

## Bath & North East Somerset Council

MEETING/ DECISION MAKER:	<b>Councillor Mark Elliott, Cabinet Member of Resources</b>	
MEETING/ DECISION DATE:	<b>On or after 28 November 2024</b>	EXECUTIVE FORWARD PLAN REFERENCE:
		<b>E 3580</b>
TITLE:	<b>Commercial Planned Maintenance</b>	
WARD:	N/A	
<b>AN OPEN PUBLIC ITEM CONTAINING EXEMPT APPENDICES</b>		
<b>Decision to be made Pursuant to R.3.5.16 of the Access to information Procedure Rules and NOT Subject to Call In</b>		
<b>List of attachments to this report:</b>		
Appendix One – Business Case (Exempt by virtue of Paragraph 3 of Schedule 12A of the Local Government Act 1972)		
Appendix Two – Head of Terms (Exempt by virtue of Paragraph 3 of Schedule 12A of the Local Government Act 1972)		

### 1 THE ISSUE

- 1.1. This report sets out the terms for the proposed capital reinvestment into income generating commercial properties within the Milsom Quarter Masterplan area; with the purpose of approving capital programme budget from provisional approval to full budget approval.
- 1.2. The decision is to be taken under the Special Urgency rule 3.5.16 of the Council's constitution. This decision is being taken under urgency powers to enable full approval of the Capital budget to address essential maintenance to buildings within the Milsom Quarter. The urgency relates to the need for securing this decision without delay as tenders for works are time limited and accordingly they need to be contractually agreed within that time period. Furthermore, this will facilitate the agreement of lettings which are dependent upon this decision ensuring the ongoing use of key Council Commercial properties that will contribute to the economic sustainability and vibrancy of the Milsom Quarter.

## 2 RECOMMENDATION

The Cabinet Member is asked to:

- 2.1. Approve capital spending of £10m into properties within the Milsom Quarter Masterplan area.
- 2.2. Allocate £502K Revenue Budget Contingency (within Corporate Budgets cash limit) to Commercial Estate of £13K 24/25, further £358K in 25/26 and £131K in 26/27.
- 2.3 Delegate all lease decisions to the Head of Commercial Estate in consultation with the Executive Director - Resources (S151), Monitoring Officer and Cabinet Member for Resources.

## 3 THE REPORT

- 3.1. A capital programme budget of £15m was provisionally approved by the Council for commercial asset re-investment covering 2024/25 to 2028/29. Approval of this capital budget is subject to approval of a business case including cost of borrowing repayment. The total cost of the proposed reinvestment is £10m which includes all works, professional fees and allowance for risk contingency.
- 3.2. The reinvestment costs will be funded by borrowing. The financing of part of this borrowing has been factored against future rental income projections with the balance requiring additional revenue support of £502K p.a. from the Revenue Budget Contingency, reflecting the significant structural repairs required to the property.
- 3.3. The reinvestment into commercial assets is a key part of the strategy for regenerating the Milsom Quarter. The proposal will provide the catalyst for significant regeneration projects with multiple direct and indirect social benefits in a key area of the city centre impacted significantly by the Covid pandemic. Intervention is required to deliver the Milsom Quarter Masterplan due to:
  - The declining performance of the Milsom Quarter.
  - The importance of increasing the range of activities in the Milsom Quarter including a cultural anchor in the form of the Fashion Museum which will be a regenerative catalyst.
  - Supporting and upgrading commercial uses including delivering an anchor department store to generate footfall and spend in the top end of town.

The funding of the commercial reinvestment will assist with the implementation of the Milsom Quarter Masterplan by supporting the vitality of the areas commercial units and the resident and visitor experience.

- 3.4 Without this intervention the commercial estate portfolio will deteriorate, with the following impact:
  - Increase the number of empty retail properties
  - Increase health & safety risks through lack of well-maintained properties
  - Loss of sustainable net income for the Council services
  - Reduced employment opportunities in the local area.

## 4 STATUTORY CONSIDERATIONS

4.1. Changes were introduced by the Ministry of Housing Communities and Local Government (MHCLG) to the statutory guidelines in February 2018 which covered the following areas:

- **Transparency and democratic accountability**  
The revised guidance retains the requirement for an Investment Strategy. This is to be prepared at least annually and introduces some additional disclosures to improve transparency. The changes to the CIPFA Prudential Code included a new requirement for local authorities to prepare a Capital Strategy.
- **Principle of contribution**  
This requires local authorities to disclose the contribution that non-core investments make towards core functions. Authorities' core objectives include 'service delivery objectives and/or place-making role.' This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.
- **Introduction of a concept of proportionality**  
This requires local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income based on an understanding of the overall risk that they face.
- **Borrowing in advance of need**  
By bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investment Guidance it is clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudent.

