

Cabinet

16th April 2014

Durham City Strategic Sites & Infrastructure Delivery Strategy



Report of Corporate Management Team

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Purpose of the Report

1. For Members to endorse and agree the approach towards the delivery and financing of the strategic regeneration sites and associated infrastructure priorities of Durham City, as consulted upon within the pre submission draft document of the County Durham Plan.
2. To outline the next steps going forward and agree the associated recommendations.

Background

3. Durham County Council has undertaken the preparation of its statutory planning documents in line with national guidance.
4. The Council is preparing to submit the preferred option for independent examination. The legislative process stipulates that there is a requirement to demonstrate deliverability of the strategic housing and employment sites contained within the preferred option. This has been reinforced by recent advice from a planning inspector that a delivery plan needs to be in place to support the emerging plan.
5. The proposals in the County Durham Plan are based on the premise that Durham City is the key economic driver for the County. To achieve this more jobs are required to be located in and around the City itself. This needs to be supported with an attractive mix of quality housing provided locally, to ensure that investment is attractive to prospective investors and businesses and the economy can grow in a sustainable manner.
6. To achieve the delivery of the strategic employment and housing sites relies on improving transport infrastructure to ensure the highway network is capable of facilitating the proposed level of development and economic growth. The strategic employment and housing sites and the investment into transport infrastructure (including the Western and Northern Relief Roads) are intrinsically linked in delivering the economic ambitions of the County Council and the role Durham City is expected to take in driving the sub regional economy forward.

7. The Plan highlights Durham City as a key location for new development in County Durham and identifies;
 - (i) Aykley Heads as a Strategic Employment Site, predominately for approximately 700,000 sq ft of office development alongside a mix of other uses including housing;
 - (ii) Sniperley Park, North of Arnison, and Sherburn Road as Strategic Housing Sites;
 - (iii) North of Arnison for new convenience retail floor space and North Road and Claypath as regeneration areas;
 - (iv) the construction of the Western Relief Road early in the Plan period is vital in enabling the housing sites at Sniperley, North of Arnison and Merryoaks to be delivered, with the construction of the Northern Relief Road to follow later in the Plan. Both of the new roads together provide the basis of a comprehensive and complementary highway solution for the City to achieve the economic ambitions and housing growth projections of the plan and enhance the employment, tourist and shopping potential of the City thereof.
 - (v) the redevelopment of land and buildings around the historic core of the City as important in supporting its key role as an employment, housing, retail and tourism centre; and
 - (vi) the vitality and viability of the City Centre;
8. The County Durham Plan details housing need projection figures for Durham, which show that, to support the population, migration and job growth and to minimise commuting and promote sustainable living, the Council needs to provide sufficient housing to accommodate future population growth, including those that move into the County. This requirement has been calculated as 31,400 new homes and households by 2030.
9. The Plan identifies that 5,220 of these homes should be provided in Durham City. In order to meet the development needs of Durham City and to encourage economic growth in County Durham. Development will comprise of approximately:
 - 2,500 houses on Sniperley Park;
 - 1,000 houses on North of Arnison;
 - 475 houses on Sherburn Road; and
 - 250 houses at Merryoaks
10. The remaining housing units will be delivered via smaller sites throughout the city.

Durham City Delivery Issues

11. Before development of the strategic employment and housing sites and their related infrastructure can be delivered, agreement is needed on the parameters of the overall programme. The development of key strategic sites will require investment in supporting infrastructure. This infrastructure includes:

- (i) on and off site infrastructure to facilitate the delivery of the Aykley Heads site as a strategic employment site to the investment market;
 - (ii) infrastructure at the proposed strategic housing sites for Durham City: Sniperley Park, North of Arnison, Sherburn Road and the housing allocation at Merryoaks;
 - (iii) Western and Northern Relief Roads;
 - (iv) Educational provision, including new schools on Sniperley and North of Arnison;
 - (v) Works at other sites outside of those considered above. However these sites can be considered as individual schemes and on their own merits as and when the development details emerge. Examples of such sites being; the former ice rink site, Milburngate House and Sidegate quarter, North Road, Elvet Waterside, Claypath, Old Shire Hall, Whinney Hill School and flood mitigation for the River Wear. The financial implications of these sites have not been considered within this report although any residential developments relating to these areas would be subject to the Community Infrastructure Levy (CIL).
12. It should be noted that although Sherburn Road has been identified as a strategic site it is not considered to be reliant on the proposed new relief roads. It will require additional local infrastructure but due to the fact it is anticipated to yield lower values it will, like the non-strategic sites, be considered on its own merits, and be subject to CIL.
13. The implementation of the Plan will involve significant road construction before the building of most of the new houses. Irrespective of the agreed development option, it is anticipated that the Council will need to make a substantial financial commitment to enable the potential growth to be achieved and will be exposed to financial risk.

