

Report to Executive

Agenda
Item:

A.3

Meeting Date: 07 April 2015
Portfolio: Economy and Enterprise
Key Decision: Yes: Recorded in the Notice Ref:KD08/15
Within Policy and Budget Framework YES
Public / Private Public

Title: DURRANHILL INDUSTRIAL ESTATE
Report of: DIRECTOR OF ECONOMIC DEVELOPMENT
Report Number: ED14/15

Purpose / Summary:

The purpose of this report is to brief the Executive on the proposed improvements to Durranhill Industrial Estate, related funding opportunities, proposals to restructure leases and current disposals.

Recommendations:

That the Executive:

- 1). Accept the offer to vary the existing funding agreement from the HCA on final terms to be agreed by the Director of Governance and Director of Resources following consultation with the Director of Economic Development and the Portfolio Holder for Economic Development.
- 2). Accept the offer of grant funding from Cumbria LEP on final terms to be agreed by the Director of Governance and Director of Resources following consultation with the Director of Economic Development and the Portfolio Holder for Economic Development.
- 3). Authorise the Director of Governance to complete the associated Grant Funding Agreements.
- 4). Support the proposals to restructure the current leasing arrangements with existing tenants.
- 5). Approve the disposal of the former Border TV site on final terms to be agreed by the Property Services Manager.
- 6). Approve the addition of the grant funding from Cumbria LEP to the Capital Programme as outlined in the report.

Tracking

Executive:	
Overview and Scrutiny:	
Council:	

1. BACKGROUND

- 1.1 Durrhill Industrial Estate was developed by Carlisle City Council in the 1950's. All of the estate is owned by the City Council apart from the two frontage sites occupied by Cumbria Fire & Rescue and Thompson Accident Repair Centre along with the Jewsons site located on Stephenson Road. A plan of the estate is attached for identification purposes with the City Council owned land outlined in red, see Fig 1 in the appendices. The City Council owned sites were leased on 99 year ground leases at fixed low rents without review and comprise of approximately 30 leases with a total rent roll of around £80,000. Over time eight of the original leases have been replaced by modern ground leases and these account for 99% of the current rental income. The remainder of the original leases, with restrictive user clauses and no provisions for rent review, have significant value which can only be released by renegotiating the lease terms.
- 1.2 In reality, the estate has come to the end of its current life cycle, the estate infrastructure is poor (poor road layout, lack of landscaping and parking, inadequate signage), many of the buildings have reached the end of their life expectancy and are not fit for purpose, as evidenced by long term voids. The current lease structures, with restrictive user clauses and short unexpired lease terms, restrict redevelopment opportunities.
- 1.3 In 2008 the site was included in the NWDA's Cumbria Sub Regional Employment Sites Programme (SCRES) and the City Council were given a grant of £1.8m to acquire and demolish the former Border TV and part of the Hewden's frontage sites, with the intention of providing employment sites.
- 1.4 In January 2014 the Executive accepted £265,000 additional funding from the HCA to allow environmental improvements to be undertaken to the estate to assist in the disposal of the Border TV site (Report ref: ED02/14).
- 1.5 A scheme was subsequently developed to undertake the following:
 - Improved signage, including entrance signage & tenant signboards
 - Soft landscaping & fencing to Brunel Way
 - Redesigned site entrances to key Brunel Way sites
 - Enhanced footpath provision
 - Further site investigations to assist with the disposal of the Border TV site
 - Finalise proposals for second road access from Eastern Way
 - Implement marketing plan for disposal of Border TV site
- 1.6 The intention was that the improvements would not only assist the disposal process but also enhance the visual appearance of the estate.
- 1.7 By working up proposals for the second access road we hoped to be in a position to maximise future funding opportunities and this has proved to be the case with an offer of £2m from Cumbria LEP to fund the proposed road improvements.

2. PROPOSALS

2.1 HCA funding

- 2.1.1 Initially it was anticipated that the HCA funded improvements would be completed by December 2014 with the Border TV site sold by March 2015 and the £250,000 repaid to the HCA.
- 2.1.2 Following the offer of LEP funding we approached the HCA to seek agreement to vary the timescale of the current funding agreement. Had we proceeded with the original timescale and programme of works we ran the risk of duplicating work and we concluded a better scheme could be developed by merging the two projects.
- 2.1.3 In addition to the environmental improvements the marketing of the former Border TV site had failed to generate a purchaser for the whole however interest had been received in a number of smaller plots. Consequently a scheme was developed to split the site into four along with a new access road.
- 2.1.4 The HCA have agreed with our proposals and have agreed to vary the existing funding agreement by extending the long-stop date from 31 March 2015 to 31 March 2018 along with the following key milestones:
- Access road to Border TV site to be complete by March 2016
 - Complete disposal of Border TV site by March 2018
 - Complete phase 2 delivery plan March 2016

