

Cabinet

15 September 2021

NETPark Phase 3 Development Funding

Key Decision REG/05/21



Report of Corporate Management Team

Amy Harhoff, Corporate Director of Regeneration Economy and Growth

Councillor James Rowlandson, Cabinet Portfolio Holder for Resources, Investments and Assets

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To seek agreement to finance the development of a third phase of NETPark, the North East's premier science and technology park, with up to 270,000 sq. ft of new space, together with authorising the next stage of the programme, to appoint a design and build delivery partner.

Executive Summary

- 2 The Council's Vision for County Durham 2019-2035 includes the ambition "to create more and better jobs". The development of strategic sites such as NETPark, is key to this broader ambition, supporting businesses and our workforce by developing a pipeline of projects and investment plans at major employment sites across the county.
- 3 Developed by the Durham County Council and occupied by significant private sector employers, NETPark (The North East Technology Park) is the region's only science park and currently home to 40 companies, including Kromek, Filtronic, IBEX Innovations and Polyphotonix and support by Durham University. The site also employs over 600 people in specialist sectors.
- 4 The Council previously agreed to both retain ownership of NETPark and also to enter into a partnership agreement with Clear Futures, a procurement vehicle for public sector bodies, as a test pilot, to accelerate the development of NETPark Phase 3, as there was

insufficient capacity and capability in-house to take on a project of this scale.

- 5 Clear Futures, utilising Robertson Construction and Ryder Architecture, is able to create a design and build partnering arrangement that allows the Council to retain creative and leadership control and provide additional resources capable of supporting a cost-effective building programme for the development of NETPark Phase 3.
- 6 NETPark Phase 3 is owned by the Council and is some 26 ha in total with 13 ha of serviced land now available, this has also been supported by a £5.1 million infrastructure investment led by the Council and supported by the North East LEP.
- 7 The Council has an initial cost plan of three options for a scheme to develop up to 270,000 sq. ft of new laboratory, office, production and storage space, based on demand from existing NETPark tenants and potential further inward investment to the site.
- 8 The report considers the three development options:
 - Option 1a based on a single build unphased programme of two years;
 - Option 1b based on a phased building programme up to five years; and
 - Option 2 based on a unphased building programme but including a multi-story car park (MSCP).
- 9 A procurement options appraisal will be undertaken and completed by September 2021, to identify a suitable construction partner based on the preferred Option 1a of a single build unphased programme of two years at an estimated cost of **£49.6 million**.
- 10 The procurement options appraisal will review public sector accessible construction frameworks including but not limited to NEPO, Crown Commercial Services (CCS) and SCAPE, in addition to the Clear Futures option to determine the most suitable procurement route for the appointment of the design and build partner.
- 11 Developing NETPark Phase 3 would help achieve key targets of the Council Plan including the creation of up to 1,250 skilled jobs adding over £625 million GVA (Gross Value Added) to the County Durham economy. A typical business taking space on NETPark Phase 3 would provide a broad range of job opportunities including scientists, technicians, administration, accounting, marketing, IT and logistics.

- 12 A long-term financial model has been fully appraised and has identified that the £49.6 million initial capital investment can be financed by the Council from future income streams from the rental of the new units over a 35-year period.

Recommendation(s)

- 13 Cabinet is recommended to:
- (a) (subject to consideration of the corresponding exempt/private report) agree to progress the development of NETPark Phase 3 at a forecast capital investment of £49.6 million on a self-financing basis with the peak revenue shortfall in year 2 to be met from the Commercial Reserve; and
 - (b) delegate authority to the Corporate Director of Regeneration Economy and Growth and Corporate Director of Resources in consultation with the Portfolio Holder for Resources, Investment and Assets and Portfolio Holder for Finance to agree the final build contract value to ensure that the development can be self-financing.

Background

- 14 A business case for the development of new buildings at NETPark Phase 3 has been developed over the last twelve months, including a consideration of the use of Council funds and the use of Clear Futures as a testbed pilot for the design and build of the project that could be used for other design and build development projects in the future.
- 15 The partnership agreement with the Council and Clear Futures, led by Robertson Construction, Ryder Architecture and Cushman and Wakefield, was subsequently agreed and a revised masterplan and outline business case for funding for NETPark Phase 3 has now been completed.

