

Cabinet

29 September 2021

**Review of Durham County Council
Headquarters**

Ordinary Decision



Report of Corporate Management Team

Amy Harhoff, Corporate Director of Regeneration, Economy and Growth

Paul Darby, Corporate Director of Resources [Interim]

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

Councillor Richard Bell, Cabinet Portfolio Holder for Finance

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 On 16 June 2021, Cabinet agreed that a review would be carried out into the options for use of the newly constructed Durham County Council Headquarters (HQ) at the Sands in Durham City. The scope of the review was as follows:
 - (a) review the options for utilising the new building at the Sands, Durham City;
 - (b) consider the options for the location of HQ functions taking account of the review of the new building and assessing the options for the existing HQ site at Aykley Heads; and
 - (c) ensure that the strategic employment site proposals for Aykley Heads are fully considered as part of the review.
- 2 This report provides Cabinet with the evidence from the review findings and makes a series of recommendations linked to this evidence. This analysis includes any contractual, legal and financial implications

including those relating to the timescales of any decision. The report addresses wider considerations including the economic outcomes, Council office accommodation and an options appraisal for new HQ building that is being constructed on the Sands. The report addresses the public interest and value for money considerations that need to inform any change in the original plans for the Council to occupy the building.

Executive Summary

- 3 The outcome of the review into the options for use of the newly constructed Durham County Council Headquarters at The Sands demonstrates that the only viable alternative to the Council taking occupation is for it to be occupied by a single third party.
- 4 The market for such a third party is limited however, there is a potential interest from a third party. Preliminary discussions have taken place with the interested third party although further, more detailed negotiations are required.
- 5 The findings from the review into whether County Hall could be refurbished set out that this does not represent a viable option due to the estimated costs that would be incurred because of the design, age and condition of County Hall. Added to this, the redevelopment of Aykley Heads will be negatively impact by leaving County Hall either partially or totally in situ. This means that the only viable option is for County Hall to be demolished and the Aykley Heads site to be redeveloped.
- 6 The review found that it would be feasible for a new Headquarters to be constructed on the Aykley Heads site although further, more detailed work is required which would include determining the size, scale and cost of the building, the location on the Aykley Heads site and how this would fit with the overall Aykley Heads masterplan.
- 7 The outcome from the review as to whether there are alternative locations to both Aykley Heads and the Sands for a new headquarters suggests that, based on the strategic objectives set out in the original business case, along with the size of site needed to accommodate a building of the scale of the HQ, there are unlikely to be other sites in Durham City which meet the criteria. However, there are sites and buildings across the county (both in DCC and private ownership) that could potentially be suitable to provide office and civic accommodation. An options appraisal will need to be carried out in order to review site and building availability based on the Council's aspirations for its office and civic accommodation and which has regard to economic, financial, commercial management and strategic objectives.

- 8 If a decision is taken not to occupy the newly built HQ on the Sands then a viable, value for money alternative that delivers the benefits of the original plans will be required.
- 9 Based on the current position and evidence gathered to date, and considering the interest shown in the building on the Sands, there is an opportunity to explore the potential broader economic impacts that could be achieved through disposal of the building to the interested third party.
- 10 In view of this there is a need to complete, as a matter of urgency, a business case to determine the Council's options for moving forward with its office and civic accommodation. This will need to address the following factors:
 - (a) the business case for the Council to follow a new strategy for provision of its HQ facilities;
 - (b) the alternative plan for the Council's office and civic/committee accommodation if the new HQ on the Sands is not occupied;
 - (c) the resources, costs and other implications of disposing of the HQ to a third party; and
 - (d) the wider impacts of the decision, including the wider economic investment strategy for the County.
- 11 Marketing of Aykley Heads will not take place until there is certainty around the future strategy for the replacement of County Hall, however, the development work required to go to market will continue.
- 12 A common element to all potential alternative scenarios is the need to consider and limit the timescales to implementation. This is a critical issue to any future decision making, as it will impact on a number of the necessary financial and economic assessments. These considerations will need to be reflected in the business case for any decision and it is considered that the Council will need to conclude its decision by summer 2022.

