

CABINET

7th February 2023

KEY DECISION: YES

**COUNCILLOR MARTIN TENNANT
MAJOR PROJECTS AND PROPERTY
PORTFOLIO HOLDER
EXEMPT REPORT NO. REG2302**

**REGENERATION PROGRAMME - ACQUISITION OF BLOCKS 1-4 THE MEADS
AND KINGSMEAD SHOPPING CENTRE, FARNBOROUGH**

SUMMARY:

In August 2021 Cabinet resolved to undertake further negotiations with St Modwen to secure the best price and commercial offer for their land and property interests in the town and to undertake the required due diligence, legal assessment, feasibility study and business case and prepare an initial town centre strategy.

This report follows on from the exempt report considered by Cabinet reporting on the due diligence undertaken to date on land and property owned by Key Property Investments Limited (a member of the St Modwen group of companies) in Farnborough Town Centre with a view to acquisition by the Council. At that meeting Cabinet resolved that work should continue and the business case be brought forward for decision.

The majority of the due diligence has now been completed and this report forms the final business case to inform a Cabinet approval and recommendation to Council to proceed with the acquisition in April 2023. There is ongoing due diligence principally in relation to service charge costs and construction risks which is due to be completed by the end of the financial year and the recommendation below takes account of these matters needing to be satisfactorily concluded.

RECOMMENDATIONS

(a) That Cabinet

- 1) Consider the interim due diligence and key points from the business case as set out in the report
- 2) Approve the business case and agree to the acquisition of the land and property outlined in this report during the 2023/24 financial year at the price and on the terms set out in confidential Appendix A and subject to the conditions as set out in the confidential appendix.
- 3) Grant delegated authority to the Executive Director in consultation with Portfolio holder for Major Projects and Property to negotiate and complete the acquisition of the Property on the terms set out in Confidential Appendix A, subject to the conclusion of all appropriate due diligence and with any necessary minor adjustments in line with this decision.

- b) RECOMMEND the Council** to agree that the acquisition be included in the Capital Programme for 2023/24.

1. INTRODUCTION

- 1.1 In August 2021 Cabinet considered an exempt report and consequently approved a budget to proceed with negotiation and due diligence relating to the acquisition of The Meads and Kingsmead (RP2107 The Meads).
- 1.2 This is the final business case to inform the Council's decision to acquire the asset following detailed due diligence. Outcomes from the due diligence to the end of December were shared in Cabinet report REG2301 considered on 17 January 2023 and Cabinet agreed that the full business case should be considered in February. ([Cabinet Minutes 17 January, 2023](#))
- 1.3 This report sets out the history and rationale for intervention in the town centre by the Council. Further to the January decision it sets out the business case for acquisition of the Meads and Kingsmead, updates on the due diligence and price negotiations since the previous report. It invites Cabinet to consider the decision to acquire the Meads and Kingsmead with a recommendation to full Council for the inclusion of funding for acquisition to be included in the Capital Programme for 2023/24.

2. BACKGROUND

Project History

- 2.1 Regeneration of Farnborough town centre is a key priority for the Council. The St Modwen group ("**St Modwen**") through their subsidiary company, Key Property Investments ("**KPI**"), have been the major developer in the North of the town centre for over 20 years.
- 2.2 KPI secured planning permission for delivery of a mixed-use regeneration scheme comprising a food store, non-food retail, a hotel, commercial leisure, and residential accommodation in 2004. KPI entered into a development agreement with the Council with obligations to deliver this scheme.
- 2.3 The first phase of development, known as The Meads, was completed in 2009 (Blocks 1 & 2 – see Figure 1 below) with some improvements to the shopping centre in 2015. Development of Block 3 & 4 commenced in 2019 but has not progressed since the pandemic.
- 2.4 St Modwen have confirmed their desire to dispose of their land and property interests in the town, following their acquisition by Blackstone. This also requires release from their obligations under the existing development agreement with the Council.
- 2.5 Cabinet agreed that the primary rationale for intervention by the Council in terms of any acquisition and subsequent release of obligations under the development agreement was to facilitate the current and future regeneration of this significant part of the town centre as set out in the 2021 report.

Scope of Acquisition

- 2.6 The proposed acquisition of The Meads and Kingsmead includes a number of separate elements in the heart of the town centre which are described as Blocks 1-4 The Meads, Kingsmead Shopping Centre, Kingsmead Car Park, and Kingsmead Business Centre and approximately shown in the plan at Figure 1.

