

Cabinet

12 September 2018

Delivery proposals for Aykley Heads Strategic Employment Site



Key Decision REAL/06/18

Report of Corporate Management Team

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Purpose of the Report

1. Following the Cabinet decision of January 2018 to proceed with the Aykley Heads development, this report considers the next steps in delivering the site in order to ensure the proposed 6,000 jobs are secured for the benefit of County Durham's economy.
2. The report also proposes a strategy for development of the site in a flexible manner, enabling a responsive approach to opportunities and changes within the marketplace.

Background

3. 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 County Durham Plan.
4. In order to deliver the aspirations and in accordance with the Strategic Business Case and the Outline Business Case for the new Council headquarters, there is an opportunity to bring forward the Aykley Heads site for redevelopment as a strategic employment site (SES).
5. The strategic objectives for the SES were established in 2015 as follows:
 - Maximise economic impact for County Durham;
 - New job creation in Durham City;

- To generate income for the council;
- To deliver a business location of the highest quality; and
- To create an environment where people want to work.

The objectives will be kept under continual review.

6. The development of Aykley Heads provides an opportunity to create a distinctive 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. The site has the potential to attract over 700,000 sq ft of development supporting approximately 6,000 new jobs.
7. The site will be delivered across three phases beginning with the northern zone (phase 1) in 2019, park gateway (phase 2) from approximately 2021 and parkland plateau (Phase 3) as a later phase depending on market demand. The areas are as identified on the Aykley Heads masterplan attached as Appendix 2.
8. 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. To facilitate delivery in January 2018 Cabinet agreed to note the masterplan for the site, approved the submission of an outline planning application later in 2018/early 2019 and agree to receive a further report in late summer 2018 setting out next steps to deliver this key regeneration project.

The Site

9. The Aykley Heads masterplan presents a high quality city based site, laid out in campus style that respects and embraces the beautiful natural parkland landscape of the site, with amazing views to the World Heritage site. It has a direct adjacency to a main line train station, meaning it is 2.5 hours by train to London.
10. Sites of this calibre are rarely available and there is currently nothing that matches it within the North East. It is anticipated the site will be a high quality business destination that has a unique and distinctive offer and retaining these characteristics and developing the site to a high quality standard will therefore be central to the success of the development.
11. Analysis of the potential of the Aykley Heads site has been ongoing over the past few years, with a particular focus on the northern part of the site. Land is currently available to bring forward development in this part of the site.

Current Position

12. Development within Durham has traditionally occurred when pre-lets have been secured meaning that an office development has become fundable, thereby limiting the risk for developers. Across large parts of the UK, market conditions mean that developers are often unwilling to speculatively develop any good quality office stock and Durham city has been no exception. This

has meant that there is no surplus good quality office stock readily available to meet the needs of companies looking to locate into the area.

13. To understand the approach to developing the SES, a professional team of advisors were appointed to assist with the production of a development and delivery strategy and a landscape strategy/masterplan.
14. Demand to date for Aykley Heads has been strong, particularly with the recent focus on the northern part of the site, as a location for new and expanding businesses. Salvus House is approaching full occupancy and Waterstons will be moving into Northumbria House towards the end of the year. There is clearly proven demand for the location as can be seen by the fact there is very little floorspace remaining on the site.
15. As part of the work, research into current office requirements for the North East was explored. Size requirements range from 6,000 sq ft to 60,000 sq ft, with the average being around 21,000 sq ft. Many of these are footloose and therefore could be attracted to Aykley Heads given the unique setting of a city centre. Other key factors were access to customers and talent, cost of location, quality of buildings and central location. If just one of these prospective tenants could be attracted to Aykley Heads per annum, then this would give the site a sound base on which to create a successful office park.
16. The final report completed in March 2018 recommended phase 1 northern zone could be developed ahead of the area currently occupied by County Hall. It therefore should be considered for marketing and delivery immediately to stimulate interest and demand in the site. The area of the northern zone in council ownership (plots C and D) would provide between circa 65,000 sq ft to 134,000 sq ft of office accommodation. Plot E, also in the northern zone, is in the ownership of Durham Constabulary and discussions are underway with them regarding the future of plot E.
17. Following the January 2018 Cabinet decision and in order to move the development of the site forward, specialist planning consultants and architects were appointed in spring 2018 to prepare and submit a hybrid planning application, with full planning on plots C & D and outline planning for the remainder of phase 1 and 2. Phase 2 includes the current visitor car park which is in the greenbelt and will need to be dealt with sensitively through the planning process. This will provide certainty and confidence to the market irrespective of the procurement approach to deliver the site. It is anticipated that a hybrid planning application will be prepared ready for submission in quarter 4 of 2018/2019.
18. As part of the commission the architects will be responsible for designing plots C and D in phase 1 to RIBA Stage 3. As outlined at paragraph 15, recent office requirements have been estimated at 21,000 sq ft within the region. It is therefore proposed that plot C is speculatively developed within a floorspace of approximately 21,000 sq ft. The building design will be flexible to accommodate multiple tenancies or expansion requirements. This will maximise potential demand and minimise the council's financial risk and

exposure. However if a live enquiry was received, the architects and internal team would work with the organisation to design a bespoke building to their specific needs.

