

Cabinet

17th January 2018



Aykley Heads Strategic Employment Site, DCC Headquarters Full Business Case and Future options for the County Archive

Key Decision ReaL/02/17

Report of Corporate Management Team

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Purpose of the Report

- 1 This report is the third in a sequence of reports on the future of Aykley Heads as a strategic employment site and affirms the potential for the site to attract high quality jobs to the county. It proposes a masterplan to attract over 6000 jobs and sets out the implications of doing so for the site currently occupied by County Hall. The masterplan provides a unique opportunity to transform the economic prospects of the county as well as opportunities for the council to transform how it works in the future and how the heritage of the county is managed and celebrated.

Executive Summary

- 2 This report is the culmination of several years of planning, external and independent challenge of the assumptions that underpin the vision for the Aykley Heads site, and verification of the costings that underpin the options appraisal.
- 3 It is based on a robust Treasury green book methodology for determining value for money of complex projects and has included the production of a strategic business case, agreed by Cabinet in July 2015; an outline business case (OBC) agreed by Cabinet in July 2016 and culminating in a full business case (FBC) summarised in this report.

4 The conclusions are:

- (a) a masterplan capable of attracting over 6000 high quality private sector jobs to the Aykley Heads site has been developed which offers a once in a generation opportunity to enhance the economic prospects of the county;
- (b) the masterplan requires development on the footprint currently occupied by County Hall;
- (c) the impetus to free up the County Hall site offers the council an opportunity to transform how it works by downsizing to a more efficient building. The FBC concludes that moving to such a building in the city centre offers the most economically advantageous option to provide a civic and administrative centre over the next 35 years. The capital cost of moving to such a site is significantly less than maintaining and sustaining County Hall over that period whilst also demonstrating reduced running costs;
- (d) in contrast to provision elsewhere in the country, County Hall contains the Archive and Record Office for County Durham and Darlington. The requirement to free up the County Hall site offers the council an opportunity to bid for external funding to transform how we maintain our heritage for the next fifty years and to enhance access to and understanding of our social and industrial history.

5 The report is structured in three parts:

Part 1: Proposed way forward on the Aykley Heads Strategic Employment Site:

This section describes the masterplan for the Aykley Heads site, the employment sectors that the site would target and the demand for a central business quarter in Durham City. It explains how development of the site would help realise long-held regeneration plans for the county and complement current growth in areas such as NetPark, the Newton Aycliffe Industrial Park, sites adjacent to the A1 and A19 and Bishop Auckland. This section concludes that Aykley Heads provides a unique opportunity in the region to achieve significant growth of over 6000 jobs. Whilst further work is required on the precise delivery model, it also concludes that a model that delivers jobs and a long-term financial return to the council is feasible and that the council should move to bring this to fruition.

The recommendations from part 1 are that Cabinet:

- (a) note the high-level options available to bring forward the delivery of the Strategic Employment Site and agree to receive a subsequent more detailed report on delivery arrangements in summer 2018;

- (b) note the masterplan for Aykley Heads;
- (c) approve the submission of an outline planning application for the Aykley Heads site;
- (d) note that the masterplan for Aykley Heads includes the development of the footprint currently occupied by County Hall.

Part 2: Durham County Council Headquarters Final Business Case:

The requirements of the masterplan as set out in Part 1 of the report mean that the site currently occupied by County Hall needs to be developed as part of the commercial business quarter to attract private sector jobs. A robust methodology has been applied to consider the most economically advantageous option for providing a civic and administrative centre for the council over the next 35 years. It concludes that moving to a smaller, more efficient building in the city centre would not only free up the opportunity on the current site to attract private sector jobs, but would be the most cost effective means of providing a council headquarters building. It summarises the procurement process which, though not yet complete, offers the opportunity to reduce running costs and downsize our administrative estate.

The recommendations from part 2 are that Cabinet:

- (a) endorse the key findings of the FBC as set out in this report and subject to the consideration of the related report in Part B:
 - i. note that the detailed financial information is set out in the part B report on this agenda and that the Office Accommodation Capital Reserve is available to finance the project and the capital costs, on-going revenue costs and savings and one-off costs of the project will be incorporated into future MTFP reports
 - ii. approve the outcome of the procurement process to select a Preferred Bidder and Reserve Bidder
 - iii. delegate authority to the Corporate Director of Regeneration and Local Services and the Corporate Director of Resources in consultation with the Cabinet Portfolio Holder for Economic Development and Regeneration and the Cabinet Portfolio Holder for Finance to enter into a Pre Development Services Agreement (PDSA) with the Preferred Bidder
 - iv. delegate authority to the Corporate Director of Regeneration and Local Services and the Corporate Director of Resources, in consultation with the Cabinet Portfolio Holder for Economic Development and Regeneration and the Cabinet Portfolio Holder for Finance, to enter into the Development Agreement for the new HQ

following satisfactory planning approval provided that the Preferred Bidder achieves the council's requirements during the PDSA period.

Part 3: Future options for the County Archive:

This section takes as its starting point the need to relocate County Hall, in which the County Archive is currently located. The archive's significant value as part of the county's heritage is explained in this section. Few councils locate their archive in their administrative headquarters and the service experiences significant constraints on customer service and future growth by its location in County Hall. In visioning how the council's heritage could be protected and celebrated for future generations, a proposal has been developed to co-locate several heritage and cultural services in a prestige setting. Whilst at an early stage of development, it is proposed that a Durham History Centre is consulted on and that a Heritage Lottery Fund bid is submitted to significantly improve how the county's heritage is maintained and promoted.

Subject to the outcome of Cabinet's decisions on the Aykley Heads strategic employment site proposal and the potential relocation of County Hall, Cabinet is recommended to:

- (a) agree to progress a 'Durham history centre' concept;
- (b) agree to consult stakeholders and interested parties on the proposal;
- (c) authorise the Corporate Director of Regeneration and Local Services and the Corporate Director of Resources, in consultation with the relevant portfolio holders to continue negotiations with the relevant landowners;
- (d) agree to the submission of a funding application to the Heritage Lottery Fund, subject to the outcome of the consultation and negotiations;
- (e) receive a further report on the detailed proposals for final consideration;
- (f) note the estimated capital costs as set out in the report will be included in future MTFP plans once they are finalised;
- (g) note that the on-going revenue costs of the history centre can be met from available resources;
- (h) note that the one-off costs set out in this report will be met from general reserve.

- 6 It is important that Members consider each decision in parts 1, 2 and 3 on its merits, whilst ensuring coherence of decision-making. For ease of consideration, the specific legal and financial implications for each part are described individually. Information that is commercially sensitive is provided in a corresponding part B report.

Background

- 7 In recognition of the scale of opportunities for the county and the council and the investment involved at a time of public service austerity, the council has systematically worked through a Treasury green book process designed for large, complex projects in which value for money is essential. This involved establishing a strategic business case, an OBC and finally a FBC for the HQ.
- 8 Cabinet agreed a strategic business case in July 2015. This included:
 - (a) the approval in principle of the release of the Aykley Heads site as a major regeneration opportunity subject to an OBC and procurement exercise
 - (b) agreement to continue the distributed model of existing council accommodation to maintain the council footprint across County Durham. The report described that this meant investment and greater use of our Strategic Sites, namely Crook, Green Lane, Spennymoor, Meadowfield and Spectrum, Seaham
 - (c) agreement in principle to the relocation of the council's HQ to a Durham City centric site subject to an outline business case and procurement exercise.
- 9 An OBC takes the proposition established through the strategic business case and identifies and appraises options to test the viability of the project. The findings of the OBC were agreed by Cabinet in July 2016.
- 10 The OBC identified five options for the HQ: remaining on the current footprint with refurbishment of the building; a new build on DCC land at Aykley Heads; a new build freehold HQ on developer owned land in the city centre; a new leasehold HQ on non-DCC land in the city centre and new build on DCC land in the city centre delivered by DCC. All but the first option included remodelling of the strategic sites. The OBC concluded that the third option described in detail later in the report was the preferred delivery route due in part to the risk transfer to the private sector, subject to a FBC and procurement process. In recognition of the need to modernise the way the council works, a budget was agreed to modernise the strategic sites. A programme of work, called Inspire is underway to transform our strategic sites including physical work where required and, as importantly, a programme to modernise how the council works to include flexible and agile working. This programme is currently being implemented in Crook.
- 11 Cabinet also agreed to explore future options for the County Archive.
- 12 Part 1 of this report summarises the process of completing the FBC and its conclusions. It includes:
 - (a) testing the feasibility of the Aykley Heads site to deliver 6000 high quality jobs. This is described in Part 1 of the report

- (b) testing the findings of the OBC through the inclusion of costs that have been derived from a robust procurement process. This is described in part 2 of the report
- (c) to complete the picture, options for the future of the archive are described. Though unsuitable for relocation to a new HQ, exciting opportunities are presented that could maintain our heritage and enhance access to it. The proposal for the archive is presented in part 3 of the report so that Members have a complete understanding of the implications for Aykley Heads.

PART 1 – PROPOSED WAY FORWARD ON THE AYKLEY HEADS STRATEGIC EMPLOYMENT SITE

- 13 Since Local Government Re-organisation in 2009, there has been a clear focus on the economic performance of County Durham and the importance of economic growth in securing a sustainable future for communities across the county.
- 14 This economic growth is based on the premise that the county needs more employment opportunities for its residents and when possible, to ensure opportunities to create better jobs are being maximised. Across County Durham, the Council has sought to firmly seize employment opportunities whenever these have been available and this approach has led to some considerable success.
- 15 The Council's approach to inward investment has also led to some notable examples of success. Hitachi planned to create 730 jobs in Newton Aycliffe, but within three years are already employing over 1,200 staff. ResQ moved to Seaham in 2016 with plans to employ approximately 1,200 people within three years and they are making excellent progress in achieving this.
- 16 Across County Durham, there are excellent development sites that offer opportunities for economic growth, including sites adjacent to the A1 and A19, Newton Aycliffe Industrial Park and NETPark. In order to continue to move the economy of the county and region forward, opportunities that are available in Durham City that complement the county's offer also need to be considered in more detail.
- 17 Durham City is at the heart of County Durham and its role as a driver of economic growth is considerable, particularly with a world-class university and UNESCO World Heritage Site being a core part of the fabric of the city. Durham City is an attractive place to live, work and visit. The range of housing and employment, the quality of the environment and its unrivalled heritage have prompted some to describe it as the perfect city, a must see destination and one of Britain's most romantic cities.

Durham City's transport connectivity

- 18 Within the context of the north east region, the city is also a significant administrative and cultural centre and has excellent communication links

regionally, nationally and internationally. Durham Station lies on the East Coast Main Line, with four trains per hour in each direction providing regional and national connectivity. Durham bus station is at the heart of the local bus network, hosting up to eighty buses per hour with regular services from each of the main settlements in the county.