Strategic Housing Sites and Highway Infrastructure

Development of Sniperley, North of Arnison and Merryoaks Sites

14. It is envisaged that due to the size of the larger development areas, the sites will be developed by consortiums of builders, each providing differing products on locations within the scheme, at the same time working to an overall masterplan.
15. Significant infrastructure will be required, such as new and enhanced educational provision, play areas, services and community facilities as well as highway improvements. Contributions to the infrastructure investment for the Western Relief Road will be secured by way of planning conditions. An explanation of these planning mechanisms is outlined in Appendix 2.
16. The submission document for the County Durham Plan included draft CIL schedules and suggestions for how this would work alongside any Section 106 agreements. Advice has been taken from legal counsel who has advised that the Western Relief Road would be most sensibly funded via a Section 106 agreement and the Northern Relief Road via CIL contributions.

17. The Section 106 and other developer contributions will fund specific elements of on-site expenditure, while the CIL contributions will be pooled with other contributions received throughout the County, to fund schemes on the CIL 123 list of priority infrastructure projects.
18. In conclusion, the level of development contribution, planning gain and value from land sales is capable of delivering the required infrastructure to deliver the strategic sites outlined in the plan including the Western Relief Road. The financial tables included in this report present how this is achieved.

Financial Implications – Highways Infrastructure, Western and Northern Relief Roads

19. The Plan identifies that traffic on the roads in and around Durham City should flow in a way that will satisfy the expectation of local residents, commuters, bus companies, emergency services, employers and visitors. This should still be the case following the future growth envisaged by the Plan. It is also particularly important that future investors are not put off relocating to the City because of congestion on the road network. These highway proposals will be subject to future Statutory consents including Planning, Side Road Orders and Compulsory Purchase Orders.
20. The traffic modelling indicates that the Western Relief Road is needed in the short term to enable housing development to commence. For financial modelling purposes costs of £37m have been assumed over a two year period ending 2018/19, although an appropriate contingency figure is currently included in this forecast and the final cost is expected to reduce considerably, given the stage of design
21. The Northern Relief Road is not currently required until near the end of the Plan period (2028/29) and is expected to be funded at least in part through the CIL mechanism. The costs of the Northern Relief Road have not at this stage been included in the financial analysis.
22. The finance section of this report provides details of the capital and revenue position for the council in relation to developing the Aykley Heads site, Sniperley, North of Arnison and Merryoaks. These sites are in the area that will be directly affected by and benefit most from, the construction of the Western Relief Road.

Financial Implications – Strategic Housing Sites

23. The Plan identifies that around two thirds of the homes required in Durham City will be accommodated at the Sniperley Park, North of Arnison and Merryoaks sites. The key infrastructure required to ensure development can commence is the Western Relief Road, which will need to be constructed in parallel with the development of the sites, so that housing development is not restricted by concerns about traffic congestion. There are capital and revenue expenditure and income implications associated with this development.

Capital

24. In considering the financial implications of the housing development and infrastructure requirements, a conservative scenario analysis has been utilised, to ensure all risks are factored in and understood. In the process, discussions have

been held with potential developers to explore the viability of the proposals. As a result, the following assumptions have been made about the costs and timing of development;

- (i) The Western Relief Road will be constructed from 2017 to 2019, at a total cost of approximately £37m.
- (ii) Other highways improvements will be required at a total cost of £6.3m from the commencement of the plan period. Some £1.6m is required as a result of the green belt deletions, while £4.7m would be incurred whether the plan is adopted or not.
- (iii) Additional education facilities will be required, including the construction of 2 new primary schools and extensions to existing schools, to meet the estimated provision required. It is hoped that grant funding will be available to support this provision, but this cannot be guaranteed and costs of construction totalling £23.7m have been included over the 2022/2023 and 2023/2024 financial years.
- (iv) A contribution from developers of £0.3m is estimated to be required to provide a Health Centre at Sniperley Park.
- (v) Other costs will be met from developer contributions, but have not yet been quantified. These include:
 - Playing Pitch Provision
 - Open Space
 - Children's Play Areas / Equipment
 - Sustainable Urban Drainage Systems
 - Community Buildings
- (vi) The Council will receive monies from developers in tranches, as development proceeds, and from contributions towards the specific on-site developments listed above.
- (vii) Development at Sniperley Park is expected to start in 2017/2018 and end in 2037/2038 at a generally steady rate of 100 to 150 properties a year, apart from the first and last years when completions will be lower.
- (viii) Development at the North of Arnison is also forecast to start in 2017/2018 and end in 2029/2030 at a generally steady rate of 60 to 100 properties a year, apart from the first year when completions will be lower.
- (ix) Development at Merryoaks will start in 2017/2018 and end in 2025/2026, at a steady rate of 30 properties a year, apart from the first year, when 10 completions are anticipated.
- (x) Developers will be charged under the sites affected by a Section 106 agreement. This is estimated to generate capital income of £41.7m at Sniperley Park, £16.7m at the Arnison Centre and £4.2m at Merryoaks. The charge will not apply to the affordable housing units.
- (xi) Developers will be charged at the proposed Durham City CIL levy of £60 per square metre for residential units and this will generate capital income of £11.1m at Sniperley Park, £4.5m at the Arnison Centre and £1.1m at

Merryoaks. This levy will not apply to affordable housing units, which comprise 20% of each development. However, if off site contribution for affordable housing provision were to be agreed then the additional market sale units would be subject to the levy.