19. At this stage, the priority will be plot C. It is not proposed to develop plot D until such time demand is demonstrated or a user requirement has been established.

Development and Delivery Options

20. Part of the options appraisal work undertaken explored the delivery options for phase 1 and 2, which were:
 - **Land Disposal (as a whole or part(s)) to a developer/investor** – Although there would be an immediate capital receipt, the council would lose control.
 - **Direct development by the council** – Would provide confidence to the market so long as speed and efficiency are maintained. Public sector procurement process would need to be followed.
 - **Formation of a new company** – Ability to make decisions on developments quickly, however would have tax implications (Corporation Tax, VAT, SDLT).
 - **Joint Venture** – Would still have a degree of control and the risk and return would be shared, however passive investors may be adverse to long term joint liability. Not felt necessary for phase 1.
21. Further details of the advantages and disadvantage of the options is attached as Appendix 3. Examples of how other councils have delivered similar projects is attached in Appendix 4.
22. The options were then scored against an agreed criteria (see Appendix 5). The overall conclusion of the exercise states that for phase 1, direct development by the council scores well in qualitative terms and is financially viable.
23. Direct development by the council for phase 2 will depend on demand and uptake within phase 1 and changes within the broader office market. Consideration has been given to the fact that some form of joint venture / partnership arrangement may be required or may be desirable to share expertise, risk and costs to deliver development of future phases of the masterplan. This will be informed by market demand, investment trends and the position of the council at that point in time.
24. It is therefore recommended that phase 1 is directly developed by the council. This will include speculatively building an office development on plot C and having outline designs and expertise available for other plots ready to respond to market interest. Beyond the northern zone, i.e. when the site is ready to move into development on phase 2, it may be appropriate to bring a partner into the mix, dependent upon circumstances at that point in time.

Phase 1 – Who are we (August 2018 – October 2018)

- a) Create a brand identity (including name, logo and due diligence) for the business park at Aykley Heads. Trademark the company name and logo.
- b) Create a consistent visual identity design system including straplines, images, fonts etc.
- c) Provide files and templates in all required formats, sizes and colours to allow the brand identity to be used. Provide brand guidelines.

Phase 2 – Here we are (October 2018 – December 2018)

- a) Create, set up and maintain a website, this will include design eg wire framing, sourcing domain names, hosting, etc.
- b) Prepare an online marketing brochure and digital marketing, including Search Engine Optimisation.

Phase 3 – Marketing and Public Relations (January 2019 – ongoing)

This element will be key to attracting tenants and will involve formulating an effective marketing strategy. This will involve engaging a commercial property agent who will be responsible for promoting the site, establishing leads and negotiating deals on behalf of the council. The expertise of Business Durham will also be utilized. As part of the marketing strategy the following will be undertaken:

- a) Circulate the marketing brochure as widely as possible around the market place, as well as to interested parties and/or specific occupier mailing.
- b) Undertake a mailshot directly targeting occupiers within the North East office market. Part of this process would be to highlight potential occupiers who may be looking to expand. Depending on how successful the target mailing campaign is, further market e-marketing techniques can be undertaken.
- c) Erect a marketing board at all entrances of the site, the hoardings should include marketing information including CGI images and agent contact details.
- d) Devise a programme of advertising on property websites, this should publicise the availability of the site at regional and national levels. Web based enquiries are a main source of enquiries.
- e) Increase the awareness and coverage of the site through the use of social media which is increasingly being used to increase interest and web traffic activity.

- f) Although a considerable amount of press comment has already been achieved, it would be advisable to obtain further press coverage in the local press, the specialist property press and other relevant publications.
30. Phase 1 and 2 of the branding exercise will be funded through the current SES revenue budget, phase 3 will be funded through the budget identified at para 27.

Procurement

31. To deliver plot C in the northern zone, a delivery provider will need to be engaged to undertake the construction. There will also be other ancillary services that are needed.
32. A range of delivery routes have been examined in order to identify a contractor who can deliver a cost effective and good quality product in the most appropriate way and within a reasonable timescale. These options are:
- a. Contract with Council Combined Services (Direct Services and Technical Services)**

In consultation with Council internal services, the award of works will be agreed to the most appropriate delivery route. To ensure that delivery is undertaken in line with cost, quality and timing requirements.

It is essential that we have confidence that the appointed contractor can deliver the scheme with maximum efficiency.

- b. NEPO Building Construction Framework**

The NEPO Building Construction Framework commenced on 1 April 2018. Projects let under the Framework Agreement can be of a construct only or a design and construct nature with regards to development, refurbishment or remodelling of existing properties owned and / or used by the framework users, new build projects or a combination of all these aspects inclusive of any external work associated with these projects, including demolition.

