

**CABINET**

**COUNCILLOR MARTIN TENNANT  
MAJOR PROJECTS AND PROPERTY  
PORTFOLIO HOLDER**

**8<sup>th</sup> FEBRUARY 2022**

**REPORT NO. REG2201**

**KEY DECISION: YES**

**UNION YARD, ALDERSHOT –  
DISPOSAL OF PRIVATE RESIDENTIAL STOCK TO RUSHMOOR HOMES  
LIMITED**

**SUMMARY AND RECOMMENDATIONS:**

**SUMMARY:**

This report seeks Cabinet approval to dispose of, in principle, a leasehold interest for the private residential units contained within the Union Yard scheme.

**RECOMMENDATION:**

That Cabinet:

1. Agree, in principle, to the disposal of a leasehold interest in the private residential element of the Union Yard development comprising 82 units to Rushmoor Homes Limited, at the conditional value set out in paragraph 3.7, the final terms of the disposal to be considered by Cabinet at a later date;
2. Note the potential implications on the Rushmoor Homes Limited (RHL) business model arising from the current government consultation on changes to the capital framework in respect of minimum revenue provision.

**1. INTRODUCTION**

- 1.1. This report provides Cabinet with a recommended disposal route for the Union Yard scheme's private residential units (see Appendix 1) that reflects best consideration for the Council.
- 1.2. The proposed disposal is conditional and subject to contract. The report also considers the potential implications of a current government consultation on prudential borrowing and minimum revenue provision in respect of wholly owned companies.

## **2. BACKGROUND**

- 2.1. The regeneration of Aldershot Town Centre is a corporate priority and Union Street is identified as a key site allocation for regeneration within the Rushmoor Local Plan (adopted February 2019) and the Aldershot Prospectus SPD. It has formed part of the portfolio of sites being progressed by the Rushmoor Development Partnership (RDP) since its inception in late 2018.
- 2.2. Following Cabinet approval (RP2005), a planning application was submitted to the Local Authority by the RDP on the 4<sup>th</sup> March 2020 for a mixed use scheme comprising 100 residential units, purpose built student accommodation (PBSA) (128-bed spaces) for the University for the Creative Arts (UCA) and ground floor commercial uses (2,237sqm GEA) focused around a 'Creators Yard'.
- 2.3. The planning application was validated on the 6<sup>th</sup> March 2020 and was considered by Development Management Committee at its meeting on 24 June 2020 and agreed subject to suitable legal agreements to secure the required planning obligations. The decision notice was issued in January 2021.
- 2.4. Of the 100 residential units granted approval, 80 were initially identified as private units and this is reflected within the Section 106 legal agreement. Following cabinet approval in July 2021 (RP2014) to proceed with the disposal of the affordable units to a Registered Provider, a decision was made to vary the affordable unit mix from 20 units to 18 units (contained within a single block) with a financial contribution in lieu of the 2 units. A planning application is currently being finalised for submission seeking to formalise this amendment. Subject to approval, the private units will total 82 within the scheme.
- 2.5. In April 2021, Cabinet Report RP2103 set out that the Board of RHL be given the option to acquire the private residential units on the basis that the due diligence recommendations associated with wider scheme delivery/funding identified the retention of the private units within a wholly owned company presented the most viable route for delivery due to the benefits arising from on-lending of the capital required to fund the purchase.

## **3. DETAILS OF THE PROPOSAL**

- 3.1. Following the Cabinet decision in April 2021, RHL received a formal request from the Council to submit a bid for the private units within the Union Yard development on the 16<sup>th</sup> June 2021.
- 3.2. RHL and the Council jointly commissioned Grant Thornton to provide a Financial Model with a view to providing detailed financial analysis of the RHL proposed programme of both land and properties for development and subsequent rental of completed units.

