
CENTRAL PARK – BUSINESS GROWTH HUB

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

Responsible Director - Richard Alty, Director of Place

SUMMARY REPORT

Purpose of the Report

1. The purpose of this report is to seek Cabinet approval to take the necessary steps enable officers to set up contracts and other legal documentation in respect of the proposed Business Growth Hub on Central Park (formerly known as the Innovation Centre).

Summary

2. The Council has been developing plans to create business incubation accommodation for new and growing Small to Medium Sized Enterprise businesses (SMEs) in Darlington for approximately 4 years.
3. Supported by funding from One North East, the former Regional Development Agency (RDA), a detailed feasibility study was undertaken in 2010. The feasibility study concluded that there is both a need and demand for incubation facilities. The feasibility study also identified the best location as being on Central Park.
4. Following the demise of the RDA, its residual assets transferred to the Homes and Communities Agency (HCA) who have established an Economic Assets Programme to support the delivery (and/or disposal) of the former RDA's assets.
5. At the time of the 2010 feasibility study it was not possible to progress plans as the RDA was in the process of closing down and it was not possible to identify a way to fund the development.
6. There have however been subsequent discussions with HCA regarding the construction of business incubation premises on Central Park. HCA have indicated that they would be prepared to invest up to £3m in the building through their Economic Assets Programme. This would be on the basis that HCA own the building and that the Council is able to secure 50% match funding from the European Regional Development Fund (ERDF) Programme. HCA has also funded work to refresh the evidence of demand for business incubation as well as the

creation of plans to RIBA Stage D.

7. A bid has been submitted to the ERDF programme for £3.3m of the estimated capital cost of £6.6m. A bid is also being prepared to HCA to formally secure £3m as well as secure confirmation of HCA's land as an input into the scheme (£300k).
8. The ERDF and HCA bids have been submitted on a without prejudice basis as neither the Council nor the funders are obligated to provide or accept funding. If the bids prove to be successful and offers of funding are received, a further paper will be provided to Cabinet with recommendations regarding acceptance of funding and any associated conditions. It is anticipated that this will be in either June or July 2013.
9. The business growth hub will create 3,200 sq m G.I.A., equating to 2,200 sq m of lettable business accommodation. This is sufficient space for up to 52 businesses.
10. 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. This means progressing the necessary contractual arrangements as far as possible for the construction and operation of the building as well as all other associated legal documentation regarding leases and land transfers. To delay starting the procurement until after funding decisions have been received will make it almost impossible to complete the project within the deadline.
11. This will need to involve Cabinet approval to the following:
 - (a) Progress a competitive tender process to appoint a preferred operator to the point of conditionally letting a contract to operate the Business Growth Hub. The conditions would be that contracts will only be agreed if all funding bids are successful, an operator is appointed that can meet our operator tender requirements, that the capital works can be delivered within the funding allocation / budget and that Cabinet agrees to conditions associated with funding. Tenderers will be advised of these conditions as part of the tendering process. A further report will be provided to Cabinet in June or July 2013 regarding the outcome and conditions associated with funding.
 - (b) Progress a competitive tender process to the point of conditionally letting a contract for the construction and associated infrastructure work of the Business Growth Hub including all fees. The conditions will be as stated in (a) above.
 - (c) Approval to enter into a conditional lease with the preferred operator for the Business Growth Hub. The conditions will be as stated in (a) above.
 - (d) Approval to transfer land associated with the Business Growth Hub to HCA.
 - (e) Approval to enter into lease with HCA. Note that no steps can be taken to enter into any lease agreements until the negotiations with CKY, the Central Park

development consortium, have been concluded. The land in question is land purchased by the Council using One North East funding to which HCA now have rights as successor body and which currently forms part of the Central Park Development Agreement.

Recommendation

12. It is recommended that Cabinet:-

- (a) Note the contents of the report.
- (b) Grants delegated powers to the Director of Resources in consultation with the Director of Place to:
 - (i) Progress a competitive tender process to the point of conditionally letting a contract to operate the Business Growth Hub
 - (ii) Progress a competitive tender process to the point of conditionally letting a contract for the construction and associated infrastructure work of the Business Growth Hub including all fees
 - (iii) Approval to enter into a conditional lease with the chosen operator for the Business Growth Hub
 - (iv) Conditional approval to transfer land associated with the Business Growth Hub to HCA
 - (v) Conditional approval to enter into a 20-year lease with HCA

Reasons

13. 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.

