

## **Cabinet**

**13 July 2016**



### **Update on the Office Accommodation Programme and Outline Business Case for a New Headquarters**

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#### **Report of Corporate Management Team**

**Joint Report of Ian Thompson, Corporate Director Regeneration and Economic Development**

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#### **Purpose of the Report**

- 1 To update Cabinet on progress made in respect of the Office Accommodation Programme and in particular the outcomes of the Outline Business Case for the proposed new headquarters (HQ).
- 2 To outline the preferred option for the new HQ for the Council and to seek approval to move to the next stage of the programme being the preparation of the Full Business Case for the preferred option.

#### **Executive Summary**

- 3 The County's regeneration strategy recognises the significant opportunity, arguably the best opportunity in a generation, presented by the potential redevelopment of Aykley Heads to attract up to 6,000 private sector jobs to County Durham. This is due to the site's prestige location, close to the World Heritage Site and a mainline railway station and represents the best prospect of meeting our aspiration to make Durham 'altogether wealthier'. Initial economic analysis also identified demand for business premises in the city which cannot currently be met.
- 4 The Council has worked effectively with partners to date to safeguard and sustain public sector jobs in the city and therefore proposes to do this with council jobs.
- 5 With these issues in mind, the Cabinet agreed in principle in July 2015 to move the Council's headquarters from the Aykley Heads site to significantly smaller headquarters in a Durham city centric location. Both of these in principle decisions were subject to the completion of an outline business case (OBC).

- 6 This report summarises the outcome of the OBC work undertaken over the last twelve months. It finds that the initial analysis and potential to create up to 6,000 jobs is still valid and therefore the rationale to move the council's headquarters is still strong. It presents five options identified through adherence to the Cabinet Office 'Green Book' methodology for developing major projects and appraising options. A preferred option and a second option have been identified through this process. A recommendation is made to continue to work on this opportunity through the completion of a Full Business Case in Autumn 2017, at which point, a final decision could be taken after detailed costings have been completed.

## **Background**

- 7 In July 2015 Cabinet agreed the principle of the relocation of the Council's Headquarters to a Durham City centric site subject to an outline business case (OBC) process.
- 8 In November 2015, Cabinet set aside a further £34.481m into the Office Accommodation Capital Reserve, bringing the total reserve available to finance / part finance the Council's new headquarters to £42.481m.
- 9 The production of an OBC requires the evaluation of the short list of options identified in the initial options appraisal – the strategic business case stage, which was the subject of the previous Cabinet report. The purpose of the OBC is the identification of a preferred option, which demonstrates value for money, affordability and delivers the overall vision of the organisation, which can then be progressed to Full Business Case and procurement.
- 10 The OBC referenced in this report has been aligned with HM Treasury 'Green Book' guidance which governs the methodology for assessing projects of this nature. The OBC has followed the defined framework set out for OBC stage, which has included the following stages:
- (a) Stage 1 – Determining potential value for money
  - (b) Stage 2 – Preparing for the potential deal
  - (c) Stage 3 – Ascertaining affordability and funding requirements
  - (d) Stage 4 – Planning for successful delivery.
- 11 In preparing the OBC for the relocation off the Aykley Heads site the project team have:
- (a) Carried out a financial appraisal of the short-listed options
  - (b) Undertaken a high level review of the civic space, working with the Members of the Accommodation Working Group to ensure the OBC contains a clear and deliverable civic brief that meets the needs of Members and the organisation.

- (c) Set out a detailed programme with clear actions for an OJEU procurement route
  - (d) Determined an output specification through the development of an employer's requirements document and corporate standard for office accommodation.
  - (e) Defined the requirements of the commercial strategy identifying that the proposed approach is attractive to the market, can be procured and is commercially viable.
- 12 Many of the financial aspects of the OBC are both indicative and commercially sensitive and are therefore disclosed under Part B for members' information. Release of this data at this stage could have an adverse financial impact on the Council in any subsequent procurement process.