Strategic Context

- 16 The Council's Vision for County Durham 2019-2035 includes the ambition "to create more and better jobs" by supporting businesses emerging from lockdown and by developing a pipeline of projects and investment plans at major employment sites across the county.
- 17 NETPark (North East Technology Park) is owned by the Council and having been established for sixteen years, is the region's only science park. It consists of a range of properties for early stage and growing science and technology businesses and is currently home to 35 companies, including Kromek, Filtronic, IBEX Innovations and Polyphotonix, employing a total of over 600 staff specialising in fields such as nanotechnology, X-Ray technology, forensics and semiconductor technology.
- 18 NETPark has strong links with Durham University, with the NETPark Research Institute housing part of the University's Centre for Advanced Instrumentation. It is also home to two National Catapult Centres – The High Value Manufacturing Catapult, managed by CPI, and the North East Satellite Applications Centre of Excellence managed by Business Durham; three national innovation centres including National Formulations Centre, National Centre for Healthcare Photonics and National Centre for Printable Electronics operated by CPI.
- 19 Managed by Business Durham as part of the Council's portfolio of industrial and commercial property, NETPark now has ten buildings totalling some 200,000 sq. ft, including two owned by CPI and the rest owned by the Council including Plexus 1 and 2, Discovery 1 and 2, Explorer 1 and 2, Kromek plc and the Durham University Research Institute, the first building to open in 2004 and now also home to Orbit, the Durham University Enterprise Zone.

- 20 The Strategic Economic Plan highlights that innovation is central to the region's long-term ambition to build a more productive North East with stronger innovation delivery improving productivity and growth in 'better' jobs, which are highly paid and highly skilled. The plan identifies NETPark as a key Science Park in the North East supporting this aim of more and better jobs.
- 21 Furthermore, the recent North East Local Enterprise Partnership (NELEP) Health and Life Science Strategy cites NETPark as an essential part of the region's innovation infrastructure and one of a number of key locations where the health and life sciences sector is clustering. There is a strong opportunity to complete the development of these locations, and to strengthen the linkages between them to ensure a vibrant regional eco-system.
- 22 Durham County Council is committed to NETPark as a key innovation asset and driver of economic growth in the County, supporting businesses to innovate and grow.
- 23 NETPark Phase 3 is 26 ha in total and is confirmed within the County Durham Plan 2035 as land for science and technology businesses. The Council owns the freehold of the land following a recent acquisition from the NHS. NELEP provided most recently £5.1 million Local Growth Fund, to open up part of NETPark Phase 3 for new development, creating a new junction to the A177 and 13 ha of serviced land.

Development Funding Business Case

- 24 Existing companies at NETPark with proven technology and a growing customer base see NETPark Phase 3 as an ideal location for a pilot plant and an opportunity to create a scalable, adaptable manufacturing facility, incorporating HQ facilities of offices and meeting rooms, laboratories, clean room manufacturing and warehousing. Detailed discussions have been held with seven companies at NETPark who are considering their growth requirements for the next three years.
- 25 Based on this level of positive interest and strong demand, together with a consideration of potential inward investment opportunities, a masterplan showing the development of 270,000 sq. ft of new space for the next five years has been developed. The footprint of the area is shown in outline below with remaining land for future development hatched.



- 26 The design concept was to develop a unique, vibrant and exciting environment and build on the success of NETPark to-date. The development is centred around a green space to encourage pedestrian movement and interaction between people on site. The south east corner provides an opportunity for a hub building to provide a prominent, centrally located position linking the existing and new phases of development. Options for car parking were to consider a multi storey car park but surface car parking was considered better value. The key aspect of providing green space was to focus on the environment, provide quality flexible spaces with a capability to support individual tenant fit outs from cleanrooms to production, office and storage space.
- 27 The proposed masterplan has been designed to RIBA (Royal Institute of British Architects) Stage 2 including a preliminary cost plan provided by Turner and Townsend. The design is in line with the Council's minimum standard to provide a BREEAM (Building Research Establishment Environmental Assessment Method) Very Good rating. BREEAM aims to reduce the environmental impact of a building by recognising their sustainability benefits, especially in relation to carbon reduction. The Stage 3 designs will consider any increased cost implications as the Council aspires to a net zero carbon development.
- 28 The business case considered three development options:
- Option 1a based on a single build unphased programme;

- Option 1b based on a phased building programme up to five years; and
- Option 2 based on a unphased building programme but including a multi-story car park (MSCP).

Cost Plan and Timeline

- 29 The RIBA Stage 2 cost plan has been developed for eight buildings and is based on the appointment of a Tier One contractor in October 2021, planning approval January 2022, a start on site in July 2022 and buildings finished from July 2023 onwards. Further details as to the cost plan are set out in the corresponding report on this item, which is exempt from publication under Schedule 12A para 3 of the Local Government Act 1972. It is expected buildings for tenants already identified would be available for fit-out from early 2023.

Demand and Revenue Assessment

- 30 There is evidence of strong interest and demand in Phase 3 from existing NETPark tenants, including the North East Satellite Applications Centre of Excellence, who are considering taking additional facilities through both the North East Space Hub and DISC (Disruptive Innovation for Space Capability). Further details on the companies interested in taking on larger premises at NETPark are set out in the corresponding report on this item.
- 31 Existing property at NETPark is currently 92.13% occupied with all remaining properties reserved and a pipeline of further enquiries. Cushman and Wakefield has confirmed a national uptake in demand for space from Life Science businesses that would support Phase 3 and subsequent vacancies in smaller spaces within NETPark.
- 32 The expansion of existing tenants into Phase 3 would likely create some 40,000 sq. ft of vacant space across the existing NETPark buildings. It is expected that this space would be filled within six to twelve months based on the current demand for the smaller labs and offices.