- 19 Due to its transport connections and access to a wide range of services, Durham is the most sustainable location in the county and was identified in the former Regional Spatial Strategy as one of five strategic public transport hubs in the north-east. For these reasons locating the headquarters in the city, which is the centre of the transport hub in the county, provides the most accessible solution.
- 20 The population of the built-up area of Durham is approximately 51,474 (ONS 2016), with some 36,734 people being of working age (16-64). There is a catchment of 107,000 people within a five-mile radius, extending to 511,000 within 10 miles. Importantly, and with an eye to the growth potential of the city, there are 2.56 million people within a 60-minute drive time. The population of County Durham is 522,100 people (ONS Mid-Year Population Estimates 2016). Projections suggest an increase to 566,000 by 2039 (sub-national population projections).
- 21 Durham Rail station is a few minutes' walk from the city centre. The station is a major stop on the East Coast Main Line with four trains per hour (rising to five trains per hour in 2018). Services are provided by Virgin Trains East Coast, CrossCountry, TransPennine Express and Northern trains, giving Durham direct connectivity to a wide variety of destinations across the country including London King's Cross (2 hours 55 minutes) and Edinburgh (1 hour 50 minutes). More locally, services to Newcastle (11 minutes), Darlington (16 minutes) and York (45 minutes) mean Durham City is easily accessible to regional labour markets. Use of the station continues to grow year on year; in 2016/17 the station handled over 2.6 million passenger journeys. Durham has ready access to Newcastle and Durham Tees Valley international airports, the Port of Tyne and Teesport.
- 22 Durham Bus Station on North Road is within easy reach of key central locations in the city and provides regular services to prominent regional locations, local centres and surrounding residential districts. At peak times, there are over eighty local bus services per hour passing through the City Centre, with regular services from each of the main settlements across the County. Durham City is the most accessible location in the County, with over seventy two percent of all County Durham households being able to reach the City Centre by 8.30am in under one hour, using public transport (including walking to a bus stop) between Monday and Friday.
- 23 The City is also served by three park and ride sites at Belmont, Sniperley and Howlands. A total of over 1100 parking spaces are available, with a direct bus service running every 10 minutes to the city centre from each site.
- 24 Work is ongoing to refresh the transport offer, including schemes to enhance walking and cycling links in the City, improve the quality of the bus station and

refurbish the pedestrian underpass at the rail station. Future development of the city's economy will be matched by a requirement for additional road infrastructure, and work is underway developing plans for a Northern and Western Relief Road.

- 25 Overall, Durham's proximity to the key transport corridors of the A1 and the A19 alongside the East Coast Main Line support its role as a key transport hub for the city and the county and ensures that the city acts as a transport hub for the county, ensuring the accessibility of development in the city.
- 26 Access to Durham by private car is good and there are multi-storey parking facilities in the centre at the Prince Bishops and Gates shopping centres and within the Walkergate leisure development.

Economic role of the city

- 27 From an economic point of view, the real beauty of Durham is its potential. With strategic investment and sensitive planning, Durham can become one of the most important centres for economic growth in the north-east. Certain assets within Durham – the World Heritage Site and the University – are “world class”. Our vision is to see other, major components enhanced, so that Durham becomes a world-class location for commerce, for living and for visiting. In short, we want Durham to become world class on every level.
- 28 Employment opportunities in the city are good but overall, the balance of employment is dominated by large-scale public sector employers that provide 45% of all employment. Whilst these are extremely valuable jobs that are important to retain, the impact of austerity on public budgets since 2010 has resulted in a decreasing workforce. Greater balance between the public and private sector would provide increased resilience and further opportunities for growth in future years.
- 29 Growing job opportunities in attractive sectors and locations in the county can also present options to retain gifted and talented young people who often seek employment outside of the county after being educated here. Opportunities for young people growing up in County Durham to establish companies or work within existing businesses are important for the future of our young people.
- 30 Whilst it is clearly recognised that university graduates securing employment opportunities around the globe is a measure of success, providing increased opportunities for graduates within Durham could be of significant benefit to the Durham economy. Science based companies, such as Kromek that have grown within the county from a university graduate who established their business at NETPark, are already proving to be key employers with fast growing opportunities. The company is active in the sectors of nuclear detection, medical imaging and security screening and has bases for R&D and manufacturing in California and Pennsylvania as well as its UK operation centred in County Durham.

Durham City Regeneration Masterplan

- 31 The council agreed a regeneration masterplan for Durham City in 2014 which has a clear focus on the city centre. It is shaped by recent and emerging strategies, underpinned by robust evidence on growth sectors and population predictions and driven by our desire to broaden Durham's appeal in order to realise its potential.
- 32 It highlights the strategic links and the priority projects that can be delivered to secure a thriving Durham City with an emphasis upon enhancing the vitality of the city centre in order to maximise economic benefits and to complement market strengths. One of the key strands of activity identified in the masterplan to achieve economic growth is the establishment of a central business quarter to accommodate emerging high growth sectors and to increase private sector employment to create a more balanced economy.
- 33 Research has been undertaken as part of the County Durham Plan to increase understanding of Durham's economic geography and to identify the business sectors that will support future growth and development. There is a growing financial and professional services sector in Durham that can be seen through companies such as Atom Bank choosing to locate at Aykley Heads. In addition to these sectors, Durham is also well-placed to offer opportunities for research and development, headquarter operations, administrative and sales functions and to link with the emerging manufacturing operations in these sectors in south and east Durham, Tyneside and Wearside. The presence of Durham University offers great potential for research linkage and business spin-outs.
- 34 In terms of future economic growth, research has shown that new and renewable energies, the low carbon economy and digital and creative industries are emerging areas for growth in the North East economy as a whole. Durham already supports 30 percent of the county's employment in these sectors and is well-placed to attract and support:
- **Digital and creative industries:** these are growing activities in Durham and this sector is anticipated to continue to grow over the next 10 years. There is an existing base of digital and creative industries across the North East as a whole and many Durham University graduates in this field decide to remain in the North East following their studies. Fintech is an emerging market, which sees digital technology used to support or enable banking and financial services. Atom Bank already at Aykley Heads is a leading player, being voted winner of the Mobile Banking Disruptor award at the 2017 Trade Finance Global Excellence Awards and ranked sixth by KPMG in its Fintech Global 100 list in 2016.
 - **Services sector:** more generally the city is well placed to support a strong service centre and an emerging financial services focus is already becoming evident at Aykley Heads with Mazars, Swinburne Maddison and Tait Walker.

- **Renewable energy, process industries, environmental technologies and life sciences:** the North East is particularly strong in these sectors. NETPark - the North East Technology Park at nearby Sedgefield - is the only science park in the North East and is an internationally recognised location for science and technology companies. It is the only science park in the UK with two Catapults: High Value Manufacturing and Satellite Applications and six Centres of Excellence. NETPark is an example of the significant success that can be achieved in County Durham with the focus and level of ambition the council and key partners share.
- **Health:** NETPark is also home to a number of innovative healthcare companies. CPI is to open a new national Centre for Healthcare Photonics in 2018 to provide open access facilities and expertise to help companies develop and commercialise the technology which is making breakthroughs in, for example, the treatment of diabetic retinopathy through PolyPhotonix. In addition, links to the University Hospital and the potential opportunities to develop data analysis and innovative healthcare solutions are also a potential market going forward.
- **Further/higher education and university spin outs:** an area recognised by both Further Education and Higher Education sectors as an area of opportunity. The recent collaboration between the council, Durham University and New College Durham to create incubator space at Salvus House demonstrates this point.

35 Business sites on the fringes of Durham, at Belmont, Dragonville and Meadowfield offer a wide choice of premises and sites for office, manufacturing and logistics enterprises. Recent developments at Belmont have been successful and enhance the location's appeal to smaller occupiers and to growing SMEs, although it is largely occupied. The smaller Dragonville estate is largely occupied but offers potential for affordable business development; however little expansion space is available. Meadowfield offers some opportunities, but the site is less central.

The Vision for Aykley Heads

36 The county's regeneration strategy has recognised for some time the need for a new central business quarter and the significant opportunity presented by the redevelopment of Aykley Heads, a 32 hectare site within walking distance of the city centre and with the competitive advantage of being adjacent to the main line train station.

37 Analysis of the potential of the Aykley Heads site has been ongoing in the last few years, particularly with the focus that the existing business location to the northern part of the site has secured. This can be seen with the decision of Atom Bank to locate temporarily in Northumbria House and their subsequent and permanent move to the Rivergreen Centre as well as the fact that there are already 1,300 employees within approximately 40 companies (excluding

DCC) already based on the site. There is clearly proven demand for the location.

- 38 Appreciating the potential of the site, in July 2015, the Council agreed in principle to the release of the Aykley Heads site as a Strategic Employment Site (SES) and a major employment centre for the private sector, subject to the Outline Business Case for the council's own headquarters (HQ).
- 39 The vision for Aykley Heads is to create a new and unique business location for the North East that maximises economic growth in County Durham and delivers jobs in new and growing sectors with the aim of providing a high quality employment location that contributes to the delivery of new and better jobs. Development of the site will provide a high quality modern central business location, in a mature parkland setting, within walking distance of the mainline train station and city centre and provide a unique work and lifestyle offering.
- 40 The Strategic Objectives for the SES have been established as follows:
- Maximise economic impact for County Durham;
 - New job creation in Durham City;
 - To create an income for the council;
 - To deliver a business location of the highest quality; and
 - To create an environment where people want to work.
- 41 Durham City is the commercial centre for the county, as well as a key asset from which to drive future jobs growth and improve the economy. The relative strengths of the area have long been recognised with Durham City historically acting as the county's administrative centre. Overall, Durham City currently provides one fifth of the county's business base and one third of its employment. However, the majority of these jobs are based in the public sector and there is a need to provide better opportunities for the private sector to deliver economic growth within the city in order to support the long-term economic sustainability of the county.
- 42 There has been considerable recent change within some of the public sector estate in Durham and this has retained 1,200 jobs within the relocated Passport Office (HMPO) and National Savings and Investments (NS&I) facilities at Freeman's Reach. Discussions with the Government's Property Unit under the One Public Estate Initiative are ongoing to consider other opportunities which demonstrate Durham's commitment to retaining the public sector employment that is based within the city and which works well for the agencies involved due to their access to a highly skilled workforce. This consolidation sees Durham City as an administrative centre for the sub region, driving employment and expenditure into the city centre as well as providing the capacity to release the Aykley Heads site as a high quality-office development site.

- 43 Across County Durham, there are significant economic opportunities and the county is well placed to grow from private investment going forward. To complement these opportunities, the city needs a central business quarter. Aykley Heads presents a high quality city based site, laid out in campus style that respects and embraces the beautiful natural landscape of the site, has a direct adjacency to a main line train station, meaning it is 2.5 hours by train to London, and with amazing views to the World Heritage Site. Sites of this calibre are rarely available and there is currently nothing that matches it within the North-East. The potential it offers for the economy of the county and the North East region is important and therefore in order to achieve the economic ambitions of the city, county and wider region it is necessary to consider the relocation of the council's headquarters and archive.
- 44 Should the large and dominant County Hall remain on the Aykley Head site, its location dominates phase 2 of the site, thereby reducing the likelihood of the development achieving critical mass, or establishing the brand and image that are essential to its overall delivery. There is a consequent impact on the employment levels that can be achieved and whilst employment would clearly remain in County Hall, this would displace a large proportion of the circa 2700 jobs that are expected to be delivered as part of phase 2 of the development.

Strategic Employment Site Progress to date

- 45 To understand the approach to developing the SES, a professional team of advisors was appointed in November 2016 to assist with the production of a Development and Delivery Strategy. The three key deliverables are:
- *Development Review, Infrastructure and Costings* – To undertake a detailed assessment of the site, infrastructure and utility requirements. Provide an assessment of likely costs and planning conditions and provide a phasing and programme plan.
 - *Options Appraisal and Deliverability* - Undertake an appraisal of the options and detail the implications in relation to risk, finance, legal and procurement issues. Recommend a preferred delivery vehicle and propose the most appropriate procurement route.
 - *Funding* - Produce an investment strategy that is capable of delivering a financial return to all investors including the council; and commercial strategy for the site including investor, developer and occupier requirements and recommendations detailing how these can be met.
- 46 To complement the Development and Delivery Strategy, specialist landscape advisors were appointed in October 2016 to produce a Landscape Strategy/Masterplan. The commission involves undertaking a baseline audit of the key landscape and ecological features and attributes of the estate which provides an understanding of how the estate functions within the geography of the city, linking pedestrian and cycling routes, and relationships with nearby residential and business uses. It aims to influence the development of the site as high quality, accessible and attractive natural greenspace, incorporating a major new urban country park, which will also

retain the DLI memorial garden. This means that the site will continue to provide a resource for the wider city community as well as a high quality setting for new businesses that is both attractive to inward investors and providing opportunities for a healthy and active lifestyle for employees.

