Report of the Chief Executive

MUSHROOM FARM INDUSTRIAL UNITS – NEW BUILD

1. Purpose of report

To inform members of an Expression of Interest (EOI) to submit a bid for D2N2 LEP funding.

2. Detail

Following the EOI, a Full Business Case submission may be invited by LEP. Within that business case, there must be with written confirmation that the project will be supported by the Council, and that a capital co-funding amount has been approved by the relevant committee.

If the overall bid is successful, the resultant funds would facilitate the construction of three new industrial units at the Council-owned Mushroom Farm Court site in Eastwood. Details of the project, its estimated total cost and the proportion of LEP/Council required funds are detailed in the appendices to this report. Background information is contained within appendix 1.

3. Financial implications

Financial implications are contained within appendix 2.

Recommendation

The Committee is asked to RESOLVE that support for the EOI bid submission (and any subsequent bids) funding towards four new industrial buildings on Mushroom Farm Court in Eastwood, and support progressing the scheme in principle, be approved.

Background papers
Nil

APPENDIX 1

Further Information

The Council own 60 industrial units throughout the Borough with an occupancy rate of 100%. Rents range from £2,500 per annum to £10,000 dependent on the size of the unit. A waiting list of potential tenants for industrial units is held by the Estates department. Currently there are 22 people looking for industrial units in Broxtowe, with 9 waiting for premises in the north of the Borough, 8 for premises in the south and 5 with no preference.

The Council has 41 industrial units that are constructed to a more modern standard, including 7 units currently at Mushroom Farm Court. Demand for this type of unit is high and where a tenant gives notice to vacate, we are able to fill it with the minimum of a void period and in some cases immediately, where new lease negotiations run concurrently with a notice period of the current tenant.

It should also be noted that the Council's Estates team also manages the commercial property at Ashfield District Council, which is to the north of the Mushroom Farm location, with very similar market demand for smaller units. This demonstrates that if additional units are built at the site, there should be no problems in securing rent paying tenants.

Mushroom Farm (built in 1997) comprises 7 units, each approximately 80 square meters in size. The annual rent returns across all 7 units combined is currently £27,800, an average rent of £4,000 pa per unit. This site in particular has been identified as benefitting from sufficient capacity to accommodate an additional 3 similarly sized units, without restricting the right of access or operational capacity for the existing 7 tenants.

The new builds will not only create more industrial floorspace space in the Borough, but also encourage new business and increase rental income. These benefits link into the objectives of the Council's Commercial Strategy, Economic Regeneration Strategy and the Business Strategy. Furthermore, the close alignment to the D2N2's Strategic Economic Plan and emerging Local Industrial Strategy demonstrate a potential to draw down LEP grant support, through co-funding format.

A planning application has already been submitted for these units and tendering for builders to construct the units will take place if the bid is successful.

Other benefits that the new units could provide include:

- An increase in the business rates base;
- Increased employment opportunities;
- Training/skills for the local workforce.

Expenditure and Income for the New Units

Construction cost (est):	3 x 80 sq m @ £910 per sq m	£219,000
Repairs and maintenance:	3 x £200 p/a	£600 p/a
Additional income:	3 units @£4,500 p/a	£13,500 p/a
Payback period:	16 years without any grant support (but the Council own the freehold of the asset which may be disposed of at any point to recoup the capital sum)	

Currently a 16-year payback period is not considered acceptable in financial terms. However, if the Council was able to obtain some LEP funding towards the construction of these units, the scheme quickly becomes viable. The Committee is therefore asked to support a bid for LEP grant funding to support the construction of the additional units.

If the Council are successful in securing grant funding, the payment period of the scheme is reduced to 7 years. Once fully paid back, the majority of the rental income will be surplus (minus any maintenance) which can be used to fund further expansion or go into the General Fund.

Based on the new floorspace amounts, the completed scheme would provide an approximate business rates uplift of £6,500 p/a, of which the Council would receive 40% currently (£2,600) annually. However, this may increase if the business rates share to be retained by the local authorities is increased to 75% in the future, which is currently being proposed.

Grant Submission Amount

Based on a variety of factors and the current LEP funding available, the Council is likely to apply for a maximum of £124,000 in funding to assist in the delivery of the new industrial units and the resultant 14 FTE posts. The LEP will need to demonstrate increased value for money with any remaining money spent, based on their current programme's new job output (under target), by supporting select projects with the most lucrative £ per job funding ratios going forward. This essentially 'caps' any grant amount the Council could apply for.

APPENDIX 2

Financial Implications

This scheme is presently included to the 2019/20 capital programme, but has been placed on the 'reserve list' whereby it will only proceed once a funding source has been identified and formal approval given.

Assuming on-going revenue costs (repairs, maintenance, insurance etc.) of £200 per annum for each of the three new units (£600 in total) alongside annual rental income of £4,500 for each unit (£13,500 in total) there would be a net income stream of £12,900 per annum to the Council.

The capital cost of £219,000 is required to deliver the project.

Options to finance these costs include:

- capital receipts
- any grants that may be available (see above)
- revenue contributions
- borrowing.

If the borrowing option were chosen for the full £219,000, then assuming a 30-year loan at 2.75% the annual payments by the Council would be £10,815.

If grant funding was received, the amount needed to borrow by the Council would drop to £95,000 carrying with it an annual payment of £4,691.

Further consideration should be given to the fact that with full occupancy of the new units, the Council would receive £13,500 annually in rent and therefore with both borrowing scenarios, would make a small to reasonable profit, alongside repaying the loan.

Borrowing is only one option and if alternative financial options such as use of capital receipts or revenue contributions were chosen, then the ongoing costs would not be as high. If the units were built, then the Council would have a physical asset which could be sold in the future and thus produce a capital receipt.