

REPORT TO COUNCIL

REPORT OF: Grow the Economy - Economic Development Portfolio Holder
Strategic Resources – Well Run Council Portfolio Holder

REPORT NO: PD022

DATE: 11 September 2014

TITLE:	Extension Proposal – Park Air Systems, Market Deeping	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	Budget Framework Proposal.	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Councillor Frances Cartwright Grow the Economy and Economic Development Councillor Mike Taylor Strategic Resources - Well Run Council	
CONTACT OFFICER:	Neil Cucksey n.cucksey@southkesteven.gov.uk 01476 40 62 24	
INITIAL IMPACT ANALYSIS: Equality and Diversity	Carried out and Referred to in paragraph (7) below N/A	Full impact assessment Required:
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	Cabinet report PD020- 04 August 2014. http://moderngov.southkesteven.gov.uk/mgConvert2PDF.aspx?ID=13306	

1. RECOMMENDATIONS

- 1.1 That Council amends the General Fund Capital Programme for 2014/15 & 2015/16 to include up to £495,000 over the two financial years to be invested in the extension to Premises at Northfields Industrial Estate, Market Deeping (the Premises).

2. PURPOSE OF THE REPORT

- 2.1 These Premises are owned by the Council and leased to Park Air Systems (PAS).
- 2.2 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 capital requirements for the scheme. Cabinet considered this proposal on 4 August 2014 and is seeking approval from Council for inclusion in the capital programme in order to deliver the project.

3. DETAILS OF REPORT

- 3.1 Background
- 3.2 The Council is owner of the Premises comprising 6133m² gross internal area (“GIA”) at Northfields Industrial Estate, Market Deeping let to PAS. The property comprises high quality production facility and associated offices.
- 3.3 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’. It is expected that the GIA of the extension will be approximately 300m². 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.
- 3.4 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.
- 3.5 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.

4. PLANNING

- 4.1 The Land upon which the extension will be constructed lies fully within the existing demised area and is zoned for light industrial use.
- 4.2 An application for planning permission for the proposed development has been submitted.

5. ECONOMIC BENEFIT

- 5.1 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.

6. FURTHER CONSIDERATIONS

- 6.1 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.
- 6.2 Apart from the Mitie Scotgate premises (c900m²) 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.
- 6.3 The extension whilst designed to PAS's requirement is not so bespoke as to be unsuitable for use by any future tenant.
- 6.4 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".

7. CONCLUSION

- 7.1 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.
- 7.2 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.

8.0 OTHER OPTIONS CONSIDERED

- 8.1 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.
- 8.2 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.

9. RESOURCE IMPLICATIONS

- 9.1 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.

10. RISK AND MITIGATION

- 10.1 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 provided a construction phase risk register.	EMPA Framework agreement.

11. ISSUES ARISING FROM IMPACT ANALYSIS

- 11.1 None arising from this report

12. CRIME AND DISORDER IMPLICATIONS

- 12.1 None arising from this report

13. COMMENTS OF FINANCIAL SERVICES

- 13.1 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 Return on Investment offers an financially attractive rate when compared with the average 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. The increase in the future revenue stream following the introduction of the new rental arrangements will be a positive contribution towards the Council's medium term financial planning.

14. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

- 14.1 The development proposal will require the grant of a new lease to the current tenant on new terms. An agreement for lease during the development is

proposed which will require the new lease to be completed when the development is finished.

- 14.2 The implications of state aid have been considered and will not be applicable in circumstances where the Council's intention is to increase rent payments to recover its costs.

15. COMMENTS OF OTHER RELEVANT SERVICES

- 15.1 None received.