- 3.3. In summary, the model provides a detailed analysis of profitability and ongoing financial performance of individual sites and of the overall portfolio over a period of 67 years, i.e. up until 2086/87.
- 3.4. A number of scenarios were run by RHL to assess the impact of potential changing circumstances on the key elements of both income and expenditure both of a capital and revenue nature. Across the range of scenarios considered, it was shown that the Union Yard investment is profitable and poses a low risk of becoming unprofitable due to adverse changes in the levels of both income and expenditure.
- 3.5. The level of income from the Union Yard scheme would return a healthy profit to the company over the long term and in the short to medium term provides a healthy contribution to the programme both in yield and internal rate of return (IRR).
- 3.6. The level of income anticipated would need to drop substantially and costs increase substantially in order for the project to become unviable. A 15% drop in income and 15% rise in costs would push the project into deficit. As the base model already allows for bad debts and void at a level of 4%, the above reductions in income would be additional to this and the risk of such a change is extremely low.
- 3.7. In September 2021, the RHL Board recommended to approve a conditional offer of £15m to Rushmoor Borough Council for the purchase of 82 private units subject to all planning and legal approvals being granted. The Council subsequently received the formal offer from RHL on 11<sup>th</sup> October 2021.
- 3.8. The Council has commissioned Avison Young to undertake a valuation of the 82 residential units to ensure that the disposal represents best consideration.

### **Best Consideration**

- 3.9. In order for the Council to determine that the proposed offer represents best consideration reasonably obtainable in the current market, Avison Young was engaged to produce a written report of value taking into account the Council's duties under sections 123 of the Local Government Act 1972.
- 3.10. The Avison Young report (Appendix 3) sets out that the Market Value of a long leasehold interest in the Property as at 21 January 2022 on the basis of a sale of the completed flats for private rented use, is £15,000,000.
- 3.11. The valuation aligns with the offer that has been submitted by RHL.
- 3.12. Cabinet is asked to note that the report at Appendix 3 is presented in draft form and subject to minor amendments/clarifications that will not impact on the values that have been presented for consideration.

## **Alternative Options**

- 3.13. An alternative option would be to dispose of the private residential units to the market on an open market sale basis. This approach was considered in detail as part of the Council's due diligence process, as reported to Cabinet in April 2021, and demonstrated that whilst a capital receipt might be higher, the benefits of such an approach on the overall viability of the scheme were not as positive as taking the preferred route as set out above.
- 3.14. In addition, there are risks associated with disposing of the units on an individual basis as it will be dependent on the demand and market conditions at the point of sale. If the units failed to sell at the speed and price that has been modelled, this could have a significant impact on the overall viability of the project.

## **4. IMPLICATIONS**

### **Risks**

#### **Legal Implications**

- 4.1. The formal offer received from RHL is conditional and subject to contract. The disposal method follows best practice in securing a Best Consideration valuation to validate the offer and ensure that it represents best value in the market.
- 4.2. Legal resource will be required to assist with the disposal process.

#### **Financial and Resource Implications**

- 4.3. Local authorities can freely borrow and invest under legislation and guidance known as the Prudential Framework. Notwithstanding these freedoms, authorities must make sure borrowing is affordable. Where capital expenditure is financed by borrowing, authorities have a statutory duty to set aside revenue funds to repay the principle of the debt – this is known as Minimum Revenue Provision (MRP).
- 4.4. The government has identified that some authorities are not sufficiently complying with this duty and is proposing changes to regulations to make sure that practices are prudent and consistent across the sector. The consultation period closes on 8<sup>th</sup> February 2022.
- 4.5. The government is proposing additional text to be added to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to make explicit that:
  1. Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using

capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.

2. Prudent MRP must be determined with respect to the authority's total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits, and begin charging MRP in the year following capital expenditure, in accordance with proper accounting practices set out in the government's statutory guidance on Minimum Revenue Provision.
- 4.6. As the potential changes are subject to consultation and have not yet been finalised it is not clear how this will impact lending to RHL or the Council's appetite to continue to fund it. As such, there is a risk that the disposal route may not be the most appropriate in the context of the wider Union Yard project.

#### **Equalities Impact Implications**

- 4.7. There are no known equalities impact implications arising from this proposal.