### **Strategic Business Case**

- 13 The key strategic rationale for this programme is to ensure that Aykley Heads can be redeveloped as a major economic development opportunity for the County. The site has the potential of creating approximately 6,000 jobs in the city, to attract private sector employment and address the current lack of a commercial business quarter within Durham City.
- 14 Aykley Heads is already an established employment location. It is home to over 30 businesses in a range of professional and scientific sectors and has recently attracted accounting firm Mazars, the NHS and Atom Bank.
- 15 Market testing of the site since the strategic business case Cabinet Report in July 2015 has revealed that there is likely to be high demand for office space in Durham City and commercial agents reinforced this view and considered the current lack of commercial space to be a barrier to development.
- 16 A central business core is a key element of a city that more effectively drives economic growth for a wider area and the approach of using Aykley Heads in that manner, supported by a housing offer that complements economic growth and associated transport, retail, leisure and green infrastructure provision underpins the approach of using Durham City as an economic asset for the county. The city needs a critical mass of employment, a growing population and more visitors to build on its strengths and become a city of greater regional, national and international significance.
- 17 In July 2015, Cabinet agreed to continue the distributed office accommodation model in order to maintain the Council footprint across County Durham, with the Council's current and future office accommodation needs continuing to be substantially met from a Durham City HQ; plus four refurbished strategic sites: Seaham; Meadowfield; Green Lane Spennymoor; and Crook, and potentially a new stand-alone County Archives / Records facility.
- 18 To enable the release of the Aykley Heads strategic employment site the Council needs to relocate the HQ building and to facilitate this it is important

to first understand the capacity of the office accommodation portfolio. Four work streams have been set up to ensure delivery of this programme with the focus of these being:

- a. The development of the strategic employment site on Aykley Heads;
- b. New office accommodation for the Council's Headquarters and redesign at the agreed other four strategic sites being the former civic centre in Crook, Spectrum Business Park, Seaham; Green Lane, Spennymoor and Offices and Depot in Meadowfield;
- c. HR and ICT to support the delivery of a new way of working for our employees;
- d. An alternative building for the Council's archive and record management service requirements.

## **Progress to Date**

### **Development of the Strategic Employment Site on Aykley Heads**

- 19 Since the July 2015 Cabinet report, further design iterations have been undertaken to understand the size, scale and massing of development that can be sensibly delivered on each development plot across the Aykley Heads site once it is available.
- 20 It is estimated that the delivery programme will take approximately 15 years, depending on demand, and that between 330,000 to 660,000 sqft of office floor space will be created across this period.
- 21 Approximately 6,000 jobs could be located on the Aykley Heads site. For the current site of County Hall and its associated car parks between 270,000 to 360,000 sqft of floor space will be created for new businesses with up to an estimated 3,500 jobs accommodated.
- 22 Further work in terms of the economic potential has identified £370m Gross Value Added (GVA) could be created in the local economy with £160m Net GVA created, with the development of Aykley Heads (excluding the impact of temporary construction activities).
- 23 Critical to the timely delivery of the Strategic Employment Site for regeneration is the relocation of County Hall. Deloitte RE were appointed to provide specialist consultancy support around the options available to Durham County Council in relation to a new HQ. That support involved the production of an Outline Business Case. The purpose of the OBC is to provide confidence that the overall programme can deliver on the identified outcomes and within the financial objectives confirmed by Cabinet in July 2015. It also identifies risks associated with delivery and builds in necessary contingencies in accordance with HM Treasury Green Book guidance for capital projects of this size.

- 24 Should Cabinet agree to move to 'Full Business Case' (FBC), further work and engagement with potential delivery partners will provide more cost confidence and will reduce risk. Completion of the FBC and procurement activity will not commit the Council to a delivery partner or solution if value for money and affordability cannot be demonstrated.
- 25 Work is continuing with regards to the delivery plan to bring forward and develop the Aykley Heads site once the Council has relocated off the site. A full business case including costs associated with demolition of County Hall and enabling works required to open up the site, plus an examination of the various models and options in terms of delivery of this development will be brought forward as part of a separate report to Cabinet.

