

**Cabinet**

**13 September 2023**

**Durham Innovation District Aykley Heads  
Strategic Employment Site – Outline Business  
Case & Procurement of a Joint Venture  
Partner**



**Ordinary Decision**

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**Report of Corporate Management Team**

**Amy Harhoff, Corporate Director of Regeneration, Economy, and Growth**

**Paul Darby, Corporate Director of Resources**

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

**Councillor Richard Bell, Cabinet Portfolio Holder for Finance**

**Councillor Elizabeth Scott, Cabinet Portfolio Holder for Regeneration**

**Electoral division(s) affected:**

Countywide

**Purpose of the Report**

- 1 This report sets out and seeks approval of, the Outline Business Case (OBC) for the development of the Aykley Heads site, and approval to proceed with the procurement of a Joint Venture partner to develop the site. The procurement process will result in the preparation of a Full Business Case (FBC) that will be brought back to Cabinet for approval before the council enters into any formal Joint Venture Partnership Agreement.

**Executive summary**

- 2 Developing a Strategic Employment Site (SES) at Aykley Heads is a long-standing aim of the council. It was first referenced in the Council's Regeneration Statement covering the period 2012-2022.

- 3 In 2014 a masterplan for Durham City was adopted which supported the aim of establishing a business district in the city. In support of this, Cabinet agreed in 2015 the principle of releasing the Aykley Heads site for a SES. This decision was linked to the proposed relocation of the Council's Headquarters (HQ).
- 4 An OBC for the relocation of the HQ was approved in 2016. The development of this OBC and the potential for relocation from County Hall to a new HQ allowed a development and delivery strategy to be developed for the SES, including the preparation of a masterplan for the site.
- 5 In 2018 Cabinet approved a FBC for a new HQ which saw proposals taken forward for the construction of a new HQ at The Sands, Durham Riverside.
- 6 Approval was also granted in 2018 to the progression of a planning application for the SES at Aykley Heads and the demolition of the existing HQ building known as County Hall.
- 7 Following associated design and development work a hybrid planning application was lodged in 2020 for the SES. The application sought outline planning consent for delivering the Aykley Heads masterplan comprising 414,000 square feet of development floorspace, the demolition of County Hall and detailed consent to develop Plot C of the masterplan as a speculative office block.
- 8 It was the intention, subject to the granting of planning consent, for Plot C to be marketed as construction neared completion, so that market interest could be determined. This would then inform the council's strategy for developing the site further.
- 9 The planning application was subsequently approved in January 2021.
- 10 In May 2021 a new council was elected and in June 2021 Cabinet resolved to review the options for use of the newly constructed HQ at The Sands, as well as reviewing options for the Council's HQ functions.
- 11 In September 2021 Cabinet agreed several recommendations about the future of the council's estate strategy and HQ functions. It also endorsed both the proposal to develop Aykley Heads as a SES and the future demolition of County Hall.
- 12 There have been several reports since, relating to the council's estates strategy, the most recent in July 2023. The conclusion of these reports is that the council has revised its office accommodation strategy which has resulted in the disposal of the newly built HQ on The Sands to Durham University for its Business School. It has been agreed that the council

will occupy Plot C as part of its HQ requirements and secure the freehold interest in the Rivergreen Building at Aykley Heads for its civic, corporate, and democratic core functions along with some additional office accommodation and the provision of a conference facility for the wider Aykley Heads development.

- 13 This will allow County Hall to be fully vacated and demolished with the whole of the County Hall site being made available for the SES development.
- 14 In order to maximise the potential of the Aykley Heads site and release land that would be difficult to develop in isolation it is the intention to include an area of land currently owned by Durham Constabulary in the Aykley Heads site. This is subject to Durham Constabulary agreeing to dispose of the site to the council, at a price to be agreed. This land is represented by Plot E of the masterplan.
- 15 During the development of the masterplan and securing of planning permission the economy has experienced some of the greatest economic shifts in a generation, linked to wider geopolitical factors. Appropriate assumptions have been made on their impact on the deliverability of the SES.
- 16 The council has also undertaken considerable research into the potential clustering of key value-added activities at the SES. The council's research and understanding of these key economic capabilities has created a broader opportunity for the council to use Aykley Heads as part of an Innovation District.
- 17 Innovation Districts are geographic areas with networks of knowledge-producing organisations such as universities, research bodies, cultural institutions, and knowledge-intensive businesses. They bring together innovators, entrepreneurs, researchers, creatives, knowledge workers and investors to work together, to collaborate, compare and compete, creating the conditions for business growth.
- 18 Aykley Heads is uniquely positioned to capitalise on these characteristics and serve as a driving force for County Durham's future economic growth. Aykley Heads has the scope and scale to create an Innovation District of regional, national, and international significance.
- 19 The council and Durham University have worked collaboratively in recognition of the mutually beneficial role that Aykley Heads can play for both the University and the County's economy. A Memorandum of Understanding has been agreed affirming the commitment between the partners to collaborate and explore options in partnership.

- 20 The council has set a Vision and agreed its desired outcomes for the Durham Innovation District so that it will be a catalyst for driving social and economic benefit across the County.
- 21 In order to understand how the market might view the Aykley Heads opportunity and gain a better appreciation of whether the council's expectations and ambition for the site are realistic a structured soft market testing exercise was undertaken in 2022-2023. This helped gain an appreciation of the market appetite and capability to develop an Innovation District and deliver Aykley Heads.
- 22 This exercise demonstrated that there is significant market interest from developers, institutional investors and long term develop and hold partners.
- 23 A range of potential approaches to delivering the Durham Innovation District have been explored. It has been concluded that the Durham Innovation District will be best delivered and operated with the council working in partnership with a strategic partner who brings the skills, networks, investment, and expertise needed. By partnering, the council will retain long term influence over the Innovation District's activity and a share in its future economic success.
- 24 As a consequence, approval is sought to test the market for a suitable Joint Venture delivery partner. The OBC sets out the case for that decision based on information currently available.
- 25 The outcome of the market procurement process will be reported to Cabinet late in 2024, along with a FBC, to inform a decision on whether to progress the proposal for a Durham Innovation District at Aykley Heads.

### **Recommendation(s)**

- 26 Cabinet is recommended to:
  - (a) endorse and approve the OBC; and
  - (b) grant approval to progress the preparation of a FBC.
- 27 In so doing, Cabinet is also recommended to:
  - (a) agree to develop Aykley Heads as part of a wider Durham Innovation District;
  - (b) agree to commence procurement for a Joint Venture partner to form a Joint Venture Partnership, to develop Aykley Heads as part of the Durham Innovation District;

- (c) agree to the principle of the council owned land at Aykley Heads being invested as equity into a future Joint Venture Partnership;
- (d) note that there may be further public investment needed to deliver the development at Aykley Heads, with any forecast future capital investment requirements being factored into the FBC to inform future Medium Term Financial Plan (MTFP) capital bidding rounds;
- (e) agree to establish a budget to support the client-side development of the FBC, and thereafter to support the ongoing revenue costs associated with the council's role in the Joint Venture Partnership;
- (f) note the structured engagement with Durham University through the adopted MoU to shape the delivery strategy for the Durham Innovation District; and
- (g) note that on completion of the FBC, and the conclusion of the procurement of a Joint Venture partner, a further report will be brought to Cabinet for approval, which will provide full details of the proposals.