The framework is broken into 6 Lots and these are outlined below:

Lot 1 Northumber land, Tyne & Wear and Durham up to £2,000,000	Lot 2 Tees Valley up to £2,000,000	Lot 3 Northumber land, Tyne & Wear and Durham £2,000,000 - £5,000,000	Lot 4 Tees Valley £2,000,000 - £5,000,000	Lot 5 North East £5,000,000 +	Lot 6 Housing Projects up to £2,500,000
Brims	Britcon	Brims	Britcon	Esh Construction	Able Construction
Britcon	F. Parkinson	Britcon	Engie/Keepmoat	Interserve	Northern Bear
Hall Construction	Hall Construction	Northern Bear	Robertson Construction	Kier Construction	Pringle
Robertson Construction	Robertson Construction	Robertson Construction	Surgo	Sir Robert McAlpine	Surgo
Surgo	Surgo	Surgo	Tolent	Wates Construction	T Manners
T Manners	T Manners	Tolent	Walter Thompson	Wilmott Dixon	Tolent
Tolent	Tolent	Walter Thompson	William Birch		

The framework was established following an OJEU compliant process and is now operational for local authorities to access. The NEPO Building Construction Framework (version 1) has been successfully utilised by the Council in the past 24 months in relation to NETPark plot 2, Wharton Park and Thornley Waste Transfer Station. The Framework would require a further competition process (within the relevant Lot). It should be noted that there is a 1% rebate attached to the use of this Framework to be paid by the successful contractor to NEPO.

The council can also insert clauses within the procurement and contract documentation relating to use of local supply chains, promoting the use of regionally based sub-contracting and supplier services where possible. Via issue of a management information report the council can specify expectations relating to utilisation of local labour, local companies, SME's, apprenticeships and graduates etc.

c. **SCAPE National Major Works Framework**

Scape System Build Ltd is a local authority controlled company wholly owned by Derby City, Derbyshire County, Gateshead, Nottingham City, Nottinghamshire County and Warwickshire County Councils in equal shares. Scape was formed under section 95 of the 2003 Local Government Act and incorporated 21 December 2005, and began trading 1 April 2006. Scape acts as a Contracting Authority and Central Purchasing Body as defined in the EU Procurement Directives.

There are a series of contracts which have been put in place by SCAPE. The contract which is the subject of this note is the National Major Works framework for works above £4million and is a single supplier arrangement with the contractor being Wilmott Dixon. Use of the

Framework will allow direct engagement with Wilmott Dixon to discuss and agree a cost envelope for the project.

The Scape National Major Works Framework is a viable option and has been utilised in a previous procurement exercise, the NETPark Discovery building. The SCAPE solution allows a quick access solution however the major issue with utilising the SCAPE arrangement is one of best value as this is a single supplier arrangement and would therefore not be subject to a competitive process. However, it should be noted that individual projects are costed by a combination of core costs, which were subject to market testing when the framework was procured, and by open book competitive tendering of the remainder of the project through a supply chain.

d. New Procurement Process

Any new procurement exercise conducted by the council would be covered under the new Public Contracts Regulations which came into effect from 26 February 2015. The following four main EU procurement procedures are available for the Council to access under the new regulations:

- a) Open procedure
- b) Restricted Procedure
- c) Competitive procedure with negotiation
- d) Competitive Dialogue

Proceeding with a new procurement process would ensure contractors are matched very closely to our specific requirements but does entail a much longer and more costly lead in time.

33. After further exploration, it is felt that undertaking a new procurement exercise will be time consuming and unnecessary for Phase 1. The Scape route would result in speed and early cost certainty, however the overall costs could potentially be higher and there is no competitive process. Following the NEPO route will not be as quick as Scape due to the competition required, however the Council will have more capacity to tailor the requirements of the commission. It also aligns well with council objectives to promote local/regional economy and skills
34. Internal services will be engaged throughout the process to provide advice and guidance on the most cost effective and timely routes for delivery.

Additional land holding

35. Consideration needs to be given to the Police land (plot E). The simplest way option would be to acquire the land. The option to purchase would be dependent upon the purchase price and the impact upon the business case. Purchase of the land could be by way of an upfront payment or a deferred

consideration, dependent upon delivery approach. Another alternative would be to have a promotion agreement/joint venture structure with the Police.

36. Currently negotiations with the Police are ongoing. Given the council's objectives to maintain control and drive quality, confidence in the market is such that it is proposed the council develop plots C & D and potentially plot E subject to the result of Police negotiations. The option to purchase the Police land will be determined by the purchase price of the land.

Highways Infrastructure

37. Durham City currently suffers from peak hour traffic congestion principally dominated by employment and educational journeys. However Durham also remains the most accessible location, well served by rail, bus and park and ride and is the obvious choice when considering employment growth.
38. It is therefore imperative that growth planned for the Aykley Heads site can be achieved without significantly exacerbating the current congestion issues. In order to achieve this it is suggested that the amount of parking made available is balanced between the needs of the City with that of potential employers and that this is kept under review as the development is built out.
39. The initial development of phase 1 of the site, the northern zone, will be delivered with similar levels of parking to that which is already available, thus having no impact on the highway network. It will however be important that suitable management regimes are introduced to prevent people being attracted onto the site to park. This will need to be a material consideration as part of the planning submission.
40. Currently car trips to the wider Aykley Heads site are restricted by the amount of parking which is available. There are approximately 900 existing spaces within the site that will be made available once County Hall has relocated. Considering parking requirements for phase 2 of the development will therefore be essential.
41. It must also be recognised that travel patterns continue to change and it cannot be assumed that the future occupiers if the site will have similar travel patterns to the County Council with staff generally entering and leaving the site within a relatively short window at the start and end of every day. It is likely that future occupiers may well have differing demands than the current travel patterns generated by the County Council.
42. Initial estimates also suggest that a less restrained approach to providing parking would see sufficient parking available to assist development until 2030 before any negative impact arise on the network. In this timeframe it is also expected that highway infrastructure proposals to reduce congestion in the city will be forthcoming, specifically the northern and western relief roads.
43. It is therefore suggested that whilst parking provision of around 900 spaces for a user such as the County Council would be a sensible cap, as occupiers

come forward this could be considered depending on the times of day that traffic is generated and any resultant congestion. Such a review would also reflect any infrastructure changes within the city.

