

Agenda Item No: 7

Report To: CABINET

Date of Meeting: 14th September 2017

Report Title: Proposed purchase of Light Industrial Units at Carlton Road

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Portfolio Holder: Cllr. Shorter - Finance & IT
Portfolio Holder: Cllr. Galpin – Corporate Property



Summary:

The council currently owns and runs an industrial estate at Ellingham which is fully occupied and with a tenant waiting list. An opportunity has now presented itself which would allow the council to purchase off-plan a proposed new light industrial estate comprised of 28 units varying in size from 750 to 3500 square feet at a derelict site on Carlton Road, Cobbs Wood.

The purchase of the industrial estate would help:

- The council in its aim of promoting economic investment, growth and employment opportunities within the borough
- Develop an area that has been derelict for the last 10 years
- Provide the council with a commercial income from the industrial estate, the profit of which will be used to fund council services across the whole borough

The value of the proposed purchase exceeds the financial limit for acquisitions set by the Economic Regeneration & Investment Board and therefore this proposed acquisition needs Council approval. The proposed acquisition is subject to detailed due diligence and final negotiation of contracts. The proposed range for the purchase value is shown in the Exempt Appendix B.

Although the council acts as transparently as possible at all times, it is necessary to make the proposed purchase value exempt as it is a matter of commercial sensitivity and its disclosure would harm the council's ability to operate effectively in the marketplace.

Key Decision: No

Significantly Affected Wards: Victoria

Recommendations: The Cabinet is recommended to recommend to Council to:-

- (i) authorise the Head of Corporate Property and Projects, in consultation with the Portfolio-Holders for Finance & IT and Corporate Property and the Directors of Finance & Economy and Law & Governance, to carry out detailed due diligence, negotiate terms and take any other steps he considers prudent in the Council's interests in order to enable the purchase to proceed as a sound investment, and to approve final due diligence reports and a final risk analysis schedule which are satisfactory in his view, and subject to those matters (ii) to (iv) below become effective. In the event that those matters are not satisfactory, the proposal shall be reported back for decision by Cabinet.
- (ii) enter into an agreement to purchase the freehold interest in the industrial estate as outlined in the report and appendices.
- (iii) agree to finance the cost of the purchase from General Fund Reserves and/or Prudential Borrowing at the discretion of the Director of Finance & Economy in consultation with the Portfolio Holder for Finance & IT.
- (iv) authorise the Director of Law & Governance in consultation with the Head of Corporate Property & Projects to execute and complete all necessary documentation to give effect to the above.

Policy Overview: The development and purchase by the council of a new light industrial estate supports the first priority of the council's corporate plan, will help to promote growth and achieve greater economic prosperity for the borough and will support the delivery of a viable and sustainable replacement for the Formula Grant. It will also help regenerate an area within the town that has been derelict for approximately 10 years.

Financial Implications: The purchase of the industrial estate is considered a viable proposition and will secure an income stream over the longer term for the council. It also helps the council in its aims of promoting economic investment and growth within the borough as well as providing an increase in NNDR payments that the council will receive. The funding of this proposed purchase is to be either financed from Prudential Borrowing or by the use of reserves. It is proposed the financing is at the discretion of the Director of Finance and Economy in consultation with the Portfolio Holder for Finance and IT.

Legal Implications As part of the due diligence undertaken procurement advice has been received from Winkworth Sherwood LLP and the council's internal legal team.

Other Material Implications	None
Equalities Impact Assessment	Discussed in report
Exempt from Publication:	Exempt Appendix B: Not For Publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information
Exempt Background Papers:	<ul style="list-style-type: none">a) Outline Building Specificationb) Appraisal and Valuation – Carlton Roadc) Marketing Report – Carlton Roadd) Review of Marketing Reporte) Cost and Build Estimate – Carlton Road
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Introduction and Background

