

Durham County Council

Outline Business Case

Durham Innovation District

Contents

1.	Executive Summary	3
2.	Business Case Details	5
3.	Strategic Case	6
4.	Economic Case	14
5.	Commercial Case	18
6.	Financial Case	29
7.	Management Case	31

Appendices

Appendix 1 | Risk Register

Document Control

Document Title	Durham Innovation District Outline Business Case
Version	V4
Author	Susan Robinson (SRO)
Date	10 August 2023

1. Executive Summary

Introduction

This business case sets out rationale and approach for the development of Durham Innovation District at Aykley Heads.

The Durham Innovation District, facilitated by Durham County Council, will bring together Durham University, industry, government and investors to drive economic and social improvements across County Durham. It will leverage Durham University's world class capabilities to attract businesses and investment seeking access to talent, research, networks, and resources focussed around an attractive campus and community-oriented setting at Aykley Heads.

Durham Innovation District will go beyond the Aykley Heads setting and will:

- Encompass other key innovation assets and businesses in Durham City & Durham (e.g. Milburngate, Business School, Atom Bank, business incubator, NetPark etc.)
- Improve the innovation ecosystem across County Durham, by improving access to knowledge, talent, networks, capital and opportunity.

Ambition and approach to delivery

The Council has set a Vision and agreed its desired outcomes for the Durham Innovation District (see below) so that it will be a catalyst for driving social and economic benefit across the County.

Updated Vision Statement

Aykley Heads will become a highly attractive location for **innovative and knowledge rich** businesses. It will drive a step change in economic growth across County Durham, providing high quality jobs in growth sectors.

Outcomes

City geography	Jobs for residents	Harness talent & innovation	Long term success
<ul style="list-style-type: none"> ▪ Stretching the city centre geography. ▪ Creates a more natural business Hub that grows Durham City centre & pulls the rail station into a more central location. 	<ul style="list-style-type: none"> ▪ Provides quality jobs and career opportunities for County Durham residents. ▪ More opportunity to live and work in County Durham. 	<ul style="list-style-type: none"> ▪ Greater attraction and retention of talent and innovation. ▪ Helps employers to benefit from the talent and research – with particularly strong links to Durham University. ▪ A highly appealing business location in the NE and nationally. 	<ul style="list-style-type: none"> ▪ Long term, sustainable economic growth. ▪ Builds and grows a critical mass of innovative and knowledge rich private sector business. ▪ Local residents and communities share in the growth “dividend”.

A framework for success (principles to shape evaluation criteria)

Economic	Social	Environmental	Commercial
<ul style="list-style-type: none"> ▪ Jobs (number, quality) ▪ Spin outs/ knowledge transfer ▪ Exports ▪ Collaboration ▪ R&D ▪ Levelling up ▪ Investment attracted 	<ul style="list-style-type: none"> ▪ Access/ benefits to local communities ▪ New facilities/ amenities ▪ Graduate retention ▪ New working methods ▪ Great choice for local residents (taking skills outside of Durham) ▪ County Durham £ / TOMS 	<ul style="list-style-type: none"> ▪ Quality of place ▪ Sustainable ▪ Impact on travel patterns ▪ Energy strategy ▪ A connected Durham ▪ “Joined up” city centre 	<ul style="list-style-type: none"> ▪ Governance ▪ Deliverable ▪ Affordable ▪ Risk exposure ▪ Market appeal ▪ Value add ▪ Adaptability ▪ Resources/ commitment

In order to realise its ambition, the Council has explored a range of potential approaches to delivering the Durham Innovation District. It has 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.

The Council is now seeking approval to test the market for a suitable Joint Venture delivery partner. This Outline Business Case (OBC) sets out the case for that decision based on information currently available. However, because the Council is seeking a Joint Venture partner – who will be key to shaping the delivery approach for the Durham Innovation District – further detail will be available to the Council before making any decision to enter into a Joint Venture. That additional information will reflect the outcome of a market procurement process and inform a final Council go/no-go approval via a Final Business Case (FBC).

Proposed Timetable & Next Steps

The following timetable has been developed to enable the Council to commence dialogue with potential Joint Venture delivery partners, explore delivery approaches and establish the parameters of a partnership and future business plan.

▪ Cabinet (approval to launch procurement)	13 September 2023
▪ Launch procurement (place OJEU notice)	October 2023
▪ Issue selection questionnaire (hold briefing day)	October 2023
▪ Complete selection questionnaire evaluation and notify participants	November 2023
▪ PHASE 1 Competitive dialogue – Issue Invitation to Participate in Dialogue	December 2023
▪ PHASE 2 Competitive dialogue – Issue Invitation to Participate in Dialogue	March 2024
▪ Issue Invitation to Submit Final Tender	September 2024
▪ Return of Final Tender	October 2024
▪ Clarification / Evaluation of Tenders	November 2024
▪ Final Business Case (subject to Cabinet approval)	December 2024
▪ Selection of Preferred Partner	January 2025

Further Detail

The remainder of this document sets out further detail under the following links:-

Business Case Details

Strategic Case

Economic Case

Commercial Case

Financial Case

Management Case

2. Business Case Details

Project Name	Durham Innovation District
Programme Sponsor	Amy Harhoff
Programme Senior Responsible Officer	Susan Robinson
Programme Director	Simon de Vere
Project Manager	Beverley Bentham
Service description	Economic Development/ Major Projects
Key Partner organisation(s)	Durham University

This document is the Outline Business Case (OBC) for the Durham Innovation District at Aykley Heads.

In preparing the document, the Council has chosen to follow the “5 cases” format set out by Treasury, but highlight that this document is not intended to be fully Treasury “Green Book” compliant. This OBC therefore reflects the Council’s commitment to following good governance whilst acknowledging it is not required to follow a full green book process and has therefore tailored content to match the current complexity, scale and maturity of the Durham Innovation District project.

By way of context, the reader’s attention is also drawn to a number of factors that have shaped the content of this OBC:

- The OBC supports the Council’s decision to test the market and seek a long-term delivery partner for Durham Innovation District.
- During the procurement process, the Council will engage with potential partners to shape a plan to deliver the Innovation District most likely to meet the Council’s desired Vision and Outcomes. The procurement process will therefore clarify the Council’s role in delivery, likely investment commitment and the future governance arrangements that will protect its interest.
- As a result, the Strategic, Commercial and Management Cases are well developed in this OBC and the Economic and Financial Cases focus on qualitative issues, including setting out how further (quantitative) detail will be presented at the Full Business Case (“FBC”) stage.
- The Council is not committing to delivery of the Durham Innovation District based on this OBC. That decision will be supported by the FBC prior to entering into any delivery partnership. This OBC therefore provides the case to support the Council going to market to seek Innovation District proposals and delivery proposals to realise them.

3. Strategic Case

3.1 Background

The potential for Aykley Heads to be brought forward as a strategic employment site has been long recognised by Durham Council. The opportunity is facilitated by the Council's need for new accommodation with County Hall being unsuited to modern working and, due to its construction and high asbestos content, unsuitable for repurposing. The Council's exit from County Hall and its subsequent demolition is therefore the catalyst to unlocking Aykley Heads as a strategic employment site.

The Council previously explored plans to redevelop Aykley Heads as an office park, with a masterplan being developed and planning permission subsequently secured.

Since the development of the Aykley Heads masterplan, there have however been a number of structural and market shifts which has created a broader opportunity for the Council to use Aykley Heads as a catalyst for inclusive growth across the County by developing it as an Innovation District rather than an office park.

3.2 Innovation Districts

Innovation districts are urban areas with networks of knowledge-producing organisations such as universities, research bodies, teaching hospitals, 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 of these dense urban locations.

Unlike single-industry specialist clusters in suburban science parks and 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 urban quarters where universities are active. They bring different sectors together with innovation being a key driver, typically underpinned by area(s) of world class research expertise and access to human talent.

The continuing growth in city living over recent decades is also strengthening the economic dynamism of many historic city centres. This is allowing universities and businesses to further energise adjacent urban districts, adding to overall vibrancy of place. Together these components align to attract and retain a diversity of talent that enjoys a live, work, play ecosystem that is highly networked.

Cities and city regions do not however face a binary choice between city centre and edge of city led innovation growth. Some productive economic sectors, such as advanced manufacturing, have land and space requirements which make them unsuitable for city centre locations, and there are some highly successful innovation initiatives around where these firms locate. For Durham these means that an Innovation District centered in the city would work closely with, and provide synergies, to other assets such as NetPark.

3.3 Key drivers underpinning this broader opportunity include:

Durham's decision to evolve Aykley Heads from an office park into an Innovation District has been driven by a number of factors including:

- **changes in working patterns and office demand;** meaning businesses are increasingly taking less space but of higher quality. The demand for high quality space with amenity that is attractive for employees to work from has increased, largely driven by the balancing of post Covid 19 working practices and the alignment of employer and employee preferences.
- **a greater recognition that research and innovation is a driver of wealth and that it has a key role in levelling up.** This means that Universities need to make more of an economic and social impact, public policies and funding are increasingly supporting innovation led growth and investors and businesses want closer links to knowledge, talent and growth networks.
- **Market interest;** Innovation Districts and urban Science Parks between Universities, Local Authorities, Investors and/or Developers across the Country are attracting investment across the Country. In addition to the well-established Oxford/ Cambridge triangle, examples of recent investment collaborations can be seen in Leeds, Manchester, Liverpool and Newcastle.
- **Driving value from the University;** The Innovation District would help Durham unlock, and residents benefit more from, having a world class university located in Durham City,
- **International evidence and need;** Innovation Districts are not just a UK trend and are recognized globally as drivers of growth and productivity.

“To find an innovative economy 20 years ago, a worker needed to drive to a secluded research park, work in isolation, and keep ideas secret. Today proximity is everything. Workers want to be in urban places that are walkable, bike-able, hyper-cafeinated, where they can bump into other workers and share ideas. Firms also want to be close to other firms, research labs and universities, in collaborative spaces”

Bruce Katz and Julie Wagner The Brookings Institution

“An alternative way of accounting for slower productivity growth is that it arises, not from slower rates of innovation, but from slower rates of diffusion of innovation”

Andy Haldane, Deputy Governor, Bank of England

- **Delivering Inclusive Growth across the county;** Importantly for Durham Council and its ambition to support inclusive growth, Innovation Districts comprise not only a physical asset, but are also part of an areas innovation ecosystem that supports the commercialisation of innovation and the growth of businesses. In this regard the Durham Innovation District offers huge potential to support inclusive growth beyond Aykley Heads, with the potential to link other Durham County assets (e.g. NetPark, Jade) and networks regionally, nationally and internationally.

This OBC therefore sets out the case for an Innovation District at Aykley Heads, which is aligned to current market need, policy and competitor risk, rather than an office park development which is less aligned in a post Covid world.

3.4 The Proposal

Aykley Heads provides a unique City Centre location to develop as the heart of a Durham Innovation District. The district itself could also incorporate adjacent assets (e.g. Milburngate, Durham University Business School) to increase profile and scale, but for the purposes of this business case the physical focus is on the development of a new proposition on Aykley Heads.

The proposed Innovation District, backed by Durham County Council and Durham University, seeks to create a ‘triple helix’ approach (i.e. creating interactions between academia (Durham University), private industry, and Government) to foster economic and social development. It will give businesses access to talent, research, networks, and resources within a setting that combines high quality infrastructure and amenity with a strong community feel.

The Innovation District would be a major step forward in boosting the County’s capabilities and would build on assets and track record to date, for example: The Durham City Incubator (<https://dcincubator.co.uk/>) already located at Aykley Heads, supporting university spins-outs and high growth potential start-ups. Durham County Council’s science park, NETPark, one of the UK’s premier science parks located nearby in Sedgfield (<https://www.northeasttechnologypark.com>) where a third phase of development is due to start on site in summer 2023.

The Innovation District is therefore the next development phase, of up to 62-hectares at Aykley Heads, and will capitalise on Durham Universities world class capabilities, build on innovation success to date and create a nationally significant Innovation District in the heart of Durham city. The first-class site, which is in the Council’s ownership, will deliver high quality accommodation and amenity as well as an innovation ecosystem that allows business to thrive.