- (xii) Developers will be charged a CIL levy of £150 per square metre for commercial development and this will generate capital income of £0.1m at Sniperley Park and £0.9m at North of Arnison;
 - (xiii) The CIL received will be top sliced by 20% (£3.5m), to fund a 15% contribution to local neighbourhood priorities (£2.6m) and 5% to fund CIL administration (£0.9m). However, where neighbourhood plans are established then up to 25% of CIL will be attributed to neighbourhood priorities, rather than 15% and this would reduce the funds available for the Council to allocate to its own priorities;
 - (xiv) The Council's land at Sniperley Park is estimated to generate a significant capital receipt, which will be received in tranches as development progresses, in line with the profile of housing development. For financial planning purposes the income is based on the current estimated developable area at present market value. It is expected that capital income is estimated to be in the region of £7.3m. .
25. No account has been taken of any grant funding that may be available to fund the infrastructure when it is constructed.
26. The Treasury and Department for Transport issue specific advice on the budgeting of Transport Projects and advocate the inclusion of an Optimism Bias which is linked to progress on development and design. Current estimates for the Northern and Western relief roads include an appropriate allowance that incorporates the effects of inflation on the estimated costs. No other elements of this report have included estimates for inflationary rises
27. For financial planning purposes it has been assumed that the Council will be the accountable body and it is assumed that the Council will need to cash flow some up front works. The financial modelling details the total capital cash flow and shows a deficit in the early years of the development, with a maximum deficit of up to £32.9m in 2023/24 and a break even position in year 16 (2030/2031). The arrangements for using developer monies are complex and along with development costs will need to be closely monitored and managed by Corporate Finance and Regeneration and Economic Development.

28. The capital costs and income associated with the development at Sniperley, North of Arnison and Merryoaks are summarised in Appendix 3.

Table 1: Sniperley, Arnison and Merryoaks Capital by Type of Expenditure and Income

| | £m |
|--|-----------------|
| Capital Expenditure | |
| Western Relief Road | 37.018 |
| Greenbelt Site Road Improvements | 1.575 |
| Education Provision | 23.675 |
| Health Centre | 0.300 |
| LTP3 Minor Spend | 4.750 |
| Total Capital Expenditure | 67.318 |
| Funded by | |
| Developers Contributions | (62.568) |
| Net Community Infrastructure Levy Income | (14.167) |
| Sniperley Park Residential Value | (7.251) |
| Total Income | (83.986) |
| NET CAPITAL INCOME | (16.668) |

29. The income and expenditure is expected to be incurred over the plan period as follows:

Table 2: Sniperley, Arnison and Merryoaks Capital Profiled Over Years

| | Year 1 to 5 2015/16 – 2019/20 £m | Year 6 to 10 2020/21 – 2024/25 £m | Year 11 to 15 2025/26 – 2029/30 £m | Year 16 to 20 2030/31 – 2034/35 £m | Year 21 to 25 2035/36 – 2039.40 £m | Total £m |
|---------------------------------------|---|--|---|---|---|------------------------|
| Capital Expenditure | 21.444 | 45.874 | 0 | 0 | 0 | 67.318 |
| Capital Income | (14.563) | (25.665) | (26.365) | (13.335) | (4.058) | (83.986) |
| Capital (Surplus)/ Deficit | 6.881 | 20.209 | (26.365) | (13.335) | (4.058) | (16.668) |

30. The capital surplus includes income relating to the current market value of council owned land on the Sniperley site. The arrangements through which this receipt is achieved needs to be determined and needs to take account of the fact that the land owned by the Council includes a playing field. The treatment of this particular area of land produces specific legal issues relating to replacing the playing fields. There will also be a requirement to reprovide the household waste disposal sites at the North of the site.
31. A developer has drawn up an agreement with the main Sniperley landowners whereby the site proceeds are legally controlled by way of a Limited Liability Partnership (LLP). This agreement entitles the Council to a percentage of any sale

across the Sniperley proposal on its release and income will thereafter be received in tranches. The Council has been invited to participate in this agreement;

32. The terms proposed by the Sniperley LLP landowners are considered acceptable. Part of the Council's land includes school playing fields and it has been agreed that the Council cannot commit to selling this land until the playing fields have been relocated and necessary consents obtained. A separate agreement will cover this area of land. The Sniperley LLP agreement will prevent the land on which the current waste recycling land stands being released until alternative provision is available elsewhere in the locality. Inclusion of the remainder of the Council land immediately in the LLP with the playing fields and waste recycling sites to follow when available will provide the necessary certainty of delivery of the Council's part of the Sniperley strategic site.