Recommendation(s)

- 13 Cabinet, having regard to the corresponding exempt report, is recommended to:
 - (a) agree that the only viable alternative to the Council occupying the building on the Sands would be for disposal or letting to a single occupier;

- (b) note the key risks that need to be considered prior to any final decision not to occupy the building and dispose of it to a third-party interest;
- (c) agree to the development of a business case that considers a range of relevant issues including the alternative options for office accommodation and civic space for the County Council whilst ensuring the achievement of outcomes for the Aykley Heads development;
- (d) note that the role of the business case, (which will be reported to Cabinet not later than Summer 2022) is to assure the decision-making process of the council and have clear regard to economic, financial, commercial, management and strategic objectives;
- (e) delegate authority to the Corporate Director of Regeneration Economy and Growth and Interim Corporate Director of Resources in consultation with the Cabinet members for Resources, Investments and Assets and for Finance to agree the scope of the business case;
- (f) note that officers will progress negotiations with the interested third party on a subject to contract basis at the same time as preparing a business case;
- (g) agree that refurbishment of County Hall either for DCC staff or to let in the marketplace as office accommodation does not represent a viable alternative or good value for money;
- (h) agree that partial demolition of County Hall is not a practical or viable option and does not represent value for money;
- (i) agree that the Council remains committed to the development of Aykley Heads as a Strategic Employment Site and that to facilitate this, County Hall is to be demolished to enable this development; and
- (j) agree that should it not be possible to reach a satisfactory outcome from negotiations with the interested third party within agreed timeframes set out that the Council will occupy the building on the Sands as its new HQ.

Background

- 14 In June 2021, Cabinet committed to reviewing the options for use of the newly constructed Durham County Council Headquarters (HQ) at the Sands in Durham City and an approach for reviewing the options for the Council's HQ functions.
- 15 The decision to relocate the Council's HQ to a new building at the Sands in Durham City and to develop Aykley Heads as a strategic employment site was agreed by Cabinet on 17 January 2018.
- 16 The review that was initiated in June 2021 has sought to address three questions:
- **Question 1:** What are the options to repurpose the existing building under construction on the Durham Sands for alternative use eg. hotel or offices, this is to include options for letting the building floor by floor?
 - **Question 2:** If the new HQ was put to an alternative use and Durham County Council were to remain in County Hall, what are the options to improve the building and still deliver the significant proposed development?
 - **Question 3:** Can the Council find alternative locations to both Aykley Heads and The Sands for a new Headquarters what are the options, benefits and risks of this approach?
- 17 This review was undertaken throughout July to September 2021. Having a clear rationale and business case for any change in direction that satisfies the public interest and value for money tests have been key considerations.
- 18 There are a number of key issues and risks that need to be addressed when re-visiting the decision to occupy the new HQ on the Sands. These include the following factors, which must be satisfied from a public interest and value for money perspective:
- (a) the business case for the Council to follow a new strategy for provision of its HQ facilities;
 - (b) the alternative plan for the Council's office and civic/committee if the new HQ on the Sands is not occupied;
 - (c) the resources, costs and other implications of disposing of the HQ to a third party; and
 - (d) the wider impacts of the decision, including the wider economic investment strategy for the County.

- 19 The Council is under a statutory duty to make arrangements for securing the economy, efficiency and effectiveness in the use of its resources. Cabinet must be satisfied that any decision taken is in the public interest and achieves value for money. Such matters will be considered by the Council's external auditor as part of the Council's value for money assessment and as part of their external audit work, and a failure to demonstrate decisions are in the public interest and represent value for money could result in the Council's accounts being qualified or a report in the public interest being published.