In addition to the access to research, innovation and talent, the Innovation District site is superbly connected allowing easy access. For example, the East-Coast Mainline runs through the innovation district, with the Aykley Heads site within a few minutes’ walk of the railway station. It is served by the Cross Country, Trans-Pennine and East Coast mainlines providing excellent north south, east west connectivity, and accessible by car from the A1 in under 10 minutes.

Aykley Heads is already home to established businesses such as Atom Bank and Waterstons Ltd, and is a short walk to the newly built 450,000 sq. ft. Milburngate mixed use development (<https://www.milburngate.co.uk/>) and the new Durham University Business School, making Aykley Heads a natural home for innovative and knowledge-rich businesses district.

Engagement with the market has been progressed by Durham County Council via a Soft Market Testing process (November 2022) and engagements undertaken with potential partners at during UKREiF (May 2023). Both these engagement exercises identified significant market interest in the project and a willingness to engage in an efficiently managed procurement process for Durham County Council to identify a JV Partner.

The remainder of this section sets out how the Innovation District aligns to relevant policy and strategy.

3.5 The case for change

3.5.1 Alignment with commissioner objectives/ priorities

The Council's overarching vision for 2035 is that County Durham is a place where there are more and better jobs, people live long, healthy and independent lives, and communities are well connected and supportive.

The key to delivering this vision and an inclusive economy for County Durham is to have a clear, bold and ambitious economic vision for the future, developed in partnership, and to which all partners have signed up to deliver. This long-term economic vision for County Durham in 2035 balances the need to grow whilst achieving prosperity for all. At the same time as responding to the immediate challenges faced, it focuses on building a stronger County Durham, one where everyone realises their ambitions in a modern green economy firmly focused on the future.

By 2035 County Durham will be a sustainable, inclusive economy with a diverse range of jobs to meet all skill levels, with targeted training and learning programmes tailored to employment specialisms and needs of business.

At the heart of the 2035 strategy is innovation. County Durham has been at the forefront of economic progress for generations, producing the fuel, power and materials that drove the industrial revolution. The Durham 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 its mining past to use the landscape to provide new sustainable energy to power future growth.

Durham has a world leading university that will continue to attract international research and development, headquarters and talent to the county. The County will harness its proud industrial heritage, skills, and employment land to manufacture the products of its innovation. This will underpin the creation of high value jobs and skilled and aspirational pathways for all our communities.

Innovation is so much more than just the work of higher education. Durham's strength will continue to be the innovation that takes place in, and benefits, all our businesses - from small independents to big multinationals. Durham is committed to supporting businesses to be at the forefront of research and development, to increase productivity, to fuel growth, and to create more and better-quality jobs.

The Innovation District will provide a platform to maximise the benefits of economic growth by targeting key areas of opportunity; expected to align with identified areas such as research and advanced manufacturing, emerging green jobs, electronics, digital and creative, fintech, life sciences and satellite applications sectors. Inward investment is also being focused on these specialisms and ecosystems to create sustainable supply chains and jobs across the county and beyond.

The Durham Innovation is therefore a vital component of the Durham Innovation Ecosystem and will act as a catalyst for inclusive growth across the County. The Council's agreed vision and outcomes for the Innovation District sets out in more detail how the Innovation District is fully aligned to the County's 2035 vision and will unlock benefits across the county (see below).

Vision & Outcome			
Updated Vision Statement			
Aykley Heads will become a highly attractive location for innovative and knowledge rich businesses. It will drive a step change in economic growth across County Durham, providing high quality jobs in growth sectors.			
Outcomes			
City geography	Jobs for residents	Harness talent & innovation	Long term success
<ul style="list-style-type: none"> Stretching the city centre geography. Creates a more natural business Hub that grows Durham City centre & pulls the rail station into a more central location. 	<ul style="list-style-type: none"> Provides quality jobs and career opportunities for County Durham residents. More opportunity to live and work in County Durham. 	<ul style="list-style-type: none"> Greater attraction and retention of talent and innovation. Helps employers to benefit from the talent and research - with particularly strong links to Durham University. A highly appealing business location in the NE and nationally. 	<ul style="list-style-type: none"> Long term, sustainable economic growth. Builds and grows a critical mass of innovative and knowledge rich private sector business. Local residents and communities share in the growth "dividend".
A framework for success (principles to shape evaluation criteria)			
Economic	Social	Environmental	Commercial
<ul style="list-style-type: none"> Jobs (number, quality) Spin outs/ knowledge transfer Exports Collaboration R&D Levelling up Investment attracted 	<ul style="list-style-type: none"> Access/ benefits to local communities New facilities/ amenities Graduate retention New working methods Great choice for local residents (taking skills outside of Durham) County Durham £ / TOMS 	<ul style="list-style-type: none"> Quality of place Sustainable Impact on travel patterns Energy strategy A connected Durham "Joined up" city centre 	<ul style="list-style-type: none"> Governance Deliverable Affordable Risk exposure Market appeal Value add Adaptability Resources/ commitment

Whilst design and delivery of the Innovation District will be undertaken in collaboration with a long term delivery partner, it aligns clearly with other strategies and opportunities, beyond Durham's own 2035 Vision, including:

As a potential site for University investment; having already been identified as a potential site for a geothermal and demonstrator facility, aligning with Durham University's Energy Institute which produces world class R&D for energy decarbonisation.

As a focal point for regional growth under future devolution deals; meaning the Innovation District could benefit from future funding and be an outlet for support programmes. For example, combined authority proposals for a Regional Wealth Fund and specific financial innovations that could support inclusive economic growth align to the Innovation District's positioning.

More broadly, the planned devolution deal has the following nine strategic objectives, all of which are relevant to Durham County Council's aspirations for the Innovation District:

- **Bigger and better** | demonstrably adding value in relation to the existing North of Tyne deal and bringing new resources and powers – and significant private sector leverage - into the region. It recognises the huge value of integrating economy, skills, transport, housing and public sector reform.
- **Reduced carbon, reduced Inequality** | with the green agenda clearly woven through the deal, and shared principles of inclusive growth, addressing disparities and bringing communities together in a smart, skilled and sustainable region.
- **Bold on the rural economy** | setting out clear intentions to accelerate rural growth and looking at the opportunities of the Northumberland Line, rural housing, rural stewardship and net zero transition – including through a Rural Growth and Stewardship Board.
- **Amplifying the North East's global assets** | through a clear focus on the region's growth corridors, three ports, gigafactories, an international airport, and globally-facing cities and historic town centres. A world-leading '*Arc of Green and Blue Energy Innovation*' from OREC to Nissan and home of the next-generation electric vehicle industry and the only science park nationally, NETPark in Sedgefield County Durham, to host two centres from different Catapults.
- **Balancing growth and prevention** | by bringing forward fiscal innovation, working on a public service reform programme, greater influence within the integrated care system.
- **Transforming connectivity** | using a full package of devolved transport investment and powers to create an integrated transport system, including the potential unlocking of visionary schemes; such as, the Northumberland Line, Leamside Line and Washington Extension, Cobalt Loop, Team Valley, Newcastle City Mobility plans and a region-wide EV charging network.
- **Attacking the opportunities of digital and 5G** | providing strong incentives for investment in digital connectivity, 5G-ready infrastructure, digital skills and unlocking the huge potential of digital-enabled manufacturing.
- **Connecting our coastal areas** | using devolved funding and powers to better link our unique coastal communities and economic assets - through skills, jobs and accelerating development on our housing and economic sites.
- **Building on strong collaborative governance** | ensuring each of the partners can see the benefits of cross-regional investment, and that decisions are made in a way that reflects our diverse geography, assets and needs.

The Durham Innovation District is identified a key strategic site in the devolution deal and a regeneration investment priority, providing a premier location to foster the right innovation ecosystem across Durham University, business and investors to deliver inclusive economic growth and promote Durham on a national and international stage.

The Durham Innovation District will ultimately connect existing assets in and around Aykley Heads, new housing at Sniperley, local transport as well as supporting innovation led growth across the County.

3.5.2 Fit with local and national policy

The Innovation District is also aligned to broader national and regional policy as follows:

NATIONAL & REGIONAL CONTEXT

National Planning Policy is confirmed under the Government's National Planning Policy Framework (NPPF) and relevant planning practice guidance.

The North East Strategic Economic Plan sets out the region's long-term framework for improving the economy, delivering 100,000 more and better jobs and creating a more productive, sustainable and inclusive region.

This Plan is aligned to emerging policy and economic priorities, which are summarised below:

- **Build Back Better: The Plan for Growth**

This report sets out the government's overarching approach to UK economic growth as we move forward from COVID-19 and European Union exit. It details the government's approach to industrial support, planning, and trade and investment.

- **Levelling Up White Paper**

This paper sets the government's ambitions to enhance local leadership, improve living standards and public services, and strengthen communities and places. It is expected to focus on proposals for the evolution of regional institutions and local government and provide the framework for investment programmes including the UK Shared Prosperity Fund and Community Renewal Fund.

- **Net zero and decarbonisation**

The decarbonisation of the global economy and our social, economic and physical infrastructure is a priority that cuts across all aspects of government policy and delivery. The next steps include policies, as outlined in Net Zero Strategy: Build Back Greener, to decarbonise all sectors of the UK economy and achieve net zero climate emissions by 2050.

- **Global Britain**

The government's internationalisation agenda is focused on enhancing trade, exports, research collaboration and foreign direct investment to strengthen the UK's economic and political influence. '*Made in the UK, Sold to the World*' details how government will support businesses to grow through a focus on global export opportunities prioritising new and future trade deals.

- **Skills and good work**

The Skills for Jobs White Paper aims to strengthen skills across the UK and looks at routes to employment and progression within careers. It promotes a life-time skill guarantee, aims to revolutionise post-16 education, and reshape the training and further education landscape.

The Innovation District will deliver innovation-led, inclusive growth, that contributes to each of these policy areas, with the member approved Vision & Outcomes table (above) providing more detail.

LOCAL CONTEXT

In compliance with the above National context, the adopted County Durham Plan (CDP) (adopted 2020) sets the policy framework for County Durham up to 2035, to support the development of a thriving economy, so that our residents can experience the benefits that ensue as a result.

The CDP has 21 key objectives, including the following directly relevant to the delivery of the proposed Durham Innovation District

- **Objective 1: Economic Ambition** - Improve the economic performance of the whole of County Durham by creating more and better jobs, increasing the employment rate and reducing unemployment, thereby increasing GVA (a measure of economic performance), household income, demand for local goods and services and improving the resilience of the county's economy.
- **Objective 2: Sustainable Communities** - Locate new development in areas which offer the best opportunity for sustainable development patterns, including means of travel other than the private car, thus ensuring that new homes and jobs are supported by a high quality environment, services and infrastructure, and in turn new development supports the vitality, viability and economic performance of our towns and villages
- **Objective 8: Effective Use of Land** - Make the most effective use of land, buildings and existing infrastructure, re-using land and buildings that have been previously developed, wherever possible, provided that, in the case of land, it is not of high social, heritage or ecological value and taking into account the need for remediation or the existence of unstable and/or contaminated land.
- **Objective 12: Raising Aspirations** - Encourage greater prosperity by supporting education, training and research establishments that help to raise the aspirations, participation and attainment of young people, re-engage adults with work and lifelong learning and develop workforce skills.

Further CDP Policies which recognise the potential for the Aykley Heads site to make a meaningful contribution to the economic success of Durham and support the planned delivery of the Durham Innovation District include:

Policy 2 - Employment Land

Employment Allocations

Undeveloped land and plots at the following employment sites and at proposed extensions to these existing employment sites, as shown on the policies map, are allocated for B1 (Business), B2 (General Industrial) and B8 (Storage and Distribution) unless specifically stated.