Revenue

33. As housing development at the three sites proceeds, the Council will receive revenue income from Council tax and business rates. The Council will also incur additional costs in providing its services and in borrowing to fund short term deficits in capital income to fund infrastructure provision. Council tax income calculations are reliant on there being no displacement of people from houses elsewhere in the County. The impact upon Council tax collection will be monitored throughout the development period.
34. In estimating the revenue implications of the development the following assumptions have been made:
- (i) There will be a deficit in capital income to fund expenditure from the start of the development until 2030/2031 (Year 16), reaching a maximum borrowing requirement of £32.9m in 2023/2024. The total borrowing costs are estimated at £11.4m, with maximum annual costs of borrowing at £1.5m in 2023/24, assuming borrowing costs are at a rate of 4.5%;
 - (ii) The costs of providing most Council services to the new sites will be met from existing Council capacity, but some services, such as refuse collection and disposal will increase. The annual cost to the Council is estimated to be £0.4m at the end of the plan period;
 - (iii) There will be revenue contributions from developers to meet specific costs arising from the developments. These include contributions for:
 - the routine maintenance of open spaces. It is anticipated this will be funded through one-off contributions from developers.
 - the funding of employment training initiatives, in lieu of on-site training during construction and these monies will be used to fund training initiatives. Total contributions of £2m are anticipated over the development period;
 - Surface Urban Drainage Schemes (SUDS), as it is anticipated that by the time the plan is adopted the Council will become responsible for the management of drainage on new housing sites. Although these will be funded through developer contributions, the government has not yet finalised arrangements, so the costs cannot yet be quantified.

- (iv) Most of the market properties constructed at the three sites will fall into Bands D to G and affordable properties in Band A and together are estimated to generate annual council tax of £4.8m at the end of the plan period ;
- (v) The commercial development at the North of Arnison will cover 5,775 square metres (62,162 square feet) and generate additional business rates of £16.4m over the period, while Sniperley Park developments will cover 800 square metres (8,611 square feet) to produce additional business rates of £2.3m over the period. If current arrangements for sharing business rates continue to apply then the Council will keep 49% (£9m) of these rates.

35. The forecast revenue impact of the development is summarised in the tables below. It must be recognised that the table below covers a 25 year period from 2015/2016 to 2039/2040.

Table 3: Sniperly, Arnison and Merryoaks Revenue by Type Over Period 2015/16 to 2039/40

| | £m | £m |
|--|----------|-----------------|
| Revenue Expenditure | | |
| Interest Charges on Capital Deficit | | 11.359 |
| Marginal Cost of Providing Council Services (Refuse Collection, etc) | | 5.316 |
| Developer Funded Initiatives | | |
| Open spaces Maintenance – Developer Funded | 11.430 | |
| Targeted Recruitment Training During Construction – Developer Funded | 2.008 | |
| Surface Urban Drainage Schemes (SUDS) – Developer Funded | TBC | |
| Total Developer Funded Initiatives | | 13.438 |
| Total Revenue Expenditure | | 30.113 |
| Revenue Income | | |
| Developer Contributions for Open Spaces, Training and SUDS | | (13.438) |
| Council Tax Revenues – Sniperley Park | (44.091) | |
| Council Tax Revenues – Arnison (Hagg House) | (21.401) | |
| Council Tax Revenues – Merryoaks | (6.074) | |
| Total Council Tax Revenues | | (71.566) |
| Business Rates – Sniperley Park | (1.113) | |
| Business Rates – Arnison (Hagg House) | (8.031) | |
| Total Business Rates | | (9.144) |
| Total Revenue Income | | (94.148) |
| NET REVENUE INCOME | | (64.035) |

36. The income and expenditure is expected to be incurred over the plan period as follows:

Table 4: Sniperley, North of Arnison and Merryoaks Revenue Profiled Over Years

| | Year 1 to 5 2015/16 – 2019/20 £m | Year 6 to 10 2020/21 – 2024/25 £m | Year 11 to 15 2025/26 – 2029/30 £m | Year 16 to 20 2030/31 – 2034/35 £m | Year 21 to 25 2035/36 – 2039.40 £m | Total £m |
|-----------------------------------|---|--|---|---|---|------------------------|
| Revenue | 5.765 | 10.367 | 7.928 | 3.667 | 2.386 | 30.113 |
| Expenditure | (5.018) | (14.549) | (22.473) | (25.776) | (26.332) | (94.148) |
| Revenue Income | | | | | | |
| Revenue (Surplus)/ Deficit | 0.747 | (4.182) | (14.545) | (22.109) | (23.946) | (64.035) |

37. At the end of the development period, in year 25, it is anticipated there will be an annual revenue surplus of £4.8m.
38. It should be noted that the estimates are based on calculated income that is directly attributable to the sites at the assumed rate of development and with full occupation. It is reasonable to assume that there will not be full occupation through the period. The estimates therefore overstate the Council's net revenue increase, but it is not possible to reasonably estimate by how much.

