

**Blaby District Council
Council**

Date of Meeting	31 January 2023
Title of Report	Capital Investment to Units at Enderby Road Industrial Estate This is not a Key Decision and is not on the Forward Plan
Lead Member	Cllr. Nigel Grundy - Neighbourhood Services & Assets
Report Author	Property & Assets Service Manager
Corporate Priority	Medium Term Financial Strategy (MTFS)

1. What is this report about?

- 1.1 This report requests capital expenditure to carry out necessary works on two units that have become vacant at Enderby Road Industrial Estate (ERIE) in order that the units are in a good state of repair to be re-let.

2. Recommendation(s) to Council

- 2.1 That Council approve the capital expenditure of £450,000 to carry out works on vacant units at Enderby Road Industrial Estate.
- 2.2 That delegated authority be given to the Neighbourhood Services and Assets Group Manager, in consultation with the Portfolio holder, to enter into contractual arrangements for the appropriate level of works.

3. Reason for Decisions Recommended

- 3.1 Two vacant units of the ERIE site require investment to carry out works in order to bring them back to a standard to enable the units to be re-let.
- 3.3 It is appropriate to give the delegated authority for the Group Manager and Portfolio Holder to have the flexibility to spend up to the authorised amount depending on the outcome of the current negotiations with the prospective tenant.

4. Matters to consider

4.1 Background

The Council entered into a lease arrangement in 1978, whereby the Council pays a head lease for all the units on the Enderby Road Industrial Estate (ERIE), which Blaby District Council then leases onto tenants.

Since construction there has not been significant investment in refurbishment of the units generally and improvements have been made on an individual basis as units have been vacated. The last substantial investment by the Council was in 2014 when an amount of £85,000 was invested to bring two vacant units up to a standard to be re-let after standing vacant for some time.

Earlier last year a longstanding tenant vacated units 10 and 11. Although a schedule of dilapidations was served, the tenant has subsequently gone into liquidation and there is no chance of recovery of these costs from the vacating tenants. Whilst the tenants had provided for a deposit this has been utilised to cover outstanding rent payments.

In order for the units to be re-let works are necessary and whilst the units remain vacant the Council incurs the cost of the head lease for the units and the associated business rates as well as not realising income from this asset.

It is estimated that should the units be brought up to a standard to be leased, income for both units would amount to approx. £70,000 per annum and a saving of £17k would be made in relation business rates. Given this information and the potential interest in the units, the return on investing in the refurbishment would see the Council benefit from an early decision on this matter.

4.2 Proposal(s)

Given that the units are now vacant it is timely to consider the condition of the units before they are re-let. A Schedule of Works has been produced by a surveyor acting on behalf of the Council and this has been circulated to contractors and quotes received. Quotes vary but an amount of up to £450,000 is required to carry out all works identified on both units (the units being some of the larger units on the ERIE site).

Blaby District Council, via their managing and letting agents, have been able to identify a new tenant who is prepared to take the property with only some of the works being undertaken; circa 60 per cent of the cost (£270,000), with a Schedule of Condition in place. However, the tenant requires occupation by April 2023. This is achievable if matters progress quickly.

The proposal is therefore to carry out the works necessary for the tenant to occupy the units, which is estimated to cost £270,000. However, should the prospective tenant not take up this opportunity then it is proposed to carry out the full schedule of works at a cost of £450,000 to market the property in its best order and achieve a viable rent.

Delegated authority is therefore requested for the Neighbourhood Services and Assets Group Manager, in consultation with the Portfolio Holder, to enter into contractual arrangements for the appropriate level of works.

A procurement process has been carried out to identify potential contractors and these quotes are still deemed to be valid.

As background, Units 3 and 4 were previously left for many years in an extremely dilapidated state, similar to Unit 10 and 11. This resulted in loss of income and the level of works increasing as a consequence of water ingress. Similarly, Units 10 & 11 are unlettable without works being undertaken. A repeat of Units 3 and 4 should be avoided at all costs. It not only increased costs but resulted in an extended period of loss of rent and increased liability because Blaby District Council would be liable for business rates, estate service charge and the estate insurance; all of which would be re-charged to a tenant if the able and willing tenant can move in by April.

4.3 Relevant Consultations

- Director of Commercial and Economic Development of Charnwood Borough Council who is currently providing commercial support to Blaby District Council.
- Executive Director (S.151 Officer)

4.4 Significant Issues

The procurement of the tender quotes was carried out for the dilapidation exercise by the Council's agents. Measures will be taken to ensure that the process by which these were sought is compliant with the Council's Contract Regulations in order that they can be utilised.

5. What will it cost and are there opportunities for savings?

- 5.1 The figures below illustrate the income expected to be generated from the rental income of the property and the associated costs with the borrowing and investment to refurbish the unit.

Costs of the headlease are not included in the figures below, as these costs will have to be met by the Council regardless of the decision to invest. The excess income generated goes towards the headlease costs along with those of the other units on the ERIE site.

Full Cost of £450k Investment

	Current year	Future Full Year
Revenue Income		70,000
Expenditure (cost of capital i.e. Interest costs and MRP)		(32,000)
Capital Expenditure	450,000	

Note: the rental income will be subject to uplifts and rent reviews in future years. It may also be possible that a higher rent may be obtained when all works are carried out, subject to market conditions.

Cost of £270k investment

	Current year	Future Full Year
Revenue Income		£70,000
Expenditure (cost of capital i.e. Interest costs and MRP)		(£19,500)
Capital	£270,000	

For information: the income budgeted for the ERIE site in 2022/23 is £377,000 however income is now forecast to fall short of this budget (income estimated to out-turn at £293,000 given the vacant units). 21/22 income generated was £351,000 and headlease costs are currently £230,000.

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
The property could fall into more significant disrepair and increased cost for the Council.	Undertaking the necessary in a timely manner will mitigate this risk.
The cost of works could increase.	Undertake works now whilst the cost in the tender process are valid.
Including an extended procurement process could increase costs.	An attempt to obtain five quotations have already been achieved, with three current contractors providing quotations in the open market. These are open market costs. Further tendering will result in the increased cost of a further procurement (professional fees) and delays caused by the timescale required for such procurement procedures.

7. Other options considered

- 7.1 Mothball/demolish the building is a consideration but is not possible in this case. There is a Head lease and therefore a liability to Blaby District Council to keep the property in repair. Usually, this liability is passed on to tenants via dilapidations recovery but the liquidation of the former tenant means this has not been possible.

Doing nothing is not considered a viable option given that this would result in higher costs/liabilities for the Council and increased cost of repair if the property was left to fall into further disrepair.

8. Environmental impact

- 8.1 The Council will work with suppliers to ensure that works are performed with sustainable materials etc. where possible.

9. Other significant issues

- 9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.
- 9.2 Significant issues relating to Legal procurement matters have been addressed at paragraph 4.4.

10. Appendix

- 10.1 None.

11. Background paper(s)

- 11.1 Not applicable.

12. Report author's contact details

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