



# Northumberland

## County Council

CABINET  
23 April 2024

### Northumberland Energy Park Phase 3 site at East Sleekburn – Delegated Arrangements for Sale (Part 1)

**Report of Councillor(s)** : Councillor Glen Sanderson, Council Leader

**Responsible Officer(s)**: Simon Neilson, Executive Director – Place and Regeneration

#### 1. Link to Key Priorities of the Corporate Plan

- **Driving Economic Growth** – securing development on Northumberland Energy Park Phase 3 (NEP3) will support the Council in delivering its corporate priority of driving economic growth. As a recognised strategic employment site, NEP3 offers the opportunity to create significant economic and jobs growth.
- **Tackling Inequalities** – Supporting job creation is a key route to supporting greater prosperity and wellbeing for individuals; wrap around employability and skills programmes and transport investments ensure jobs that will be created on NEP3 will benefit local residents and contribute to tackling inequalities
- **Achieving Value for Money** – securing investment on NEP3 allows the County Council to realise opportunities for economic growth in the county, providing jobs and growth for local residents as well as providing increased Business Rate income, spend in the wider economy and wider economic and social outcomes for residents.

#### 2. Purpose of report

To seek Cabinet approval to allow for the purchase of Northumberland Energy Park Phase 3 (NEP3) and provide for a significant private sector investment into this key strategic employment site, creating jobs and infrastructure development, as well as the creation of up to £110m Growth and Investment Endowment Fund as a result of the agreement.

#### 3. Recommendations

3.1 Cabinet is requested to:

3.2 Note the scale and significance of the intended investment and associated infrastructure developments and opportunities set out in the report and agree that this represents a project of national importance, as well as the significant benefits it will bring to the County and north east;

- 3.3 Enter into a deed of release which releases unconditionally NCC's 'buyback' option agreement dated 9 April 2021, and as varied by a deed of variation dated 11 April 2022, made between the County Council and Power By BV Properties Limited;
- 3.4 Enter into a new 'buyback' agreement with an entity owned by funds managed by affiliates of Blackstone Inc. (such entity, Blackstone), subject to the Heads of Terms and undertaking satisfactory Due Diligence, more particularly set out in part 6 of the confidential papers;
- 3.5 Agree the establishment of up to £110m Growth and Investment Endowment Fund, as a ring-fenced fund to maximise the opportunities across the County to deliver jobs growth and investment in support of the Council's Economic Strategy, the scope of which is set out in paragraph 6.13, and for which further details will be brought to Cabinet for consideration in due course;
- 3.6 To note the Council's intention to work closely and collaboratively with Blackstone QTS and National Grid and / or the appointed Power Provider to enable the development and provide additional power provision for other potential users that NCC seeks to promote, including the possibility of a new National Grid substation on NCC land.
- 3.7 To support the exploration of opportunities for the identification of additional sites through a land assembly strategy, and to bring forward sites for economic development and employment growth focussed on locations well related and accessible to the Northumberland Line, and other existing strategic transport infrastructure, including the Port of Blyth.

#### **4. Forward plan date and reason for urgency if applicable**

The item was entered into the Forward Plan on 26 March 2024

#### **5. Background**

- 5.1 In March and April 2021, Northumberland County Council (NCC) considered and agreed the purchase of the former coal stacking yard of Blyth power station, north of Blyth in Cambois, known as the Northumberland Energy Park Phase 3 (NEP3), from its then owners RWE for £4.000 million. At the same time the Council agreed to the back-to-back onward sale of the site to Britishvolt, trading as Power by Britishvolt Ltd (BV), for £4.000 million.
- 5.2 The sale to BV contained an Option in favour of the County Council providing a 'buy-back' for the same sale price (£4.000m) in the event that certain milestones on the development were not achieved: essentially requiring significant development of the site for a gigafactory plus conditions relating to specific funding from HM Government in support of the plans.
- 5.3 In December 2022, BV went into administration with only initial site preparation works undertaken at NEP3. The conditions of the Option agreement were not met by BV. BV also left a legacy of a charge on the land following a £multi-million loan secured against it through Katch Investment Group. Katch later appointed Begbies Traynor as Law of Property Act (LPA) Receivers and in January 2023, Ernst & Young Global were appointed as administrators to sell BV.
- 5.4 Over the intervening period the Council has been engaged in discussions with the administrators and LPA receivers as the Option (the 'buy-back') ensures that NCC

are a key controlling partner for any prospective developer or owner of NEP3, alongside our wider roles in promoting economic development and statutory roles as both planning and local highway authority.

