



CABINET– 12TH DECEMBER 2018

SUBJECT: INDUSTRIAL AND OFFICE PROPERTY PORTFOLIO – PROPOSED CHANGES TO LETTINGS CRITERIA AND PROCEDURES

REPORT BY: CORPORATE DIRECTOR (COMMUNITIES)

1. PURPOSE OF REPORT

- 1.1 To seek approval for proposed changes to the lettings procedure for the Council's industrial and office property portfolio.

2. SUMMARY

- 2.1 The Council's industrial and office property portfolio comprises 235 industrial units, 15 office buildings and two individual small units mainly located in 13 industrial estates and business parks across the County Borough.
- 2.2 The existing lettings process includes procedures that can take some months to conclude, resulting in periods of time when units are unoccupied, which have an adverse effect on income generation and can result in reduced customer satisfaction with the service provided.
- 2.3 The report sets out the existing processes and procedures and suggests two key improvements that would reduce the time involved in processing new applications for tenancy.

3. LINKS TO STRATEGY

- 3.1 The provision of key employment sites makes a major contribution to the Council's Regeneration Strategy 'A Foundation for Success' (July 2018), Caerphilly's Future Generations and Wellbeing Action Plan and Welsh Government's strategy "Prosperity for All: economic action plan".
- 3.2 The Council's industrial and office property portfolio promotes economic activity through the provision of employment opportunities and contributes to the objectives for sustainable development as set out in the Well-Being of Future Generations (Wales) Act 2015 by engendering:
- A prosperous Wales;
 - A resilient Wales;
 - A Wales of Cohesive Communities.

4. THE REPORT

Background

- 4.1 The Council's industrial and office property portfolio comprises 235 industrial units, 15 office buildings and two individual small units mainly located in 13 industrial estates and business parks across the County Borough (see Appendix 1).
- 4.2 In addition, two projects are at an advanced stage of development to increase the portfolio via an extension to The Lawns Industrial Estate in Rhymney and a new development of industrial/office premises at Ty Du in Nelson. ERDF European funding has been secured for these two projects.
- 4.3 The forecast annual income (2018-19 estimate) generated by the portfolio is £2,287,000, based on the existing occupancy level, which is currently just over 95%. At the time of writing this report there are a number of vacant offices as follows:
- 3 x office suites available in Tredomen Business & Technology Centre;
 - 1 x small office available in the Smart Zone in Tredomen Innovation & Technology Centre;
 - 1 x office building available in Woodfieldside Business Park.
- There are currently no businesses on the waiting lists for these offices, so they are being actively marketed.
- 4.4 There are also 17 industrial units either available or about to become available. New tenants have been identified for all but one of these and they are progressing through the process as set out in paragraph 4.6 below. The remaining unit, for which all existing interest has been exhausted, is now being actively marketed.
- 4.5 At any one time, there are approximately 150 people and businesses included on the waiting list for units. The number increases as new enquiries are received and decreases as each person is contacted when a unit becomes available as many have found alternative premises by the time they are contacted. In some cases, enquirers remain on the waiting list for several years if they are only interested in one location.

Current Procedures

- 4.6 The existing procedure to effect a change in tenancy has been in place, with minimal alterations for the past 20 years. The existing procedure is set out below:
- 4.6.1 Existing tenant gives written notice of their intention to vacate (usually three months' notice).
- 4.6.2 Officer confirms end date of tenancy and informs Finance that the rent will not be paid after that date.
- 4.6.3 Officer arranges for a dilapidations inspection to be carried out to agree any rectification work with the outgoing tenant.
- 4.6.4 Officer works through the waiting list for the industrial or office location offering the unit to the next person on the list until a prospective new tenant is identified. This will involve several phone conversations, leading to a viewing appointment and ultimately a provisional offer to be agreed in principle. This process can take several months to conclude as enquirers are frequently difficult to contact and the process often results in a negative response from the enquirer.
- 4.6.5 When a suitable prospective tenant has been identified, they make a formal application for the unit and the relevant due diligence is undertaken. A bank reference is usually sought, which can take over two weeks to return.

- 4.6.6 When the application is complete, a report is prepared and submitted for consideration and approval by the Cabinet Member for Economy, Infrastructure, Sustainability & Wellbeing of Future Generations Champion and the Head of Regeneration & Planning.
 - 4.6.7 If approved, this delegated decision is posted on the Members' Portal and after three days, the decision is acted on. The draft heads of terms are sent to the new tenant and a request is sent to the Council's Legal team asking for a tenancy agreement or lease to be produced and signed off by the incoming tenant. This can take in excess of one month to conclude, sometimes more than two months.
 - 4.6.8 When the new tenant has signed and returned the lease or tenancy agreement, the Council's Finance team are instructed to inform them of the new tenancy; rent and a bond is paid; and the new tenant is given the keys to the unit.
- 4.7 Within the above process, there are frequently delays which result in the unit being unoccupied for a number of months after the existing tenant has departed. The most significant delays occur during the following parts of the process:
- 1 Dilapidations inspections should be carried out by a suitably qualified or experienced officer and this can take some time to organise. Until recently there has not been the capacity in the Property Services team to provide support, however this has now been rectified. Reports commissioned from the private sector in the interim have resulted in overly detailed reports, which if applied to the premises would result in a prohibitively high cost to the outgoing tenant (although it should be noted that the Council expects all outgoing tenants to return units in a fit and proper state).
 - 2 Working through the waiting list can take up to six months to resolve. Many enquirers have been on the list for a long time and eventually decide they no longer want the unit. Others confirm interest, but are difficult to contact and the viewing process becomes extended. In practice it can take several appointments to secure an interested applicant and this part of the process can take up to six months to conclude.
 - 3 The lease or tenancy agreement drafting and agreement can take over two months. The main causes for delay appear to be: capacity/workload issues in the Council's Legal team; and difficulties achieving agreement with the new tenant's legal representative regarding the content.