44. It is also the case that the development of the site must be considered alongside smarter choices programmes in managing the demand for car travel and promoting more sustainable travel.

Recommended Way Forward

45. This report sets out proposals to bring forward the Aykley Heads site in a way that should be understandable to the market and ensure delivery for all involved. Relevant resources are being sought in terms of capital and revenue budgets and appropriate expertise and capacity within relevant and appropriate frameworks to meet the requirements of potential business tenants. This will ensure the following benefits are realised:

- The creation of up to 6,000 jobs;
- Additional £400m Gross Value Added;
- Increased asset value for the County Council as the lead landowner and developer;
- Additional forecast revenue to the council over a 40 year timeframe
- Additional business rates income of £1.5 million - £1.7 million per annum on completion of the whole site.

46. The council will retain the freehold interest in phase 1 (plots C & D). It is proposed to commission construction to build plot C speculatively. The site will be marketed in conjunction with Business Durham and a commercial property agent who will be responsible for identifying potential tenants. Plot D will be delivered as soon as there is confidence that there is market demand or that an end user commits to a tenancy.

47. The benefits of the Council delivering phase 1 of the development include:

- The establishment of a market presence for the Aykley Heads site at the earliest opportunity.
- Financial structures that are simple and allow the council to assess its appetite for delivery of phase 2 of the site based on experience of a smaller quantum of floorspace and less risk exposure.
- The council retains control over the quality of what is built.

48. Elements that have been considered include:

- Market need;
- Financial modelling including the borrowing required to fund the development;
- Procurement and legal advice on the best way forward; and
- The level of internal expertise to deliver the scheme and marketing.

49. The Economic Development and Housing Service will lead the development as a key regeneration project supported by expertise from across the council. These internal arrangements will be supported by commissioning external expertise to deliver the scheme in relation to commercial agency advice and marketing.
50. Delivery arrangements will be kept under review on a phase by phase basis to manage the council's exposure to risk and in response to market trends. Delivery of phase 2 which is the current County Hall site, will be subject to a further report.

Indicative Timescales and Next Steps

51. The indicative timescales are as follows:

Milestone	Completed
Appoint planning consultants	May 2018
Appoint branding consultants	August 2018
Brand identity created	October 2018
Website and digital marketing created	December 2018
Begin marketing the site	January 2019
Design Plots C & D to RIBA Stage 3	January 2019
Hybrid Planning consent	April 2019
Greenbelt release decision for phase 2 (Secretary of State)	July 2019
Finalise design and detailed costs to RIBA Stage 4 for Plot C	July 2019
Contractor appointed	September 2019
Construction begins (Plot C)	January 2020
Practical completion (Plot C)	November 2021

Recommendations and reasons

52. It is recommended that Cabinet:
- a) Approve the commencement of the development of the Aykley Heads site.
 - b) Approve that plots C & D will be directly delivered by the council using the most appropriate delivery method with delegated authority to the Director of Regeneration and Local Services in consultation with the Portfolio Holder to deliver the development and occupational arrangements.
 - c) Approve the capital requirement for Plot C, detailed in the accompanying report. The financing of Plot D be approved via

delegated authority to the Director of Regeneration and Local Services and Corporate Director Resources in consultation with the Portfolio Holders for Economic Regeneration and Finance subject to a satisfactory business case and proven demand of concept on Plot C.

- d) Approve that plot E can be acquired from the Police subject to the purchase price negotiated satisfying a self-financing business case for the site. Delegated authority to be given to the Director of Regeneration and Local Services and Corporate Director Resources in consultation with the Cabinet Portfolio Holder for Economic Regeneration and the Cabinet Portfolio Holder for Finance.
- e) Approve the revenue expenditure of £585k to cover relevant advisory costs over the next three years with 2018/19 costs met from general contingencies with an earmarked reserve set up during the 2018/19 accounts closure process to meet any residual costs in future years
- f) Note the proposals and process relating to branding and marketing.

Background papers

Cabinet Reports – July 2015 & January 2018

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APPENDIX 1: Implications

Finance –

The full financial implications are considered in the accompanying Part B report. The capital request at this stage is on a self financing basis. One off revenue costs of £0.585 million are sought for a three year period. During 2018/19 costs will be covered from revenue contingency with an earmarked reserve set up during the 2018/19 accounts closure process for any residual sum.

Staffing –

None.

Equality and Diversity –

None.

Accommodation –

None.

Crime and Disorder –

None.

Human Rights –

None.

