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Report to: **Cabinet**

Date of Meeting: **4 March 2019**

Report Title: **Development Opportunities on Churchfields Estate**

Report By: Peter Grace (Chief Finance Officer)
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(Assistant Director – Regeneration and Culture)

Purpose of Report

To agree the inclusion of the "Sidney Little Road Business Incubator Hub" within the capital programme subject to the receipt of grant funding. A decision is expected on or around the 8th March 2019.

The report further highlights the current funding requirements in order to develop the remaining two sites on Council owned land on Sidney Little Road and includes details of the potential developments that are being proposed.

Recommendation(s)

1. To agree the inclusion of the Sidney Little road Business Incubator Hub within the Capital programme with an estimated budget, including fees of £2.8m.

2. To seek external funding for the shortfalls, and/ or negotiate options with interested parties, based on the potential unit sizes.
(i) Plot 2 - 35 Sq ft factory unit
(ii) Plot 3 - 3 to 8 Factory units (flexible sizes)

3. Cabinet to note the potential Capital expenditure of £10m in total for the 3 sites should viable proposals be received or external funding bids be successful.

Reasons for Recommendations

The land is allocated for employment use in the Development Management Plan (DMP). The site is in the Council's ownership and offers opportunities for development. The schemes are sufficiently worked up to identify funding shortfalls and seek external grants, undertake negotiations to develop the sites .

Should external funding be received there is a ready made opportunity to help address unemployment and improve the economic opportunities for companies within the town, in line with Corporate Plan objectives.

The Council expects to learn the outcome of an external funding bid in early March 2019 and needs to be ready to progress the development of the site – should the Cabinet agree to make funding available.

Introduction

1. The Council acquired Plots PX and QX in 2016/17. The sites adjoin an existing HBC site and unlock further development potential – thus enabling a more imaginative and ambitious use of the land.

2. The levels of rent that have been achievable in Hastings to date have not covered the full cost of new build factories without public subsidy. To build the factories, even with the historically low cost of borrowing would result in a substantial ongoing cost for the Council. However, given that the costs of rental outside of Hastings are higher there remains interest in developments within Hastings if the Council is prepared to undertake these and accepting that there will be limited financial return for itself in the short term.

3. The purpose of this report is to highlight that the Council is ready to deliver new industrial premises and starter units, given that it has the land, the demand for the premises and the need – especially given the borough's deprivation and unemployment levels.