2.2 Cumbria LEP funding

- 2.2.1 Cumbria LEP have offered £2m funding additional to the HCA funding to undertake road improvements as highlighted in Fig 2 and comprise the following:
- New access road from Eastern Way linking with Stevenson Road and linking into the land to the rear of Cavaghan & Gray's Riverbank site.
 - Widen the existing Brunel Way entrance.
- 2.2.2 The road improvements will significantly improve access to the estate and unlock 8 acres of additional employment land at the Riverbank site.
- 2.2.3 Design work on the proposals is complete, planning permission has been secured and we are currently undertaking a procurement exercise to appoint a contractor and concluding legal agreements with the associated parties with land interests. It is anticipated that the works will commence in July 2015 and be completed within 12 months.
- 2.2.4 The LEP funding is conditional on having planning permission and land agreements in place.
- At this stage it is anticipated that the funding will be spread over the two financial years of the project, with £1m allocated per year. The existing spend profile indicates that our actual spend may exceed £1m in this financial year. This may necessitate the City Council having to finance this additional spending during this financial year which will be recovered in 2016/17.

- 2.2.5 In terms of risk Central Government only release funding to the LEP's on an annual basis and the LEP will not guarantee that the second instalment of funding will be available in 2016/17. Although the likelihood is considered low the impact would be significant and would result in the City Council having to fund the £1m required to complete the project. However this risk needs to be weighed up against failure to complete the project which would result in the Phase 2 Delivery plan not being delivered and leave the Council at risk of default to the HCA who could demand repayment of the original £1.8m grant.
- 2.2.6 Discussions are on-going with the LEP and the HCA to look at mitigation measures. Subject to HCA agreement the surplus sale proceeds from both the Border TV site and Hewden's site could be used to reduce the City Council's net liability.

2.3 Phase 2 Delivery plan

- 2.3.1 It is a condition of the HCA funding agreement that the City Council prepares a Phase 2 Delivery plan. As discussed previously, failure to complete the delivery plan could result in the City Council being in breach of the GFA and potentially the HCA could ask for repayment of the original £1.8m investment.
- 2.3.2 The road improvements will form part of the plan along with the disposal of the remaining site acquired as part of the original SCRES programme, the former Hewden plant hire site, which will be brought to the market in due course.
- 2.3.3 Another key component is the redevelopment and enhancement of the remaining estate. The proposed improvements will remove major impediments to the redevelopment of the estate. However one remains – the existing lease structure. The vast majority of the estate is still leased on the original fixed ground leases with no rent review provisions and strict user clauses. These leases now have unexpired terms of less than 50 years which is not acceptable to most lenders.
- 2.3.4 We propose to offer tenants the opportunity to surrender their existing ground leases and grant new ground leases at current market value on the following key terms:
- Lease Term: 125 years
 - Rent Review pattern: 5 yearly upward only
 - User Clause: B1, B2, B8 – Town and Country Planning (Use Classes) Order 1987 (as amended).
- 2.3.5 Consideration was given to including service charge provisions however this was discounted on the basis that all roads are adopted, the additional landscaping proposed will be the responsibility of the tenants to maintain. The only on-going maintenance for the City Council will be the entrance signage and tenants signboards.
- 2.3.6 Lease renewals will not only allow sites to be redeveloped but also unlock significant value within the asset generating additional rental income for the City Council.

2.4 Border TV site disposal

- 2.4.1 It was a condition of the HCA funding agreement that the former Border TV site was sold and the proceeds used to repay the £250,000 grant with any surplus being held in the ring-fenced account and be used to further enhance the estate as part of the phase 2 Delivery plan.
- 2.4.2 Marketing of the former Border TV site has indicated demand for smaller plots rather than the whole. A scheme has been designed to accommodate this market demand as shown in Fig 3.
- 2.4.3 It is proposed to dispose of the plots by way of building agreement / premium lease arrangement to ensure that the sites are developed within a fixed timescale. The financial details are contained within the part B report.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 3.1 In order to deliver a comprehensive package of improvements to Durranhill Industrial Estate and maximise the current funding opportunities available it is recommended that the Executive accept the funding offer from Cumbria LEP and vary the existing HCA funding agreement.
- 3.2 The proposed works will not only enhance the attractiveness of the estate for both current and prospective occupiers, but also unlock an additional 8 acres of employment land.
- 3.3 Preparation of the Phase 2 Delivery Plan will satisfy the HCA's funding requirements and reduce the risk of default.
- 3.4 The sale of the Border TV site will also allow for the vacant site to be redeveloped, creating employment opportunities and comply with the HCA funding agreement.
- 3.5 The option to surrender/renew leases will create further opportunities for private sector investment into the estate and also generate additional rental income for the City Council.

4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 4.1 Redevelopment of Durranhill Industrial Estate will create employment opportunities and allow for future business growth.

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Appendices **Site plans**
attached to report:

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's -

Governance – The report outlines the conditions attached to grant funding. If the Council signs the Grant Funding Agreements it will be bound by these conditions and the Executive, therefore, needs to be satisfied that it will be in a position to comply. The report outlines the risk attached, in particular, to the LEP funding and Members should decide whether they are prepared to accept this risk having weighed it against the risk of defaulting on the earlier HCA Agreement if the planned improvements do not go ahead.

