

Title:	Tanfield Lea Business Centre
On:	Executive – 11th June 2007
By:	Director of Development and Asset Management
Portfolio:	Economy
Status:	Report

STRATEGIC FACTOR CHECKLIST

The Council's Corporate Management Team has confirmed that the Strategic Factor Checklist has been applied to the development of this report, and there are no key issues, over and above those set out in the body of the report, that need to be brought to Members' attention.

1. PURPOSE

- 1.1 The purpose of this report is to provide an update on the funding position of the Tanfield Lea Business Centre. In particular, it will focus upon the actions taken in accepting the grant conditions that One NorthEast have enforced as part of their offer of providing £3.1million of external funding.

2. BACKGROUND

- 2.1 The Council's Executive agreed in November 2006 to commit £1.9million of Council resources to the project to construct a 40,000 sq.ft. business centre at Tanfield Lea. The total cost of the project is estimated at £6.8million with the Council contribution representing 30% of the overall funding requirement.
- 2.2 The remaining funding requirement is being met by an offer of £1.8million from the European Regional Development Fund (ERDF) and £3.1million from One North East. The offer from One North East is the largest made to any project in the Sub Regional Partnership, and is a reflection of the robust application and the ability of the Council to deliver quality projects.
- 2.3 The approval of external funding for the Tanfield Lea Business Centre has been significantly delayed due to changes in the funding appraisal processes laid out by One North East. The changes have concluded with the implementation of a new policy, which states that on all high level capital projects that the Agency will be given a return on their funding, to reinvest in other areas.
- 2.4 After 12 months of negotiations, the Council has been offered £1.8m ERDF and £3.1m from One North East that is subject to two conditions:

- *For a period of 10 years from the opening of the Business Centre, the applicant shall provide an annual statement of income and expenditure in respect of its operation with 20% of any surplus being paid to the Agency.*
- *The applicant shall enter into a separate agreement with the Agency allowing the Agency to take a 50% share in the net proceeds from the sale of the applicant's current development land ownership at Tanfield Lea North Industrial Estate.*

3.0 MATERIAL CONSIDERATIONS AND OPTIONS

- 3.1 Although the above conditions represent a fundamental change in focus from the agency, there is no doubt that this will be the way they will treat all projects from now on. Each District within the County Durham Economic Partnership, with current projects under scrutiny, has been made fully aware that a return on surpluses for ONE is required and that they will not receive funding approval until this has been agreed.
- 3.2 During the appraisal process, the Council has sought continued clarification about the new approaches adopted by the Agency. However, despite this, it has been made clear that funding would not be given without agreement on the above conditions.
- 3.3 The offer of funding from ERDF and One North East was made during April 2007 with a specific requirement for the Council to accept the offer within 14 days.
- 3.4 A number of factors have been assessed in considering the offer of funding offer from One North East:
- **Job Creation and Impact** – Up to 200 new jobs will be created in the Business Centre, impacting significantly and boosting the local economy. The Tanfield Lea Business Centre is at such a significant scale that it will clearly demonstrate, to the Agency, the ambition of the District; it will show that the public sector must still plug gaps in private sector provision; and it will illustrate to other agencies how to deliver forward-thinking projects which encourage local economic growth in key settlements.
 - **Value for Money** – The Council has committed £1.9m to this project which if used for another self-build project without external support, in for example, a stand alone manufacturing unit, given current market prices the largest unit produced would be circa 10,000 sq ft. The level of job creation in this type of building would be far less than a business centre and in seeking a solitary tenant the risks to the Council would be significantly increased, therefore a value for money assessment would suggest Tanfield Lea Business Centre is the best option.
 - **Sustainability and Risk** - As with any Business Centre development, the key risks are associated with letting rates and deliverability,

especially in the difficult first 2 years of opening. These risks are the sole responsibility of the Council as lead sponsor. Despite the conditions attached to the offer of external funding, the project still represents value for money when assessed against risk and the impact of the Centre upon the medium term financial plan of the Council that would see revenue of £145K per annum by year three of the building opening in 2009. An important factor in this analysis is that ONE has agreed that payments to them will be “rolled up”. This means that any losses suffered by the Business Centre, until occupancy stabilises, will be deducted from overall payments to ONE.

- **Appraisal Policy** – Although the payments of 20% of surplus required by One North East is significant, the percentage requested compares favourably with demands made on similar projects within the County Durham Economic Partnership.
- **Land Prices** – The second condition relating to land sales refers to approximately 6 acres of developable land which the Council owns adjacent to the proposed Tanfield Business Centre. Although currently land-locked by private sector ownership of frontage land, the value is circa £30k per acre. This is however subject to an evaluation of final invasive site investigation works, which would likely reduce the land value and would therefore not be seen as either a significant financial issue to the Council or a factor limiting the long term development potential of the site.

3.5 In consideration of the above details, the principal options available to the Council were as follows:

- (i) To reject the offer of external funding from One North East.
- (ii) To accept the offer of funding from One North East with conditions, as outlined.
- (iii) To negotiate a revised offer with One North East.

4.0 CONCLUSION

- 4.1 The Council has a strong track record in delivering quality business premises that meet private sector demand. The development of the Tanfield Lea Business Centre will bring significant benefits to the District in terms of new jobs and investment, and will provide a significant boost to the longer term re-development of the Tanfield Lea North Industrial Estate.
- 4.2 The funding package for the development of the Business Centre is made up of 30% from the Council and 70% from One North East and ERDF. The support from the Council is significant and provides value for money when assessed against the risk of delivering a sustainable project and providing a substantial boost to the local economy. The offer of external funding from One North East and ERDF has conditions attached but remains significant and will enable a project of regional importance to go ahead in the District.

4.3 Council Officers have been in protracted negotiations with One North East for over twelve months and there is no reasonable prospect that a better offer could be achieved for the Council

5.0 RECOMMENDATIONS AND REASONS

5.1 It is recommended that Option (ii) is agreed and the actions of Council Officers in accepting the offer of external funding for the Tanfield Lea Business Centre, is noted.

5.2 The reasons for this recommendation are that:

- The offer of funding is substantial and will enable the Council to develop a project of regional significance that will provide new jobs and investment in Derwentside.
- The conditions attached to the offer, whilst disappointing will not jeopardise the sustainability of the project or overall value for money.
- The offer of funding had a short acceptance period and did not allow an opportunity to go to the Council's Executive for prior agreement.
- The option to negotiate a revised offer was unlikely to result in a higher level of funding and could have resulted in the current offer being withdrawn.

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