

## SOUTH HOLLAND DISTRICT COUNCIL

**Report of:** Rob Walker – Executive Director Place and Councillor Gary Taylor

**To:** Performance Monitoring Panel- Wednesday, 29 January 2020

**Author:** Anita Goddard-Gill- Technical Projects Coordinator

**Subject** Industrial Unit Update

**Purpose:** To provide Members with an update on the current use of the Industrial Units.

### **Recommendation(s):**

1) That panel members consider the content of this report and note progress made to date.

### **1.0 BACKGROUND**

- 1.1 The Performance Monitoring Panel have requested an overview of the current position regarding the Councils industrial units including information on their current use.
- 1.2 Over the last 12 months a review of the current arrangements for the management of the industrial units has been undertaken. The main areas of focus have been:
- a. Reviewing the 2005 Lettings Policy
  - b. Lease Renewals and Rent Reviews
  - c. Providing effective Asset Management
  - d. Effective Rent Management
  - e. Voids & Re-Letting
  - f. Maximising Income
  - g. Legislative Requirements

### **2.0 Units**

2.1 The table below shows the number of units at each location.

<b>Location</b>	<b>Site</b>	<b>Number of Units</b>
Sutton Bridge	Railway Lane	14
Holbeach	Fleet Road Industrial Estate	12
Spalding	Benner Road	10
Crowland	Horseshoe Yard	10
Crowland	Pinnacle Close	4

### **HISTORY & PROGRESS**

3.1 a. Reviewing the current Lettings Policy

➤ Progress to date:

- The review of the Lettings Policy has been drafted with recommendations being presented to the Policy Development Panel on the 3<sup>rd</sup> March 2020 before being taken to Cabinet on the 17<sup>th</sup> March 2020 for sign off, if approved;
- The key changes in the Policy are as follows:

Implementation of a Service Charge -	Service charges are levied to cover the maintenance and repair of the common parts of the estate and the external parts of the units. For properties where service charges may not be applicable, the Tenant may be responsible for both internal and external repairs.
Flexibility around Term	Depending on market demand, market terms and Tenant covenant strength it may be necessary to allow flexibility to enable shorter and longer term leases to be agreed.
Flexibility around Use Class – Not restricting ourselves to the current B1/B2/B8 uses for industrial units	As market conditions change, so does the potential use of the Council's Commercial portfolio. It is important that we are flexible in the types of business that we permit i.e. D2 (Assembly & Leisure). All changes of use will be subject to planning permission and Landlord's prior written consent.
Follow a more commercial approach in terms of repairing liability and statutory regulations	Ensuring that the leases are granted on a Full Repairing and Insuring basis, with emphasis on the Tenant to ensure they are carrying out the necessary statutory compliance.
The introduction of a new precedent lease for industrial units, to enable amendments and legal costs to be kept to minimum	The use of a precedent lease will enable the council to review it regularly ensuring that it reflects the most recent legislative changes, commercial practise and meets the strategic aims of the council.
Leases are contracted outside the provisions of Part II of the Landlord and Tenant Act 1954	This will ensure that at the end of the term the Council can recover the asset if it wishes. Alternatively the Council can grant a new lease to the Tenant on updated terms.
Yield Up - A schedule of dilapidations will be undertaken by the Council prior to the termination of the tenancy, outlining the items of disrepair the Tenant is responsible for remedying.	This places the emphasis on the Tenant to hand back the asset in a good condition. At present the void costs fall to the council, and these can be substantial.

### 3.2 b. Lease Renewals and Rent Reviews

➤ Progress to date:

- New proposed Heads of Terms have been issued to all Tenants that are currently on holdover (37 Units). Some Tenants have agreed to the terms and these are being progressed with the legal department. Other Tenants have queried the terms and explanations have been provided. Additional meetings have also been arranged with the Tenants to discuss terms in detail;
- The Heads of Terms have had consideration on Tenant's circumstances i.e. to support the local businesses and those with multiple units by proposing a stepped rent over the three year period to minimise the impact of the increase.

### 3.3 c. Providing effective Lease/Asset Management

➤ Progress to date:

- Business contact details to be collated for each Tenant.;
- Internal inspections have now taken place on the majority of units. External legal advice has been sought where the Council wishes to remedy breaches of tenancy;
- External inspections have taken place across all sites to ascertain current condition and recommended works. A programme of investment across the estates including cyclical works has been identified. In particular, Railway Lane, Sutton Bridge, has been identified as requiring extensive external works including car parking, landscaping, road surfacing and ground clearance;
- A schedule of estate improvements has been identified for each location and an ongoing maintenance programme is being developed.

