

Report of:	Executive Member for Regeneration - Councillor Eric Polano Executive Member for Environment and Finance & Governance - Councillor Barrie Cooper Director of Regeneration and Culture - Richard Horniman Director of Finance - Ian Wright
Submitted to:	Executive - 5 October 2021
Subject:	Centre Square Investment Opportunity - Part A

Summary

Proposed decision(s)
The following is asked of the Executive: <ul style="list-style-type: none"> a) that the information contained in Part A of the report be noted; and b) that the decision be taken once all the financial or exempt information contained in Part B of the report has been considered.

Report for:	Key decision:	Confidential:	Is the report urgent?
Decision.	Yes.	No.	No.

Contribution to delivery of the 2021-24 Strategic Plan		
People	Place	Business
6 Centre Square is targeted to achieve a minimum top 25% BREEAM 'Very Good' rating for environmental performance... <i>"Ensuring our town is an absolute leader on environmental issues."</i>	Creating a strong, elegant, signature building which will enhance the area and create a legacy of quality design... <i>"Transforming our town centre with new buildings that inspire awe."</i>	Providing a further opportunity to secure commercial tenants with strong covenants... <i>"Winning investment and creating jobs."</i>

Ward(s) affected
Central Ward.

What is the purpose of this report?

1. This report proposes that to facilitate the development of 6 Centre Square, Middlesbrough Council provides TVCA with:
 - i. a capital grant of £2,000,000; and
 - ii. retained business rates in respect of 6 Centre Square to TVCA, ceasing the earlier of a 15-year term, or, when the Government changes the business rates mechanism.

Why does this report require a Member decision?

2. The decision is over the financial threshold of £150,000.

Report Background

3. A KPMG Market Analysis Report commissioned by Middlesbrough Council in February 2016 provided an initial feasibility analysis of a new Grade A Office development in the town centre. With no new office space since the 1980s, the town has struggled to retain and attract new business to the town due to the lack of quality office space available.
4. The report identified the risk that having no quality space available will result in further businesses exiting the town altogether. The Business Case for new buildings at Centre Square was based upon an average 65% occupancy over 35 years at an achievable target rent.
5. On 20th February 2018, the Executive approved a report titled *Centre Square East Office Development – Council Investment and Accommodation [Parts A and B]*, which provided that Middlesbrough Council would take 35-year leases on two new Grade A offices at 60,044 sq. ft. and 33,852 sq. ft. gross internal area (GIA) respectively.
6. The larger of the two buildings was originally intended to provide replacement municipal accommodation, with the smaller building being made available for commercial lettings.
7. Further to practical completion of both buildings in September 2019, the Mayor of Middlesbrough concluded that due to significant commercial interest and potential inward investment; both buildings be made available for commercial lettings with an alternative municipal accommodation solution to be identified. On 16th March 2021, the Executive approved Fountain Court, in the heart of Centre Square, as the preferred option for municipal accommodation, with full refurbishment anticipated to be completed by Summer 2022.

Centre Square Commercial Performance

8. Despite the economic shock caused by the global pandemic and the resultant national trend for downsizing of office requirements, lettings at phase one have progressed extremely well:
 - i. the completion of leases totalling c. 73,000 sq. ft. (78% of Net Internal Area), accommodating Causeway Technologies, XPS Pensions Group, Model T Finance (t/a GBB) and Firstsource;
 - ii. agreed leases, pending legal completion, on a further c. 7,000 sq. ft. (7%);
 - iii. advanced negotiations in respect c. 5,000 sq. ft. (5%) for food and beverage provision;
 - iv. initial discussions with a development consultant on the remaining c. 5,000 sq. ft. (5%) of office space;
 - v. the remaining GIA comprises shared facilities for which a service charge is levied.