## **6. Proposal**

- 6.1 As part of the discussions on the future of the site, with both the LPA receivers and administrators, as well as Government, given the national importance of the site, significant interest began to emerge for the use NEP3 for datacentres and/or an artificial intelligence (AI) campus. This was owing to the previous investments and activity led by Advance Northumberland to bring forward such an important and attractive site, the unique combination of site scale, clean electricity supply, and cooling water, alongside a growing demand in the data centre market.
- 6.2 The UK is a globally important data centre market, home to the largest data centre market in Europe and the world's second largest commercial cluster. Each new data centre contributes £397m-£436m GVA (Gross Value Added) per year to the UK economy. New technologies, increasingly utilised across sectors, are driving an increased demand for greater data centre capacity and the COVID-19 pandemic has accelerated some of the trends and factors driving growth in the sector.
- 6.3 The UK is seen as a strong location for datacentres due to the experience and innovation in property and construction, the connectivity and optical fibre infrastructure, data security and privacy regulations, the welcoming investment environment, the cool and temperate climate and importantly the stable and affordable power supply. The strengths of the NEP3 site, particularly the scale of the site, it's location, access to cooling water and strong renewable energy supply is critical to making NEP3 an attractive site for a large scale inward investment of this nature. The investment value of such operations is significant, with large construction programmes associated with their development, related infrastructure development and community benefit.
- 6.4 Due to the strengths of the NEP3 site a number of parties began to approach NCC, including via the Administrators and LPA Receivers. In January 2024, the Executive Director for Place & Regeneration confirmed with the LPA Receiver that Blackstone and QTS had reached a preliminary agreement on a lock-out position to complete on the exchanged position to secure the site. NCC has therefore progressed discussions with Blackstone and QTS, given this position. NCC understands there is a condition on this exchange in favour of Blackstone and QTS, which requires a decision of NCC – through a cabinet resolution – to vary or remove the 'buy-back' Option on terms which are agreeable to it.
- 6.5 The investment proposal that is being brought forward for NEP3 is the development of a major Hyperscale Cloud and/or AI Data Centre Campus, to be delivered by QTS, a leading global data centre owner, operator and developer, which is owned by funds advised by affiliates of Blackstone Inc., one of the largest asset management funds in the world. The project would represent a significant inward investment of up to £10billion, with the potential for a further £5-10billion from tenant investment; deliver over 1,600 direct jobs, including 1,200 long-term construction jobs, and over 2,700 indirect and induced jobs over the course of the development, and result in over £5bn of economic impact.
- 6.6 The project represents not only a significant investment in the County but, given its scale adds to the digital infrastructure and resilience nationally at a time when the

demand for the data driven machine learning and artificial intelligence is increasing, and as such has the support from Government and the Minister for Investment.

- 6.7 The UK has already shown strengths in data driven growth and productivity in the financial sector and increasingly in the health sector, however there are significant opportunities for this to be extended to growth sectors in the County and north east, including clean energy and manufacturing. With local and regional innovation and research assets and industrial clusters in these sectors, linked with the new and leading technologies delivered by the Hyperscale Data Centre Campus, there are exciting opportunities to develop cutting edge technology at the forefront of new industries. Linking these opportunities with skills and employment opportunities for local communities will be key to ensuring the investments benefit Northumberland residents.
- 6.8 It is recognised that there were significant expectations on the site which have not in reality been borne out, however in recognition of the importance of NEP3 as a key strategic employment site NCC has sought to secure an ambitious commercial arrangement for the variation or removal of the 'buy-back' Option reflecting the land value of the intended development.
- 6.9 For the past few months, NCC have been in active negotiation with Blackstone on what terms would be acceptable to support such a decision through NCC Cabinet, subject to Due Diligence. To support the negotiations and decision making, Cushman and Wakefield were commissioned to provide a Brokers Opinion of Value of the NEP3 site, based on development for datacentre use, which has allowed an assessment of best value (see Options section in Part 2 report).
- 6.10 As a result a draft Heads of Terms will be considered by Cabinet in private session, due to the sensitivity of the commercial information contained within the document, and supporting documentation, which seeks to release the current NCC 'buy-back' option and enter into a new 'buy-back' agreement with Blackstone, subject to satisfactory Due Diligence.
- 6.11 To support the consideration of the issues in this report NCC has commissioned Due Diligence on Blackstone, Inc., the Blackstone-managed funds looking to invest in the project and QTS and the proposals for the development of the site. Although commercially confidential in nature the Due Diligence, carried out for NCC by Grant Thornton, it highlights:
  - a) Financial strength of funds managed by Blackstone to deliver on the draft Heads of Term agreement and project proposals
  - b) QTS track record of delivering data centres
  - c) Risks associated with a currently unknown market presented by the demand for Cloud and AI
- 6.12 To further support consideration of options, the Council's advisors have obtained the opinion of leading Counsel in regard to this issue.
- 6.13 In recognition of the potential value of a future agreement, the agreement will see a payment of up to £110m to NCC. It is proposed this resource is used to establish the Growth and Investment Endowment Fund, a ring fenced fund, to maximise opportunities across the County to deliver further jobs growth and investment in support of the Council's Economic Strategy.