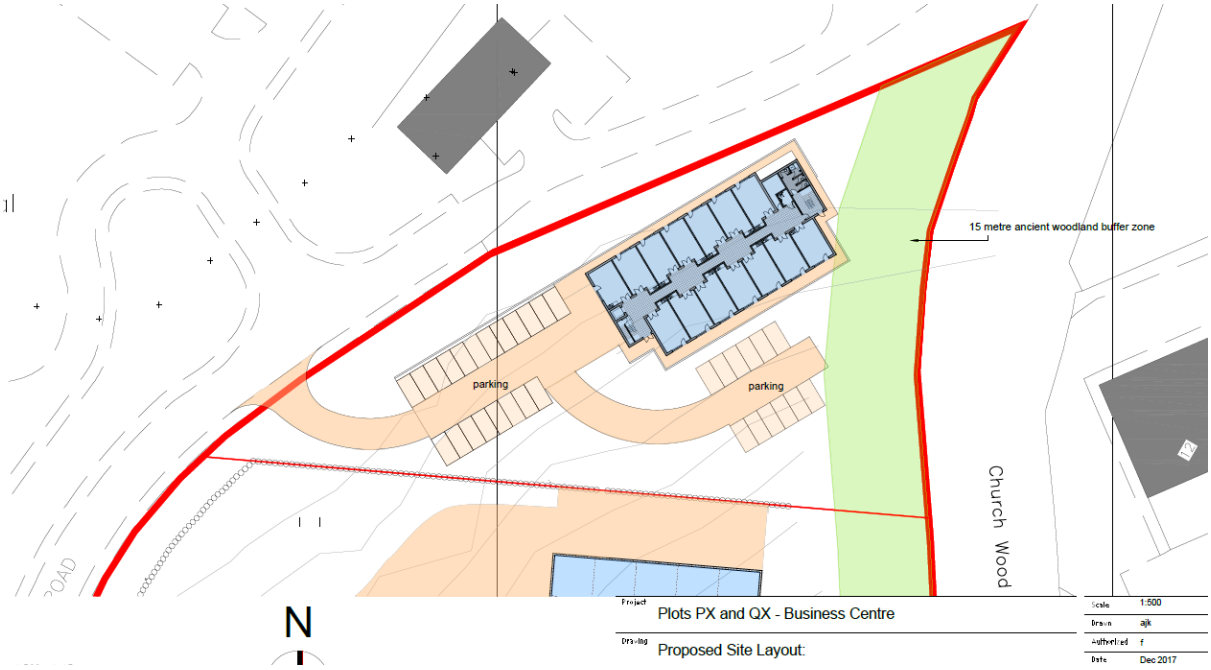
4. To help achieve this a bid has been submitted, by the Regeneration team to the Local Growth Fund (LGF) in respect of Site 1 (Incubator units) and also to Connecting Hastings and Rother Together (CHART) Programme – Community led Local Development (CLLD). In terms of grant value to the Council, the LGF bid is for £500,000 and the CHART funding request is for £250,000. A decision on LGF is expected on 8th March 19 and CHART in spring 19. If both applications are successful, the total grant funding will amount to £750,000.

5. Positive discussions have taken place with one company who initially confirmed that they would be prepared to pay a slightly higher rent but fixed for a longer period – which could make the building out of Site 2 (35,000 Sq ft factory) viable, if the original land acquisition costs were not included. This company has subsequently withdrawn given uncertainties on economic outlook, but may yet be interested if the right deal were to become available.

Financial Implications

Site 1 (Incubator Units)

6. This is the proposed Business Centre for PX/QX with 28 units totalling 9,558 sq. ft.(887m$^{2)}$. The overall development cost is £2,774,000 (incl fees & exc. VAT) and the assumed rent is £12.08 psf (inclusive).



7. Once developed, the business units would be run on a similar model to the Council's existing successful Castleham units at Stirling Road i.e. easy in easy out. It is predicted that some 74 jobs would be created by the development in the first five years.

8. An external funding bid for £500,000 has been made by the Regeneration team to the Local Growth Fund and would contribute towards the achievement of South East Local Enterprise Partnerships's (SELEP) Strategic Economic Plan. The outcome of the funding application is expected on or around the 8 March 2019.

9. A further bid of £250,000 has been made by the Regeneration team for CHART – CLLD funding. . The outcome of the funding bid remains unknown at the time of writing but a decision is expected in spring 2019.

