

**Cabinet**

**27 April 2022**



**Durham County Council Headquarters Alternative  
Options Assessment**

**Key Decision No. REG/04/22**

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**Report of Corporate Management Team**

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**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 This report is the third in a series of reports reviewing the plans to occupy the newly constructed building on The Sands in Durham City. It considers options for the location of the Council's Headquarters (HQ) functions and use of its estate to support wider economic objectives for the county should the Council not occupy The Sands site.
- 2 The report sets out a proposal to dispose of The Sands site, (excluding the surface car park area and new multi storey car park), subject to planning. The Cabinet decision must be in full consideration of the key business case requirements and value for money including economic, financial, commercial, management and strategic objectives. A separate private report included elsewhere on the Agenda includes information, which is considered to be exempt under paragraph 3 Schedule 12A of the Local Government Act 1972. Executive summary.

## Executive summary

- 3 On 16 June 2021, Cabinet agreed to review the options for use of the newly constructed Durham County Council Headquarters (HQ) at The Sands in Durham City and to set out an approach for reviewing the options for the Council's HQ functions.
- 4 The building at The Sands is now complete, however, the common land de-registration process has resulted in additional unforeseen /unbudgeted costs of circa £2.1 million having been incurred to practical completion – resulting in an overall development spend of £51.2 million. These additional costs can be largely offset should the Council not occupy the building, as the planned investment in audio-video/ICT infrastructure and in new furniture and fittings, that was included in the original budget sum, can be saved. This would reduce the overall additional spend incurred to a forecast £0.6 million, which can be financed from capital contingencies, and would require a revised development budget of £49.7 million.
- 5 On 29 September 2021, Cabinet agreed to a number of recommendations with regard to the future of the Council's estates strategy and Council HQ functions. It was agreed that further work would be undertaken on alternative options for office accommodation and committee space for the Council. The protection of the strategic employment development site at Aykley Heads and future demolition of the existing County Hall building was also agreed.
- 6 The need to meet public interest and value for money considerations underpinned the September 2021 report and these considerations need to inform any change to the original plans for the Council to occupy The Sands building.
- 7 Cabinet agreed that the viable alternative to the Council occupying the new HQ building on The Sands would be for the disposal of that building or letting of it to a single third-party occupier within a reasonable timescale and to conclude the position by Summer 2022. The September 2021 report identified the difficulties in securing interest in a building of this size, noting that another single occupier would likely be the only viable alternative.
- 8 Cabinet noted the high-level risks and issues that needed to be considered prior to any final decision not to occupy the building on The Sands and to dispose of it.
- 9 The September 2021 report also advised of an interest from a third party in acquiring the building. It was agreed that negotiations with the third party would progress on a subject to contract basis, while at the

same time a business case for an alternative accommodation strategy would be prepared. The interest from a specific third party was referenced in the report, but not formally identified at that time due to commercial confidentiality.

- 10 The interested third party is Durham University, which is seeking to acquire the building to enable the development of the University business school. The use of the building, readiness of the University and the heads of terms agreed for the purchase price are the key factors in the justification for the disposal to a 'special purchaser' in this case.
- 11 Durham University Business School (DUBS) and its strong global reputation would provide an important economic asset to the overall development. The University also has a key role in enabling and supporting an inclusive economy. The University has presented clear evidence of a readiness to move forward with the business school, subject to planning.
- 12 Common with all scenarios considered in the September 2021 Cabinet report was the need to limit the timescales to implementation. It was agreed that any negotiation with the third party must be concluded no later than three months following approval of any viable alternative office accommodation strategy, which was anticipated to be Summer 2022.
- 13 It was agreed that should it not be possible to reach a satisfactory outcome from negotiations with the interested third party within the timeframes set out in the Cabinet report, or if a viable alternative office accommodation strategy was not found, then the Council would occupy the building on The Sands as its new HQ.
- 14 The proposed disposal to the University is subject to planning approval of a change of use for the existing site to support the use as a business school (use for education purposes). A planning application led by the University is expected to be considered by the County Planning Committee in July 2022.
- 15 This report provides Cabinet with the outcome of the negotiations with the University and the business case for disposal, including the broader economic outcomes and the alternative Council office accommodation strategy that could be implemented. 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 on The Sands.
- 16 Underpinning the recommendations set out in this report are a range of issues, not only the importance and opportunity to ensure a high

performing and consistent approach for publicly accessible, workforce accommodation and space, but also the opportunities to achieve strong economic objectives releasing wider development for the county, a strong commercial outcome for public money and an alternative accommodation plan that meets the Council's needs.

- 17 There are a number of key areas that are considered as part of the business case that has been developed:
  - (a) demonstrating a strong financial position from progressing the alternative options;
  - (b) a clear economic case that meets the Council's aspirations for levelling up and an inclusive economy;
  - (c) the connectivity of the development of the Council's estate with broader regeneration master plans for the county including the Aykley Heads strategic employment site development;
  - (d) the need to ensure that climate change is considered in the proposals; and
  - (e) ensuring that the development of the estate can reflect the needs of the Council to deliver effective services and workforce wellbeing.
- 18 Technical reviews to assess the key aspects of the strategic, economic, financial, commercial and the management case for the proposals have been undertaken. This includes understanding the costs and comparison of the benefits of the alternative estates strategy that is proposed, against the original business case for occupying the building on The Sands.
- 19 Additional work will be required on the detailed development and assurance of the project as it is implemented.
- 20 In reviewing the preferred option for the alternative estates strategy, a number of options and building scenarios have been considered.
- 21 Taking account of the desired objectives, the preferred alternative accommodation strategy, as set out from paragraph 90, consists of occupation of the building currently under construction at Plot C, Aykley Heads, a new build civic centre incorporating a conferencing facility at Plot D, Aykley Heads and the refurbishment of the former Customer Access Point building at Front Street, Stanley, which are recommended for the following reasons:
  - (a) considers the estate as part of a broader plan for regeneration;

- (b) provides flexibility for the Council's office accommodation;
- (c) allows increased use of existing assets;
- (d) provides the option for civic accommodation to be used as a conference facility for the wider Aykley Heads employment site, which will enhance marketing opportunities for the Aykley Heads site;
- (e) overall, the revised estates strategy seeks to deliver against a range of objectives to meet a balanced outcome and ensure value for money.