Aykley Heads Planning Policy

- 47 The Durham City Regeneration Masterplan adopted in March 2014 and updated in November 2016 sets out the council's regeneration priorities for the city of Durham. It details major projects and identifies opportunities that have the potential to make a real difference to the city and achieve the desired levels of growth for the wider area.
- 48 The redevelopment of Aykley Heads as a prestige business park is one of the major projects referenced in the masterplan and its potential to attract significant private sector investment was highlighted in the Issues and Options of the County Durham Plan published in the summer of 2016. Appropriate policies to enable the development of the site will be included in the Plan as it progresses. This will ensure Durham is well placed to support local companies as well as attract national and international companies and will drive economic growth through facilitating private sector investment and employment.

Redevelopments at Aykley Heads Business Park

- 49 Due to demand for smaller office space on the Aykley Heads site, the council acquired Salvus House in June 2016 and launched it as a business centre and incubator with a range of offices, hot desks (permanent and daily) and virtual office facilities. Current occupancy figures are very positive only a year after the launch of the facility with 13 offices let, two reserved and two larger offices available but with strong interest. The building also provides a range of hot desking opportunities for both flexible and permanent booking. Durham City Incubator is to open in the building in January 2018 in partnership with Durham University and New College Durham to support graduate start-ups. Overall, occupancy is ahead of target and the Business Durham team are working on enquiries to let the remaining space and it is envisaged that Salvus House will be fully let in the near future.
- 50 Atom Bank were previously located in Northumbria House, a council owned building. Although they were given the option via Rivergreen Developments of a purpose built HQ on the former bowling green site, their plans have evolved and in April 2017 they relocated to the Rivergreen Centre and now occupy the whole building. Latest employee figures are at approximately 300.
- 51 Since Atom Bank has moved into the Rivergreen Centre, Northumbria House has become available. Within a matter of weeks, several enquiries were received for occupation of some or all of the council owned facility. Currently, we are working with a Durham based company who has expressed a clear demand to take full occupancy of Northumbria House as they seek to grow and compete for national contracts serviced from Durham whilst remaining within the Durham City area and being part of the Aykley Heads community going forward.

Strategic Employment Site Current Position

Development, Delivery Strategy and Masterplan Development

- 52 Aykley Heads is currently a successful business and employment location, providing a home to a wide range of professional and business support organisations.
- 53 The masterplan is being developed with a sensitive approach to ensure the mature parkland setting is retained as much as possible, as it is a key feature of the site. As part of the Landscape Strategy, character areas of the site have been identified and further development of schematics to illustrate the functions of the site are in development. Opportunities and constraints are being developed alongside proposing functions and place making – particularly in relation to later phases of the development which may have temporary functions, such as car parking in the intervening time period. Past landscape initiatives within the estate are being explored to determine how the landscape is likely to change within the next few years. Ecological surveys have been undertaken across the site and there are no significant issues that have arisen that cannot be managed.
- 54 To date the following exercises have been undertaken:
- Topographic surveys have been undertaken and computer generated contour maps created.
 - The proposed levels for each of the building plots have been reviewed to provide the most efficient cut and fill.
 - 3D massing has commenced and floorplates created.
 - Solar orientation analysis has been undertaken to check building separation distances and draft illustrative images have been created to illustrate the position.
- 55 **Appendix 2** shows the summary masterplan and development plots. The site has been divided into four zones, each with its own distinct characteristics as follows:
- **Northern Zone – Phase 1.** The Northern portion of Aykley Heads occupies the land to the south of the access road which serves the new Police Headquarters and Rivergreen Centre. It has a more defined characteristic of building development than the rest of the site, and includes the existing Aykley Heads Business Park and Grade II Listed Aykley Heads House. It also accommodates Northumbria House and Salvus House. The land is owned by the council with the exception of one plot that is owned by Durham Constabulary. The existing

developments and identified plots available in this area are deliverable without the need for large amounts of new infrastructure and should therefore be considered for marketing and delivery in the early phases to stimulate interest and demand in the site.

- **Park Gateway – Phase 2.** This area represents the entrance gateway to the Strategic Employment Site and is already known by the general public as the entrance to County Hall. The new proposals aim to retain the same overall scale/quantum as County Hall, but with buildings moved closer to the road, and kept to a reduced height overall. County Hall is approximately 390,000 sq ft, the proposed gateway developments will be approximately 370,000 sq ft with scale and massing between three to five storeys getting higher towards the rear of the site. The land is entirely in the ownership of the council. The space will also include a water feature, structured public landscaping and seating as well as a new cycle and pedestrian route linking the site from north to south. Small facilities will also be located for supporting A1 (Shops) and A3 (Food and Drink) uses serving the primary office users as well as providing facilities for the general public, these are described as ‘kiosks’ in the masterplan, but are in effect small buildings to be built within the appropriate phases of development that will provide valuable amenity services to occupants and the local community.
- **Parkland Plateau** - The rear of the site is largely composed of a flat plateau with a prominent edge to the south-east. This area is in the ownership of a third party and is contained within the greenbelt. To the north-west is the back of the site, which is bordered by trees that form the central woodland spine. The proposal is to arrange buildings in three zones, ranging from small single storey pavilions that are in part earth sheltered through to three storey buildings. The overall effect of a gradual tiering up of mass towards the back of the site is intended to reduce the visual impact of the development on the exposed plateau. The market report does not envisage the plateau site coming forward until the other areas of the site are close to capacity and the necessary infrastructure is in place. This produces a timeline where the buildings do not come forward to around 2034, i.e. beyond the time period of the County Durham Plan. There is therefore no need to provide a policy context for this area in the version of the County Durham Plan that is currently progressing but it will be included in a future review of the Plan as necessary.
- **Southern Gateway** - This area is partly occupied by the car parking provided by Network Rail . It is a prominent gateway for the station and also marks the transition of the edge of the urban core into the suburbs and parkland beyond. It provides an extension of the city centre and a gateway link through the Railway Station and the Milburngate House site.

Development Assumptions

56 A comparison of the Gross Internal Area (GIA) and Net Internal Area (NIA) has been undertaken to inform the costing and appraisal work. High level viability has begun to be assessed based on the likely costs of construction. Option appraisal workshops have also been undertaken to explore the various arrangements necessary to deliver the scheme. The key findings are outlined below:

- 718,000 sq ft office development;
- 77,000 sq ft supporting development, including hotel and amenity kiosks;
- Over 6,000 jobs created;
- Circa £200 million total construction cost at today's prices, which includes the demolition cost for County Hall of circa £5 million and highway infrastructure costs of £5 million;
- Estimated overall revenue surplus for the council dependent upon delivery vehicle adopted and the council's investment strategy. This will be fully assessed in the coming months to determine the optimum approach for the council;
- £1.5 million - £1.7 million annual future business rates after completion before central government periodic business rate revaluation.

57 A further report proposing the investment approach will be brought forward in early summer 2018. This will set out the proposed delivery method or vehicle for Aykley Heads.

Indicative delivery approach, timescales and initial financial assessment

58 The table below is based on delivering the full masterplan and provides a summary of the number of jobs that could be delivered across the site, along with the estimated capital costs per plot:

Item	Proposed Job Nos
County Hall Demolition	N/A
Site A South(1)	622
Site A South(2)	352
Site A North	1,241
Site B (S106)	924
Site C	203
Site D	400
Site E	376
Site F	1,927
Total	6,045

59 The site will be delivered across three phases, as follows:

Phase 1 – Northern Zone

Sites C, D, & E - 2018 – 2025
Creating 979 FTE jobs

Phase 2 – Park Gateway

Sites A South (1), A North, B – 2021 – 2034
Creating 2,787 FTE jobs

Phase 3 – Parkland Plateau

Sites A South (2), F – 2034 – 2040
Creating 2,279 FTE jobs

- 60 The timescales for the development of a new office park are governed by office take up rates. It is always difficult to accurately assess development timescales particularly in locations where the office park will change the historical trends of the office market. However, as part of the market demand work, it is considered that the average office take up for Aykley Heads would be in the region of 2,787 sq m (30,000 sq ft) per annum. This would therefore equate to a development timescale of approximately 20 years.
- 61 In order to move the development of the site forward by providing certainty to the development and investment markets, as well as to aid marketing, it is intended to submit an outline planning application for Phase 1 and 2 by September 2018. The planning application will reflect the approach to considering development on greenbelt land playing pitches referred in the section describing the Parkland Plateau. This will provide certainty and confidence to the market irrespective of the procurement approach to deliver the site. However, it is also proposed that should early demand be forthcoming for Phase 1 land, the council should progress with this element at the earliest opportunity.

Initial Financial Assessment

- 62 The costs incurred and income generated from the development of the Strategic Employment Site will be dependent upon the preferred delivery approach. The options available range from the council selling the site to a prospective developer through to the council developing the site itself. It is anticipated at this time that the final approach will incorporate a mixture of the scenarios outlined below to provide the greatest flexibility to deliver the overall scheme.

(a) Sale/Land Disposal

The council sells the site to a developer receiving a capital receipt for the value of the land. This sale value would be based upon a cleared site and therefore demolition and clearance costs would need to be deducted from any capital receipt. With this option, whilst the council would generate a capital receipt, and over time also benefit from the additional business rates generated, it would lose control over the final product delivered and there is a risk that any purchaser would seek to bring forward more profitable forms of development in the shorter term.

Due to the long-term approach needed to bring forward the various phases of development in a profitable manner, it is considered unlikely that there would be many developers capable of bringing forward the masterplan in line with expectations.

(b) Council taking head leases

In this model, an institutional investor, with the council using its covenant and taking a head lease over the office premises developed, effectively funds the capital cost of the development. The council then sub-lets onto tenants. There are no capital costs for the council in this scenario. The council would be required to take a commercial risk in terms of securing tenants and charging a rent in excess of the head lease to generate a return. It is expected that the council could generate an annual revenue return in this scenario, subject to long-term occupation levels.

(c) Development led by the Council

In this model, the council develops the site itself, funded by borrowing. This would be the lowest cost from a capital perspective as there will not be any developer profit or disposal fees to pay. Once the site is constructed, the council would enter into leases with tenants for the spaces created and receive an income stream from its tenants. The council would be responsible for all development risks arising from construction. As with the head lease option, the council would take the commercial risk on securing tenants. Unlike the head-lease option, revenue losses would occur in the first 10-15 years due to the need to make debt repayments, however an overall positive return is expected across the whole development period.

63 Overall, it is likely that the council will need to intervene commercially to develop the site. Whilst there are risks with this approach, the council would retain control over the site and if managed effectively, would expect to achieve a positive financial return. This is a long-term approach, which could present an opportunity for the council to retain the asset value.

64 A range of assumptions need to be considered when assessing the financial position of the site. These include:

Item	Assumption
Rental Values	£18.50 to £21.00 sq ft
Build Costs	£1,400 - £1,750 m2
Contingencies	7.5%
Fees	10%

65 The level of surplus will be dependent on the delivery options that are chosen to take forward the development. Further detailed work on the delivery options will be undertaken for inclusion in the summer 2018 report to Cabinet,

which will include an options appraisal and risk analysis, as well as setting out the detailed financial appraisals for the proposed development.

- 66 The council will also consider opportunities to enhance the scheme through external regeneration funding. Whilst there is no funding identified at this stage, any funding that can be attracted will enhance the financial position of the scheme as it is developed or accelerate the delivery of the scheme.
- 67 When the Strategic Employment Site is complete, it is estimated the council will benefit from between £1.5 million - £1.7 million additional Business Rates per annum, based on current assumptions of the operating model for business rates retention.