In terms of Corporate Strategy the reinvestment in commercial assets have direct relevance in the following areas:

- Strong economy & growth – the Council is able to exercise active management over its property holdings and seek to ensure a varied portfolio mix and diversification of risk.
- Efficient business – this contributes significantly towards achieving the Council's strategic review targets as well as the Directorate Plan income generation aspirations.

In line with the Council's Financial Plan this will help sustain and grow income. This is required to fund capital expenditure with the net return to the Council being used to protect frontline services, including the provision of adult social care; children and environmental services pursuant to the Council's general power of competence under s.1 Localism Act 2011.

Reinvestment into the commercial assets is in pursuance of the benefits that, in particular those of an economic nature, it will confer upon the Council and its area, in accordance with s120 of the Local Government Act 1972. The investment aligns itself with the Council's Investment Strategy for the Commercial Estate.

The economic benefits conferred to the Council specifically include:

- Mitigation of risk to the portfolio in terms of health & safety and protection of long-term sustainable income
- The project prevents a negative outcome, including conserving assets of community value that would otherwise fall into disrepair
- Council resourcing as the investment will sustain income and contribute to wider economic benefits that help provide resources required to assist the delivery of the Council frontline services.

## **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

- 5.1. The Council has undertaken due diligence to ensure that value for money has been satisfied when considering the capital reinvestment. This has been assessed against the capital invested in the property over the period held and the market rental at today's value.
- 5.2. The capital projects will be managed internally but with external expert advice where appropriate. The project budget includes all works, professional fees and contingency for risk.
- 5.3. The total cost of the capital investment is £10m and will be funded by borrowing. The revenue and borrowing costs will be financed through increased rental income and £502k per annum allocation from the Council's Revenue Budget Contingency.
- 5.4. The projected revenue costs and rental income of the investment are detailed in Appendix 1. The risk of any additional revenue costs over and above these projections will initially be managed through the Commercial Estate Reinvestment revenue reserve.
- 5.5. The assets are managed by the Council's Commercial Estate team. Service charges will be applied, subject to negotiation, along with recovery of insurance and other direct costs. Leases will be granted on full repairing or effectively full repairing terms.
- 5.6. Identification of maintenance issues and scheduling of planned capital works will prevent problems for example a leaking roof developing further issues. Thereby minimising future repair costs and time spent on potentially disruptive works.

Other advantages include:

- Reduced risk of business interruption because works can be scheduled.
- Preserving and enhancing the value of property by extending asset life.
- Health and safety compliance.
- More efficient use of manpower and budget. This allows an even spread of maintenance work and financial costs throughout the year.
- Reduced pressure on revenue budgets for responsive maintenance.

## **6 RISK MANAGEMENT**

- 6.1. A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance. This highlighted budget control and commercial income as being two of the main issues. These risks have been mitigated by extensive survey work, an increased contingency budget and providing accommodation which is suitable to the market.

## **7 EQUALITIES**

- 7.1. The Council commits to working within the Equality Act 2010 to ensure that no-one is treated inequitably or in an unlawful or unjustifiably discriminatory manner. This report has undergone a public sector Equalities Impact Assessment. No negative impacts were identified.

## **8 CLIMATE CHANGE**

- 8.1. The properties are in the centre of Bath with excellent cycling and walking routes for residents and tourists. Bath is also served by good national and local transport links making access without a car possible. This easy access will support the Council's Climate Emergency policies.
- 8.2. This is an opportunity to contribute towards the Council's public commitment to achieve net zero by 2030. Low carbon/renewable energy refurbishment will be incorporated. Elements will be designed to use natural or recycled materials, where appropriate.
- 8.3. The project is supporting local businesses as far as possible.

## **9 OTHER OPTIONS CONSIDERED**

- 9.1. A "do nothing" option in relation to reinvesting in the commercial assets has been assessed; "do nothing" would be detrimental to achieving sustainable net income from the Commercial Estate in future years. It would also lead to less successful outcomes for the Milsom Quarter Masterplan.

## 10 CONSULTATION

10.1. The Chief Executive, Monitoring Officer (Head of Legal and Democratic Services), Section 151 Officer (Chief Financial Officer) and the Corporate Director responsible for Resources have been consulted.

<b>Contact person(s)</b>	Richard LongCarolyn Smallwood
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	