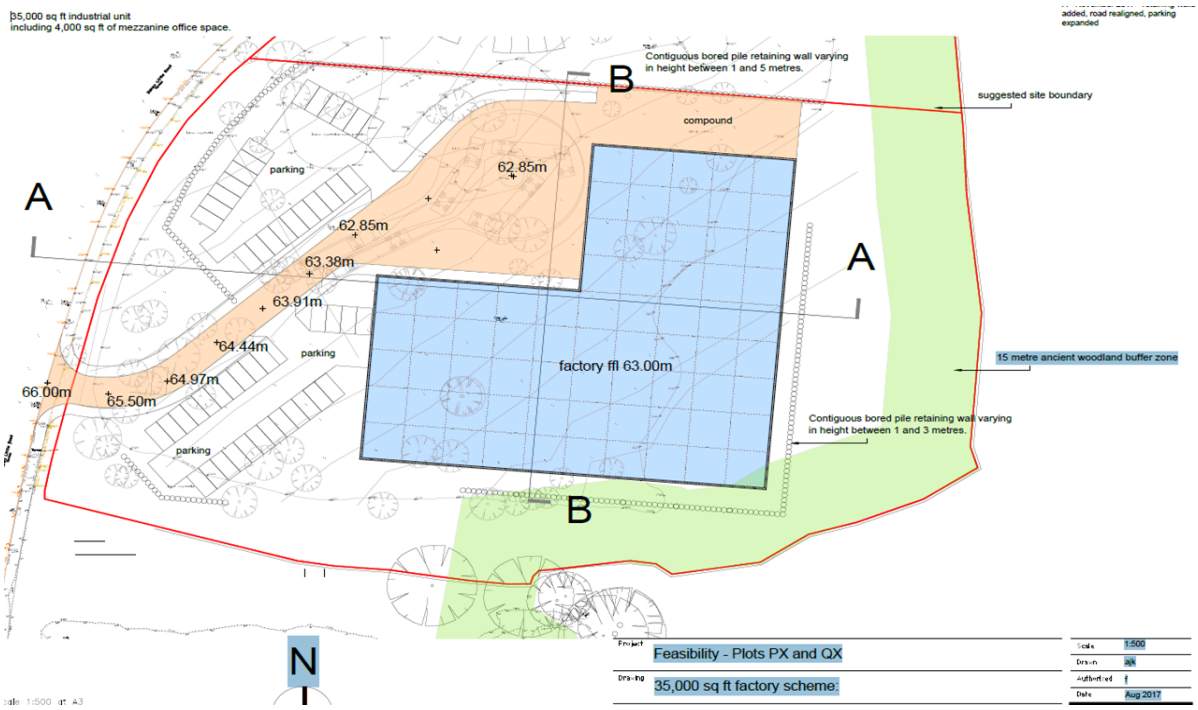
10. There is a very short window to achieve the development, with a project opening date of February 2021. The project should be able to proceed (financially viable) if only the LGF grant of £500,000 is approved.

11. The funding of the development costs by the Council would be by grant and by borrowing. If just one grant application is successful (in full) there would be upfront revenue costs incurred when borrowing in the period 2019/20 to 2020/21, before income is received . The revenue cost is estimated to peak at some £87,000 in year 2. Over the first 5 years as the build progresses and occupancy increase the Council total cost of carry is estimated at around £250,000 (based upon one successful grant application). This could be partially offset by business rate retention and any future energy generation schemes should the second grant application be successful.

12. A tender exercise has been conducted for lead architects and is ready to be let as and when grant funding is known.

Site 2 (35,000 Sq ft Factory unit)

13. The overall development cost is £4.54m (inc. fees & exc. VAT) for a 35,000 sq. ft. factory and the assumed rent is £5 sq.ft, rising by 5% after year 3.



14. The projected income at £5 sq.ft amounts to £175,000 p.a.. The borrowing costs for an annuity loan over this period amount to £187,520 p.a. (assuming an interest rate of 2.75% p.a. This results in an ongoing deficit of some £12,500 p.a. plus the financing costs of the build (before occupation). The interest rate is likely to be significantly higher by completion stage and there is also the build period and fit out period to finance before any income is received.

    The deficit could be reduced by :-

    (1) incorporating solar panels and selling the electricity to the tenant (at a mutually beneficial price). This would add an estimated £30k to the Capital cost, but could reduce the annual deficit by some £4,000 per annum. As an alternative the tenant could receive the benefit of the electricity in return for an increase in the rent – a simple option. Plus,

    (2) Negotiating an increased rental at the outset, some £6.50 sq ft but fixing this for say a period of 5 years, with a minimum initial lease period of 10 years.

