

This report contains Appendix which are exempt in accordance with paragraph 3 of  
 schedule 12A of the Local Government Act 1972

## REPORT TO CABINET

**REPORT OF: Property Development Manager**

**REPORT NO: PD020**

**DATE: 04 August 2014**

|   |  |                                  |
|---|--|----------------------------------|
| <b>TITLE:</b>   | <b>Extension Proposal – Park Air Systems, Market Deeping</b>   |                                  |
| <b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>             | Key Decision   |                                  |
| <b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>                | Councillor Frances Cartwright<br>Grow the Economy and Economic Development<br><br>Councillor Mike Taylor<br>Strategic Resources - Well Run Council   |                                  |
| <b>CONTACT OFFICER:</b>                                       | Neil Cucksey<br>n.cucksey@southkesteven.gov.uk<br>01476 40 62 24   |                                  |
| <b>INITIAL IMPACT ANALYSIS:</b><br><br>Equality and Diversity | Carried out and Referred to in paragraph (7) below<br>N/A  | Full impact assessment Required: |
| <b>FREEDOM OF INFORMATION ACT:</b>                            | This report is publicly available via the Your Council and Democracy link on the Council's website:<br><a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a><br>The report contains appendix which are exempt from publication in accordance with paragraph 3 of schedule 12A of the Local Government Act 1972(as amended) because it relates to the business affairs of the Council and the public interest in maintaining the exemption outweighs the public interest in disclosing the interest. |                                  |

|                          |      |
|--------------------------|------|
| <b>BACKGROUND PAPERS</b> | None |
|--------------------------|------|

## **1. RECOMMENDATIONS**

- 1) That Cabinet gives authority to progress the scheme to provide the extension to the existing premises at Northfields Industrial Estate, Market Deeping ("the Premises") let to Park Air Systems Ltd. ("PAS") within the capital costs highlighted.
- 2) That Cabinet recommend to Council that up to £495,000 is allocated in the Capital Programme for 2014/15, 2016/17 to be invested in the extension to the Premises.

## **2. PURPOSE OF THE REPORT**

These Premises are owned by the Council and leased to PAS.

PAS approached the Council to procure a "turn key" extension to the existing Premises to be used as a training facility. This report sets out the details of the investment being requested by PAS, the procurement route being progressed and capital required for the scheme.

## **3. DETAILS OF REPORT**

### **3.1 Background**

- 3.1.1 The Council is the owner of the Premises comprising 6133m<sup>2</sup> gross internal area ("GIA") at Northfields Industrial Estate, Market Deeping let to Park Air Systems Ltd. The property comprises high quality production facility and associated offices.
- 3.1.2 PAS has requested that the Council procures additional space by way of an extension to the existing Premises for the provision of 'a training facility'. This will support their business in offering bespoke training on their systems to their international customers. PAS currently employs circa 160 staff at Market Deeping and operates as a communications specialist in the international aviation and aeronautical industry and is part of Northrop Grumman - a major international company.
- 3.1.3 The extension will provide PAS with two interlinked training rooms, associated storage, meeting room/ office and quiet (prayer) room together with kitchen area, toilets and ancillary space. It is expected that the GIA of the extension will be approximately 300m<sup>2</sup>.
- 3.1.4 The extension will be located close to the front of the existing site and will be highly visible close to the prestigious main entrance to the Premises. It will be used by a range of clients from the worldwide customer base, and is intended to be a class leading training facility and to complement the existing building.
- 3.1.5 The site currently forms part of the car park in relation to the existing factory and is within the demised area let to PAS so there are no costs of land acquisition. There is an expectation that the site will not have adverse ground conditions as it was developed successfully in 2001. There will be a need to replace parking spaces lost to the scheme.

## **4. CURRENT LEASE**

These details are contained in Appendix A

## **5. NEW LEASE**

These details are contained in Appendix A

## **6. PLANNING**

- 6.1 The Land upon which the extension will be constructed lies fully within the existing demised area and is zoned for light industrial use. The Council will benefit from Planning Fees that will arise from the development.

## **7. ECONOMIC BENEFIT**

- 7.1 The development secures further investment in the local economy and retains PAS as a tenant ensuring the business remains as a key contributor to the local economy. It increases the rent roll of the Council's Investment portfolio and provides a good return on investment.