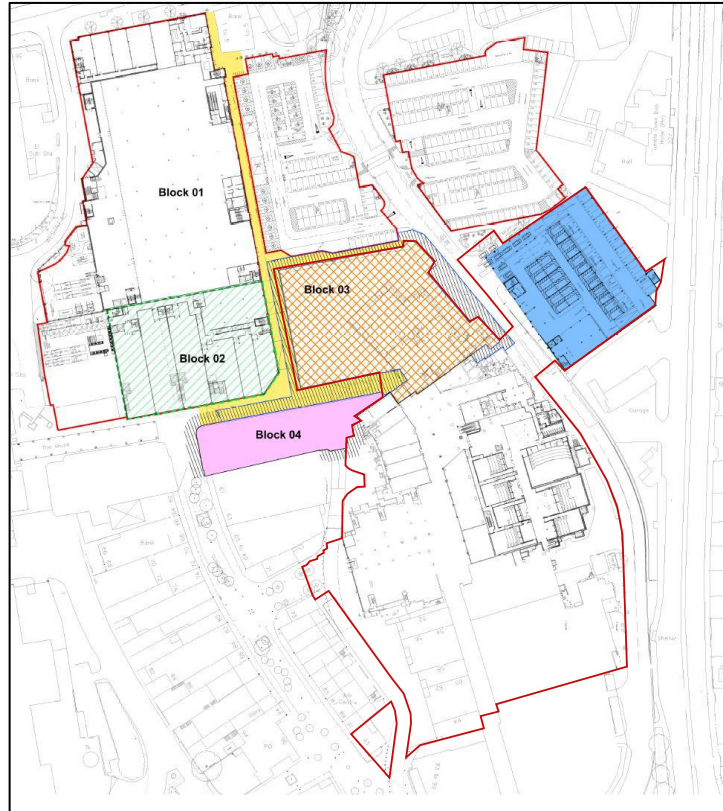


Figure 1 Blocks 1-4 The Meads

- 2.7 The acquisition site is approximately 9.4 acres (3.8 ha) and the combined internal area (excluding residential accommodation) is 31,075 square metres/ 334,489 square feet.

Blocks 1 and 2 The Meads

- 2.8 Blocks 1 and 2 include:

- Eight ground floor retail units, gym and large play centre located on the first floor.
- Sainsbury's supermarket, Travelodge Hotel, Weatherspoon's Public House, and Papa John's retail unit - all sold on long leases for 125 years.
- 70 residential units of which 25 are affordable - sold on long leases.
- A surface level car park, which is let to and managed by Sainsburys with circa 150 spaces.



Blocks 3 & 4 The Meads

2.9 Block 3:

- Vacant site of c. 1.179 acres
- Current live planning application for eight retail units on the ground floor (totalling 2462 msq) and 104 residential apartments (totalling 7100 msq) and bridge link to Block 1 & 2.
- Site clearance, hoarding and piling underway prior to construction standstill in 2020
- Opportunity to bring this site forward as part of regeneration delivery in early development phase.

2.10 Block 4

- This vacant site is located opposite Blocks 1 & 2 and has planning for eight further retail units and either offices or residential above.
 - The site has potential public realm value and could provide an important central focus to the town centre once redevelopment works have been completed.



Kingsmead Shopping Centre

2.11 The Shopping Centre was constructed in the mid-1970s and is made up of:

- 24 retail units on the ground floor (approximately 8 currently vacant) with a total floor area of 95,747 sq. ft with the business centre above
- Vue Cinema (opened 2015)

Business Centre and Car Park

2.12 The Business Centre is situated above the Shopping Centre and is made up of:

- 28 separate units (approximately 16 vacant) totalling an area 41,286 sq. ft.
- 5 Floors of which whole of fifth floor and majority of third floor, and much of second floor unoccupied
- 3 Telecoms masts/ leases in place

2.13 The Multi-storey Car Park links to the Shopping and Business Centre and has up to 619 spaces. There are a number of residential permits for occupants of residential accommodation above Blocks 1 & 2.

