

Report to Executive

Agenda
Item:

A.7

Meeting Date: 15 January 2014
 Portfolio: Economy and Enterprise
 Key Decision: Yes: Recorded in the Notice Ref:KD035/13
 Within Policy and Budget Framework YES
 Public / Private Public

Title: HCA FUNDING OFFER DURRANHILL INDUSTRIAL ESTATE
 Report of: DIRECTOR OF ECONOMIC DEVELOPMENT
 Report Number: ED02/14

Purpose / Summary:

The purpose of this report is to brief the Executive on an offer of additional funding to undertake environmental improvements at Durranhill Industrial Estate.

Recommendations:

That the Executive:

- 1). Accept the offer of additional grant funding from the HCA on final terms to be agreed by the Director of Economic Development.
- 2). Authorise the Director of Governance to complete the associated Grant Funding Agreement.

Tracking

Executive:	
Overview and Scrutiny:	
Council:	

1. BACKGROUND

- 1.1 Durranhill 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. 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 Over time eight of the original leases have been replaced by modern ground leases and these account for 99% of the current rental income.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 However, limited reinvestment has occurred with landmark buildings now occupied by Cumbria Police and Cumbria Fire & Rescue, the leases that have been re-gearred have encouraged redevelopment of sites and expansion of businesses along with generating additional rental income for the City Council. The estate is also home to one of the City's key employers Cavaghan & Gray. Further opportunities are also offered by the land located to the rear of Cavaghan & Gray's Riverside facility which is currently landlocked.
- 1.4 One of the strategic objectives within Carlisle City Council's Corporate plan for 2013-2016 is to "support the growth of more high quality and sustainable business and employment opportunities", of which one of the key actions relates to improving the performance of industrial estates. The Montague Evans Business Plan identified the estate as being strategic to delivering economic development – in simple terms employment land and jobs. The M6 Corridor Baseline Review (2009) identified the site as providing a good opportunity to increase land supply whilst providing employment opportunities to deprived neighbourhoods to the south of the City.
- 1.5 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. The sites are shaded blue on the attached plan. Following the demise of the NWDA and the subsequent poor market conditions little progress has been made in achieving redevelopment of the sites. The NWDA's assets have now passed into the control of the HCA and discussions have been on-going over the last 6 months to progress the regeneration of the site. The original contract with the NWDA set out a long-stop date for this project of 30th

June 2013 and consequently the HCA could ask for repayment of the £1.8m at any time.

2. PROPOSALS

- 2.1 In order to try and rejuvenate the project the agency has offered further grant funding to assist the disposal process. £265,000 has been offered to allow environmental improvements to be undertaken to assist in the disposal of the Border TV site. The long stop date in the grant funding agreement would be put back to 31 March 2015 thus removing the immediate risk of default.
- 2.2 The proposed improvements include:
- 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
- 2.3 The intention is that the improvements will not only assist the disposal process but also enhance the visual appearance of the estate.
- 2.4 Completing the proposals to create a secondary road access would allow us to be in a prime position to access future funding opportunities that might arise.
- 2.5 The HCA funding offer comes with conditions. Initially they required the grant spent by 31 March 2014, however following concerns from the City Council over the restrictive nature of the timetable, the HCA agreed to relax this requirement, with the County Council proposing to act as delivery agent, undertaking the works on behalf of the City Council. However, the repayable element of the grant, £250,000, has to be repaid by 31 March 2015. This is a significant risk for the City Council in that it will mean that we have a short marketing period to achieve a disposal of the Border TV site. Worst case scenario the City Council would have to repay the grant from its own funds. Any sale proceeds in excess of £250,000 would be retained in the ring-fenced account for reinvestment into the estate.
- 2.6 Discussions are ongoing with the HCA and major employers regarding future funding opportunities. Positive action taken now can only help our position in securing future funding.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 3.1 The additional HCA funding would allow for environmental improvements that would enhance the appearance of the estate and improve the likelihood of disposal of the Border TV site creating new employment and development opportunities.
- 3.2 Accepting the funding offer will also remove the immediate risk of default and allow time for further proposals to be developed for additional investment.

4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 4.1 Redevelopment of Durranhill Industrial Estate would create employment opportunities and allow for future business growth.
- 4.2 Accepting the grant funding would help develop our relationship with the HCA, a key partner in developing the City's priorities.

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**Appendices
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 – A deed of variation will be needed to the main Grant Funding Agreement, inter alia, to extend the main project long-stop date to 31st March 2015. The new grant is conditional upon obtaining planning permission for the proposed environmental improvement works, completion of the works by 31st March 2015 and repayment by 31st March 2015. There are clear risks inherent in the timescale for this proposal and the matter should be closely monitored by the Council's Risk Management Group.

Local Environment –

Resources – As stated in the report (see Paragraph 2.5) the majority of this grant offer of £265,000 is a short term interest free loan of £250,000 to be funded from proceeds of sales. Also, as stated in the report (see 1.5) the HCA could opt for repayment of the original £1.8m grant. By agreeing to this grant the long stop date for the £1.8m also goes back to 31 March 2015.

The proposals set out in 2.2 of the report to be funded from the grant/loan need to be progressed to timetable to improve the likelihood of disposal of the Border TV site. In the circumstances to mitigate the risk of the £2.05million having to be repaid to the HCA the rejuvenation of the Durranshill Industrial Estate will be escalated to corporate risk status enabling Corporate Risk Management Group to closely monitor progress of the initiative