



AGENDA ITEM: 5(i)

**CABINET:
12th November 2013**

Report of: Assistant Director Housing and Regeneration

Relevant Managing Director: Managing Director (Transformation)

Relevant Portfolio Holder: Councillor A. Owens

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SUBJECT: GREENSHOOTS PROJECT

Wards affected: Skelmersdale North

1.0 PURPOSE OF THE REPORT

1.1 The purpose of this report is to obtain Members instructions in respect of how the Greenshoots Project should proceed.

2.0 RECOMMENDATIONS TO CABINET

2.1 That the Assistant Director Housing and Regeneration be authorised to continue with the remodelling of 18-24 Gorsey Place in accordance with the option listed at paragraph 5.3.

3.0 BACKGROUND

3.1 On 12th June 2012 Cabinet instructed that uneconomic factory units at Gorsey Place, Skelmersdale should be demolished and a further report submitted to Cabinet outlining proposals for the demolition site.

- 3.2 On the 19th March 2013 a report entitled “Greenshoots Project: Remodelling of 18-24 Gorsey Place, Gorsey Place Business Park, Skelmersdale, Lancashire” was received by Cabinet. The resolution resulting from that report was that the remodelling of 18-24 Gorsey Place should be undertaken but that the project should only commence if a viable percentage of pre-lets is achieved.
- 3.3 In an attempt to establish a viable percentage of pre-lets a sign was erected at the site (following demolition of the old industrial units) and the potential availability of the proposed new industrial units was advertised on the Council’s website and on an LCC website. Furthermore, a relevant number of the Council’s existing tenants were contacted and advised of this proposed industrial development.
- 3.4 There have been two enquires from two existing tenants who are considering re-locating to new premises but nothing else.
- 3.5 Under the terms of the resolution of Cabinet of 19th March 2013 therefore a viable percentage of pre-lets has not currently been achieved.

4.0 PROPOSALS

- 4.1 The proposed new industrial units at Gorsey Place will be suitable for small and medium size enterprises (SMEs) and it is these types of organisations which the Council understood could not readily find accommodation in Skelmersdale. The Council’s usual experience is that an SME will contact the Council and require a suitable commercial unit straightaway. It would seem that such organisations do not usually work to a long-term plan and seldom know what their accommodation requirements will be over more than a six to twelve month horizon. To obtain pre-lets for the Gorsey Place development, in accordance with the Cabinet resolutions of 19th March 2013, the Council would need to sign binding legal agreements with the occupier around 18 months before the new units were actually ready for occupation. This is probably outside the normal operating experience of SMEs and probably why only two of them have expressed interest.
- 4.2 Despite the lack of interest shown to the Council’s initial marketing initiative for the Gorsey Place development, Estates Officers are confident that if the new industrial units were built at Gorsey Place they would readily attract tenants. The positive signs of an economic recovery add weight to this opinion.

5.0 OPTIONS

- 5.1 The Gorsey Place development could represent the beginnings of the rationalisation of development space within Skelmersdale and would make an initial contribution to any overall strategy which the Council ultimately produces for the economic regeneration and stimulation of West Lancashire and to the

remodelling of our industrial estates. It is hoped that a successful scheme will be able to assist in stimulating the private sector to invest in new industrial units.

5.2 The proposed development at Gorsey Place as seen by Cabinet on 19th March 2013 comprises two terraced blocks of small factory units (see Appendix A “Proposed site plan” to this report). There are two basic options identified for now taking the scheme forward.

5.3 **Option 1 – Full Development**

This first option is to build both terraced blocks of factory units in the confident expectation that there is demand for such units and that with an improving economic position that demand can only strengthen.

5.3.1 Building both terraced blocks would achieve economies of scale and would result in an area of new factory units presenting an appealing and completed appearance to would-be tenants.

5.3.2 One purpose of building these new factory units was to demonstrate to private sector landlords that such units are marketable and profitable thereby encouraging the private sector to begin similar developments. Building the complete scheme and producing an attractive new development would be in line with this ancillary objective.

5.4 **Option 2 – Phased Development**

This second option is to construct both terraced blocks but only “fit out” the first block. The second block would be completed to “shell state” only. The units in the second terraced block would only be fitted out once they were let.

5.4.1 This would have the advantage of limiting the Council’s financial exposure but would have the disadvantage of loss of economies of scale because the fit-out from shell state would only occur piecemeal when each unit was let.