Richard Alty
Director of Place

Background Papers

No Background papers were used in the preparation of this report

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 'One Darlington' 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	This project relies wholly on capital funding from HCA and ERDF which could not be used for any other purposes

MAIN REPORT

Information and Analysis

14. The Council has been developing plans to create business incubation accommodation for new and growing Small to Medium Sized Enterprises (SMEs) in Darlington for approximately 4 years. Supported by funding from One North East, the former Regional Development Agency (RDA), a detailed feasibility study was undertaken in 2010. Feasibility concluded that there is both a need and demand for incubation facilities and through a review of location, that it would best be located on Central Park. Following the demise of the RDA, the residual assets transferred to the Homes and Communities Agency (HCA) who have established an Economic Assets Programme to support the delivery (or disposal) of the former RDA's assets. At the time of the feasibility, it was not possible to progress plans as the RDA was in the process of closing down and it was not possible to identify a way to fund the development.

15. Discussions with HCA have led to HCA indicating that they would be prepared to invest up to £3m in the building through their Economic Assets Programme. This would be on the basis that HCA own the building and that the Council is able to secure match funding from European Regional Development Fund (ERDF). HCA has funded the work to refresh the evidence of demand for business incubation as well as the creation of plans to RIBA Stage D.
16. A bid has also been submitted to the ERDF programme for £3.3m. The ERDF and HCA bids are submitted on a without prejudice basis as neither the Council nor the funders are obligated to provide or accept funding. If the bids prove to be successful and offers of funding are received; a further paper will be provided to Cabinet with recommendation regarding acceptance of funding and any associated conditions. It is anticipated that this will be in either June or July 2013. The business growth hub will create 3,200 sq m of business accommodation, room for 52 businesses.
17. Darlington Business Growth Hub will be located on Central Park within one of the sites covered by the Tees Valley Enterprise Zone. The sectoral focus of the Central Park Enterprise Zone is digital and as such any digital businesses based within the area identified will benefit from the Business Rate Relief. The site however is also suitable for other sectors and these are encouraged to also occupy the commercial area within Central Park to help create an active and buoyant commercial environment. The Tees Valley Enterprise Zone Central Park has been in long need of a key anchor development for entrepreneurship and business growth. This project will provide this and will therefore act as the catalyst for further economic development opportunities.
18. Although the project does not include revenue costs for direct business support activities –it is supported and has strong working relationships with organisations such as Teesside University, Darlington College and UKTI to utilise existing provision in the area.
19. This project is seeking ERDF funding Under Priority 2 to support the development of high quality business premises – Darlington Business Growth Hub which is located on Central Park within the Enterprise Zone. This will help to address the relative underperformance of the North East in terms of business formation, sustainability and productivity. It will contribute to a new enterprise surge in the North East and although it will not focus exclusively on disadvantaged areas, the project will benefit these areas of Darlington by playing an important ‘flagship’ role in an area of planned urban renewal, enabling new and growing SMEs to create jobs and wealth in the most disadvantaged parts of Darlington.
20. The project offers a great opportunity for Darlington to address a key market failure through creating the environment that will nurture and focus on entrepreneurship and business growth for new and existing SME’s who currently do not have access to Grade A serviced office space available within Darlington.
21. The project will be ready for SMEs to move in by January 2015 and financially complete by March 2015. As this only allows 11 months before the practical end date of the project, the outputs and results are not a true reflection on the impact

this project will generate. Through pre-lets and active marketing the hub would aim to attract at least 2 new SME's and create at least 10 new jobs by 31 December 2015. The project will contribute to deliver these positive results and will create at least 50 SMEs and 350 jobs over the "ERDF lifetime" of the building (15 years of operation).

22. The project is located on a site North of Bank Top Station (Darlington Station) on the Tees Valley Enterprise Zone – Central Park. The project is located within Darlington Eastern Town Centre Fringe in the Bank Top Ward (LSAO: 00EHNC). The Business Growth Hub will be the key to kickstart enterprise development on Central Park and form a visible gateway feature to the Enterprise Zone. There are currently no limitations to the area of delivery. The Darlington Business Growth Hub will facilitate the creation of a 3200m² Grade A serviced office accommodation space. The project was developed to address the following key property and business growth market failures which were evidenced through extensive market research which has been independently validated.

Rationale for the Project:

23. 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 – 50m²)
 - (i) Lack of private sector speculative developments in times of recession
24. Market research also found that the market will not support sector-specific accommodation, therefore the Business Growth Hub will be open to all new and existing SME's (however those from the digital sector may benefit from business rate relief through the Enterprise Zone).
25. 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
26. 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

27. Darlington Business Growth Hub will be located on Central Park within one of the sites covered by the Tees Valley Enterprise Zone. The EZ sectoral focus of the Central Park Enterprise Zone is digital and as such any eligible digital businesses that re-locate within the area identified will benefit from the Business Rate Relief. The site however is also suitable for other sectors and these will also be encouraged to occupy the commercial area within Central Park to help create an active and buoyant commercial environment. The Central Park Enterprise Zone has been in need of a key anchor development for entrepreneurship and business growth. This project will provide this and will therefore act as the catalyst for further economic development opportunities.