### Options for Proposed New Headquarters

- 26 The OBC has been completed in accordance with HM Treasury's Guidance for Public Sector Business Case (The Green Book Five Case model), with the support of Deloitte RE consultants. The process includes consideration of the following:
- a. **Strategic Case:** setting out the context for the Council's office accommodation, current arrangements and the case for change, constraints, and investment objectives;
  - b. **Economic Case:** appraising the options for office accommodation for the Council, and evaluating the potential regenerative value of the various proposed options in addition to the value for money requirements of the economic case. The wider economic opportunities arising from the overall programme, which also includes the redevelopment of the Council's current office accommodation are also considered;
  - c. **Commercial Case:** indicating the commercial and procurement implications of the preferred way forward;
  - d. **Financial Case:** indicating the indicative financial commitment required in terms of capital investment and revenue costs of each option and how the preferred way forward could be funded noting any MTFP pressures and opportunities for further MTFP savings and potential income streams. Note that at this OBC stage, costs of the project have been refined from the initial Strategic Business Case stage but it is not until final business case and procurement phases have been completed that the costs can be determined with certainty. It is for this reason that the cost estimates include additional provision for 'Optimism Bias', which is added to the indicative costs to reflect the early development stage of the project (prior to a site being selected and a design developed). The Optimism Bias is an essential element of the Green Book process and provides an adjustment to take into account the risks associated with a capital project at the outline business case stage and therefore once these risks are mitigated, costs will become more certain. Deloitte RE have advised on the adjustment levels for specific options, based on their experience of delivery of similar projects;

- e. **Management Case:** outlining the initial plans to manage the way forward through FBC and delivery.

### **Proposed New Headquarters - Key Principles**

- 27 The work stream overseeing the new HQ is also responsible for identifying the civic and corporate requirements which includes opportunities for wider use across the whole of the DCC office accommodation estate. It will also identify an appropriate route for delivery which maximises the economic potential of the project.
- 28 A function for the new headquarters will be to serve as the civic heart of the authority ensuring the democratic process is fully supported and delivered. In order to scope the requirements for the civic areas a cross party Member Accommodation Working Group chaired by the Leader of the Council was established and views have been taken into account following several meetings and site visits to North Tyneside HQ and Redcar and Cleveland HQ.
- 29 The proposed new headquarters will provide appropriate office space to enable both the delivery of quality services to the public and an appropriate environment for employees to work. More importantly the HQ will act as a catalyst to ensuring the wider Council's estate is both fit for purpose and provides opportunities for efficiency. To facilitate a move to a smaller HQ, it is recognised that investment is required in the Council's four other strategic sites (Seaham; Meadowfield; Crook and Spennymoor). The OBC has factored in the impacts and options for facilitating the downsizing of the HQ and the relocation of employees into these sites out of County Hall.
- 30 The HQ forms part of a broader programme, which will help facilitate a more modern working environment allowing a New Ways of Working culture for Council employees to be embraced. The outcome of the OBC is intended to inform the overall programme, setting the context for identifying new technologies and working practices going forward, which should provide a more efficient and effective workforce in the future. These changes will also assist our partners including the Police / Probation Service/ Health Care Trusts, where accommodation is shared.

### **Option Appraisal of Proposed New Headquarters' Site**

- 31 Following Cabinet's agreement to consider relocation off the Aykley Heads site into a smaller Durham City centric headquarters requiring improved use of the existing four other strategic sites, the short-list of options identified at Strategic Outline Case have been revisited through the OBC process.
- 32 As part of the Green Book Five Case Model it was considered necessary to reference a 'do minimum' County Hall option and a new build Aykley Heads option. This provides a full audit of all available options even though they do not perform against the strategic objectives. The five options considered as part of the OBC process are shown below:

Option	Description
1	<p><b>Do minimum – refurbishment of the existing County Hall and minimal, incremental changes at the strategic sites</b></p> <p>This option is considered as one which would involve the least change from the existing provision and includes the minimum work required to enable the building to meet the New Ways of Working standards but inhibits the development opportunities in terms of the Strategic Employment Site. This option is included for reference purposes only as it does not meet the strategic objectives of the release of the Aykley Heads site for regeneration purposes. It is however an important element of the OBC process.</p>
2	<p><b>New build core headquarters by DCC on DCC land at Aykley Heads and remodelling of the strategic sites</b></p> <p>This option is included as it enables a new HQ to be provided in Durham City on a site of open land where construction risks are known to be minimal but constrains the development opportunities in terms of the Strategic Employment Site. Again, this option is included for reference purposes as it inhibits the maximisation of the Aykley Heads site for regeneration purposes. It is however an important element of the OBC process.</p>
3	<p><b>Move to a new city centre core headquarters (freehold) on developer owned land and remodelling of the strategic sites</b></p> <p>This option is included as it is considered that wider economic benefits could be achieved by establishing a core HQ in the centre of Durham City and maximising the area for development on the Aykley Heads site.</p>
4	<p><b>Move to a new city centre core headquarters (leasehold) on developer owned land and remodelling of the strategic sites</b></p> <p>This option is included as it is considered that wider economic benefits could be achieved by establishing a core HQ in the centre of Durham City and maximising the area for development on the Aykley Heads site. A leasehold option allows the Council to minimise its upfront capital investment.</p>
5	<p><b>New building core headquarters by DCC on DCC land in the city centre and remodelling of the strategic sites</b></p> <p>This option is included as it provides the Council with an alternative option in the centre of Durham City, which would achieve wider economic benefits and still maximise the area for development on the Aykley Heads site.</p>

### Understanding How Employees within the Current Organisation Work

- 33 A significant amount of preparatory work has been undertaken to date, including a variety of profiling exercises to help the Council gain a necessary understanding of how each service works and their interdependencies. This

work will continue to be critical in ensuring that the buildings perform in an efficient and effective way going forward.

### **Design Brief for Proposed New Headquarters and the Existing Four Strategic Office Sites**

- 34 Ensuring that the Council's offices are of the right size, in the right location, of the right specification and configured according to need all have a material impact on the effectiveness with which they support the Council's operations. This has an impact on the image projected by the organisation (modern and flexible) and will contribute towards improved staff productivity, morale, recruitment and retention.
- 35 A Corporate Brief for the Council has been designed to create a baseline for design and office accommodation standards going forward. The baselines include a move to a desk ratio of 7:10, a move to open plan office space being the norm, a maximum of 2 linear metres of storage per FTE and proposals for formal and informal meeting spaces rather than a proliferation of cellular offices for individual officers.
- 36 Subject to the recommendations in this report being approved, the baselines will be continually reviewed and refined throughout the Full Business Case (FBC) process.
- 37 The Office Accommodation Strategy, investment in appropriate ICT and the development of New Ways of Working Protocols, will facilitate and support the change from the current working arrangements to the new standards, initially across the strategic sites and the new HQ, then across all remaining office accommodation.

### **Optimal Organisational Fit for Council Employees**

- 38 Thirty six operational buildings plus the four strategic sites and the development of a new HQ were agreed as the scope for this programme. A review of the strategic sites in the context of New Ways of Working has identified optimum use in respect of accommodating employees displaced from County Hall as the move to a reduced scale HQ. Further work to complete this exercise across the whole estate has commenced and will feed into the FBC, which may result in opportunities for further rationalisation of the estate.
- 39 Information regarding location of teams, existing service models including partnership working (NHS, PCT, and Police), critical adjacencies and any unique service requirements has been factored into an outline Organisational Fit model with the purpose of evaluating the optimum fit of employees into the key sites.
- 40 The outcome of this organisational fit work has identified that by better utilising the wider estate, the Council can become much more effective in



terms of service delivery; can continue to support valued partnerships and in so doing reduce the scale of HQ that is required.

- 41 Car parking is a key issue that will be developed and resolved as part of the FBC for the proposed HQ. The accepted strategy to date has been to reduce long stay parking within the City Centre and whilst new ways of working should reduce some needs for movement, it is essential that a new HQ has a flexible public car park to cope with a variety of demands including Full Council meetings, events and peaks in public demand.
- 42 The detailed solutions to this issue and the numbers that can be provided will be confirmed through a full parking strategy and the HQ Full Business Case, but at this stage it is expected that spaces may be provided in various ways. Additional capacity will be required for the city which will mostly be a mixture of short stay city centre parking and use of the park and ride, although all options are being considered to ensure parking issues are sensitively addressed.