### 3.4 d. Effective Rent Management

➤ Progress to date

- A pro-active and involved approach with Credit Control has improved the communication with Tenants and standard correspondence has been put in place to chase non-payment of rent;
- Implemented a monthly report from Credit Control to enable early identification of any potential arrears;
- Engaged with external legal support to provide suitable advice on Tenant arrears;

### 3.5 e. Voids & Re-Letting

➤ Progress to date:

- All vacant properties between April 2019 and November 2019 (10 units) have been let promptly at full market rents to local businesses. This has included a service charge provision, insurance rent, deposits and the new Tenants accepted the lease terms on a full repairing and insuring liability;
- A local agent was instructed to manage the new lettings and any others going forward. These units have been professionally advertised with high levels of interest received. Thorough reference and credit checks are carried out by the agent who provide us with an informed report and recommendations. By utilising an external agent/impartial surveyor the process is fair and transparent;
- A new precedent lease has been prepared and has been reviewed by an impartial chartered surveyor and external lawyer. This provides improved protection to the council as Landlord, modern terminology, definition of Tenant responsibilities i.e. dilapidations at the end of the term, statutory requirements and approvals.

### 3.6 f. Maximising Income

➤ Progress to date:

- Service charges have been introduced to each new letting. This charge forms part of the new precedent lease and will be agreed with all new lettings and renewals moving forward. The introduction of the service charge enables the council to improve and maintain the assets both internally and externally. This ensures that the units continue to meet the market potential;
- Buildings insurance is now being recharged to the Tenants.
- On the completion of new leases and some renewals the Tenants shall contribute £250 towards the council's reasonable legal costs;
- The deposit monies enable the council to recover any rent/service charge/insurance rent arrears or dilapidation claims.

### 3.7 g. Legislative Requirements

➤ Progress to date:

- Building Control have been instructed to carry out the regularisation applications on an initial 8 units. It is anticipated that inspections will take place within a two week period with completion dependant on findings. Other minor regularisations will be carried out after the completion of the initial 8;

- Energy Performance Certificates (EPC) have been carried out on units that have recently been re-let and where necessary, improvement works have been carried out to ensure that they comply with the Minimum Energy Efficiency Standards (MEES) that requires that all new lets including relets must meet a minimum EPC of level E. Building Control have been instructed to carry out EPCs on all properties that have not recently been relet Horseshoe Yard and Pinnacle Close have been completed with recommendations to be confirmed.

#### **4.0 Use**

- 4.1 The units are used by small specialist engineering companies, suppliers of specialist goods and for contractors such as plumbers, carpenters etc.

#### **5.0 OPTIONS**

- 5.1 Panel Members are asked to note the information contained within this report.

#### **6.0 REASONS FOR RECOMMENDATION(S)**

- 6.1 That panel members consider the content of this report and note progress made to date.

#### **7.0 EXPECTED BENEFITS**

- 7.1 It's expected that following the full review of the industrial units, and the implementation of the new proposed lettings policy, the Council will be in a strong position regarding the following:

- a. Effective management of the units;
- b. Strong relationships with Tenants;
- c. Firm arrears processes;
- d. Clearly defined roles and responsibilities of both Tenants and Landlord;
- e. Increased income into the General Fund;
- f. Planned preventative maintenance regimes;
- g. Understanding market requirements;
- h. Compliance with Councils legal duties.

#### **8.0 IMPLICATIONS**

In preparing this report, the following implications have been considered. Crime & Disorder; Data Protection; Equality & Diversity/Human Rights; Health & Wellbeing; Risk Management; Safeguarding; Stakeholders/Consultation/Timescales; Transformation Programme; Other. Consideration to the below headings have been made.

#### **9.0 CONSTITUTIONAL & LEGAL**

- 9.1 Throughout the process Legal Services have been consulted to ensure constitution and legal practices are followed.

## 10.0 CORPORATE PRIORITIES

- 10.1 With effective management, an anticipated increase in income will be realised, therefore underpinning the corporate priorities of being a financially independent and commercially astute Council and achieving balanced budget.
- 10.2 Whilst addressing the issues with the current 2005 policy, the new recommended 2019 Lettings Policy will allow for officer's greater flexibility to negotiate and conclude terms and offer choice with the length of term, the use type (subject to Town and Country Order 1987), deposit amount etc in order to tailor the offer to suit both the needs of the customer and the Council.

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Background papers:- None

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**Key Decision:** N

**Exempt Decision:** N

**This report refers to a ~~Mandatory Service~~ / Discretionary Service**

**Appendices attached to this report:** None