Capital Build

28. The overall capital project comprises the construction and fitting out of a business growth hub as well as hard and soft on-site landscaping, provision of services as well as temporary highways improvements to access the building and all associated professional and design fees.

Building Operator

29. 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. It is also not 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, it will be necessary 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. It is not possible to secure grant funding to underwrite operational costs and the Council is not in a position to subsidise the building.

31. It is therefore necessary to take steps to appoint an operator, on the basis that should funding be secured for the capital works, the operator can be appointed prior to finalisation of the building design so that final designs can be influenced to best meet the operator's needs. Furthermore, the early appointment of an operator will ensure that the building is operable, prior to committing to a building contract. 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.

Procurement Strategy for Capital Works

32. The Council's Contract Procedure Rules require that all contracts in excess of £75,000 be considered by Cabinet for designation as either strategic or non-strategic based on value and significance to the authority. The contract for construction of the Business Growth Hub is automatically designated as strategic because of the value. Due to the timescales imposed by the ERDF funding regime to have the building complete and handed over to the operator by April 2014 the Council is proposing to use the SCAPE framework to procure the capital works on a design and build basis. The SCAPE framework has been established through an open competitive process which meets the competitive tendering requirements of the Council, ERDF and HCA. The key benefit of procurement through the SCAPE framework is that it will decrease the lead-in time between securing funding and approval for the building and start on site. It is also an established framework with a successful track record of delivering major capital projects. The letting and management of the capital project will be managed by the Council's capital projects team. As we are proposing to utilise an existing framework there will be no contract award decision to be made therefore no further reports will be brought to Cabinet.

Procurement of Operator

33. A contract for the operation will be let through an open tendering process. It will be for a duration of 10 years in order to provide any operators to absorb and offset any initial start-up costs against longer-term revenues and be cash neutral to the Council. The successful operator will also be granted a 10 year full repairing and insuring lease for the business growth hub. The lease will reflect the terms of the lease granted by HCA to the Council, transferring all responsibility for the building to the operator. The terms of the operator contract and lease will be such that if for whatever reason the contractor ceases to hold the operator contract (for example as a result of a default event occurring), the lease will also be terminated in order to reflect the nature of the relationship between the operator contract and the lease. The operator contract will include performance targets and a requirement to meet any funding conditions set by funders.

Proposed Structure and Legal Agreements

34. Subject to the successful conclusion of negotiation with CKY, it is proposed that any land within the boundary of the Business Growth Hub be transferred to HCA, prior to the start of construction of the building. This would consolidate the title (all within HCA's ownership). All of the land associated with the Business Growth Hub was funded by One North East and consequently HCA has inherited any residual rights to the land or any benefits that derive from it. It currently forms part of the land under the Central Park development agreement and will remain so as long as the development agreement is in place. The partners in the Central Park Development agreement are currently negotiating a mutually acceptable termination of the agreement. Should agreement be reached, it will be possible to transfer the land to HCA.

35. The Council would then enter into a 20-year lease with HCA for the land and building. This would be a full repairing and insuring lease. At the end of the 20-year lease the Council would either hand the building back to HCA or 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.
36. The Council would seek to appoint an operator for the Business Growth Hub through an open, competitive process that is acceptable to all funders. The successful tenderer would be invited to enter into a 15 year contract to manage the building and services. The operator would also be offered a 15 year lease on a full repair and insuring basis.

Risks

37. There are a number of key risks associated with this project. The Project Management Team together with the Council’s Asset Management Group will closely monitor the risks and instigate mitigating actions where required. There are four key risks associated that should be flagged at this stage:
 - (a) The Council cannot enter into legally binding contracts for either the capital works or the operator until all capital funding is in place.
 - (b) It would be unrealistic to 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.
 - (c) The project will be dependent on external funding from ERDF and HCA. If funding offers are received, funding will be conditional on achievement of outputs and results as well as ensuring that the building remains 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.
 - (d) There is a need to ensure that all aspects of the project are undertaken in an ERDF compliant manner.
 - (e) The ability to deliver the project is dependent on the outcome of ongoing discussions with the Central Park Development consortium (CKY) regarding the future of development agreement for Central Park and which is subject to a separate report to Council.
 - (f) Should funding offers be secured, a further paper will be presented to Cabinet setting out a full analysis of risk in order to inform the decision-making process.

Conclusion

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 in the event that funding bids are successful. Approval is sought to make progress with key legal and contractual arrangements on a without prejudice basis.
39. It is because of these risks that at this stage approval is only sought to take procurement and leases to a stage whereby contracts can potentially be awarded at short notice but to which we have no legal commitment. Should funding be offered on terms that prove acceptable to the Council, then it will be possible to enter into contracts for the capital and revenue elements of the overall project.