Market Analysis

- 68 Understanding current and future office property trends is an ongoing process, but in order to try to assess likely market demand for Aykley Heads, specialists in this area of work were appointed in November 2016. This work has shown that emerging intelligence with regard to future office requirements and the characteristics of development locations that expect to generate demand confirms that the Strategic Employment Site could provide an opportunity to deliver a hybrid product which provides a 'Nano Core' alongside 'All – In offices'.
- 69 Given the high quality parkland setting, proximity to the city centre and World Heritage Site, it is anticipated that the site could establish a high quality and unique business destination that has a unique offer and is ultimately more attractive than most business park products. These concepts are outlined below:
- (a) **Nano Cores** are defined as master-planned clusters of buildings that are maintained as an estate with their own branding. The development would include 24/7 security and maintenance, retail and gym elements and integrated features such as cultural events in public areas. Particularly on the edge of Central Business Districts (CBD), they expect mixed commercial and residential Nano Cores to emerge.
 - (b) **All In Offices** are defined as a mix of serviced offices and tech incubators, whereby small firms pay an all-inclusive rent and co-locate with other firms. Being surrounded by other entrepreneurs is valued by the tenant as replicating the collegiate atmosphere found in a typical office. Even in the start-up world, working alone in a garage or spare bedroom is not for everyone.
- 70 From the evidence established to date the following trends can be noted:
- (a) There is a current general lack of office product available in Durham City and yet almost 50 percent of enquiries to North East England would consider locating in Durham.

- (b) Current market demand in Durham City and the wider region reflects the trend that there is predominantly a demand for smaller properties of various size below 20,000 sq ft.
- (c) Larger office requirements have been few and within a range of 40,000 – 70,000 sq ft. This is a difficult market to predict but Atom Bank located at Aykley Heads as a preferred option and the site has the ability to accommodate such enquiries.
- (d) Modern, high quality office space can establish a premium due to a lack of supply of £20-£25 sq ft rising to almost £30 sq ft for offices less than 1,000 sq ft with flexible leases/licences. For the purpose of financial forecasting a conservative figure of £18.50-£21.00 sq ft has been assumed.
- (e) There is strong evidence that other cities/areas in the UK have successfully developed business locations through careful master planning where good transport links prevail in proximity to a busy railway station e.g. Newcastle, York, Taunton, Swindon, Leeds, Sheffield, Cambourne Business Park in Cambridge, Chelmsford Business Park, Liverpool Science Park, Chiswick Park in London.

71 To gain an understanding of inward investor location decisions, associated property requirements and expectations of business parks' offers, further analysis was undertaken through interviews with a range of companies and stakeholders. The key findings are summarised below:

- **Leases** – Most companies preferred short-term agreements wherever possible. For longer-term leases, break periods, a rent-free period and regular rent reviews were negotiated. 66 percent of respondents would agree to a lease 'off plan'. 80 percent advised they would be happy to be the first on a business park as it would allow them first pick of location.
- **Current premises and factors** – Quality of the building and central location. Most companies preferred to arrange fit out themselves.
- **Key reasons for moving to business parks** – Availability of large areas of office space (often difficult to obtain in city centre locations). Cost – limited city centre space drives up rental costs, better value for money on a business park. Community feel and improved work/life balance.
- **Incentives** – a large number had received incentives in the form of rent-free periods, grants for training or workforce development and financial contributions to help towards fit out etc.
- **Expectations of Business Parks** – Effective transport connections and adequate parking spaces, good on site amenities and flexible leasing. High-speed internet connection and robust power supply. Café or shop and communal areas (internal and external).

- **Business parks can differentiate themselves** through their location – locating close enough to a city centre and local amenities, yet far enough out for cheaper rents and abundant space. Larger than normal selection of amenities beyond Monday-Friday 9am-5pm.
- **Key factors to be integrated into a Business Park** – High-speed internet strongly reiterated along with flexible leasing and multi let areas. Novel design (to appeal to larger companies) and excellent green technology credentials. Located close to a city centre.
- **Investing in the region** - The vast majority of these companies would invest in the region if it fitted with their business needs or strategy.
- **Value Proposition for Aykley Heads** – This is a requirement from businesses that would set the location apart and differentiate from the competition, e.g. lifestyle offer, location, eco standards. Over 50 percent answered positively.

72 In order for the development to compete at a wider national and international level to attract employers and leading businesses, there is a need to undertake relevant marketing activity. To progress with marketing, specialists have been retained to produce a marketing strategy and outline promotional framework with associated indicative resources. How this proposed marketing fits with the investment and development strategy for the site will be considered in the future report to Cabinet.

Economic impact

- 73 The Council has set out a clear vision of ambition within its Sustainable Community Strategy (SCS) of creating an ‘Altogether Better Durham’. Currently this vision sees the improvement of the economy as the top priority if the ambition is to be achieved. There is recognition of the gap between County Durham and the regional and national averages in terms of Gross Value Added (GVA).
- 74 It is the council’s ambition that by 2030 County Durham will have a thriving economy and will be bridging the gap in its economic performance with other parts of the North East and elsewhere, with the internationally recognised Durham City as the hub of this sub-region.
- 75 The economic impacts of the Aykley Heads site are presented in terms of Gross Value Added (GVA) and Full Time Equivalent (FTE) employment. The types of economic activity measured relate to:
- (a) **Construction activities** will generate temporary economic impacts, no attempt has been made to adjust figures for inflation.
 - (b) **Private Sector accommodated on the Strategic Employment Site.** The full site would be able to accommodate a minimum of 600,000 sq ft of office space with the potential to house a minimum of 6,000 FTE jobs.

- 76 The table below provides a summary of the economic impacts. Gross impacts equal £443.08m GVA and 6,135 FTE jobs. The figures are higher than presented earlier in the report as construction jobs are included. It is recognised that the impact arising from induced expenditure and Aykley Heads tenants, will be realised across the long term.

Scenario	Overall
Construction	
Gross FTE Jobs	107
Gross GVA	£73.7m
Induced Expenditure	
Gross FTE Jobs	28
Gross GVA	c. £680,000
Private Sector accommodated at SES	
Gross FTE Jobs	6,000
Gross GVA	£368.7m
Total Gross GVA	£443.08
Total Gross Jobs	6,135

- 77 In addition, to achieve the figures above, there are additional strategic impacts to consider when interpreting the results, not least the increase in private sector employment, bringing footfall into the city centre and/or the potential to distribute employment throughout the county which will be achieved when staff numbers are increased in the strategic office sites.

Strategic Employment Site Next Steps and Timescales

- 78 To continue developing the project, the next steps are:
- undertake analysis of various options for the council including presenting the financial implications alongside delivery options with a clear risk analysis. This will be undertaken by the project team and will be complete by spring 2018;
 - engage stakeholders and implement a communications strategy from early 2018 onwards;
 - bring to Cabinet the details of the proposed delivery structure in summer 2018;
 - thereafter establish the delivery route with expertise, capacity and a clear marketing plan by autumn 2018;
 - prepare and submit planning application by Autumn 2018.

Redevelopment in the City Centre

- 79 As well as the proposals for Aykley Heads, a number of complementary regeneration schemes in the northern quarter of the city are underway. Freeman's Reach housing National Savings & Investments and Her Majesty's Passport Office was completed in 2016, creating over 9,000 m² of office

accommodation, totalling an investment value of £30 million. The development brought a major funding partner into the city, and the scheme overall safeguarded more than 1,200 jobs within Durham City that could have been lost to alternative locations had this scheme not been delivered.

- 80 The second significant phase of the regeneration will see 60,000m² redevelopment of Milburngate House. The site will be mixed use and include residential, leisure and commercial use. The demolition works are currently underway and phase 1 of the redevelopment will commence thereafter including a range of occupants including an Everyman cinema, hotel and Pitcher and Piano restaurant. The redevelopment of this key riverbank location will bring vibrancy to the city's leisure and commercial offer.
- 81 Redevelopment of the Gates Shopping Centre in North Road is also underway with the construction of a multiplex cinema, associated leisure uses, opening up of the riverside walkways and improvement of the retail offer. This will create a draw for the North Road part of the city, which should see significant increases in footfall.
- 82 The current draft proposals for the North Road area outline the creation of a new bus station and pedestrianised gateway area, providing better facilities and more space for passengers. It is intended to improve connectivity between North Road and other key sites including the train station and the Gates Shopping Centre by creating better links to and through the station to the proposed Strategic Employment Site.
- 83 Infrastructure improvements to allow people to reach the rail station from Aykley Heads more easily via the path on Framwellgate Peth have recently been completed.
- 84 Commercial and leisure developments within Durham City continue to be brought forward and the refurbished Old Shire Hall which is due to open in 2018 as Hotel Indigo, a boutique hotel providing a different offering in the city, is further evidence of this wider growth.
- 85 One of the most important factors for the economic growth of a city is a strong university. Durham University performs amongst the best in the country and in many areas, is a leader in its field. In the [Times Higher Education \(THE\) World Reputation Rankings 2017](#), Durham is listed among the top 100 universities in the world. In national league tables, Durham is consistently recognised as one of the top universities in the UK. The University is ranked fifth in the [Times and Sunday Times Good University Guide 2018](#), fourth in the [Guardian University Guide 2018](#) and sixth in [The Complete University Guide 2018](#).
- 86 The University is currently ranked in the world top 40 for the employability of its students by blue-chip companies world-wide (QS World University Rankings - 2017/18). Importantly for County Durham, whilst Durham University's graduates achieve employment success around the world, going forward it is hoped that more graduates will choose to stay in the region and

develop their businesses here, especially if better facilities exist to support their business and employment aspirations.

- 87 The University's future ambitions have recently been set out in its strategic plan and the masterplan that details its development approach will underpin academic and cultural growth ambitions.
- 88 Taken together, current investment levels within the city and county are considerable and demonstrate opportunities for further valuable economic growth. Bringing forward the Aykley Heads site to ensure sufficient high quality office space is available in a new central business district is therefore considered appropriate at this point, hence the need for the council to consider the future of its headquarters and the county archive and record office which are currently located within the County Hall headquarters building.

Financial Implications

- 89 It is important that the financial implications of progressing with the strategic employment site and the individual projects that facilitate it are fully considered.
- 90 The re-development of Aykley Heads as a high value employment site is a key strategy of the council. The move of the headquarters and archives provide the opportunity for the council to facilitate the creation of a central business quarter, with the associated benefits as set out earlier in this report.
- 91 Initial financial modelling has been undertaken for the Aykley Heads Strategic Employment Site to estimate the costs of delivering office space with a focus on viability and delivery of a high value jobs site.
- 92 In terms of the Strategic Employment Site, the financial implications will depend on the delivery model for developing the site. A range of delivery options will be considered as the project moves forward.
- 93 Capital and revenue implications will be dependent on the specific delivery model chosen to develop the masterplan. The report outlines three broad approaches consisting of a traditional sale, the council taking a head lease and direct development by the council. Initial work suggests that some form of intervention and support will be required by the council if it was to self-develop and deliver the masterplan before achieving an overall financial return. A combination of approaches will be used to develop the site and due diligence will be undertaken prior to making recommendations on the precise delivery model.

Legal Implications

- 94 All options in the report would be a lawful exercise of the council's general power of competence under the Localism Act 2011. The ultimate selection of a preferred option will require balancing the risk against the opportunities

offered. The council has specific power under Section 120 of the Local Government Act 1972 to acquire land by agreement for the benefit, improvement or development of its area. Under Section 123 of the Local Government Act 1972 the council can dispose of land for the best consideration that can reasonably be obtained. When exercising its powers the council must act reasonably and be mindful of its duty to the public purse. Implementing a project of this nature also interfaces with a range of planning and property issues which the project team will need to address throughout the delivery phase.