Overview

- 20 The County Council has been, and is, implementing an assets rationalisation and realisation strategy in regard to its operational estate, considering a number of key issues including using sites and assets to unlock regeneration and economic growth as well as the functional needs of the local authority in a modern office context. The County Council also has to ensure that in investing and managing its estate, this reflects good value for money and is underpinned by strong financial decision making.
- 21 On the creation of the new unitary authority in 2009, the Council brought together a large work force who worked within a highly fragmented property portfolio across forty main office buildings. Rationalising the portfolio presented a unique opportunity to improve organisational performance and deliver significant savings. This involved a detailed appraisal of the real estate strategy, processes, policies, departmental structures, and team profiles.
- 22 It was determined by the Council at that time, that the most appropriate way forward was to complete a costed 'options appraisal' to inform decision-making and investment in relation to the Council's future property strategy. Key to this was the future of the County Hall building in Durham City. Deloitte Real Estate (DRE) were engaged to support the Council during the preparation of the Options Appraisal.
- 23 This options appraisal was carried out following a process that was in line with HM Treasury Green Book requirements. The conclusions it ultimately reached led to the decision to build a new HQ in Durham City on the site at The Sands.
- 24 The subsequent new building at The Sands is substantially complete and is nearing practical completion, with the final fit out currently being completed. Handover of the building and the new multi storey car park (MSCP) from Kier Property is expected to take place in early 2022, though occupation of the building will not be possible until the sprinkler tanks are installed. The locating and installation of the sprinkler tanks is

pending the outcome of the de-registration of the common land, which has been subject to a public inquiry.

Findings from review

- 25 Question 1 sought to consider the options to repurpose the existing building under construction on the Durham Sands for alternative use eg. hotel or offices, including options for letting the building floor by floor.
- 26 The findings from the review into whether the building could be converted to a hotel clearly set out that the building as it is currently designed is aligned with modern office standards for single occupancy use by a municipal public sector body (the Council). To convert the building into a hotel (a potential alternative use for a building of this size), there are a number of commercial, technical and statutory issues to be considered. Any conversion would require significant design and construction intervention which could take some 30 months from start on site.
- 27 Conversion of this building into a hotel would be cost prohibitive when considered alongside the existing construction costs which are further explored in the corresponding exempt from publication report considered later on the agenda. It can clearly be demonstrated that conversion to a hotel does not represent value for money for this building and that the visitor economy aspiration is best met by considering alternative locations. It would not be in the public interest and is not a viable option to progress this option financially.
- 28 When considering the suitability of the building for office accommodation to be let in the market place, the review has highlighted that post Covid office occupiers are more focused than ever on taking high quality accommodation that delivers on sustainability and wellbeing to create an environment to attract and retain staff. The best route to meeting that objective is to move into accommodation that has been designed and delivered with all of these considerations having been addressed; in this regard the building on the Sands meets these objectives.
- 29 The critical consideration, were the building to be offered to let in the open market, is whether it meets local and regional market demand at a market driven level of price, layout, flexibility and, crucially, market alignment in terms of the size of accommodation offered.
- 30 It is on these core fundamentals of office design and layout where the building is very much compromised when considering its capability to be repurposed. In meeting the original design brief to create a forward-looking local authority headquarters building so successfully, the result

is a building that is not suited to traditional occupier needs when compared to competing accommodation across the region.

- 31 The base design and layout of the building on the Sands significantly hinders the success of an open marketing campaign, unless certain critical aspects are addressed, and even then, the compromise due the physical layout will continue to limit its appeal. Furthermore, the cost implications of this reverse engineering exercise are likely to be significant, which when added to the original construction cost results in a building that is not financially viable from a commercial letting perspective based on the rentals occupiers are prepared to pay in the market. This is further explored in the corresponding exempt from publication report considered later on the Agenda.
- 32 The only other option available would be to let or agree the freehold sale of the building to a single occupier. There is no evidence of a single private sector transaction within the North East City Centre markets of this scale. This is because of the scale of the accommodation and the size of organisation or institution that would have demand for such a space and the buying power to acquire it. However, disposal or letting to a single occupier either from the private or public sector remains the only viable alternative to the Council taking occupation of the building as its new HQ.
- 33 During the review period, the Council was made aware of a potential interest in the building from a third-party occupier. They have expressed a very real and viable interest in acquiring the building on the Sands. Negotiations are at a very early stage however and there are significant issues that need to be considered and addressed prior to giving any firm commitment to the final decision not to occupy the building on the Sands and to dispose of it to a third-party.
- 34 The common element to all scenarios is the need to consider and limit the timescales to implementation. This is a critical issue to any decision making as it will impact on a number of the necessary financial and economic assessments. These considerations will need to be reflected in the business case for any decision and it is considered that the Council needs to conclude its decision by summer 2022, with an appropriate business case to substantiate any decision made that clearly satisfies the public interest and value for money tests.
- 35 Question 2 sought to consider that if the new HQ was put to an alternative use and Durham County Council was to remain in County Hall, what options existed to improve the current building and still deliver the significant proposed development.

