

**CABINET
12 JANUARY 2021**

**CENTRAL PARK – HYBRID BUSINESS INNOVATION CENTRE
AND LANDSCAPING WORKS**

**Responsible Cabinet Member – Councillor Alan Marshall
Economy Portfolio**

**Responsible Director – Ian Williams
Director of Economic Growth and Neighbourhood Services**

SUMMARY REPORT

Purpose of the Report

1. The purpose of this report is to update on the progress being made on Central Park and seek further Cabinet approval to expedite the following activities:
 - (a) the detailed design and construction (subject to planning) of the Hybrid Business Innovation Centre (HBIC) - a business incubator comprising of offices and clean workspaces, known as Business Growth Hub 2; and
 - (b) the remediation and landscaping of Central Park and servicing of the remaining development plots.

Summary

2. As background on 24 April 2020 an Executive Decision-making session was held and the Leader authorised:
 - (a) £500,000 of development funding, secured from TVCA, to be invested in the development of HBIC on Central Park.
 - (b) The approval of funding bids for £2.8m from Tees Valley Combined Authority (TVCA) and £4.2m of ERDF funding for the full design and construction phases of the HBIC Project;
 - (c) Delegated powers to Procurement Board to:
 - (i) Approve the appointment of a third party to design, construction and associated infrastructure work HBIC.
 - (ii) Approve the Council entering into lease with an operator for HBIC
 - (d) The acquisition of land from Homes England.
 - (e) Delegations for the necessary legal agreements to be progressed.

3. Following the completion of the RIBA 3 design of HBIC, the Council has since secured additional funding via the Getting Building Fund (one of only 3 awards in the Tees Valley); and we have discussed and verbally agreed an increased funding award from ERDF taking the available project funding package to **£11,237,855**.

For completeness this funding package now consists of:

ERDF	£4,727,855	Funding Agreement expected to be received in early January 2021
TVCA	£2,800,000	Of which £500,000 was approved to progress the design of HBIC up to the end of RIBA Stage 4
Getting Building Fund	£3,650,000	Secured through a national competitive process in Autumn 2020
Council Funding	£60,000	Initial funding for feasibility and concept design

4. As a result, on the proviso that ERDF approval is forthcoming, the Council are now in a position to deliver this exciting project that includes :
 - (a) Submission of planning and if approved construction of the Hybrid Business Innovation Centre;
 - (b) Procurement of an incoming operator to manage the centre and provide business support to the new businesses
 - (c) Undertake a range of landscaping and remedial works across Central Park.
5. Following the success of Business Central on Central Park, the Council with the benefit of external funding can now realise its plan to create additional business incubation / managed workspace accommodation and serviced plots in a quality environment in readiness for occupation by new companies including Small to Medium Sized Enterprise businesses (SMEs) – in particular hoping to attract some knowledge intensive companies but not exclusive to hi-tech sectors such as bio medical, and life sciences. HBIC will be complementary and sit well alongside CPI Biologics and Teesside University Horizons building.
6. A demand study has been undertaken that confirmed the demand and need for such incubation/managed accommodation within the Tees Valley region. Members will be aware that the Covid 19 pandemic makes attracting occupants for business space more challenging, so this timely opportunity to significantly uplift the whole Park and offer quality serviced plots is ever-more important. Central Park remains a key part of our economic strategy moving forward and should be viewed through the lens of a medium to long term priority.
7. The Hybrid Business Innovation Centre will accommodate 2,370 sq. m of business space. The plans propose three or four “clean” workshop spaces with the remainder being office accommodation. The final internal configuration will be arrived at through discussions with the future operator. A plan of Central Park showing the available plots and the location of HBIC is shown in **Appendix 1** and

further images of HBIC are shown in **Appendix 2**.

8. The following actions are required:

- (a) Complete the OJEU-compliant competitive tender process in order to appoint an operator for HBIC. Initially the successful operator will be required to advise on the specification of the building and enter into an agreement to lease HBIC. Final contracts will be developed when all funding bids having been confirmed, subject to the operator bid being within pre-tender estimates and the construction works being within budget. Tenderers will be advised of these pre-conditions as part of the tendering process.
- (b) Continue with the technical design of HBIC. The final construction contract will only be put in place after the operator bid is within pre-tender estimates and the construction works are within budget. A contract to take the project to construction will only be entered once all pre-conditions have been met.
- (c) Procure parties to design and deliver a landscaping scheme for the remaining undeveloped areas of Central Park and then complete the outstanding signage and environmental works to make it attractive to investors.

Recommendations

9. It is recommended that Cabinet:

- (a) Note the work done so far to develop the plans for HBIC.
- (b) Authorise the release of £10,737,855, subject to formal approval of ERDF funding. This is the balance on the funding package following the earlier release of £500,000 in April 2020.
- (c) Authorise the Director of Economic Growth to proceed with the project including applying for planning permission.
- (d) To designate the construction of HBIC as a strategic procurement, and the landscaping works and procurement of operator as non-strategic, with powers delegated to the Procurement Board to progress the procurements in accordance with Contract Procedure Rules.