Proposed revisions to the Procedures

- 4.8 Clearly, it would be beneficial to improve the speed at which tenancies are changed. At present, there are times in the process when the units are unoccupied, which reduces the income generated. There are a number of improvements that could address the primary causes of delay in the system:
- 4.8.1 Business Support & Funding Team officers will write to each person on the waiting list to inform them that the procedure is changing and, if they are still interested in renting a property, to register for automatic alerts on available property via the Council's website.
 - 4.8.2 When a unit becomes available, interested parties will receive an e-mail and be invited to submit proposals for a tenancy on an application form by a given deadline. They will be made aware that the Council is not obliged to accept any offer made. They will be asked to provide a financial reference and business plan, confirm the type of business and that they have environmental and equalities policies in place. This process would follow a similar procedure to a Council-run procurement exercise.
 - 4.8.3 Legal Services will draft, in consultation with Business Support & Funding Team officers and Property Services, both standard Heads of Terms and standard tenancy

documents (leases and annual tenancies) and these documents will be available on the Council's website for prospective new tenants to consider. The new tenant, and their legal representative, will be advised that amendments of any substance will only be accepted in exceptional circumstances and minor drafting amendments will not be permitted except in the case of manifest error.

- 4.9 The submitted proposals would then be considered by Officers of Regeneration & Planning and Property Services, with one selected as the successful candidate, based on the criteria set out in the table below:

Criteria	Score
Business Status (rationale for proposal)	
Expanding business with job growth	5
Start-up business	4
Existing inward investing business	3
Existing business moving to consolidate	2
Business down-sizing for financial reasons	1
Jobs to be accommodated (current employees)	
20+ employees	5
6 – 20 employees	4
3 – 5 employees	3
2 employees	2
1 (owner operator)	1
Growth potential (jobs to be created)	
20+ new jobs	5
6 – 20 jobs	4
3 – 5 jobs	3
1 – 2 jobs	2
No growth forecast	1
Links to local economy	
Works symbiotically with another local employer	5
Compliments many local employers on an ad hoc basis	4
Works symbiotically with local trades	3
Works for local residents/retail	2
Web retail	1

- 4.10 A report with a recommendation to accept this proposal will then be prepared and submitted to the Head of Regeneration and Planning for consideration (who will consult with the Cabinet Member for Economy, Infrastructure, Sustainability & Wellbeing of Future Generations Champion). If approved, this Delegated Decision will be posted on the Members' Portal and draft heads of terms sent to the new tenant and the letting progressed. All other submitted proposals will be contacted to confirm that they were unsuccessful for this particular property but will receive an alert when the next property becomes available. This new process would run alongside the procedure for the existing tenant to depart which will reduce the time units are vacant and therefore minimise the loss of rental income.
- 4.11 Further to its implementation, this new process will be monitored to ensure that it remains effective and adjustments will be made as and when appropriate in consultation with the Cabinet Member for Economy, Infrastructure, Sustainability and Well Being of Future Generations.

Rent review

- 4.12 Alongside the proposed changes to the lettings procedure, officers in Property Services have commenced a review of rents charged for each of the industrial and office units in the Council's portfolio. This review is ongoing and the findings will be used to ensure that the rental rates are aligned with the market rate as required by the Landlord & Tenant Act.
- 4.13 Given that a review has not been carried out since 2008, a small increase in market rate is anticipated (although local property experts have indicated informally that Council rents are broadly in line with the market).
- 4.14 The review of each estate will be completed over a period of one year, and any changes to the rent will be applied on an estate by estate basis. This will commence in April 2019 when the tenants affected by any proposed change have been served with the required notice. The outcomes of the review will be the subject of a report for information in 2019.

5. WELL-BEING OF FUTURE GENERATIONS

- 5.1 The Council's industrial and office property portfolio contributes to the Well-being Goals as set out in Links to Strategy above. It is consistent with the five ways of working as defined within the sustainable development principle in the Act and it is aimed at improving the environmental, social and economic well-being of the area.
- 5.2 The proposal aligns with the following well-being goals:
- A prosperous Wales – providing local employment opportunities in the community that create prosperity for the local population;
 - A resilient Wales – providing employment opportunities makes the area more resilient to external economic factors;
 - A Wales of Cohesive Communities – providing local employment opportunities stabilises and develops local communities and prevents outmigration as people seek work opportunities elsewhere.