1. For a number of years the council has recognised the importance of generating sufficient income to replace the formula grant that the council receives and that is being phased out by central government. Part of this strategy has involved a proactive approach to property investment and asset acquisition. To this end the council has invested in the purchase of International House and Wilko. The Corporate Property Performance Report – considered by Cabinet in September 2016 – detailed the strong return on investment of these acquisitions. Additionally work has now begun on the development of Elwick Place.
2. However the council has encouraged businesses for far longer than this and has, for approximately 30 years, owned and rented out small light industrial units to businesses at the Ellingham Industrial Estate. In recent years the estate has been over-subscribed with a waiting list for businesses wishing to rent units. Due to this demand the council recently expanded the Ellingham Industrial Estate. However, even with this recent expansion at the site taking the number of units to approximately 75 there is still a waiting list of businesses looking for space.
3. The council is keen to encourage and attract new businesses to develop and grow within Ashford but there is no scope to expand Ellingham any further. However in 2016 the Gallagher Group submitted an outline planning application to build industrial units at the old Rimmel site on Cobbs Wood. Due to the council's interest in the development of additional industrial units in the borough, the redevelopment of an area of the town that has been derelict for almost 10 years and the opportunity for the council to purchase the proposed industrial estate for commercial investment purposes the council has had initial discussions with the Gallagher Group about the possibility of purchasing the site upon completion.
4. This report seeks member approval to proceed with these discussions and subject to satisfactory outcomes from the necessary due diligence as described later, enter into agreement to purchase the proposed industrial estate on Cobbs Wood once built.

Proposal/Current Position

5. In 2016 the Gallagher Group submitted a planning application containing a request for outline planning permission for the development of 12 industrial units (B1c/B2/B8) on 1.3ha at Carlton Road, Cobbs Wood with all matters except access reserved. The application also sought full planning permission for a grounds maintenance depot and a ready mix concrete and satellite

aggregate depot, internal spine road and improved access points off Carlton Road and Brunswick Road.

6. The grounds maintenance depot and ready mix concrete and satellite aggregate depot have now been built and the Gallagher Group is now seeking the necessary planning consents for the build out of the rest of the site for light industrial units as shown on the site plan in Appendix A. The proposed new development consists of 28 light industrial units ranging in size from approximately 750 square feet to 3500 square feet.
7. As previously stated the council considers such a development to have multiple benefits. The first is the redevelopment of the old Rimmel factory site that has been vacant for approximately 10 years. The build out of the industrial units will complete the redevelopment of the site and thereby improve the amenity of the local area.
8. The second benefit from the development of a new light industrial area within Ashford will be to attract new businesses and SMEs to the borough and go towards the council's corporate plan aspiration of *Enterprising Ashford: Economic Investment & Growth*. The economic benefits to the council will include increased employment as well as an increase in the business rates received by the council allowing it to invest further in the economic development across the whole borough. Using government figures (*Homes and Communities Agency – Employment Densities Guide*) it is likely that the proposed development could support up to 100 full time equivalent jobs.
9. The third benefit to the council is as an investment opportunity should the council purchase the proposed industrial development. The council has successfully purchased a number of high profile assets in the borough, which have already delivered significant revenue benefits. The purchase of the proposed industrial estate supports the council's greater emphasis on the development of a strong and varied property portfolio which would help balance the budget.
10. A range of more modern and slightly larger units could also prove to be the perfect next step for existing Ellingham tenants looking to expand, other Ashford SMEs looking to secure high quality and modern premises and other SMEs from outside Ashford who are looking to locate in Ashford to share in the benefits that Ashford has such as its unrivalled national and international connectivity.

Due Diligence

11. Due to the need to begin negotiations with the Gallagher Group for the purchase of the proposed industrial estate (the council is not in exclusive discussions for the purchase), officers have commenced the due diligence process and commissioned a number of external advisers. Due diligence forms the basis of the risk assessment and risk management work for the proposed purchase.
12. This scope of work includes the following:

- Valuation advice (Watson Day chartered surveyors);
 - Review of the financial modelling (internal and Savills plc);
 - Review of the cost of construction by external QS specialists (Clifford Rickards Associates Ltd.);
 - EU procurement advice (internal lawyers, Winkworth Sherwood LLP);
 - Legal title investigations (in-house legal team).
13. The due diligence as detailed above has now been completed, considered and discussed within the Exempt Appendix B and the work undertaken so far suggests the investment will deliver the benefits already outlined within this report. Progression of the purchase will be subject to completion of negotiations to the satisfaction of the Portfolio Holder for Finance and IT, the Portfolio Holder for Corporate Property and the Director of Finance and Economy.