Consultation –

None.

Procurement –

Procurement of a suitable contractor will be required to progress this scheme.

Disability Discrimination Act –

None.

Legal Implications –

Section 2 of the Local Authorities (Land) Act 1963 and the general power of competence under the Localism Act 2011 provide the council with the power to carry out the development itself or join with others to do so. Subsequent disposals on a freehold or leasehold basis would be authorized by Section 123 of the Local Government Act 1972.

APPENDIX 2: Site Plan with Plots



APPENDIX 3: Advantages and Disadvantages

Route	Advantages	Disadvantages
Council Development	<ul style="list-style-type: none"> • The establishment of a market presence • Providing confidence to the market • Controlling the timescales and quality of buildings • Value capture for Council • Buildings could be disposed of post development or retained for investment purposes • Could follow an established procurement framework 	<ul style="list-style-type: none"> • Decision making could be slow • Using the OJEU procurement process • Perception of Council determining its own planning submission leading to increased challenge
Disposal to a Limited Liability Partnership (LLP)	<ul style="list-style-type: none"> • Members have limited liability • It is transparent for tax purposes: members are taxed on their share of profits 	<ul style="list-style-type: none"> • The rules on SDLT and property investment partnerships are complex • Over bureaucratic to establish • Land ownership is predominantly with Council therefore LLP is unnecessary
Disposal to a Limited Company	<ul style="list-style-type: none"> • Well established entity and understood by investors and lenders • Limited Liability shareholders are able to ring fence any losses and liabilities 	<ul style="list-style-type: none"> • Need to file documents at Companies House, along with legal obligations ie directors duties • May be double taxation charge – Corporate tax on any profits and a charge to tax on the distribution

		<p>of money via dividends or salary/bonus</p> <ul style="list-style-type: none"> • Directors could have a potential conflict of interest • Does not meet the Councils objectives of maintaining control
<p>Non Council direct development – <i>Disposal to a developer/investor</i></p>	<ul style="list-style-type: none"> • Immediate capital receipt • Little project governance/revenue saving • Potential for earlier delivery 	<ul style="list-style-type: none"> • No or little control over delivery • Lack of control of end use • Piece meal delivery • Potential for land banding and change of use in the future
<p>Non Council direct development – <i>Establish a new management company of the Council</i></p>	<ul style="list-style-type: none"> • Ability to make decisions on developments/disposals quickly effectivity • Lack of political constraints • Market perception/brand image • If required in the future the company could partner with a private sector developer 	<ul style="list-style-type: none"> • Tax liabilities (Corporation Tax, VAT, SDLT) • If the Council were to provide funding, state aid issues would need to be considered. • Speed of procurement would be equal to that of the Council • No additional financial benefit to Council
<p>Non Council direct development – <i>Disposal to a Joint Venture</i></p>	<ul style="list-style-type: none"> • Ability to maintain a degree of control • Sharing of risk and return • Leverage of capacity and capability regarding skills 	<ul style="list-style-type: none"> • Passive Investors may be adverse to long term joint liability • Companies House registration requirements – Limited partners and a General partner • Rules on Collective Investment Schemes under the Financial Services and Market Act 2000

APPENDIX 4: Examples of other Councils

Name	Purpose, description & timescales	Governance/Partners	Notes/Costs
<p>Newcastle Science Central</p> <p>http://www.newcastlesciencecentral.com/</p>	<p>Newcastle Science Central is a new urban quarter in the centre of Newcastle. It aims to attract leading edge scientific and technology organisations to a mixed new community encompassing a variety of R&D, education, business and residential uses.</p> <p>Spanning 24 acres of mixed use prime city centre development land, it is the largest development of its kind in the UK</p> <p>The Core owned by Newcastle City Council, and managed by Creative Space Management created approximately 2,750 sqm of serviced office space</p>	<p>Science Central is a 24-acre development delivered by Newcastle Science City, a partnership between Newcastle City Council and Newcastle University.</p> <p>Several companies exist including - Newcastle Science Co Ltd Company limited by guarantee without share capital. Members of the company are NCC and Newcastle University. 50/50 decision-making and ownership</p> <p>Newcastle Science Central LLP. Members of the LLP are NCC and Newcastle University with equal share of decision-making (but greater share of returns to NCC to</p>	<p>The Core is an £11.2m building which has been funded through the European Union Regional Development Fund 2007-2013 (ERDF), Regional Growth Fund and Newcastle City Council.</p> <p>Newcastle City Council has led on the development.</p>

	<p>for high growth technology and science-based businesses, with additional event space for business networking and activities.</p> <p>The first phase of development was completed in Spring 2015. This included the Core, two new public squares and the interim landscaping of the site.</p>	<p>reflect greater input in terms of land)</p> <p>Newcastle Science Central Developments LLP</p> <p>Newcastle Science Central Management LLP (CRN OC415029)</p>	
<p>South Shields 365</p> <p>http://www.southshields365progress.com/</p>	<p>In January 2013 the £100m masterplan launched with 3 phases of delivery:</p> <ul style="list-style-type: none"> • The word, a new Central Library and Digital Media Centre • A new central consolidated travel interchange • Improvements to the retail and leisure offer 	<p>Rather than establish a stand alone joint venture company, the Council chose a straightforward development/ contractual agreement with the preferred partner to deliver a mix of commercial and residential regeneration across the sites.</p> <p>Muse Developments were appointed by South Tyneside Council in</p>	<p>The transport interchange received £9.4m from the Local Growth Deal through the North East Local Enterprise Partnership.</p>