6. EQUALITIES IMPLICATIONS

- 6.1 An EIA has been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance and no potential for unlawful discrimination and/or low level or minor negative impact has been identified, therefore a full EIA has not been carried out.

7. FINANCIAL IMPLICATIONS

- 7.1 This proposed change of procedure will lead to improved income generation by shortening or removing the periods when industrial and office units are unoccupied and not generating rental income.

8. PERSONNEL IMPLICATIONS

- 8.1 There are no personnel implications associated with this report.

9. CONSULTATIONS

- 9.1 The report reflects the views of the listed Consultees.

10. RECOMMENDATIONS

- 10.1 That the proposed changes to the lettings process set out in paragraphs 4.8-4.10 are approved.
- 10.2 Further to its implementation, this new process will be monitored to ensure that it remains effective, and adjustments be made as and when appropriate, in consultation with the Cabinet Member for Economy, Infrastructure, Sustainability and Well Being of Future Generations.
- 10.3 That all future leases prepared under the proposed new procedure include a requirement for information to be provided annually to the Council in respect of the jobs created/accommodated.

11. REASONS FOR THE RECOMMENDATIONS

- 11.1 To improve the income generation capacity of the Council's industrial and office property portfolio.
- 11.2 To ensure that a better service is provided to persons and businesses requiring industrial and office premises.
- 11.2 To continue to comply with the Council's Protocol for Disposal of Property.
- 11.3 To monitor the effectiveness and impact of the proposed new procedure in respect of jobs growth within the local economy.

12. STATUTORY POWER

- 12.1 Local Government Act 1972. This is a Cabinet function.

Author: Antony Bolter, Business Support & Funding Manager

Consultees:

Cllr. Sean Morgan	Cabinet Member for Economy, Infrastructure, Sustainability and Well Being of Future Generations
Mark S Williams	Interim Corporate Director, Communities
Mark Williams	Interim Head of Property
Tim Broadhurst	Estates Manager
Michael Williams	Management Surveyor
Nicole Scammell	Head of Corporate Finance
Stephen Harris	Interim Head of Business Improvement Services
David Roberts	Principal Group Accountant
Robert Tranter	Head of Legal Services / Monitoring Officer
Lisa Lane	Interim Monitoring Officer
Richard Crane	Senior Solicitor
Rhian Kyte	Head of Regeneration & Planning

Background Papers: None

Appendices: Appendix 1 – Business Support & Funding Property Portfolio

Business Support & Funding Property Portfolio

Industrial units:

Site	Number of units & Approx Size (Sq Ft)	Total Number of Units
Lawn Industrial Estate, Rhymney	16 x 500 2 x 1,000 1 x 13,000	19
New Tredegar Business Park, New Tredegar	8 x 500 8 x 800 4 x 1,000	20
Oakdale Business Park, Oakdale	6 x 5,000 2 x 10,000 4 x 13,000 1 x 40,000	13
St David's Industrial Estate, Pengam	4 x 400 10 x 700-900 1 x 1,600 1 x 2,000 1 x 2,700	17
Penmaen Industrial Estate, Pontllanfraith	6 x 500 3 x 800 2 x 1,000 3 x 1,700 1 x 5,000	15
Woodfieldside Business Park, Pontllanfraith	21 x 1,000 1 x 1,500	22
Penmaen Small Business Centre, Pontllanfraith	7 x 300 19 x 400 4 x 500 3 x 700 5 x 1,000 2 x 1,500	40
Tram Road Industrial Estate, Pontllanfraith	2 x 1,400 2 x 1,800 1 x 2,400	5
Dyffryn Business Park, Ystrad Mynach	38 x 870 2 x 1,700	40
Waunfawr (Newtown) Business Park, Crosskeys	2 x 2,000 1 x 3,000	3
Park Road Industrial Estate	3 x 670	7

	4 x 960	
Caerphilly Business Park, Caerphilly	2 x 580 2 x 750 24 x 800-900 1 x 1,400 2 x 1,700 1 x 2,600 2 x 4,000	34
38B, High Street, Rhymney	1 x 1,150	1
Gelligroes Mill, Pontllanfraith	1 x unspecified	1
Total		237

Offices:

Site	Size (Sq Ft)	Total Number of Tenants
Tredomen Business & Technology Centre	15,000	7 + CCBC (Regeneration & Planning and Housing)
Tredomen Innovation & Technology Centre	16,000	12
Tredomen Gateway	12,000	8 + CCBC (Health & Safety)
Foxes Lane, Oakdale	2 x 10,000 1 x 15,000	3 + CCBC Social Services
Cherry Tree House, Oakdale	10,000	CCBC WHQS
Woodfieldside Business Park, Pontllanfraith	3 x 2,000 3 x 3,200 1 x 4,000 1 x 5,000	4 + CCBC (Social Services & Youth Offending Service)