Table 3 | Employment Land Allocations by Local Plan Monitoring Areas

Name	Area (hectares, net)
DURHAM CITY	
Aykley Heads (B1 only) (Durham City)	3.0 ⁽¹¹⁾
Belmont Industrial Estate (Durham City)	5.48
Abbey Woods (Durham City)	0.66
Dragonville (Durham City)	1.18
Total	10.32
CENTRAL DURHAM	
Meadowfield Industrial Estate	26.67
Bowburn North Industrial Estate	0.42
Integra61 (Land South of Bowburn Road)	42.64
Total	69.73
NORTH DURHAM	
Drum Industrial Estate (Chester-le-Street)	4.44
Stella Gill Industrial Estate (Chester-le-Street)	1.29
Westline Industrial Estate (Birtley)	1.01
Bowes Business Park (Lambton) (B1 only)	0.17
Lambton Estate (B1 only)	10.04
Total	16.95
NORTH WEST DURHAM	
Villa Real (Consett Business Park)	0.78

Policy 3 - Aykley Heads

In order to provide a high quality employment location to contribute to the delivery of the new and better jobs which Durham City and County Durham need, land at Aykley Heads, as shown on the policies map, is allocated as a Strategic Employment Site. The development of this site will have regard to the provision and timing of the infrastructure necessary to support it. The development of the site will reflect discussions with the market and investors but is expected to build on the following principles of development that underpinned the current planning application for the site:

Employment

- deliver circa 48,000 sqm of new high quality, flexible office (use class B1a) floorspace on 9 hectares (17) of land to attract national and international employers; and
- an area of 1.0 hectare, currently occupied by the County Hall car park (18), will be released from the Green Belt in order to provide office floorspace, providing a key gateway frontage into the site. In this area and in any areas bordering the green belt which are developed or redeveloped, the layout and design of development and associated landscaping will provide for the retention or creation of readily recognisable and permanent features delineating the boundary of the Green Belt.

Green Infrastructure

- incorporate an interconnected network of good-quality, multi-functional green infrastructure including an adequate supply of different types of open space. An appropriate and enhanced landscape structure with clearly defined boundaries will also be developed;

- b. set the new office development within a strong landscape framework which capitalises on the site's natural landscape features, provides integration with the surrounding landscape, preserves and enhances wildlife potential and embraces environmental standards;
- c. to provide compensatory improvements for the loss of Green Belt, the land to the east of the site will be enhanced to provide a high-quality parkland as an integral part of the site's development, retaining its openness and providing an attractive, safe enhanced network of multi-user routes, enhancing the opportunity for tree planting and habitat creation;
- d. provide enhanced green routes running through the new park to provide attractive and safe routes linking this area to the northern entrance of Durham Railway Station and Wharton Park and residential areas to the north of the site; and
- e. the development of Aykley Heads will require a financial contribution to facilitate playing field re-provision in the catchment area.

Sustainable Design

- a. deliver attractive, well designed places incorporating sustainable development principles and adopting sustainable construction methods;
- b. have special regard to views and the significance of the Durham Castle and Cathedral World Heritage Site and the Durham City Conservation Area;
- c. a water drainage management plan, incorporating SuDS, will be required. It will consider wider opportunities for improvement of local water quality. Any SuDS developed should be designed to incorporate wetland habitats;
- d. enhance the entrance to the site from Durham Railway Station and provide good quality pedestrian and cycle links from the station into the site; and
- e. create a new high quality gateway entrance fronting onto the A691/B6532.

Transport

- a. bus, pedestrian and cycle routes must be incorporated within, and connecting to the city centre and other adjoining facilities. A Transport Assessment and Travel Plan will also be required to ensure that reliance on the private car is reduced; and
- b. encourage the use of Park and Ride schemes and other forms of sustainable transport and limit the provision of car parking in accordance with Policy 21 (Delivering Sustainable Transport).

The County Durham Economic Partnership has set out County Durham's first Inclusive Economic Strategy, codeveloped with and for residents, businesses, and the voluntary and community sector.

The strategy confirms strong **economic foundations, with the new green economy growing and specialisms developing in emerging sectors like fintech and advanced materials.**

This economic strategy is focused on inclusivity, ensuring that all residents benefit from and contribute to prosperity and growth through secure work and good pay.

At the heart of this strategy is a clear focus: **more and better jobs in an inclusive, green economy.**

- **More jobs**, in the county's broad business base.
- **Better jobs**, to ensure that residents can access secure work that pays fairly.
- **Inclusive**, to ensure that the benefits of growth are shared fairly amongst our people and places.
- **Green**, to ensure that activity contributes to the 2045 goal of net zero carbon County Durham.

The City of Durham Parish Council Durham Neighbourhood Plan 2020 to 2035 (adopted 23rd June 2021). This Neighbourhood Plan supports the re-development of the Aykley Heads site and states:

Policy E1: The Aykley Heads Business Park Proposals for development of B1a and B1b uses will be supported at the Aykley Heads site shown in Proposals Map 5 where these are in accordance with a masterplan or other design and development framework prepared under Policy S2.

Further relevant Policies within the Neighbourhood Plan associated with the supported re-development of Aykley Heads include Planning Policies and proposals for land use including:

- Policy S1: Sustainable Development Requirements of all Development and Redevelopment Sites Including all New Building, Renovations and Extensions

- Policy S2: The Requirement for Masterplans or Other Design and Development Frameworks
- Policy H3: Our Neighbourhood Outside the Conservation Areas
- Policy G1: Protecting and Enhancing Green and Blue Infrastructure

[CITY OF DURHAM PARISH COUNCIL DURHAM CITY NEIGHBOURHOOD PLAN 2020 TO 2035](#)

The Aykley Heads masterplan secured outline planning consent following a rigorous review of relevant national and local planning policies, consultation and publicity responses.

The evolution of the development opportunity has been refined by informal market engagement, collaboration with Durham University and sector research. The current masterplan will be developed to promote an Innovation District and will continue to align with existing national and local planning policy. This will significantly contribute to the creation of more and better jobs in County Durham. Further planning engagement/approvals will allow full revalidation and alignment with appropriate planning policy.

3.5.3 Council Accommodation

The Council is operating from an ageing and fragmented estate. The current accommodation does not fully support post-Covid flexible working arrangements and is impacting productivity, efficiency and well-being. It is not fit for purpose, nor can it be repurposed, and the Council is committed to its demolition.

The Council will therefore implement a new Council Accommodation Strategy in 2024. This will release the Aykley Heads site to be developed into the Durham Innovation District providing a high quality employment location and will contribute to the delivery of new and better jobs for Durham City and County Durham. The Durham Innovation District will provide a location for innovative and knowledge rich businesses and will drive a step change in economic growth across County Durham.

The implementation of the Council's Accommodation Strategy is critical and will provide the opportunity to rationalise its wider estate and thereby release key development plots and enable the delivery of the Durham Innovation District.

3.5.4 Durham University

Durham University is a key attraction for potential investors in the Innovation District, occupiers and collaborators. Its world class status, underpinned quality research and innovation and a ready supply of talent means that they will be a key partner in the Innovation District.

The relationship between the Council and University is set out in a joint MOU and provides a strategic framework for ongoing co-operation. DU's role, acting as the key academic and research partner within the context of the Innovation District can include:

- Acting as a platform for collaboration and exchange of knowledge by adopting open and collaborative approaches.
- Assisting in demonstrating that the innovation district is connected and promotes prosperity.
- Contributing to securing organisational outcomes alongside cultural benefits and economic gains.

Participation in the Innovation District provides the opportunity for the University to contribute to its own strategic objectives, via key MoU priorities including:

- Objective 1: Economic Development
- Objective 2: Leverage research to improve quality of life for Durham communities & people
- Objective 4: Place; building sustainable communities
- Objective 5: Skills; meeting the needs of local and prospective employers; and
- Objective 6: Public Affairs; alignment of messaging

4. Economic Case

4.1 Introduction and context

This OBC supports the securing of a long-term delivery partner (see Commercial Case) to realise the Durham Innovation District, in line with the ambition and goals set out in the Strategic Case of this document.

A detailed economic case for the Innovation District cannot therefore be developed until the Council has substantively progressed its partner procurement process – which will shape investment plans, planned outputs, timetables etc. – and therefore will be covered fully in the FBC.

This economic case does however consider:

- The Market failure rationale for the creation of Innovation Districts;
- Critical Success Factors; and
- How the economic case will be presented at FBC stage.

4.2 Market Failure Rationale for Innovation District

The market failure arguments underpinning the creation of innovation districts are well rehearsed and accepted at local, regional and national levels. In essence, Innovation Districts don't come forward without intervention. In the case of Durham, four important categories are considered; these are **co-ordination failures, externalities, agglomeration economies** and **informational asymmetries**. In addition, the existence of potential **viability issues** need to be considered, which are not technically a market failure, but nonetheless impact on the other areas.

Coordination failure | This occurs when desirable activities do not take place because decision makers fail to coordinate plans. In order to create an Innovation District in Durham it requires a suitable site and partnership with the University. Furthermore, given that successful innovation districts are based in urban cores (rather than out of town) Aykley Heads presents as a compelling (and perhaps unique) location to site an Innovation District in Durham. The demolition of County Hall, and ownership of Aykley Heads by the Council, means that DCC is placed to lead and coordinate. Without the Council driving this project it is unlikely Durham would be able to create an Innovation District in the foreseeable future.

Externalities | The potential economic and social benefits of improvements related to the Innovation District will be greater than the benefits that can be captured by individual landowners and developers if a coherent (value adding) proposition is not delivered. In the absence of a joined-up approach that delivers a high-quality Innovation District, Aykley Heads could become an underutilised opportunity which impacts negatively on the wider environment. Intervention to promote redevelopment addresses the current negative externalities risk. In addition, redevelopment of the site as a high quality and accessible innovation led mixed use scheme will support an improvement in the Durham's profile, usage, amenity and image. Associated public realm, walkways, cycleways and green space that connects to surrounding neighbourhoods will also deliver wider public health, wellbeing and environmental benefits to society cannot be captured financially by developers.

Agglomeration economics | Another important market failure is agglomeration economies, which arise from high employment density because of easy access to intermediate goods and labour, facilitating job matching, and knowledge spillovers, amongst others. This has been a key justification for recent government interventions in not just innovation districts, but freeports and enterprise zones. There is no shortage of evidence on the benefits of supporting clusters. Experience shows that locating businesses and institutions together generates benefit from the area's pool of expertise, finance and skilled workers, its access to component suppliers and its channels for spreading information and innovation. When it is successful, this network spills over into the wider region, producing productivity benefits for people and firms beyond the immediate geography of the cluster. The involvement of the University in the Innovation District is therefore a key opportunity for Durham.

Site Specific Viability Issues | Viability gaps are not uncommon in regeneration of this type, particularly on previously developed land. Factors specific to individual developments and wider structural and cyclical features of a development market can result in a viability gap. Factors which contribute to the existence of viability gaps include excessive or abnormal site costs influenced by infrastructure and access requirements, land ownership, ground conditions etc. additionally poor market conditions and associated low, or uncertain projected revenues. Many central government place-based funds have tackling viability at their core. It is widely recognised and accepted role of the public sector to provide gap funding to schemes where the benefits of unlocking an unviable scheme exceed the costs to the public sector of doing so. The demolition of County

Hall and subsequent site remediation being a known challenge to the delivery of an Innovation District on Aykley Heads and one that is being targeted for devolution funding support.

4.3 Critical Success Factors

Critical Success Factors (CSFs) are a chosen set of criteria that define a successful project against the 5 dimensions of the business case. The choice of critical success factors takes into consideration the strategic objectives for the programme as well as criteria that define whether a programme is likely to perform financially and commercially, in a way which can be managed effectively and economically.

A workshop (4th March 2022) considered Key Objectives, Key Principles and Key Shaping Factors. This included a review of the Council's need, establishing a long list of delivery options, draft criteria and a qualitative review. The overriding vision is that Aykley Heads will become a highly attractive location for innovative and knowledge rich businesses. It will drive a step-change in economic growth across County Durham, providing high quality jobs in growth sectors.

The initial strategic level CSFs have been adapted from the outcomes agreed at the March workshop.

