

CABINET

**COUNCILLOR MARTIN TENNANT
MAJOR PROJECT AND PROPERTY**

16 NOVEMBER 2021

REPORT NO. PETS2120

KEY DECISION: YES

**SOUTHWOOD COUNTRY PARK – BUSINESS CASE FOR REPURPOSING
EXISTING BUILDINGS**

SUMMARY:

This report requests the approval of capital funding for detailed design and development of the Southwood SANG Visitor Centre and Café.

RECOMMENDATIONS:

CABINET RECOMMENDS TO COUNCIL that £901,000 is added to the Capital Programme for the Southwood Country Park Visitor Centre and Café and noting the capital financing implications set out in paragraph 4.14.

CABINET is RECOMMENDED to:

1. Note that, an agreement for lease with a suitably experienced Café Operator will be entered into over the next 12 weeks
2. Note that planning permission has not yet been formally granted (due Jan 2022)

1. INTRODUCTION

- 1.1 The purpose of this report is to seek approval to proceed with delivery of the SANG Visitor Centre and Café at Southwood Country Park, following completion of the feasibility study and initial design development.
- 1.2 This is a key decision because of the capital funding allocation required to progress to the final stage of project delivery.

2. BACKGROUND

- 2.1 In 2017, Cabinet resolved that Southwood Golf Club be closed to provide Suitable Alternative Natural Greenspace (SANG) in order to create natural open space and to mitigate the impact of new housing on the Special Protection Area (SPA). The new SANG would be called Southwood Country Park and the creation and management of the SANG would be funded through developer contributions.

- 2.2 Officers have been working with the Portfolio Holders and Deputy Leader to consider options for the former Golf Club buildings which could include a visitor centre, toilets, rangers' office, and education space, funded through developer contributions. The original SANG budget allocated £200,000 for SANG related accommodation but it is considered that up to £600,000 could be made available within the overall funding for the SANG.
- 2.3 There is an aspiration to enhance this with a café. This element would not be funded by developer contributions as it is not an eligible cost and therefore any capital investment would be based on a business case which demonstrates the return-on-investment for this aspect.
- 2.4 Following a market campaign, multiple offers were received from local Café Operators indicating the rent they would offer and expected turnover from ongoing operations. Detailed analysis has been conducted to determine the financial viability of the cafe investment and value created for the Council.

3. DETAILS OF THE PROPOSAL

General

- 3.1 Detailed designs have been undertaken by the appointed architects and full refurbishment costs subsequently established. Environmental sustainability has been considered throughout the scheme and includes several green credentials (e.g., green roof, ground source heating, PV Panels etc) and re-use the existing building, avoiding the need for demolition. From an equality perspective, the café/Visitor centre is fully accessible and incorporates level entrances, wider doors etc.
- 3.2 The scheme also includes a Changing Places facility. A funding application to support this was made but was unsuccessful, however it was felt that this would significantly enhance the offer at the Country Park and increase accessibility and user numbers.
- 3.3 The latest detailed designs have been circulated with and approved by local members.
- 3.4 In July 2021, £126,000 feasibility funding was approved for detailed design development and identification of an operator for the proposed Café. This was based on an outline Business Case estimate of project cost at £1,200,000 (which included the £126,000 feasibility study allocation).
- 3.5 Revised costs for the café and visit centre are £901,000 with £461,000 attributed to the visitor centre (and funded by SANG contributions - see section 3.8 and 3.9) and £440,000 attributed to the café. The total project cost including initial design and development costs is £1,027,000 a reduction of £173,000 on the original estimate.

- 3.6 A Full Business Case (Appendix 1) has been developed based on a return-on-investment model of 5% per annum return on capital investment with time for scaling-up (i.e.,30 year pay back). This includes a notional revenue cost of capital to demonstrate the project is able to cover-off any interest on external borrowing and other costs such as Minimum Revenue Provision (MRP).
- 3.7 The potential running costs of the Visitor Centre and Café have been assessed and are approximately £38,000 p.a.