### **Recommendation(s)**

22 Cabinet, having regard to the corresponding exempt report, is recommended to:

- (a) note the work that has been undertaken to review the Council's current main office estate and office accommodation requirements, to reflect the needs of the business and the ways of working post Covid, and the business case underpinning the preferred alternative office accommodation strategy set out in this report;
- (b) note the options set out from paragraph 90 to provide an alternative HQ and office accommodation, including the proposal for a new civic site for the authority which provides an opportunity for wider events space at Aykley Heads and will enhance the attractiveness of the site to prospective occupiers;
- (c) agree the preferred office accommodation option for a new build civic centre at Aykley Heads Plot D, use of the building under construction, Plot C at Aykley Heads for office accommodation and refurbishment and use of the former Stanley Customer Access Point;
- (d) note the flexibility to review the scope and scale of the new build and refurbishment areas to reflect any changing requirements which could include bringing other buildings into the strategy. Authority for such changes to be made to be delegated to the Corporate Director of Regeneration Economy and Growth and Corporate Director of Resources in consultation with the Cabinet Members for Resources, Investments and Assets and for Finance;
- (e) note that this strategy will be further developed considering technical delivery, legal issues, consultation and further detailed

appraisals commensurate with a development of this type and scale;

- (f) agree to progress with the disposal of the building on The Sands, to exclude the surface car park area and multi storey car park, to Durham University. The disposal to be subject to planning permission for a change of use to enable the building to be used as the University's business school;
- (g) delegate authority to the Corporate Director of Regeneration Economy and Growth and Corporate Director of Resources in consultation with the Cabinet Members for Resources, Investments and Assets and for Finance to agree the detailed terms of the disposal;
- (h) agree that should the University not move forward with the acquisition within timescales set out in paragraph 97 of this report, that the Council moves into the existing building on The Sands;
- (i) agree that any surplus funds from the disposal that are not otherwise required for the delivery of the Council's revised estate strategy will be available for MTFP planning purposes and can be considered for a range of investment opportunities including levelling up investment across the wider county;
- (j) agree that the capital budget for The Sands development is increased by £0.6 million, financed from capital contingencies, on the basis of the building being sold to Durham University, or £2.1 million if retained and occupied.

## Background

- 23 On 16 June 2021, Cabinet agreed recommendations which set out proposals to review the options for use of the newly constructed Durham County Council Headquarters (HQ) at The Sands in Durham City, which reached practical completion in March 2022 and to set out an approach for reviewing the options for the Council's HQ functions. The scope of the review set out in the report 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.
- 24 On 29 September 2021, Cabinet considered the outcome and evidence from the review findings, along with a series of recommendations linked to this evidence. This included consideration of relevant contractual, legal and financial implications including those relating to the timescales of any decision. In summary the review found that the only viable alternative to the Council occupying the building on The Sands would be for disposal or letting to a single occupier.
- 25 Cabinet was advised of an interest from a third party in acquiring the building on The Sands. The third party was not formally identified at that stage, however it was agreed that negotiations would progress on a subject to contract basis. It was also agreed that a business case was required before any final decision not to occupy the building on The Sands.
- 26 The business case needed to consider a range of relevant issues, including the development of alternative options for office accommodation and committee space for the County Council, whilst protecting and ensuring the outcomes of the Aykley Heads strategic employment site development, the demolition of the existing County Hall building, and the need to meet public interest and value for money considerations, which needed to inform any change in the original plans for the Council to occupy The Sands building.
- 27 The purpose of the business case was to ensure subsequent decision making had clear regard to economic, financial, commercial, management and strategic objectives. The September 2021 report identified that the business case needed to address the following factors:

- (a) Why is it no longer considered appropriate for the Council to occupy the HQ and what is the business case to support this alternative action?
- (b) What is the alternative plan for the Council's office and civic/committee accommodation in the absence of occupying the new HQ on The Sands?
- (c) What are the resources and costs and other implications of disposing of the HQ building to a third party?
- (d) What are the wider impacts of this decision including the investment strategy for the county?

28 The following scope and key assumptions were subsequently developed to underpin the business case and address the factors referenced above:

- (a) the suitability for office accommodation and committee space of all Council's land and buildings, including options for rationalising the estate, bringing any vacant buildings back into use as well as exploring the ability of developing new or extended property on Council-owned land;
- (b) any buildings which are available or are likely to become available on the market for either freehold acquisition or leasehold;
- (c) any available sites in private ownership which would be suitable for development.

29 In developing the recommendations contained in this report, there have been a number of key principles underpinning the business case:

- (a) contribution to inclusive economy benefits;
- (b) delivers buildings across the county as part of broader regeneration master plans;
- (c) delivers a commercially strong position for the local authority with opportunities for potential additional investment to support levelling up opportunities across the county being explored;
- (d) helps the sustainable growth for the University as a key business and anchor institution supporting growth;
- (e) the sale proceeds received for The Sands must represent strong value for money and cover the costs incurred of developing both the original and any revised accommodation strategy;



- (f) the operational costs of the new model must reflect good value for money in comparison to both the original business case for occupying the building on The Sands and the existing budgeted running costs of County Hall;
- (g) delivery of a high-quality and consistent environment within the office estate, committee and civic accommodation which meets the Council's strategic approach to estates and aspirations in terms of office accommodation standards;
- (h) a commitment to the original office accommodation strategy in terms of those teams who have already been allocated space in other strategic sites still moving to these locations as originally planned;
- (i) civic, committee and the majority of the office accommodation that was to be co-located in The Sands building do not necessarily need to be accommodated together;
- (j) if accommodated separately there will be a requirement for a core number of staff to be housed within the civic and committee accommodation, which will be the County Council HQ;
- (k) the Council's main civic and committee accommodation needs to be readily accessible on public transport from both within and outside the county and needs to be in Durham City;
- (l) if office and committee accommodation are separated then the office estate must be located to maximise business benefits, maximise regeneration opportunities and consider accessibility for staff;
- (m) the Council's office accommodation standards will be set out corporately and adhered to across the estate. Only by absolute exception will a bespoke solution be put in place based on an identifiable and agreed service need;
- (n) although the Council is committed to the principle of more flexible working practices, the detail of the core parameters currently adopted will be reviewed as part of this options appraisal and in the light of learning from the pandemic. This will ensure any new accommodation is of the correct size to accommodate future requirements as well as future proofed to provide flexibility;
- (o) the size of the committee accommodation will be broadly based on the overall area that has been provided in the new HQ. As part of the options appraisal the flexibility of the accommodation, including the ability to accommodate hybrid meetings, will be

further considered along with any learning from the pandemic;  
and

- (p) a commitment to the Aykley Heads strategic employment site development, which continues to evolve and will be considered as part of the process.

## **Project Governance**

- 30 To progress the work to complete the review, a Task and Finish group was established which included a core team from within the Council, supplemented with external support. The group included officers with detailed knowledge of the Council's existing estate strategy and of site and building availability in County Durham, including those buildings in private ownership. The group comprised architects, project managers, facilities managers and cost consultants.
- 31 Corporate Management Team and relevant Cabinet Members have been involved throughout the development process of the alternative options and this oversight will need to continue going forward as the programme moves into the implementation stages.

## **Space Requirement**

- 32 The building on The Sands provides a gross internal area of circa 10,278 sqm. This is arranged over three levels, with a further two-part level to the upper floors. The building has been designed to British Council for Offices (BCO) standards and to meet all modern designs and sustainability credentials being BREEAM Very Good and is EPC A rated.
- 33 Based on the Council's accommodation standards the building could accommodate approximately 1,178 employees. This allows for meeting rooms, break out space, as well as informal collaboration space.
- 34 The Council is moving to a more flexible approach to office working with office-based employees currently working on a hybrid basis and able to work from home two days a week and based in the office three days. To be most effective, this way of working requires office accommodation to be as flexible as possible with adequate space allowed for larger numbers of employees to collaborate as well as adequate meeting space and break out space.
- 35 Any accommodation strategy needs to be flexible enough to provide for the Council's needs now and in the future. This will offer the ability to expand and contract as well as share with third parties should the need or opportunity arise.