Table 1 Initial Success Factors

CSFs	Description
1	Strategic fit with programme objectives: <ul style="list-style-type: none"> An Aykley Head that provides high quality jobs and an economic catalyst Delivery of wide suite of place-based outcomes, including Inclusive growth, a more integrated city, promoting talent and innovation, and moving towards a more sustainable city Creates a more natural business hub that grows Durham City Centre and integrated the rail station into the city's economic geography. A focus on key sectors, including emerging green jobs, electronics, digital and creative, fintech, life sciences and satellite applications. Provides quality jobs and career opportunities for County Durham residents Promoted long-term economic growth Builds and grow a critical mass of knowledge rich businesses Allows local residents and communities to share in the growth dividends
2	Potential Value for Money How well the option: <ul style="list-style-type: none"> Optimises social value (social, economic and environmental), in terms of the potential costs, benefits and risks
3	Supplier Capacity and Capability How well the option: <ul style="list-style-type: none"> Matches the ability of potential suppliers to deliver the required services Appeals to the supply side
4	Potential Affordability How well the option <ul style="list-style-type: none"> Can be financed from available funds aligns with sourcing constraints
5	Potential Achievability How well the option: <ul style="list-style-type: none"> Is likely to be delivered given an organisation's ability to respond to the changes required Matches the level of available skills required for successful delivery

4.4 Options Generation

A series of delivery options and configurations have been assessed as part of the commercial case and procurement strategy. This analysis includes:

- A **Do-Nothing** (hold the site)
- Sell onto the open market unconditionally (without any further investment)
- **Piecemeal Disposal Method**; DCC enters into a deal with an Investor partner to drive delivery
- DCC enters a **Strategic Development Agreement** with a private partner to deliver enabling infrastructure and who can draw down plots to develop
- DCC enters into a **Joint Venture (JV) with a private sector partner** - site developed out together
- **DCC acts as Strategic Master Developer** and disposes of plots (to third party and/or enabling works provider)
- **DCC acts as Strategic Master Developer** and delivers plots directly initial options assessed as part of the longlisting exercise were as follows.

4.5 Economic Appraisal

At this stage a detailed economic appraisal of the Innovation District is not possible as engagement and discussion with potential delivery partners will be critical to agree both “what” is delivered and “how”. At the FBC an economic appraisal will be undertaken based on the preferred bidder’s business plan. It is envisaged that the FBC appraisal will follow the assumptions below.

4.6 Key Assumptions to be employed

- **Appraisal period** - The selected appraisal period is 30 years, based on the assumed operating period of the Programme.
- **Impact Area** - When considering place-based effects, the appropriate geography for the area is the County Durham.
- **Deadweight** - This provides an estimate on what level of target outputs/outcomes would be produced in the intervention did not go ahead. This will be represented in our analysis through the ‘do nothing’ scenario.
- **Discount Rate** - Costs and benefits are expressed in current day prices (2023) and as present values, with future costs and benefits discounted at 3.5% a year, in line with HM Treasury Green Book guidance. Discounting accounts for time value of money, reflecting a general preference for value now rather than later.
- **Optimism Bias** - A full analysis will be provided as part of the FBC.

4.7 Scope of Benefits

The most readily monetisable benefits associated with delivery of the innovation district:

- 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.
- Delivery of training as National Vocational Level equivalent provision.
- Productivity growth within sectors as measured by GVA per hour or per worker – methodology based on evaluation evidence – would need to be confirmed at Full Business Case.
- Land Value Uplift – resulting from change of use of existing premises
- 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

The Full Business Case will also explore the wider non-monetisable benefits that will be unlocked by the scheme.

Wider benefits will include:

- Increased supply of high quality, fit for purpose commercial space
- Carbon savings achieved
- Improved facilities available to entrepreneurs and early-stage businesses#

- Increased inward investment to County Durham
- Increased provision of space for networking and peer support networks available to the production sector
- Improved accessibility to technology, equipment and technical expertise
- Improved availability of business support, training and mentorship
- Improved deployment of technology and data
- Establishment of a supportive environment for new and existing businesses to locate and grow
- Increased interactions between technology providers, research, institutions and the market
- Higher number of business starts and scaling businesses
- Increased provision of high quality, high value employment
- Improved productivity as measured by GVA per worker

The approach to the economic modelling is captured in the accompanying logic model – see section 4.10.

4.8 Value for Money

The scheme's value for money will also be considered at FBC, expressed through a Benefit Cost Ratio. The BCR is calculated by dividing the Present Value of Benefits by the Present Value of Costs. This will be presented in the Appraisal Summary Table (AST).

The Assessment of Value for money categories will follow the guidance issued by DLUHC.

Table 2 : Value for Money Categories

Value for Money Category	Implied by:
Very High	BCR greater than or equal to 4
High	BCR greater than or equal to 2 and less than 4
Medium	BCR greater than or equal to 1.5 and less than 2
Acceptable	BCR greater than or equal to 1 and less than 1.5
Poor	BCR greater than or equal to 0 and less than 1
Very Poor	BCR below 0

4.9 Sensitivity Analysis

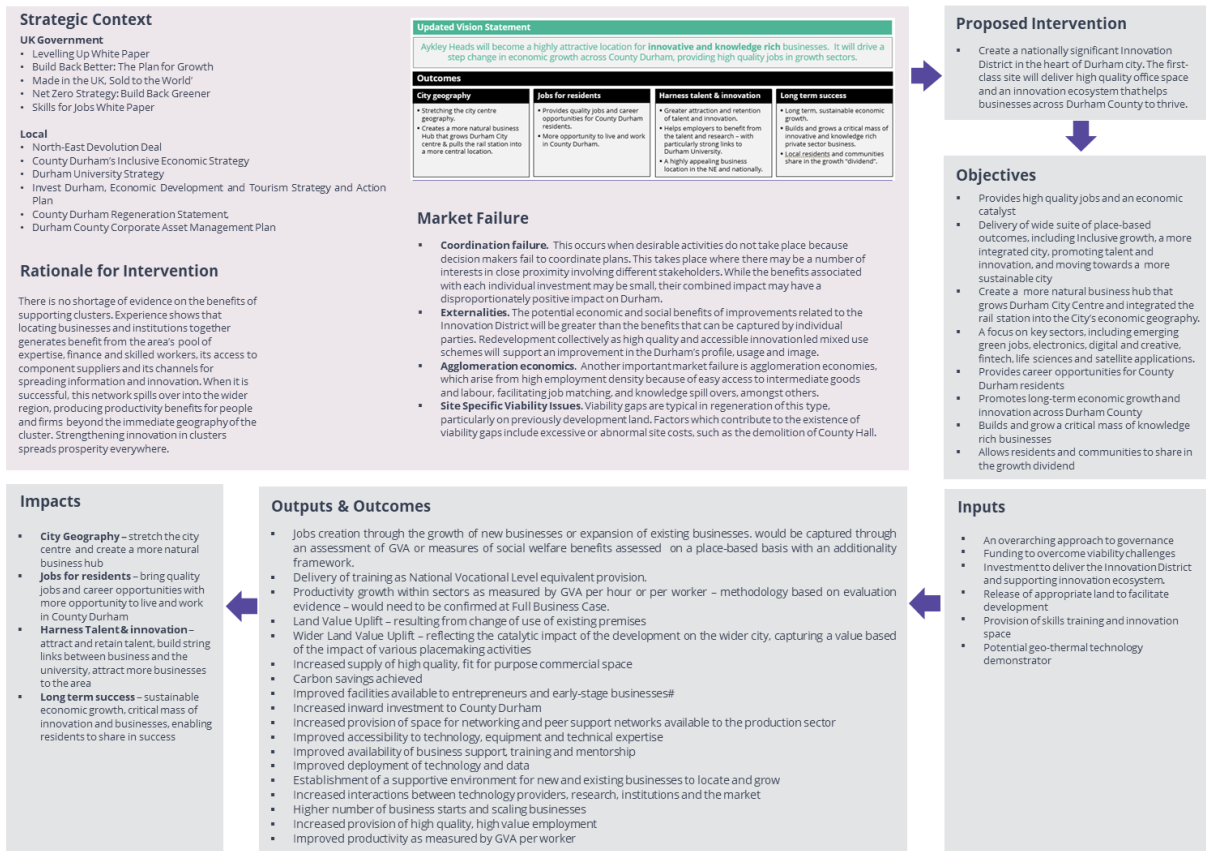
Sensitivity testing is undertaken to appraise how changes in parameters impact the Benefit-Cost Ratio and by implication, the Value for Money of the scheme.

The value for money analysis is driven by the delivery of the residential and commercial space through the intervention. Sensitivity testing explores how robust the value for money outcome is to changes in the benefits realised. At FBC stage this will be undertaken for the Preferred Option only on the adjusted BCR, potentially exploring:

- Cost increases
- A slower pace of delivery
- Decrease in land value uplift to reflect possible worsening market conditions

4.10 Logic Model

The diagram below sets out how the economic case will be assessed, linking Durham's strategic ambitions to the outcomes and impacts sought.



5. Commercial Case

5.1 Introduction

The Council has considered how best it can realise its aspirations for an Innovation District. This work has been informed by a clear commercial case process which has included:

- Clarity of vision and outcome
- Identification and assessment of potential delivery route
- Soft Market Testing
- Selection of a preferred delivery route
- Procurement route identification
- Procurement Design
- Anticipated Commercial arrangements
- The Council's powers to act

The Council's work has been guided by input across key directorates and supported by external advisers. Further detail on each area is set out below.

5.2 Clarity of Vision and Outcome

All work undertaken in the development of the commercial aspects of the Innovation District has been based on delivering the Member agreed Vision and Outcomes (see Strategic Case).

The ambition and outcomes included in that document have informed the shortlisting and evaluation criteria to both choose the preferred delivery option and to design the procurement process to attract the most appropriate long term delivery partner.

Further detail on how the Vision and Outcomes approved by Members is linked to the commercial delivery of the Innovation District are included below.

5.3 Identification and assessment of potential delivery routes

The CWPG prepared and assessed a long list of potential Delivery Models for the Council to consider as commercial models to facilitate delivery of the Innovation District.

This initial work culminated in a Workshop on 4th March 2022 to consider Key Objectives, Key Principles and Key Shaping Factors. It also incorporated a review of the Council's need, reviewed a long list of delivery options, draft Criteria and a qualitative review.

The outcome of that workshop is included below, in the form of a delivery options matrix. This table was established to support the assessment of the long list delivery models against the identified Criteria (and associated Key Issues) and initial RAG assessment completed.

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 with current budgets?	Achievability How likely/ readily can the option be delivered given current organisational capability and skills available?
1) Do Nothing (hold the site)			TBC	NA		
2) Sell on the Open Market unconditionally (without any further investment)			TBC			
3) Piecemeal Disposal Method – Single Site Sales unconditional (without any further investment)			TBC			
4) Sale of land with supporting grant agreement (e.g. headlease)			TBC			
5) DCC enters into a deal with an Investor partner to drive delivery			TBC			
6) DCC enters a Strategic Development Agreement with a private partner to deliver enabling infrastructure and who can draw down plots to develop.			TBC			
7) DCC enters into a Joint Venture (JV) with a private sector partner – site developed out together.			TBC			
8) DCC acts as Strategic Master Developer and disposes of plots (to third party and/or enabling works provider); and/ or			TBC			
9) DCC acts as Strategic Master Developer and delivers plots directly			TBC			

The key conclusions arising from that workshop included:

- **“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 wouldn’t be created. Do nothing would however be retained as a comparator option.
- **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.
- The Council lacks the capability, capacity or risk appetite to lead delivery in its own right (options 8&9). It was however decided that Option 9 would be retained for further testing/ consideration.
- **Options 5-8, 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.

5.4 Soft Market Testing

Following the initial delivery option workshop, through to UKREiiF in May 2023, the Council undertook a number of discussions with potential private sector partners to assess interest in delivery approaches, invite feedback and to raise awareness in the market of the long term opportunity for Innovation led growth in Durham.

The Council sought feedback from a range of potential partner typologies – such as trader developers, institutional investors and long term develop and hold partners. These typologies equated to delivery options 5-7 per the workshop analysis set out at 5.3 above.

Key feedback from the market included:

- Aykley Heads is an attractive well located site, and its single ownership is appealing.
- The involvement and commitment of the University to the Innovation District is highly appealing and fundamental to the success of the Innovation District;
- Interest expressed in engaging further with the Council (and University)
- Wary of long, extended and expensive procurement processes; and
- Interest expressed in other innovation led assets (e.g. NetPark) and how a partnership could drive more value across the County via a strong ecosystem of support.