## Background

- 28 Cabinet agreed a regeneration masterplan for Durham City in 2014 which had a clear focus on the city centre. It was shaped by current and emerging strategies, underpinned by evidence on growth sectors, population forecasts and driven by the council's objective to broaden Durham City's appeal to realise its potential.
- 29 It highlighted the strategic links and the priority projects that could be delivered to secure a thriving Durham City with an emphasis on enhancing the vitality of the city centre to maximise economic benefits and to complement market strengths. One of the key strands of activity identified in the masterplan to achieve economic growth, was the establishment of a central business district to accommodate emerging high growth sectors and to increase private sector employment, to create a more balanced economy.
- 30 Research was undertaken as part of the County Durham Plan to increase understanding of Durham's economic geography and to identify the business sectors that would support future growth and development. This concluded that there was a growing financial and professional services sector in Durham, that could be seen through companies such as Atom Bank choosing to locate at Aykley Heads. The presence of Durham University also offered great potential for research linkage and business spinouts.
- 31 The council's regeneration strategy recognised that the need for a new central business district could be realised through the redevelopment of Aykley Heads; a large-scale site within walking distance of the city centre and with the competitive advantage of being adjacent to the main line railway station.
- 32 Appreciating the potential of the site, in July 2015, Cabinet agreed the principle of releasing the Aykley Heads site as a SES. This decision was linked to the proposed relocation of the HQ. The decision to proceed with Aykley Heads SES was contingent upon Cabinet receiving an acceptable OBC relating to the relocation of the HQ.
- 33 This business case for the relocation of the HQ was subsequently presented to Cabinet and approved in 2016, followed by the approval of a FBC in 2018. This FBC involved the council agreeing to construct a new HQ and relocate to The Sands, Durham City Riverside, paving the way for the Aykley Heads SES development to progress.
- 34 The redline boundary of the SES which includes the land occupied by the existing HQ site County Hall is appended as Appendix 4.

- 35 The vision for Aykley Heads was to create a new and unique business location for the North East, that maximised economic growth in County Durham and delivered new and better jobs in growing sectors in a high-quality employment location. Development of the site would provide a high quality modern central business site, in a mature parkland setting, within walking distance of the main line rail station and city centre and providing a unique work and lifestyle offering.
- 36 Durham City is a major commercial centre for the county, as well as a key location from which to drive future jobs growth and improve the economy. Overall, Durham City provided one fifth of the county's business base and one third of its employment. However, most of those jobs were based in the public sector and there was a need to provide better opportunities for the private sector to deliver economic growth within the city, to support the long-term economic sustainability of the county.
- 37 The 2018 report set out that across County Durham, there are significant economic opportunities, and the county is well placed to grow from private investment. To complement these opportunities, the city needed a central business district. Aykley Heads presents a high-quality city-based site, laid out in campus style that respects and embraces the beautiful natural landscape of the site, has a direct access to the main line rail station, with its connectivity to London and other economic centres, and with unrivalled views to the UNESCO World Heritage Site. Sites of this calibre are rarely available, and Aykley Heads is a distinctive opportunity for investment.
- 38 To understand the approach to developing Aykley Heads as a Strategic Employment Site, a professional team of advisors were appointed in November 2016 to assist with the production of a Development and Delivery Strategy. The three key deliverables were:
- (a) **Development Review, Infrastructure and Costings** – to undertake a detailed assessment of the site, infrastructure, and utility requirements. Provide an assessment of likely costs and planning conditions and provide a phasing and programme plan.
  - (b) **Options Appraisal and Deliverability** - undertake an appraisal of the options and detail the implications in relation to risk, finance, legal and procurement issues. Recommend a preferred delivery vehicle and propose the most appropriate procurement route.
  - (c) **Funding** - produce an investment strategy that could deliver a financial return to all investors including the council; and commercial strategy for the site including investor, developer and

occupier requirements and recommendations, detailing how these can be met.

39 The Masterplan and Landscape Strategy aimed to influence the development of the site as high quality, accessible and attractive natural greenspace, incorporating a major new urban country park. The outcome of this master planning and options work was presented to Cabinet in early 2018, with the site divided into three zones, each with its own distinct characteristics as follows:

- (a) **Northern Zone – Phase 1.** The Northern portion of Aykley Heads occupies the land to the south of the access road which serves the new Police Headquarters and Rivergreen Centre. It has a more defined characteristic of building development than the rest of the site and includes the existing Aykley Heads Business Park and Grade II Listed Aykley Heads House. It also accommodates Northumbria House and Salvus House. The land is owned by the County Council apart from one Plot (Plot E) owned by Durham Constabulary. The identified Plots available in this area are deliverable without the need for large amounts of new infrastructure and could therefore be considered for marketing and delivery in the early phases, to stimulate interest and demand in the site.
- (b) **Park Gateway – Phase 2.** This area represented the entrance gateway to the Strategic Employment Site and was known by the public as the entrance to County Hall. The land is entirely in the ownership of the council. The space was proposed to include a water feature, structured public landscaping and seating as well as a new cycle and pedestrian route linking the site from north to south. Small facilities were also to be located for supporting shops and food and drink uses, serving the primary office users as well as providing facilities for the public. Described as ‘kiosks’ in the masterplan, which in effect were small buildings to be built within the appropriate phases of development that would provide valuable amenity services to occupants and the local community.
- (c) **Parkland Plateau – Future Phase.** The rear of the site comprised largely of a flat plateau with a prominent edge to the south-east. This area is in third party ownership and contained within the greenbelt. The market report did not envisage the plateau site coming forward until the other areas of the site were close to capacity and the necessary infrastructure in place. This produced a timeline where the buildings did not come forward until around 2034, i.e., beyond the time of the County Durham Plan. There was therefore no need to provide a policy context for this area in the version of the County Durham Plan that was



progressing at the time, but it could be included in a future review of the Plan as necessary.

- 40 The key headlines were that the masterplan could accommodate:
- (a) 718,000 square feet of office development;
  - (b) 77,000 square feet of supporting development, including hotel and amenity kiosks;
  - (c) Create over 6,000 jobs;
  - (d) £1.5 million - £1.7 million annual future business rates after completion, before central government periodic business rate revaluation.
- 41 A copy of the masterplan is set out in Appendix 2
- 42 Following on from the January 2018 Cabinet, specialist planning consultants and architects were appointed to prepare and submit a hybrid planning application, including full planning permission on Plot C and outline planning for the remainder of phase 1 and 2, as well as demolition of County Hall. This was to provide certainty and confidence to the market, irrespective of the procurement approach to deliver the site.
- 43 As part of the architect's commission, they were responsible for designing Plot C to RIBA Stage 3. The building design was to be flexible to accommodate multiple tenancies or expansion requirements. This was to maximise potential demand and minimise the council's financial risk and exposure, but be able, if a live enquiry was received, for the architects and internal team to work with the organisation to design a bespoke building to specific needs.

## **Development and Delivery Options**

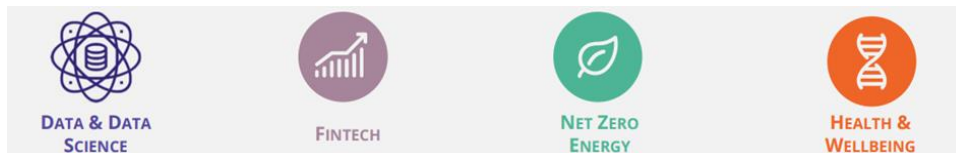
- 44 Part of the options appraisal work undertaken on behalf of the council by Gleeds Advisory Ltd, Property and Construction Consultants, explored the delivery options for phase 1 and 2, which were:
- (a) **Land Disposal (as a whole or part(s)) to a developer/investor** – Although there would be an immediate capital receipt, the council would lose control over the site.
  - (b) **Direct development by the council** – Would provide confidence to the market so long as speed and efficiency were maintained. Public sector procurement process would need to be followed.

