

Joint Executive (Cabinet) Committee

Forest Heath & St Edmundsbury councils

West Suffolk
working together

Title of Report:	Investing in our Commercial Asset Portfolio	
Report No:	EXEMPTION REMOVED CAB/JT/18/013	
Report to and dates:	Joint Executive (Cabinet) Committee	25 June 2018
	St Edmundsbury Council	17 July 2018
Portfolio holder:	Cllr Alaric Pugh Portfolio Holder for Planning and Growth Tel: 07930460899 Email: alaric.pugh@stedsbc.gov.uk	
Lead officer:	Rachael Mann Assistant Director (Resources and Performance) Tel: 01638 719245 Email: rachael.mann@westsuffolk.gov.uk	Colin Wright Service Manager (Place Delivery & Strategic Property) Tel: 01284 757385 Email: colin.wright@westsuffolk.gov.uk
Purpose of report:	To seek approval to purchase the land and buildings forming the former Clearance Warehouse Retail premises, Beetons Way, Bury St Edmunds.	
Recommendation:	<p>It is <u>RECOMMENDED</u> that, subject to the approval of St Edmundsbury's full Council:</p> <p>(1) Delegated authority be given to the Chief Executive and the Section 151 Officer, in consultation with the Leader of St Edmundsbury Borough Council and the Portfolio Holder for Planning and Growth, to exercise the purchase of the land and</p>	

	<p>former Clearance Retail Warehouse, Beetons Way, Bury St Edmunds (including appropriate legal agreements) for up to £1.65 million (subject to valuation, contract, due diligence and full surveys).</p> <p>(2) A capital budget of £1.74 million is established, for the purchase and to include stamp duty land tax and due diligence costs including structural surveys, along with a £105,000 revenue 'holding costs' budget, both funded as detailed in section 2.6 of Exempt Report No: CAB/JT/18/013 , for the purchase outlined in (1) above.</p> <p>(3) Agreement is given to Council's Section 151 Officer to make the necessary changes to the Council's 2018/19 prudential indicators as a result of recommendation (2).</p>
<p>Key Decision:</p> <p><i>(Check the appropriate box and delete all those that do not apply.)</i></p>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p> <p>As final approval will be sought from St Edmundsbury's full Council.</p>
<p><i>The decisions made as a result of this report will usually be published within 48 hours and cannot be actioned until five clear working days of the publication of the decision have elapsed. This item is included on the Decisions Plan.</i></p>	
<p>Consultation:</p>	<p>Member engagement has taken place.</p>
<p>Alternative option(s):</p>	<p>The Council could chose not to seek to purchase the land and building. This option has been considered and is outlined in section 1.3.2 below.</p>
<p>Implications:</p>	
<p><i>Are there any financial implications? If yes, please give details</i></p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> As outlined in the body of the report.
<p><i>Are there any staffing implications? If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none"> None associated with this report.
<p><i>Are there any ICT implications? If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none"> None associated with this report.
<p><i>Are there any legal and/or policy implications? If yes, please give details</i></p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> A due diligence exercise will need to be undertaken before exchange of contracts. An valuation has been sought to satisfy that SEBC's offer is state aid compliant.

<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> • Not at this stage.	
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
SEBC's offer is not accepted	Medium	Heads of Terms are in agreed format subject to the decision of SEBC Council meeting. The due diligence exercise will be commenced shortly.	Low
SEBC offer cannot be supported by valuation.	Medium	Valuation has been sought to support the current offer and to reflect that the Council is a special purchaser. The purchase will be subject to necessary due diligence including legal advice, contract, full building surveys.	Low
SEBC purchase the building and is then unable to realise its car parking aspirations.	Low	Continue dialogue with planning and highways officers to ensure its deliverability as a car parking solution. We retain the option to continue to rent out the building or put the building back on the market.	Low
SEBC purchase the building and is then unable to realise its masterplan aspirations.	Medium	Continue to work through masterplan viability and delivery programme. We retain the option to continue to rent out the building or put the building back on the market.	Low
Ward(s) affected:		All Wards	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		Western Way Development site (formerly Public Service Village Phase II, Olding Road), Bury St Edmunds reports to Cabinet. CAB/SE/14/010 - 02 December 2014 CAB/SE/15/023 - 24 March 2015 CAB/SE/16/017 - 29 March 2016 Western Way, Masterplan http://www.westsuffolk.gov.uk/planning/Planning_Policies/upload/Adopted-Masterplan-LOWRES.pdf	