Rational for Intervention

9. Further research commissioned by TVCA in 2019 on the availability of Office and Industrial Workspace in Tees Valley, found that in general almost all new build developments are unviable without public sector intervention.
10. The private sector could contribute to the capital costs with some debt or equity finance, however, due to the high commercial and financial risk there are viability challenges. The risk is too high for sources of private finance that would be accessible to the project, which would result in either the inability to access funds or the interest rate to account for the high risk, increasing the viability gap. The risk is not reduced for the public sector, but the rationale and mitigation are the safeguarding of Tees Valley jobs and providing a platform for economic growth.
11. The first phase of the Centre Square development has increased average rents in Middlesbrough significantly. Whilst the rates are still not quite enough for a purely private sector-led development, this development has secured a pre-let agreement which significantly protects the investment of public funds. In time, the density of occupation and demand works to a point where private sector ability to speculatively develop, is incrementally improved.
12. Throughout the pandemic, Centre Square remained an attractive option for professional businesses; principally driven by its competitive value and high-quality. Despite the investment risk, the development has realised a positive return and initiated a new phase of rebalancing the town centre economy towards business, as consolidation and restructuring within the retail sector continues apace.
13. Whilst professional business activity is growing within Middlesbrough as a result of Centre Square; it remains relatively low as a proportion of the town centre economy in comparison to national averages.
14. With the existing development substantially let, commercial agents are no longer in a position to satisfy further larger-scale Grade A office requirements; with the risk that Middlesbrough misses the opportunity to secure further inward investment or retain existing growing businesses, as employers gradually move away from out-of-town business parks, towards town centre locations – ostensibly driven by the benefit of intercity connectivity and modern corporate requirements for environmentally sustainable locations.
15. It should be noted that whilst Middlesbrough Council has developed a longer-term strategic approach to address empty or derelict privately-owned office buildings across the town centre; this does not address the current lack of Grade A office accommodation in the short to medium term.

Revised Masterplan

16. In anticipation of relocating businesses and further inward investment enquiries, Ashall Developments secured Planning approval for Building 6 Centre Square (see appendices 1 and 2) on 9th March 2021; following which a revised masterplan (see appendix 3) for the remaining plots received Planning approval on 22nd July 2021.
17. Ashall Developments owns the site of the former Melrose House Building and has cleared the site in preparation for development of 6 Centre Square. Ashall led on the development of phase one at Centre Square in Middlesbrough – demonstrating the demand and quality for the facilities.

Towns Fund and TVCA Funding

18. On 27th May 2021, the Executive approved a report titled *Towns Fund and Future High Streets Fund*, which allocated £2m towards an “additional 40,000 sq. ft. office”. Therefore the proposals within this report provide an opportunity to realise the previously agreed objective.
19. TVCA has also approved a sum in excess of four times that of the Council to provide a full development budget for the construction of 6 Centre Square. TVCA aims to secure a long term return on investment which can support the delivery of major investments into the future.

Business Rates

20. TVCA’s investment is also subject to the transfer of retained business rates (49% of the levy) outlined in Part B of this report. It should be noted that the proposals contained within this report do not result in the Council losing business rates income, as without the proposed funding package and resultant construction of 6 Centre Square, there would be no such income to collect.

What decision(s) are being asked for?

21. The following is asked of the Executive:
- that the information contained in Part A of the report be noted; and
 - that the decision be taken once all the financial or exempt information contained in Part B of the report has been considered.

Why is this being recommended?

22. **Economic Growth** - In addition to significant job retention, the prospective anchor tenant is planning the creation of an additional 100-220 jobs in Middlesbrough.
23. **Costs** - Provided all jobs are safeguarded, the Towns Fund grant of £2m, by itself, equates to a cost per job of £4,167. This is considered good value for money in line with existing capital grant schemes.
24. **Benefits** - The retention of a significant town centre employer will be critical to the recovery of the high street in the post pandemic period, protecting 480 jobs.
25. **Stakeholders** - Heads of Terms have been agreed with the prospective anchor lessee at Centre Square. The success of the first phase is demonstrative that the development meets the accommodation requirements of professional businesses. Residential stakeholders were engaged as part of the planning process which approved both the revised masterplan and 6 Centre Square specifically.

