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**CENTRAL PARK – BUSINESS GROWTH HUB**

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**Responsible Cabinet Member - Councillor Chris McEwan,  
Economy and Regeneration Portfolio**

**Responsible Director - Richard Alty, Director of Place**

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**SUMMARY REPORT**

**Purpose of the Report**

1. The purpose of this report is to seek Cabinet approval to release funding for the construction of Business Growth Hub on Central Park to the Director of Place in consultation with the Director of Resources.

**Summary**

2. In April 2013, Cabinet authorised officers to progress plans and negotiations in relation to the construction of a Business Growth Hub (BGH) on Central Park.
3. Detailed plans have been drawn up for the design of the BGH in parallel with negotiations to terminate the Central Park Development agreement in order to make the land for available the Hub.
4. Funding bids were submitted to the Homes and Communities Agency and to the European Regional Development Fund for the capital funding to construct the BGH.
5. Cabinet has previously been advised of the rationale for construction the BGH, which is to establish business incubation accommodation for new and growing Small to Medium Sized Enterprise businesses (SMEs) in Darlington.
6. The BGH will create 3,200 sq ms gross, equating to 2,200 sq m of lettable business accommodation. This is sufficient space for up to 52 businesses.
7. The outcome of the bids to both HCA and ERDF are now known, with the Council having been informed of conditional approval for all capital funding.
8. The Council has been informed that ERDF funding of £3.3m is to be offered. HCA has also informed us that they are prepared to contribute £3m towards the construction cost with a further “in-kind” contribution of £300k in respect of land value.

9. At the time of writing this report, formal offer letters had been received from neither HCA nor ERDF. Furthermore the Council is also considering the terms of the lease to be offered by HCA to the Council in respect of the BGH.
10. As explained the April 2013 Cabinet report, owing to the need to meet funders' deadlines it is important that the Council takes the necessary steps to prepare the project for the next stages of development and delivery. The key funding deadline is that of the ERDF Programme, which needs to commit its funds as soon as possible in order to achieve targets by the close of the programme in December 2015. All ERDF funds must be spent by 30 June 2015.
11. This means that the Council must be in a position to quickly respond to funding offers in order to be able to enter into necessary contractual arrangements for the construction and operation of the building as well as all other associated legal documentation regarding leases and land transfers. To delay accepting funding offers risks starting the procurement too late to be able to complete the project within the deadline.
12. This report seeks Cabinet agreement to release the funding and for the subsequent procurement and legal documentation, subject to the Directors of Place and Resources, in consultation with the Resources and Economy Portfolio holders, being satisfied with the conditions on the funding offers and lease.

### **Recommendation**

13. It is recommended that Cabinet:-
  - (a) Release the £3.3m ERDF funding and the £3m of Home and Communities Agency funding, subject to the Director of Place in consultation with the Director of Resources and the Resources and Economy portfolio holders, being satisfied with the conditions on the funding offers and lease.
  - (b) Subject to the outcomes of recommendation (a) undertake a competitive tender process and award a contract for the construction and associated infrastructure work of the Business Growth Hub including all fees.
  - (c) Authorise the Assistant Director Resources to complete all the necessary legal agreements and documentation.

### **Reasons**

14. The recommendations are supported by the following reasons :-
  - (a) To enhance the environmental, social and economic well-being of the Borough.
  - (b) To support actions arising from Darlington's Economic Strategy.
  - (c) To support the delivery of the Enterprise Zone on Central Park.

- (d) To mitigate identified risks to the completion of the project within funders' timescales.

**Richard Alty**  
**Director of Place**

**Background Papers**  
Business Growth Hub April 2013

John Simpson : Extension 2681

S17 Crime and Disorder	Design will have regard to managing crime and disorder issues.
Health and Well Being	The concept incorporates active travel options that contribute to health.
Carbon Impact	The project entails an aspiration to achieve BREEAM Excellent standard, minimising the building's carbon impact.
Diversity	Diversity issues have been accommodated in the design of the building.
Wards Affected	Bank Top / Whole Borough
Groups Affected	Darlington new and growing SME businesses, local residents
Budget and Policy Framework	This report does not represent a change to the budget and policy framework
Key Decision	Yes
Urgent Decision	No
One Darlington: Perfectly Placed	This project particularly meets the 'Perfectly Placed' priority of the Council's SCS. It is providing support to new and existing local businesses that will better equip them to survive the early days of trading as well as improve prospects of growth and the creation of local, high-skilled and higher added value jobs.
Efficiency	The Business Growth Hub will generate additional non domestic rates income.