- 6.14 Funds will be due and payable in phases on a number of milestones being met, necessary for the development to succeed, including planning permissions, securing power, leasing and the successful development of the site.
- 6.15 The primary purpose of the Growth and Investment Endowment Fund (GIEF) is to support economic growth and job creation and will be prioritised to bring forward projects for this purpose. More detailed proposals will be brought forward for Cabinet consideration in due course and it is envisaged that funding will be ring-fenced to deliver the following outcomes:
- a) Increased economic activity and improved productivity and wage levels
  - b) Economic growth and more and better jobs
  - c) Increase business competitiveness, sustainability and productivity
  - d) Enhanced placemaking and connectivity
  - e) Unlocking partnership collaboration between the private and public sector
- 6.16 To support delivery of the above outcomes a Land Assembly Strategy will be developed with the aim of bringing forward sites in the County to deliver further jobs and growth, with a focus on industrial critical mass and proximity to existing business base and the economic growth corridor, created by the introduction of the Northumberland train line. These will be in locations well related and accessible to the Northumberland Line, and other existing strategic transport infrastructure, including the Port of Blyth. While some sites within this geography already benefit from being allocated for employment uses in the Adopted Northumberland Local Plan (2022), there are significant land holdings in the area which do not. The Local Plan does, however, include provisions to support, in appropriate circumstances, large-scale “windfall” employment development on unallocated land. It is proposed that in the short term, land will be brought forward using allocated sites or the windfall policy.
- 6.17 Concurrently, there will be a strategic evaluation on whether enough employment land can be brought forward through this mechanism to meet growth aspirations. At the time of the development of the Local Plan, the delivery of the Northumberland Line was far from certain, and inward investment had not been secured on the NEP sites. Following this evaluation, if appropriate and necessary, consideration can be given to allocating additional key employment sites in a wider Northumberland Line growth corridor through a supplementary plan, or through an early review of the Local Plan, to ensure that a continuing supply and mix of employment sites remains. A routine review of the Local Plan is due by 2027 in accordance with national planning policy.
- 6.18 **Power** – Access to power, including significant levels of renewable energy, is a key strength of the NEP3 site and will be critical for the delivery of the proposed development and securing end users. The Hyperscale Data Centre Campus will be a heavy power user so the project is conditional on a power solution; as such constructive discussions have taken place between Blackstone, QTS, NCC, National Grid and power providers. These discussions will inform the solution to the power requirements of Blackstone and QTS and in addition NCC has sought to ensure there is new energy infrastructure to bring forward wider development in the area.

6.19 It is recognised nationally that the large levels of power demand that the project will require are understood to be helpful in mitigating wider power system issues otherwise created by large levels of power infeed being introduced to the electricity network in this area. This therefore assists in managing the flows across the transmission network and, although it is yet to be studied by the relevant Network Owners in detail, it could help in reducing the need for further network investment to export the power from the region.

6.20 **Investment Zone** – the NEP3 site has been identified through the putative North East Combined Authority and Government as an ‘Investment Zone’ site. The Investment Zone status confers a number of tax incentives on the end users of the site, which will support Blackstone and QTS in securing end users for the Hyperscale Data Centre Campus, and increases the confidence in the growth of local Business Rate income and income to be retained in the region as a result of the Investment Zone policies. It also brings with it funding to support innovation and skills, which will be accessed, alongside wider support locally and regionally, to ensure local communities can benefit from these investments.

## 7. Options open to the Council and reasons for the recommendations

7.1 In making the decision to bring forward development of the NEP3 site the Council faces four choices: agree to remove the existing ‘buyback’ agreement and accept the commercial deal with Blackstone; step in and purchase the site; purchase through Advance Northumberland; or ‘do nothing’ and await the date at which the Council can exercise its ‘buy-back’ Option.