Risk Assessment

- 33 A number of risks need to be considered in relation to the Council agreeing to finance the development and to take on responsibility for the tenants and buildings.
- 34 The fully tendered build cost could be higher than forecast but if this is the case the Council could still agree to move ahead if the development was self-financing and the project could still deliver economic development benefits.

- 35 The appointment of a Tier One contractor at an early stage of the project would mitigate the risk to the Council and put the risk with the contractor but there are still pressures on build costs due to high building material cost inflation and the cost of developing buildings in line with the Council's net carbon zero targets. A full risk register has been developed for the project including mitigation measures.

Procurement Strategy

- 36 Durham County Council is one of the largest local authorities in England, with an ambitious investment programme and extensive number of capital investments. In this context, it is important that the County Council builds on its existing resources and ensures that significant investment programmes have the capacity to ensure delivery. This is often on complex and highly technical programmes.
- 37 The Council, in partnership with the Clear Futures framework, has provided an agile delivery team to secure tenant interest and providing cost certainty on the cost of construction.
- 38 Moving to the main design and build phase it has been agreed to undertake a procurement options appraisal to identify a suitable partner procured in compliance with the Official Journal of the European Union (OJEU) to undertake the construction phase of the programme.
- 39 Following the identification of the procurement route, the Council would look to appoint a Tier One building contractor in October 2021 as part of a two-stage design and build process under a JCT 2016 Design and Build contract. The Council would ensure the delivery of a competitive tendering process which may include supporting representatives from both Clear Futures and the Council's Procurement and Construction Consultancy Services functions.
- 40 As part of the Council's contract a regional / SME supplier pool would be established which would provide opportunities for local contractor engagement. Where appropriate, the Council will seek to influence a local supply chain involvement in support of our County Durham Pound programme. The Council may utilise the use of our own in-house services. The use of Durham TOMS social value assessment would also be a key weighting factor in the appointment which will maximise the social value outcomes in the procurement phase in support of the Council's County Durham Pound Programme.
- 41 The options appraisal will consider existing frameworks including NEPO, CCS and SCAPE as well as reviewing the Clear Futures option to identify the most suitable procurement route to ensure the appointment of an agile and value for money partner to deliver the

project supporting the County Durham Pound agenda and our Climate Change Emergency action plan.

Conclusion

- 42 The £49.6 million proposed level of investment at NETPark Phase 3 is significant. However, without continued investment in space, there is a risk that this high performing park may experience a situation where growing businesses on the site have to relocate elsewhere to be able to expand.
- 43 As with any major capital programme requiring public investment, a carefully considered risk and mitigation plan will be provided alongside rigorous governance as part of the scheme.
- 44 The investment would lead to a further 1,250 jobs at NETPark, supporting a further 2,200 jobs in the supply chain and with evidence across the country showing new jobs at a science park generate twice the national average GVA, an additional annual £125 million GVA into the County economy.
- 45 The recommendation at this stage is for the Council to continue to utilise a suitable contracted partner who can provide a responsive and agile delivery team with gateway checkpoints at the end of each RIBA stage before proceeding further into contractual agreements. This will be identified as part of the procurement options appraisal.
- 46 The recommended course of action will provide an opportunity to control future development and enable the Council to deliver economic objectives of the next phase of a successful science park with potential to support up to 1,250 new jobs.

Background papers

- None

Other useful documents

- None

Author(s)

Peter McDowell

Tel: 03000 265506

Appendix 1: Implications

Legal Implications

Section 2 of the Local Authorities (Land) Act 1963 and the general power of competence under the Localism Act 2011 provide the Council with the power to carry out the development itself or join with others to do so. Subsequent disposals on a freehold or leasehold basis would be authorized by Section 123 of the Local Government Act 1972.

Finance

The corresponding report sets out the capital cost of the scheme and projected rental income to cover the debt charges. The development is forecast to be self-financing although a short-term funding shortfall would need to be financed from the Commercial Reserve.

Consultation

Not applicable.

Equality and Diversity / Public Sector Equality Duty

Not applicable.

Climate Change

The buildings developed at NETPark will look to achieve BREEAM Very Good and contribute to the Council's Net Zero Carbon ambitions.

Human Rights

Not applicable.

Crime and Disorder

Not applicable.

Staffing

Not applicable.

Accommodation

Not applicable.

Risk

The corresponding report sets out identifiable risks and mitigation proposals.

Procurement

Procurement in conjunction with Legal colleagues are currently undertaking due diligence on the Clear Futures range of documentation and contracting mechanisms. Following conclusion of the due diligence process, Procurement will confirm the suitability of the proposed contracting route for this project.