

Report to: Executive
Date: 14th June 2005
Report of: Executive Member for Regeneration
Subject: East Durham Business Centre
Ward: Shotton

1.0 Purpose of the Report

- 1.1 The purpose of the report is to provide an update on progress with the East Durham Business Centre project, and to advise the Executive of a requirement for additional funding. The report further seeks an approval from the Executive for an additional contribution of £100,000 towards the development costs of the Business Centre, to be met from within the Flexible Regeneration Budget in 2006/07.

2.0 Consultation

- 2.1 This report has been prepared in consultation with the Chief Executive, Director of Regeneration and Development, Director of Finance and Corporate Services, and the Manager of East Durham Business Service.

3.0 Background

- 3.1 Members will be aware that at the Executive Committee Meeting of the 24th February 2004, it was resolved that the Council would pursue the development of the East Durham Business Centre, and approval was granted to the purchase of 2.31 acres of land on Judson Road, Peterlee. It was also agreed that funding applications would be made for Single Programme, ERDF and NRF monies to develop the project, and up to £100,000 would be allocated from the Council's Flexible Regeneration Budget as a contribution towards the development of the East Durham Business Centre.
- 3.2 Since that time, progress has been made in taking forward the project to enable the submission of funding bids and purchase of the land. Consultants were appointed to produce a demand study to determine the current and potential demand for a business centre facility in Peterlee. Their findings, produced in June 2004, concluded that demand does exist for such a facility in the district, especially considering the lack of good quality small office suites within East Durham.
- 3.3 To determine the quality and suitability of the site, site investigation surveys were carried out. Due to the composition of the soil, three site investigations were carried out to ensure that the site could take the 'load' of an office development and highlight any remedial measures required. A wildlife survey was also carried out to determine whether any endangered species existed on the site. The demand survey and subsequent site investigations/survey were necessary to provide supporting information required by the funding bodies.
- 3.4 A funding application to secure a £250,000 contribution from NRF was submitted and approved in October 2004. The Single Programme / ERDF funding process was subject to significant delay due to an over-subscription for funding from projects throughout the region which resulted in a re-assessment of all funding bids. The Business Centre was eventually accepted as a key project to go forward in both programmes and bid submissions were made in August 2004.

- 3.5 Before the bids could be fully assessed, both funding bodies required the submission of detailed design and layout plans for the Business Centre and it was therefore necessary to go out to tender for architects to produce these. Following the tender process and consultant interviews, consultant architects were appointed in November 2004 to produce the design and layout of the new facility.

4.0 Design of the Building

- 4.1 The need for a high quality, innovative design to meet the needs of businesses was the main stipulation for the architects. The facility, representing a gateway project for the district, had to symbolise the changing nature of the local economy and the commitment to driving forward the district's regeneration. The chosen design, which was produced in December 2004, met the above and was the best solution to 'fitting' the business centre on a restrictive site (see plan drawings attached as Appendix 1).
- 4.2 The ethos of the chosen design is to create a 'community' feel where businesses could operate in an environment that encouraged networking and a sense of belonging. Rather than constructing a standard 'box' shape design, the chosen design positions the facility in the centre of the site facing towards the Wapping Burn. This allows for the creation of a landscaped belt running the length of the Burn and a courtyard area between the two wings of the facility to allow a space for tenants to relax and network. The car park is situated to the north of the site to utilise the existing spur road and to provide the number of spaces required to meet tenants and visitors needs.
- 4.3 The innovative feature of the chosen design is represented by an impressive wall structure running along the length of Judson Road from the southern part of the site to the car park to the north. Apart from providing a boundary to the site, it also forms part of the structure of the building making a design statement in terms of setting the building apart from other office developments. It has been designed not only add to the marketability of the Centre, but to illustrate that the district is moving forward from its industrial past. Spanning two floors, the chosen design provides the range of office units to cater for new-start and growing small businesses and additional facilities such as meeting rooms and a conference suite.

5.0 Funding Position

- 5.1 The chosen design for East Durham Business Centre results in a building totalling some 16,500 sq ft, incorporating a high quality design to provide a 'landmark' project for the district. The original cost estimate for the project was £2.3m based on a facility of 15,500sq ft. This was devised from comparable schemes in the region for standard office accommodation without a high quality design specification. As a result of the desire for a high quality design and the restrictions posed by the site, coupled with increases in world steel prices, and the buoyant construction market, the costs of the Business Centre have increased to an estimated £2.536m, leaving a funding shortfall of £236,665 against secured contributions.
- 5.2 A number of options to address the funding gap have been reviewed.
- Option 1 - Alter Building Design
- 5.3 Revised options for the design of the facility were produced to determine whether significant cost reductions could be implemented. Three options for a standard type facility on the northern part of the site were produced limiting the footprint to 15,500

sq ft and removing design features. A single storey option would not have resulted in any cost savings compared to the cost of the chosen final design above, a two-storey option would have saved just over £100,000 while a three-storey option would have resulted in a cost reduction of just over £200,000. However, all of these options would have resulted in a standard, ordinary development with limited environmental quality that would not have met the design brief of providing high quality accommodation in an innovative design. These options would have also made it difficult to effectively market the Business Centre since they would not have offered any key selling points to encourage business starts and attract businesses from other locations.