Acquisition Strategy

2.14 In August 2021, Cabinet approved a strategy to pursue acquisition of Kingsmead Shopping Centre (including car park) in addition to Blocks 1-4 and thereby, not requiring the development by St Modwen of the commercial and residential accommodation on Block 3 in line with a development agreement currently in place with KPI.

2.15 Cabinet considered that, without intervention, it was likely that the Block 3 site would remain in its current position with a vacant, hoarded site. There would be no development in the short or medium term and the associated town centre disruption and lack of regeneration to the North of the town centre would continue. This was considered unacceptable to local people and detrimental to the short and long-term prospects of the town centre. The primary rationale for intervention by the Council in terms of any acquisition and subsequent release of obligations under the development agreement was therefore to facilitate the current and future regeneration of this significant part of the town centre.

3. FINAL BUSINESS CASE

3.1 The business case has been developed using an adapted version of the HM Treasury Business Case model¹. The approach considers the business case for intervention in five key dimensions:

- (1) Strategic
- (2) Economic
- (3) Commercial

¹ For further information see: <https://bit.ly/3ZKNise>

- (4) Financial
- (5) Managerial

3.2 Given the critical connection between Strategic and Economic issues from a Council perspective, these are assessed together. Section 5 of the report brings together the risks for each element of the business case.

(1) Strategic case & (2) Economic Case

Strategic Alignment

3.3 Regeneration of Farnborough town centre is a key priority for the Council and aligns with a number of Council and partner strategies and plans including:

- Your future, your place - a vision for Aldershot and Farnborough 2030 – Vibrant and Distinctive Town Centres - a vision document for Rushmoor developed in 2018/19 which continues to inform and shape the development of the Council Plan. Informed by resident engagement and consultation, this vision prioritises the delivery of vibrant and distinctive town centres.
- Rushmoor Local Plan - regeneration vision for the Civic Quarter as adopted in the Rushmoor Local Plan (2019) and the Civic Quarter Masterplan Supplementary Planning Document.
- Council Business Plan (2021-2024) which prioritises town centre regeneration for Rushmoor.
- Rushmoor's Investment Plan for the UK Shared Prosperity Fund (signed off by Government in December 2022) focused investment in the town centres, supporting planned regeneration with a programme of events and further opportunities for arts, culture, heritage and events. The focus for this planned investment will be in Farnborough Town Centre. UKSPF will see £1,000,000 available over the next 3 years to help achieve the following outcomes:
 - Increasing economic growth by maximising footfall in the town centres and enabling them to operate in a far more integrated manner to take full advantage of the ambitious regeneration plans for both Aldershot and Farnborough.
 - Supporting healthy lifestyles by promoting walking and increasing physical activity.
 - Increasing community pride in the area by promoting the attractiveness and vibrancy of the town centres, supporting outdoor events, and community projects and engaging new audiences in the cultural life of the area.
- Enterprise M3 LEP's Strategic Economic Plan (SEP) objective of unlocking housing and accelerating housing delivery alongside the emerging Local Industrial Strategy (LIS) objective of promoting mixed use developments 'that put homes alongside jobs and services. The SEP also encourages investment in the future of town centres to create dynamic places that draw in young people, support flourishing communities and address the needs of an ageing

population. Enterprise M3 had identified Farnborough as a Growth Town, identifying it as a priority place for the Local Growth Fund.

- Positively contributing towards the Government's overarching agenda to rebuild the UK in response to COVID-19 with the sector not only protecting jobs but also supporting local economic activity, productivity, and social value.

Delivering our vision and meeting Community needs

- 3.4 Regeneration of the town centre has been a key priority for the Council for a number of years. In 2019 detailed consultation was undertaken with the public and key community stakeholder groups to understand how they felt about the existing town centre and their aspirations for the future of the Civic Quarter. As part of this initial engagement, five 'Vision Workshops' were carried out with council members and local stakeholders, including members of the Farnborough Society, Heart of Farnborough, and Farnborough Civic Group.
- 3.5 This activity generated a set of core community priorities and design principles for the future regeneration of Farnborough. The top priority identified by consultees was the need to create a community heart. Further aspirations focused on developing a strong identity and sense of place for Farnborough, encouraging community cohesion, improving health and wellbeing, and developing arts & cultural facilities as detailed in Figure 2.



