



meeting Cabinet

date 13 September 2006

agenda item number

Joint Report of the Cabinet Member for Culture and Regeneration and the Cabinet Member for Finance and Property

Transfer of Responsibility for Managing the Industrial Property Portfolio

Purpose of the Report

1. This report is seeking approval to transfer the responsibility for managing the industrial property portfolio from the Regeneration division to Corporate Property, following a review of the priorities of the Regeneration division.
2. Code of Financial Procedure D2.2.4 requires virement between portfolios in excess of £200,000 to be considered by Cabinet.

Background

3. In the mid 1970's, to counter the effects of the decline in coal mining, and in subsequent years the heavy engineering and the textile industries, the County Council, as part of the newly established Economic Development Unit, decided to provide infrastructure to facilitate the development of land for new industry and to build speculative factory and workshop units.
4. The County Council undertook this role due to a chronic failure in the market place, where there was little investment from the private sector.
5. Since that time the County Council has:
 - a) Directly provided 68,700 sq.m. (740,000 sq.ft.) of industrial floor space throughout the county
 - b) Successfully developed the Fulwood, County and Nunn Park industrial estates close to junction 28 of the M1 motorway
 - c) Contributed land or finance in providing a further 17,600 sq.m. (190,000 sq.ft.) of floorspace in partnership with district councils and other organisations.
6. In recent years the need to raise capital receipts has resulted in the disposal of a significant proportion of the industrial portfolio. Sales have been to both occupying tenants and investors. The investment market for industrial

property remains healthy, and this is an opportune time to review the future of saleable assets.

7. The current portfolio, directly provided and managed by the County Council, comprises 15,900 sq.m. (171,000 sq.ft.) of floorspace at eleven locations in the Ashfield, Bassetlaw, Broxtowe, Mansfield, Newark and Sherwood Districts. These figures include two private sector owned workshop developments in Newark and Worksop in which the County Council holds head leases nearing the end of their term. At the expiration of these leases in 2006 and 2007, the industrial portfolio will be further reduced to approximately 11,900 sq.m. (128,000 sq.ft.) of floorspace at nine locations. (Appendix 1.)
8. Developments undertaken in partnership and managed externally with other organisations are listed. (Appendix 2.) The future of these schemes will be necessarily subject to differing arrangements over disposal. In many instances it may not be possible to realise the County Council's share of any capital value as this is dependent on a partner agreeing to buy out our share. In their favour these schemes generate income for the County Council.
9. The market for the provision of factory and workshop units has now changed. Public/private companies have now entered the market alongside pure private sector investment. The argument for the County Council to be active in this market is now difficult to substantiate.
10. In response to this trend the County Council took a decision in 2000 to shift the emphasis of the portfolio with a partnership with Mansfield District Council and emda to contribute towards the construction and operation of Mansfield i-centre. A further decision was made to allocate additional capital programme to building a business innovation centre in Worksop and commitment has been made on one in Newark, in partnership with the local authority and the Alliance SSP.
11. The management of the portfolio involves a close working relationship with:
 - a) Corporate Property – negotiation, agreement and approval of lease terms, rent reviews and renewals. Acquisitions and disposals and advice on partnership projects
 - b) Legal Services – completion of lease documentation. Advice on and completion of partnership/funding agreements
 - c) Resources (Financial and Trading Services) – invoicing, collection and monitoring of rent income
 - d) Environment – tender documentation, contract valuations, condition surveys and property maintenance (Building Direct).
12. Material changes to how the portfolio is operated have now reached a point where changes to the role of management of the portfolio need to be reflected in the future management of the portfolio. These include:
 - a) The considerable reduction in size of the portfolio

- b) Condition surveys carried out corporately
 - c) Corporately addressing property related issues such as testing for asbestos and legionella
 - d) Changes in internal and external funding regimes
 - e) Changes in project design, procurement and tendering procedures.
13. On the 23rd February 2006 the County Council confirmed the decision to cease involvement in giving direct support to business. As part of this decision it was agreed in principle to transfer the responsibility for management of the industrial portfolio from Regeneration to Corporate Property.