Options Appraisal

Options	Strategic Fit	Achievability	Affordability	Value for Money	Conclusion
Do nothing	No	Yes	No	No - would lead to significant job loss in the local community.	Discard
Middlesbrough Council covers entire development cost	No – high leverage for Middlesbrough Council at Centre Square.	No	No	No - high risk for Middlesbrough Council to proceed with scheme as sole liable party.	Discard

Options	Strategic Fit	Achievability	Affordability	Value for Money	Conclusion
TVCA act as lead investor with supporting grant funding from Middlesbrough Council	Yes	Yes	Yes	Yes - significant Value for Money return in event of prudent occupancy assumptions.	Proceed

Impact(s) of recommended decision(s)

26. **Legal** – An agreement between Middlesbrough Council and TVCA is required to ensure the grant award is subject to the Towns Fund grant conditions and change control processes; assigns responsibility for project management, delivery and risk to TVCA; and, provides for appropriate clawback mechanisms.
27. **Procurement** – The grant proposal does not represent the procurement of goods or services.
28. **Financial** – Provided all jobs are safeguarded, the Towns Fund grant of £2m, by itself, equates to a cost per job of £4,167. This is considered good value for money in line with existing capital grant schemes. The retention of town centre employment will be critical to the recovery of the high street in the post pandemic period.
29. It should be noted that the proposed Towns Funds allocation does not represent Council capital or borrowing.
30. **Policy Framework** – The proposal is within the existing policy framework.
31. **Equality and Diversity** – An Impact Assessment is not required as the proposals will not have an impact on protected groups.
32. **Risk** – The grant award by Middlesbrough Council will be protected by a funding agreement with TVCA, which as lead investor, will concurrently protect its investment in the construction of 6 Centre Square by acquiring the freehold.
33. **Actions to be taken to implement the decision(s)** – As outlined at paragraph 26.