Option 2 - Reduce lettable space

- 5.4 Maintaining the innovative design but further reducing the overall footprint of the building was also considered. This would have reduced the project cost by just under £250,000 but would have resulted in the loss of 6 lettable units totalling 1,200 sq ft.. This would have reduced the overall numbers of business tenants and therefore adversely affected revenue generation. It would also have raised questions with the other funding bodies in terms of the facility's effectiveness to encourage business starts and stimulate business growth.

Option 3 - Additional Single Programme

- 5.5 In terms of closing the funding gap for the project from the original estimate of £2.3m to the revised figure of £2.5m, both the Single Programme and ERDF were considered as the main potential contributors. However, the Single Programme contribution already represents 60% of the total project costs, some £1.48m, and the Single Programme budget for 2005/2006 is already over-subscribed. The inability of the Programme to carry over underspend from one financial year to the other also hinders its ability to allocate additional monies to projects. After discussion with the Single Programme Secretariat, a small additional contribution of £32,000 was agreed, and formal approval has now been received for the total Single Programme contribution of £1,482,790. This enabled the site on Judson Road to be purchased at the end of March.

Option 4 - Additional ERDF

- 5.6 With regard to ERDF, the process for evaluating projects has changed and more emphasis is being placed on the anticipated revenue generation of projects which affects the ERDF intervention rate and hence, the amount of ERDF that can be contributed to each project. The 'norm' for intervention rates used to be 25% but under the new assessment process, the vast majority of projects are receiving less than that percentage. Following this assessment for the Business Centre, the ERDF Secretariat has approved, in principle, an intervention rate for the project of 23% which has taken extensive negotiations to secure. ERDF funding is also restrictive in terms the elements of capital projects it can support. For example, ERDF will not contribute towards the 2,000 sq ft of floorspace to be occupied by EDBS in the Business Centre and therefore that element, in terms of build costs, has had to be removed from the ERDF calculations. Taking that into account, and the limits on the intervention rate, additional ERDF monies cannot be secured. However, the amount of ERDF for the project overall now represents a contribution of £503,875, and formal approval of this amount has recently been received.

Option 5 - Additional NRF

- 5.7 NRF has already approved a contribution of £250,000 towards the project. An additional NRF contribution of £100,000 has been sought representing half of the funding gap. This was sought as a virement from an existing approved project, and the additional £100,000 was approved by the Strategic Funding Group on the 3rd May 2005.

Option 6 - Additional Council contribution.

- 5.8 Taking account of the exploration of the above options, it is proposed to meet the residual shortfall of £100,000 from the Council's capital resources. East Durham Development Agency (EDDA) were willing to initially contribute £50,000 towards the project but after the Council sought specialist VAT advice, this contribution could not be accepted, as it would have adversely affected the Council's partial exemption limit for VAT.

6.0 Implications

6.1 Financial

In summary the following figures illustrate the original contributions sought compared to the current revised contributions needed to deliver the project.

Original:

Single Programme	£1,450,000
European Regional Development Fund (ERDF)	£500,000
Neighbourhood Renewal Fund (NRF)	£250,000
District of Easington	£100,000
Total	£2,300,000

Revised:

Single Programme	£1,482,790
European Regional Development Fund (ERDF)	£503,875
Neighbourhood Renewal Fund (NRF)	£350,000
District of Easington	£200,000
Total	£2,536,665

- 6.2 The Council's additional contribution of £100,000 will not be required until 2006/2007, given that the construction period will straddle two financial years commencing in October 2005, with completion in July 2006.
- 6.3 Whilst the Council is being asked to make an additional contribution towards the project, it still only represents 8% of the total project cost. For that contribution, the Council will not only own the facility and secure a high quality asset, it will also receive a long-term revenue stream from the rental generated by the Centre's tenants. It has been estimated that a potential profit of £30,457 per year will be generated after the fourth year of the Centre's operation. It is also proposed that this profit will be shared 50/50 with EDDA in recognition of the management services it will provide. A further report on the management proposals will follow in due course.

6.5 Legal

It is not considered that the report has any legal implications for the Council.

6.6 Policy

It is not considered that the report has any policy implications for the Council.

6.7 Risk

A risk assessment has been carried out using the STORM methodology and the necessary actions required to manage the identified risks have been implemented. However, as the project has yet to be subject to market tendering, the final costs of the scheme might change further depending on construction and materials cost pressures.

6.8 Communications

Once the relevant funding has been secured, the project will receive appropriate external publicity, with the Council identified as the lead organisation.

6.9 Corporate

The recommendations contained within this report comply with the Council's Corporate Objective to secure economic well-being and provide quality, equal and diverse sustainable employment.

7.0 Recommendations

7.1 The Executive approves a revised financial contribution of £200,000 to support the total estimated development cost of £2,536,665 for the provision of the East Durham Business Centre at Peterlee

7.2 The additional contribution of £100,000 be met from the Flexible Regeneration Budget for 2006/07

7.3 A further report be presented in due course on the management and operational arrangements for the Business Centre.

Background Papers/Documents referred to:

District of Easington's Corporate Plan

Appendices

Appendix 1 - Business Centre - Plan drawings