- (c) **Formation of a new company** – Ability to make decisions on developments quickly, however, would have tax implications (Corporation Tax, VAT, SDLT), and
  - (d) **Joint Venture** – retains a level of control and the risk and return would be shared. This was not felt necessary for phase 1.
- 45 Details of the advantages and disadvantages of the options were summarised to Cabinet in January 2018, as were examples of how other councils had delivered similar projects.
- 46 The options were scored against agreed criteria. The conclusion being that for phase 1, Plot C, the council would deliver the scheme directly. Plot D was then to be developed by the council only if market demand existed. Plot E was subject to acquisition of land.
- 47 The potential for direct development by the council for phase 2 would depend on demand and uptake within phase 1 and changes within the broader office market.
- 48 Consideration was also given to some form of joint venture / partnership arrangement being required or desirable to share expertise, risk, and costs to deliver development of future phases of the masterplan. This was to be informed by market demand, investment trends and the position of the council at a future point in time. Principally, this would be informed by market interest in Plot C and D.
- 49 It was therefore agreed that the council would build an office block speculatively on Plot C and by having outline designs and expertise available for other plots it would be ready to respond to market interest.
- 50 The planning application contained an updated masterplan which had been refined and further developed. The updated masterplan which accompanied the planning application is shown at Appendix 3.
- 51 It should be noted this updated masterplan did not include the plateau area previously identified as future development land and this area is not currently identified as part of the site allocation in the County Durham Plan adopted October 2020. The revised masterplan reduces the projected job outcomes to up to 4000 jobs across 414,000 square feet of development floorspace.
- 52 As stated earlier in the report, this was because the land was not likely to be required until 2034 and was therefore beyond the timeframe of the previous or current County Durham Plan. This land could be proposed for development at a point in the future but would be subject to satisfying relevant policy criteria to secure the necessary planning consent.

- 53 The local planning authority received and validated the planning application on 10 July 2020. A full consultation exercise was then undertaken, and a report considered by Planning Committee late in 2020, with conditional approval to the proposals being granted on 20 January 2021.
- 54 On 13 June 2018, Cabinet agreed proposals for the Council to take a long-term interest in the mixed-use development at Milburngate which saw the redevelopment of the former Passport Office and National Savings and Investment site in Durham, using its covenant by way of entering into a head lease on the development. Since that time the development has progressed. Milburngate is subject to a separate report which will be brought to Cabinet later in Autumn 2023.
- 55 In May 2021, a new council was elected, and in June 2021, Cabinet agreed to review the options for use of the newly constructed Durham County Council HQ at The Sands, and to set out an approach for reviewing the options for the council's HQ functions.
- 56 On 29 September 2021, Cabinet agreed to several recommendations about the future of the council's estates strategy and council HQ functions.
- 57 A key decision at that time was the protection of the strategic employment development site at Aykley Heads and an agreement to the future demolition of County Hall.
- 58 The review of the council's estates strategy and council HQ functions have been subject to several reports since, the most recent being 27 July 2023. The conclusion of these reports is Cabinet has agreed that the council will occupy the building on Plot C as part of its HQ requirements and seek to acquire the Rivergreen building at Aykley Heads to be developed for its civic, corporate, and democratic core functions, freeing up County Hall and the rest of the site for development.
- 59 By virtue of these decisions, and the nearing completion of Plot C, the developable area at Aykley Heads is up to 381,936 square feet. This assumes that the council can acquire Plot E from Durham Constabulary and Rivergreen, meaning Plot D would no longer be required for a council civic HQ. Should the Rivergreen acquisition not proceed then Plot D would be needed as a civic HQ, reducing the developable area to 346,415 square feet. Should Plot E not be secured from Durham Constabulary the developable land would reduce by a further 54,928 square feet.
- 60 During the development of the masterplan and securing of planning permission the economy has experienced some of the greatest economic shifts in a generation, linked with Covid and geopolitical factors, with

impacts including, for example, in the construction market, which will need to be reflected as we move forward with the best option to develop this site and consider the financial position. The current proposals consider more realistic assumptions on issues like inflation.

- 61 The council has undertaken considerable research into the potential clustering of key capabilities at the development, which are detailed further in the OBC. The council's research and understanding of key economic capabilities, which Aykley Heads has the potential to be a cluster for, has, created a broader opportunity for the council to use Aykley Heads as part of an Innovation District.
- 62 The council & Durham University will continue to work together to jointly research the areas of sector/specialism in order to understand the added value provided by the University's expertise in commercially attractive market areas. The core sectors/specialisms identified, as previously presented to the Board are:



- 63 The council has taken considerable structured soft market testing during 2022-2023 to understand the market appetite and capability to develop an Innovation District.
- 64 The council has adopted a new Inclusive Economic Strategy which provides a framework to transform the trajectory of the County's economy. Alongside this the County Council and Durham University have a well-developed Memorandum of Understanding and established approach to partnership working.

## Outline Business Case

- 65 The following sets out the proposed approach to delivery of Aykley Heads, which has been developed through a series of assessments that are set out in the OBC that is attached to this report at Appendix 5. This follows the principles of the five cases format set out by HM Treasury, reflecting the council's commitment to following good governance and reflects the current complexity, scale, and maturity of the Durham Innovation District project.
- 66 The outcomes of the OBC can be read as a stand-alone document that underpins the recommendations and analysis set out in the remainder of this report. This defines the Aykley Heads proposition, the proposal to develop Aykley Heads as a catalyst for a Durham Innovation District, the proposed procurement route to secure a Joint Venture Partner, and how

that procurement will shape the FBC which will be subject to a future Cabinet decision.

## **The Aykley Heads proposition**

- 67 The background set out in the previous section and the history of the development of the site means there is a clearly defined proposition to take to the market. The 15ha site is within single council ownership (aside from Plot E); has outline planning permission for 414,000 square feet of commercial floorspace for up to 4,000 jobs; sits within a wider 62ha emerging Innovation District encompassing the new University Business School and Milburngate; is subject to a wide-ranging Memorandum of Understanding with the University to partner in the development; and is within a few minutes' walk of the railway station. It is served by the Cross Country, Trans-Pennine and East Coast main lines providing excellent north south, east west connectivity, and accessible by car from the A1 in under 10 minutes.
- 68 The site itself offers a mature woodland setting and is already home to businesses such as Atom Bank and Waterstons Ltd. The Durham City Incubator is also located at Aykley Heads, supporting university spins-outs and high growth potential start-ups. In addition to the existing outline planning permission there is further expansion land that has the potential to accommodate a further 2,000 jobs. All of these factors means that Aykley Heads is a natural home for innovative and knowledge rich businesses to create high value jobs.
- 69 In undertaking the above analysis of the benefits of the site and the opportunities in the surrounding area and wider County Durham ecosystem, it has become clear that Aykley Heads is perfectly placed to be the catalyst to develop and drive forward a Durham Innovation District.

## **Durham Innovation District**

- 70 Innovation Districts are geographic areas with networks of knowledge-producing organisations such as universities, research bodies, cultural institutions, and knowledge-intensive businesses. They bring together innovators, entrepreneurs, researchers, creatives, knowledge workers and investors to work together, to collaborate, compare and compete, creating the conditions for business growth. These people and organisations value the vibrancy, connectivity, and networks created by such locations.
- 71 Unlike single-industry specialist clusters in out-of-town business parks or along motorway corridors, the clustering of knowledge-driven firms and skilled workers in cities has embraced a new trend of interconnected industries and is being used to stimulate the growth of city centres and

areas where universities are active. Adopting a “triple helix” approach of universities, government, and private sector, combining together with innovation being a key driver, they are underpinned by area(s) of world class research expertise and access to human talent.

- 72 The most readily monetizable benefits associated with delivery of the innovation district are:
- (a) Jobs creation through the growth of new businesses or expansion of existing businesses would be captured through an assessment of GVA or measures of social welfare benefits assessed on a place-based basis with an additionality framework.
  - (b) Delivery of training as National Vocational Level equivalent provision.
  - (c) Productivity growth within sectors as measured by GVA per hour or per worker – methodology based on evaluation evidence – would need to be confirmed at FBC.
  - (d) Land Value Uplift – resulting from change of use of existing premises.
  - (e) Wider Land Value Uplift – reflecting the catalytic impact of the development on the wider city, capturing a value based on the impact of various placemaking activities.
- 73 The FBC will also explore the wider non-monetizable benefits that will be unlocked by the scheme. Wider benefits will include:
- (a) Increased supply of high quality, fit for purpose commercial space.
  - (b) Carbon savings achieved.
  - (c) Improved facilities available to entrepreneurs and early-stage businesses.
  - (d) Increased inward investment to County Durham.
  - (e) Increased provision of space for networking and peer support networks available to the production sector.
  - (f) Improved accessibility to technology, equipment, and technical expertise.