Appendices

Appendix 1: 6 Centre Square – Site Plan

Appendix 2: 6 Centre Square – Southerly and Westerly Elevations

Appendix 3: Centre Square – Revised Masterplan

Background papers

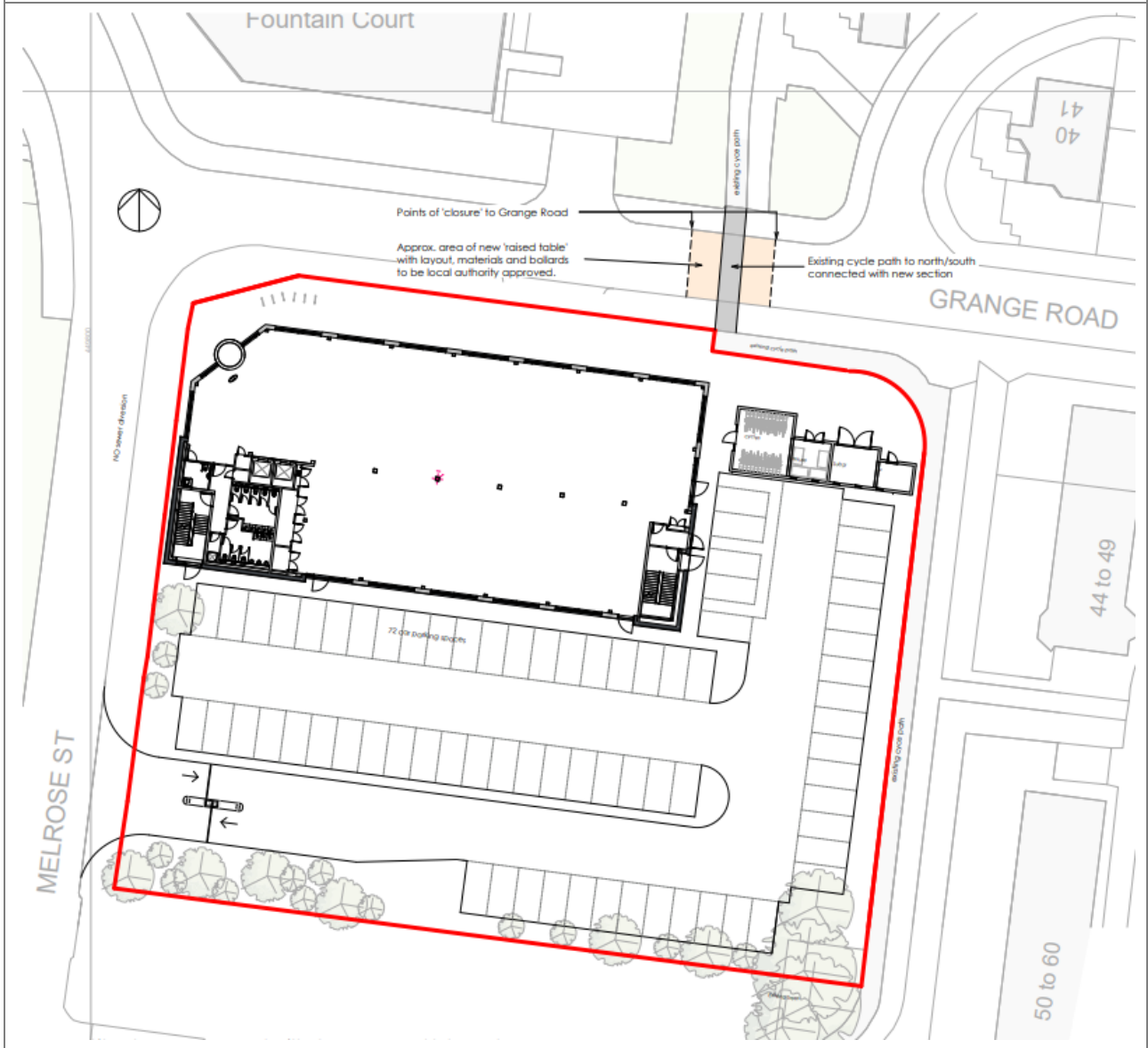
Body	Report title	Date
Executive	Centre Square East Office Development – Council Investment and Accommodation [Part A]	20 th February 2018
Executive	Centre Square East Office Development – Council Investment and Accommodation [Part B]	20 th February 2018
Executive	Council Future Office Accommodation - Preferred Option [Part A]	16 th March 2021
Executive	Towns Fund and Future High Streets Fund	27 th May 2021

Contact: Andrew Cain (Economic Growth and Infrastructure)