- 36 The office market has not had the opportunity to fully respond to any post Covid trends in use and therefore the Council's office estate also needs to be flexible enough to adapt to the post Covid working environment and business requirements.
- 37 The need for increased flexibility and initial post Covid learning has been taken into account when assessing the current and future office accommodation requirements. At this stage, these requirements have been developed at a macro level, ensuring any alternative arrangements can accommodate all the employees that previously needed to be accommodated in the building on The Sands. Further work is required to undertake a full review of the Council's existing organisational fit, including the location of specific teams that were originally envisaged as occupying the building on The Sands and considering the need for more collaboration space and less 'desk space'. This work will be undertaken once a decision is made on the issues set out in this report.
- 38 To provide a direct comparison to the existing building on The Sands, the floor areas used to assess the future need have been based on those provided in The Sands building, with alternative proposals including consideration of accommodation in a single building or across multiple sites.
- 39 If split across multiple sites, the following headline assumptions have been applied:
- (a) civic accommodation will be supported by an appropriate level of office space on site; and
  - (b) the remaining office accommodation requirements will be located to maximise business benefits, regeneration opportunities and provide accommodation that ensures the workforce is as effective as possible, as well as aiding staff recruitment and retention.
- 40 In either scenario:
- (a) civic accommodation will be readily accessible on public transport from within and outside the county, and ideally located within or in close proximity to Durham City; and
  - (b) office accommodation should follow the Council's 'Inspire' standards for strategy and design, and that the buildings seek to reduce carbon emissions. The Inspire Programme was launched from the original objectives outlined in the Office Accommodation Programme 2. A series of key principles were developed in line with the Council's values which would govern the future working culture and office environment for the move to smarter, more

flexible ways of working. In order to drive this significant change and innovation throughout the Council, three key themes were created; Inspiring People; Inspiring Places; Inspiring Change. These interlinking themes were to focus on transforming the way people work and how space can be used differently to form a flexible and coordinated approach to utilising the Council's strategic sites and wider supporting sites.

## **Assessment Methodology Estates**

41 A staged approach to identifying/establishing sites and/or buildings that may be suitable to provide replacement accommodation for the office and civic estate as replacements for the building on the Sands has been undertaken. This is summarised below with further details available at Appendix 2:

Stage 1: High level assessment of all Council assets across the county – both land and buildings;

Stage 2: Longlist of potentially suitable land and buildings in Council ownership;

Stage 3: Identification of any sites and buildings in private ownership;

Stage 4: Combined and refined long list of opportunities in Council and private ownership;

Stage 5: Site inspection of refined long list;

Stage 6: Two stage suitability review;

Stage 7: Shortlist of buildings and sites that were worthy of further consideration;

Stage 8: Assessment of potentially viable options, shortlisted buildings and sites considered in more detail as to their suitability and ability to be refurbished/altered;

Stage 9: High level assessment of capital and revenue costs for each potential solution.

## **Assessment of Potentially Viable Options (Stage 8)**

42 Stages 1-7 provided a shortlist of buildings and sites which, presented at a high level, set out viable options to provide an alternative accommodation strategy.

43 A more detailed assessment was then carried out on the potential viability and feasibility of shortlisted options.

44 The list of potentially viable/feasible sites and buildings is set out below:

- Aykley Heads Plot C;
- Aykley Heads Development Site Plot D;
- Durham, Salvus House;
- Spennymoor Education Development Centre;
- Meadowfield Annand House;
- Durham, Priory House;
- Tanfield Lea, Comeleon House;
- Stanley, Front Street former Customer Access office.

45 From the review undertaken, it was concluded that there is no single building that provides an alternative accommodation solution for the building on The Sands without compromising other strategic objectives. There is also no single suitable available building, either in Council ownership or currently available in the marketplace, that could provide an alternative to the civic accommodation requirements, and therefore any alternative would need to be purpose built.

46 A high-level assessment of potential 'multi-accommodation options' to provide adequate accommodation and meet civic/committee needs was undertaken. At this stage the assessment of potential options for office accommodation is based on a desk ratio approach to providing the required numbers of employees in suitable accommodation and fulfilling the civic and committee space requirements for the Council. Further work will need to be carried out on the details of the implementation of these options as part of more detailed workforce planning.

47 Based on the work undertaken to date and new models of working being adopted, sufficient assurance can be provided that the options available to the Council, and within the existing strategic office estate, will provide adequate accommodation to relocate our workforce that would otherwise have been located in the building on The Sands.

48 The potential numbers of staff that could be accommodated in each building are shown in the table below. As is normal practice, and subject to the recommendations in this report being agreed by Cabinet, further work will be undertaken on the detailed design and requirements for altering/refurbishing buildings, detailed risk assessments, refined cost analysis and other matters specific to individual sites.

<b>Site</b>	<b>Approximate headcount that can be accommodated</b>	<b>Notes</b>
Aykley Heads Plot C	539	(i)
Aykley Heads Plot D Development Site	483	(ii)
Durham Salvus House	454	(iii)
Spennymoor Education Development Centre	100	(iv)
Spennymoor Education Development Centre Extension	509	(v)
Meadowfield Annand House	214	(vi)
Durham Priory House	208	(vii)
Tanfield Lea Comeleon House	115	(viii)
Stanley Front Street Offices	78	(ix)

- (i) Plot C is under construction with completion anticipated Autumn 2022. As part of the original Aykley Heads development, the building was to be offered as a commercial letting, however it is available to be used by the Council.
- (ii) The Aykley Heads development site (Plot D) assumes a building which would accommodate both civic/meeting accommodation, including Members' office accommodation as well as a multi-purpose Council chamber and committee rooms. It would also provide office accommodation to provide space for a headcount of circa 483 employees. This civic meeting space area is greater than that provided in The Sands building to ensure that flexibility is provided to maximise the opportunities for dual use of this accommodation to provide for a conferencing facility to be available for the wider Aykley Heads development, as well as traditional civic space.
- (iii) The Salvus House option is based on the building being used for Council office accommodation and would necessitate the repurposing of the building. The building is currently held for commercial let, and this option would require relocation of the businesses who hold rental agreements/leases.

- (iv) The Spennymoor Education Development Centre (EDC) provides two opportunities. A refurbishment option includes the re-purposing of the existing building to provide a corporate training facility and small area of additional office accommodation, which would seek to maximise use of the existing accommodation.
- (v) Another option at the EDC would be to develop new build office accommodation by way of an extension to the existing building, which could also include refurbishment and re-purposing of existing accommodation.
- (vi) Annand House proposals set out the total headcount that could be accommodated in the building, including those already accommodated. This option provides for a small overall increase in headcount through improving internal layouts.
- (vii) Priory House is purpose-built office accommodation located near to the Arnison Centre. The building was formerly occupied by the Council's workforce and is currently leased out.
- (viii) Comeleon House at Tanfield Lea is predominantly a storage facility and accommodates the Council's design and print operational teams. It has a small amount of office space and the head count includes those staff already located in the building. There is potential for only a small overall increase in capacity.
- (ix) Stanley Front Street is a Grade II listed building that was vacated by the Council in 2016 and has been marketed for sale a number of times. It is currently derelict and requires investment to bring the premises back into use. It offers the opportunity to bring much needed investment into Stanley, and to provide wider regeneration opportunities to the town through public investment. Given its listed building status this site would present some challenges in terms of accessibility and office layout, which would need to be considered in further detail if it was to be progressed.