- 36 The review has revisited the original business case for the new HQ, specifically the issues around the need for new office accommodation and the potential to remodel the existing County Hall building as a modern fit for purpose office building.
- 37 County Hall is a 1960s reinforced concrete frame and single glazed building. It occupies the prime location on the proposed Aykley heads strategic employment site. The building has asbestos throughout but the high content in all of the locations where services run is particularly problematic. Over the years the building has had various adaptations made to it in an attempt to create a more modern office environment eg. some partition walls have been removed to create open plan office areas. However, the design of the building along with the presence of asbestos means that there are limitations to what can easily be changed. The result is an inefficient building with an overall footprint that is too large (circa 18,000 m² GIA) and which is costly to run.
- 38 An estimate of the costs for a full refurbishment of the building which would include stripping out the asbestos, addressing all backlog maintenance issues and replacing the heating system and other utilities including major components such as new lifts, ensuring the building met with all relevant standards with the flexibility to be sublet to third parties, and provided a modern office environment which was future proofed would be cost prohibitive. This is explored in more detailed in the corresponding exempt from publication report considered later on the Agenda.
- 39 The design and asbestos content within County Hall makes it a difficult building to work with and limits the options for partial demolition. County Hall was designed and constructed as one building and any proposal to reduce the size of the building (for example, removing a wing), will need a full structural assessment and is likely to lead to costly work to ensure the structural integrity of the remaining building.
- 40 In addition, as the services within the building are all interconnected, for example, the heating ducted air system and electrics run up services risers from floor to floor and branch out on each floor running in the ceiling voids, it would still be necessary to carry out a full asbestos strip across the whole of the building prior to any partial demolition works.
- 41 Leaving County Hall in situ (either as a complete building or with partial demolition) will negatively impact on the proposed redevelopment of Aykley Heads. County Hall is located on Plot A, North Aykley Heads which in the current masterplan and outline planning permission is to accommodate a 663 place multi storey car park, and two buildings comprising in total a 7,000sqm gross internal floor area.

- 42 These plots are considered to be 'prime' and 'gateway' development plots for Aykley Heads and also integrate with other development plots sharing car parking and access infrastructure. They will attract higher rental values given their location and closer proximity to the train station and city centre.
- 43 To leave County Hall in situ will consume prime development sites, reduce the scale of the development site available and impair a developer's ability to create a new campus style destination. It will also have the potential to adversely impact on infrastructure enabling work required for the wider Aykley Heads development. Architecturally, the building would not be in keeping with the proposed development and this would impact negatively on the ability to develop and attract businesses to the site.
- 44 For all of the reasons outlined above it is not considered practical, viable or to represent value for money to leave County Hall, either partially or as it currently stands on Aykley Heads. If a decision was taken not to occupy the newly built HQ on The Sands, then a viable value for money alternative that delivers all the benefits of the original plans will be required to satisfy the public interest test.
- 45 The Aykley Heads development could accommodate a new Headquarters building for the Council. Careful consideration would need to be given to the location and size of a new building on the Aykley Heads site.
- 46 A more detailed assessment of the Council's exact requirements will be needed prior to providing a definitive assessment of the overall impact of a new building on the site.
- 47 Question 3 sought to address whether the Council could find alternative locations to Aykley Heads and The Sands for a new Headquarters and the options, benefits and risks of such an approach.
- 48 The findings from the review as to whether the Council can find an alternative location to both Aykley Heads and The Sands for a new Headquarters are inconclusive at this stage. As part of the work that was carried out in preparing the outline business case for the new HQ on The Sands, a site appraisal assessment was undertaken. This considered the sites that were available within the city at the time to meet the desired objectives and whether they were suitable to support the development of a new HQ.
- 49 The site search was based on the strategic objectives that were set out in the business case along with the size of site needed to accommodate a building of the scale of the HQ. Although this was completed approximately four years ago, there has been no significant change to

the availability of DCC or privately owned sites in the city based on the original criteria.