		August 2013 as the delivery partner	
<p>St Pauls Place, Sheffield</p> <p>https://stpaulsplace.co.uk/</p>	<p>St Paul's Place is a high-quality mixed-use scheme which features office developments, hotel, apartment block, car park, restaurants and cafes</p>	<p>Joint development between CTP and U+I</p> <p>The construction of 3 St Paul's Place went ahead following a landmark agreement between CTP and U+I, the specialist regeneration developer and investor, with Sheffield City Council and the Department for Communities and Local Government and built by Bowmer & Kirkland</p>	<p>Sheffield City Region Sheffield is one of only three cities with ring fenced Tax Increment Finance (TIF) powers to create an investment pot to be spent on the City Centre. Their first use of TIF was to enable CTP to develop 3 St Paul's Place, completing the Heart of the City office development.</p> <p>3 St Paul's Place is the first speculative office building in Sheffield to be developed since the recession. There is currently over 40,000 sq ft of Grade A office space to rent, with office sizes dependent on occupiers' needs.</p>

			Funding was also provided by Sheffield City Region JESSICA Fund and ERDF
<p>5 St Pauls Square, Liverpool</p> <p>http://5stpaulssquare.com/</p>	<p>St Paul's Square is the gateway to Liverpool's new Central Business District, a prime business quarter centred on Old Hall Street and Pall Mall. The mixed-use development includes 3 office blocks (372,000 sq ft), retail space, cafes/restaurants, new homes and a multi-storey car park. The development overlooks a stunning landscaped public square, which, in itself, has become a new inner-city destination.</p> <p>Timescales 2005 - 2011</p>	<p>The scheme was developed by English Cities Fund (ECF) a joint venture between Legal & General, the HCA and Muse Developments.</p>	<p>The overall cost was £150m</p>
<p>Liverpool Pall Mall</p> <p>http://regeneratingliverpool.com/project/pall-mall-exchange/</p>	<p>Liverpool City Council acquired a 1.2 hectare site from the HCA in 2016 and is now using it</p>	<p>A joint venture partnership between CTP, Kier Property and Liverpool City Council, has been</p>	<p>In total it is estimated a scheme for the entire 4.2 hectare site, which lies within</p>

	<p>to expand the City's commercial office district and transform the gateway to Liverpool's central business district</p> <p>The masterplan comprises 400,000 sq ft Grade A+ office space for the city, as well as associated leisure, retail and landscaped public realm.</p> <p>This site would connect to St Paul's Square, which underwent a £120 million development in 2011.</p>	<p>formally appointed to deliver the Pall Mall scheme.</p>	<p>the city centre's Enterprise Zone, would be worth £200 million and create 1,800 jobs.</p>
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APPENDIX 5: Outcomes from the Options Appraisal and Deliverability Work

Following the Qualitative and Quantitative Options Appraisal undertaken, the following overall scores applied to agreed criteria were as follows:

Criteria	Measure	Weight ¹
1. Allow the Council sufficient control	Scored	5
2. Bring in key / missing capability / skills / capacity	Scored	4
3. Provides an appropriate risk for the Council	Scored	3
4. Generates an acceptable level of return	Scored	2
5. Provide access to funds	Scored	1
6. Is acceptable to the market (deliverable)	Pass / Fail	N/A

As a result of the option appraisal work undertaken, the Council wants to retain a sufficient level of control to achieve its objectives, albeit acknowledging this may vary over the course of the project. The overall conclusion of the report states that a structure relying on some form of self-development scores well in qualitative terms and, makes financial sense and may be the only option for the initial phase of works.

There are a multitude of structures all capable of meeting the Council's qualitative requirements and being financially and commercially viable. However, the work went on to suggest that at this time it is unlikely that implementing any of these options in isolation is likely to best serve the Council in terms of:

- Providing the likely "best consideration" for the site were conditions to improve as interest grows with a consequential impact on values etc, and
- Giving the Council the flexibility to respond to these changing circumstances make future decisions based upon risk, return, timescales for delivery etc.

As a result, they have suggested a structure which can be adapted over time to take account of the changing circumstances both in market terms and practically (for example to reflect how the Police may wish to participate). This structure is set out in the following diagram and discussed in the subsequent paragraphs:

¹ 5 being the most important / highest priority and 1 being the lowest – please note, this was not a 1-5 scoring – criteria could be equally important but these were the results of the exercise.