Conclusion of Part 1

- 95 The council's overarching priority is to create an altogether wealthier Durham, improving the economic performance of County Durham as a whole. This priority is reflected in the Sustainable Community Strategy and Regeneration Statement and is the central theme of the emerging Local Plan. The focus is on helping to shape County Durham as a place where people want to live, work, invest and visit whilst enabling our residents and businesses to achieve their potential in full.
- 96 Recognising the importance of all the county's places, a new approach to regeneration of town and village centres is also being considered and further proposals on this should be forthcoming in the spring.
- 97 Our overall approach to regeneration and economic development for the county is to capitalise on opportunities and to work with the market to gain growth. We have set a benchmark for the county to pre-recession rates of employment, which requires more jobs, higher value jobs and more employed people living in the county.
- 98 In order to deliver the aspirations set out within this report and in accordance with the Strategic Business Case and the Outline Business Case for the headquarters, there is an opportunity to bring forward the Aykley Heads site for redevelopment.
- 99 The development of Aykley Heads as a Strategic Employment Site provides an opportunity to create a distinctive and business location for the North East: providing high quality modern offices and complementary uses in a mature parkland setting with a unique work and lifestyle offering.
- 100 It has the potential to attract over 700,000 sq ft of development and create over 6,000 private sector jobs redressing the balance between the public and private sector within the city.
- 101 The site will be delivered across three phases over 20 years beginning with the Northern Zone (Phase 1) in 2018, Park Gateway (Phase 2) in 2021 and Parkland Plateau (Phase 3) in 2034. It is anticipated the delivery mechanism will be a mixture of scenarios to provide the greatest flexibility to deliver the overall scheme and these will be reported to Cabinet later in 2018.
- 102 Overall, Aykley Heads presents an opportunity to bring forward a site that is of strategic importance for the economic future of the county and region.

Recommendations of Part 1

103 It is recommended that Cabinet:

- (a) note the high-level options available to bring forward the delivery of the Strategic Employment Site and agree to receive a subsequent more detailed report on delivery arrangements in Summer 2018
- (b) note the masterplan for Aykley Heads
- (c) approve the submission of an outline planning application for the Aykley Heads site
- (d) note that the masterplan for Aykley Heads includes development of the footprint currently occupied by County Hall.

PART 2 – DURHAM COUNTY COUNCIL HEADQUARTERS FULL BUSINESS CASE

- 104 The impetus to free up the site currently occupied by County Hall as part of developing a commercial business quarter for the city has been described in Part 1 of the report.
- 105 Both the strategic business case and OBC established the case for developing a Durham city centric location for the council's civic and administrative centre subject to the findings of a FBC and procurement process.
- 106 County Hall is an outdated building that is three times bigger than the Council requires having reduced its workforce by 2600 FTEs since 2010 as a result of the Government's austerity programme.
- 107 In 2012, the Local Government Association's peer review concluded that the council had performed well since achieving unitary status despite the fact that County Hall provided considerable constraints to adopting modern working practices.
- 108 A considerable maintenance backlog exists for County Hall meaning a total of £26.3 million will be necessary to maintain the current office configuration. This would simply maintain the outdated cellular office configuration and impede the move to more flexible and agile working arrangements currently being implemented in other council sites such as Crook. A further £49.5 million would be required to move to modern ways of working in County Hall in a manner currently being implemented at the council's strategic sites. This figure includes optimism bias, fees and inflation. It is estimated that in total, £75.8 million of capital would be required to modernise County Hall.
- 109 Five options that were identified and tested at the OBC stage were further tested at FBC and crucially the preferred option now contains actual cost information derived through a robust procurement process thereby significantly increasing its reliability. The remainder of this part of the report describes the FBC process and findings and those of the procurement process.
- 110 It concludes that the most cost effective option for providing a civic and administrative centre for the council over the next 35 years is a new build HQ. The capital costs of this option are significantly less than that of refurbishing county hall and the running costs are estimated to be less than the current arrangements. Not only does this option offer the best opportunity to maximise private sector jobs on the Aykley Heads site, it also provides the best value for money. As austerity continues this is a crucial consideration in protecting frontline services through continuing to reduce our administrative estate and running costs.

Business Case Process

- 111 Recognising the unique and complex nature of the HQ project, the council has adopted the HM Treasury Green Book Five Case Model Business Case methodology for the new HQ project. This process ensures that the council has followed a robust methodology that would normally be considered for schemes requiring either major external grant funding or schemes where the project is of significant scale and value for money is critical.
- 112 The Green Book process follows a five case model:
- **Strategic Case:** setting out the context for the council's headquarters, current arrangements and the case for change, constraints, and investment objectives;
 - **Economic Case:** appraising the options and evaluating the potential regenerative value of the various proposed options in addition to the value for money requirements of the economic case;
 - **Commercial Case:** indicating the commercial and procurement implications of the preferred way forward;
 - **Financial Case:** indicating the financial commitment required in terms of capital investment and revenue costs of each option and how the preferred way forward could be funded. It is only at final business case stage with the benefit of procurement that costs can be determined with certainty. At the Outline Business Case (OBC) stage, cost estimates included additional provision for 'Optimism Bias', which is added to the indicative costs to reflect the early development stage of the project. Following procurement, costs become more certain;
 - **Management Case:** outlining the initial plans to manage the way forward through FBC and delivery.
- 113 These elements are considered within the strategic, outline and full business cases and since 2015, the council has been working through these five cases.
- 114 In July 2015, Cabinet considered the Strategic Business Case and agreed the principle of the relocation of the council's HQ to a Durham City centric site subject to an OBC.
- 115 A year later in July 2016, Cabinet agreed the OBC and the production of the Full Business Case, taking forward two options which were:
- (a) to move to a new city centre core headquarters (freehold) on developer owned land and remodelling of the strategic sites (Option 3); and
 - (b) a new headquarters on council owned land in the city centre delivered by the council and remodelling of the strategic sites (Option 5).

116 Cabinet agreed that the recommended option (option 3) was the preferred delivery route with option 5 being retained as a comparator, with a further report to be brought to Cabinet once the Full Business Case had been completed.

Full Business Case

Short-List Options

117 The five options under consideration at OBC remain at FBC. The intent of each option is unchanged, but the option descriptions have evolved to aid clarity of understanding and reflect that the work on strategic sites is underway. The FBC option descriptions are set out in table 1 below.

Table 1: FBC Short-list options

Option
1. Full refurbishment of County Hall
2. New Build HQ by DCC on DCC land at Aykley Heads
3. New Build in City Centre (freehold – Developer led)
4. New Build in City Centre (leasehold – Developer led)
5. New Build in City Centre (freehold – DCC existing site and DCC delivery)

118 The OBC concluded:

- (a) Option 1 was a particularly poor value for money option. 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 does have a slightly 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;
- (c) Option 3 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 development risk to the private sector partner thus providing more cost certainty;
- (d) Option 4 has the second highest benefits score but the highest costs in terms of value for money. 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 shows good value for money at this stage. It relies on the council being able to deliver a new HQ building on a site in the city. This option however presents more inherent risk to the council with experience suggesting that this option leaves delivery risk with the council instead of securing risk transfer to the private sector.
- 119 Taking into account the work undertaken as part of the OBC, option 3 was considered to present the best option moving forward to FBC, due to a number of factors apparent at that stage:
- (a) Best fit with the strategic objectives.
 - (b) Early indications are that it could be delivered within the cost parameters as identified in the July 2015 Cabinet report.
 - (c) Risk transfer to the private sector.

Benefits

- 120 A workshop early in the FBC process revalidated the objectives of the development and established measurable benefits to the County. Key amongst these are:
- (a) supporting city centre regeneration;
 - (b) creating employment land by moving from Aykley Heads;
 - (c) facilitating the creation of high quality jobs;
 - (d) minimising the environmental impact;
 - (e) maintaining a civic presence in the city;
 - (f) delivering accessible democracy; and
 - (g) creating flexible civic space for community use.

121 The report will now turn to the five cases as part of the FBC process.

Strategic Case

- 122 The Strategic Case for the HQ project remains strong and has become more compelling over the last 12 months. A Value Tree Workshop in January 2017 demonstrated the objectives for and benefits of the project, which centred on:
- (a) enabling the Strategic Employment Site (SES) project (to facilitate the creation of over 6,000 jobs in a high quality new business quarter;
 - (b) catalysing investment in the city centre;

- (c) achieving the best value for money in the HQ provision going forwards; and
- (d) making best use of the council's four strategic office accommodation sites.

Economic Case

123 A quality scoring workshop was held on 15 November 2017. Within the workshop, the strategic objectives were re-validated using the Value Tree as a guide and the non-monetised advantages and disadvantages of each of the options were scored against the strategic objectives. Each option was scored and the weighted scores agreed are captured in table 1 below.

Table 1: Quality Scoring Analysis

Option	Weighted Score	Rank
1. Full refurbishment of County Hall	31.3	5 th
2. New Build HQ by DCC on DCC land at Aykley Heads	66.4	4 th
3. New Build HQ in City Centre (Freehold - Developer led)	92.5	1st
4. New Build HQ in City Centre (leasehold - Developer led)	79.1	3 rd
5. New Build HQ in City Centre (freehold - DCC existing site and DCC delivery)	85.4	2 nd

124 The ranking at FBC is consistent with the ranking reported within the OBC.

125 Option 1 is a full refurbishment of County Hall to address its backlog maintenance and enable it to operate as the council HQ, and for the surplus space to be let. The cost estimates have been prepared by an expert quantity surveyor using industry benchmark data for similar works.

126 Given the high level of existing backlog maintenance at County Hall, it would be difficult for the council to continue to occupy the building beyond the near term without committing to a full refurbishment. Hence there is no realistic and deliverable 'do minimum' option available.

127 The value for money assessment completed reinforces the previous OBC finding by indicating that Option 3 - relocation to a new freehold HQ building in the city centre delivered by a private sector developer - is the preferred option to deliver the strategic objectives. This is based on the following factors:

- (a) Remaining at County Hall for any longer than the immediate future will have a very high cost and be poor value for money.
- (b) It is lower cost to move to a new building than refurbish County Hall (Option 1).
- (c) Option 2, the council building a new HQ at Aykley Heads, is just higher cost than Option 3, but its benefits score and value for money are significantly worse.
- (d) Option 3 is a city centre HQ delivered by the private sector. It has the highest benefits, enables significant risk transfer and has the lowest cost.
- (e) Over time, the city centre freehold (Option 3) has a markedly lower cost than the city centre leasehold equivalent (Option 4).
- (f) Option 5 is a city centre HQ delivered by the council rather than a private sector developer. It has a lower, though still good, benefits score, but compared to Option 3 has much more risk retained by the council for the duration of the project and a higher cost.

128 The appraisal completed clearly identifies Option 3 as the most economically advantageous option. It has the highest qualitative score and the competitive procurement undertaken has delivered a significantly lower cost than forecast at OBC. Option 3 was the preferred option at OBC and has been developed through the procurement, including by council land being offered for a future HQ to address the very limited supply of suitable private sector sites available.

Commercial Case

129 The Commercial Case set out within the OBC was fully tested through a soft market testing exercise and validated by external legal advisors. This was followed by an OJEU compliant procurement process the details of which are discussed below.

Management Case

130 The management case addresses the way in which the project will be managed, demonstrating robust and clear governance to provide reassurance regarding the overall likelihood of success for the project.

131 The management case evaluation has shown that project management has ensured that the project and associated governance arrangements have been effective since approval of the OBC in July 2016.

132 Subject to Cabinet consideration, appropriate resources will be allocated to ensure the project is delivered successfully.