Implications for further disposal

14. For many years, capital funding of factory and workshop schemes has entailed working in partnership with district councils and other agencies to maximise funds from all sources. Simple partnerships have involved the contribution of land, whilst other more complex arrangements involve a package of land, financial contribution and external funding. The impact of disposal of these schemes will involve some form of sharing capital receipts.
15. In Bassetlaw, Mansfield and Ashfield there are several partnership schemes, and considered from our past experience will be routine disposal opportunities. Corporate Property would need to determine the basis of each partnership and advise on the impact on any future potential capital receipt.
16. Two further developments in the Ashfield area which have more recently been recipients of external funding and therefore prior to disposal would require Government Office for the East Midlands confirmation as to potential claw-back of grant awarded.
17. This would leave the remaining properties in Bassetlaw, Mansfield and Newark and Sherwood, should the disposal of all the developments listed in sections 1 and 2 be achieved. These three properties are subject to more complex funding agreements requiring further investigation to determine the desirability and viability of disposal.
18. Disposals in the past have been to both occupying tenants by negotiation, and to investors at auction. Selling to occupiers can be a protracted process due to negotiation and the purchaser securing funding. Disposal at auction is a simpler method.
19. The County Council's interests in Mansfield i-centre, the Turbine business innovation centre and Newark business innovation centre would not be subject to these arrangements. Further discussions over the management of these facilities will need to take place. Likewise, interest in Siemens Business Park will necessarily be subject of further discussion pending sale of site by current owners.

20. The pound for pound scheme with Ashfield, Bassetlaw and Newark and Sherwood district councils dates back to the 1970's where the authority provided financing for economic development projects with a return from the investment. This scheme is still in operation but is subject to separate review.

Impact on Revenue Budget

21. The Industrial Portfolio has the potential to generate £646,000 annually in respect of gross income from tenants together with a contribution to maintenance of £17,000. This is divided into income from units directly owned and managed by the County Council and partnership schemes managed by another organisation where the County Council receives a proportion of the income. A realistic figure for budget forecasting would factor in a figure of 10% for voids providing an annual gross income for 2006/07 of £581,000 and £16,000 maintenance contribution. These figures exclude anything for the head lease of Workshops at Brunel Drive, Newark as this expired in June 2006.
22. The industrial portfolio generates a net income of £211,000 (including a figure for voids), which would form part of the transfer.
23. The costs to the Regeneration division for the management of the industrial portfolio, including maintenance, legal fees, inspection fees and finance charges are met from income from the overall portfolio. The responsibility for meeting these costs would form part of the transfer to Corporate Property and be met from the income. Any net income resulting from the management of the industrial portfolio would remain with the Finance & Property Portfolio.
24. The total revenue costs of managing the industrial portfolio, excluding staff, are as follows;

Revenue costs	£
Rental charges	69,000
Building planned maintenance	28,000
Insurance	15,000
Bad debts	10,000
Legal fees	2,000
Capital charges	262,000
Total	386,000

25. A contingency sum of £110,000 has been set aside to provide for the costs of making repairs to two workshop schemes whose head leases expire in 2006 and 2007. Work has already been undertaken by Environment Department to identify the level of dilapidation costs on one scheme and we are awaiting confirmation from the landlord. On the other scheme the landlord has submitted an estimate of cost of repairs which is below the original estimate. These monies would form part of the budget to be transferred to Corporate Property. Any increase in the sum required to make good repairs, Corporate

Property would need to make provision for from the net income from managing the industrial portfolio.

26. Any future contingent liabilities arising from the management of the industrial portfolio would be the responsibility of Corporate Property.

Staffing Implications

27. The management of the industrial portfolio within the Regeneration Division is undertaken by the Property Manager. Over many years this role has involved the design, tendering and supervision of the construction of factory and workshop schemes, securing funding and managing the division's landlord/tenant relationship.
28. The following factors have had a significant impact on this role calling into question the need for the post:
- a) The reduced size of the industrial portfolio
 - b) The expansion of the Business Innovation Centre sector. The quality of design of these buildings together with ICT, heating, ventilation, sustainability and renewable energy issues requires a design team approach
 - c) Procurement – tendering processes and analysis are now more complex requiring greater input from architects, quantity surveyors, engineers and project managers
 - d) funding – a bidding process involving detailed business plans incorporating capital and revenue cash-flow forecasts together with evidence of compliance with individual funding body's criteria.
29. The transfer of the property portfolio will result in the post of the Property Manager becoming redundant. The savings from making the post redundant would form part of the need to achieve the overall £2 million saving across the Regeneration division.
30. The day to day management of the industrial portfolio would become the responsibility of Corporate Property. It is estimated that the role would be equivalent to 1.5 days per week. This would involve marketing of available units, arranging viewings, vetting prospective tenants, instructing legal to prepare leases, commission inspection routines and dilapidation surveys, monitor income, oversee maintenance of external areas and tenant liaison.