## **High Level Viability Assessment**

49 A viability assessment has been undertaken against all of the short-listed options. A summary of that assessment is set out below. Whilst a more detailed space-planning assessment will be required at the next detailed design stage, there is sufficient evidence conclude that the required staff numbers that can be accommodated within the sites that have been assessed:

- (a) Aykley Heads, Plot C, offers potential to provide a flexible space in a building that will be available within a relatively short

timescale. Consideration would need to be given to the grant funding provided by the LEP to part finance the construction.

Conclusion: To be further considered as part of an alternative accommodation strategy.

- (b) Aykley Heads, Plot D Development Site offers the potential to provide flexible dual use civic space for the Council and, importantly, conferencing accommodation and facilities for the broader Aykley Heads development, along with office accommodation. The overall size of accommodation can be adjusted to reflect need.

Conclusion: To be further considered as part of an alternative accommodation strategy.

- (c) Durham Salvus House is currently occupied by Business Durham and a number of small businesses. If this building were to be used to accommodate additional Council staff, businesses would need to be relocated.

Conclusion : Due to impact and disruption for businesses already located in this site, this option is not considered appropriate for further consideration.

- (d) Spennymoor Education Development Centre is extensively used by schools and a significant refurbishment and/or extension is not considered to represent the best option for the accommodation requirements set out in this report given the impact on existing users and wider implications on timescales for the development of the wider Aykley Heads site.

Conclusion: Not considered appropriate for further consideration.

- (e) Meadowfield Annand House provides limited scope for additional office accommodation of the scale required.

Conclusion: Not considered appropriate for further consideration.

- (f) Durham Priory House is currently leased out by the Council. Any Council occupation would require the current lease to be terminated with a resulting risk of the occupant relocating outside of the County Durham area.

Conclusion: Not considered appropriate for further consideration.

- (g) Tanfield Lea Comeleon House has limited scope to provide additional office accommodation of the scale required.



Conclusion: Not considered appropriate for further consideration.

- (h) Stanley Front Street is a vacant building which significantly detracts from the Town Centre and future investment opportunities. Although refurbishment costs are higher than for other buildings, bringing the building back into use as office accommodation as part of this strategy will bring broader regeneration opportunities and outcomes.

Conclusion: To be further considered as part of an alternative accommodation strategy.

## **Financial Considerations - Capital Costs**

- 50 Following the completion of the procurement exercise to establish the new proposed HQ on The Sands in Durham City, a budget of £49.1 million was established. The budget included the construction of a new multi-storey car park (MSCP) to provide car parking and replace the surface car park that the new building was constructed on as well as an adjacent surface car park to the main building. The original anticipated cost of the HQ building was circa £44 million, excluding subsequent additional costs for the common land deregistration process.
- 51 The budgeted capital expenditure on the new HQ on The Sands and the multi-storey car park was largely funded from earmarked reserves that had been created to facilitate the development (circa £41.3 million), alongside a small amount of prudential borrowing (circa £7.8 million) which has been fully accounted for in previous budget estimates.
- 52 The letting of the contract and construction of the building pre-dates the more recent challenges in the construction industry, which have seen significant supply chain impacts and inflationary pressures being experienced. Whilst the construction of the building has gone well, with the new building being delivered to budget, delays and additional costs have occurred due to the common land de-registration process. The common land, which was successfully de-registered was to originally accommodate the attenuation tanks for both the multi-storey car park and the new building as well as the sprinkler tanks for the new building. Ultimately this area of land is to become a surface car park.
- 53 The common land de-registration process has resulted in additional unforeseen/unbudgeted costs of circa £2.1 million having been incurred to practical completion – resulting in an overall development spend of £51.2 million. These additional costs can be largely offset should the Council not occupy the building, as the planned investment in audio-video/ICT infrastructure and in new furniture and fittings, that was

included in the original budget sum, can be saved. This would reduce the overall additional spend incurred to a forecast £0.6 million, which can be financed from capital contingencies, and would require a revised development budget of £49.7 million.

- 54 Forecast capital costs for each of the buildings considered for the alternative accommodation strategy have been assessed and are set out in the exempt report. These costs include an additional risk factor to ensure that there has been adequate allowance made for:
- (a) the exceptionally volatile marketplace, which is impacting the availability and costs of materials, labour and professional services;
  - (b) the fact that there is not a fully worked up brief and designs for all of the buildings that are to be considered at this stage. Detailed due diligence has not yet been carried out on many of the sites or buildings under consideration as the project is currently at an initial stage of development (RIBA 0) in some cases;
  - (c) the risk factor applied to each option has taken into consideration the specific risks for each project. For example, a higher level of risk has been applied to new build projects when compared with a refurbishment. Where risk has been applied to refurbishment options, consideration has been given to the scale of the refurbishment needed as well as the age and condition of the building.
- 55 A slightly larger area has been allowed for the proposed solution for civic accommodation to allow use of the accommodation as a conferencing facility for the wider Aykley Heads development. This can be adjusted and refined as the building is designed.
- 56 The forecasts capital costs of implementing an alternate office accommodation strategy are comfortably within the capital receipt the Council would realise from the sale of the building on The Sands.

## **VAT**

- 57 Local authorities can recover all VAT it is legitimately charged and have special status in VAT law by virtue of Section 33 of the VAT Act 1994 (as amended).
- 58 As a Section 33 body, the Council can recover VAT on expenditure incurred in generating exempt income, subject to this not exceeding 5% of total VAT recovered. This is known as the partial exemption calculation and generally/historically the Council runs at around 3.7% of its overall VAT recovered being in relation to exempt activities.

- 59 The Council is allowed to breach the 5% limit in any given year, so long as it doesn't breach a seven-year average percentage. If the Council breaches that limit, it is obliged to repay to HMRC the total amount of VAT it has reclaimed in relation to exempt income in that year, plus potentially previous years, depending on the projects involved.
- 60 The Council's current policy is to opt to tax new developments in all circumstances to protect the Council's partial exemption position. This policy is followed due to the precarious nature of the Council's partial exemption given the planned significant investment in the Leisure Development programme.
- 61 Any disposal of the building on The Sands to Durham University would need to be subject to VAT. Full consideration of the Council's VAT position has been taken into consideration when assessing value for money consideration. Financial Implications - Running Costs and MTFP Impacts.
- 62 The original business case for the building on The Sands forecast the net revenue running cost of the new building on The Sands would be approximately £0.275 million less than the anticipated £1.763 million running cost of County Hall at the time of the 2018 HQ Cabinet report. The forecast £0.275 million saving is currently included in MTFP(12) as a 2023/24 saving. Regardless of the outcome of the business case being considered as part of this report, this saving requires reprofiling in line with the expected occupancy of the new History Centre.
- 63 The base budget for County Hall includes the current accommodation costs of the County Records and Archive Service. Separate accommodation budgets are held for the registration service at Aykley Heads. These services are due to transfer to the History Centre once the construction of that facility is completed.
- 64 Revenue budget estimates prepared for each of the potential buildings that are viable options and these demonstrate that a greater revenue saving than that originally anticipated through occupation of The Sands can be achieved.

## **The Economic Case**

### *Supporting Education and Private Sector Growth*

- 65 Durham University is a globally ranked, Russell Group University and one of the largest employers in our county with over 13,000 workforce nationally and Gross Value Added of £1.1 billion.
- 66 Durham University is part of a cohort of major employers for whom social value through their investment is a key principle and they are

currently working with Durham County Council through the Durham Pound initiative to ensure local spend and employment opportunities are maximised.