5.4.2 However, with the units in the second terraced block being fitted out piecemeal, the scheme would be in a perpetual state of having building work carried out on it. This may not provide the settled environment which SME’s would prefer to allow them to get on with their day to day business.

5.4.3 The second terraced block comprising five units totalling 565 sq.m which is a little over a third of the total proposed area of the new units. If the second block was built to a shell-only specification there would be an initial saving of around £230,000. However, fitting the shells out at a later stage as the units are let is expected to add another 10% to the overall cost (i.e. £230,000 plus 10% = £253,000) because the contractors will be brought back to finish the work piecemeal. This approach, whilst looking to mitigate some of the financial risks to the Council produces a favourable financial outcome to the project if all the remaining units were let out within a two year period after the erection of the first completed terrace.

- 6.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY TOGETHER WITH FINANCIAL AND RESOURCE IMPLICATIONS**
- 6.1 The Cabinet Report of the 19th March 2013 set out the financial and resource implications of the project. Subsequent to that report the following relevant factors are brought to the attention of members.
- 6.2 The Cabinet Report of the 19th March 2013 recorded that the development cost would be around £1.25m. Since that report was compiled the national economy has begun to improve and the building industry is recording increase in demand for its services; this is resulting in a significant increase in construction costs. The shortage of skilled labour is fuelling this increase in cost and with an anticipated continual increase in demand the cost of construction seems likely to spiral. It now seems likely that construction work will not commence until the second half of 2014. All this produces a substantial potential increase in cost. The £1.25m could now be as high as £1.5m.
- 6.3 The report to Cabinet on the 19th March 2013 suggested that a high BREEAM standard could be achieved for the development and the estimated cost recorded at 6.2 allows for this. In the event it will not be possible to construct the units to a high BREEAM standard because grant funding has not been able to be secured and without that grant funding the additional cost of achieving the high BREEAM standard renders the development unviable (i.e. the rents would be too high for SME's to afford).
- 6.4 Instead the units will be constructed to the standard required by Building Regulations. Whilst this is not as good as BREEAM it nevertheless provides a good environmental standard and would be the standard generally expected in modern SME accommodation. Construction to current Building Regulations will however reduce building costs by up to 20% giving a revised figure of around £1.23m (which will all be funded from Council resources due to the unavailability of grant funding). As it is anticipated that the build costs may vary between now and when any tendering procedure is undertaken, a financial evaluation will be conducted upon receipt of the tender submissions to ensure that the project is still financially viable.
- 6.5 The Cabinet report of the 19th March 2013 recorded that the Langtree Reserve Fund could be one source of finances for this project. It must be remembered that the purpose of the Langtree Reserve Fund is to facilitate economic regeneration (the prime objective of this project) and the fund will continue to earn annual income in any event. The CRA reserve was the other source of Council funding that could be used to finance the development, the remaining funds coming from borrowing from the Public Works Loan Board (PWLb).
- 6.6 It is suggested that the Council should retain the long term aim of constructing future units to a high BREEAM standard and to this end officers will endeavour to identify suitable grant funding should the Council decide at some future date

to construct additional units. The Council will not pursue the higher BREEAM standard unless the additional grant funding is secured.

7.0 RISK ASSESSMENT

- 7.1 Whilst there is a risk that if the factory units are constructed there may not be sufficient demand to produce tenants for them all, your officers believe this to be unlikely especially being in mind the way the SME market operates and the improvement in the national economic position. Members may recall that the Council built new industrial starter units in Greenhey Place, Skelmersdale in 2002. At the time no pre-lets were sought and the level of enquiries was low but officers had seen a gap in the market for good quality units of a certain size. The gap was visible from what SME's had been saying and from indepth knowledge of the local market. Officers' perception of the demand was proved correct in that the five units which were built were let within 12 months and with the exception of a few short weeks they have remained fully let since. Those five units totalled 10,000 sq.ft (929 sq.m) which plainly did not satisfy the pent-up demand but the site at Greenhey Place could not accommodate a greater number of units. It is now 11 years since the Greenhey development and officers believe that a large gap exists between the demand for units suitable for SME's and the availability of such units.
- 7.2 A greater risk may be that if these units are not built the improved economic position which is (realistically) anticipated could see a position that SMEs which want new accommodation will not find it in Skelmersdale and will locate elsewhere.
- 7.3 What is more if the Council does not construct these units a confident message will not be given to the private sector who may not then be stimulated into building factory units for rent thereby allowing Skelmersdale to continue to have a mismatch between the type of units available and those required, all of which will have a negative impact on the local economy.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendices

Appendix A – Proposed site plan