- (g) Improved availability of business support, training, and mentorship.
- (h) Improved deployment of technology and data.
- (i) Establishment of a supportive environment for new and existing businesses to locate and grow.
- (j) Increased interactions between technology providers, research, institutions, and the market.
- (k) Higher number of business start-ups and scaling businesses.
- (l) Increased provision of high quality, high value employment.
- (m) Improved productivity as measured by GVA per worker.

74 Aykley Heads is uniquely positioned to capitalise on these characteristics and serve as a driving force for County Durham's future economic growth; a world class University; existing elements of an innovation ecosystem; and scope to scale up significantly and create an Innovation District of regional, national, and international significance that delivers huge benefits to the residents of Durham and the long-term economic prospects of the area.

### **Delivering County Durham's Inclusive Economic Strategy**

- 75 In December 2022 Cabinet adopted the County Durham Inclusive Economic Strategy. The strategy sets out a long-term vision for the development of an inclusive economy in the County. At the heart of the strategy is innovation. County Durham has been at the forefront of economic progress, producing the fuel, power and materials that drove the industrial revolution. Our economy has continued to adapt and evolve to become a leader in advanced manufacturing and space and satellite applications. County Durham is currently seizing the opportunities of green technology and our mining industrial heritage to use the landscape to provide new sustainable energy to power our future growth. In Durham University we have a world leading university that will continue to attract international research and development, headquarters, and talent to the county.
- 76 Our strength will continue to be the innovation that takes place in all our businesses - from small independents to big multinationals. The council is committed to supporting its businesses to be at the forefront of research and development, to increase productivity, to fuel growth, and to create more and better-quality jobs. Aykley Heads and the Durham

Innovation District will provide a platform to maximise the benefits of economic growth. It will provide key areas of opportunity, including research and advanced manufacturing, green jobs, electronics, digital and creative, fintech, life sciences and satellite applications sectors. Inward investment will also be directly focused on these specialisms and ecosystems to create sustainable supply chains and jobs across the county and beyond.

- 77 Strategically Aykley Heads is identified as a key strategic priority in the North East devolution deal and a regeneration investment area, providing a premier location to foster clustering of high growth innovation working with Durham University and business to grow our global capability in specialist areas.

### **A partnership with Durham University**

- 78 As set out above universities are a key component of any innovation district in forming the “triple helix”. We have the advantage of a world leading research university on Aykley Head’s doorstep in Durham University. Access to high calibre graduates and post-graduates is a major attraction to innovation-based businesses, such as Atom Bank, locating and remaining in the County, whilst university spin outs, start-ups and scale ups are crucial to our economic growth.
- 79 In recognition of the mutually beneficial role that Aykley Heads can play for the university and the County’s economy, we have worked in partnership to explore the options for the development of the site. This opportunity has been strengthened by the University’s new Business School in the emerging Innovation District a short walk from the Aykley Heads site.
- 80 This has been formalised through a Memorandum of Understanding (MOU) (see Appendix 6) reiterating the commitment to collaborate and explore options in partnership. This commitment will be a key component in attracting the market in delivering an Innovation District. The next steps are to clearly articulate the university’s key academic strengths to help shape the innovation district’s sectoral focus, and to understand the potential for any physical university presence on site, which would help to de-risk the investment proposition and further grow the existing ecosystem.

### **The Existing Innovation Ecosystem**

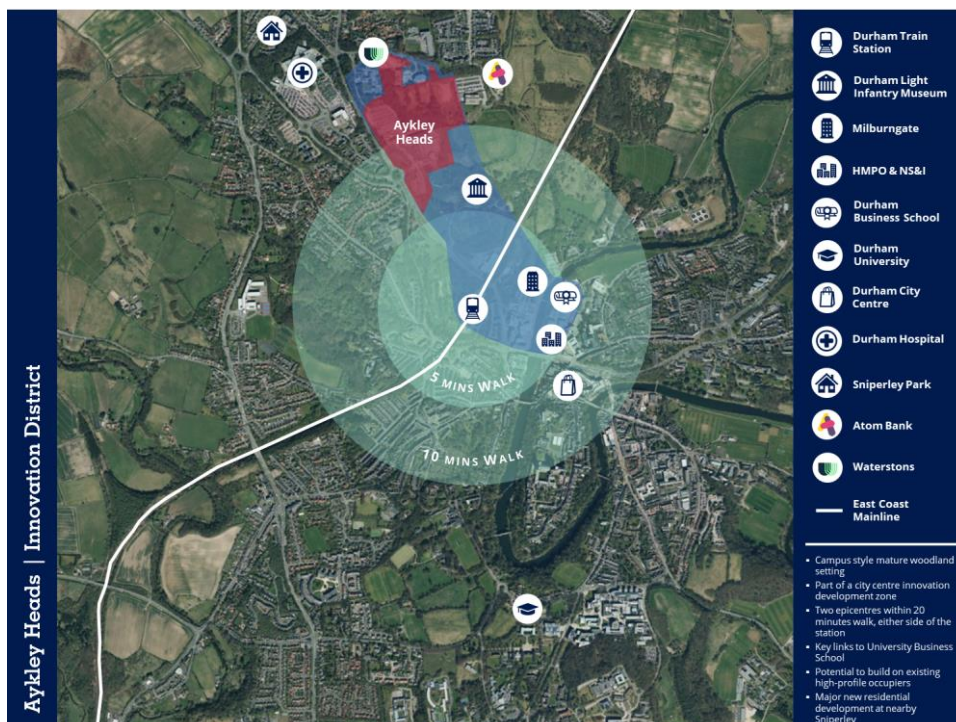
- 81 County Durham already has a strong innovation ecosystem that has been formed over many years of collaboration with the university and private sector, underpinned by bold investment decisions by the council. Primary amongst these is NETPark, the north east’s nationally significant



science park, which opened in 2004 and supports high value jobs and drives economic growth for the region. The council owned site provides 175,000 square feet. of laboratory / office space that is home to 40 businesses from science, engineering, and technology sectors, and employs more than 700 highly skilled professionals. CPI (Centre for Process Innovation) have three National Centres of Excellence located on site, and it is home to three National Catapult Centres.

- 82 NETPark has become a hub for science, engineering and technology companies trading globally. The park focuses on supporting companies to integrate materials into innovative, high value products with international social and economic impact. The site has land identified for multiple further phases of expansion, with Phase 3 due to complete in 2024. The £62m phase creating 232,000 square feet of new space for science and innovation-based businesses, providing up to 1,250 jobs and a further 2,200 jobs in the supply chain, and generating £625m GVA into the North East economy over the next 10 years.
- 83 NETPark is a prime example of how an ambitious vision alongside the right support, facilities and finance can enable university spin outs to start up and then scale up in the region, turning innovation and ideas into jobs at all levels across a wide supply chain. It also demonstrates the County Council's track record in working with partners to develop an innovation cluster in partnership with the university, government, and the private sector.
- 84 In addition to this existing ecosystem, Aykley Heads itself also has a number of key geographical advantages that mean it is primed to drive forward a city-based Innovation District. There is a significant concentration of existing businesses, institutions, and support networks either already on Aykley Heads or in the immediate vicinity. The site is currently home to:
- (a) Atom Bank – fintech leading bank.
  - (b) Waterstons – digital technology.
  - (c) Durham City Incubator – start up support network in partnership with Durham University.
  - (d) Finance Durham – debt and equity finance for businesses locating or growing in County Durham County Council.
  - (e) The new Aykley Heads cultural venue (former DLI).
  - (f) North East Chamber of Commerce.