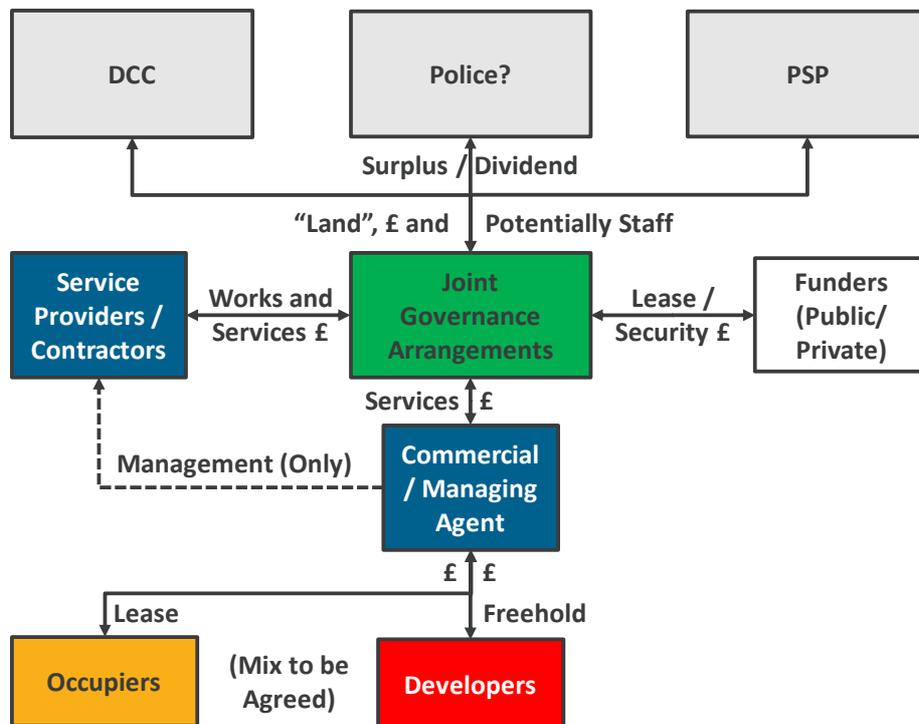


Figure 1: Potential Delivery Structure

We anticipate three phases in line with the Council’s Cabinet report - Phase 1 will be the Northern Zone on land largely owned (or potentially easily acquired from the Police) and unfettered by access, or due to the scale of development, the costs of additional utilities reinforcement.

We consider that the Council should develop this phase as it is more likely to be comfortable accepting the risk and so it is likely to form the best value at this stage. It would do this with external support as necessary from a Commercial Agent and potentially other technical delivery resource.

Phase 2 development will be concentrated on the existing County Hall site and adjacent car parks. The delivery strategy of this Phase will be dependent on the success of Phase 1 and whether the Council wishes to continue as developer or if any of the other delivery routes are more attractive (some of which such as traditional land sales or JVs may be considered unviable at the commencement of Phase 1).

Should this Phase come forward, the mass of development will put sufficient strain on the highways and utilities provision that these would both need work. In line with the advice set out in the commercial investment strategy (see Part B of this report), we would recommend that these “enabling” works together with the demolition of County Hall be undertaken by and paid for by the Council to give further certain to the developer market.

PROJECT RISK REGISTER

Risks to successfully delivering Phase 1 - Strategic Employment Site, Aykley Heads project

July 2018

GREEN AREA DENOTES APPETITE TO RISK

IMPACT ON PROGRAMME	CRITICAL		1.1, 1.2, 3.2			
	MAJOR		4.1, 6.2			
	MODERATE		3.1, 6.1, 6.3	5.1,		
	MINOR		2.1	2.2, 4.2, 5.2		
	INSIGNIFICANT					
		REMOTE (< 11%)	UNLIKELY (11 – 30%)	POSSIBLE (31 – 60%)	PROBABLE (61 – 80%)	HIGHLY PROBABLE (> 80%)
LIKELIHOOD OF RISK OCCURRING						

	Ref	Risk	Causes of Risk	Potential Impact	Existing controls	Likelihood	Impact	Conclusion	Risk Owner
Project Management	1.1	Failure to adhere to clear project management protocols	Uncoordinated approach & poor programme aligned with decision making milestones.	Aborted effort, inefficient decision making. Confused lines of accountability. Project creep.	Project governance well established. Reporting milestones and project outputs agreed with CMT and Cabinet	Unlikely	Critical	Controls in place are satisfactory to Project Group & Sub Groups.	FF
	1.2	Failure to coordinate the correct internal project team.	Officers not available due to time constraints/ workloads / priorities.	Project creep / uniformed decision making.	Officers identified and meetings have been well established. Design Team to evaluate shortlisted options has been established.	Unlikely	Critical	Controls in place are satisfactory to Steering Group.	FF

	Ref	Risk	Causes of Risk	Potential Impact	Existing controls	Likelihood	Impact	Conclusion	Risk Owner
Programme Matters	2.1	County Durham Plan is refused.	Deletion of visitor car park greenbelt unacceptable to Planning inspectorate.	Does not meet the requirements of a strategic business location. Reduced number of jobs in City. Reduced capital return on investment	Approach to delivering the site is not dependant on the County Durham Plan and the planning approach will precede the publication of the plan.	Unlikely	Minor	Risk has occurred and mitigation taken place	MA
	2.2	Timing to secure alternative accommodation for HQ Office & Records/Archives to release site	Delays to planning consents.	Significant impact on timing of delivery areas within the SES.	Regular liaison meetings with work stream leads & Steering Group to clarify/issues.	Possible	Minor	Review and refresh monthly	SR/PC
Comms & Stakeholder Engagement	3.1	Failure to interact with Development Industry	Lack of communication/report to development industry on current project/programme	Failure to understand wide ranging approaches to development that could be taken in delivering the site	Workshop to be organised, alongside regular informal catch up sessions	Unlikely	Moderate	Regular dialogue is in place	PC/FF