5.5 Selection of Preferred Delivery Option

When much of the soft market testing above had been completed, further work was undertaken to select a preferred delivery option.

This work culminated in Workshop 2 (20 January 2023) where the Council team:

- Considered the informal Soft Market Testing feedback and typologies of potential Partners
- Reassessed potential Partner typologies against the identified Criteria
- Mapped the different typologies against the Delivery Model options, drawing upon insight gained from the informal Soft Market Testing.
- The Delivery Options Matrix from workshop 1 were further assessed and an agreed RAG status recorded.

This workshop concluded Option 7 - DCC enters a Joint Venture with a private sector partner (site developed out together) - as the Preferred Delivery Model for DCC.

The RAG analysis supporting selection of Option 7 is set out below:

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)			TBC	NA		
5) DCC enters into a deal with an Investor partner to drive delivery			TBC			
6) DCC enters a Strategic Development Agreement with a private partner to deliver enabling infrastructure and who can draw down plots to develop.			TBC			
7) DCC enters into a Joint Venture (JV) with a private sector partner – site developed out together.			TBC			
9) DCC acts as Strategic Master Developer and delivers plots directly			TBC			

Key points discussed during the shortlisting process that supported the selection of Option 7 included:

- **Confirmation that do nothing was not an acceptable option;**
- **Confirmation that Option 9 represented too much risk for the Council**, especially noting the Council's lack of skills (and capacity) to lead the development of an Innovation District;
- **Soft market testing had confirmed the appeal from partners** that i) invested for the long term and therefore needed to see long term success and value created and ii) had the capability to build innovation and business support eco systems to drive demand and help occupiers grow successfully.
- **There was clear consensus around Option 7**, although noting that long term investor partners (Option 5) would be desirable if collaborating with delivery expertise (which would move them into Option 7).

It was also noted that these delivery “Options” are broad labels and there still remained substantial latitude to tailor any delivery partnership under Option 7 further, to meet the Council's needs.

5.6 Procurement Route Identification

Having selected the preferred Delivery Model (Option 7) confirmed the Council procurement team considered the most appropriate route/ procedure to comply with current Public Contract Regulations, concluding:

- The proposed contract is likely to be considered “complex” and it would be extremely beneficial to work with any potential delivery partner to develop suitable solutions. These factors point towards either ‘Competitive Dialogue’ and ‘Competitive Procedure with negotiation’ as viable procurement procedures for the project.
- The greater flexibility that ‘Competitive Dialogue’ offers later in the procedure is considered advantageous.
- the Restricted Procedure, it was concluded that this would be costly upfront to implement and would be too inflexible to develop a suitable solution.
- the Negotiated Procedure was not deemed suitable for use.
- Open and Innovation Partnership routes are not appropriate.

The diagram below shows the analysis undertaken.



Partner procurement will therefore be via the Competitive Dialogue process, being the most appropriate procurement procedure for the Council to secure a JV Partner, providing the greatest potential to deliver its agreed vision and outcomes.

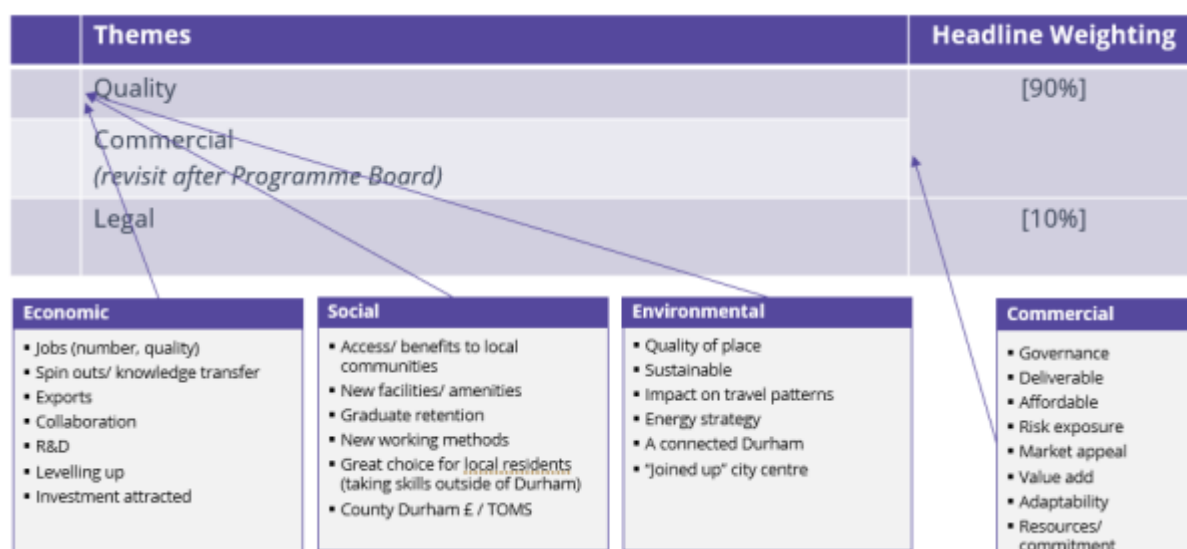
5.7 Procurement Design

The Council is mindful of the need to run an efficient and effective procurement process to secure excellent outcomes whilst being mindful of procurement costs for both the Council and potential bidders.

An overarching competitive dialogue process framework has been agreed and comprises three key stages as follows:

- **SQ:** Sifting of potential bidders to identify those with realistic potential to be long delivery partners with the Council. Key aspects include testing acceptability, financial standing and evidence of historic experience.
- **Stage 1:** A short “sprint” in dialogue to test key principles and identify which potential partners share the Council’s ambition and key values.
- **Stage 2:** Development of detailed commercial arrangements and a business plan for the Partnership setting out the Innovation District Vision and how it will be delivered successfully.

More detailed design of the forthcoming procurement process is already well progressed with key competitive dialogue areas being aligned to the agreed framework for success captured within Council agreed Vision & Outcomes. This framework has been used to shape the dialogue themes and associated headline evaluation weighting as set out below:



Further work was undertaken to develop the Quality theme into a series of outcomes and deliverables to test during Selection Questionnaire and develop during subsequent dialogue phases as illustrated below.

Themes	W (%)	Selection Questionnaire (x4) (September - October 2023)	Scoring (SQ)	PHASE 1 Sprint (x4 - 5) (November 2023 - January 2024)	W (%)	Phase 2 Core Dialogue (x3) (February - October 2024)	W (%)
1 Long Term Vision • Confirm your interpretation of an Innovation District? • How would you deliver an Innovation District? • What is your Operating Model / Business Model to enable long term delivery?	[10%]	Procurement Policy Note (PPN) provides the revised standard Selection Questionnaire (SQ) template and guidance. The PPN applies to all contracting authorities in England for procurements above the thresholds laid down in the P.C.B. 2015. SQ to be structured in 3 parts: Part 1 (DCC) - cover basic information about the supplier (consortium), contact info, membership, parent companies, group bidding etc. Part 2 (DCC) - self-declaration regarding whether or not any of the exclusion grounds apply. Part 3 (AV/Finements) - self-declaration regarding whether or not the company meets the selection criteria in respect of their financial standing and technical capacity. Part 3 selection criteria will be captured via case study examples to test skills and capability associated with: • Problem-solving experience • Creation of interaction between knowledge, business and the market to deliver growth • Evidence of working with public partners? • Commitment / long term interest over time Key Issues - consortia handling and financial thresholds.		Q1 Please set out your Vision and rationale for a successful Durham Innovation District, including: • the potential you see & how you propose to unlock it. • how your vision will deliver the Council's outcomes. • where you would position the innovation district in the market. • what the Innovation district will look like in 10-15 years time. • How the innovation district integrates with & improves the city. • Alignment with the vision and principles set out in the Council's climate change strategy and emergency response plan. • A description of the innovation ecosystem & how it will support success both at Aycliffe Heads and also in supporting innovation led growth across Durham County.	5% 12% 6% 23%	THE WHAT JV Partnership Agreement: • Objectives and Activities • How will partnership agreement define terms of reference • Change of control Business Plan: • Socio-economic benefits • Communication and marketing (beyond statutory planning requirements)	35%
2 Place Making • Approach / strategy to create a sustainable, cohesive and viable place • Relationship between Aycliffe Heads, city centre, its residents, businesses and communities • Positive catalyst for place, impact and investment • Sustainable travel plan.	[12%]			Q2 Please describe your approach to partnering with the Council including: • Your contributions, attributes and approach as a Partner to realise the Council's desired outcomes through your vision. • What you would seek from the Council and the university as a long term partners. • How will your approach underpin a strong, productive and resilient relationship with the Council as your JV partner. • Potential areas of tension between the partners in seeking to achieve your vision and the Council's outcomes and how you would propose to deal with them.	10% 6% 16%		
3 Ecosystem • Articulate how you will drive innovation for the benefit of Aycliffe Heads and the County?	[12%]			Q3 Describe how you would propose that the JV would design, develop and operate the Durham Innovation District & supporting innovation ecosystem, including: • Your methodology for turning the innovation district into a successful operational asset that delivers against the Council's desired outcomes & why it is both appropriate & deliverable. • Set out how you will establish, maintain and enhance the market positioning of the Durham Innovation District over time, including: • Early views you have on the sector(s) / market potential that the Durham Innovation District should focus to fulfil the market positioning detailed in your vision • What you see as the key risk and challenges to success? • Environmental considerations?	5% 6% 6% 16.5% 5% 38.5%		
4 Spirit of Partnership • Confirm your vision of a Partnership • Flexibility / parameters • Governance, change and control. • Capture ESG (green, SV, energy strategy - County Durham etc.)	[10%]			Q4 Please set out your commercial model and expectations around scale of investment, decision making, return levels, approach to value realisation NOTE - minimum red line? Potential pass / fail / minimum threshold. Discuss with Finements.....	16.5%	THE HOW JV Partnership Agreement: • Governance • Default and Termination • Procurement of supply chain • Restrictions on activities of JV partner • Project returns / distributions • Assignment and transfer of interest Business Plan: • Background and governance • Planned activity • University Collaboration Agreement	35%
5 University Collaboration • Access to DU - how and what • SQ examples / experience? • EPD - How you will promote ...?	[12%]			Q5 Please highlight any additional value (not covered in other areas) that you believe you & your approach will bring	6%	THE DELIVERY JV Partnership Agreement: • Business plan and progress monitoring • Capital, finance and security • Financial reporting Business Plan: • Delivery • Commercial Model • Land Agreement • Development Management Agreement • Finance documentation • Project Mobilisation Plan (governance, resourcing etc.)	30%
6 Sectors • Explore evidence base behind proposals / opportunities (align with DU feedback) • Why Durham and why Aycliffe Heads?	[5%]			Legal Agreements include: JV Partnership Agreement Business Plan Land Agreement Development Management Agreement Finance documentation Project Mobilisation Plan (governance, resourcing etc.) University Collaboration Agreement			
7 Value Add	[6%]						
8 Deliverability • Business Plan • Evidence base behind the how? • Supply chain • Development Manager? • Programme / mobilisation plan • Risk and risk mitigation	[13%]						

Note, the above shows the current procurement framework and how it aligns to fulfilling the Council's Vision & Outcomes, Further work is still required, including testing criteria weightings with dummy data, to calibrate final questions and scoring weightings before documents are finalised for bidders. The above procurement design therefore remains subject to refinement prior to launch.

5.8 Anticipated Contractual Arrangements

The Full Business Case 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/ Members (anticipated December 2024).

Whilst the details of a Partnership won't be settled until FBC, it is envisaged that the Council will enter into a number of commercial arrangements including:

- a detailed Partnership Agreement;
- property and finance documents; and
- a Business Plan.

These draft contracts will be developed during the competitive dialogue process and subject to robust evaluation and scoring.

Further illustration on the type of information covered by the Partnership Agreement is set out below:

Joint Venture Partnership

The Partnership Agreement will be developed through specific dialogue sessions to set out how the JV Partner will be governed and funded and how it will carry out its Objectives and Activities. It will detail the governance arrangements relating to the JV partnership and will set out the agreed approach to procuring works and services by the JV.

The Partnership Agreement will deal with the key obligations of both parties (the Council and Private Sector Partner), including financial obligations.