- 85 In immediate or close proximity to the site are a number of public and government agencies:
- University Hospital of North Durham.
  - HM Passport Office.
  - National Savings & Investments.
- 86 And finally, a concentration of significant new and proposed developments within walking distance of the Durham Riverside:
- Milburngate Phase 1 – 450,000 square feet of mixed-use development.
  - Durham University Business School.
  - Milburngate Phase 2.
- 87 In total this network of “triple helix” organisations extends to create a significant Durham Innovation District, with Milburngate, the Business School and Aykley Heads alone covering 62 hectares of land. These 62 hectares connect to two further innovation “hubs” of Durham University campus two miles to the south and NETPark 12 miles to the south-east.
- 88 Due to the scale of the Durham Innovation District, it is not possible to meaningfully represent it on a single plan. The plan below shows those areas located in Durham City:



- 89 It is the intention to seek an investor/developer partner who will develop the land at Aykley Heads but who will also build an ecosystem across the whole Innovation District and maximise innovation and economic growth.

### **Delivering an Innovation District**

- 90 In developing the OBC, significant consideration has been given as to the best development and delivery options to realise the aspirations for an Innovation District at Aykley Heads. This work has been informed by a clear commercial case process, which has included:
- (a) Clarity of vision and outcome.
  - (b) Identification and assessment of potential delivery route.
  - (c) Soft Market Testing.
  - (d) Identification of procurement routes.
  - (e) Selection of a preferred delivery route.
  - (f) Procurement Design.
  - (g) Anticipated Commercial arrangements.
  - (h) The council's powers to act.
- 91 All work undertaken in the development of the commercial aspects of the Innovation District have been based on delivering a clear vision and outcomes at Aykley Heads and for County Durham and the region.
- 92 As the proposal is developed to FBC consideration will be given throughout to meeting high levels of sustainability and complying with the council's Carbon Reduction strategies. We will also ensure that all opportunities are explored for the development to benefit from any geothermal heating potential.
- 93 The ambition and outcomes have informed the criteria to both choose a preferred delivery option and to design the procurement process.
- 94 A long list of development delivery options was prepared and assessed by the Aykley Heads Board, comprised of senior experts from Durham County Council and supported by technical experts Avison Young. The OBC contains more detailed information on the options considered, however a summary of this is set out below:
- (a) Do-Nothing.

- (b) Sell the entire site unconditionally on the open market.
- (c) Piecemeal development through sale of individual Plots.
- (d) Sell Plots but with headlease arrangements in place.
- (e) The council enters an arrangement with an Investor partner to drive delivery.
- (f) The council enters a Strategic Development Agreement with a private partner to deliver enabling infrastructure and who can draw down Plots to develop.
- (g) The council enters a Joint Venture (JV) with a private sector partner and develops the site together.
- (h) The council acts as Strategic Master Developer and disposes of Plots (to third party and/or enabling works provider).
- (i) The council acts as Strategic Master Developer and delivers Plots directly.

95 The key conclusions arising from the initial assessment of those delivery options was that:

- (a) **Option 1 – do nothing” was not an option for the council;** it would not achieve any of the council’s strategic objectives and would guarantee that an Innovation District would not be created.
- (b) **Options 2 - 4 – being a variety of land disposal options, would not meet the council’s needs** and deliver an Innovation District. This conclusion being consistent with observations around the economic case and the need for collaboration (and other factors) to address market failure.
- (c) **Options 5 - 7 – offered the council the best way forward** to take a long-term interest in the successful delivery of an Innovation District, whilst providing access to the skills, resources, and the track record of the private sector which in turn would help manage the council’s own risk exposure, and
- (d) **Options 8 and 9 – were discounted** - it was considered the council did not have the risk appetite to deliver, noting the council’s lack of skills (and capacity) to lead the development of an Innovation District.

96 The council also sought feedback from a range of potential partner typologies – such as trader developers, institutional investors and long term develop and hold partners – through a soft market testing exercise

in November 2022 with 4 potential partners of differing typologies. Options 5 - 7 were the favoured delivery arrangements for these partners.

97 Consequent to this, further work was undertaken to determine the most appropriate delivery option. This involved commercial analysis including quantitative review, qualitative review, and risk analysis within a workshop forum. Workshop attendees included senior council officers and external professional advisors. This was all undertaken under the premise of the council seeking to develop Aykley Heads as an Innovation District.

Option	Objective Fit An AH that provides high quality jobs and an economic catalyst	Strategic Fit Delivery of outcomes - Inclusive growth - Integrated city - Talent & innovation - Sustainability	VfM Does it deliver social value in terms of costs benefits and risks?	Commercial Feasibility Market, occupiers, investors, funders...	Affordability How likely/readily can the option be funded, financed and implemented within current budgets?	Achievability How likely/readily can the option be delivered given current organisational capability and skills available?
1) Do Nothing (hold the site)	Red	Red	TBC	NA	Yellow	Green
5) DCC enters into a deal with an Investor partner to drive delivery	Yellow	Yellow	TBC	Green	Yellow	Yellow
6) DCC enters a Strategic Development Agreement with a private partner to deliver enabling infrastructure and who can draw down plots to develop.	Yellow	Yellow	TBC	Green	Yellow	Yellow
7) DCC enters into a Joint Venture (JV) with a private sector partner – site developed out together.	Green	Green	TBC	Green	Yellow	Green
9) DCC acts as Strategic Master Developer and delivers plots directly	Green	Green	TBC	Green	Red	Red

98 Having considered the range of delivery options the analysis clearly concluded that option 7 – entering into a Joint Venture with a private sector partner, in which the site would be developed together, would be the best delivery model to achieve the council’s vision and outcomes. The desire to create an Innovation District has a number of key characteristics that favour a partnership approach.

99 The first principle is that an experienced partner would bring **experience, knowledge, and accesses to networks, with their market specialisms** in helping to shape, develop and run Aykley Heads as a successful Innovation District. The second is that a joint venture partner would provide investment finance for the project and share the risk and reward of the project with the council. Within this the council would be able to choose its appetite for investment, risk, and return. But the council would also be a partner, meaning it can exercise control over the type, size, scale, and timescales of development.

100 Based on these factors a joint venture partner would hold a long-term interest in the success of the development beyond the construction phase, and bring experience and expertise in creating, running, and managing an Innovation District.

101 This will ensure:

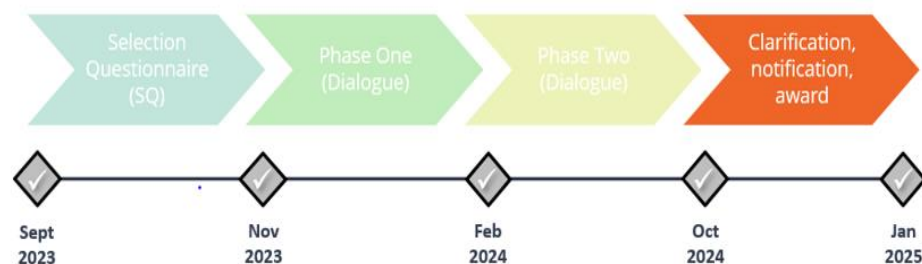
- (a) The partner brings expertise & desire to hold assets over the long term,
- (b) A partnership approach that shares risk and reward with partner,
- (c) That the council can retain high level of control on programme, use and quality,
- (d) Council control can be further protected through phased approach of land transfer into JV,
- (e) The council has the benefit of a partner with long term commitment to the site and,
- (f) The partner would bring long term management experience and capability.