7.2 The recommended position is to agree to remove the existing buyback agreement to secure a significant inward investment from Blackstone, securing wider investment into the County as a result of the agreement. It should be noted this course of action carries the support of Government and the Minister for Investment. The detailed SWOT (strengths, weaknesses, opportunities, threats) analysis of each option is set out in section 7 of the Part 2 report to inform Cabinet’s consideration of this matter.

## 8. Implications

<b>Policy</b>	None indentified
<b>Finance and value for money</b>	<p>Section 123 of the Local Government Act 1972 provides that “except with the consent of the Secretary of State, a council shall not dispose of land ... otherwise than by way of a short tenancy, for consideration less than the best that can be reasonably obtained”. In this instance, the Council is not disposing of land, but instead receiving consideration for releasing the buy back option on the site and replacing it with a new buyback option that reflects the commercial development value of the land.</p> <p>Advice will be sought to determine if this contribution should be recognised by the Council as a Capital Receipt or Revenue Contribution.</p>

<p><b>Legal</b></p>	<p>This is a matter for an Executive Decision.</p> <p>The following matters should be borne in mind when considering the offer. This is not an exhaustive list and additional matters may also be considered:</p> <ul style="list-style-type: none"> <li>a. The terms of any agreement;</li> <li>b. The deliverability and credibility of Blackstone's bid;</li> <li>c. Blackstone's financial position and ability to make the contractual payments;</li> <li>d. The realism of Blackstone's contingencies to meet the Heads of Terms commitments – if no, what impact would deductions to the payments have on NCC;</li> <li>e. The deliverability of NCC's obligations under the agreement: <ul style="list-style-type: none"> <li>i. The timeline for planning permission;</li> <li>ii. The need to ensure that the agreement does not fetter or seek to fetter NCC's discretion in respect of the planning process;</li> </ul> </li> <li>f. What further information might be needed on Blackstone's proposals – when an application would be submitted, exactly what it would entail etc;</li> <li>g. The deliverability of the Power supply requirement under the agreement, and what would amount to sufficient "comfort" for Blackstone in this respect;</li> <li>h. The impact that failing to achieve each of the stages of the agreement would have on the agreement, NCC, and the site: <ul style="list-style-type: none"> <li>i. The benefits to NCC of accepting the offer – for example financially, securing jobs for Northumberland, ensuring use of the site etc;</li> <li>j. The benefits to NCC of not accepting the offer- for example preserving the ability of NCC to take control of the site through buy-back;</li> </ul> </li> </ul> <p>and</p> <ul style="list-style-type: none"> <li>k. Whether accepting the offer would represent best value for money <ul style="list-style-type: none"> <li>i. Its strategic fit and whether it meets business needs;</li> <li>ii. Its potential value for money;</li> <li>iii. The capacity and capability of NCC and Blackstone;</li> <li>iv. The potential affordability;</li> <li>v. The potential achievability;</li> <li>vi. Other benefits which are not quantifiable or monetizable – e.g. enabling progress on the site for the benefit of Northumberland;</li> <li>vii. Other options (e.g do nothing, renegotiate,</li> </ul> </li> </ul>
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	rely on exercising the buyback themselves in 2025) should be weighed against one another to consider whether or not accepting the offer would provide best value for money.
<b>Procurement</b>	None identified
<b>Human resources</b>	None identified
<b>Property</b>	Under the recommended option, the proposal would see significant private sector investment on a key site within the County. In addition the Council would be securing additional investment which could be used to bring forward employment sites with a view to securing further jobs and investment.
<b>Equalities Act: is a full impact assessment required and attached?</b>	No - no equalities issues identified An equalities impact assessment has not been carried out. The investments described in this report will support economic growth and help to tackle inequality in the County and where necessary any projects or activities supported by the funding referred to in the report will make due consideration of the Council's Public Sector Equality Duty.
<b>Risk assessment</b>	Risks have been considered of the recommended option (and all options) through the options appraisal in section 7 of the report. Risk mitigation has been sought through external advice referred to in sections 6.10, 6.12 and 6.13
<b>Crime and disorder</b>	None identified
<b>Customer considerations</b>	None identified
<b>Carbon reduction</b>	None identified
<b>Health and wellbeing</b>	None identified
<b>Wards</b>	Sleekburn

## 9. Background papers

Northumberland Energy Park Phase 3, Cabinet 6 March 2021

Northumberland Energy Park, Cabinet 9 November 2021



**10. Links to other key reports already published**

As above

**11. Author and Contact Details**

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