It will explain what happens in negative scenarios such as when the Council and PSP are unable to agree on any matter or a default event and what happens in the event of termination. The Partnership Agreement will also contain a number of boiler plate clauses and a variety of schedules.

Regardless of the type of partnership arrangement that is established, there are a series of issues that are applicable to all and will inform how the Joint Venture will function. These typically include (but not limited to):

Governance

- Decision making - Member decisions, Board Decisions
- Delegation Policy, setting out different levels for different decisions
- Board composition - how many representatives from each member?
- The Board appointment process
- How meetings and resolutions take place
- How conflicts are dealt with

Capital, Finance and Security

- How the JV is initially capitalised.
- How financial contributions are made by the JV partners, e.g. additional equity contribution and loans.
- The financial instruments used to make financial contributions e.g. via shares / member interest, loan notes, simple loan agreement.

Default and Termination

- Setting out events leading to default
- Consequences of default
- Remedy of a default event
- Events leading to termination (including default)
- Winding up process
- Compensation on termination
- Approach to valuation of assets / partnership interest / shares on termination

Procurement and supply chain

- Setting out procurement policy

Restrictions on activities of JV partners

- Setting out any specific activities which are prohibited by the JV partners

Business Plans

- Process for agreeing and updating business plan (both overarching and phase business plans)
- Setting out process for agreeing budget and period for reviewing / updating budget
- Business plan and progress monitoring
- What happens when business plan is not agreed
- Process and measures for determining phase viability through the business plan (e.g. target return / IRR)
- Process for monitoring progress against the business plan.

Financial reporting

- Setting out the accounting policies of the JV partnership
- Setting out access to and provision of financial information (e.g. management accounts, audited accounts, valuation of Partnership assets, cashflow statements and forecasts)

Project returns / distributions

- Policy for paying dividends / distributions to JV partners
- Setting out payments / distributions waterfall

Assignment / transfer of interest

- Restrictions on selling, assigning, transferring, exchanging interest

- Permitted transfers of interest intra-group
- Permitted transfers of interest to a third party
- Setting out pre-emption rights

Change of control

- Permissions and process for change of control

Social Value and Environmental Commitments

The County Council is leading the way in embedding social value and wider environmental concerns into major procurements.

The Council is working to further integrate climate and environmental issues into our procurement processes.

The competitive dialogue process will adopt criteria for Themes, Outcomes and Measures (TOMS) request Carbon Reduction Plan and respond to the key theme set out within the Cl!mate County Durham - Cl!mate Change Strategy & Emergency Response Plan 2022 - 24.

Business Plan

The procurement process will also generate a Business Plan that will be agreed as part of the suite of contracts within the contractual arrangements of the JV Partnership. A typical business plan would cover items such as:

Background and governance

This section will cover the vision, principles and objectives along with context regarding the site and delivery structure.

Planned activity

Proposed activity, supporting strategy, market evidence, approach to place making, key milestones.

Socio-economic benefit

Approach to promoting employment, skills/ training, education and wellbeing within the wider community. KPI's and strategy to monitor performance.

Social value and environmental commitments.

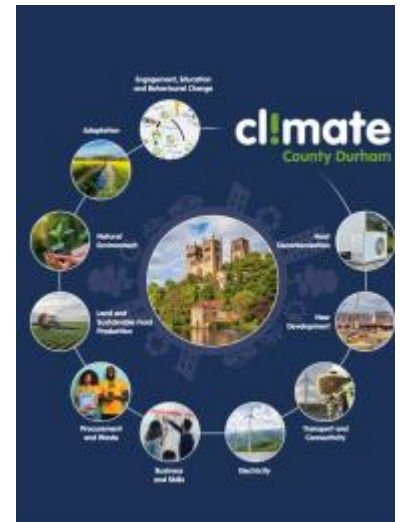
Communication and marketing (beyond statutory planning requirements)

Approach to communications, media and PR relationship management; site branding/ marketing; stakeholder identification/ engagements

Communications Protocol; Communication and Engagement Plan (CEP); and an Early Phase CEP as part of the Stakeholder Engagement Strategy.

Delivery

- Quality - Approach to quality assurance, monitoring, and controlling quality, including aspirations for sustainability and innovation
- Planning - Approach to securing outline consent; post outline consent, including statutory engagement. Approach to Phase specific consents, including statutory engagement.
- Development on site - Outline and approach (with rationale & market evidence as required), initial phasing proposal.
- Strategy and plan to build the innovation ecosystem, including links to onsite development and off-site networks, including potential collaboration partners.
- Resource Plan - details of key personnel to deliver project
- Procurement strategy
- Risk & Risk Management - Identification of, and approach to, risk recognition and mitigation, approach to phase specific risks and monitoring.



- Performance and reporting; JV KPI's, reporting requirements, protocols and interface & links with governance.

Commercial Model

- A detailed Discounted Cash Flow (DCF) model for the project, including projected Internal Rate of Return (IRR) and anticipated net cashflow; funding/ financing requirements and sources; annual budget showing a programme of spend in the cashflow period.

University Collaboration Agreement

It is also anticipated that a formal collaboration agreement between Durham University and the Joint Venture Partnership will be developed through the procurement process. This agreement will cover commitments between both parties to support the smooth development and operation of the Innovation District. The principle of this requirement has been discussed with the University and it would be executed following agreement of the Full Business Case.

5.9 The Council's powers to act

The Councils ability to enter into a JV of the type envisaged is set out below.

General Power of Competence

Section 1 of the Localism Act 2011 provides that a local authority may do anything that a person may generally do (the "**General Power of Competence**" or "**GPC**"), except that under Section 4 if it is carrying out those activities for a commercial purpose it must do so through a company.

The policy backdrop to this is that local authorities generally have exemption from a number of taxes to which the general business community is subject (e.g. corporation tax, capital gains tax). However, if a local authority wants to engage in trading activities, with a view to making a profit and in competition with other members of the business community, then it should do so on a level playing field.

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 evidently results in a tax efficient structure for them.

In deciding whether or not a local authority is carrying out activities for a commercial purpose, the leading authority on this is the High Court case of *R (Peters) v Haringey LBC* (2018). This confirmed that a party may be acting in a commercial manner (e.g. as a master developer; or in a local authority context, acting prudently to protect the public purse) but it may at the same time not be acting for a commercial purpose, such that "acting for a commercial purpose" is not synonymous either with "acting commercially" or "acting on a commercial basis".

Rather, the focus is on the **dominant purpose** for which the local authority is acting (rather than the manner in which the local authority proposes to act). Therefore, if the Council engages in an activity which is calculated to make money and does so because it wants to make money, there can be little doubt that it is acting for a commercial purpose. Equally, the mere fact that an activity turns out to generate a net revenue does not mean that it was done for a commercial purpose.

Local authorities can be said to participate in these kinds of joint ventures for a variety of reasons, ranging from regeneration to economic growth (both of which applied in *Haringey*). Neither of these could be described as being 'for a commercial purpose'.

The Council's currently stated objectives in the Aykley Heads project are not predominantly commercial but are predominantly about the Council's role in creating the place of Durham (outcomes focussed on city geography), promoting economic development (outcomes around jobs for residents and harnessing talent & innovation) and creating sustainable growth for the area (outcomes focussed on long term success).

It is therefore considered that the LLP route would be lawfully available to the Council.

It is open to bidders to suggest alternative legal structures where they can demonstrate specific benefits to the Council. Where a bidder suggested, and the Council accepted, the use of an English limited partnership rather than an LLP, we would anticipate that this would involve the Council participating through a General Partner vehicle and also investing as a Limited Partner. The General Partner structure is usually a company limited by shares, and the Limited Partner often invests in a fund established as an LLP as above. Further advice on English limited partnerships can be provided if this option is proposed by bidders through the procurement process.

It would also be open to the Council to use a company limited by shares to participate in the JV, if that was proposed by a bidder and the Council was convinced of the benefits of using this structure.

Incidental Power

In addition to the GPC, the Council can rely upon section 111 of the Local Government Act 1972 (the “**Incidental Power**”) which provides a local authority shall have power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions.

The word “functions” embraces all the duties and powers of a local authority; the sum total of the activities Parliament has entrusted to it. Although seemingly wide, the approach to construing section 111 is often narrow. An activity is not incidental to a function merely because it is convenient or desirable or profitable. The power has been used to form companies and trusts in the past but needs to show valid or lawful exercise of an underlying power to which to attach the Incidental Power. The incidental power cannot be relied on where the use of the power is “incidental to the incidental”.

When an action is claimed to be incidental to a statutory function, the provisions of the statute which confer that function must be considered. Where there is an express limit on a power, or it forms part of a “comprehensive statutory code”, then the Courts may reject reliance on the incidental power if it is being used to avoid that limitation or to supplement that code.

In terms of the main power to which section 111 might be attached, Section 12 of the Local Government Act 2003 gives the Council the power to invest where it is acting for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs, or for both purposes.

As noted, ‘functions’ can include all duties and powers of the Council, including statutory functions to benefit and improve its area and to promote its area’s economic development. In using this power, the Council must have regard to relevant statutory guidance and comply with its approved and published investment strategy and ensure that it keeps within the parameters of an investment role.

Disposal of Aykley Heads Site to the Joint Venture

The Aykley Heads site is held by the Council in its general fund and for general purposes. Local authorities are given powers under Section 123(1) of the Local Government Act 1972 (as amended) to dispose of land held by them in any manner they wish but the disposition must be for not less than best price that can be reasonably obtained as assessed by a valuer or an open bidding process.

The Council intends to discuss and review bidders’ commercial proposals as part of the procurement process, and this will include their assessment of land value in relation to the Aykley Heads site. The Council will obtain valuation advice in reviewing bidders’ proposals as to the land value in order to satisfy itself that the best consideration reasonably obtainable has been achieved, in order to demonstrate compliance with Section 123.

Any disposal at less than best price that can be reasonably obtained requires the express consent of the Secretary of State unless there is a general consent available on which the Council can rely. The general consent (Circular 06/03: Local Government Act general disposal consent (England) 2003) will apply where the Council considers the disposal of the Aykley Heads site will contribute to the achieving or securing the promotion or improvement of the economic, social or environmental well-being of its area and the difference between the restricted and unrestricted value does not exceed £2,000,000, in which case no specific Secretary of State consent is required.

6. Financial Case

6.1 Introduction

Because the Council is going to market to secure a Partner (and a plan to deliver the Innovation District) the Financial Case (as with the Economic case) cannot be fully developed until FBC, when a decision to proceed (or not) will be taken.

This section does however set out how the Council's expected financial commitments (where known) and how further detail will be shaped through the procurement process.

6.2 Capital and Revenue Requirements

The anticipated Partnership Model (and its consequential financial structure and commitments of the JV Partners) will be subject to dialogue detailed within the Full Business Case. 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 Council and Partner would have an equal 50% share in the JV and therefore share equally the financial returns.

The planned competitive dialogue will permit discussions concerning commercial principals where, for example, the Council's upfront investment is valued at a lesser amount, in which case the Council would secure a commensurately lower percentage of the commercial returns.

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 & outcomes as well as the financial returns.

Dialogue will afford all participating bidders the opportunity to discuss and explore their proposals, referencing matters concerning (without limitation) mix & typologies of uses, scale, phasing and income generation they consider appropriate to create a successful Innovation District, informed by their own experience. Furthermore, dialogue will provide the opportunity to explore actual development costs, levels of required financial returns, and other financial assumptions underpinning the proposals being advanced by bidders within the formal procurement process.

As the level of financial detail matures through the dialogue process, this will inform a robust Full Business Case for approval by Cabinet prior to the Council entering any formal agreement with its preferred JV Partner.

The Financial Case for the proposed Durham Innovation District will also mature as the Council progresses through Competitive Dialogue and the propositions and business plans evolve from prospective JV Partners.

Preliminary financial analysis has been undertaken to inform this OBC. Its purpose is to illustrate the anticipated order of magnitude of financial (and other) contributions Durham County Council is likely to need commit to enable the successful delivery of the Durham Innovation District and its agreed vision and outcomes. Such analysis is based upon the extant Hybrid Planning Permission for Aykley Heads as a helpful proxy, albeit noting that it is anticipated a new consented scheme will be pursued by the identified preferred JV Partner.

