
FEETHAMS OFFICE DEVELOPMENT – PLOT 1

Responsible Cabinet Member – Councillor Chris McEwan
Economy and Regeneration Portfolio
Councillor Stephen Harker, Efficiency and Resources Portfolio

Responsible Directors – Ian Williams, Director of Economic Growth
Paul Wildsmith, Director of Neighbourhood Services and Resources

SUMMARY REPORT

Purpose of the Report

1. The purpose of this report is to:
 - (a) Update Cabinet on the initial feasibility work done in examining options for the construction of c3,600 sq. m. office block, concept images are shown at **Appendix 1** and to seek Cabinet's approval for the Council to start the process to use an OJEU compliant Design and Build route as the preferred procurement strategy for the development on Plot 1 at Feethams.
 - (b) Approve delegated authority for the Director of Economic Growth and the Portfolio Holder for Economy and Regeneration, to progress and finalise the design details and specification for the building, to obtain RIBA Stage 3 approval and to instigate work to identify pre-lets prior to any construction starting.
 - (c) Ask Cabinet to note and agree in principle that capital funding of up to £8.5m may be required for the construction of an office building to be funded by Prudential Borrowing. At this stage Council does expect to receive contributions from external funding sources, which will reduce the level of Council contribution to the project but those sources are not yet confirmed.
2. The project will deliver Grade A office accommodation, benefitting growing small and medium sized enterprises (SMEs) and other businesses in the key Tees Valley (TV) sectors most notably business and professional services, digital and creative.
3. Fundamentally it creates much needed Town Centre Grade A office accommodation. The Tees Valley Strategic Economic Plan has a target of net 7,000 new jobs in professional / office services and this proposal is perfectly aligned with the Tees Valley growth needs and will contribute towards the TV strategic ambition.

4. Furthermore, Town Centre vitality is enhanced by locating office jobs in the Town Centre, contributing to footfall, vibrancy; spend in the Town Centre during the day and helping to enhance the town's night time early evening economy. It is believed that Darlington is an attractive location but has a distinct shortage of Town Centre Grade A property.
5. This report sets out the proposal and delivery mechanism and outlines the risks associated with progressing a new build office development. It is proposed the office building would be five storeys and have a total Gross Internal Floor Area of 3,624 sq. m. The offices would be flexible and open plan but capable of being sub divided and occupied by two different tenants per floor. The offices could accommodate a total of approximately 350 office desks and up to 500 staff depending on space ratios and desk sharing arrangements.
6. The report seeks Cabinet's endorsement to undertake some essential pre-construction works. An interim report will be provided to Cabinet in the Autumn 2017 setting out progress on the design and planning work, on the outcome of external funding bids, and on the success in identifying pre-let opportunities, all of which mitigate the Council's risk.
7. If the project proceeds to build, the Council would be borrowing some money that would need to be repaid. However, to mitigate against these risks, the Council would be seeking to get a number of pre-lets in place, i.e. tenants signed up to take a Lease of the offices and other interest in the offices before development commenced. A further mitigation strategy on occupancy is to reserve a position whereby if the building was not fully occupied in the early period, the Council could locate activities in the new building and this would be an opportunity to rationalise the Council's office portfolio further and dispose of assets. This would be a fall-back reserve position.
8. It is important that a clear signal is sent to prospective tenants both Private and Public sector that this proposal has a very realistic chance of proceeding. Therefore, officers are keen to start marketing the offices straight away to help identify occupiers. It is proposed to seek assistance to attract national and local tenants through a robust marketing strategy; to prepare tenant packs and identify and liaise with potential occupiers over intended lease terms. An appropriate sum is set aside in the Economic Growth budget to initiate this work.

Recommendations

9. It is recommended that:
 - (a) Cabinet approve the submission of bids for external funding.
 - (b) Cabinet delegate authority to the Director of Economic Growth and the portfolio holder for Economy and Regeneration, to progress and finalise the design details and specification for the building. A sum of £100k has been set aside at June's Cabinet which will be matched by TVCA resource for the initial works.

- (c) Cabinet agree to use an OJEU Compliant Design and Build route as the preferred Procurement Strategy for the development.
- (d) A report will be submitted to Cabinet in the Autumn to provide an update on the project, potential tenant interest, and on the outcome of funding bids. A report for Council approval would be required if this proposal proceeds.

