existing as appropriate to assist in maximising redevelopment opportunities and unlocking aspirations for continued growth. • Create employment opportunities through regeneration, providing support for our business community and attracting new inward investment. • Improve infrastructure and the built environment, improve accessibility by public transport, cycling, walking and in renewable energy capacity and energy efficiency.
18. Reviewer List:
<p>Involved or sighted so far and to be updated on changes:</p> <ul style="list-style-type: none"> • Claire Morris – Resources Director • Dawn Hudd – Strategic Services Director • Marieke van der Reijden – Head of Asset Management (Climate Change Lead) • Stephen Rix – Lead Specialist Legal • Vicky Worsfold – Lead Specialist Finance • Stuart Harrison – Policy Lead – Planning Policy • Faye Gould – Lead Procurement (new Lead to be involved) • Darren Burgess – Senior Building Surveyor • Francesca Kosh – Property and Asset Manager • Abi Lewis - Head of Regeneration and Corporate Programmes • Michael Lee-Dickson – Regeneration Lead • Ciaran Ward – Information Governance • Stephen Benbough – Strategy and Communications Manager • Francesca Castelo – Trainee Policy Officer (Economy and Innovation) <p>Next to be consulted:</p> <ul style="list-style-type: none"> • CMT • Cllr Tim Anderson • Cllr John Rigg
19. CMT Direction
<p>Outcome:</p> <ul style="list-style-type: none"> • All attendees in general agreement with the mandate proposed • Following CMT, it has since been confirmed that the £50k cost (as referred to in 12. above) has been budgeted for within the Asset Management Investment Programme and remains available • Officers to ensure this programme forms part of creating jobs and economic development programme

Next Steps:

- Governance route – officers to present this mandate to Exec liaison on 1st June followed by Strategy EAB on 13th June 2022.