## MAIN REPORT

### Information and Analysis

15. In April 2013, Cabinet was made aware of the plans to create bespoke business incubation accommodation for new and growing Small to Medium Sized Enterprises (SMEs) in Darlington on the Central Park site.
16. Plans have been drawn up to RIBA Stage D to create 3,200 sq m of business accommodation, room for up to 52 businesses.
17. Funding bids have been submitted to the European Regional Development Fund (ERDF) and Homes and Communities Agency (HCA). Cabinet were also advised that the outcome of the bids was anticipated in June or July 2013.
18. Cabinet were made aware of the advantages of locating the Business Growth Hub on Central Park and specifically the value of it being within a Tees Valley Enterprise Zone site and the potential for the Business Growth Hub to act as both an anchor and catalytic development for site.
19. Cabinet has been made aware that the project has been developed as a result of an identified need and in order to support the delivery of the Council's economic strategy. The project need is based on:
  - (a) Identified business underperformance in the North East and Darlington
  - (b) A lack of entrepreneurship
  - (c) Low Business Start Up rates
  - (d) High Business failure rates
  - (e) Low business growth and small increase in GVA
  - (f) No existing Grade A Office space in Darlington
  - (g) Lack of serviced offices in relation to surrounding areas
  - (h) No provision of smaller office unit accommodation (15 – 50m<sup>2</sup>)
  - (i) Lack of private sector speculative developments in times of recession
20. The key aim of this project will be to:-
  - (a) Support SME business growth and job creation
  - (b) Create of Business Growth space
  - (c) Encourage innovation, entrepreneurship and collaboration

(d) Regenerate an under-used area and kick start Enterprise Zone development

21. This project will seek to deliver the following outputs/results:-

- (a) Brownfield land reclaimed
- (b) Business premises developed
- (c) Creation of new jobs
- (d) Safeguarding of existing jobs
- (e) Attracting businesses to the region
- (f) Net increase in GVA
- (g) Net increase in employment

### **Current position**

22. Legal completion in relation to the termination of the Central Park development agreement is anticipated to take place prior to the end of June 2013. This will enable the Council to deliver the project.

23. Planning consent has been secured.

24. The Council has been advised that the bids for ERDF and HCA funding have been successful. At the time of writing this report full details of the conditions of the ERDF funding are not known. HCA have provided details of the terms of the lease that they are prepared to enter into with the Council in relation to the building and they are being reviewed by the Council's Legal Section. They have also provided the Council with details of the conditions that they seek to impose as a condition of funding. These are set out below:-

- (a) Darlington Borough Council (DBC) securing a minimum of 50% match funding from ERDF. DBC will need to provide the HCA with a copy of the finalised offer letter and grant agreement from ERDF.
- (b) The award of £3,000,000 is a maximum award. Should any cost saving be made, through the competitive procurement of the contractors, then these are to be shared between the funding providers pro rata to their level of investment.
- (c) Darlington Borough Council is required to enter into a funding agreement with HCA before the drawdown of any of this funding.
- (d) Darlington Borough Council is required to enter into a lease with the HCA before the drawdown of any of this funding.
- (e) Darlington Borough Council must transfer the land currently held by DBC to facilitate delivery of the DBGH Council to the HCA before the HCA can grant a

lease to DBC. Any building or structure upon this land must be demolished before the transfer can take place.

25. The HCA must be involved and approve the following:-
  - (a) Appointment of design team to take scheme to stage G
  - (b) Approval to type of building contract
  - (c) Approval of drawings and specification for the DBGH
  - (d) Appointment of contractor
  - (e) Approval of variations over £10k
26. The conditions are not considered overly onerous; however, further discussion will be required with HCA prior to agreeing and finalising legal documentation.
27. The Council has entered into discussions with Willmott Dixon with a view to the Council using the SCAPE framework as the procurement route for the Business Growth Hub and associated infrastructure works. Cabinet have previously been made aware of the SCAPE framework in the April Cabinet report in relation to the DfE project. SCAPE is a national framework that has been procured competitively to enable eligible public bodies (those that are party to the Framework Agreement) such as the Council to procure major capital building works without the requirement to undertake a new OJEU procurement process.
28. The SCAPE framework is considered the best procurement route owing to the tight timeframe by which all the ERDF funding must be spent (end June 2015),