	<u>SUB TOTAL</u>
Business Rates *	£10,000
Cleaning	£20,000
WiFi	£1,200
Utilities **	£350
CCTV, Fire Alarm, Legionella etc	£355
Insurance	£4,000
Maintenance	£2,000
TOTAL	£37,885

*This is based on discussion with Revenues and allows for an increased value considered likely

**The design includes PV and Ground Source Heat Pumps so the utility costs assume service charge and a contingency in case the occasional draw on mains exceeds the feed in tariff

- 3.8 Elements of these costs will form part of the service charge to the operator of the Café who is aware that there will be a charge. The exact allocation of costs will form part of finalising the lease negotiation and needs to be balanced with ensuring the assumed rent is achieved. The breakdown of the costs and assumptions and a notional split is included within Appendix 2. However, the modelling of the SANG has been reviewed and can accommodate an annual cost of up to the full £38,000 p.a. [Financing Charges are illustrative].

	Yr 0	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8	Yr9
	Part Year *									
Financing Charges – 30 years	6300	25100	25100	25100	25100	25100	25100	25100	25100	25100
Total Income	23500	48000	53000	54750	56600	58500	61800	63300	64800	64800
Net surplus / deficit after financing	-	-	-	-	-	-	-	-	-	-
	17200	22900	27900	29650	31500	33400	36700	38200	39700	39700

(*Part year has been assumed to be 66%)

- 3.9 The SANG Visitor Centre elements are funded via developer contributions up to a maximum of £600,000. This money has not been received by the Council due to delays in development. It was originally anticipated that a substantial proportion of this funding would be received in 2022/23. However, the Union St development that will contribute £962,526 of the SANG funding is now due to be occupied in 2024 prior to which the SANG payment must be made.
- 3.10 To date, £59,701 from another development has been received with a further £84,499 expected in the current financial year. Further allocations and receipts

are expected between now and 2024 on smaller developments, totalling £266,440. The total of all these receipts is £410,640. However, these SANG payments must fund not only SANG accommodation but also the environmental improvement, management, and maintenance of the park. Therefore, the funding of the SANG visitor centre elements are likely to require a significant element of forward funding until 2024

Alternative Options

- 3.11 There is an option to develop the SANG Visitor Centre facilities within the allocated £600,000 funding from developer contributions albeit without a café. While this would reduce Capital investment and risk to the Council, the combined Visitor Centre and Café is identified as a priority for Place within the Council Business Plan and generally this type of facility supports a cafe.
- 3.12 The creation of Southwood Country Park is a significant amenity for residents across the Borough and has already attracted considerable visitor numbers without any facilities. There is an aspiration to maximise visitor numbers and enhance the visitor experience by offering a high-quality café on the site subject to business case.
- 3.13 There are several SANG/SPA facilities which have a similar offer who have seen a significant uptake in visitor numbers following investment in an on-site café and an overall enhancement to the value of the local amenity.

4. IMPLICATIONS

Risks

- 4.1 There is a risk that the Café will not achieve the turnover projected in the business case. However, based upon the turnover received at a similar SANG establishment, the projected turnover is considered conservative and therefore the risk is perceived to be low.
- 4.2 The substantial developer contributions from Union Street, which will fund the development of the SANG Visitor Centre have been delayed until 2024 and there remains the risk that there could be further delay. This means that the Council may need to forward-fund this element if the project proceeds.
- 4.3 The agreement to lease has not yet been signed by the café operator. There are several exclusions in the project cost estimate (e.g. fit out of café) and agreement as to how these will be met will form part of the letting terms negotiation, as will site security.
- 4.4 Planning for the café/visitor centre has not yet been formally agreed, this is due in January 2022.
- 4.5 Following Covid, there is a shortage of key materials and consequently costs are rising. Contingency has been allocated within the proposed costs.

- 4.6 The risks set out in 4.1 and 4.2 above could materialise and impact on the payback period for the capital outlay thus increasing borrowing costs.
- 4.7 A detailed Final Business Case is included with this report (Appendix 1).

Legal Implications

- 4.8 There is an agreement for lease that needs to be signed with the café operator, within the project timescales. Draft heads of terms can be found in Appendix 3.

Financial and Resource Implications

- 4.9 The Capital Programme approved by Council in February 2021 did not include any budgetary provision for the Southwood Country Park scheme although it was recognised in the Revenue Budget, Capital Programme and Council Tax Level report ([FIN2106](#)) that

“there will be a continued review of capital spending requirements as the Council regeneration, new Property and Major Works programmes, and other schemes are brought forward in more detail, with affordability and deliverability will be a key consideration in this regard” [Para 7.7]