- 67 The University has a student population of over 21,000, supporting the city's footfall. The University is important to the county's workforce and importantly provides a unique selling point for the County in respect of the attractiveness of the county's labour market, which retains, supports and attracts investors and supports the productivity and capability of our businesses.
- 68 The University is important to County Durham's collective global reputation and has aspirations to deliver more through research and improved facilities.
- 69 An expanded business school, which would be unlocked by the new site on The Sands, will deliver according to the business plan of the Durham University Business School (DUBS) up to 780 roles by safeguarding and creating additional jobs.
- 70 The release of the Sands public building to the private sector will directly support the enablement of the significant investment from the University and unlocks the associated benefits highlighted above.

### *Supporting Strategic Investment at Aykley Heads*

- 71 Aykley Heads is one of the county's important strategic investment sites. The planning permission for the master plan accounts for 38,468 sqm of development and a forecast potential of up to 4,000 jobs.
- 72 Beyond the immediate growth and jobs forecasts, Aykley Heads offers a strategic economic anchor to the county, as a specialist innovation district, representing the high-tech capacity within our economy for research, innovation, financial and digital services.
- 73 Building a new civic function on plot D with conferencing facilities and occupation of Plot C for Council office accommodation allows for the early development of Aykley Heads, with a Northern campus being supported by public sector uses to accelerate wider development.
- 74 This would include a multi-functional conferencing space, which will not only support the Council's civic requirements in a publicly accessible location, but also provides a meeting and conferencing venue, which would be a significant asset in attracting the private sector to the wider site.
- 75 This improved conferencing offer at the Northern zone of Aykley Heads would be supported by the redevelopment of the south of the site of the

former Durham Light Infantry Museum into a cultural and hospitality venue. These two accelerated sites would mean that in marketing the site for further private sector investment, the Council could demonstrate plans for a conference facility to the North and a cultural and hospitality venue to the South, which will significantly enhance the offer which is taken to market.

- 76 These investments can be strategically important to the market attractiveness of Aykley Heads, offering not only the greened landscape in an urban setting, complimented by the view of Durham City, but practical investments in facilities to make the development attractive and functional for business use.
- 77 Locating the public sector uses at the Northern end of the site, the prime development space which will be created by the demolition of County Hall and full master planning remains available and potentially accelerated, as market confidence is supported by this early investment.
- 78 Importantly, the plan for the demolition of County Hall is not impacted by the outcomes estates review, and therefore the Council can confidently continue to market the site in 2022 and give developer confidence on delivery, with additionality demonstrated through public sector job relocation and provision of additional facilities as set out above.

### *Supporting Levelling Up*

- 79 The capital estimates indicate that net capital receipts to the Council from the disposal of the building on The Sands will exceed the estimated capital costs of implementing a revised accommodation strategy to meet the Council's civic and office accommodation requirements.
- 80 In development terms this would reflect a surplus on the development of the site and means that the public sector generates a surplus from the disposal of a public building to a private party.
- 81 Surplus funds from the disposal that are not otherwise required for the delivery of the Council's revised estate strategy will be available for MTFP planning purposes and can be considered for a range of investment opportunities including levelling up investment across the wider county.
- 82 This presents an important opportunity not only to secure a revised estates strategy that generates economic benefits, but in addition to create significant investment that can be recycled into the County for other purposes, at a time of constrained public funding.

- 83 Bringing the vacant Grade II listed building in Stanley back into use provides a multi-million pound investment in Stanley Front Street, improving the buildings and frontage, but also ensuring much needed footfall into the town through local spend, as well as improving the prospects of further investment in the town.

## **Risk**

- 84 The Council had originally anticipated that staff would move into the building on The Sands on completion, with only those staff who were to be located in the new History Centre remaining in County Hall until such times as this building was ready for occupation, which is now scheduled for Autumn 2023. Any alternative accommodation will mean that staff need to remain in County Hall longer than originally anticipated.
- 85 County Hall was constructed in the early 1960s and is a reinforced concrete frame, with single glazing and asbestos throughout. It is reaching the end of its natural life and without significant investment there is a risk of key component failure. It is considered that these risks can be managed and mitigated through strict maintenance regimes. The building, although nearing the end of its life does not present a risk to those staff located in the building.
- 86 Any new building project involves risks in delivery, both in terms of costs and timeframe. The cost risk for all of the alternative building options has been considered through the additional risk allowance that has been added to the capital cost estimates for each scheme. The risk to timeframe will be more fully considered once the alternative strategy has been approved and detailed designs have been prepared but an anticipated three-year delivery time frame for any new build is considered realistic and prudent.
- 87 As with any change in the work place the impact on staff needs to be fully considered. Should Cabinet agree the alternative accommodation strategy, then careful consideration will be given to ensuring this provides accommodation that is fit for future service delivery, is flexible to be able to react to future workforce changes and provides an environment that encourages staff collaboration and engagement, staff retention, aids staff recruitment and workforce wellbeing.
- 88 For the changes to the workplace to be as effective as possible, staff need to be included in the process of any changes to their working accommodation and practices. A workforce plan and approach will be developed for the alternative strategy to ensure workforce considerations are taken into account with any new plans, and that adequate engagement and consultation takes place with Trade Unions

and employees as part of an updated and revised “organisational fit” exercise.

- 89 As part of the staffing considerations, key issues will include reviewing existing contracts of employment, the scale and type of consultation required, any relocation implications and finally the development or review of any policies required. A plan will also be developed which will support employees to work differently in any new model or in any new working environments/ locations.
- 90 The September 2021 report made reference to the Common Land Public Inquiry which at that time the Council was waiting to hear the outcome from. The Inquiry reported in October 2021 and the Council’s Section 16 application to have the land de-registered as common land was successful. This has resolved any outstanding risks in connection with the status of the land. The impact on the capital budget arising from the Public Inquiry is set out at paragraph 52 and the report seeks Cabinet approval to increase the capital budget by £600,000 to reflect the additional sums required to full practical completion of the building in light of this. Should the disposal of the building on The Sands to the University not be completed, the capital budget will need to be increased by £2.1 million.

## **Preferred Option**

- 91 From the work carried out through the review, it is clear that a multi building approach provides the most flexible option to respond to changing office needs, as well as opportunities to bring about broader regeneration opportunities. This will also enable the Council to respond to changing work patterns in the future. The most effective overall alternative to the accommodation on The Sands to meet the balanced objectives set out earlier in this report is considered to be as follows:
- (a) Aykley Heads Plot C. This building is currently under construction and being built to CAT A specification, so construction price inflation has been largely mitigated. This represents a shell building which allows a tenant to fit it out to their own specific requirements with regard to partitions, ICT, furniture as well as any corporate branding. In the cost estimates an allowance has been made to provide fit out for the Council.

Plot C has been designed to be flexible. This means that should the needs of the Council change in terms of reduced demand for office space in the future, the building is flexible enough to allow areas to be leased to third party organisations without impacting on the Council’s occupation. This allows the Council’s office

accommodation strategy to remain as flexible as possible to reflect the changing needs of a dynamic workplace.