102 A high-level summary of the potential delivery models is set out in the table below:

Aykley Heads   Delivery models			
Direct Develop	Develop & Sell JV	Developer & Fund JV	Funding JV
<ul style="list-style-type: none"> <li>▪ DCC act as developer</li> <li>▪ DCC finance the project through PWLB</li> <li>▪ DCC undertake the works with contractors appointed</li> <li>▪ DCC carry all the risk but retain all the reward</li> <li>▪ Private sector finance is not involved</li> </ul>	<ul style="list-style-type: none"> <li>▪ Partner seeks to sell plots and develop buildings to sell.</li> <li>▪ Partner delivers site wide infrastructure</li> <li>▪ Potential for partner to draw down individual building plots</li> <li>▪ Development risk sites with developer</li> <li>▪ The developer benefits from financial return</li> <li>▪ Potential overage options for DCC</li> <li>▪ DCC retains some control of future development but can't influence pace</li> </ul>	<ul style="list-style-type: none"> <li>▪ Partner brings expertise &amp; desire to hold assets over the long term</li> <li>▪ Partnership approach shares risk and reward with partner</li> <li>▪ DCC retain high level of control on programme, use and quality</li> <li>▪ DCC control can be further protected through phased approach of land transfer in to JV</li> <li>▪ DCC has the benefit of a partner with long term commitment to the site</li> <li>▪ Partner would bring long term management experience and capability</li> </ul>	<ul style="list-style-type: none"> <li>• Long term financier/funding partner</li> <li>▪ DCC development risk limited</li> <li>▪ Partnership would source development capability</li> <li>▪ DCC retains some influence on future development delivery</li> <li>▪ Potential overage return to DCC</li> <li>▪ May be structured as a land deal or partnership</li> </ul>



- 103 Work commenced with the council's Procurement Team to identify the most appropriate procurement procedure to comply with the Public Contract Regulations 2015, to secure a Joint Venture Partner.
- 104 This concluded that procurement via the Competitive Dialogue Process was most appropriate for the council to secure a Joint Venture Partner, providing the greatest potential to deliver its agreed vision and outcomes. Competitive Dialogue offers the following advantages:
- (a) Competitive Dialogue enables solutions to be shaped and tailored to meet the Authority's specific needs.
  - (b) Dialogue on risk transfer can take place.
  - (c) Offers flexibility.
  - (d) Procedure can be tailored using down selection.
  - (e) Competitive dialogue allows final tenders to be clarified, specified, and optimised at the request of the council.
  - (f) Competitive procedure with negotiation provides greater freedom to open negotiations with Candidates to seek improved offers.
  - (g) Weak options can be potentially ruled out early.
- 105 The procurement process will provide the council a share in a partnership that will:
- (a) develop out Aykley Heads and build a successful ecosystem to support creation, growth, and attraction of businesses in Durham.
  - (b) be backed by an experienced Partner at developing innovation districts, bring know how, resources and a track record of successful delivery & operation.
  - (c) allow the council to influence future development plans.
- 106 The competitive dialogue process to arrive at that point is set out below:



107 Detailed information on these phases is contained in the OBC with a summary provided below:

#### **Selection Questionnaire (SQ) Stage**

- Replaced the former Pre-Qualification Questionnaire phase
- Anticipated to take 30 days
- Filtering process based on minimum requirements/criteria
- Ensures bidders financial stability and suitability
- Sets out the final assessment criteria on which shortlisted bidders will be evaluated
- Generates a long list of potential partners

#### **Phase One - Dialogue**

- Invite selected bidders to participate in the next stage
- Bidders typically issued with an invitation to take part in dialogue
- Phase is anticipated to last 60 days
- Enables full freedom of dialogue with all longlisted bidders to allow full understanding and to guide detailed bid submissions in phase two
- Allows a shortlisting process to take place based on the outcomes of the dialogue

#### **Phase Two - Dialogue**

- Shortlisted bidders (likely maximum of 3) enter final phase of dialogue
- Phase is expected to last 200 days
- Bidders refine their proposals from phase one and respond to the detailed requirements of the tender documents
- Allows a final evaluation of each shortlisted bidder based on agreed price and quality split which has been outlined in the SQ stage

#### **Clarification, notification and award**

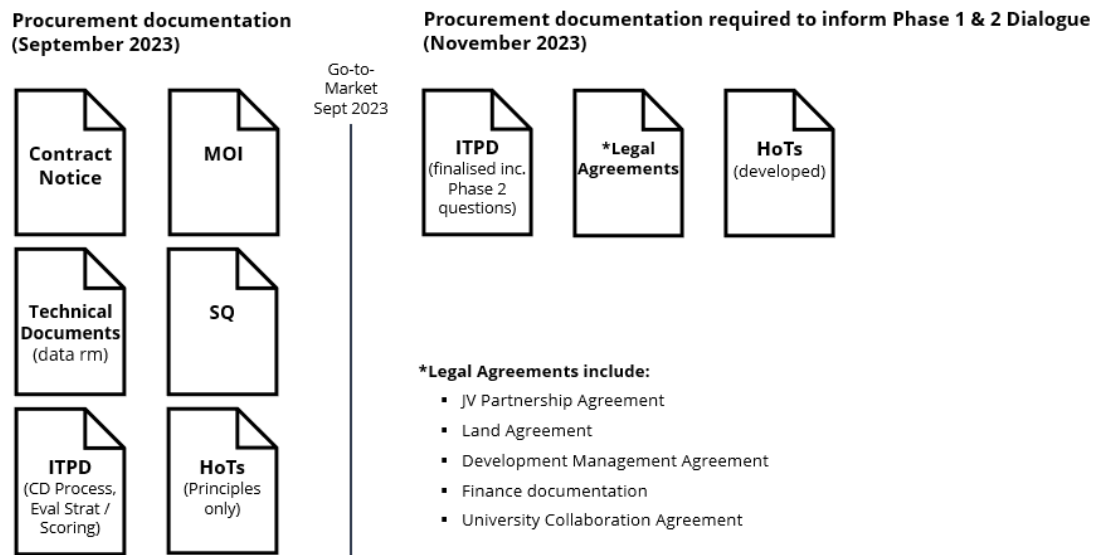
- Shortlisted bidders are notified of the outcome and successful bidder identified
- Opportunity to clarify aspects of successful bidders submission, although there can be no major notification
- Preferred partner is awarded the contract and pre-contract meeting commence

108 At the completion of the procurement process, in addition to a preferred partner being identified, there will be an FBC that will confirm the outcome of the competitive dialogue process and provide details of the



proposed Joint Venture Partnership and Business Plan to inform the final approval process for the council (anticipated December 2024). It is at this stage that Cabinet will be asked to consider and approve the outcomes of that process, and only then will the council enter into the JV with the preferred partner. At this stage Cabinet are only being asked to approve the start of a procurement process to enable an informed future decision.

109 The diagram below shows the procurement documentation that is being prepared prior to going to market in Autumn 2023, subject to Cabinet approval to proceed, and the documentation to be developed to inform the dialogue process and partnering/other arrangements to follow later this year as part of the process. As noted earlier in the report, the decision to proceed to procurement at this stage does not commit the council to any further public investment to deliver the development at Aykley Heads, with any future capital investment requirements being factored into the FBC.



110 The competitive dialogue process and assessment of the tenders received will be undertaken by representatives of the Legal and Procurement Working Group with the inclusion of appropriate Technical and Professional officers of the council at dialogue and evaluation sessions as required. The procurement process will be overseen by the Chief Procurement Officer of the council.

111 It is important that a project of the scale and impact of Aykley Heads is effectively resourced by the council. To support the client-side development of the FBC, and thereafter to support the ongoing revenue costs associated with the council's role in the Joint Venture Partnership, a budget will need to be established. This will complement existing resources and be used for additional capacity support on the intensive process for this major strategic priority for the council.

- 112 This will need to be factored into the 2024/25 budget as part of the development of MTFP14, with any costs incurred in the current year met from general contingencies.
- 113 In the next couple of years, the budget will cover the annual costs associated with the procurement and development of the FBC. Once a JV partner is in place the budget will then support the ongoing revenue costs associated with the JV partnership. As part of the FBC development any other additional financial support to the JV Partnership, if required, will need to be exemplified and impacts factored into MTFP15/16 and beyond.
- 114 The FBC will confirm the outcome of the competitive dialogue process and provide details of the proposed Joint Venture Partnership and Business Plan to inform the final approval process for the council (anticipated December 2024).
- 115 Whilst the details of the JV Partnership won't be finalised until FBC, it is envisaged that the council will enter various commercial arrangements including:
- (a) a detailed Partnership Agreement,
  - (b) property and finance documents, and
  - (c) a Business Plan.
- 116 When forming joint venture vehicles, local authorities will typically consider the use of a Limited Liability Partnership ("LLP") structure instead of a company. This is mainly because an LLP is tax transparent: profits are taxed in the hands of the partners. Because local authorities do not pay corporation tax this results in a tax efficient structure. However, whilst LLPs must have a view to making a profit, a local authority cannot enter into one where its purpose is a commercial one. As the OBC sets out however, whilst the council must be prudent with public finances, it is not driven by commercial considerations. An LLP is also not the only option available, and all alternatives will be considered throughout, through the procurement process and fully documented in the FBC, with the advantages and disadvantages and implications fully explored as part of that process.