- 4.10 Council approved an allocation of £126,000 from the Stability and Resilience reserve at their meeting on 29 July 2021 to facilitate the design development and planning application for the Visitor Centre and Café ([RP2105](#)). This report sets out a revised cost of £60,000.
- 4.11 Members were advised that the SANG Visitor Centre elements are funded via developer contributions up to a maximum of £600,000. To date, the level of SANG contributions received is significantly behind initial expectations with material receipts not expected until 2024.
- 4.12 This report and associated appendices set out the business case for the Southwood Country Park Visitor Centre and Café. Whilst the business case sets out the financial viability of the scheme, this section of the report highlights the revenue and capital financing implications of approving this scheme.
- 4.13 The Council will need to finance the full cost of the Visitor Centre and Café as SANG contributions have not been received to date to cover the cost of the SANG elements of the scheme. There is a risk that these contributions are not received within the expected time period. An appropriate internal borrowing cost associated with this forward funding will be charged to the SANG.
- 4.14 The assumption within the financial implications is that the Council would need to undertake borrowing to support the scheme in the short-term. There is an opportunity cost to the Council financing the scheme in advance of SANG receipts. The Council’s capital programme is predominantly financed from

prudential borrowing and the overall level of external borrowing the Council is forecast to undertake to support its Capital Programme is significant. The Council currently has £102m of external debt and is forecast to increase to £154m (Treasury Management Strategy 2021/22 [FIN2014](#)) and will be revised in January 2022 to reflect the anticipated borrowing profile for the Union Yard scheme approved by Council in July 2021. Other things being equal, approval of the capital scheme can be expected to increase the forecast level of borrowing.

- 4.15 It is worth noting that there are likely to be future sources of financing that can be applied to the scheme once received but at the time of writing this report the timing and scale of receipt is uncertain.
- The Council is in contract to deliver the Union Yard scheme. As outlined in paragraph 3.8 of this report, SANG receipts of £962,526 arise prior to occupation of the Union Yard residential units. The Council has already forward-funded works associated with the establishment of the SANG and would be the first call on SANG receipts.
 - The Council will, subject to adequate SANG receipts being generated, receive a capital receipt of £1m for the land at Southwood.
- 4.16 Whilst the Council does have capital receipts available to mitigate the impact of external borrowing, these are limited and will be allocated against the wider capital programme or to use flexibly in accordance with the approved Strategy for Flexible Use of Capital Receipts. Other capital receipts are likely to be generated from the sale of surplus assets in future years.
- 4.17 Therefore, members should be mindful of the total level of borrowing undertaken to support the capital programme and the impact this may have on the affordability of the wider capital programme as it is revised over the coming months. Members will consider the Capital Programme for 2022/23 to 2025/26 in February 2022.
- 4.18 This report sets out the revised estimate for the scheme is £901,000. Therefore, members are requested to approve a capital budget of £901,000 (£301,000 in 2021/22 and £600,000 in 2022/23) to enable the scheme to be delivered as set out in the report and business case.
- 4.19 A SANG contribution of up to £600,000 is available to fund the Visitor Centre elements only. On current estimates, £491,000 will be utilised (£460,000 to complete the build and 50% contribution towards the feasibility costs i.e. £30,000).

Equalities Impact Implications

- 4.20 A draft equalities Impact Assessment has been undertaken (Appendix 4). This highlights the benefits of easy access into the building for wheelchairs and the incorporation of a “Changing Room” style toilet (an upgrade from a disabled toilet).

5. CONCLUSIONS

- 5.1 Development of a Visitor Centre and Café at Southwood Country Park is identified as a priority for Place in the Council Business Plan. A Full Business Case has been developed to determine the capital investment required to fund the Café element of the scheme and the return-on-investment that would be achieved.
- 5.2 The total project costs to complete the scheme are £901,000. Of which £460,000 (excl. £30,000 Feasibility funding) is forward funding for SANG contribution which will be repaid by 2024 and £440,000 (excl. £30,000 feasibility funding) which will be repaid through rental and revenue contributions from the Café Operator.
- 5.3 The full business case has demonstrated a 13-year return on investment model based on an initial capital investment of £470,000 (total Capital funding cost of £727,900 (£25,100 for 30 years)) and projected income of £60,000 per annum.

BACKGROUND DOCUMENTS:

CABINET REPORT NO. RP2105 - SOUTHWOOD SANG AND CAFE DEVELOPMENT

Appendix 1: Full Business Case: Southwood Country Park

Exempt Appendix 2: Café Operator Analysis & Breakdown of Estimated SANG operating costs

Exempt Appendix 3: Proposed Heads of Terms

Appendix 4: Draft Equalities Impact Assessment

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