Strategic Employment Site

39. Durham City is already an important employment centre with a substantial number of employees working in the city itself, in addition to significant office and industrial premises in and around the city centre. However, considering the economic rationale that supports the County Durham Plan there are a limited number of sites that could facilitate such an ambition close to the centre of Durham City.
40. In order to provide a high quality employment location to deliver the new jobs Durham City and County Durham need, the land at Aykley Heads is proposed to be allocated as a Strategic Employment Site. Aykley Heads with its proximity to Durham Railway Station and the East Coast Mainline and its excellent road links to the A1(M) and A167 is the ideal location for this new strategic employment site. This is expected to be realised through facilitating private sector investment and employment. The site has the capacity to accommodate approximately 700,000 sq/ft of office space that could facilitate in excess of circa 6,000 new jobs.
41. Around 45% of jobs in Durham City are in the public sector. This is not surprising, given that it has historically been the administrative centre for County Durham. It is imperative that this role is maintained and these public sector jobs are safeguarded where possible. There are 4 key public sector employers located within the proposed sites identified to facilitate economic growth in the City:
- Durham Constabulary
 - National Savings & Investments (NS&I)
 - Her Majesty's Passport Office (HMPO)

- Durham County Council

42. These are significant employers in the City and the future requirements of each of these employers need to be considered to ensure they have a continued presence in Durham City where possible. Durham needs new private sector jobs to enhance employment opportunities to stimulate economic growth.

Durham Constabulary

43. Durham Police Constabulary has already received planning consent for the relocation of their headquarters within the Aykley Heads site and the building is currently under construction.

National Savings and Investments (NS&I)

44. NS&I have recently agreed terms to relocate into the proposed development on the old ice rink site at Freeman's Reach and are due to move to these new premises in 2015.

Her Majesty's Passport Office (HMPO)

45. The HMPO has been considering their relocation options but have indicated that they would prefer to remain within the proposed business quarter of Durham City and potentially expand their operation. The proposed business quarter will consist of the relationship between the strategic employment site, Milburngate House and the old ice rink site. They have informed the Council that their preferred option is a new build on the old ice rink site (Freeman's Reach Phase 2).
46. A critical factor affecting the timing of the move to new premises is the high cost of occupying Milburngate House in its current form and HMPO are hoping to have vacated by November 2016 at the latest.
47. The Milburngate House site would then be available for redevelopment. It is anticipated that a planning consent and legal contracts will all be in place by quarter 4 2016. If this was the case it is unlikely that any new building would be ready until approximately 2019/20 at the very earliest (given allowances for demolition / detailed design, contracting, 2-3 year construction programme and full servicing / internal fit out).

Durham County Council

48. If public sector jobs in the proposed business quarter are to be safeguarded where possible then the Council should retain a presence in Durham City. The options available to the Council in this regard will be presented to Cabinet in a future report. In terms of considering the size, design and functions of its services, the Council needs to understand its future role within the City by considering:
- It's staffing cohort and service provision.
 - the economic impact its presence has in the City and;
 - it's future operating model (e.g. modern methods of working).
49. If Aykley Heads is to be strategically safeguarded as a strategic employment site the Council may well consider options of moving off site. There are issues and risks associated with any option that the Council may examine. The Council does

however need to contemplate how it plays a role in delivering the best regeneration solution for the City. The determination of how the Council progresses its operations in the City has implications for the timing of development of the Aykley Heads site.

50. For the purposes of forward planning 2019/20 has been assumed to be the year that the site will be available for development to start, irrespective of where and how the Council relocates. Alternatively, if the Council relocates within the strategic development site at Aykley Heads then the timing of the start of development on the strategic employment site could come forward, potentially by 1 to 2 years to 2016/17.
51. Currently County Hall has a net internal floor space of 23,000 square metres and accommodates approximately 1,650 office staff; it has premises related running cost requirement of approximately £1.4m per annum and a capital expenditure backlog requirement that is currently £24.5m. It is possible that back office functions could be relocated elsewhere in the County. It is also expected that there will be a degree of natural wastage and further reductions in Council staff numbers in the medium/long term. Depending on future challenges and the adoption of modern methods of working, the space requirement could well reduce significantly further. The options for Durham are being explored through the Council's Organisation and Development Strategy Action Plan. This is likely to follow the experience of other councils who have undertaken similar projects. For example Rotherham Borough Council has recently reduced their space requirement by almost 50% through this process, reducing their maintenance costs by approximately 65%. Clearly these circumstances indicate that a robust business case will be able to demonstrate that an alternative to being located in County Hall will bring financial efficiencies for the Council as well as achieve its economic ambitions for the County.

