
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. To seek approval for release of capital to build the Feethams office development.

Summary

2. Cabinet previously released £200,000 to produce a more detailed business case for the development; £100,000 from TVCA and £100,000 from the Economic Growth Initiative Fund.
3. TVCA funding of £3.23m has been secured subject to due diligence and an application for ERDF for £2.04m has been made.
4. The previous Cabinet report proposed that the build would not commence until there was a 40% pre let of space. This has not proved possible and property advisors to the Council suggest this is unlikely and that pre lets will only occur when the development has commenced.
5. The building of speculative office space in the North East is difficult and often requires public sector intervention as is proposed for this development. In addition to the external funding secured it is proposed that the land purchase price of the site and a further contribution of £500,000 from the Economic Growth Initiative Fund be allocated to the scheme. The remaining project balance of £2.63m to be funded from the Capital Investment Fund.
6. Although external funding will reduce the financial risk to the Council, Members need to be aware that financial risks remain with a maximum annual exposure of circa £300,000 should no rental income be received. At a rental income of £14 per square feet, 80% occupancy is required to break even. Any revenue deficit will be funded by the Economic Growth Initiative Fund.

7. Based on experience of take up at Business Central and external advice it is believed that the offices will be in demand and such financial risks will be mitigated.
8. The establishment of Grade A office accommodation in the town centre is seen as a significant regeneration scheme and job creation opportunity.

Recommendations

9. It is recommended that:
 - (a) Subject to receiving final approval of TVCA and ERDF funding, capital expenditure of £8.3m be agreed for the purpose of constructing the Feethams office development.
 - (b) Note £0.5m of the scheme be funded from the Economic Growth Initiative Fund.
 - (c) Approve £2.63m be funded from the Capital Investment Fund.
 - (d) Subject to receiving satisfactory funding delegate authority to the Director of Economic Growth and to the Assistant Director Law and Governance to enter into the construction contract for the design and construction of the office and public realm.
 - (e) Cabinet delegate authority to the Director of Neighbourhood Services and Resources to enter into the grant funding agreements on the terms set out in this report.
 - (f) Any revenue deficit accrued on this scheme be charged to the Economic Growth Initiative Fund.

Reasons

10. The recommendations are supported by the following reasons:
 - (a) To continue the strategic development of Feethams, in line with the Feethams masterplan.
 - (b) To attract more professional, business and office based jobs to the centre of Darlington contributing to Town Centre vitality.
 - (c) To enable the project to advance in line with the desired timetable.
 - (d) To put in place funding for any revenue deficits from the scheme.

Delegations

11. The delegation sought is to enable the design and build of the offices to advance in a timely manner to ensure the necessary project timetable can be adhered to, and to agree execution of the external funding packages, and Council funding.

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

Background Papers

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

Guy Metcalfe : ext 6725
Jenny Dixon : ext 6320

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 have implications for the immediate budget or policy framework.
Key Decision	Yes. This has been reported as a key decision. 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.
Impact on Looked After Children and Care Leavers	If staff do vacate Central House and the Annexe, an accommodation review would be undertaken.

MAIN REPORT

Information and Analysis

12. Following the Cabinet Resolution in July 2017, work has been ongoing by appointed commercial property agents, Connect North East and Cushman & Wakefield to assess likely demand and where possible to secure tenant interest and under the instruction of Capital Projects, Willmott Dixon have undertaken further surveys and analysis work to help firm up the construction estimates.
13. The agents have issued press releases and actively marketed the availability of the new offices, known as 'Feethams House' and details have been forwarded to over 380 potential office tenants. They have advised that the new office proposals have been received positively by most that have responded, but there have been no pre-lets or firm commitments.
14. There are encouraging leads but the property agents' advice is that until the offices are under construction it is much more difficult to secure pre-lets with SME's. Once work has commenced, it is more likely to that a developer (here the Council) can arrange pre-lets from office tenants (SME's) wanting to take space in the building.
15. It appears that the market is there from potential tenants, although this cannot be guaranteed. An anchor tenant has not been secured. It is anticipated that the market is more likely to be localised to Darlington and attractive to companies with growth aspirations that cannot be met currently given the absence of Grade A offices in the town centre. However, there is a regeneration ambition to transform this run down, gateway site in the town centre into an exemplar office development with high quality public realm to the front of the site. Once let, the offices would increase footfall into the town centre and to the surroundings shops, cafes and restaurants.
16. It is assumed that the building could accommodate over 350-500 people and capture growing businesses and new inward investment in Darlington. The current trend is that new Grade A offices are being constructed to accommodate informal break out areas and networking facilities on the ground floor and spaces for informal meetings, blurring the historic 9-5pm office hours, but creating an environment that staff want to be in and where they can socialise and network.

Image of Feethams House from the Town Hall



17. The RIBA Stage 3 submission from Willmott Dixon has been received and the construction estimates are currently being reviewed. Since July, Willmott Dixon have commissioned survey work and undertaken topographical surveys and site investigations to ascertain ground conditions to help inform their construction estimates. In addition work has been undertaken to ensure the building would be suitable for accommodating flexible working and large numbers of office staff, based on the British Council for Offices space standards guide to best practice. A detailed programme has been compiled and provides for completion of Feethams House in 2019.