Procurement of the new HQ

Development of the Council's Requirements

- 133 Prior to going to the market formally, in the period October to December 2016 a set of council Authority Requirements (ARs) were produced that further developed the key principles and corporate brief set out in the Cabinet report of July 2016. The ARs effectively form the council's headline specification for the HQ.
- 134 The ARs used a workshop approach to establish the needs of the range of people who will occupy and use a new headquarters. This included:
- (a) a value workshop to review the key objectives of the headquarters building and set the overall standard for its look and feel;
 - (b) a cross party Member Accommodation Working Group that met periodically to define the civic requirements and Members' accommodation needs for the future;
 - (c) a series of workshops to define the mechanical and electrical requirements of a new building taking into account sustainability and efficiencies in running costs;
 - (d) focussed consideration of security within a new building including visitor management;
 - (e) a series of design workshops to further develop the 7:10 desk ratio and other metrics used to define the office spaces including meeting rooms; and
 - (f) ICT workshops to review the use of technology and how it might increase the efficiency of services delivered by the Council.
- 135 Alongside this, key criteria were developed to deliver new ways of working across the council's wider office estate. This has become the Inspire programme - transforming delivery of the office environment and the way we work in order to more effectively and efficiently deliver our services.
- 136 In summary, the council specified a requirement for a building that would:
- (a) be welcoming to the public in front facing areas whilst ensuring security for all occupants of the building;
 - (b) be flexible for community use and have the ability to generate income for the council;
 - (c) express the civic nature of the activities that it supports;
 - (d) accommodate 1,000 full time equivalent staff posts across 700 workstations with alternative work settings allowing for flexible working;
 - (e) contain an 85 seat publicly accessible café;

- (f) include 1,432m² of civic space including a debating chamber, committee rooms, political group rooms, a resource area and a high quality civic suite;
- (g) promote a healthy environment;
- (h) be energy efficient in its operation;
- (i) be set in a landscape that integrates into the wider context offering opportunities for community events; and
- (j) provide 200 parking spaces controlled by the council.

137 A number of key themes were presented in the ARs:

- (a) Facilitating the council's change programme;
- (b) Drawing inspiration from the heritage context whilst delivering a contemporary building;
- (c) Supporting new ways of working such as hot-desking and working in multiple locations;
- (d) Creating a task based working environment to aid greater collaboration and flexibility in the workplace;
- (e) Encouraging public interaction without compromising security;
- (f) Expressing the civic nature of the building;
- (g) Creating a healthy office that contributes to the wellbeing of the occupants;
- (h) Allowing effective exchange of information and knowledge through the arrangement of departments and teams;
- (i) Paying due regard to the community in which it sits; and
- (j) Is adaptable to accommodate possible future changes including opportunities for sub-letting and income generation.

138 The council also specified that the procurement process should fully support its social value initiatives and deliver training and employment opportunities. This includes assisting the authority in delivering its duties under the Public Services (Social Value) Act 2012. Therefore the council also ensured that the contract, as well as providing the new HQ and the associated employment generated, will deliver wider social value for the community.

The Procurement Process

- 139 As part of the commercial case, the council undertook a procurement process. The procurement was judged to be complex and requiring structured engagement with any potential bidders. The OBC analysis and soft market testing confirmed that a private developer scheme via a Competitive Dialogue procedure was most strongly aligned with the key procurement drivers and would achieve the optimum risk transfer position for the council.
- 140 The soft market testing established that developers were keenly interested in delivering a new headquarters for the council but that developable land was scarce in the city centre. In order to ensure that value for money was achieved and as per the Cabinet approval, development was sought by a private developer on either developer or council owned land.
- 141 Whilst developers were able to bring forward sites under their control, a plan of the council owned land considered appropriate for this project within the identified geography is attached as appendix 3. Three council owned sites were identified as having the potential to meet the requirements for a building and associated car parking. Through offering up these sites to developers, the council could achieve its overall objectives, including regeneration, as well as be assured of a competitive process resulting in the best value for money solution. A massing exercise was carried out which showed that all three sites were of sufficient size to accommodate the new HQ, but that planning restrictions meant that only one of the sites, the Sands car park, could accommodate the HQ whilst the other two sites facilitated car parking. This option was on the understanding that any existing car parking would be re-provided.
- 142 Following soft market testing, an OJEU Notice was issued in March 2017 together with a Selection Questionnaire (and all required documentation). An Invitation to Participate in Dialogue (ITPD) was then issued to four short-listed bidders in May 2017. The council closed dialogue with all four bidders in September 2017 and then issued an Invitation to Submit Final Tenders (ITSFT). Four bids were received and an evaluation process was completed.
- 143 The nature of the procurement and the competitive tension it brought, combined with the clarity of the council's requirements, delivered lower cost financial proposals than had been anticipated at OBC stage. Of the four proposals received during the procurement, the scheme proposed by the 'Preferred Bidder' represented the most economically advantageous bid, and has formed the basis of Option 3 in the FBC.
- 144 As set out in the procurement documents, a "Reserve Bidder" has also been selected based upon being the second highest scoring bidder. The Reserve Bidder will only be approached should the preferred bidder not perform during the PDSA period.
- 145 The Preferred Bidder's submission was used in the FBC to evaluate the case for moving forward with that option.

- 146 Subject to Cabinet approval, the council will issue a notification to all bidders in accordance with the Public Contracts Regulations 2015 and the standstill period will then commence.
- 147 All of the bid submissions were well received by the council and each scheme would have added a new dimension and quality offering to the physical fabric of the city. However, the rigorous procurement process established that the most economically advantageous bid offered value for money, clear deliverability and met the authority's requirements in the most consistent and appropriate way.

Proposed Next Steps

- 148 Subject to Cabinet consideration of the various matters related to Aykley Heads and the HQ, it is proposed that Preferred Bidder status will be confirmed in January 2018. The mandatory Alcatel 10 day standstill period will follow the notification of the intention to award the contract.
- 149 Following the Alcatel standstill period, it is proposed that delegated authority would be used to enter into a Pre-Development Services Agreement. This is the next phase of the project which it is anticipated will run until Autumn 2018. This will allow further development of cost and design up to RIBA stage 4, planning approval to be sought and any outstanding matters to be addressed.
- 150 On satisfactory completion of the matters set out above it is proposed that delegated authority will be utilised to enter into the Development Agreement, which is the key contract documentation that will be executed for the delivery of the new HQ.

Inspire Programme and Strategic Office Sites

- 151 The council has embarked on a major programme of transformation to identify ways of continuing to provide the best possible services to local people with the reducing resources that are available to us.
- 152 A key component of the Council's transformation programme is the 'Inspire' project, which aims to rationalise our estate whilst modernising buildings to promote customer accessibility and service, improved productivity and more flexible working opportunities for staff. This is being achieved through improvements to building design, mobile working, digital working tools and hot desking and supported by cultural change.
- 153 The strategic business case and OBC confirmed the council's distributed administration model with major business premises in Crook, Seaham, Spennymoor, Meadowfield and the Durham HQ.
- 154 The OBC has factored in the options for facilitating the downsizing of the HQ and the relocation of approximately 850 employees to strategic sites and recognises the investment required in the Council's strategic sites to facilitate the change required. Work is currently underway at the Crook strategic site.

- 155 The new HQ and strategic sites provide the Council with the opportunity to modernise the estate and to transform how our staff work in the future. Buildings that facilitate team working and flexible working opportunities will support the transformation of services over the medium to longer term.
- 156 The new headquarters forms a key component of the Council's strategic site development and transformation programme and continues the rationalisation of our office estate since LGR, which has seen a reduction of approximately 400,000 sq.ft. Without the availability of a modern, well designed estate, the Council will not be in a position to fully transform the way its staff work or how it provides services, which will place further pressure on identifying savings in other service areas.

Financial Implications

- 157 The detail of the capital implications of the new HQ are set out in the part B cabinet report. The capital costs associated with the investment in the Aykley Heads site and subsequent investments in the new HQ will be included in the council's MTFP capital plans over the medium term. As reported to Cabinet in October 2016, the Office Accommodation Capital Reserve (£40m) is available to finance the capital investment in a new HQ.
- 158 The revenue implications of the new HQ are also set out in the part B Cabinet report. The revenue costs and savings associated with the move to a new HQ will be included in the council's MTFP revenue plans over the medium term.

Legal Implications

- 159 In order to complete the FBC for the HQ project and secure a new building within Durham City constructed to the Council's requirements, the council is obliged to undertake a procurement exercise that is compliant with EU Directives and regulations and the Public Contract Regulations 2015 (PCRs). Regulation 26 (4) of the PCRs provides that where a contract cannot be awarded without prior negotiations because of specific circumstances related to the nature, complexity or risks attached to it, a competitive dialogue procedure may be undertaken.
- 160 Given the complex nature of the HQ project, a competitive dialogue procedure has been followed in accordance with regulation 30 of the PCRs. Dialogue was concluded in September 2017 and the bids evaluated on the basis of the award criteria laid down in the IFST in accordance with regulation 30 (19) of the PCRs. A bidder has been identified as having submitted the tender representing the best price-quality ratio in accordance with regulation 67 of the PCRs (the Preferred Bidder). The procurement documents issued by the Council also provided for a reserve bidder who has also been identified.

- 161 The dialogue process is still ongoing and if Cabinet decides to accept the outcome of the evaluation of the bids, the Council will issue a notice of its decision to award a contract (the PDSA) to all bidders in accordance with regulation 86 of the PCRs and allow a standstill period under Regulation 87 before entering into the PDSA.
- 162 Regulation 30(20) provides for the continuation of negotiations with the Preferred Bidder provided that this does not have the effect of materially modifying essential aspects of the bid and does not risk distorting competition or causing discrimination.
- 163 Negotiations will continue with the Preferred Bidder under the PDSA in accordance with regulation 30(20). If successfully concluded, the Council will then enter into the DA which governs the construction phase of the HQ project.

Conclusion of Part 2

- 164 The council's overarching priority is to create an altogether wealthier Durham, improving the economic performance of County Durham as a whole. This priority is reflected in the Sustainable Community Strategy and Regeneration Statement and is the central theme of the emerging Local Plan. The focus is on helping to shape County Durham into a place where people want to live, work, invest and visit whilst enabling our residents and businesses to achieve their potential in full.
- 165 Our overall approach to regeneration and economic development for the county is to capitalise on opportunities and to work with the market to gain growth. We have set a benchmark for the county to pre-recession rates of employment, which requires more jobs, higher value jobs and more employed people living in the county. The city of Durham offers a unique opportunity to achieve all these things.
- 166 In order to deliver the aspirations set out within this report and in accordance with the Strategic Business Case and the Outline Business Case, there is an opportunity to bring forward the Aykley Heads site for redevelopment.
- 167 To deliver this key opportunity, the council has undertaken a Treasury Green Book Five Case Model Business Case process and been able to complete the Full Business Case. Through a well-designed and very robust procurement process, the FBC has clearly demonstrated that the selected option can deliver the council's requirements, adds value to the ongoing regeneration of Durham City, offers value for money in construction costs and saves the council money year on year in terms of running costs.
- 168 This is further evidenced through the independently produced Full Business Case that shows that to address the refurbishment backlog in County Hall and redesign the building to provide the council with the ability to work in a more

flexible way would cost over £75 million. It would therefore cost over £25 million more to refurbish County Hall than to move to a new HQ.

- 169 The FBC presents a recommended option for the council to consider. Due to the commercial confidentiality of the bidders' information, this is presented in the associated Part B report for Members' consideration.
- 170 By accepting the outcome of the robust procurement process and moving to the next stage, the council would be entering into a Pre-Development Services Agreement with the Preferred Bidder who would be required to move the outline design of the proposed scheme into detailed design to RIBA Stage 4 and secure satisfactory planning consent. Subject to this, the council would thereafter sign a Development Agreement for the Preferred Bidder to build the HQ.