Development of Aykley Heads Site

52. The development of the Aykley Heads site is outlined within the strategic planning document (SPD) that is due to be submitted alongside the County Durham Plan. This highlights the requirement for the Council to consider and determine its future accommodation needs. Only when these have been confirmed can the timetable for developing the Aykley Heads site be finalised. Although development plots are able to be delivered prior to relocating off-site, any 'front of site' development and the main entrance way would be compromised until County Hall has been vacated and demolished.

Financial Assumptions – Strategic Employment Site

53. A review of the potential delivery options has been undertaken to provide development appraisals which have been used as the basis of assessing the financial implications of developing the site. The review is based on the following assumptions:

Capital

54. The development of the site infrastructure would take place in four phases and three of these will cover site specific highways developments costing £4.6m;
55. The second phase of development would involve the demolition of County Hall at a cost of £4m;

56. Further off-site highways works would be required on adjoining roads at a cost of £1.7m;
57. There are 5 sub-sites owned by the Council that would be developed and these would generate capital receipts estimated at £7.7m, that will be available to fund the costs of infrastructure on the site. This has been estimated on a residual development appraisal basis using current costs and values. Given that the site may not be delivered for some time these are likely to change;
58. Clearly the timetable of delivery for a strategic employment site on Aykley Heads assumed would be influenced by the timetable or decisions relating to the Council accommodation requirements.

Revenue

59. There will be a deficit in capital income to fund expenditure through the life of the plan, reaching a maximum borrowing requirement of £0.2m. Total borrowing costs are estimated at £3.4m, assuming an interest rate of 4.5%.
60. In relation to the strategic employment site in particular as the development will be eligible for European Union transitional funds (£158m total) under the European Regional Development Fund (ERDF). Durham will have approximately £100M available to invest in economic development related schemes and infrastructure between 2014 and 2023. The strategic employment site will be eligible for such investment and the intervention rate will be potentially up to 40%. The programme details currently being agreed and are therefore no confirmation can be guaranteed. For this reason no external grant funding has been assumed although it is highly probable that significant grants will be available to support the redevelopment of the site.
61. The office development is estimated to be fully delivered by 2030 and generate total additional business rates of £66m by 2040, of which the Council will receive 49% (£33m), if current arrangements for sharing business rates continue to apply. At the end of the development period in 2039/40 annual income is assumed to be £1.7m

62. The income and expenditure profiled over the plan period is summarised below, the summary of income and expenditure is outlined in Appendix 4:

Table 5: Strategic Employment Site - ~Aykley Heads – Income and Expenditure By Type

| | £m |
|--|----------------|
| Capital Expenditure | |
| Phase 1 – New road from existing roundabout to serve Site A (North and South) | 1.113 |
| Phase 2 – Preparation of existing Council Offices for redevelopment (including £4m demolition costs) | 4.025 |
| Phase 3 – Road and roundabout to Site C | 1.674 |
| Phase 4 – Highway from roundabout to “Top Road” – Access to Sites E and F | 1.859 |
| Off Site Highways works | 1.700 |
| Total Capital Expenditure | 10.371 |
| Total Capital Income | (7.677) |
| NET CAPITAL EXPENDITURE | 2.694 |

| | £m |
|-------------------------------------|-----------------|
| Revenue Expenditure | |
| Interest Charges on Capital Deficit | 3.447 |
| Revenue Income | |
| Business Rates – Aykley Heads | (33.173) |
| NET REVENUE INCOME | (29.726) |

The income and expenditure profiled over the plan period is summarised below:

63. **Table 6: Strategic Employment Site – Aykley Heads – Income and Expenditure Over Plan Period**

| | Year 1 to 5 2015/16 – 2019/20 £m | Year 6 to 10 2020/21 – 2024/25 £m | Year 11 to 15 2025/26 – 2029/30 £m | Year 16 to 20 2030/31 – 2034/35 £m | Year 21 to 25 2035/36 – 2039.40 £m | Total |
|---------------------------------------|---|--|---|---|---|-----------------|
| Capital Expenditure | 6.838 | 1.880 | 1.653 | 0 | 0 | 10.371 |
| Capital Income | (2.821) | (2.669) | (2.187) | 0 | 0 | (7.677) |
| Capital (Surplus)/ Deficit | 4.017 | (0.789) | (0.534) | 0 | 0 | 2.694 |
| Revenue Expenditure | 0.519 | 0.991 | 0.725 | 0.606 | 0.606 | 3.447 |
| Revenue Income | (2.182) | (5.207) | (8.220) | (8.782) | (8.782) | (33.173) |
| Revenue (Surplus) | (1.663) | (4.216) | (7.495) | (8.176) | (8.176) | (29.726) |

64. The above projections include the costs of demolishing County Hall, to enable the strategic employment site to be developed, but do not include the costs and savings associated with any replacement arrangements. These details will not be available until the Council has determined its future accommodation needs and until decisions on these matters have been determined. A future report to Cabinet will provide a robust business case and will detail the financial implications of the potential costs and benefits of the Council's future accommodation needs.