## **8. FURTHER CONSIDERATIONS**

- 8.1 Whilst this is becoming a very large factory within a rural area, PAS has been located in Market Deeping since 1966 and the Council developed this unit for it in 2001 following a move from another unit in the town. It would seem likely that the business will remain in the town for the foreseeable future.
- 8.2 Apart from the Mitie Scotgate premises (c900m<sup>2</sup>) this is the sole remaining SKDC owned asset on this estate. It is the largest asset in the Council's Investment Portfolio and the further investment into this property does not directly, at this point, create new jobs. However it secures existing jobs and allows PAS to seek further opportunities to grow the business internationally.
- 8.3 The extension whilst designed to PAS's requirement is not so bespoke as to be unsuitable for use by any future tenant.
- 8.4 PAS has indicated that it does not invest directly in property assets and will not fund the physical extension to the property as a tenant improvement. If the Council doesn't invest the proposal will not proceed. This could have ramifications in relation to Landlord/ Tenant relationships and would not accord with the Council's priority to "Grow the economy".
- 8.5 The Northfields industrial Estate has continued to see a number of success stories with Landis Gyr also expanding in town.

## **9. PROCUREMENT ROUTE**

The use of the EMPA framework delivers the project at a competitive market tested cost and operates on 'open book basis' whilst foreshortening the procurement process and fully compliant with OJEU rules. It also ensures the use of local supplier base etc. PAS has a desire for the facility to be operational within the shortest possible timescale and the use of this route supports this.

## **10. CONCLUSION**

- 10.1 This proposal represents a success story within the local area and the advent of the proposed extension will yield a good positive story to enhance the Council's reputation. The proposal accords with the Council's priority to Grow the economy, more specifically to;
- Support & facilitate the growth of business.
  - Easy to do business with- look to say yes.

- Skills- create high value employment.
- Attract as a destination for investment.

10.2 PAS offers a very good covenant and its rent payment history is excellent. The additional rent on the proposed extension enhances the value of the Council's investment and adds to the investment portfolio revenue stream.

## 11.0 OTHER OPTIONS CONSIDERED

11.1 A similar amount of money could be invested in the development for example of small starter units elsewhere. But clearly there would be a need for a site acquisition and the investment would not be as secure due to the variable nature of the tenant base. Management costs would be higher and erode income as well.

11.2 Alternatively SKDC could dispose of the Freehold investment in the property and leave it to the private sector to procure. Whilst this would deliver a large capital receipt, the loss of revenue income is significant. PAS is however an excellent covenant but at present the unexpired lease term is very short and may deter investors despite the appetite to extend.

11.3 The site is already used for industry and is demised to PAS on an existing lease so there is no alternative scope for development at this time.

## 12.. RESOURCE IMPLICATIONS

12.1 The project will be managed from within existing resources. Some professional support in cost management will be required should the project be approved to the delivery phase.

## 13. RISK AND MITIGATION

Risk has been considered as part of this report and any specific high risks are included in the table below:

| Category Risk   | Action / Controls  |
|---|--|
| If SKDC decides not to invest there could be reputational damage and the tenant may decide to place future investment at other locations within or outside the UK. The tenant may not extend its current lease if the extension does not proceed. | Continued positive dialogue with the Tenant until a decision is formally made. |
| A risk register will be developed as part of the project governance   | Project governance   |
| The framework contractor will provide a construction phase risk register.   | EMPA Framework agreement.  |

**14. ISSUES ARISING FROM IMPACT ANALYSIS**

None arising from this report

**15. CRIME AND DISORDER IMPLICATIONS**

None arising from this report

**16. COMMENTS OF FINANCIAL SERVICES**

- 16.1 The investment in this proposal can be met from either capital reserves or utilising the Council's New Homes Bonus Reserve which is established to fund priority led projects of this type. The ROI offers an financially attractive rate when compared with the current investment rate of 0.90% providing the Council with additional returns for further future investment. There will be a marginal increase in the rating assessment of the facility which will generate a modest increase in localised business rate income.

**17. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

- 17.1 The suggested procurement route is an approved and legitimate method to be applied albeit there is a requirement to complete and submit an exemption form in accordance with the Council's Constitution where the procurement exercise falls outside the Council's Contract Procedure Rules.
- 17.2 State aid will not apply in circumstances where the Council's intention is to increase rent payments to recover its costs.

**18. COMMENTS OF OTHER RELEVANT SERVICES**

None recieved