Recommendations of Part 2

- 171 It is recommended that Cabinet:
- (a) endorse the key findings of the FBC as set out in this report and subject to consideration of the related report in Part B:
 - i. Note that the detailed financial information is set out in the part B report on this agenda and that the Office Accommodation Capital Reserve is available to finance the project and the capital costs, on-going revenue costs and savings and one-off costs of the project will be incorporated into future MTFP reports.
 - ii. approve the outcome of the procurement process to select a Preferred Bidder and Reserve Bidder;
 - iii. delegate authority to the Corporate Director of Regeneration and Local Services and the Corporate Director of Resources in consultation with the Cabinet Portfolio Holder for Economic Development and Regeneration and the Cabinet Portfolio Holder for Finance to enter into a Pre Development Services Agreement (PDSA) with the Preferred Bidder;
 - iv. delegate authority to the Corporate Director of Regeneration and Local Services and the Corporate Director of Resources, in consultation with the Cabinet Portfolio Holder for Economic Development and Regeneration and the Cabinet Portfolio Holder for Finance, to enter into the Development Agreement for the new HQ following satisfactory planning approval provided that the Preferred Bidder achieves the council's requirements during the PDSA period.

PART 3 – FUTURE OPTIONS FOR THE COUNTY ARCHIVE

- 172 The County Archive is an unbroken record of the historic county of Durham, stretching back almost 900 years. Its written and photographic records provide a unique insight into the history and heritage of the county, its people and local communities.
- 173 As it stands, the archive contains over five miles of storage in County Hall. It is fast out-growing its current accommodation and additional storage capacity needs to be provided to enable the service to collect, preserve and store future historic documents and continue the unbroken record of the history of the county.
- 174 As part of the consideration of the redevelopment proposals for Aykley Heads and the creation of a strategic employment site capable of creating over 6,000 jobs, officers have also been considering options for potentially relocating County Hall to another location.
- 175 Should this happen, it would also be necessary to relocate the current archive and the associated Durham County Record Office, which provides public access to the important and unique records the archive contains.
- 176 In consideration of the OBC in July 2016, Cabinet agreed that alongside the work to assess and identify the most cost effective options for the council's HQ, complementary work should commence on exploring new and potentially innovative future options for the County Archive, with a view to potentially applying for external funding support from the Heritage Lottery Fund.
- 177 This report outlines the options considered, including the potential development of a new 'Durham history centre', as part of a wider cultural and service development in Durham City.

The Archive

- 178 The council has a statutory requirement to preserve public records and the County Archive and Record Office is a hugely popular and highly valued council service. It provides a comprehensive record of the industrial and social history of the local area going back almost 900 years. It provides evidence of past decision making to hold government and organisations to account. Each year, the service is accessed over one million times as people search for records and historical information online, over the telephone or in person by visiting the Record Office.
- 179 The service is provided by highly skilled and professional staff, who work with volunteers to preserve, document and interpret records and promote public access through research projects and outreach programmes with local community groups and schools.
- 180 The archive has been based in County Hall since the building opened in 1963.

- 181 Over time, as the building has aged and the archive has grown, the accommodation has become outdated and unsuitable, and there is insufficient future storage space for this important heritage asset.
- 182 The archival storage rooms are almost full and there is a need to modernise the accommodation and service offer.
- 183 An independent peer review of our current facilities undertaken in August 2016 concluded that:
- (a) the layout of the archive service was one of the most inefficient seen;
 - (b) the general environment was poor, with worn accommodation and battered surfaces;
 - (c) the general impression was 'old-fashioned' and slightly depressing;
 - (d) the Record Office provided an unattractive, even unworkable destination which prevents us from attracting more service users and developing the audience for this important heritage and cultural asset.
- 184 In addition, an inspection last year by The National Archives, which approves the council as a place of deposit for the public record, provided limited accreditation for a period of six months commenting:
- (a) the council's recent practice of converting office space for archive purposes as opportunities arise cannot be seen as a long term solution to the requirements of the Record Office; and
 - (b) it is becoming difficult to operate effectively and efficiently due to the increasingly apparent constraints imposed on the service by the configuration of the building.

Future options

- 185 If the council decides to progress the redevelopment proposals for Aykley Heads and the relocation of its headquarters accommodation to another site, the following options for the future provision of the Archive and Record Office are apparent:
- (a) Establishing accommodation for a similar level of service provision as now at an alternative site – the 'like for like' option;
 - (b) Establishing accommodation for an enhanced service co-located with other cultural and service assets at an alternative site – the 'value added' option;
 - (c) In addition, a 'status quo' option has also been considered, based on utilising the existing accommodation in the current way.

Like for like option

- 186 This option is based on providing fit-for-purpose storage accommodation for the current Archive and Record Office with capacity for 25 years' growth at an alternative location.
- 187 To do this as cost-effectively as possible, it would not be included with the proposed headquarters building as accommodating substantial amounts of document storage in city centre office space does not offer value for money. This option is based on developing primarily 'storage' accommodation via a new storage warehouse building or converting an existing building to such.
- 188 This option would meet the current and future needs of the Archive and would provide the National Archive Inspector with assurance that the council is able to provide fit-for-purpose storage and accommodation for its archival records.
- 189 It would enable us to maintain online and telephone service provision. It would be less likely however, to enable us to increase in-person service provision and broaden the audience for heritage assets due to the rudimentary and stand-alone nature of the provision. As such, it would be less likely to enable us to secure funding from the Heritage Lottery Fund, which places a priority on audience development and the conservation and restoration of heritage assets.
- 190 Initial capital cost estimates for this option based on current and future accommodation requirements and a countywide search of potentially suitable sites, are up to £11 million depending on location and site costs.

Value added option

- 191 This option is based on co-locating the Archive and Record Office with other cultural and service assets to create a much more attractive service offer and public destination/venue. The option was highlighted through the countywide search of potential sites, public consultation and discussions with other services interested in the synergy which could be achieved by co-locating complementary service provision in a distinct and attractive venue.
- 192 Experience elsewhere has shown that co-locating and massing cultural and heritage assets and services has increased service usage, attracted more external funding and created more sustainable service provision.
- 193 This option is based on bringing together all of the council's written and photographic history records, alongside the Durham city registration office and potentially other heritage and military collections with shared values and functions, into an integrated service, which would provide improved public access to important resources. This could include:
- (a) The council's archive and record office
 - (b) Historic registration records

- (c) Historic environment record and archaeology
- (d) Local studies collections
- (e) Durham Register Office including registration of births, deaths, marriages and civil partnerships
- (f) Bishop Auckland Register Office
- (g) Wedding venue
- (h) DLI collection
- (i) Research space for schools
- (j) Exhibition space

- 194 Enhanced educational facilities could be provided to improve the popular service offer to schools across the county and Darlington, alongside exhibition space, research facilities and space for volunteers.
- 195 A key aspect of this option is the restoration of a heritage asset to provide fitting and attractive accommodation for history or records related services, which would also enable us to bring a redundant building back to life.
- 196 The countywide search of suitable sites identified Mount Oswald Manor on the outskirts of Durham City as a potential location.
- 197 This Grade II listed building, built in 1800, was owned by Thomas Wilkinson, a former mayor of Durham City. It was acquired by Durham City Golf Club in 1928 and as well as being the club house, also became an established conference and functions venue in the city, specialising in wedding and funeral receptions, proms, society dinners and large functions and events.
- 198 The current owners have expressed an interest in working with the council to explore transferring the building into public ownership at a nominal cost in order to facilitate the development of a 'Durham history centre' as outlined above.
- 199 As with 'like-for-like', this option would meet the current and future needs of the Archive and would provide the National Archive Inspector with assurance that the council is able to provide fit-for-purpose storage and accommodation for its current and future archival records. It would enable us to maintain existing service provision and the co-location with complementary collections and services including registration and DLI records offers the prospect of appealing to a broader range of audiences and attracting more service users.
- 200 The potential restoration of a Grade II listed building of historic civic importance would be more likely to attract support from the Heritage Lottery Fund.

- 201 Co-locating the service with the Durham city registration office offers the potential to share overhead costs between services and provides an alternative long term solution to the accommodation needs of the registration service, given that the existing lease on Aykley Heads House in Durham City is coming to an end in the next few years.
- 202 It is proposed that the improved registration offer will include co-location of the registration records and ceremony rooms currently operating from Bishop Auckland Register Office, offering the opportunity to move from a building that is not fit for purpose for the storage of records. Arrangements are being made to ensure that the registration service still has a presence in Bishop Auckland for the registration of births and deaths.
- 203 Initial capital cost estimates for this option range from £14.8 million to £17.7 million, with the upper end of the range including a substantial worst case contingency, given that detailed costings have yet to be undertaken.
- 204 It may be possible to secure up to £4 million of Heritage Lottery Fund grant, which could bring the project costs down to between £10.8 million to £13.7 million, depending upon the outcome of an application.
- 205 The running costs of the Archive element of the County Hall are estimated at £0.175 million per annum. There will be building related savings generated from the current Durham and Bishop Auckland Registrar's facilities of £0.137 million, which will be available to fund the on-going costs of the new History Centre. This total available budget of £0.312 million is sufficient to fund the estimated running costs of the new facility.
- 206 In addition, from a commercial perspective, providing weddings and other civil ceremonies in an attractive historic venue, offers the prospect of increased income generation, which experience elsewhere suggests would help to create a more financially sustainable site.
- 207 The income generation potential of this particular site is enhanced by the Manor's history as a local wedding reception and events venue.
- 208 There would be 'one off' revenue costs associated with the development of the history centre. The one-off decant costs for the Archive are estimated at £0.270 million. One-off costs associated with dual running of buildings as part of the History Centre development are estimated to be between £0.720 million and £0.851 million dependent upon the timescales for securing a decision on external funding. It is proposed to fund these one-off costs from the council's general reserve.

Status quo

- 209 This option is based on the service continuing in its current location in County Hall.
- 210 The service would continue to be provided from an out-dated building and future storage space would require the conversion of vacated office

accommodation, which as well as being relatively costly, is not ideal for the storage of precious documents and records. The council would find it very difficult to regain its permanent archive accreditation from The National Archives, resulting in serious reputational damage and substantial costs to find and pay for alternative accommodation for public records.

- 211 In addition, the presence of the Archive and Record Office as a 'sitting tenant' in County Hall would frustrate proposals to bring about the redevelopment of the Aykley Heads and the attraction of much needed investment and job creation to the area.
- 212 For these reasons, this is considered to be by far the worst option and depending on Members' decisions regarding Aykley Heads and the potential relocation of County Hall, may not be a viable or feasible option.

Consideration

- 213 Maintaining our existing approach is the least attractive option as it entails doing the minimum to fulfil our statutory requirements and presiding over a deteriorating service in which future records and historic documents are retained in unsuitable and inefficient accommodation.
- 214 The like for like and value added options would enable us to maintain service provision.
- 215 The value added option of creating a 'Durham history centre' co-located with other heritage assets and services, offers the very real prospect of being able to attract external grant funding. However, it would take more time before the archive is able to move out of County Hall, which needs to be considered when taking forward the wider project.
- 216 The value added option would provide a significantly enhanced and improved service, with a considerable range of additional benefits, which would be of value to current and future generations and the marketing of the county as a unique heritage destination.
- 217 It also offers the potential to increase income generation through bringing together services in an excellent location.
- 218 For these reasons, the value added option is the preferred approach for further development.

Next steps

- 219 If Cabinet agrees to pursue this option, it will be necessary to consult stakeholders and interested parties to ascertain the level of commitment to the proposal and to define the precise potential service offer.
- 220 Potential interested parties would include:
- (a) Durham University;

- (b) The Diocese of Durham;
- (c) Durham Cathedral;
- (d) DLI Trustees;
- (e) Darlington Borough Council;
- (f) The Friends of Durham County Record Office;
- (g) Durham City Trust;
- (h) Other local and family history organisations.

221 The outcome of the consultation would enable us to develop the proposal further and make an application to the Heritage Lottery Fund.