Documents attached:**Appendix A** – Location map
Appendix B – Financial Assumptions
Appendix C – Cash Flow Forecasts**1. Key issues and reasons for recommendations****1.1 Background**

- 1.1.1 At its meeting on 19 April 2017, Council resolved the adoption of the Masterplan for Western Way, as set out in Appendix A to Report No: SDW/SE/16/003, as non-statutory planning guidance. The comprehensive development of the Western Way site is one of St Edmundbury's key strategic projects and its delivery is supported and monitored under the national One Public Estate programme.
- 1.1.2 A number of potential public sector partners for the development have recently signed up to a 'Declaration of Intent' as a Collective Agreement to work together to explore developing Western Way to improve services, drive efficiencies and ultimately produce better outcomes for the communities we all serve. Each partner has agreed to use its best endeavours to promote and develop the project to the best advantage of all partners and to facilitate the completion of the Joint Strategic Business Case due for Council consideration in winter 2018.
- 1.1.3 Significant work continues on this project, including engagement with potential public sector partner occupiers, site due diligence, site layout options, financial modelling, funding appraisal, procurement and phasing options for the sites, construction programming and engagement with planning and highways.
- 1.1.4 Delivery of the project will result in a step change in the delivery of integrated public services and the direct and indirect creation of many new homes and jobs. An emerging preferred site layout option includes a number of uses on the site, such as a shared building with a link to the current West Suffolk House, commercial offices, residential, student accommodation, car parking provision (both multi storey and surface parking) and an allocation of land for any future Bury Leisure Centre provision.
- 1.1.5 The project's car parking strategy has explored a number of car parking solutions for the site including onsite vs offsite provisions and surface vs multi storey provision. Based on potential and existing partner requirements, including the retention (in some case, re-provision) of the site's existing car parking provision, around 1,600 spaces are currently being modelled into the preferred site layout options. West Suffolk College has also expressed a need (if available) for around 250 extra spaces over the next five years linked into their own growth plans and the potential impact of civil parking enforcement.
- 1.1.6 Taking into account site design and density, the amenity of nearby residents, use adjacencies, planning and highways considerations and transitional car parking requirements (whilst significant parts of the site are being developed) a mixture of flexible and future-proofed car parking solutions are currently being proposed in the emerging preferred site layout option (including onsite surface and multi storey, alongside some offsite provision).

1.1.7 To facilitate the provision of offsite car parking facilities for the Western Way Development, officers have been exploring vacant sites within close proximity to the site. Offsite provision options are limited, with little, or in fact most case, no capacity available from neighbouring partners' sites. However one site in particular does look to offer a solution for the Council both in terms of offering a short term transitional provision as well as the potential to offer a long term provision (with the potential to increase capacity). This site also offers a long-term investment even if the Western Way project were not to proceed.

1.2 The Property - Former Clearance Warehouse Retail premises, Beetons Way

1.2.1 The property comprises a detached warehouse building which we believe dates from the late 1970's or early 1980s. The entirety of the building is currently vacant and comprises a main warehouse space with a lean-to attached to the southern elevation. The current condition of the property is poor and would likely require investment to bring it into a lettable condition. The property also consists of land which is currently used as car parking associated with the retail premises. .

1.2.2 The whole site is secured by a palisade fence to include a palisade gate from Anglia Lane. The property is currently accessed from Anglia Lane, but planning permission exists for a new access to be made from Beetons Way (DC/15/2041/FUL). The gross site area extends to approximately 0.86 hectares (2.12 acres).

1.2.3 Appendix A provides a location plan of the land and property.

1.2.4 Planning permission to construct a surface or multi decked car park on the property would be required. Initial informal dialogue with both planning and highways officers has been positive. Discussions will continue throughout the due diligence process to monitor the site's deliverability as an offsite car parking solution, right up to its acquisition.

1.3 Why should SEBC consider purchasing the building and why now?

1.3.1 The acquisition is regarded a strategic land acquisition given its potential location to the Council's Western Way landholdings, the overall educational corridor along Beetons Way and, if nothing else, as a potential rental unit within the Councils commercial asset portfolio.