## **Financial Case**

- 117 Because the council is going to market to secure a JV Partner (and a plan to deliver the Innovation District) the Financial Case (as with the Economic case) cannot be fully developed until the outcome of this procurement exercise is known. This will be fully documented in the FBC stage when a decision to proceed (or not) will be taken.

- 118 At this stage the financial viability of Aykley Heads, and the potential need for any public subsidy or de-risking, is not yet fully quantified. This will become clearer through the competitive dialogue process as a FBC is formed with the prospective Partner.
- 119 It will be subject to and shaped by the type, scale and income generation potential of the development needed to create a successful Innovation District, led by the Partner's experience, plus the actual costs associated with the development.
- 120 The FBC will be subject to Cabinet approval, and the project would only proceed if Cabinet were happy with the commitments required and the financial returns.
- 121 The anticipated Partnership Model (and its consequential financial structure and commitments of the JV Partners) will be subject to competitive dialogue and detailed within the FBC. However, at this OBC stage it is anticipated that there will be a JV Partnership, and that the council will commit infrastructure and land which will be matched by the Partner. Under such a structure both the council and its JV Partner would have an equal 50% share in the JV and therefore share equally the risks and financial returns from the development.
- 122 It is envisaged that the JV Partnership will also be capable of securing borrowing to enable it to appropriately invest in infrastructure and building activities to deliver the agreed vision and outcomes to assist in the delivery of the financial returns.
- 123 The planned competitive dialogue will permit discussions concerning commercial principles. Dialogue will also afford all participating bidders the opportunity to discuss and explore their proposals, referencing matters concerning (without limitation) mix and typologies of uses, scale, phasing and income generation they consider appropriate to create a successful Innovation District. This may require further public (and private sector) investment to leverage a successful partnership.
- 124 As the level of financial detail matures through the competitive dialogue process, this will inform a robust FBC for approval by Cabinet prior to the council entering any formal agreement with its preferred JV Partner.
- 125 The Financial Business Case modelling will be overseen by the Head of Corporate Finance and Commercial Services.
- 126 Preliminary financial analysis has been undertaken to inform the OBC. Its purpose is to illustrate the anticipated order of magnitude of financial (and other) contributions Durham County Council is likely to need to commit to enable the successful delivery of the Durham. Innovation District and its agreed vision and outcomes. Such analysis is based upon

the current SES Hybrid Planning Permission for Aykley Heads, which it is known will change as propositions come forward.

- 127 This analysis identifies the following key council commitments being required to enable successful delivery:
- (a) The demolition and remediation of County Hall to provide a satisfactory development.
  - (b) Phased transfer of the council's land as equity into the JV Partnership.
  - (c) Funding to establish and maintain a council client function to protect and manage its interest in the Joint Venture.
  - (d) The potential for further capital and/or capital asset contributions into the JV over a period of time. It is likely that public funding will be required to pump prime the development of the site to ensure the JV partner is able to invest in the project and secure a commercial return. Any investment required will be assessed as part of the FBC and will support the delivery of the vision and outcomes.
- 128 The commerciality of the project remains a key consideration to ensure that the development will deliver the maximum benefit for the residents in County Durham. However, the financial viability for the proposed development will only become apparent via the formal dialogue process.
- 129 The FBC will confirm the council commitments over the initial three to four years of the Durham Innovation District delivery programme – capital, capital assets and revenue resource requirements. These will need to be built into future budget and MTFP if the council subsequently progresses with the proposals.
- 130 A key financial assumption underpinning the OBC is that any council investment will be transferred into equity into the final JV Partnership, whereby the more the Council invests the greater the risk exposure it takes but the increased share of the long-term returns it will receive.
- 131 The council will seek to retain flexibility as to how it wishes to potentially reduce risk and immediate upfront investment and shape its future returns.
- 132 The overarching JV Business Plan will need to be updated annually to reflect activity, investment, and proposed return strategies.

## Management Case

### Governance and Programme Management

- 133 The council has established governance arrangements to oversee the programme, which are formally documented. These governance arrangements have evolved as the Project has progressed. The governance arrangements currently in place will support the procurement process to completion of the FBC.
- 134 The existing governance includes the Aykley Heads Board chaired by the Corporate Director of Regeneration Economy and Growth and Vice Chaired by the Corporate Director of Resources, the meeting includes senior leaders from Corporate Property and Land, finance, procurement, legal, economic development, as well as expert independent support in commercial and project management from Avison Young.
- 135 The Board is supported by a number of sub-groups who are led by the members of the board and tasked with key areas of the programme such as the procurement and engagement market.
- 136 A greater participation at strategic and operational level is under discussion with the University, recognising their critical role in the long-term success of the Innovation District, we also expect to introduce as part of the revised governance an expert panel of carefully selected senior business leaders, who will support the project to develop with independent advice on matters such as supporting university spin outs, infrastructure, and inward investment.
- 137 Programme and project management plans will evolve during the different stages of the programme. The programme as it is currently anticipated is as follows:
- (a) Acquisition of Rivergreen | August 2023
  - (b) Delivery (Procurement and FBC) | October 2023 – December 2024
  - (c) Occupation of the Story / Relocation of Archives | Easter 2024
  - (d) Occupation of Plot C | January 2024
  - (e) Joint Venture Partnership Agreement | January 2025
  - (f) Shareholder Agreement / Partnership Board Established (includes client function governance) | January 2025
  - (g) Occupation of Rivergreen | April 2025

- (h) Demolition of County Hall commences | May 2025
- (i) Future development of the site in line with agreed Business Plan | 2026

138 Programme and project management plans will be flexible to allow the partnership to explore opportunity to create further value and deliver a wider ecosystem, however the roles and dedicated resource will be clear reflecting the strategic focus and expertise required in this significant project.

139 The potential for the Innovation District to drive value beyond Aykley Heads has been raised by the market as part of soft market testing and is set out in the OBC. Correspondingly, programme and project management plans will be flexible to allow the council to explore – via the Partnership – opportunities to create further innovation led growth and a wider ecosystem should all parties be willing.

140 It is anticipated that the Shareholder Agreement will also provide the ability to add or remove assets from the Joint Venture Partnership, subject to Business Plan approvals. The partnership agreement will need to ensure the councils' interests are protected under any arrangements going forward.

141 Management strategies will be developed via the Joint Venture Partnership Agreement and outcomes / actions informed via the Business Plan. Key areas are noted below and will be developed through dialogue:

- **Partnership Agreement** (decision making, framework for dividends/ payment and distribution waterfalls, future risk management).
- **Business Plan** (planned activity, performance, and reporting (JV KPI's, reporting requirements, protocols, and interface & links with governance), socio economic benefits and mitigation strategy to navigate identified risk).

142 The council will establish a Client Function to manage its investment in the JV and support any council representation on the JV Board. The Client Function will have full visibility via its Partnership representation and will monitor, assess, inform, and assure the Business Plan performance outcomes as council shareholders.

143 In so far as contingency and exit arrangements are concerned, the Joint Venture Partnership Agreement will set out the parameters in the event of default, determination, assignment, and transfer. These will be fully detailed and reported within the FBC.

## **Next Steps**

- 144 The timeline for this project is set out above and the next steps subject to further work on the organisational fit is for staff to relocate from County Hall to Plot C in early 2024. This will include the Archives and Records Office being relocated to The Story in Easter 2024.
- 145 The members / civic arrangements and those staff remaining in County Hall will be relocated to Rivergreen on completion of the acquisition and subsequent fit out. This is anticipated to be April 2025.
- 146 Strip out and demolition of County Hall will take an estimated 24 months to complete. These works cannot commence until the building is vacated, cannot start until the building is vacated for safety reasons.
- 147 Alternative temporary accommodation has been considered but discounted when considering the balance of disruption for our workforce, costs, options for civic space alternatives and capacity.
- 148 It is envisaged that strip out and subsequent demolition of County Hall will market commence in Spring 2025 and the Aykley Heads site will be cleared by Spring 2027.
- 149 Subject to the necessary approval processes the procurement exercise to secure a JV partner will commence in Autumn 2023 with a view to entering into a legal agreement with the partner in early 2025.