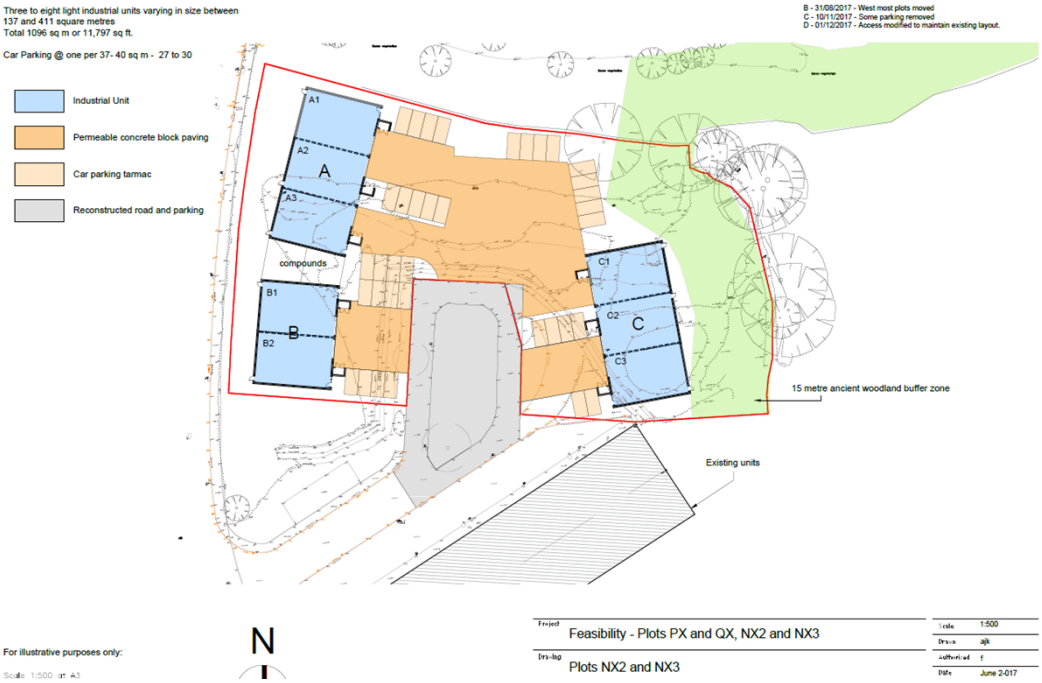
15. Discussions have taken place with a business who may be interested in pursuing this option. The Council would in all probability not look to build this size of unit if there was not a party willing and able to take on the lease. In any event the Council would wish to design the unit to be capable of being re-sized with as minimal cost as possible i.e. being capable of being sub- divided into say 3 smaller units.

16. It is recommended that external funding will be sought where opportunities arise.

    Site 3 – Three to Eight Industrial Units

17. This is the proposed scheme for NX2 & 3 comprising light industrial units varying in size with a total area of 1,096 sq. m. or 11,797 sq. ft.

18. The overall estimated development cost is £2.5m (incl. fees & exc. VAT) and the assumed rent is £5.00 sq.ft.



19. The cost of borrowing exceeds the rental income by some £44,000 p.a. – assuming rental income of £5 sq ft. To make this viable the rental would need to be in the region of £9 sq.ft, or an additional £1m of public subsidy/grant be obtained.

20. This size of the proposed units appears to be the most in demand.

21. It is again recommended that external funding will be sought where opportunities arise.

Financial Implications

22. These are outlined in the respective sections of the report and the funding bid.

23. The Council's existing borrowing limits as determined by full Council would be sufficient if Cabinet agrees to include the scheme within its Capital programme. However this would leave reduced headroom for new Capital schemes that would need to be financed from borrowing without agreement of full Council and amendment to the borrowing limits, prudential indicators and Capital Strategy.

Conclusion

24. The acquisition of this land and subsequent development provides future job opportunities and economic development and could provide the Council with an additional long term income stream. Funding bids have been submitted and further opportunities will be explored.

25. There remains a risk that there is an economic downturn and that development costs are excessive. There is also a risk that the development of sites within Bexhill depresses the rental stream – at least in the near future.

26. With base rates at a historical low there is a window of opportunity to develop such sites.

Wards Affected

Hollington.

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Part 2 report

Officer to Contact

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