Reasons

10. 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 enable the project to move forward.

Ian Williams
Director of Economic Growth and Neighbourhood Services

Background Papers

No Background papers were used in the preparation of this report

Ian Stewart : Extension 6634

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 and Climate Change	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	Stephenson / Whole Borough
Groups Affected	Darlington new and growing SME businesses, 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 funding from TVCA, central government and ERDF which cannot be used for any other purposes.
Impact on Looked After Children and Care Leavers	The project does not have an impact on looked after children and care leavers.

MAIN REPORT

Information and Analysis

11. Following the success of Business Central on Central Park, the Council has continued to develop plans to create new sites and additional business incubation / managed workspace accommodation for new and growing Small to Medium Sized Enterprise businesses (SMEs) in Darlington. In particular, it is creating a high-quality business park with the intention that this hosts a nationally significant pharmaceutical, biologics and life science centre.
12. £3.65m has been secured from the government's Getting Building Fund; over £4.7m has been secured from the ERDF programme and the Council is securing a TVCA award for 2.8m. HBIC will create 2,370 sq. m of hybrid business space of which 400-430 sq. m of net lettable space will provide three or four clean workshop spaces in addition to 1,400 sq. m of lettable office accommodation. This is an exceptional funding package – almost all from external sources to the Council.
13. Execution of this project is demanding due to a number of key funding deadlines that will dictate the progress of the project:

- (a) The government's Getting Building Fund is to be invested by 31 March 2022.
 - (b) It is hoped work may begin on-site from early summer 2021. HBIC is anticipated to take 52 weeks to complete and the plots and wider enabling work will be completed by 31 March 2022. It is therefore essential to progress the detailed design work and necessary contractual arrangements in as timely a manner as possible to ensure the complete project is delivered in line with funders' requirements.
14. HBIC is within the Enterprise Zone and the sectoral focus of the Central Park Enterprise Zone is life sciences, health and digital and as such any eligible businesses based within this field will benefit from Business Rate Relief. The site however is also suitable for other sectors and these will also be encouraged to occupy the commercial areas within Central Park to help create over time an active and buoyant commercial environment. Central Park supports the TV strategy of growing added value sectors such as bio medical , life science and knowledge intensive sectors and the Council has forged strong working relationships with Teesside University, CPI, and other business support agencies to further this objective.
15. 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. The Council has consulted with operators in Business Central on Central Park who confirmed that they are experiencing high levels of occupancy (c.90%) and that the Hybrid Business Innovation Centre is positioned to complement rather than compete with this facility. The business environment has become less clear since the Covid 19 pandemic and Members should note that there is some uncertainty in the near-term economy. However even if this demand were to fall in the short term, Central Park as a whole remains a key part of our economic strategy moving forward and should be viewed through the lens of a medium to long term priority.
16. The Hybrid Business Innovation Centre building is forecast to be ready for SMEs to move in to by Summer 2022 and be financially complete by May 2022.
17. The completion of works to remediate and service plots and improve the overall quality of Central Park will be completed by Spring 2022.

Capital Build

18. The overall capital project comprises:
- (a) the construction and fitting out of the HBIC business premises as well as this plot's hard and soft on-site landscaping, provision of services and car parking to access the building; alongside all associated professional and design fees and
 - (b) the remediation of the remaining plots on Central Park, improved signage and services.

Building Operator

19. An operator will be secured through an open competitive tender process to manage the HBIC building and services as a tenant under the terms of a long lease. In order to make this attractive to an operator, it will be necessary to offer a contract of sufficient duration (potentially a minimum of 20 years) to enable the operator to recoup any shortfalls in income in the first few years during which the building will become established and occupancy rates increase.
20. The current business growth hub does not have a revenue requirement and it is hoped that the same will be achievable in this case with the appropriate lease terms. To de-risk this potential, incentives (included in the overall funding package) will be considered in the short term that may assist an operator to become established.
21. It is proposed to appoint an operator conditionally, on the basis that the funding will be secured for the capital works, that planning permissions are obtained, and the works are completed as required by funders. The operator will be involved prior to the finalisation of the building design so that designs may be adjusted to best meet their needs; therefore, greatly increasing the likelihood of it achieving high occupancy rates soon after completion. The Council will review this position prior to committing to the full build contract for HBIC.