### **Identifying the Preferred Option for a New HQ**

- 43 The HM Treasury Green Book Five Case Model requires that each option is scored against the strategic objectives, value for money and the wider programme aims.
- 44 The starting point is a Value for Money (VFM) assessment of each option that ranks the options, taking into account estimated costs and benefits. The costs have been calculated by considering the capital and revenue costs for each option over a 35 year period, which is the estimated minimum lease term, so that the leasehold option can be compared on a reasonable basis.
- 45 In terms of the actual MTFP revenue impacts, it is assumed that the Council will apply the existing Office Accommodation Capital Reserve (£42.481m) to financing / part financing the capital investment in a new HQ, reducing the prudential borrowing requirements to fund the scheme.
- 46 The OBC excludes the costs of replacing the Archives/County Records Office, which currently forms part of County Hall but which is assumed to be accommodated in a separate building and will be subject to a separate Cabinet report. Also excluded are any costs associated with the demolition of County Hall or development of the Aykley Heads site, which will also be subject to a separate Cabinet report.
- 47 From the analysis undertaken as part of the OBC, Options 3, 4 and 5 scored similarly highly on match against the strategic objectives, whilst Option 2 had the least cost followed by Option 5 and then Option 3. Options 1 and 4 are considered to be relatively poor value for money. The remaining options offer similar value for money, but Option 2 should be disregarded as it would have a detrimental impact on the development of the Strategic Employment Site. This is due to poorer scores for its ability to attract economic investment and private sector jobs. Any space occupied by the Council on this site is a direct displacement of space that could be occupied by the private sector. Given the

challenges of developing in a constrained city centre, there can be no expectation that there would be compensating private sector job creation in the city centre. This leaves Options 3 and 5 to consider further.

- 48 Whilst Option 5 is ranked higher than Option 3 in terms of the HM Treasury Green Book OBC scoring matrix, the risk transfer associated with Option 3 is considered a significant factor. Of the two remaining options, Option 3 is favoured, closely followed by Option 5. Option 3 would be delivered by a private sector partner. Option 5 would be delivered by the County Council and although this shows lower cost, it would retain more risk. In moving to Full Business Case, there is a need to include a public sector comparator. The fact that the Council has land available in the City Centre means that this comparator is real and something that can be used effectively in the subsequent market engagement and procurement phases.
- 49 Risk is considered an important factor in the evaluation of the options. A private sector delivery partner would assist in transferring risk from the County Council. This would cover major areas of risk such as design, construction, development, programme, commercial, legislative and site/due diligence.

### **Financial Assessment – Potential MTFP Implications**

- 50 The financial forecasts included in the OBC are commercially sensitive and are presented with the strong caveat of the OBC being an early consideration of costs, based on construction standards relevant to the point in time they were produced.
- 51 Costings at this stage can only be considered as indicative as no detailed designs have been produced. Therefore the costs represent extremely prudent cost estimates, including contingencies and risk factors which are inherent at this early stage of the process.
- 52 The purpose of these costings is to identify which of the options provide the best VFM in terms of capital build. They are not to be interpreted as actual final cost estimates. The FBC is a process which will allow the capital costs to be refined with opportunities for cost engineering across the portfolio to ensure that Members' aspirations are met in respect of affordability.
- 53 The financial case included in the Part B report on this agenda sets out the indicative revenue and capital budget requirements for each of the five options considered at this outline business case stage. In taking this project forward Cabinet should take into account the potential revenue and capital budget implications for the Council's MTFP. Cabinet should also be aware that there will be separate revenue and capital implications arising from the relocation of the Archives / County Record's Office and thereafter potentially with the redevelopment of the Aykley Heads strategic employment site.
- 54 In developing the proposals to this OBC, a number of assumptions have been made. It is assumed that a new HQ would be constructed in three years' time and therefore increases in building prices forecast over the next three years have been factored into potential capital costs. In terms of revenue modelling,

it is assumed that the Council will apply its Office Accommodation Earmarked Capital Reserve (£42.481m) towards financing / part financing the cost of any capital investment, with the balance met from prudential borrowing. Given the stage in the process, and in line with HM Treasury Green Book guidance, Deloitte RE have included prudent assumptions of circa 10% contingencies, plus mark-ups of between 20 to 22% for "Optimism Bias" in the cost estimates at OBC stage. Building prices have been quality assured by the Council's Technical Services Team.