E-mail: andrew_cain@middlesbrough.gov.uk

APPENDIX 1

6 Centre Square – Site Plan



APPENDIX 2

6 Centre Square – Southerly and Westerly Elevations



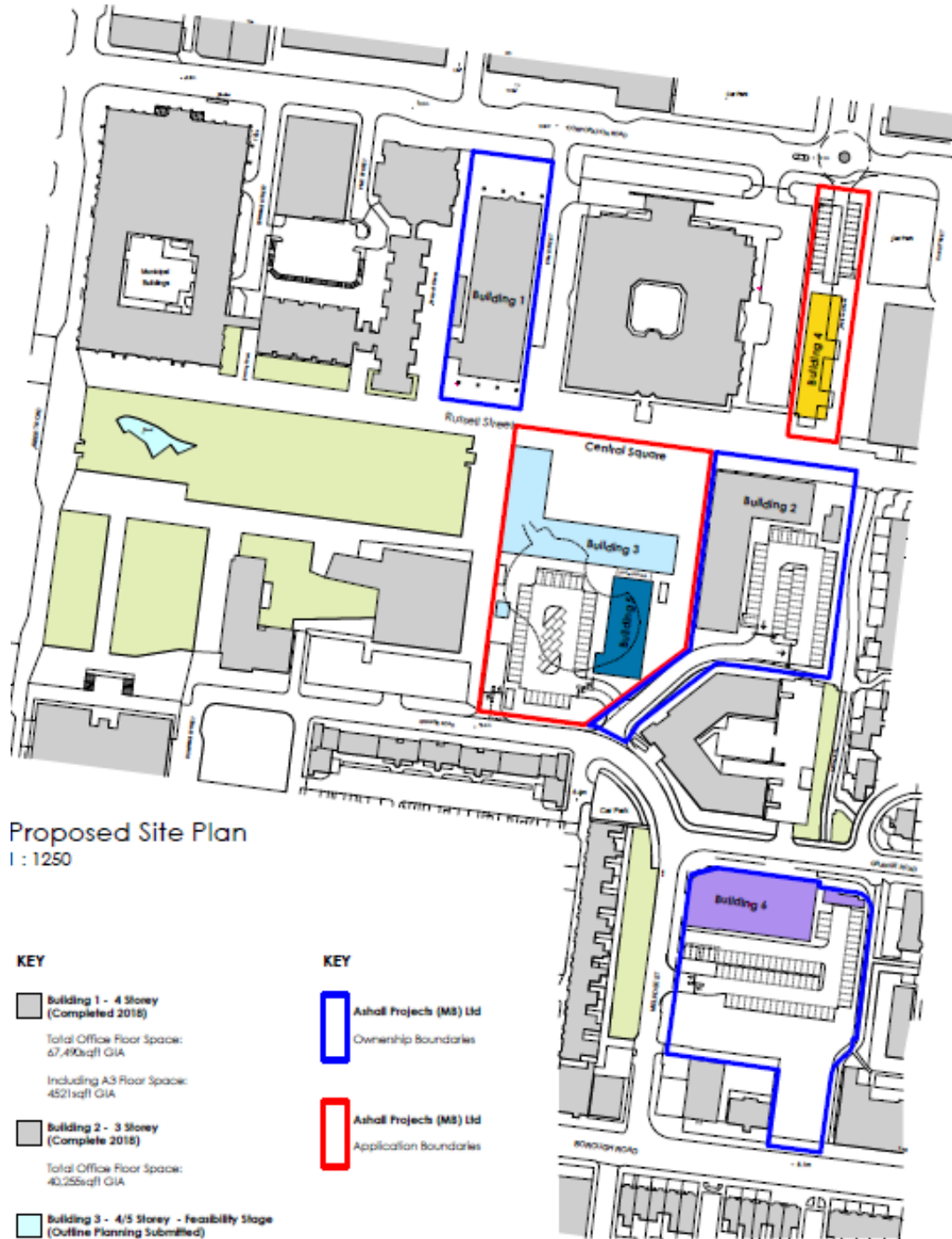
GA - South Elevation
1 : 100



GA - West Elevation
1 : 100







APPENDIX 3

Centre Square – Revised Masterplan



Proposed Site Plan
1 : 1250

KEY

-  **Building 1 - 4 Storey (Completed 2018)**
 Total Office Floor Space: 67,490sqft GIA
 Including A3 Floor Space: 4521sqft GIA
-  **Building 2 - 3 Storey (Complete 2018)**
 Total Office Floor Space: 40,255sqft GIA
-  **Building 3 - 4/5 Storey - Feasibility Stage (Outline Planning Submitted)**
 Total Office Floor Space: 84,417sqft GIA
 Including A3 Floor Space: 5,807sqft GIA
-  **Building 4 - 3 Storey - Feasibility Stage (Outline Planning Approval)**
 Total Office Floor Space: 18,600sqft GIA
-  **Building 5 - 4 Storey - Feasibility Stage (Outline Planning Submitted)**
 Total Office Floor Space: 25,518sqft GIA
-  **Building 6 - 4 Storey - Planning Stage (Planning Approved 2021)**
 Total Office Floor Space: 46,789sqft GIA

KEY

-  **Ashall Projects (M8) Ltd**
 Ownership Boundaries
-  **Ashall Projects (M8) Ltd**
 Application Boundaries