Reasons

10. The recommendations are supported by the following reasons:

- (a) To try to attract more professional, business and office based jobs to the centre of Darlington requires Grade A office accommodation to be available;
- (b) Strong fit with Tees Valley and Darlington's Town Centre priorities;
- (c) To aid the delivery of the Feethams Planning and Development Brief effectively completing the Feethams plan;
- (d) To enable the design to advance in line with the required timetable;
- (e) To enable the Council to have the ability to have timely and efficient negotiations with the proposed new tenants in advance of significant capital expenditure in respect of the project;
- (f) An OJEU Design and Build route is the preferred Procurement Strategy for the design and build for the offices. It enables the Council to work within the prescribed timescales of the proposed End User and delivers value for money;
- (g) Should this project advance, the Council will be exposed to increased financial implications; due to the nature of these financial implications the Council's Constitution will require a Council resolution in due course.

Delegations

11. The delegation sought is to enable the design formulation and its subsequent RIBA Stage 3 approval to advance in a timely manner to ensure the necessary project timetable can be adhered to. This will also enable the Council to identify and negotiate level of interest of any new prospective tenants of the building who will want certainty of the project happening.

Ian Williams, Director of Economic Growth
Paul Wildsmith, Director of Resources

Background Papers

No background papers were used in the preparation of this report.

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| S17 Crime and Disorder | The report has no implications for crime and disorder |
| Health and Well Being | The report has no implications for health and well being |
| Carbon Impact | This report may result in the development of a new office building which will have a carbon impact. The Building is designed to BREEAM Excellent, easily accessible by sustainable transport modes which will help ensure the carbon footprint of the building is acceptable |
| Diversity | No implications |
| Wards Affected | Park East |
| Groups Affected | All |
| Budget and Policy Framework | The report does not have implications for the immediate budget or policy framework. Any recommendations following the feasibility work will be reported to Cabinet at a later date for consideration. |
| Key Decision | Yes. The resolution results in the Borough Council incurring expenditure which is significant having regard to the budget for the service or function to which the decision relates and there will be significant effects on communities living or working in an area comprising one or more wards in the Borough. |
| Urgent Decision | No |
| One Darlington: Perfectly Placed | Supports the Perfectly Placed priority by retaining jobs in Darlington, bringing jobs to the town centre and facilitating office development. |
| Efficiency | The workload resulting from the recommendations in this report assumes resources at existing levels within the Programmes and Projects, Capital Projects and Corporate Landlord Sections. The financial implications are set out in detail in the report. The delivery of a new office building has significant potential for collaboration with other public sector bodies with the opportunity for savings for the Council. |

MAIN REPORT

Information and Analysis

12. The development strategy for the Feethams Area is set out in the Feethams Planning and Development Brief. The first phase of the development of this area has resulted in the £35m leisure development including a multiplex cinema and associated uses and new multi storey car park. In addition the new offices (Bishopgate House) for the DfE has over 500 staff. At project inception it was envisaged DfE would employ 350.
13. The Plot 1 at Feethams is one of the few remaining key plots to develop. It is a key gateway site and it is considered prime for Grade A offices in the Town Centre. With potentially 300 staff occupying the new building, it is envisaged this would also help to support economic growth and Town Centre businesses in the area, and contribute to Town Centre vitality.
14. It is clear that the speculative office market in the North East is challenging. Very few new speculative office projects have begun; and of those that have started virtually all have required public intervention either through capital contributions or head lease security.
15. Following a recent marketing exercise, there were no compliant tender bids. Discussions with interested parties were then undertaken to find out what was needed to make the development happen and the developers advised that they could proceed to develop offices if the Council took a Lease of the completed office development, i.e. the Council assumed full risk.
16. This arrangement was considered to be expensive and risky for the Council because by taking a Lease the Council would be responsible for the rental outgoings for the term of the Lease and in addition the Council's rental outgoings would increase following reviews of the rent. Furthermore, the developer would be benefitting from not only developing the offices and receiving the developer's profit; they would also have certainty knowing they have a Lease in place and guaranteed income for the term of the Lease.
17. As a result the Council undertook financial modelling which showed that prudentially borrowing and procuring the offices directly, ensured better control over whole life costs of the scheme and allows the risk to be managed more closely, and achieve a better value for money outcome.
18. The Annual Procurement Plan will identify that this is a strategic procurement and as such this report sets out the justification for this development and procurement strategy and seeks its necessary agreement from Cabinet.
19. This report sets out the proposal and delivery mechanism and highlights the risks associated with progressing a new build. It seeks Cabinet's endorsement to undertake these preliminary works, for Cabinet to note that a further report will follow and that then a decision to recommend that Council would be required once more certainty on external funding and client interest was established.