Procurement Strategy for Capital Works

22. The Council's Contract Procedure Rules require that all contracts in excess of £100,000 be considered by Cabinet for designation as either strategic or non-strategic based on value and significance to the authority. The contract for the construction of HBIC was automatically designated as strategic because of its value. The Council is progressing by utilising the SCAPE framework to procure the capital works on a design and build basis in order to be comply with procurement regulations and deliver the facility within the required timeframe.
23. The SCAPE framework has been established through an open competitive process which meets the competitive tendering requirements of the Council, government, ERDF and TVCA. The key benefit of procurement through the SCAPE framework is that it decreased the lead-in time between securing funding, approval for the building design and start on site. It is also an established framework with a successful track record for delivering major capital projects. The capital project is being managed by the Council's Capital Projects Team. As the procurement is strategic the decision to award the construction contract is delegated to the Procurement Board.

Procurement Implications

24. A contract for the operator will be let through an open tender process.
25. The terms of the lease are a full repair and insuring lease for HBIC on a similar basis as was used for Business Central. This includes a keep-open requirement to operate the building in accordance with the specification as an incubator and in full compliance with the requirements of ERDF and UK exchequer funding. It will be for a duration of up to 20 years in order to give the operator the ability to absorb and offset any initial start-up costs and lower levels of occupation against longer-

term revenues. The Council is also investigating what options are available to minimise any risk of it becoming liable for any gap in revenue costs.

26. As part of the SCAPE framework the provider is required to deliver the services at the tendered framework rates. DBC is engaging its own Quantity Surveyor to verify the project costs are in line with the framework to ensure value for money and compliance with procurement legislation and funding terms.
27. As part of the SCAPE framework the contractor is required to provide social value benefits as an addition to the contracted services. These will include demonstrating a commitment to providing opportunities to the local (Darlington) supply chain where a suitable local supplier exists, the creation of apprenticeships where appropriate and the delivery of other community benefits. The social value benefits delivered on this contract will be recorded on the Council Social Value register and reported back to members.

Land Issues

28. Following negotiations with the Council, Homes England agreed to transfer all of their land holdings in Central Park to the Council for £1 on the basis that the Council may only dispose of any sites at open market value, net of abnormal development costs, with the net value being treated as a receipt under the terms of the existing Central Park Collaboration Agreement between the Council and Homes England. This follows the principles of best value and allows the Council to carry out any maintenance, site investigations, development, marketing and sales without needing further approval from Homes England.

Financial Implications

29. Funding for the project has been secured as below;

ERDF	£4,727,855	Funding Agreement expected to be received in early January 2021
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Legal Implications

30. The operator will ultimately operate the building on the land shown in Appendix 1 that is to be acquired by the Council and to be leased to the operator as set out in the terms of this report.
31. There are no open space areas or assets of community value included in the land concerned which require consideration by Cabinet.

32. Section 123 of the Local Government Act 1972 deals with the statutory requirements for a Local Authority in relevant disposals of land. In general, the Council is required to achieve the 'best consideration reasonably obtainable' for such disposals based on an open market disposal. The Council will ensure it obtains best value by running an open process to determine (if any) the consideration for the lease or any sale. If the operator ceases to operate the services of the Incubator, then the lease will be terminable at the insistence of the Council.
33. On the basis of the disposal through a tender process there are no state aid or competition issues arising as there is no transfer of value from the public sector to an undertaking.

Risks

34. There are several key risks associated with this project that the report highlights: -
- (a) The Council cannot enter into legally binding contracts for either the capital works or the building's operation until all capital funding is in place. This is being managed through conditional appointments.
 - (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 either wholly from incomes generated from lettings and services or with minimal public subsidy, identified through the tender process. The early procurement of an operator and break clauses in the project's development seeks to mitigate this risk.
 - (c) The project is dependent on external funding from ERDF, central government and TVCA. This funding is conditional upon the achievement of outputs and results as well as ensuring that the Incubator 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. TVCA and the Council has identified that there is demand for such space and will actively pursue an operator who can deliver these outputs;
 - (d) There is a need to ensure that all aspects of the project are undertaken in an ERDF compliant manner. The Council's Investment and Funding Team is experienced in ERDF funding and will manage this process. The lease to the operator will include the requirement for the operator to directly covenant with ERDF in the required form.
 - (e) The ability to deliver the project is dependent on the outcome of ongoing discussions with TVCA regarding the future of development agreement for Central Park. Discussions are at an advanced stage and this risk is being mitigated.
 - (f) The business case does not propose any further financial contribution by the Council towards the capital cost of the project.
 - (g) Risks arising during the construction phase are mitigated using a design and build contract. The contractor is required to provide a parent company

guarantee and appropriate warranties from the professional service providers involved in the project (i.e. architectural and engineering warranties).

APPENDIX 1
Location Plan

APPENDIX 1

Location Plan – Proposed Hybrid Innovation Centre Site, Central Park, Darlington



APPENDIX 2

Design Images for the Hybrid Business Innovation Centre

Image 1: View from the North-West



Image 2: View from the South-West

