

EGNERE BUSINESS ZONE PROJECT UPDATE

Summary: This report provides Cabinet with an update in relation to the Egmere Business Zone Project and considers the options available for the Council in relation to this scheme.

The report considers a number of potential options as follows;

Options considered:

- Seek an alternative anchor tenant;
- Install the enabling road infrastructure only;
- Build the unit on a speculative basis;
- Seek an alternative site or;
- Withdraw from the proposed scheme.

Conclusions: Given the options appraisal presented above, the fact that at the present time there are no other interested parties that the Council is aware of and coupled with all of the implications around the build contract and timescales (lapse of the LDO and Enterprise Zone status) it is no longer considered viable to continue with the project. Given the timescales and levels of uncertainty around so many different issues it is considered that the project now contains too many risks and the benefits originally anticipated for the site are highly unlikely to be realised.

Recommendations: **It is recommended that Cabinet;**

- 1) Cease the current scheme and that any unallocated funds are made available for alternative capital projects.
- 2) Agree to delegate authority the Head of Finance in consultation with the Portfolio Holder for Finance to effect the necessary reserve transfers required in respect of the revenue funding requirements if the decision is taken to stop the project.

Reasons for Recommendations: Based on the options appraisal undertaken ceasing the project at this point is considered to be the most appropriate course of action.

Cabinet Member(s) Cllr Richard Kershaw	Ward(s) affected: Walsingham
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1. Introduction

- 1.1 An original report outlining this potential development opportunity was reported to Cabinet in October 2014 and, following further work, additional reports have been brought forward to Cabinet in January 2016 and March 2017. An electronic copy of the most recent Cabinet report from September 2018 is available [here](#) and provides further information on the history of the project.
- 1.2 Following further discussions at Full Council on 21 November the decision was taken to undertake an independent review on the business case for this scheme. This was subsequently undertaken by the BE Group at the start of the year and this is discussed in more detail below.
- 1.3 This report now provides an update to Cabinet in relation to the Egmore Business Zone Project.
- 1.4 The Egmore Business Zone site is situated north of Edgar Road, Egmore. The original plan was for the site to be developed as a Business Park in 2 phases on land owned by the Walsingham estate, under a long lease arrangement. Phase 1 was to comprise infrastructure to create a serviced site extending to approximately 8.10 acres (3.278 ha) of developable land, structure planting and landscaping, and to potentially include a standalone unit comprising a workshop and warehouse facility (5,000 sq ft) and office accommodation (3,000 sq ft) for a named occupier which would act as the anchor tenant.
- 1.5 The site has been designated as an Enterprise Zone and this designation will operate for the five years from 1st April 2016 through until 31st March 2021. This status attracts business rate incentives and entails the establishment of simplified planning regime (previously established by the District Council through the designation of a Local Development Order (LDO) for the site) and superfast broadband to occupiers.
- 1.6 The extant Local Development Order (LDO) is focused on facilitating development related to the offshore wind sector but the duration of the LDO designation expires this month (August 2019), as no works have yet been undertaken on site.
- 1.7 Draft Heads of Terms have previously been agreed with the land owner (Walsingham Estate) and the anchor tenant but no final signed lease agreements are currently in place.
- 1.8 A tender exercise was undertaken during 2017 and a preferred contractor was identified. Whilst the tender for construction was split into two distinct elements as described below, it was intended to commence the works in tandem:
 - Construction of infrastructure including roads, footways, drainage and installation of utilities to create a “serviced site” to enable other units to be developed more quickly;
 - Unit 1 comprising 3 bay workshop and office premises. Approximately 773m² of floor space with associated parking and landscaping.

- 1.9 As there are no final signed lease agreements in place however the construction contract has not yet been signed as this would expose the Council to unacceptable levels of risk.