Financial and Funding Implications

20. The anticipated cost of the scheme to fund the design and construction of the offices is estimated at c£8.5m, which the Council would need to prudentially borrow. Sensitivity analysis on rent levels and vacancy rates has been carried out and it is clear that without external funding the financial risk to the Council would be high and maybe too significant for the Council to proceed alone. However if the Council were to attract external funding and/or head lease sharing of risk; the fundamentals change considerably.
21. To mitigate the Council's risk and exposure:-
 - (a) An outline bid for European Regional Development Fund (ERDF) funding of £2.2m will be submitted.
 - (b) An Expression of Interest (EOI) bid for Tees Valley Investment Fund funding of £2.65m has been made to the TVCA. The EOI sets out the possibility for TVCA to take a shared risk / reward stake in the property. As part of the development of the funding strategy alternative options will be considered including TVCA taking a head lease or TVCA providing grant funding and / or a loan / grant funding.
22. There would be unacceptable levels of risk involved if we were to commence construction of the office development now without assurance of demand or external funding. Therefore the decision on if and when to Go-Live and to start building is appropriately deferred to a later Cabinet when the outcome of external funding bid is known.
23. To fund preliminary development work the Council has already approved release of £100k capital funding and this is matched by development funding provided by the Combined Authority

New Build Property Option

24. Initial feasibility has identified that a new build, could be provided within the Feethams Plot 1.
25. Concept images from the outline design feasibility study are attached in **Appendix 1**. This building is:
 - (a) Approximately 3,600 sq. m. (36,000 sq. ft.) Net Internal Area;
 - (b) BREEAM Excellent;
 - (c) Good quality, open plan office accommodation; an atrium across all floors is provided to enhance the design and give a high quality presence;
 - (d) Typically plans have been provided to show the possible internal layouts that could be created internally as part of the tenant fit out. The open plan nature would allow the creation of workstation and informal break out areas.

- (e) The high quality landscape and public realm would be key to the offices. By setting the building back from Feethams, this promotes an opportunity for a street café culture connecting to the restaurants it faces- a new south facing public plaza.
- (f) Located in the town centre, close to the railway station.

Delivery Options

26. There are two main routes to delivering a new build option within the Town Centre which have been considered:

(a) **Developer-Led:**

- (i) The sale of site to a developer who could build a new office. Office retained by the developer and let to the Council.
- (ii) The site has been marketed, with no interest, other than developers requiring the Council to take a Head Lease of the building and then it would be the Council's responsibility to let the building too.

(b) **DBC Design and Build:**

- (i) Office would be in the Council's ownership and then let to individual tenant/tenants.
- (ii) This option gives the Council the greatest certainty and control over the product delivered and for finding tenants; however the Council will carry the risk associated with the building.

27. It is considered that whilst it carries the most risk, the Council has the most control and certainty over the design and build route.

Procurement Route – Full OJEU DBC Design and Build Exercise

28. An OJEU compliant Design and Build methodology is the preferred procurement strategy. An assessment will be made on which Design and Build option is most suitable for the Feethams Plot 1 build.

29. To further ensure value for money is achieved by which ever Design and Build route is followed, the Council can employ an independent cost consultant to sense check the quotes and provide further assurance that the costs presented are realistic in relation to the current market conditions.

Impact on Town Hall

30. The new building will fall within the Council's sites and premises portfolio and sit with the Estates and Property Team. Estates would be responsible for negotiating the Heads of Terms for the Lease (and Agreement to Lease) and in considering the relationship and impact with the Town Hall.

31. Other Corporate Landlord matters which have been considered include the potential implications for the Council's insurance policy. There may also be a need for a caretaker for the new offices and potentially other support required.
32. A key design specification of the new building and its mechanical and electrical equipment is that there are not expected to be any major maintenance requirements within the first 10 year period.

Car Parking

33. It is proposed that all car parking for the offices is provided for by the multi storey car park.

Risks

34. The objective of the project is to provide Grade A offices within Darlington. The biggest risk is the offices not being sufficiently let because the rent received from the offices would be used to pay for the money borrowed. The level of interest from potential office tenants, certainty and outcome of funding bids will be reported back to Cabinet and Council to seek final approval before commencement.
35. In taking the decision to advance to the next stage, the Council needs to be aware of the risks associated with the design and construction phases of the development.

Equalities Considerations

36. It is considered that this project has no specific implications for groups with protected characteristics. Equalities implications will be considered during the formulation of the design to ensure the building is compliant with the Equalities Act (2010).