## **Capital Implications**

- 55 The capital cost of the core HQ varies with Option 1 being the most expensive in terms of capital investment requirements. Option 4 in relation to leasehold only includes capital costs of fit out for the HQ, and consequently has the lowest capital cost.
- 56 The capital cost of the options needs to be considered alongside the associated revenue costs to provide a full understanding of the affordability of each option. It should be noted that under Option 4, the Council would not own the asset. In Option 3 the developer would carry significant development risks associated to the costs of the project that the Council would otherwise face under Options 2 and 5.
- 57 Under the four new build options, the cost of investment in the four strategic sites is the same. These costs have been estimated based on detailed feasibility studies of these buildings, but exclude any further investment required in car parking capacity at this stage. Funding for investment in the four strategic sites is proposed to be met from funding available within the 2016/17 and 2017/18 capital programmes and is forecast at this stage to cost between £5m and £6m.
- 58 The required capital investment will need to be financed either through the application of the Office Accommodation Capital Reserve, plus prudential borrowing or utilisation of further reserves. Any borrowing to finance the capital investment will have revenue implications and the applications of earmarked reserves will also have revenue implications in terms of lost investment income and these are considered further below.
- 59 The capital investment requirements exclude the costs of replacing the Archives/County Records Office, which currently forms part of County Hall but which is assumed to be accommodated in a separate building and will be subject to a separate Cabinet report. Also excluded are any costs associated with the demolition of County Hall and development of the Aykley Heads site, which will also be subject to a separate Cabinet report.

## **Revenue Implications**

- 60 A major consideration in relation to the financial impact of each of the options is the additional recurrent revenue costs which will need to be financed in the future. This includes the cost of lost investment income earned on earmarked reserves that are applied to financing the investment and the cost of any

prudential borrowing loan repayments to finance the capital investment required and the difference in the annual costs of running a new HQ compared to the existing costs of County Hall. Any further costs above the current baseline would need to be accommodated as a budget pressure/growth item in the medium term financial plan.

- 61 The financial case included in the Part B report on this cabinet agenda shows the indicative annual revenue costs of each option assuming all capital investment is funded from prudential borrowing. This is required to show from an OBC perspective the comparative gross revenue implications of each option, including the lease of a new HQ from a third party. The actual MTFP impacts would however be reduced through the application of earmarked reserves to finance / part finance the scheme, reducing the prudential borrowing costs estimated under each option and therefore reducing the potential MTFP impacts.
- 62 The analysis of potential revenue costs has identified that Option 2 has the lowest annual additional revenue cost, whilst Option 4 is the most expensive. These figures are based on the costs provided at OBC. As has previously been identified these include a significant risk factor built in to reflect early stage of this process, so it could well be the case that these costs will reduce as they are refined through FBC and financing decisions are refined e.g., borrowing costs reduced further if the capital investment requirement reduces and / or further reserves are applied to fund the capital investment requirements.

### **Outline Business Case Outcome and Next Steps**

- 63 The overall analysis from OBC has concluded the following:
- a. Option 1 – Do minimum option of refurbishment of County Hall and minimal incremental changes at the strategic sites - is a poor value for money option with the lowest benefits score. It requires continued use of the Aykley Heads site, is high cost and does not allow for the full redevelopment of the Aykley Heads site, which is the key programme objective;
  - b. Option 2 – New build core headquarters by DCC on DCC land at Aykley Heads and remodelling of the strategic sites - shows strong value for money. It does have a lower capital investment and annual revenue cost than the other new build options, however as in the above option it does not allow for the full redevelopment of Aykley Heads and does not score well against the strategic objectives having a low benefits score;
  - c. Option 3 – Move to a new city centre core headquarters (freehold) on developer owned land and remodelling of the strategic sites - shows strong value for money. It has the highest benefits score against the strategic objectives but the capital investment costs are higher than Option 2 and Option 5; however this option benefits from transfer of

developer risk to the private sector partner thus providing more cost certainty.