Statutory and Policy Implications

31. This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, Crime and Disorder and those using the service. Where such implications are material; they have been described in the text of the report.

Personnel and Trades Unions implications

32. The post of Property Manager is part wider discussions of the implications of the budget savings and restructuring of Regeneration Division. As such this member of staff will be included in the same process in relation to consultation, redundancy, redeployment and implementation of the new Regeneration Division structure as other members of staff. This includes the involvement of the Trades Union representative as appropriate and will be subject of the report under the Delegated Decision process as required. In addition, the work of this particular post and the role will need to be considered as part of the wider discussions on the integration of property services functions.

Recommendation

33. That approval is given to transfer the responsibility for managing the industrial property portfolio from Regeneration division to Corporate Property, to include;
- a) The income and expenditure derived from the management of the portfolio
 - b) The contingency sum of £110,000 to provide for the costs of dilapidation's on two workshop schemes, Brunel Drive and Vulcan Place, whose head leases are due to expire in 2006 and 2007 to form part of the transfer.
 - c) Any future contingent liabilities arising from the management of the industrial portfolio would be the responsibility of Corporate Property
 - d) Transfer to take place with effect from a date agreed with Corporate Property but no later than 30th September 2006.
 - e) The virement of a credit of £211,000 from the Culture and Regeneration portfolio to the Finance and Property portfolio.

**Councillor Steve Carroll,
Cabinet Member for
Culture and Regeneration**

**Councillor Chris Baron,
Cabinet Member for
Finance and Property**

Legal Services' Comments

This decision falls within the delegation to Cabinet (SSR 6.7.06)

Director of Resources' Financial Comments (CC) (PB)

As indicated in the report, the transfer of responsibility for managing the industrial property portfolio would necessitate a base budget adjustment of a credit of £211,000 from the Culture and Regeneration portfolio to the Finance and Property portfolio.

Background Papers Available for Inspection

None

Electoral Division(s) Affected

All

Industrial Property Portfolio

Bassetlaw

1. Workshop Units, Kilton Terrace, Worksop.
2. Workshop Units, Vulcan Place, Eastgate, Worksop.*
3. Woodland Court Factory Units, Shireoaks.

Mansfield

1. Mansfield No.1 Factory, Hermitage Lane Ind. Est.
2. Mansfield No.2 Factory, Hermitage Lane Ind. Est.
3. Meden Court Workshops, Meden Vale, Warsop.

Newark and Sherwood

1. Enterprise Park Workshops, Brunel Drive, Newark.*
2. Trent Court Factory Units, Boughton Ind. Est.

Ashfield

1. Fairway Court Factory Units, Wigwam Lane, Hucknall.
2. Fulwood View Factory Units, Nunn Park, Huthwaite.
3. Fulwood Place Factory Units, Nunn Park, Huthwaite.

* Private sector owned workshop developments in which the County Council holds headleases. Vulcan Place, Eastgate, Worksop expires March 2007 and Brunel Drive, Newark expired June 2006.

Partnership Developments Managed by District Councils/Others

Bassetlaw

1. Newell Dunford Workshops, Misterton.

Mansfield

1. The *i-centre*, Oakham Business Park.

Newark and Sherwood

1. Sutton-on-Trent Workshops.
2. Blidworth Workshops.
3. Bilsthorpe Workshops.
4. Clipstone Workshops.
5. Maun Way Workshops, Boughton Ind. Est.

Ashfield

1. Stanton Hill Workshops, Brierley Industrial Park.
2. Jacksdale Workshops.

Broxtowe

1. Moorgreen Workshops.

Gedling

1. Newstead Workshops Phase 1.
2. Newstead Workshops Phase 2.
3. Calverton Workshops.