- (b) Aykley Heads Plot D. This will be a new purpose-built civic building and office building which will also provide facilities for wider business use as part of the redevelopment of Aykley Heads, providing flexible conference space. The flexible design of the building and the ability for dual use both as a civic space and conference space for Aykley Heads will also introduce opportunities to reduce revenue costs, although at this stage these have not been determined. Such a flexible design would also future proof the building to allow for office space, if required to be leased out to third party organisations. This will allow the Council's future office accommodation strategy to remain flexible to reflect the changing needs of a dynamic workplace.
- (c) Stanley Front Street. This option will bring back into use a building which has been derelict for over five years and has a negative impact on the Front Street in Stanley. The refurbishment of this building will support the Council's broader levelling up agenda and will help to demonstrate the Council's commitment to the area.

- 92 The preferred option set out above not only provides additional investment in Aykley Heads, but also for a multi-million pound investment in Stanley Front Street, improving the buildings and frontage, but also ensuring much needed footfall into the town through local spend, as well as improving the prospects of further investment in the town.
- 93 The above solution provides accommodation for a headcount of approximately 1,100. These numbers are approximate and will vary depending on design and layout, as well as the overall office space that is provided at Plot D. The solution presented offers the flexibility to adapt the office estate to meet growing/reduced demand and accommodate any post Covid learning.
- 94 Although the proposed solution offers a slightly reduced office capacity from the building on The Sands, it is considered that any shortfall can be readily accommodated through the revision of capacity in the Council's other facilities, following the introduction of flexible working practices.
- 95 Subject to approval of the preferred option, as the more detailed design of the new civic accommodation at Plot D is developed, it will be refined to meet any change in demand for office accommodation. This may



lead to the core office space being reduced to reflect changes in working practices, which may have a marginal impact on capital costs.

- 96 The Building Research Establishment Environmental Assessment Method (BREEAM) is a sustainability assessment method for infrastructure and building projects. It recognises and reflects the value in higher performing assets across the built environment. It does this through third party certification of an asset's environmental, social and economic sustainability performance using standards evaluated by a BRE assessor. Designers and contractors target and achieve credits related to numerous different aspects including topics such as life cycle cost, responsible construction practices, thermal comfort, acoustic performance, low carbon design, transport assessment, material sourcing, site ecology and flood water management. To achieve BREEAM Excellent the project must achieve a % rating benchmark score equal to or greater than 70% as opposed to 55% for Very Good or 85% for Outstanding.
- 97 Based on an assessment of both the capital and revenue costs of the alternative solution and set out in the exempt report it is considered that the alternative solution represents value for money.

## **Timescales**

- 98 At its meeting in September 2021, Cabinet agreed that negotiations with the interested party should be brought to a conclusion no later than three months following approval of any viable alternative office accommodation strategy. At that time this was expected to be Summer 2022.
- 99 The intention had been to present the alternative accommodation strategy to Cabinet in July 2022, which meant that negotiation needed to be concluded by October 2022. Whilst it has been possible to present an alternative accommodation strategy for approval at an earlier meeting of Cabinet, a deadline for completing the transaction with the University by the end of October 2022 remains appropriate. This allows for the University to secure planning permission and for the necessary documentation to be agreed and entered into.
- 100 Further detailed work is required before a programme for the delivery of the alternative accommodation strategy can be produced. However, a realistic assessment based on projects of a similar scale would suggest that an overall delivery timeframe for the full scheme as set out of circa three years is realistic and prudent.
- 101 In order to ensure that any alternative strategy does not unduly delay the development of Aykley Heads once the History Centre is available

for occupation by the County Records and Archives Service, all remaining staff will be relocated from County Hall, in 2024.

- 102 Full communication and consultation will take place with staff and representative bodies as part of discussions on wider flexible working going forward.

## **Conclusions**

- 103 There is no one building alternative either in Council or private ownership that could provide suitable or adequate accommodation to meet the requirements for civic space. It is considered strategically important for the Council to have a visible presence within the Durham City area as the historic county town and to demonstrate strong leadership both for the residents and businesses. It should be easily accessible to those within and outside the county. Any alternative proposal therefore requires a new build for the civic/committee accommodation within or in close proximity to Durham City.
- 104 To meet the overall requirements for office accommodation, more than one building will therefore be required to meet existing and future office requirements.
- 105 It has been concluded that the most suitable solution to the civic/committee accommodation is a new build facility on Aykley Heads if the Council does not occupy the building on The Sands. This will require using a development plot at the north of the site. This represents the most viable option to satisfy the spatial, operational and functional requirements and to meet the assumptions and aspirations of the Council.
- 106 This does mean that a development site that would have been developed for the private sector is used for a Council facility. However, this facility will also provide much needed meeting and conferencing space for the private sector which will provide an attractive proposition for the Aykley Heads development and meet a demand that would be unlikely to be met by the private sector. This can be factored into future marketing of the site and considered as the detailed plans for the site are brought forward, as well as taking account of post-Covid requirements of the private sector for suitable accommodation.
- 107 It would be feasible to construct one large building on Aykley Heads to meet both the civic and office requirements, however this would not meet the requirements set out in the September Cabinet report as it would require a large area of Aykley Heads to be developed which would significantly reduce the developable area for wider regeneration and commercial use.

- 108 Utilising Plot C and Plot D as part of the revised accommodation strategy will result in circa 600 fewer private sector jobs being accommodated on the Aykley Heads site, using the planning assumptions previously reported. However, this will be offset by the University jobs created on The Sands site. Updated modelling of the economic impacts and jobs that can be realised from the development of the remaining elements of the Aykley Heads development, which represents the prime sites, will form part of the business case that will come forward to progress the wider site.
- 109 Based on the work undertaken to inform this report, the most efficient overall solution which provides the Council with flexibility for its office estate moving forward is to occupy the building under construction at Plot C Aykley Heads, construct a new civic building on Plot D and refurbish/ bring back into use the Stanley Front Street former CAP building. The forecasts capital costs of implementing an alternate office accommodation strategy are comfortably within the capital receipt the Council would realise from the sale of the building on The Sands.
- 110 Any surplus funds from the disposal that are not otherwise required for the delivery of the Council's revised estate strategy will be available for future MTFP planning purposes and can be considered for a range of investment opportunities including levelling up investment across the wider county.
- 111 Based on the revenue estimates prepared for the alternative accommodation strategy there is forecast to be a net annual revenue saving of at least £0.275 million, which was the original forecast saving to be realised from the occupation of the building on The Sands. Current estimates as set out in report would suggest that this saving is significantly greater. Further work is required to refine the estimates but based on the work undertaken there is sufficient assurance that the annual running costs will deliver at least the equivalent level of savings as to the occupation of The Sands building, possibly more.
- 112 There will be a need to incur an element of "double running" costs whilst the alternative accommodation strategy is delivered. A similar scenario was envisaged with the building on The Sands, where the existing County Hall building (and costs) would be in place until the County Records and Archives could relocate to the new History Centre. Under the proposed strategy, additional running costs would relate to the occupation of the Plot C building from 2023 until County Hall could be fully vacated in 2024.
- 113 The options available to the Council and the anticipated capital and revenue costs along with the flexibility that the alternative accommodation strategy offers, provides the necessary assurance that

the Council can progress with the disposal of The Sands building to Durham University.

### **Background papers**

- None

### **Other useful documents**

- Review of Durham County Council Headquarters – Report to Cabinet 16 June 2021
- Review of Durham County Council Headquarters – Report to Cabinet 29 September 2021.