If Members resolve to agree the officer's recommendation the Council will need to enter into licences to occupy adjacent land in order that the works can be carried out and, following the procurement process, enter into contracts with the appointed contractor.

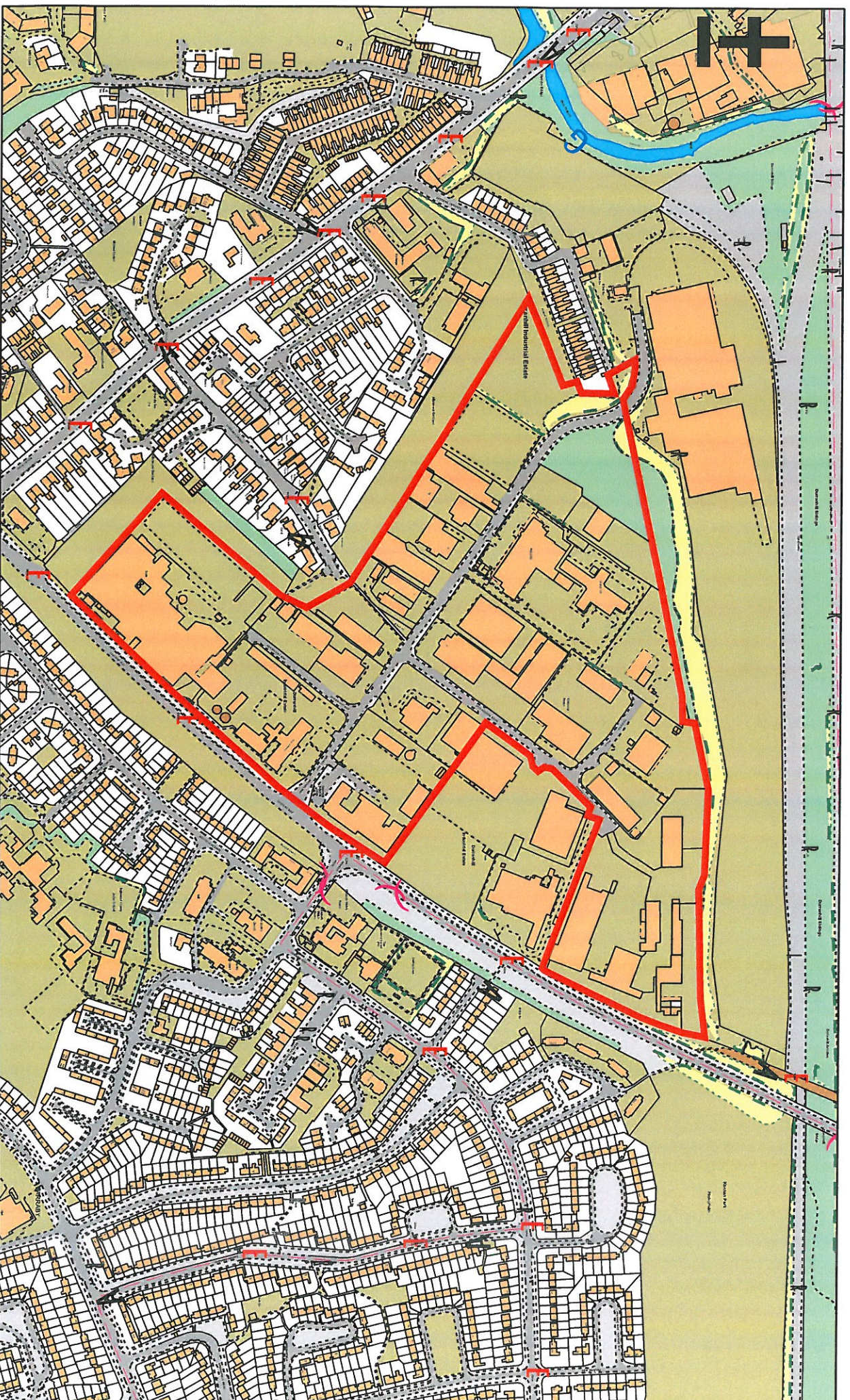
Local Environment –

Resources – The proposed scheme for Durranhill will need to be added to the capital programme and the Council will be responsible for drawing down the funding from the LEP (£2m). It is likely that due to timing of the grant receipt, the Council will have to cash-flow some of the spend in 2015/16 as the grant is to be split £1m in 2015/16 and £1m in 2016/17. There is also a risk that the 2016/17 allocation could be withdrawn and this needs to be carefully considered.

The proceeds from the sale of the Border TV site will be required to repay the funding received from the HCA, and any surplus will be allocated to the ring fenced account that will be used for the wider redevelopment scheme.

Renegotiating existing lease terms will unlock potential for additional income to be generated by the City Council in the longer term.

There is also a risk that if the redevelopment does not proceed that the original funding for the demolition of the Border TV site from NWDA of £1.8million will have to be repaid by the Council.



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DURRANHILL INDUSTRIAL ESTATE

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