	Ref	Risk	Causes of Risk	Potential Impact	Existing controls	Likelihood	Impact	Conclusion	Risk Owner
	3.2	Lack of consultation & public engagement during options analysis & business case preparation.	Lack of communication / reporting.	Project could receive adverse criticisms	Communication strategy circulated and reviewed on a monthly basis.	Unlikely	Critical	Mitigation in place	FF
Tenancies	4.1	Tenants not secured for Offices	A tenant cannot be secured for the Office Block – could be due to a economic shock or high level of rent values.	The financial impact would depend upon the time period that the office block is not tenanted.	The financial model assume worse to best case scenarios in relation to tenants and voids	Unlikely	Major	There is already significant interest in this facility. The Council has already identified a low level of supply for office facilities in Durham in developing the strategy to utilise Aykley Heads as a strategic employment site.	REAL - Assets

	Ref	Risk	Causes of Risk	Potential Impact	Existing controls	Likelihood	Impact	Conclusion	Risk Owner
	4.2	Tenants cease to trade	Bankruptcy of tenant	Short term or possibly long term loss of income. The level of loss will be dependent upon the size of facility and the length of the void period	The Council are committed to ensure that tenants have a strong covenant and are national organisations. This is required to reduce any risk in relation to financial standing whilst also seeking to ensure the development is successful	Possible	Minor	Over the first 10 – 15 years of the development is expected that the risk in this regard will be small. The Council will always seek to ensure that high quality tenants are secured but that if a tenant is lost another high quality tenant is secured. The Council will need to ensure that the financial standing of tenants is monitored.	

	Ref	Risk	Causes of Risk	Potential Impact	Existing controls	Likelihood	Impact	Conclusion	Risk Owner
Financial	5.1	Construction cost is higher than forecast	Initial estimate was not accurate or market conditions change	Council income will need to cover the costs or the Council will suffer the deficit	It is expected that the tender prices will be known in before that the Council will not be contractually committed to the scheme. After contract approval the full financial risk will rest with the developer i.e. any cost over runs will be the responsibility of the developer.	Possible	Moderate	If the tender prices are significantly in advance of forecasts the Council will need to reconsider it's position. It would be disappointing however if this was the case as the Council has utilised cost consultants to determine the likely construction cost.	
	5.2	Forecast Rental Levels are not achieved	The rent levels are deemed to be too high, there is too much supply or there is an economic shock (eg implications of Brexit)	The financial impact would depend upon what level of rent is secured compared to forecasts.	Extensive research has been done by the Council in relation to forecast rents. It is deemed that the forecasts are prudent with the hope being that higher rentals can be secured that forecast.	Possible	Minor	In relation to un let units the forecast rents are based upon market rent levels	

	Ref	Risk	Causes of Risk	Potential Impact	Existing controls	Likelihood	Impact	Conclusion	Risk Owner
Facilities	6.1	The council does not manage the facility effectively	Resource is not dedicated to managing the facility	Delays are encountered in re letting units and there is not a strategic approach to managing the facility	Private sector partners will be procured to manage the shared areas/public realm. The Council will be responsible however for securing tenants at the end of lease periods across phase 1 and will always have a keen interest in the success of the site.	Unlikely	Moderate	As the Council's commercial approach expands, it is likely that specialised dedicated resource will be required. Dependent upon the type of commercial opportunity this resource could be in Assets, Business Durham, legal, finance or possibly other areas of the Council.	

	Ref	Risk	Causes of Risk	Potential Impact	Existing controls	Likelihood	Impact	Conclusion	Risk Owner
	6.2	Facilities cannot be relet at the end of lease periods	High rent levels, market conditions, other voids in surrounding facilities etc	If units could not be relet then the impact upon council income levels would be significant.	This is very encouraging in terms of reducing risk in relation to future income at the end of tenancy periods. Working with partners the council will seek to ensure that the facility is maintained to the highest standard and that high quality tenants are secured.	Unlikely	Major	It will be essential that high quality tenants are secured especially in relation to the initial units as these will generate the required interest.	

	Ref	Risk	Causes of Risk	Potential Impact	Existing controls	Likelihood	Impact	Conclusion	Risk Owner
	6.3	The value of the asset reduces due to poor maintenance	The Council and other tenants does not control the maintenance of the facility	The public realm and buildings deteriorate which impacts upon the council ability to let units and devalues the asset	<p>The lease arrangement will be full repairing leases. Any outstanding repair works will be tracked through dilapidation clauses in the lease arrangements to ensure repairs are actioned.</p> <p>In terms of the public realm and shared use areas the council will charge a service charge across the facility and procure a market expert to manage these elements of the facility utilising the service charge to maintain shared areas/</p>	Unlikely	Moderate	The arrangements in place should ensure that the building is maintained at a high standard including any areas of shared use and public realm	