Image of Feethams House from the Cinema



Legal and Procurement Implications

18. Pursuant to the Localism Act 2011 the Council has the powers to deliver the project under the General Power of Competence.
19. The grant funding from ERDF and TVCA (as more fully detailed in **Appendix 1**) will be formalised by grant funding agreements to be concluded prior to the commencement of the construction works.
20. The initial design contract (to RIBA stage 4) will provide that the Council can give earlier notice in the event that ERDF funding is not secured, limiting the Council contribution to a minimal sum while allowing the scheme to progress.
21. The funding terms will require that state aid and procurement requirements be met and the letting of the design and construction contract and future letting arrangements will comply with these requirements.
22. The design and construction contract will be let under an established OJEU procured framework which has been subject to significant competition on price and quality to ensure the Council obtains value for money in accordance with its obligations under section 3 of the Local Government Act 1999.

Financial and Funding Implications

23. The estimated cost of the scheme to fund the design and construction of the offices is currently estimated at c £8.5m. In addition to this the Council would be contributing land based on the building footprint valued at £0.500m. Initial costings and sensitivity analysis on potential rent levels and occupancy indicated the financial risk to the scheme was too high unless external funding was sourced.
24. The Council therefore bid £2.04m for ERDF non repayable grant for which we are waiting confirmation of acceptance, the decision is expected shortly with positive indications of success. Furthermore subject to due diligence the Council has just been awarded £3.23m from the Combined Authority on a risk and reward basis which will help to de-risk the project.
25. Subject to receiving ERDF funding, the amount falling on the Council to contribute would be £3.23m, of which £0.6m will be funded from the Economic Growth Investment Fund and the remaining balance of £2.63m will come from prudential borrowing via the Capital Investment Fund. Any borrowing and repayable funding would be expected to be repaid from net rental income arising from the scheme and has been built into the business model.
26. As noted the ERDF funding is a non-repayable grant however there are conditions attached to it which means two floors of the five must be occupied by SME businesses for 15 years. This is not considered problematic as SME's are the target market for the space.
27. The intention for the £3.23m TVCA funding is to enter into a risk and reward sharing agreement which will mitigate the financial risks of the scheme to the Council. The agreement will share the financial risk and rewards based on the capital contributions made by all parties and will comprise a funding agreement between TVCA and the Council setting out how the lifetime costs and revenues will be treated. The assessed financial risks to the Council contained in this report assume that a risk and reward arrangement is finalised with TVCA.
28. In order to arrive at the Business Model and assess the Council's financial position and potential risk a detailed report was commissioned from market experts in the field to provide advice on what is deliverable in terms of rental levels, voids and occupancy rates.
29. As the scheme is speculative in nature there is a level of risk in that there may be insufficient income to fully repay borrowing and/or some running costs. The baseline business model takes a prudent position and work continues to address and reduce the on-going risk. Sensitivity analysis has been carried out to highlight the impact of variations in rent and occupancy rates on the overall position. It is accepted that with projects of this type there are risks. It is apparent in the North, with speculative office developments that the public sector is increasingly having to lead projects of this nature in order to stimulate regeneration and development.
30. We anticipate having a decision on the ERDF within the next two months. Given the market interest that the Agents believe exists, and with a positive view that the bid for ERDF will be successful, in order to mitigate against delays, officers

recommend continuing to the RIBA Stage 4 and seek detailed planning permission for the proposals. This would be funded from TVCA development grant with a modest contribution from the Economic Growth Investment Fund. The TVCA development funding would only become repayable if the project was found to be viable and proceeded to construction.

31. Attached at Appendix 1 is a detailed financial assessment of the scheme. In summary the Council's maximum revenue exposure over the life of the scheme is circa £300,000 per year should the building remain empty. To achieve break even at £14 per square feet, an 80% occupancy rate needs to be achieved. Based on market intelligence and experience from lettings at Business Central, it is anticipated that occupancy over the life of the scheme will be adequate to cover costs, should this not be the case, the net costs of the scheme will be charged to the Economic Growth Initiative Fund which was established by Council to fund such economic growth initiatives. The use of the Fund will mitigate any financial risks in the short to medium term.
32. There are potential opportunity costs to the Council relating to car parking, see paragraph on car parking below.

New Build Summary

33. Initial feasibility has identified that a new build, could be provided within the Feethams Plot 1 (**see Appendix 2**).
34. To summarise, the building is:
 - (a) Approximately 3,010 sq. m. (32,399 sq. ft.) Net Internal Area.
 - (b) BREEAM Excellent.
 - (c) Good quality, Grade A open plan office accommodation 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.

Car Parking

35. It is proposed that all car parking for the offices is provided for by the Feethams multi storey car park. It is currently envisaged that the top floor of the car park, amounting to 60 car parking spaces would be needed by the office tenants. The cost of parking is to be included in the rent of the office space and this potentially

represents a £30,000 per year forgone car park income however it is anticipated that due to the spare capacity within the car park that this represents an opportunity cost only.

Risks

36. The objective of the project is to provide Grade A offices within Darlington. The biggest risk is insufficient tenants at market rents to re-pay borrowing and this is explored elsewhere in the report.
37. There is a potential to mitigate some of the financial risk by utilising the space for council staff and freeing up existing office space however this is limited.

Equalities Considerations

38. 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.