Plan Risks

65. The implementation of the preferred approach detailed in this report will entail the Council making decisions and taking actions that will entail significant financial and operational risks. There will be a series of key decisions and a full risk assessment will need to be undertaken at the detailed business plan stage of each element of the programme. A draft list of key risks is outlined in Appendix 1.

Next Steps

66. On agreement of the following recommendations the following actions will be undertaken;
- (i) Continued refinement of the assumptions and evidence base;
 - (ii) Market testing of house values and build out rates;
 - (iii) Further analyse demand from niche businesses and sectors including financial services and medical science sectors that would occupy Aykley Heads strategic employment site; and

- (iv) Establish a project board with a mandate to deliver the strategic employment site and consider the Councils Headquarters relocation, supported by the current capital bid once approved and empowered to establish the relevant skills and expertise within a dedicated team of staff and expertise.

Recommendations and reasons

67. It is recommended that Cabinet agree:

- (i) To continue the preparation for the release of the strategic housing sites at Sniperley Park and North of Arnison and develop further the design and delivery options of the Western and Northern Relief roads, subject to approval of the County Durham Plan;
- (ii) To continue preparation for the construction of the Western Relief Road for Durham City subject to approval of the County Durham Plan, on the principle that the Council commits to financially supporting the delivery of the Western Relief road as outlined in the report;
- (iii) That the Council join the Sniperley LLP on the terms negotiated and enter an agreement to add the school playing fields subject to obtaining the necessary statutory consent.
- (iv) To provide in principle support to the delivery of the strategic employment site subject to a detailed development and financial appraisals being undertaken at each phase, with a further report being brought to Cabinet considering the Council's office accommodation requirements.

Background papers

Housing and Infrastructure Delivery Strategy for Durham City Stage 2 report.
County Durham Plan Pre Submission Draft.

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Appendix 1: Implications

Finance – the report provides details of the financial elements of the Sniperley and Arnison developments and associated infrastructure. In summary these are;

The maximum borrowing requirement will be approximately £32.9m with a maximum in year borrowing cost of £1.5m assuming an interest rate of 4.5%.

The total capital cost of the programme will be approximately £78m with a total amount of revenue generated within the programme being estimated at £127m providing a revenue legacy of around £7m per annum.

Staffing – There will be a requirement to establish a dedicated project team and project governance arrangements.

Risk – a detailed risk assessment will need to be undertaken at the project initiation stage. A draft list of key risks to be considered is attached below:

- i. The revenue income flows are predicated on the current local government finance arrangements being unchanged especially in relation to retention of any growth in council tax and business rates. This will need to be monitored through the planning of the programme.
- ii. Flood Mitigation Solution – future insurance issues for key strategic sites
- iii. Highway capacity
- iv. Future demand for residential and commercial property
- v. Changes in construction costs
- vi. Abnormal site development costs
- vii. Future financing availability and costs
- viii. No anchor tenant to stimulate demand in the strategic employment site
- ix. Missed efficiency opportunity in co locating public sector partners
- x. Site constraints and design challenges
- xi. Time critical issues (i.e. County Durham archive capacity)
- xii. Unforeseen opportunities / changes (i.e. Land Registry future plans)
- xiii. Planning risks (plan policy approval, development approvals)
- xiv. Ownership changes / negotiation breakdowns/ enforcement of agreed funding mechanism
- xv. Market / economic under performance

Equality and Diversity/Public Sector Equality Duty – The outcome of this work will in turn inform the development of a Durham City master plan as well as support the County Durham Plan, both of which will be subject to Equality Impact Assessments.

Accommodation – This report refers to the need to clarify the Council's office accommodation needs and requirements.

Crime and Disorder - None

Human Rights - None

Consultation – the proposals continue to be subject to detailed consultation, as part of the finalisation of the County Durham Plan and the Durham City master plan.

Procurement – None at this stage

Disability Issues – None identified in this report.

Legal Implications – The partnership arrangement for the Sniperley development will be undertaken by a Limited Liability Partnership, and these arrangements will need to be reviewed, to agree contractual terms and conditions.