- d. Option 4 – Move to a new city centre core headquarters (leasehold) on developer owned land and remodelling of the strategic sites - has a high benefits score but the highest costs in terms of VFM. This stems from: the level of rent a developer would require to commit to delivering a new building; and the increased costs of renting over a freehold to a Local Authority. This is the only option where the Council would not retain an asset.
- e. Option 5 – New building core headquarters by DCC on DCC land in the city centre and remodelling of the strategic sites - shows strong value for money at this stage. It relies on DCC being able to deliver a new HQ building on a site in the city. This option however presents more inherent risk to the Council.. Under a FBC it would be advantageous to the Council to have a public sector comparator and the fact that there is an alternative will place the Council in a strong position should the Cabinet agree that we move through to procurement. This provides the opportunity if the private sector cannot deliver on the Council objectives to reassess Option 5 to move this project forward.

64 Taking into account the work undertaken as part of the OBC, option 3 is considered to present the best option moving forward to FBC, due to a number of factors apparent at this stage:

- a. Best fit with the strategic objectives;
- b. Additional private sector jobs available on the strategic employment site and a diversification of the Durham economy;
- c. Additional GVA contribution to the local economy and stimulating wider economic development in the city centre;
- d. Risk transfer to the private sector.

65 The first phase of FBC would further test this position. It is also recommended however that for the purpose of FBC, Option 5 is also considered as part of the procurement exercise to ensure that the market responds in a competitive manner.

66 Subject to the recommendation to move to FBC being agreed by Cabinet, further analysis will take place to confirm the outcomes of the OBC. The first phase of procurement would start at the beginning of September 2016, including market testing and the next key milestone for the FBC would be summer 2017, by which time all necessary information for the investment decision would be presented to Cabinet. Following Cabinet's decision, a preferred delivery partner could be confirmed in late 2017.

67 In the July 2015 Cabinet report, it was identified that external consultants would be engaged through the NEPRO framework to support the

development of the OBC and if Cabinet agreed, take the project through to FBC and potentially procurement. The indicative costs quoted in the July report for those consultants were circa £200,000 to complete up to OBC, with a further £400,000 required to progress to FBC. With the benefit of a detailed programme it is now estimated that the FBC cost will be approximately £550,000, but these costs can be capitalised if the project moves into delivery.

## **Conclusions**

- 68 Since the previous report to Cabinet in July 2015, the programme has progressed to outline business case which demonstrates there is a business case for a new HQ to facilitate the release of the Aykley Heads site. This has included the updating of the economic impact assessment, development of an outline corporate brief, outline procurement strategy and financial model.
- 69 This work undertaken on the OBC concludes that the Council should pursue Option 3 and retain Option 5 as a comparator to ensure the programme delivers best value.
- 70 The separate report under Part B of this Cabinet agenda provides indicative MTFP impacts, revenue and capital, arising from the options analysis undertaken as part of the OBC. Costs will continue to be refined during FBC / procurement and options in terms of funding, including application of reserves, would be considered further under FBC to reduce the impact on MTFP as far as possible.
- 71 In terms of the wider programme, following questionnaire surveys and workshops with managers and project staff, 'Inspire' has been chosen as the name for the office accommodation programme going forward. The name reflects the change management objectives of the programme, which aims to develop 'inspiring places', capable of 'inspiring people' to work differently in new, more modern and cost-efficient ways. Subtle branding in line with the Council's corporate identity guidelines has been developed to support this theme.

## **Recommendations and Reasons**

- 72 It is recommended that Cabinet:
- a. Note the progress to date and the conclusions drawn from the work undertaken to complete the Outline Business Case.
  - b. Agree to extend the programme to Full Business Case stage in taking forward Option 3 as the preferred delivery route and that Option 5 be retained as a viable option, with a further report to be brought to Cabinet in September 2017.

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## Appendix 1: Implications

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**Finance** – The financial case sets out the revenue and capital budget requirements for each of the five options considered at the outline business case stage. In taking this project forward Cabinet should consider the potential revenue and capital budget implications for the Council's MTFP. The report includes details of the assumptions made in estimating the financial implications arising from each of the options and what is / isn't included in these estimates. At this stage, and in line with HM Treasury Green Book Guidance, the capital estimates include 10% contingencies and provision for optimism bias of between 20 – 22%, dependant upon the chosen option.