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## **Appendix 1: Implications**

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### **Legal Implications**

The September 2021 report made reference to the Common Land Public Inquiry which at that time the Council was waiting to hear the outcome from. The inquiry reported in October 2021 and the Council's Section 16 application to have the land deregistered as common land was successful.

The planning permission for the building on The Sands contained Grampian conditions in respect of the existing County Hall car park. Should planning permission be granted for a change of use to a Business School these conditions will no longer apply.

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.

At its meeting in September 2021, Cabinet agreed that negotiations with the interested party should be brought to a conclusion no later than three months following approval of any viable alternative office accommodation strategy. At that time this was expected to be Summer 2022, leaving an expected completion deadline of October 2022.

A deadline for completing the transaction with Durham University by the end of October 2022 remains appropriate. This allows for the University to secure planning permission and for the necessary documentation to be agreed and entered into.

### **Finance**

Outline Heads of Terms have been agreed with the University and estimated capital and revenue costs prepared for the alternative accommodation

strategy. These are set out in detail in the “in private” report considered elsewhere on the Agenda.

The review of alternative accommodation strategies has necessitated the commissioning of external independent consultancy support, through the engagement of Avison Young and GT3 Architects. These costs, and the costs previously incurred in developing the original business case that lead to the development of the building on The Sands are set out in the in private report. The construction contract for the new HQ on The Sands and the adjacent multi-storey car park (MSCP) is £49.1 million. Of this, circa £44 million relates to the main HQ building. There has been £2.1 million of additional costs incurred due to the delays to the common land de-registration, taking the total cost of the development to an estimated £51.2 million, though savings on furniture and fittings and on ICT infrastructure/audio visual will be possible if the Council does not ultimately occupy the building, leaving a forecast net £0.6 million overspend against the original approved budget.

Any surplus funds from the disposal that are not otherwise required for the delivery of the Council’s revised estate strategy will be available for MTFP planning purposes and can be considered for a range of investment opportunities including levelling up investment across the wider county.

Medium Term Financial Plan (MTFP) savings of £275,000 have been factored into 2023/24 in MTFP12 from the expected move to the new HQ and closure/demolition of the existing County Hall building at Aykley Heads. Regardless of the outcome of the business case being considered as part of this report, this saving requires reprofiling in line with the expected occupancy of the new History Centre in Autumn 2023.

Based on the revenue estimates that have been prepared, an alternative strategy still results in net revenue running costs being at least £0.275 million less than the £1.954 million budgeted running cost of County Hall in 2022/23, with current estimates suggesting that this saving is significantly greater. Further work is required to refine the revenue estimates as the schemes are designed further.

A range of one-off revenue costs will need to be incurred as part of the office accommodation and estates strategy – including decant and removal/relocation of employees and the County Archive and Records Office, plus associated time limited disturbance payments for excess travel and double running costs. These were originally forecast to be between £1.168 million and £1.299 million and were expected to be funded from the general reserve. The one-off revenue cost estimates associated with the revised model are expected to be similar to the original business case and relate to empty property costs linked to The Sands building in 2022 up until the point of sale, occupation of the Plot C building from early 2023 until County Hall could be vacated in 2024 to allow for the Aykley Heads site

development (and demolition of County Hall) to progress as soon as possible. These costs are estimated at circa £1.2 million and are similar to the costs that were originally envisaged from the move to the Sands building. There may be additional costs incurred in terms of temporary accommodation / alternative arrangements that may be needed for the employees who will eventually occupy Plot D but these will be more than offset by savings from the demolition of County Hall.

## **Consultation**

The review of the options contained in this report and the work to prepare the business plan have been overseen by a dedicated Task and Finish group. This included a core team from within the Council, supported by external consultants Avison Young and GT3. The Task and Finish Group included officers with detailed knowledge of the Council's existing estate strategy and knowledge of site and building availability in County Durham, including those in private ownership. The Task and Finish Group comprised architects, project managers, facilities managers and cost consultants - both capital and revenue.

Corporate Management Team and relevant Cabinet Members have been involved throughout the development process of the alternative options and this oversight will need to continue going forward as the programme moves into the implementation stages.

As with any change in the workplace, for it to be as effective as possible, staff will need to be included in the process of any changes to their working accommodation.

A consultation and engagement plan will be considered with the Trade Unions and staff to ensure appropriate consultation and engagement takes place as part of an updated and revised "organisational fit" exercise.

## **Equality and Diversity / Public Sector Equality Duty**

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

## **Climate Change**

The Council has an agreed target to reduce carbon emissions from its own activities by 80% by 2030 from a baseline year of 2008/9, which equates to a target for emissions of 21,000 tCO<sub>2</sub>e. The emissions for the Council's activities at the end of 2020/21 were 44,000 tCO<sub>2</sub>e.

In broad terms building heat from the Council's operational buildings accounts for 7% of the Council's carbon footprint, while operational building electricity load accounts for 4%.

New build accommodation will contribute to the overall target delivery if it provides a lower carbon alternative to the accommodation being replaced, with an ambition towards carbon neutral building design and a route to net zero.

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 (55%) and EPC A rated. This represents a significant improvement on the existing County Hall.

Any new build accommodation delivered as part of the alternative accommodation strategy will be a minimum of BREEAM Excellent (70%) with full consideration given in both design and operation to the minimisation of carbon emissions.

## **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, supplemented by the support of external consultants to undertake the independent assessment of the options explored.

Following a rationalisation of the Council's office accommodation, the Council's core office-based workforce was to be located in one of five main offices: Seaham, Spennymoor, Crook, Meadowfield and the new HQ. The capacities of these buildings have 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. The standard of the existing County Hall accommodation is poor by comparison.

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 that it provides a working environment that encourages staff engagement, staff retention and aids staff recruitment etc, which were fundamental considerations to the previous strategy and remain appropriate.

The Council had originally anticipated that staff would move into the building on The Sands on completion, with only those staff who were to be located in



the new History Centre remaining in County Hall until such time as this building was ready for occupation, which is now scheduled for Autumn 2023. Should the alternative accommodation strategy be approved, this will mean that staff will need to remain in County Hall longer than originally anticipated.

As with any change in the work place the impact on staff needs to be fully considered. Should Cabinet agree the alternative accommodation strategy, then careful consideration will be given to ensuring this provides accommodation that is fit for future service delivery, is flexible to be able to react to future workforce changes and provides an environment that encourages staff collaboration and engagement, staff retention and aids staff recruitment. Appropriate communication and consultation will take place with staff and representative bodies on the detailed implementation plans.

### **Accommodation**

There is no single building alternative to occupying the building on The Sands however the review that has been completed has clearly demonstrated that there are a number of options available to the Council.

Based on the work undertaken to inform this report, the most efficient overall solution which provides the Council with flexibility for its office estate moving forward is to occupy the building under construction at Plot C Aykley Heads, construct a new civic building on Plot D with conferencing and refurbish / bring back into use the Stanley Front Street former CAP building.

### **Risk**

The report provides details of options available to the Council based upon whether Durham University purchases the new facility at The Sands in Durham City. If the sale does not go ahead the intention being for the Council to occupy the facility at The Sands later this year.

If the sale to the University goes ahead, the Council will secure a capital receipt. The sale will be subject to VAT, which will protect the Council's VAT partial exemption position. The sale will require the Council to consider alternate accommodation to still enable the demolition of County Hall and the redevelopment of the Aykley Heads site as soon as possible. Such a strategy will also enable the Council to utilise new and adapted buildings which allow effective hybrid working alongside regeneration and levelling up priorities.