222 Depending on the outcome of this, we would either develop the proposal further, or if unsuccessful, review the situation including whether we should pursue a 'like for like' replacement for the current provision, as our fall-back option.

Financial Implications

223 The report confirms that the capital costs associated with the history centre estimated at £14.8 million to £17.7 million (£10.8 million - £13.7 million net of HLF funding) if agreed, would be included in future MTFP plans. The on-going revenue costs of the history centre can be met from savings and the available budgets from the existing archive and registration facilities. The one-off revenue costs associated with the new facility will be met from the council's general reserve.

Legal Implications

224 The archives service is subject to national archives and records management legislative requirements, including requirements associated with the custodianship of the records of other agencies and bodies. Section 224 of the Local Government Act 1972 requires the council to make proper arrangements for documents in its custody. Section 10 of the Registration Services Act 1953 requires the council to provide a registry office for its Superintendent Registrar of Births, Deaths and Marriages. The council has the power under S.120 of the Local Government Act 1972 to acquire land for the purposes of its functions. The resolutions recommended by this report would enable officers to negotiate on land acquisition and consult on the proposal before reporting back to Cabinet for a final decision on the option to be selected.

Conclusion of Part 3

225 County Durham has played a key role in the development of our nation and the industrial revolution. Its historic record, which the council is charged with maintaining, is therefore of local, national and international importance.

- 226 It also has significant economic value given that the history and heritage of the county are important aspects of Durham's unique selling proposition, setting us apart from other areas.
- 227 Maintaining our current approach to the archive is not a viable option as it entails failing to meet The National Archives standards, and subject to Cabinet's wider considerations, potentially frustrates strategically important economic proposals to attract investment and thousands of jobs to the Aykley Heads site.
- 228 Set against this, is a potentially exciting proposal to enhance and develop the service through the establishment of a 'Durham history centre' co-located with other heritage and records related services, in a historic building of local civic significance.
- 229 The potential relocation of County Hall provides a once in a generation opportunity to explore this approach with stakeholders and other interested parties.

Recommendations of Part 3

- 230 Subject to the outcome of Cabinet's decisions on the Aykley Heads strategic employment site proposal and the potential relocation of County Hall, Cabinet is recommended to:
- (a) agree to progress the 'Durham history centre' concept as outlined above;
 - (b) agree to consult stakeholders and interested parties on the proposal;
 - (c) authorise the Corporate Director of Regeneration and Local Services and the Corporate Director of Resources, in consultation with the relevant portfolio holders to continue negotiations with the relevant landowners;
 - (d) agree to the submission of a funding application to the Heritage Lottery Fund, subject to the outcome of the consultation and negotiations;
 - (e) receive a further report on the detailed proposals for final consideration;
 - (f) note the estimated capital costs as set out in the report will be included in future MTFP plans once they are finalised;
 - (g) note that the on-going revenue costs of the history centre can be met from available resources;
 - (h) note that the one-off costs set out in this report will be met from general reserve.

Background Papers

Cabinet report – 15th July 2015

Update on Office Accommodation Programme and release of Aykley Heads Strategic Employment Site for Economic Regeneration

Cabinet Report – 13th July 2016

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

Cabinet report – 13th July 2016

Update on the Office Accommodation Programme and Outline Business Case for a New Headquarters – Part B

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Appendix 1: Implications

Finance

Capital and revenue implications associated with developing Aykley Heads will be dependent on the specific delivery model chosen to develop the masterplan. The report outlines three broad approaches consisting of a traditional sale, the council taking a head lease and direct development by the council. Initial work suggests that some form of intervention and support will be required by the council if it was to self-develop and deliver the masterplan before achieving an overall financial return. A combination of approaches could be likely which require exploration and detailed analysis to inform the council's final approach.

The capital and revenue implications of the HQ will be included in future MTFP reports and are set out in further detail in the Part B report.

The latest estimates of the capital and revenue costs associated with the archive and proposed relocation are set out in the report and will be refined as further work is undertaken.

Staffing

The proposals set out in the report are aimed at continuing the Council's approach to modernising and introducing new ways of working. The proposals will provide opportunities for staff to work more flexibly within accommodation that promotes new ways of working within the overall context of the transformation programme. Staff will continue to be engaged in the transformation programme and new ways of working as the project develops. As referred to below, equality impact assessments will be completed as appropriate.

Risk – Aykley Heads Strategic Employment Site

Market analysis and modelling has been undertaken to understand and confirm the viability of the proposals. Further detailed analysis and due diligence will be conducted in developing the preferred delivery model and will be presented to Cabinet in summer 2018.

Durham County Council Headquarters Final Business Case

The main risks identified during the FBC process for the HQ project centred on finance and delivery.

It is important that that the preferred option delivers the Council's objectives within an affordable budget and with minimum, if any, cost over runs. The FBC process itself which has tested the options identified at OBC validates the overall affordability of the HQ project whilst the procurement process has created commercial tension and enabled the Council to evaluate the most economically advantageous bid. Within the procurement process, all bidders' costs were validated to ensure that all cost proposals were comprehensive, realistic and deliverable. This included supply chain collaboration and covered both capital and operation costs. An element for risk and contingency costs was also included.

With respect to deliverability, project overrun has been addressed so far as practical by risk transfer in the legal documents (PDSA and development agreement) with the procurement evaluation criteria focusing on risk transfer and deliverability. This included limiting extension provision for the construction phase and liquidated damages in the event of overrun. Clear deliverables have been set out in the procurement documentation and the PDSA period allows the further development of design and cost provided that this does not materially modify essential aspect of the tender.

It is noted that obtaining satisfactory planning permission is a risk but this has been mitigated as far as possible by encouraging pre-planning dialogue between all bidders and the council's planning department.

Future Options for the County Archive

In the unlikely event that the Council is unable to secure the Mount Oswald site and/or the HLF bid is unsuccessful, it would need to consider alternative options for the site. The further report with detailed proposals for final consideration (referred to at paragraph 231(e)) will include a progress report on these issues, as well as detailed analysis of the proposals and associated risks.

Risk registers have been created for each project and will be kept under review and updated accordingly.

Equality and Diversity / Public Sector Equality Duty –

Equalities considerations are being built into the development of proposals for the Strategic Employment Site and the linked proposals to relocate the HQ and County Archive.

In relation to Strategic Employment Site proposals, it is intended to extend, maintain and improve accessibility across the site, and equality analysis will be built into ongoing planning work in relation to the site.

In relation to the HQ proposals, there are potential impacts across the protected characteristics for both staff and the general public. This is likely to include issues in relation to transport associated with a new location, and issues in relation to the accessibility of the building design. A city centre location would improve accessibility via public transport, and the needs of building users requiring accessible parking would be built into the new building design. The proposed new HQ would require compliance with latest building regulations for access (Part M), which would improve accessibility for disabled and other users compared with the current HQ building. For staff, the proposal will support the modern ways of working developed through the Inspire programme which will improve workplace flexibility for protected groups. Further equality analysis will be undertaken as part of the building and service design, if Cabinet agree to progress the project.

In relation to proposals to relocate the County Archive, initial equalities analysis indicates that there are impacts in relation to the proposed new location at Mt Oswald, and in relation to building and service design. In relation to physical access,

this proposal brings several linked services into a single location which should reduce need for travel for some service users. The location has good transport links with a park and ride facility directly opposite, and good bus links. In addition accessible parking would be available at the new location. The project would aim to enhance digital access to the archive and registration records, which is a positive potential impact for all protected groups but particularly for disabled residents and visitors as it provides an alternative for some purposes to visiting the facility. The project is still at an early stage, but accessibility and equality considerations would be built into future design work. Proposed consultation, if agreed, will be as inclusive as possible in order to capture feedback from a broad range of people including protected groups.

Disability Issues - See Equality and Diversity implications above.

Accommodation – Accommodation issues are being address through the Inspire Steering Group.

Crime and Disorder – Crime and disorder issues will be considered as part of the development of the masterplan.

Human Rights – N/A

Consultation – The development of the Aykley Heads site will be the subject of extensive local public consultation through the formation of the revised County Durham Plan and as part of the outline planning application proposed.

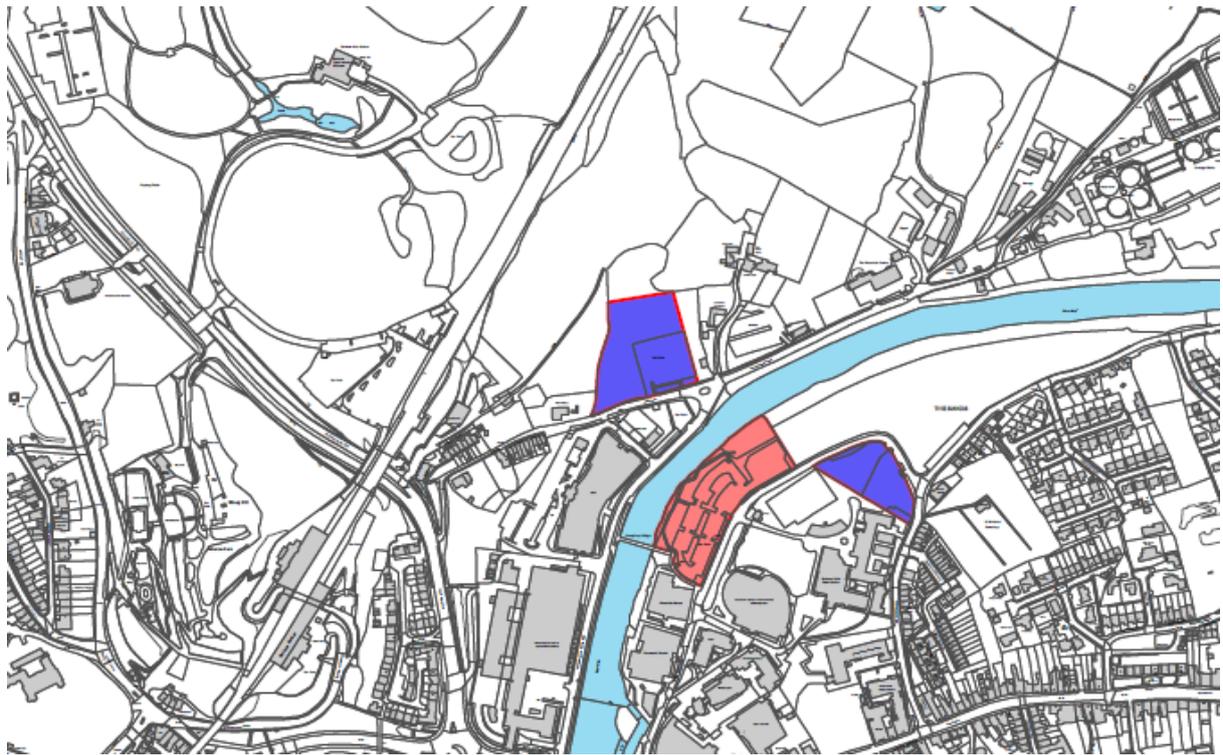
Initial consultation about the most important things for a new location for the archives and County Record Office took place in Autumn 2015. Responses highlighted the need for easy access and good parking or public transport, and for better links between the archives and other record services as 40% of respondees had visited other archives or libraries at the same time to get information. Feedback also highlighted a location in or near a town centre, the need for modern facilities and digital access. Extensive further public consultation is planned as proposals are further developed.

Procurement – The headquarters project has fully complied with the Public Contract Regulations 2015 as well as internal and external legal advice. The delivery of the remaining elements of the project once scoped during 2018 will, where required, follow a compliant and robust procurement process to realise value for money while delivering the strategic objectives set out in the report.

Disability Issues – See equality and diversity above

Legal Implications – The legal implications in respect of each project are set out in the main body of the report.

Appendix 3: Land in council ownership considered for potential HQ



Appendix 4: Aykley Heads in the context of Durham city