## **Conclusion**

- 150 Aykley Heads site forms an essential part of the Durham Innovation District.
- 151 In order to facilitate the development of this Innovation District a JV partner is required. This report sets out the OBC to progress with the procurement exercise to secure a Joint Venture partner and the reasons why this represents the best overall approach for the council.
- 152 The report clearly documents the procurement approach to securing a JV partner along with the timeframes for doing this and the process that will be followed.
- 153 It is clear from this that by progressing with the procurement exercise no legal commitment is being made. Before entering into a legally binding contract with the JV a further report will be presented to Cabinet which will include more detailed information on the JV arrangement including full financial information.
- 154 It is apparent from the detail contained in this report that if the council is committed to progressing and realising the full potential of the Durham

Innovation District then the next steps is to seek to undertake a formal procurement exercise in an attempt to secure a suitable joint venture partner.

## **Background papers**

None

## **Other useful documents**

- (a) Durham City Regeneration Masterplan – Cabinet 16 April 2014
- (b) Update on Office Accommodation Programme and Release of Aykley Heads Strategic Employment Site for Economic Regeneration – Cabinet 15 July 2015
- (c) Update on the Office Accommodation Programme and OBC for a new Headquarters – Cabinet 13 July 2016
- (d) Aykley Heads Strategic Employment Site DCC Headquarters FBC and Future Options for the County Archive – Cabinet 17 January 2018
- (e) Durham City Regeneration Milburngate – Cabinet 13 June 2018
- (f) Delivery Proposals for Aykley Heads Strategic Employment Site – Cabinet 12 September 2018
- (g) Hybrid Planning Application comprising detailed planning application for an office block (Class B1), with associated parking and landscaping on land known as Plot C and an outline planning application, with all matters reserved apart from site access, for demolition of the existing County Hall site and the development of a business park with supporting retail and leisure uses with associated landscaping, multi-storey and surface car parking, servicing and relevant infrastructure – Planning Committee 1 December 2020
- (h) Review of DLI Collection Archive and Future of DLI Building and Grounds – Cabinet 16 June 2021
- (i) Review of Durham County Council Headquarters – Cabinet 16 June 2021
- (j) Review of DLI Collection and Archive and the potential future use of the former DLI Museum and Art Gallery and Grounds at Aykley Heads – Cabinet 16 September 2021
- (k) Review of Durham County Council Headquarters – Cabinet 29 September 2021



- (l) Durham County Council Headquarters Alternative options Assessment – Cabinet 27 April 2022
- (m) Adoption of the Inclusive Economic Strategy – Cabinet November 2022
- (n) Office Accom Strategy Update – Cabinet 26 July 2023

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## **Appendix 1: Implications**

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### **Legal Implications**

The council has various powers to enable it to enter into a corporate joint venture, the form of which will be dependent on the outcome of the procurement process.

Any transfer of land into the joint venture will be a disposal, and the usual requirements to obtain the best consideration reasonably available and to advertise the intended disposal of any land meeting the statutory definition of “open space” must be complied with.

The council must also ensure that the terms of the agreement with the ultimate joint venture partner are permissible under the Subsidy Control Act 2022 in that they do not meet the definition of a subsidy under that Act or are permissible with the subsidy control principles.

### **Finance**

In developing the OBC the council has had to utilise the support of external consultants, the cost of which has been funded through the use of Earmarked Reserves. The council will also be committing resources to the procurement exercise and the development of an FBC. Again, these costs are to be funded through Earmarked Reserves held by Regeneration, Economy, and Growth. The overall costs of developing the OBC, the procurement exercise and the FBC is £897,000.

As the procurement exercise progresses and the Innovation District is developed further financial resources may be required and these will be the subject of future MTFP bidding rounds. A £150,000 growth bid will be included in the 2024/25 budget and MTFP (14) to provide the necessary capacity within the Corporate Property and Land Team to take this project forward.

The council will be committing resources to the procurement exercise. As the procurement exercise progresses and the Innovation District is developed further financial resources will be required and these will be the subject of future MTFP bidding rounds.

The full and detailed financial implications of entering into the Joint Venture will be set out clearly in the subsequent 2024 Cabinet report.

Future detailed development plans for Aykley Heads will be subject to planning and associated planning consultation.

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

An Equalities Impact Assessment will be undertaken as part of the more detailed feasibility and next stages in terms of relocating staff within the County Hall building and to other sites in line with the Organisational Fit work that is ongoing.

As the designs progress and proposals are firmed up in terms of which teams will be located in which building, full consideration of accessibility requirements and engagement with the council's Staff Networks will be undertaken.

## **Climate Change**

Aykley Heads will be developed in line with the County Durham Plan and seek the highest sustainability standards possible within the context of the development.

## **Human Rights**

None.

## **Crime and Disorder**

None.

## **Staffing**

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 period of meaningful consultation with recognised Trades Unions and staff will be required ahead of re-allocating teams within County Hall and across the office estate. This will include proposals for staff travel and car parking, team allocations and welfare facilities which will be available for those staff relocated to other buildings. A period of culture change and staff engagement to prepare for any relocations will also be required.

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.

Considerable investment has been made in improving the strategic sites. The standard of the existing County Hall accommodation is very poor by comparison. It is also incredibly inefficient. Condensing occupation of County Hall until the alternative accommodation is ready will allow for efficiency savings to be realised.

Workforce well-being is a material consideration when considering office accommodation strategies. The previous decision to reaffirm the commitment to relocate away from the existing County Hall building was well received.

This report proposes that those staff (and members) who will be located at Rivergreen remain in County Hall until March 2025.

It is important that staff are kept informed of the revised strategy set out in this report.

The council is continuing to review its ways of working to maximise utilisation of its buildings. Over the coming weeks we will be consulting with our workforce on which teams will be relocated where and preparing for the moves, with the aim of moving out of County Hall as soon as possible.

## **Accommodation**

Like many organisations, the council is on a journey in terms of adapting to more flexible and smarter ways of working. Part of this journey included introducing a hybrid model of working for many former office-based staff, based on a minimum of two days in the workplace to be arranged on a team by team basis. In addition to this model, other ways of working exist across the council including front line working, mobile and community-based teams.

Our accommodation strategy and solutions across the office estate needs to consider the diversity of different teams and ways of working in allocating teams to locations. The approach to our accommodation and the way we want staff to work will need to be inclusive and contribute to staff wellbeing and we will need to ensure that building designs meet a standard of accessibility and consider modern guidelines for creating environments that support all individuals.

## **Risk**

Without securing a suitable Joint Venture partner there is a risk that the Aykley Heads site will not be developed to maximise the opportunities that it represents for the Innovation District.

There is a risk that the council progresses with the procurement for a JV partner and no potential parties respond.

## **Procurement**

A competitive dialogue process has been identified following thorough review of the procurement procedures available to the Council to secure a Joint Venture Partner. The competitive dialogue process will be undertaken in line with the Public Contract Regulations 2015, Chapter 2, Section 3 (30).

Procurement colleagues have been consulted and involved in the process for the selection of this procedure.

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## **Appendix 2: January 2018 Aykley Heads SES Masterplan**

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See document attached separately.

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## **Appendix 3: Aykley Heads Updated Masterplan with Planning Consent**

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See document attached separately.

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## **Appendix 4: Aykley Heads Red Line Boundary including County Hall Site**

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See document attached separately.



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## **Appendix 5: Outline Business Case**

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See document attached separately.

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## **Appendix 6: Memorandum of Understanding, DCC and Durham University**

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See document attached separately.