### **5. CONCLUSIONS**

- 5.1. Cabinet is asked to agree to the disposal of a leasehold interest in the private residential element of the Union Yard development to RHL, at the conditional value set out in paragraph 3.7, the final terms of the disposal to be delegated to the Head of Property, Estates and Technical Services / Property and Estates Service Manager or equivalent in consultation with the Major Projects and Property Portfolio Holder.
- 5.2. It is also asked to note the potential implications on the RHL business model arising from the current government consultation on changes to the capital framework in respect of minimum revenue provision.
- 5.3. The proposal meets the 'Place' priority within the Council's Business Plan (April 2020) by continuing to drive forward the regeneration of Aldershot town centres and facilitating the delivery of homes to meet the needs of local people.

#### **BACKGROUND DOCUMENTS:**

Cabinet Report RP2104: Union Yard Affordable Housing disposal

Cabinet Report RP2103: Regenerating Rushmoor Programme, Union Street, Aldershot Regeneration Scheme

Cabinet Report RP2011: Regenerating Rushmoor Programme – Union Street, Aldershot Regeneration Scheme

Cabinet Report RP2008: Rushmoor Development Partnership – Union Street, Aldershot

**APPENDICES:**

Appendix 1 – Site Plan

Appendix 2 – Rushmoor Homes Limited formal offer

Appendix 3 (Exempt) – Avison Young Section 123 Valuation Report

**CONTACT DETAILS:**

**Report Author**

Nick Irvine – Service Manager - Regeneration

[Nick.Irvine@rushmoor.gov.uk](mailto:Nick.Irvine@rushmoor.gov.uk)

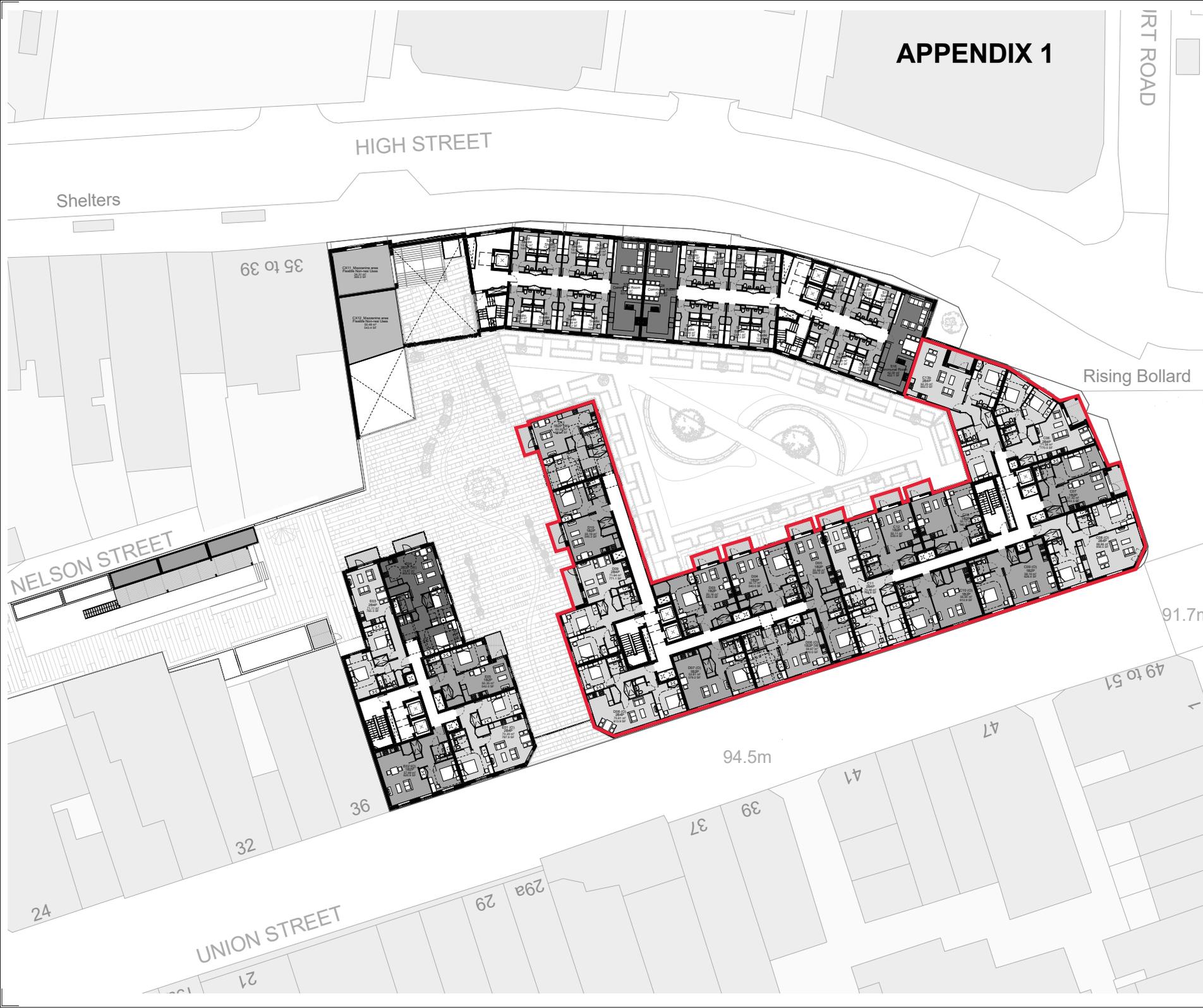
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# APPENDIX 1