The costs of a new city centre HQ plus associated furniture and fittings are included in the capital estimates but these are exclusive of any new ICT investment required to facilitate new ways of working and any investment required in additional car parking capacity. The forecast costs associated with upgrading the four other main sites are shown separately in the report, but the capital cost of reproviding the County Records and Archivist's Service, which currently forms part of County Hall, are not included in this report and will be subject to a separate report.

In terms of MTFP impacts, it is assumed that Council will apply the Office Accommodation Capital Reserve to finance / part finance the capital investment requirements, with the balance met from prudential borrowing. Comparisons have been drawn against the current operating costs of County Hall and the modelling has factored in the loss of investment income on the cash balances held in respect of the Office Accommodation Reserve utilised (at 1%). Any costs above this baseline would need to be accommodated as a budget pressure/growth item in the medium term financial plan in due course. A full set of assumptions used in modelling both the capital and revenue implications of the various options is included in the separate report under Part B.

Should the optimism bias built into the capital estimates not materialise in full or the Council chooses to apply further reserves to fund (in part or in full) the capital financing costs, offset by a reduction in investment income, and therefore the estimated annual costs quoted in the report would reduce further.

In addition to the potential additional recurring revenue costs identified in the report, there would be one off non-recurring costs also incurred, including potential empty property rate costs for the period between relocating from County Hall to when the building is sold or demolished; relocation / removal costs and staff disturbance / excess travel costs. These costs would be clarified during the FBC.

**Staffing** – A dedicated project team has been established and project governance arrangements put in place to manage this programme. All service groupings will need to contribute to the successful delivery of the desired outcomes of this programme.

**Risk** – a detailed risk assessment is in progress. A Programme Risk Analysis has been undertaken and a Risk Register produced in draft for the programme in conjunction with Corporate Risk. Two risk workshops have been undertaken with work stream leads to enable aligned robust risk registers be produced for each work stream.

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

**Accommodation** – The Office Accommodation Programme Team will determine the future for 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 Aykley Heads masterplan. Stakeholder consultation will be undertaken in line with the communications plan.

**Procurement** – A programme procurement protocol has been agreed with Corporate Procurement to ensure that agreed routes to procurement are adhered to by all work streams affiliated to the programme. The approach to procurement of the HQ is defined in this report through the OBC process.

**Disability Issues** – Equality Act compliance and accessibility will be major considerations for suitability criteria of office accommodation.

**Legal Implications** – There are a number of statutory powers that would enable the council to dispose of its current civic headquarters and acquire new accommodation. For example, a principal council may acquire by agreement any land, whether situated inside or outside its area for the purposes of its functions or for the benefit, improvement or development of its area (S120 Local Government Act 1972). Subject to certain limitations a principal council may dispose of land held by it at the best consideration that can reasonably be obtained (S123 Local Government Act 1972). A council also has powers to do anything (whether or not involving expenditure, borrowing, the lending of money or the acquisition or disposal of property or rights) which is calculated to facilitate or is conducive to the discharge of any of their functions (S111 Local Government Act 1972). Wider powers such as the general power of competence under the Localism Act 2011 also underpin the ability of the council to undertake this project.

When exercising such powers, it is necessary for the council to act reasonably and to be mindful of its duty to the public purse. Following a recommended business case process which takes account of the financial and other significant options assists in fulfilling that duty.

Implementing a project of this nature also interfaces with a number of legal issues, which the project team will need to address throughout the project including:



- Employment issues: Implementing new ways of working may require actions under our HR policies designed to ensure compliance with employment law and the law relating to health and safety, such as those relating to remote or home working. Consultation and use of policies in relation to relocation of staff to different parts of the county (if required) may be needed, depending upon the terms of employees' contracts.
- Equality legislation: any new accommodation and the services supplied within it will need to be compliant with this.
- Property transactions will require specific legal input (including transfers/leases, construction agreements and advice on use of land and permissions that need to be sought)
- Planning issues.

Whilst simply purchasing a freehold site for an office would not require a procurement exercise, the two options proposed for further consideration in the business case will require a procurement exercise.