2. Current position

- 2.1 Positive discussions had been held with the New Anglia Local Enterprise Partnership (NALEP) regarding potential grant funding from the Enterprise Zone Accelerator Fund.
- 2.2 As part of drafting the funding bid submission to the LEP the Corporate Director & Joint Head of Paid Service (Steve Blatch) wrote to the key stakeholders, namely the Walsingham Estate and the anchor tenant on 21 June 2019.
- 2.3 The Walsingham Estate responded on 3 July 2019 to say that following further internal discussions they were still happy to proceed on the basis of the Heads of Terms for the lease of the land which had previously been drafted and agreed.
- 2.4 The anchor tenant responded on 28 June however, informing the Council that they currently had a 10 year lease agreement in place on an alternative site with break periods in September 2020, September 2022 and September 2024. They went on to explain that, based on their current requirements and business status, that they were happy to continue in their current premises for now. They also stated that as and when the situation changed that they hoped there would still be place for them within the Egmore Development Zone site.
- 2.5 Unfortunately however this means that there are no current finalised lease agreements in place with either the anchor tenant or the land owner. Having these agreements in place was a requirement of the funding application to NALEP, without this certainty it has not been possible to submit a bid due to the increased levels of risk for both the external funding partner and the Council.

3. Options

- 3.1 Given the current position of the scheme, a number of options have been considered and these are explored in more detail below.

Seek an alternative anchor tenant

- 3.2 As outlined above, while the anticipated tenant is still interested in reviewing the opportunities at the site in the future, they do have an alternative location secured and there is no current lease agreement in place with them for the proposed new unit at Egmore. At the present time the Council is not aware of any other interested parties who are in a position to enter into a lease for the proposed unit on the site. Should it be possible to find a suitable tenant in the very near future (or indeed secure agreement with the previously proposed anchor tenant) there are still a number of significant challenges which would need to be addressed for the scheme to progress as follows;

- Identifying a suitable tenant with a strong covenant whose requirements match the current proposed unit dimensions (designs have already been agreed and completed in respect of the unit as any changes would require further design time);
- As outlined above the LDO lapses this month so planning would need to be finalised and works started on site by the end of August to progress at the current time. While the normal planning process could be followed after August this could have a significant impact on timescales;
- The Council does not have signed lease agreements in place with either an anchor tenant or the landowner. Further to this there is no signed contract in place with the preferred build contractor to construct the unit and no proposed start date (as the Council could not be exposed to the risk of entering in to the build contract without the landowner and tenant being signed up to lease agreements). This in itself creates additional issues as follows:
 - The preferred contractor may not have capacity to complete the build contract now. If the build project needed to be re-tendered this would add a further 3 to 4 month delay to the start of the build process;
 - The previously provided contract prices will be subject to further inflationary cost increases;
 - Given that the build contract needed to commence on site this month to deliver by October 2020 there are only 6 months before the Enterprise Zone status lapses in March 2021 as the EZ status runs for a five year period from April 2016 through to the end of March 2021. Any tenant would need to be in situ prior to the end of this period to benefit from the business rates relief;
 - The original tender process to establish the preferred supplier for the build was completed over two years ago, so making an award at this point could potentially be subject to challenge. As with the point above, if the decision was made to re-tender this would add a further 3 to 4 month delay.
- Legal documentation would need to be agreed and completed prior to any lease agreements being signed;

3.3 The partnership and potential funding from NALEP would have helped to significantly de-risk the project from the Council's perspective. The LEP's funding criteria require either strong evidenced demand for units in a particular location or certainty of a pre-let and the anticipated income derived from that lease; and therefore without firm evidence and an anchor tenant there is no sound investment proposal to put forward to the LEP. The LEP will also require a charge over the land and property to secure its debt, however as the land would be leased, a mechanism would need to be established to deal with this requirement.

Install the enabling road infrastructure only

- 3.4 It would be possible for the Council just to construct the road infrastructure and enabling works (water, foul drainage, electricity etc) but the contract cost for this element of the works is c£900k. This would not result in any return to the Council unless a third party undertook the development of any units and the time pressures outlined above in terms of the loss of the Enterprise Zone status lapsing in March 2021 are all still relevant, as are the issues surrounding the preferred contractor for the construction works.