Equalities Impact Assessment

14. This report does not require an equalities impact assessment as the proposed purchase does not have any adverse implications on any residents with protected characteristics.

Financial

15. The financial modelling is presented in exempt Appendix B. The expected net surplus from the investment will help to support the revenue budget in later years as the ratio of revenue to financing costs increases and the industrial estate becomes cash flow positive. In accordance with the borrowing and acquisitions policy the investment has been appraised using the current 25 year Public Works Loan Board (PWLB) fixed interest rate.
16. The funding of this proposed purchase is to be either financed from Prudential Borrowing or by the use of reserves. It is proposed the financing is at the discretion of the Director of Finance and Economy in consultation with the Portfolio Holder for Finance & IT.
17. The business case assumes that the council will effectively write down the asset value over a period of 25 years.
18. As mentioned previously the Ellingham Industrial Estate currently has a waiting list for companies wishing to take up occupancy of units on the site. The number of companies on the list has fluctuated over the last few years but has typically been between 5 and 10. This figure only lists those prepared to wait for a unit and does not include those interested but unable to wait.
19. It is anticipated that a number of the current occupiers at the Ellingham Industrial Estate would be interested in leasing units in the proposed Carlton Road development. Indeed, following a consultation exercise with Ellingham Industrial Estate tenants earlier in the year, ten tenants said they would consider moving to the proposed new industrial estate if units were available.
20. Whilst this is positive as it will increase the rate of take up of the new industrial units at Carlton Road it would leave vacant units at Ellingham Industrial

Estate. However, as can be seen from the above, it is likely that the number of companies looking to move to Carlton Road from Ellingham would be offset by those currently waiting for units and thereby have a largely neutral impact on the revenue the council receives from the Ellingham Industrial Estate.

Other Options Considered

21. The council could consider not purchasing the proposed development at all. If this were to happen the Gallagher Group would reconsider how they moved forward. Whilst unlikely this could result in the site not being developed at all or within the near future, the site being developed but not as currently proposed or the land being sold to a third party with no immediate guarantee of redevelopment.
22. Furthermore, not purchasing the proposed development would mean that the council lost the ability to support current tenants at the Ellingham Industrial Estate expand into newer and larger units.
23. Finally if the council does not purchase the proposed development the council would not receive the long term revenue stream that the site will provide thereby helping to support the council's revenue budget.

Reasons for Supporting Option Recommended

24. The purchase by the council of the proposed industrial estate would ensure that the site was redeveloped. This in turn would improve the local amenity of the area, provide an opportunity for existing businesses within Ashford to expand as well as encouraging new business to come to the borough. Finally it will provide the council with a revenue stream that would help in supporting the council's revenue budget in the future.

Conclusion

25. The purchase of the proposed industrial estate underlines the council's commitment to existing businesses and those considering Ashford as a location for their business.
26. It will also help in the redevelopment of an area that has been derelict for over 10 years, bring additional employment opportunities to the borough and provide a revenue stream which will support the council's budget in the long term.

Portfolio Holders' Views

27. **Portfolio Holder for Corporate Property:** The lack of availability of industrial property to developing businesses in the whole of Kent is seen by many as a weakness in the County. This report highlights the need for this type of property in Ashford where we have a waiting list for property to become available in Ellingham Way Industrial Estate, owned and managed by the Council.

28. By purchasing and managing the properties proposed there will be additional opportunities for businesses to invest and grow. There is a limited likelihood of unlet units, given historic demand so a reasonable and return on investment can be expected. This will continue our efforts to replace Formula Grant. However, the emphasis on this project is to continue to support business growth, which is a guarantee for the future of our Borough.
29. **Portfolio Holder for Finance & IT:** I am firmly of the view that Cabinet recommends that the council seeks to negotiate a deal to acquire the Carlton Road site. Not only does it send out a strong message that we want to continue our enterprising approach and support businesses of all sizes to thrive in this borough, but it brings back into use a site that has needed a purpose for ten years. Furthermore, with the proposed return on investment, in addition to the strong results already seen over a long period at Ellingham Industrial Estate, this would be another shrewd acquisition bringing financial reward and enabling us to deliver great value services to everyone in the borough.

Contact and Email

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Appendix A – Proposed layout for Carlton Road Industrial Estate