- 50 There are however sites and buildings across the county (both in DCC and private ownership) that could potentially be suitable to provide office and civic accommodation. An options appraisal will need to be undertaken to adequately review sites and building availability in other localities. This options appraisal will need to be carried out based on a business case. The business case will need to be carefully scoped to ensure that it adequately captures the Council's aspirations for its office and civic accommodation moving forward and has clear regard to economic, financial, commercial, management and strategic objectives.
- 51 The marketing of Aykley Heads will not commence until there is certainty around the future strategy for the replacement of County Hall, however, the development work required to go to market will continue.
- 52 If a building of the size and scale of the HQ office on the Sands was to be procured again, the costs of construction will be higher than those incurred on the Sands building, because of building inflation. The construction cost of any building can be affected by particular site constraints and ground conditions such as building on reclaimed land or a flood plain. The business case will need to assess the Council's future requirements including building size and design, taking account of future business requirements and any further learning from Covid.
- 53 Based on the current position, evidence gathered to date and the interest shown in the building on the Sands, there is an opportunity for the Council to explore the potential broader economic impacts that could be achieved through disposal of the building to the interested third party.
- 54 In view of this there is a need to complete, as a matter of urgency, a business case to determine the future direction for the Council's office and civic estate. This will determine alternative options available to the Council.

Background papers

- None.

Other useful documents

- None.

Author(s)

Susan Robinson

Tel: 03000 267332

Appendix 1: Implications

Legal Implications

The Council is under a statutory duty to make arrangements for securing the economy, efficiency and effectiveness in the use of its resources. The Council's external auditors are tasked with satisfying themselves that those arrangements are proper. Should the external auditor not be satisfied they could qualify the Council's accounts or issue a public interest report to the Council. Cabinet must therefore be satisfied that any decision taken is in the public interest and achieves value for money.

Should the Council not occupy the new building on the Sands it will be important from a public interest perspective that the Council can demonstrate that on the whole, the regeneration and other benefits envisaged from the original business case can be delivered or exceeded by any alternative course of action.

The Council is also under a statutory duty to dispose of land for the best consideration that can be reasonably obtained.

Finance

The review has evidenced that the only other option to the Council occupying the building as originally planned would be to let or agree the freehold sale of the building to a single occupier. Whilst there was no evidence of a single private sector transaction within the North East City Centre markets on the scale required, during the review period an approach was made to a potential third-party occupier. They have expressed a very real and viable interest in acquiring the building on the Sands.

Negotiations are at a very early stage however and there are significant issues that need to be considered and addressed prior to giving any firm commitment to the final decision not to occupy the building on the Sands and to dispose of it to a third-party.

The common element to all scenarios is the need to consider and limit the timescales to implementation and it is considered that the Council will need to conclude its decision by summer 2022, with an appropriate business case to substantiate any decision made that clearly satisfies the public interest and value for money tests.

A further options appraisal / feasibility study is to be commissioned, the cost of which will be met from corporate contingencies. The outcome of that study will be presented to Cabinet for consideration in Summer 2022. This will include full consideration of the MTFP and budget impacts of any alternative course of action – both revenue and capital.

Consultation

Significant work has been undertaken in terms of planning for the move to the new HQ and staff and their representatives have been engaged in the planning.

Equality and Diversity / Public Sector Equality Duty

An Equalities Impact assessment will be undertaken as part of the more detailed feasibility.