#### **Update on Operator Procurement**

29. As set out in the April 2013 report, owing to the timing of opening of the Business Growth Hub in relation to the end of the ERDF programme, it will not be possible to secure any EDRF revenue grant funding towards the operation of the building. Furthermore, it is also not considered viable for the Council to operate the building. It is, however, believed to be possible to secure an operator through an open competitive tendering process to manage the building and services. In order to make this attractive to an operator, the Council is to offer a contract of sufficient duration (likely to be a minimum of 15 years) to enable the operator to re-coup any shortfalls in income over expenditure in the first few years during which the building will become established and occupancy rates increase.
30. At the time of writing this report, the operator procurement process had not been started as it is not be possible to start it without being able to include the full details of funders' conditions and output targets within the tender specification and without first having agreed a lease with HCA.
31. The process of securing an operator will be started once all funding conditions, targets and lease are known and the risks (relative to rewards) have been fully evaluated. The early appointment of an operator will ensure that the building is

operable, prior to committing to a building contract. Cabinet is reminded that should it prove not possible to appoint an operator without subsidy, the Council will not be able to commit to building the Business Growth Hub unless a source of funding can be secured.

### **Update on proposed structure and legal agreements**

32. HCA have proposed a 20-year lease for the land and building. This will be a full repairing and insuring lease. At the end of the 20-year lease the Council will either hand the building back to HCA or (subject to HCA and Council agreement) would enter into a further lease. The Council is to waive “business tenancy” rights as HCA are treating their funding as a long-term investment and may seek to secure a receipt on the residual value of the Business Growth Hub.
33. The Council will seek to appoint an operator for the Business Growth Hub who will be offered a 15 year contract to manage the building and services. The operator will also be offered a 15 year lease on a full repair and insuring basis.

### **Risk Assessment and Potential Implications**

34. The project is being delivered in a relatively novel way. The Council is constructing a bespoke building that will be owned by HCA as well as letting and managing an operator contract to operate all aspects of the building, including the provision of on-site business support services. This method is being applied universally across Tees Valley to HCA-funded business incubator projects.
35. There are a number of key risks associated with this project. The Project Management Team together with the Council’s Asset Management Group will continue to closely monitor the risks and instigate mitigating actions where required. There key risks associated with the delivery of this project are:
  - (a) The Council cannot enter into legally binding contracts for either the capital works or the operator until all the legal documentation for all funding agreements have been put in place. There is a risk of delaying the project start to such a point that the project cannot achieve all spend within the ERDF Programme period. Any spend after the financial closure of the ERDF Programme will be ineligible and borne by the Council.
  - (b) The Council cannot commit to a construction contract until an operator has been selected who can demonstrate the building can be operated without the need for ongoing public subsidy. As per 35(a), there is a risk of delaying the project start to such a point that the project cannot achieve all spend within the ERDF Programme period. Any spend after the financial closure of the ERDF Programme will be ineligible and borne by the Council.
  - (c) There is a risk that an operator cannot be secured that can meet all the requirements of the Council i.e. one that is prepared to assume the majority of the financial and operational risk of the project. ERDF and HCA funding will be accompanied by conditions and targets. Once funding offers are received, it will be possible to fully assess risk. A key condition will be that the building must remain operational solely for the purposes of providing accommodation

for SME businesses for 20 years. This is a significant commitment and the ability to keep the building operational will be dependent on the demand from businesses for such accommodation as well as the ability for an operator.

- (d) There is a need to ensure that all aspects of the project are undertaken in an ERDF compliant manner. Any discrepancies or breaches of ERDF rules may result in financial clawback and a risk damaging the Council's reputation.
- (e) There is a risk that the project exceeds its capital budget and that the Council is exposed to unforeseen costs.
- (f) There is a risk that the operator fails within the 15 year term of the operator contract and that a new operator cannot be secured or at least one that is able to assume the same level of risk.

36. The risks identified in section 35(a) to 35(f) above have been identified and are being managed in accordance with the Councils Project and Budgetary Management processes. Through effective project and financial management the risks can be mitigated. It is however not possible to design out risk, it is only possible to endeavour to identify and manage and monitor risks including identifying contingency arrangements in the event of a risk materialising. A full review of risk will be undertaken by the Directors of Place and Resources in order to inform the decisions on accepting funding agreements.

## **Conclusion**

37. The development of the Business Growth Hub will not only create a location to support the creation and growth of SME businesses in Darlington, it will also provide a focal point for wider business engagement and development activity. Through locating the Business Growth Hub on the southern (Yarm Road) gateway to Central Park, the development has significant potential to act as the catalyst needed for further development to take place.
38. For the reasons stated within this report, it is important to ensure that the Council is well-positioned to move forward quickly with this project and deliver a major project that will make a major contribution to the Borough's economy through supporting the creation of new businesses, assisting existing businesses to grow and providing a good environment to create new jobs.