Construction inflation is very volatile at this point and allowance has been included in the capital forecasts for the alternative strategy to ensure prudent risk contingencies are built into the capital estimates.

Should the alternative accommodation strategy be approved, this will mean that staff will need to remain in County Hall longer than originally anticipated, which is not ideal and will need to be carefully communicated as the building does not have a working environment that encourages staff engagement, staff

retention and aids staff recruitment etc, which were fundamental considerations to the previous strategy and remain appropriate.

## **Procurement**

The review has necessitated the commissioning of external independent consultancy support, through the engagement of Avison Young, and GT3 Architects. The procurement of any consultants to support this review has been undertaken in line with the Council's Contract Procedure rules.

Further consultancy support will be required to help complete the next more detailed stage. The procurement of any consultants will be undertaken in line with the Council's Contract Procedure rules.

Should the alternative accommodation strategy be approved the procurement of any works for the refurbishment and new build aspects of the strategy will be undertaken in line with the Council's Contract Procedure rules.

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## Appendix 2: Assessment Methodology, Process and Findings

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1. The high-level assessment of all Council assets across the county (Stage 1) included a review of the Council's asset register. This entailed reviewing all assets and providing an initial high-level assessment as to suitability of each, categorised as follows:
  - (a) Potentially suitable - to be considered on merits;
  - (b) Unsuitable to provide accommodation;
  - (c) Unsuitable as specialised service provision; or
  - (d) Unsuitable as existing income generating asset.
2. A process was undertaken to identify any potentially suitable sites and buildings in private ownership (Stage 3) across the county. To identify these opportunities, the Task and Finish group carried out a search of local agents' websites. Specialised office letting agents were also contacted to understand availability of any buildings or land that may not be openly advertised as for sale/lease.
3. In order to refine those sites and buildings in private ownership identified at Stage 3, a high-level assessment was undertaken based on the following criteria:
  - (a) Condition;
  - (b) Location;
  - (c) Accessibility;
  - (d) Size;
  - (e) Planning (inclusion of environmental impact);
  - (f) Suitability;
  - (g) Travel conditions (travel plans/routes); and
  - (h) Regeneration opportunities.
4. This high-level assessment resulted in a refined long list of opportunities in both Council and private ownership (Stage 4).
5. Further checks were then completed, including reviewing ownership records, floor plans and titles. Informal advice was also obtained from

Highways and Planning teams. The long list comprised the following sites:

1	SevenHills, Durham Learning Resources, Spennymoor
2	Spennymoor Education Development Centre and land
3	Spennymoor Green Lane Council offices and CAP
4	DurhamGate, Spennymoor
5	Thinford site, Spennymoor
6	Meadowfield, former Wavin Plastics factory
7	Meadowfield Annand House and land adjacent
8	Durham, Hopper House
9	Durham, Salvus House
10	Aykley Heads Plot C
11	Aykley Heads development land
12	Pity Me, Priory House
13	Pity Me, Boldon House
14	Tanfield Lea, Comeleon House
15	Greencroft Industrial Park land
16	Stanley Front Street Former DCC offices
17	Durham Claypath former offices
18	Crook Civic Centre Offices
19	Meadowfield Depot offices
20	Seaham Spectrum offices

6. The existing strategic sites at Seaham Spectrum offices, Crook offices and Meadowfield offices were identified as having some potential to accommodate additional employees due to more flexible working methods recently introduced. However, the numbers are comparatively low compared to the numbers of staff that require an alternative location to The Sands, should it be disposed of. For the purposes of this review these sites were excluded at this stage due to the limited potential they offer to provide permanent alternative accommodation.
7. The options for accommodating staff across the main office estate will continue to form part of the Council's approach when assessing its

workforce and accommodation requirements, including considering commercial opportunities that may be available as organisations continue to develop their workforce models and flexible working requirements.

8. Spennymoor Green Lane offices strategic site remained as an option at this stage because of potential to extend the existing office building.
9. Site visits were undertaken for those sites remaining in the refined long list (Stage 5). These inspections provided the opportunity to review the sites in terms of location, planning and highways considerations. An internal inspection was carried out on buildings where this was possible. This allowed an initial assessment of the suitability and adaptability of the building to provide either office or committee accommodation and provided an indication of any high level potential risks in any refurbishment.
10. At stage 6, a two-stage suitability review was then carried out on the 17 sites identified above, which consisted of:
  - Suitability Test 1: Does the site support wider Council strategic property solutions (for example storage/depot functions) for future consideration?
  - Suitability Test 2: Does the site offer potential to support alternative HQ solutions – either civic/committee space or suitable office accommodation?
11. The Task and Finish group carried out the Suitability Test 1 in a workshop environment, supported by global real estate advisors Avison Young and Architects GT3. This resulted in three of the sites being removed from the long list. The three sites removed at this stage were:
  - (a) Hopper House - considered to provide unsuitable accommodation to support the Council's requirements because of condition and location;
  - (b) Boldon House - which was no longer available on the market; and
  - (c) 13-17 Claypath - whilst located in the city centre, the building does not provide the opportunity for a civic and committee function. The existing layout does not provide for a modern office environment and the condition of the building would require it to be taken back to a shell for appropriate works to be undertaken. Consideration was also given to the broader regeneration opportunities that the site offers through its location adjacent to Millennium Place. For all of these reasons, the building was not considered to be suitable.

12. The remaining 14 sites were then assessed against Suitability Test 2 criteria. This test required a more detailed assessment to be undertaken to establish feasibility to support the required civic and office functions.
13. Following the second step of the two-stage suitability assessment, the long-list of potential sites was reduced to eight. The six sites removed as a result of the initial work undertaken under Suitability Test 2 were as follows:
  - (a) Seven Hills Spennymoor: predominantly storage and limited scope to accommodate additional office accommodation. The building is leased and not in DCC ownership. Not considered appropriate for further consideration;
  - (b) DurhamGate, Spennymoor: Land only and not in DCC ownership. Not considered appropriate for further consideration at this stage due to the timeframe to acquire the site prior to any certainty regarding development;
  - (c) Thinford, Spennymoor: Land only and not in DCC ownership. Not considered appropriate for further consideration at this stage due to the timeframe to acquire the site prior to any certainty regarding development;
  - (d) Meadowfield, Former Wavin Plastics factory: Not in DCC ownership. Large building in poor repair. Would predominantly require demolition and new build. Not considered appropriate for further consideration at this stage;
  - (e) Annfield Plain Greencroft Industrial Park Land: Brownfield land only. Due to location not considered appropriate for large scale relocation of office-based employees. Not considered appropriate for further consideration at this stage;
  - (f) Spennymoor Green Lane Offices: extension to existing building considered however car parking limitations would restrict expansion opportunities. Although it would be possible to provide additional car parking through provision of a deck to existing surface car park the site layout does not easily lend itself to this. Not considered appropriate for further consideration at this stage.
14. The shortlisted buildings and sites were then considered in more detail as to their suitability and ability to be refurbished/alterd – this is covered in more detail in the Viable Options section of this report.
15. Finally, a high-level assessment of capital and revenue costs for each potential solution was prepared (Stage 9) – which are a material

consideration in terms of the value for money and public interest tests to pursuing an alternative accommodation strategy.