Appendix 2: Outline of the purpose of planning mechanisms

1. Community Infrastructure Levy:

- is charged at a rate per square metre on gross new floor space;
- is used to fund a list of infrastructure projects (the '123 list') that the Council must maintain. Features of the arrangements are that:
 - the list to subject to Cabinet approval and covers projects across the County, not just ones relating to Durham City;
 - CIL received in any year can only be used to fund expenditure on the CIL 123 List that has been incurred in that year or is incurred in later years. It cannot be used to fund expenditure incurred in earlier years, in advance of the CIL receipt;
 - it may be that, to minimise financing costs, CIL could be used to fund 123 List Projects from elsewhere in the County, or vice versa;
 - projects on the 123 list cannot be part funded from other developer charges (i.e. Section 106 and Section 278 Highways Development Contributions) as this would risk there being a 'double charge' to a developer to fund the same type of infrastructure;
- may be charged at differential rates depending on location and development type across the County, subject to viability appraisal;
- cannot be used to repay loans taken out to fund infrastructure, although it can be applied to reimburse third parties who have funded infrastructure on the Council's list;
- 5% of the income can be used to fund the administration of CIL. In addition Parish Councils will receive 15% of CIL monies collected within their area to spend on improvements and local infrastructure projects. Where an adopted Neighbourhood Plan is in place this increases to 25% to a maximum of £100 per existing household per year. Monies for non parished areas will be retained by the Council but spent in accordance with the local community's wishes.

2. Section 106 Agreement Charges:

- Must comply with the three legal tests under Regulation 122 of the CIL (as amended) Regulations 2010:
 - Necessary to make the development acceptable in planning terms;
 - Directly related to the development;
 - Fairly and reasonably related in scale and kind to the development.
- Pooling restrictions will come into force April 2015 which will prevent the pooling of more than five obligations towards the same piece of infrastructure.
- Affordable housing will continue to be secured through S106 agreements.

3. Section 278 Highways Development Contributions:

A Section 278 Agreement (S278) is an agreement made between a developer and Durham County Council as highways authority to enable works to be carried out on the public highway to facilitate development. Following the CIL regulations 2014, the use of highway agreements will also be subject to the same pooling restrictions as per Section 106 agreement which comes into force April 2015.

Appendix 3: Financial Summary by Type of Expenditure and Income – Sniperley, North of Arnison and Merryoaks

| | £m |
|---|-----------------|
| Capital Expenditure | |
| Western Relief Road | 37.018 |
| Greenbelt Site Road Improvements | 1.575 |
| Education Provision | 23.675 |
| Health Centre | 0.300 |
| LTP3 Minor Spend | 4.750 |
| Total Capital Expenditure | 67.318 |
| Developers Contributions For On Site Expenditure | |
| Sniperley Park Developers Contributions | (41.712) |
| Arnison (Hagg House) Developers Contributions | (16.685) |
| Merryoaks Developers Contributions | (4.171) |
| Total Developers Contributions For On Site Expenditure | (62.568) |
| A – Net Cost of On Site Expenditure (=LTP3 Minor Spend) | 4.750 |
| Other Capital Income | |
| Net Community Infrastructure Levy Income – to fund CIL 123 List Infrastructure | |
| Sniperley Park Community Infrastructure Levy – Private Residential | (11.148) |
| Arnison (Hagg House) Community Infrastructure Levy – Private Residential | (4.459) |
| Merryoaks Community Infrastructure Levy – Private Residential | (1.115) |
| Sniperley Park Community Infrastructure Levy – Commercial | (0.120) |
| Arnison (Hagg House) Community Infrastructure Levy – Commercial | (0.866) |
| Community Infrastructure Levy – 15% reduction to fund community initiatives | 2.656 |
| Community Infrastructure Levy – 5% reduction to fund administrative costs | 0.885 |
| B – Total Net Community Infrastructure Levy Income – to fund CIL 123 List Infrastructure | (14.167) |
| Unallocated Income | |
| Sniperley Park Residential Values – Capital Receipts | (7.251) |
| C – Total Unallocated Income | (7.251) |
| TOTAL NET CAPITAL INCOME (A + B + C) | (16.668) |

Appendix 4: Financial Summary by Type of Income and Expenditure – Capital and Revenue - Strategic Employment Site – Aykley Heads

| | £m |
|--|----------------|
| Capital Expenditure | |
| Phase 1 – New road from existing roundabout to serve Site A (North and South) | 1.113 |
| Phase 2 – Preparation of existing Council Offices for redevelopment (including £4m demolition costs) | 4.025 |
| Phase 3 – Road and roundabout to Site C | 1.674 |
| Phase 4 – Highway from roundabout to “Top Road” – Access to Sites E and F | 1.859 |
| Off Site Highways works | 1.700 |
| Total Capital Expenditure | 10.371 |
| Capital Income | |
| Site A (South) Phase 1 | (1.298) |
| Site A (North) Phase 1 | (1.285) |
| Site B Phase 2 | (1.177) |
| Site C Phase 3 | (2.595) |
| Site D – Excluded – Not Owned By Council | - |
| Site E Phase 4 | (0.927) |
| Site F Phase 4 | (0.395) |
| Total Capital Income | (7.677) |
| NET CAPITAL EXPENDITURE | 2.694 |

| | £m |
|-------------------------------------|-----------------|
| Revenue Expenditure | |
| Interest Charges on Capital Deficit | 3.447 |
| Revenue Income | |
| Business Rates – Aykley Heads | (33.173) |
| NET REVENUE INCOME | (29.726) |