Climate Change

The new building on the Sands has been designed to British Council for Offices (BCO) standard and to meet all modern design and sustainability credentials being BREEAM Very Good and EPC A rated. This represents a significant improvement on the existing County Hall, and when allied to energy efficiency and other measures factored into its design and construction (including limitations on car parking available to promote sustainable transport usage), and the fact it is significantly smaller than the current County Hall, it will contribute positively to the Council's Climate Change and Carbon Reduction plans.

Climate Change and Carbon Reduction considerations will need to form a key part of the options appraisal and business case for any potential alternative course of action.

Human Rights

None specific to this report.

Crime and Disorder

None specific to this report.

Staffing

The review to date has been undertaken using existing staffing resources, through reprioritising activity, supplemented by the support of external consultants to undertake the independent assessment of the options being explored.

Following a rationalisation of the Council's office accommodation, the Council's core office based workforce are located in one of five main offices: Seaham, Spennymoor, Crook and Meadowfield and the HQ. The capacities of these buildings has been increased through implementing the Inspire principles and more recently following a review of the accommodation needs post COVID, which has seen a significant reduction in the desk ratios available and a move towards a hybrid working model going forward.

Considerable investment has been made in improving the strategic sites and the standard of the existing County Hall accommodation is poor by comparison. Availability of onsite parking is a key concern for those staff aligned to the new HQ and these concerns were already under considerations in terms of access to available spaces and potential concessions in terms of access to Park and Ride.

As part of the development of the options appraisal and business case for a possible potential alternative strategy should the Council not subsequently occupy the Sands building, careful consideration should be given to ensuring the alternative fit for future service delivery and provides a working environment that encourages staff engagement, staff retention and aids staff recruitment etc, which were fundamental considerations to the previous strategy.

Accommodation

The new building at the Sands is substantially complete and is nearing practical completion, with handover of the building and the new multi storey car park (MSCP) from Kier Property expected to take place early 2022, though occupation of the building will not be possible until the sprinkler tanks are installed. The locating and installation of the sprinkler tanks is pending the outcome of the de-registration of the common land, which has been subject to a public enquiry.

The current gross internal area of the new building is 10,278m², arranged over three full levels and a further two-part level to the upper floors. The building has been designed specifically for the Council to use as its administrative HQ.

Risk

There are also some significant reputational risks and other issues that need to be addressed when re-visiting the decision to occupy the new HQ on the Sands. These include the following factors, which must be satisfied from a public interest and value for money perspective:

- (a) the business case for the Council to follow a new strategy for provision of its HQ facilities;
- (b) the alternative plan for the council's office and civic/committee if the new HQ on the Sands is not occupied;
- (c) the resources, costs and other implications of disposing of the HQ to a third party; and
- (d) the wider impacts of the decision, including the wider economic investment strategy for the County.

The review has evidenced that repurposing the building as a hotel or as a multi-let office facility are not financially viable and do not pass the value for money or public interest tests and therefore cannot be pursued.

Based on the work undertaken the only viable option available, other than the Council occupying it as originally planned, is for a let or sale to a single occupier on commercially viable terms.

A common and significant risk element to all potential alternative scenarios is the need to consider and limit the timescales to implementation. This is a critical issue to any future decision making, as it will impact on a number of the necessary financial and economic assessments. The risks are not wholly within the Council's control, with reliance on the third party to progress their interest and, crucially, to resolve any planning issues they may have in terms of change of use conditions, considered a key risk.

These considerations will need to be reflected in the business case for any decision and it is considered that the Council must conclude its decision by summer 2022.

Procurement

The review has necessitated the commissioning of external independent consultancy support, through the engagement of Avison Young, Cushman and Wakefield and Tomorrow Advisory Services. Further consultancy support will be required to help complete the next stage of the review and the development of an options appraisal and business case for any potential alternative course of action to the Council occupying the new HQ building on the Sands. The procurement of any consultants to support this review has been undertaken in line with the Council's Contract Procedure rules.

Commercial negotiations are ongoing with the interested third party. A Non-Disclosure Agreement has been signed by both parties whilst discussions are progressed.