This analysis identifies the following key Council commitments being required to enable successful delivery:

1. **The demolition and remediation of County Hall** to provide a satisfactory development site. (Note: This assumption reflects the insight gained via the Council's soft market testing engagements in which no interest was shown by the private sector in taking on this responsibility).
2. **Phased transfer of the Council's land as equity into the JV Partnership.** (Note: Land will be transferred at Best Value for the proposed Durham Innovation District uses, as set out in future business plans and subject to formal approvals by the Council functioning in its capacity as JV Partner).
3. **Funding to establish and maintain a Council client function** to protect and manage its interest in the Joint Venture. (Note: these on-going costs will be clarified as part of the future FBC submission).
4. **The potential for Durham County Council to make further capital and/or capital asset contributions into the Joint Venture** over a period of time to support the delivery of its vision & outcomes. (Note: the requirement for, and magnitude of, any such funding will only be identified through completion of formal Dialogue; formulation of prospective Partner business plans; and will be subject to final Cabinet approval prior to entering any formal Agreement with the preferred Partner for any future Business Plans). It should be noted that any investment would be reflected in the Council's equity share of the JV partnership.

The Full Business Case will confirm the Council commitments over the initial 3 years of the Durham Innovation District delivery programme – capital, capital assets and resource revenue.

Durham County Council has already sought to mitigate its risk and upfront financial commitments through its submission to the Devolution Regeneration Fund seeking £9m specifically for the Durham Innovation District project. This funding could be utilised (in whole or part) to fund the demolition and remediation of County Hall and/or the provision of key infrastructure on the site, for example.

The financial viability for the proposed development will only become apparent via the formal dialogue process. It is possible that further Council financial contributions may be deemed beneficial address viability challenges. Should this scenario arise, the Council would have a number of options available to it (all subject to business plan approvals), including:

- **Value engineering** the development e.g. changing plans to create a more viable scheme or to reduce delivery costs.
- **Public Subsidy** e.g. proving further infrastructure works on the land
- **De-risking** e.g. providing rent-guarantees or leases

Note, however, that the dialogue process will require bidders to provide a range of flexible investment proposals and to clearly articulate how the Council (and others) provide this. The outcome of these discussions will be captured in the Full Business Case and reflected in the agreed business plan with the preferred Partner.

A key financial assumption underpinning this OBC is that Durham County Council investment will be transferred into equity into the final Joint Venture Partnership, whereby the more the Council invests will provide it with an increased share of the long-term returns.

Furthermore, the Council will seek to retain flexibility as to how it wishes to potentially reduce risk and immediate upfront investment shape its future returns. For example, whether it wishes to secure a longer-term revenue stream or a more immediate capital return(s) secured via disposal(s). These options will be also considered in the Full Business Case.

A key principle of the planned Joint Venture is that it will require the long-term commitment of the parties to realise the agreed vision and outcomes of the Council, albeit there will be a range of options developed within the Full Business Case as to what the Council puts into the Joint Venture and what is consequently gets out of it. During the development lifespan there will be multiple business cases and decision points aligned to each phase, which is when the Council's land will be drawn down in parcels to the JV for development and any future equity (from the JV partner and/or the Council) would be considered).

The Full Business Case will detail the agreed flexibility available to the Council.

The overarching JV Business Plan will be updated annually to reflect activity, investment and proposed return strategies

6.2 Resource Requirements

As noted with item 6.1, resource requirement will depend on the JV partner selected and approach to delivery. Requirement for future resource will therefore be clarified as part of the FBC submission that will support any future investment decision.

6.3 Non-financial benefits

Non-financial benefits will be achieved by the delivery of the Council agreed Vision and Outcomes, including:

A successful Durham Innovation District would mitigate risk associated with other Council investments for example, Netpark, Milburngate, Jade Business Park and Sniperley and ultimately influence the next iteration of the Durham County Plan.

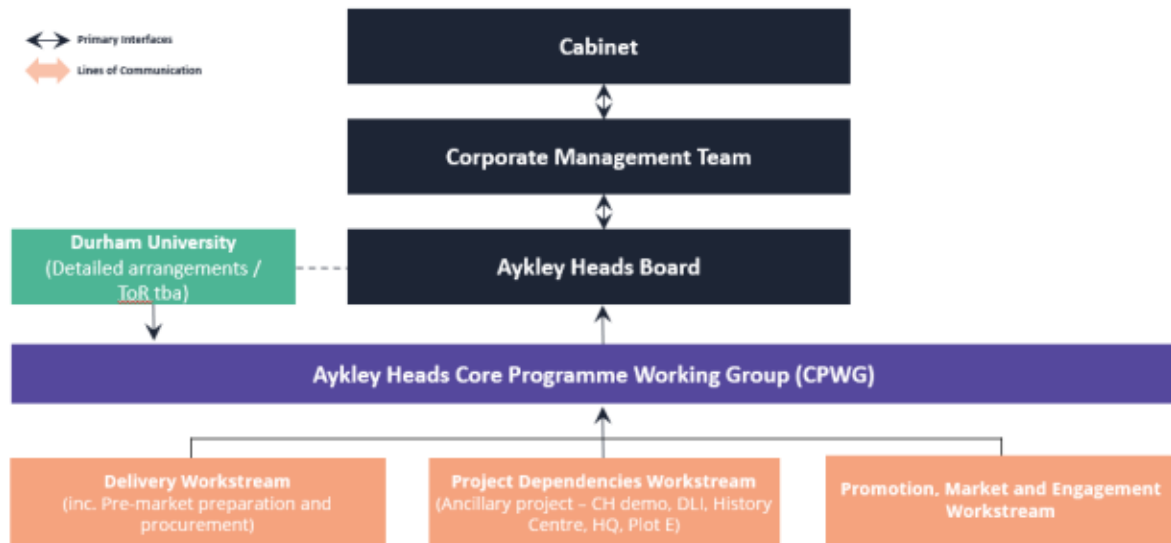
A successful Durham Innovation District will enhance the visibility of County Durham, drive economic, social benefits and provide a viable alternative location (or growth opportunity) for innovation and knowledge rich businesses across the UK.

7. Management Case

7.1 Programme and project management plans

The Council has established governance arrangements which are formally documented. These governance arrangements have already evolved as the Project has progressed and the Programme Board takes responsibility for making sure arrangements remain appropriate for each stage of the project (concept design, procurement, set up, operation).

The governance arrangements currently in place to support the procurement process to completion of the FBC are captured within the structure below. These arrangements are not expected to change materially before FBC however 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.



Terms of Reference are agreed for each stakeholder group which contribute to the delivery of the Durham Innovation District.

Programme and project management plans will evolve during the different stage of the programme as follows:

- Delivery (Procurement and Full Business Case) | January 2023 – December 2024
- Joint Venture Partnership Agreement | January 2025 – TBC
- Shareholder Agreement / Partnership Board (includes client function governance) January 2025 – TBC

Programme and project management plans will be flexible to allow the partnership to explore opportunity to create further value and deliver a wider ecosystem.

7.2 Change management arrangements/requirements

The potential for the Innovation District to drive value beyond Aykley Heads has been raised by the market and set out in this 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.

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.

7.3 Approach to management (delivery of benefits, risk management and monitoring during implementation)

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)

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.

7.4 Risk Management

The Core Programme Working Group maintain a robust risk register. The risk assessment varies, depending on the risk lens (Council or JV partner(s)) being applied.

Key risks and associated mitigations are highlighted at the monthly Programme Board meetings and are managed by the Core Programme Working Group. Key risks and mitigations are identified below:

Council		
Key Risk Detail	Mitigating Action	Associated Cost
Council's accommodation strategy (plus alternative HQ project) impacts to fully realise the economic benefits to the Durham Innovation District aspirations. (1) Base analysis impact - increased peak debt, longer breakeven and higher subsidy required. (2) Development opportunity is confused within the market. (3) Poor response from JV Partners. (4) Impact on wider Aykley Heads development viability.	(1) Member engagement secured alternative HQ plan approval and continue appetite to develop the wider Aykley Heads site (Apr 22) (2) Council accommodation strategy being developed. (3) Detailed delivery programme and logistics alignment (4) Secure early delivery partner input/ expertise to de-risk and inform proposals, which will be reflected in the FBC (5) Project dependencies being closely monitored/ impact assessed.	To be populated within the Full Business Case.
The Vision and desired outcomes are undeliverable (1) Insufficient funding / Council commitments fail to deliver the Durham Innovation District (2) A redeveloped Aykley Heads is not financially sustainable (3) The proposed plans do not match the economic landscape of Durham	(1) Economic hypothesis developed (2) Link with wider area masterplan (3) Stakeholder engagement (4) Viability testing (5) Council to confirm certainty of required Council commitments (Land, finance and CH demolition)	To be populated within the Full Business Case.
Appropriate commitment/ buy-in from Durham University (1) Additional financial burden to the Programme/ Council. (2) Potential abortive works	(1) Early engagement with Durham University representatives - commitment secured. (2) Approach with University agreed - x4 research areas being pursued. (3) External consultant appointed to progress agreed sector research. (4) MOU in place (required update) (5) Focused workshops held and agreed action plan in place. (6) Pre-market launch engagement with potential JV partners being scheduled. (7) DU involvement in project governance (8) Development of a University Collaboration Agreement during procurement	To be populated within the Full Business Case.

JV Partner		
Key Risk Detail	Mitigating Action	Associated Cost
Market risk (1) Markets continue to suffer from macro forces	(1) Review mix of occupiers (2) Re-developed Aykley Heads to provide a more rounded offer to improve viability. (3) SMT confirmed target sectors and innovation district potential. (4) Develop market friendly procurement engagement proposed - allowing early down selection. (5) Appropriate governance, change mechanisms and joint working and formulation of future Business Plan(s). (6) Council client function (appropriately skilled and experienced) established.	To be populated within the Full Business Case.
Benefits are delayed due to viability challenges. (1) Programme is delayed whilst necessary funding is secured. (2) Full aspiration of Programme is not realised. (3) Stakeholder and development market frustration grows due to lack of progress.	(1) Develop robust assessment on sensitivities on value assumptions. (2) Re-test value assumptions (3) Soft market testing complete. (4) Delivery model selected provide joint commitment to support redevelopment of Aykley Heads. (5) Council commitment set at a level confirmed by early Economic hypothesis output. (7) Programme is delayed whilst necessary funding is secured. (8) Flexibility in the Partnership to adapt to changing needs / conditions. (9) Stakeholder and development market frustration grows due to lack of progress.	To be populated within the Full Business Case.
Council's inability to deliver a cleared site to an appropriate standard in a timely manner.	(1) Agreement of programme (2) Agreement of specification (3) Agreement of remediation strategy/ standard (4) Agreement of site handover standards expected by potential JV partner	To be populated within the Full Business Case.

The Full Risk Register is appended and provides commentary on implications and risk mitigation actions.

7.5 Contingency arrangements/exit strategy

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 Full Business Case.