Build the unit on a speculative basis

- 3.5 While it would be possible for the Council to construct the unit on a speculative basis (assuming the build contractor was still available), this would be a very high risk strategy as it would not be possible to attract any additional external funding. The challenges outlined above regarding the build contractor are still all relevant to this option and the Council would still need to have secured a tenant onsite by 31 March 2021 for them to benefit from the business rate support.

Seek an alternative site

- 3.6 As both the Enterprise Zone and the LDO are specific to the site in Egmore there is no option to move or re-designate this. Alternative sites for development in other parts of the district could be considered in the medium term but these would not attract the additional (Government backed) benefits to the Enterprise Zone status or the LDO.
- 3.7 The Council appointed a consultant (BE Group) to prepare a Business Growth and Investment Opportunities Study in 2015. The report highlighted the lack of good quality commercial floor space across the whole of the district. This did highlight the need for additional floor space so there may be opportunities in the future on alternative sites.
- 3.8 A further BE Group report update was commissioned at the start of the year to review the business case for this proposed development. It considered the project from a commercial perspective and determined that the project is unlikely to be commercially viable and would be highly unlikely to be brought to the market by a private developer. The only realistic option was for the Council to develop Unit 1 and provide the infrastructure to the full site and then take the remaining serviced land parcels to the market. The report did however conclude by saying that even if these land parcels were developed and occupied in a timely manner, the project would still be marginal and was considered high-risk.

Withdraw from the proposed scheme

- 3.9 As with any project there is the ability to withdraw from any further works. There are no formal agreements in place with contractors, landowners or tenants. This would mean that both the LDO and Enterprise status would lapse in August 2019 and the end of March 2021 respectively. The balance of the funding allocation could then be recycled to fund alternative capital schemes.
- 3.10 Should the decision be taken not to progress with the project then it will be necessary to transfer the final project costs back to revenue and for these to

be funded from reserves as it will not be possible to capitalise these costs as the project will be ceasing.

4. Implications and Risks

- 4.1 The current capital budget for the scheme stands at c£2.255m but assumes NNDC finance the project with a £0.450m contribution towards the infrastructure costs from the Norfolk Business Rates Pool (NBRP), giving a net cost to NNDC of just over £1.8m.
- 4.2 Spend to date on the project has been c£170k, however the Council received £44k external funding from the NBRP during 2017/18, a further £36k in April 2019 and there is a further minor claim pending of £5k, which would take the net cost to the Council down to £85k.
- 4.3 There is a risk that the NBRP could try to reclaim the funding provided to date but the Council has acted in good faith in trying to progress the scheme and any discussions with would be held on this basis. There should be a recognition that it will not always be possible to deliver schemes and that it is sometimes better to stop a scheme rather than to try and continue with it.
- 4.4 If the scheme were not to proceed the balance of the capital funding would not be required and would be released to fund alternative capital schemes.
- 4.5 There are reputational and relationship risks for the Council to consider, such as with the Walsingham Estate, NALEP and the NBRP group although it is felt that all of these can be managed.

5. Conclusion

- 5.1 Given the options appraisal presented above, the fact that at the present time there are no other interested parties that the Council is aware of and coupled with all of the implications around the build contract and timescales (lapse of the LDO and Enterprise Zone status) it is no longer considered viable to continue with the project. Given the timescales and levels of uncertainty around so many different issues it is considered that the project now contains too many risks and the benefits originally anticipated for the site are highly unlikely to be realised.

6. Recommendations

- 6.1 It is recommended that the current schemed is ceased and that any unallocated funds are made available for alternative capital projects.
- 6.2 If the decision is taken to stop the project it is recommended that Cabinet agree to delegate authority the Head of Finance, in consultation with the Portfolio Holder for Finance, to effect the necessary reserve transfers required in respect of the revenue funding requirements.

7. Sustainability

- 7.1 There are no sustainability implications directly resulting from the recommendations or options considered in this report.

8. Equality and Diversity

8.1 There are no equality and diversity implications directly resulting from the recommendations or options considered in this report.

9. Section 17 Crime and Disorder considerations

9.1 There are no Crime and Disorder implications directly resulting from the recommendations or options considered in this report.