1.3.2 Although the Council is yet to consider the joint strategic business to bring forward the detailed delivery phase (including detailed planning) of Western Way development, its commitment to the site's development spans a number of years including the most recent masterplan adoption in 2016 and the purchase of the NHS/DHL warehouse building in 2017. With limited land availability in the area to facilitate/accommodate off site car parking provision for the Western Way Development, the opportunity to take ownership of this property to gain control seems one not to miss.

1.3.3

It is likely that if the Council doesn't look to acquire and take control of the site at this time, then the market will. In fact delays in having our offer accepted and receiving draft Heads of Terms has resulted from their being another purchaser interest in the site. This competition has ultimately been reflected in the proposed purchase offer reflecting that we are a special purchaser.

- 1.3.4 Sufficient off site car parking provision will not only assist with the displacement of transport movements for the development, it will also contribute to the overall affordability in bringing the site forward and therefore ultimately contributes to the deliverability of the overall vision for the Western Way site.

2. **Financial Case**

- 2.1 A financial appraisal of the property has been carried out, based upon projected returns. An assumption has been made that the current retail unit is demolished and is replaced with 253 surface car parking spaces. The site has the potential to be decked but this hasn't been included in the financial modelling below.
- 2.2 The table below shows the financial implications of purchasing the site, demolishing the current building and constructing the new surface car park.

	Warehouse Clearance £
<u>Capital Implications:</u>	
Purchase Cost of Building	1,650,000
Stamp Duty Land Tax	72,000
Purchaser Costs	16,500
Estimated demolition / construction cost of car park	1,100,000
Total Capital Cost	2,838,500
<u>Revenue Implications:</u>	
Car Parking Income	(164,450)
Gross Income per annum	(164,450)
Annual running costs of car park	19,000
Total Expenditure per annum	19,000
Net Annual (Surplus) / Deficit before borrowing	(145,450)
Borrowing costs - MRP	68,750
Borrowing costs - Interest	75,625
Net Annual (Surplus) / Deficit after borrowing	(1,075)

- 2.3 The figures in the table above include the full cost of prudential borrowing, however, actual borrowing would only take place when the Council's treasury management activities identify such a need. For example, this could be when the Council's cash flow management activities anticipate that an external

cash injection is required to maintain the appropriate level of cash balances for the council to operate and fulfil its budget and service delivery requirements.

- 2.4 The financial position shows a small annual surplus based on an assumed income per car parking space of £3.25 per day, for 5 days a week and 48 weeks of the year. At £3.00 per day, this would create an annual deficit of £12,000, and at £3.50 per day it would create an annual surplus of £13,500. Ultimately, given that these are notional charges for modelling purposes, the conclusion is that the site is broadly capable of covering its costs in the context of it being primarily a strategic acquisition to reserve the Council's position in terms of the long-term place-shaping of Bury St Edmunds. The assumptions that underpin these numbers are detailed in Appendix B, along with an assessment of the risk of these assumptions.
- 2.5 Providing the same number of car parking spaces on the Western Way site could only be done within a multi storey car park. To provide the same number of spaces within a multi storey car park would cost in the region of £3.5 - £4million and reduce the developable area of the main site in terms of strategic outcomes and income generation.
- 2.6 The demolition of the current building and construction of the surface car park will only take place on the approval of the further £1.1m capital provision set out in the table at 2.2 and the required planning process. In the meantime the £1.74million acquisition is proposed on the basis of a holding asset, funded from unallocated capital receipts with an annual holding cost budget of £70k (funded from the Strategic Priority and MTFs reserve) established for an 18 month period (£105k in total) to allow the full business case for the development of Western Way to come forward.
- 2.7 At this future decision point, Members will need to take into account the cost of borrowing, which will include the initial purchase price. This report is considering the purchase on the basis of holding the asset (funded from unallocated capital receipts), pending a full business case with the options and therefore at this point borrowing costs are not included. Officers will explore options for example the short term use of the property whilst the Council is 'holding the asset' to mitigate the anticipated holding costs set out at 2.2.5 above.
- 2.8 A summary of indicative cash flow projections is set out in Appendix C, for two scenarios. One where the site becomes a surface car park after the initial 18 month period, and one where the site is retained in its current form and becomes part the council's property portfolio.
- 2.9 Based upon a desktop exercise, if the property were to be let out as an investment it could achieve an indicative return of over 7.5% which would create a net income to the Council after borrowing, to be used to deliver front line services. This would not reflect the return that the market would require on the investment, but in reality the property is being acquired by the Council to deliver the wider objective set out above, rather than for pure income-generating investment purposes.