Appendices

Appendix 1 | Risk Register

M

 Aykley Heads Programme | Risk Register
 November 2021 (updated June 2023)

 AVISON
 YOUNG

Risk Number	Workstream	Risk Detail	Implications (Consequence)	Risk/ Owner Champion	Category	Imminence/ status Current/ Future/ Closed	Pre-mitigation * Scoring Matrix				Management Strategy/ Progress	Risk Management				Post-mitigation * Scoring Matrix			
							Unlikelihood	Impact	Score	Rating		Controls / Management Actions Planned	Action Owner	Action Completion Date (priority or associated milestones)	Actions On Target	Unlikelihood	Impact	Score	Rating
1	Project Management	Risk that there may not be the resource availability and capacity to effectively manage the project through procurement to appointment of JV partner.	(1) Lack of strategic direction. (2) Programme fails to deliver in accordance with agreed schedule. (3) Impacts Member delivery confidence. (4) Potential to erode market interest / appetite.	DCC (SAV)	Governance & Management	Current	3	4	19	H	On-going	(1) AY engaged by Council (updated 2023) (2) Outcome & Vision agreed (3) PEP to be developed (4) Engagement / check-in regime established (5) Programme Director (SAV) appointed	AY (BC)	01/01/2025 (AY) 01/09/2023 (SAV)	Yes	1	4	12	M
2	Project Management	The pace of Council (and Members) review and decision making hinders progress and programme momentum.	(1) Prolongation of programme phases / dialogue. (2) Erosion of Council reputation in development market (3) Delivery partner fatigue / losses interest.	DCC (SAV)	Governance & Management	Current	2	4	18	H	On-going	(1) PEP to be developed. (2) Programme Board established. (3) Member engagement opportunities identified (4) Cabinet briefings planned (April, August and September 2023) (5) Internal Council procurement approvals / cycle established	AY (BC)	01-Sep-23	Yes	2	4	18	H
3	Project Management	Programme governance and project control frustrate efficient and effective programme delivery.	(1) Programme is not effectively communicated within the Council and key stakeholders. (2) Opportunity / ambition is poorly articulated and therefore not understood. (3) Momentum is lost.	DCC (SAV)	Governance & Management	Current	3	4	19	H	On-going	(1) Vision and Outcomes agreed (2) Programme and Resourcing Plans in place (3) Core Working Group established (4) Member engagement opportunities identified (5) Programme Director appointed	AY (BC)	On-going	Yes	2	3	13	M
4	Project Management	Council's accommodation strategy (plus alternative HQ project) impacts Aykley Heads development aspirations.	(1) Base analysis impact - increased peak debt, longer breakeven and higher subsidy required. (2) Development opportunity is confused within the market. (3) Poor response from JV Partners. (4) Impact on wider Aykley Heads development viability.	DCC (SAV)	Governance & Management	Current	5	5	25	UH	On-going	(1) Member engagement secured alternative HQ plan approval and continue appetite to develop the wider Aykley Heads site (Apr 22) (2) Council accommodation strategy being developed. (3) Detailed delivery programme and logistics alignment (4) Secure early delivery partner input / expertise to de-risk (5) PLOT E no longer being pursued (confirmed Feb 2023). (6) Project dependencies being closed monitored / impact assessed.	AY (BC)	On-going	Yes	4	4	20	H
5	Project Management	Inadequate resource to prepare and bring Aykley Heads to the market.	(1) Loss of Programme momentum. (2) Failure to realise Aykley Heads aspiration. (3) Outline Planning Consent expires.	DCC (SAV)	Governance & Management	Current	3	4	19	H	On-going	(1) AY engaged by Council to support / lead core working group. (2) Programme Governance document prepared and approved by the Programme Board (updated January 2023). (3) Resource Plan developed and socialised with wider DCC programme team members. Commitment to resource demands secured. (4) Master Programme developed and subject to ongoing review.	AY (BC)	On-going	Yes	1	3	6	L
6	Project Management	Programme fails to secure a development partner	(1) Development aspirations for Aykley Heads delayed. (2) Programme fails to deliver in accordance with agreed schedule. (3) Impacts Member delivery confidence. (4) Potential to miss funding opportunities. (5) Hybrid / Outline Planning Consent expires.	DCC (SAV)	Governance & Management	Current	3	4	19	H	On-going	(1) Financial and viability outcome assessment (2) Delivery Model Workshops - delivery and investment strategy progressed (3) Robust procurement strategy prepared. (4) Secured external legal support and procurement strategy validated. (5) Soft market testing strategy implemented. (6) Attended UKRIIF - prepare follow up SMT activity (e.g. Leeds visit June 2023). (7) Prepare for market engagement with Durham University.	AY (SAV)	01-Sep-23	Yes	2	4	18	H
7	Project Management	Outline Business Case fails secure Cabinet support Council commitments and commencement of procurement process	(1) Loss of Programme momentum. (2) Failure to realise Aykley Heads aspiration. (3) Outline Planning Consent expires. (4) Market appetite erodes.	DCC (SAV)	Governance & Management	Current	3	5	23	UH	On-going	(1) Business Case process (5-case light approach) agreed. (2) Cabinet engagement (April 2023) confirmed continue support. (3) Council commitments being progressed and will feature within OBC. (4) OBC working group established, structure agreed and required inputs identified (June 2023).	AY (BC)	01-Jul-23	Yes	2	3	13	M
8	Vision & Objectives	There is no clear vision of the outcomes for the redevelopment of Aykley Heads	(1) Lack of clarity for Aykley Heads Transformation and next steps. (2) Programme aims and objectives are not agreed. (3) Meaningful Aykley Heads transformation is delayed or doesn't happen. (4) Financial burden on the Council increases. (5) Reputational damage and inability to communicate a clear plan.	DCC (SAV)	Stakeholder	Current	4	4	20	H	complete	(1) Clear Vision and outcomes articulated. (2) Socialised with DU and Members - buy-in secured (Apr 2022) (3) Further Cabinet briefing held Apr 2023 (4) Pre-market launch Cabinet briefing schedule Aug and Sept 2023. (5) Durham University commitments further developed.	AY (SAV)	complete	Yes	1	3	6	L
9	Vision & Objectives	The vision for the redevelopment of Aykley Heads is not supported.	(1) Mixed expectations over what a re-developed Aykley Heads might mean (2) inability to articulate the proposition clearly (3) Subsequent evaluation criteria and partner selection process is not fully aligned. (4) Successful delivery is not recognised. (5) Outdated potential investor confidence	DCC (SAV)	Stakeholder	Current	4	4	20	H	On-going	(1) Clear Vision and outcomes articulated. (2) Socialised with DU and Members - buy-in secured (Apr 2022) (3) Stakeholder engagement (4) Pre-market launch Cabinet briefing schedule Aug and Sept 2023. (5) Durham University commitments further developed.	AY (SAV)	On-going	Yes	2	3	13	M
10	Vision & Objectives	The vision and desired outcomes are undeliverable	(1) Insufficient funding / Council commitments fail to deliver the Aykley Heads Innovation District (2) The proposed plans do not match the economic landscape of Durham	DCC (SR)	Cost & Funding	Current	5	5	25	UH	On-going	(1) Economic hypothesis developed (2) Link with wider area masterplan (3) Stakeholder engagement (4) Viability testing (5) Council to confirm certainty of required Council commitments (Land, Finance and CH demolition)	AY (SAV)	On-going	Yes	3	5	23	UH
11	Stakeholder Engagement	Lack of a future occupier strategy undermining stakeholder buy-in.	(1) Proposals are not supported. (2) Progress is delayed.	DCC (SAV)	Stakeholder	Current	3	4	19	H	On-going	(1) Early development and buy-in to the Stakeholder Engagement Plan. (2) SMT confirmed target sectors and innovation district potential. (3) Sector research complete / ongoing. (4) Aykley Heads Innovation District socialised / supported at UKRIIF.	DCC (AK)	On-going	Yes	2	3	13	M
12	Stakeholder Engagement	Lack of support from community and/or stakeholders	(1) Increase risk of objections cause delay to programme delivery (2) Reputational damage to the Council. (3) Continued decline of County Hall.	DCC (SR)	Stakeholder	Current	3	3	14	M	On-going	(1) Hybrid planning consent secured (2) Strategic Engagement Plan to be established and implemented (3) Corporate Communications Plan established (Dec 2021) but not formally implemented. Full review required.	DCC (J)	On-going	Yes	3	3	14	M
13	Masterplan	The Council fail to embrace the Aykley Heads Redevelopment vision	(1) Full potential opportunity of Aykley Heads is not realised. (2) Delay to commencement of the Aykley Heads Transformation journey. (3) Continued financial burden and exposure to the Council.	DCC (SAV)	Stakeholder	Current	4	5	24	UH	On-going	(1) Early engagement on the vision and concept phase securing Officer and Member buy-in. (2) Regular Member / Cabinet check-in sessions. (3) Early and transparent understanding of commercial implications of the vision.	AY (SAV)	on-going	Yes	3	5	23	UH
14	Masterplan	Lack of support / buy-in from University	(1) Additional financial burden to the Programme / Council. (2) Potential abortive works	DCC (AK)	Cost & Funding	Current	4	5	24	UH	On-going	(1) Early engagement with University representatives - commitment secured. (2) Approach with University agreed - v4 research areas being pursued. (3) External consultant appointed to progress agreed sector research. (4) MOD in place (required update). (5) Focused workshops held and agreed action plan in place. (6) Pre-market launch engagement with potential JV partners being scheduled.	AY (SAV)	01-Sep-23	Yes	3	4	19	H
15	Masterplan	The surrounding Aykley Heads infrastructure will not economically support the 'redevelopment' ambition.	(1) Programme required significant intervention to support redevelopment vision. (2) Increased financial burden on the Council.	DCC (SAV)	Cost & Funding	Current	4	5	24	UH	On-going	(1) Early strategic due diligence activity confirmed manageable infrastructure constraints. (2) Preparation of financial model including integration of alternative commercial scenarios to understand implications of different outcomes of commercial negotiations. (3) JV Partner to progress ongoing due diligence, updating analysis and required interventions to suit development potential across Aykley Heads. For example - infrastructure provisions / upgrade will be captured within year 1 Business Plan.	AY (BC/SH)	On-going	Yes	2	3	13	M
16	Masterplan	Failure to secure Risk &	(1) North development zone aspiration not fulfilled. (2) Potential Risk & accessibility implications.	DCC (SR)	Cost & Funding	Current	2	4	18	H	On-going	(1) Early engagement with Police to secure Risk & accessibility. (2) Programme Board confirmed that Risk & accessibility is not currently being actively pursued - therefore risk action on hold.	DCC (SR)	on-going	Yes	2	2	14	M
17	Financial & Commercial	Covid and working / habits have greater and more sustained impact on market demand than expected	(1) Base return and expenditure position and projections are flawed. (2) Increased Council liability and prolonged return on investment. (3) Return from re-purposing investment decisions understated.	DCC (SAV)	Cost & Funding	Current	3	3	16	H	On-going	(1) Review and develop robust counterfactual view of Aykley Heads performance. (2) Maintain close engagement with DCC finance colleagues (3) SMT confirmed target sectors and innovation district potential.	AY (SR)	On-going	yes	1	3	6	L
18	Financial & Commercial	Scheme viability	(1) Insufficient capital funding available (2) Re-development does not deliver a return within an acceptable timeframe	DCC (AH)	Cost & Funding	Current	4	4	20	H	On-going	(1) Viability testing (2) Test and secure Council financial commitments - ongoing (3) Cabinet engagement schedule Aug and Sept 2023 to support market launch and Council commitments (subject OBC and RBC).	AY (SR)	On-going	yes	3	4	19	H
19	Financial & Commercial	Market risk	(1) Markets continue to suffer from macro forces.	DCC (SR)	Cost & Funding	Current	4	4	20	H	On-going	(1) Review mix of occupiers (2) Re-developed Aykley Heads to provide a more rounded offer to improve viability (3) SMT confirmed target sectors and innovation district potential (4) Develop market friendly procurement engagement proposal - allowing early down selection.	AY (SAV)	01-Dec-24	yes	2	3	13	M
20	Financial & Commercial	Failure to secure Public Funding - LUF, Devco Deals, Central Government initiatives	(1) Programme is delayed whilst necessary funding is secured. (2) Full aspiration of Programme is not realised. (3) Stakeholder and development market frustration grows due to lack of progress.	DCC (SR)	Cost & Funding	Current	4	2	10	L	On-going	(1) Ensure dedicated team in place to drive and secure funding opportunities. (2) Progress support strategy to secure Council financial commitments - ongoing.	DCC (SR)	01-Sep-23	yes	2	2	6	L
21	Financial & Commercial	Subsidy required to achieve desired RRI is too high for the Council	(1) Programme is delayed whilst necessary funding is secured. (2) Full aspiration of Programme is not realised. (3) Stakeholder and development market frustration grows due to lack of progress.	DCC (SR)	Cost & Funding	Current	4	4	20	H	On-going	(1) Develop robust assessment on sensitivities on value assumptions. (2) Re-test value assumptions (3) Soft market testing complete. (4) Delivery model selected provide joint commitment to support redevelopment of Aykley Heads. (5) Council commitment set at a level confirmed by early Economic hypothesis output.	AY (SR)	On-going	yes	2	3	13	M