**Notes**  
 Do not scale from this drawing.  
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 All construction information should be taken from figured dimensions only.  
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- Area Key**
- 1B2P
  - 1B2P (W)
  - 2B3P (W)
  - 2B4P
  - Communal Room
  - Flexible Non-resi Uses
  - Shipping Container
  - Studio



Rev	Date	Description	Drawn	Chkd
P5	02.03.20	PLANNING SUBMISSION	JRW	DEC
P4	26.02.20	Issued for comment	JRW	DEC
P3	17.02.20	Issued for information	JRW	DEC
P2	31.01.20	Issued for information	JRW	DEC
P1	08.01.20	Issued for information	JRW	DEC
	27.11.19	Draft First Issue	JTP	DC

**Planning**

Client  
**Rushmoor Development Partnership**



Project  
**Union St East, Aldershot**

Drawing Title  
**First Floor Plan**

Scale @A1 1 : 200 Job Ref: 01586  
 Drawing No: MP-PP-003 Revision: P5  
 Scale Bar: 0 2 4 6 8 10 m



## APPENDIX 2

**From:** Tim Mills <[tim.mills@rushmoor.gov.uk](mailto:tim.mills@rushmoor.gov.uk)>  
**Date:** 11 October 2021 at 20:44:48 BST  
**To:** Karen Edwards <[karen.edwards@rushmoor.gov.uk](mailto:karen.edwards@rushmoor.gov.uk)>  
**Cc:** Ken Muschamp <[ken.muschamp@rushmoor.gov.uk](mailto:ken.muschamp@rushmoor.gov.uk)>, David Stanley <[david.stanley@rushmoor.gov.uk](mailto:david.stanley@rushmoor.gov.uk)>  
**Subject:** Union Street Development – Acquisition of 82 Units by Rushmoor Homes

Dear Karen

I refer to your letter dated 16 June 2021 concerning the potential acquisition of 82 homes at Union Street by Rushmoor Homes Limited.

I am writing on behalf of Rushmoor Homes limited to confirm our existing offer for the 82 properties.

This matter was considered by the Board at their meeting on 20 September 2021. At this meeting a report and detailed sensitivity analysis of the potential acquisition were considered. This utilised the new model developed in partnership with the Council. The sensitivities demonstrate that even with significant variations in income and expenditure the company would remain viable and only in a very extreme scenario would an issue arise . I attach a copy of the Board paper and sensitivity analysis for your information. The modelling was discussed and agreed with David Stanley as the Council's Chief Financial Officer.

I hope this provides the information and formal confirmation to enable the Council to make a decision on this matter subject to the necessary due diligence at the appropriate time.

Please do contact me if you require any further information

Best regards

Tim

Tim Mills  
Chief Operating Officer  
Rushmoor Homes Ltd