Figure 2– Core Community Priorities

- 3.6 In the most recent residents survey, town centres were identified by all groups as the number one area of dissatisfaction, with two-thirds of respondents reporting that they are either very or fairly dissatisfied with the quality of Rushmoor's town centres.

Delivering a joined-up Town Centre Strategy

- 3.7 As part of the due diligence process, a Town Centre Strategy was commissioned and agreed by Cabinet in July 2022 - [Farnborough Town Centre Strategy - Report No. REG2204.pdf \(rushmoor.gov.uk\)](#) to help understand how acquisition of The Meads and Kingsmead could unlock and contribute to the wider regeneration of Farnborough.

3.8 The Strategy highlighted some key principles around the place we want to create in Farnborough as summarised in Figure 3 below:

A presentation slide with a white background and a thin black border. The title 'A vision for the future' is in a large, dark grey font. Below it, a subtitle in orange text reads 'Farnborough Town Centre - where people choose to go for what they want and need, and find a whole lot more...'. A bulleted list of seven points follows, detailing the vision for the town centre. At the bottom, the text 'What Amazon Can't Do' is written in red. The slide is decorated with two semi-circular orange shapes on the left and right sides.

A vision for the future

Farnborough Town Centre - where people choose to go for what they want and need, and find a whole lot more...

- An offer that will make Farnborough attractive – more of a mix of uses, broader leisure, cultural and community offer, something for everybody, a day through to night time economy
- About place, space and activity, developing pride, loyalty, a sense of ownership and an identity
- A place where people live and work, celebrate, socialise and play
- A place of education, Leisure, culture, performance, trade, service and business
- A linked up place, integrated with its surroundings
- An active sustainable environment where people want to spend time
- A greener place

What Amazon Can't Do

Figure 3 – Town Centre Strategy – Vision for the Future

3.9 In order to achieve this, the strategy outlined the process required to deliver the vision (Figure 4). Acquisition of the Meads is a key element of moving town centre regeneration forward.

A presentation slide with a white background and a thin black border. The title 'Process for delivery' is in a large, dark grey font. Below it, a bulleted list outlines the process for delivering the vision. The slide is decorated with two semi-circular orange shapes on the left and right sides.

Process for delivery

- Strategy is part of the first stage in a process:
 - Policy Development
 - Public Realm Strategy
 - Wayfinding Strategy
 - Farnborough Transport Plan
 - Design Principles for Town Centre Living
 - Completion of draft Cultural Strategy
- Detailed masterplan in collaboration with owners of Princes Mead, Queensmead, The Meads
- Expanded focus on Town Centre Management
- Progressing development – Council Partnership led: Civic Quarter; Privately led: anticipated proposals for Princes Mead
- Short-, medium- and longer-term activities over a period likely to extend to circa 15 years

Figure 4 – Town Centre Strategy – Process for delivery

Rationale for Intervention

- 3.10 Acquisition, along with its other land ownership, would give the Council control of a large area of Farnborough Town Centre and allow the delivery of a wider town centre masterplan aligned to the Civic Quarter masterplan to deliver a coherent town centre offer. This has been strengthened by the recent acquisition of Princes Mead shopping centre by Sovereign Housing which creates an opportunity to work together to deliver a joined-up local plan for Farnborough.
- 3.11 Lack of investment and stalled regeneration have meant that the town centre offer has deteriorated in recent years. Without intervention, it is likely that the site would remain in its current position with a vacant, hoarded site, no development, continued town centre disruption and lack of regeneration.
- 3.12 This is combined with a housing-led redevelopment of Princes Mead which will further impact the commercial and retail elements of the town centre offer.
- 3.13 By acquiring key assets such as The Meads and Kingsmead and appointing expert management professionals, the Council has an opportunity to significantly improve the town centre offer in the short to medium term to benefit residents and local business while the Princes Meads development is completed.
- 3.14 The Council has a responsibility to maintain a vibrant local economy. Without intervention it is likely that the condition of these assets will continue to deteriorate, reducing occupancy of retail units without active management and promotion. This will in turn reduce footfall in the town centre and significantly impact the local economy.
- 3.15 In addition to the regeneration rationale, due diligence has identified that the acquisition will generate a stream of revenue income which will support the maintenance of the Meads and Kingsmead and facilitate delivery of wider regeneration priorities as part of the revised capital strategy.
- 3.16 The acquisition will facilitate delivery of the Councils regeneration aspirations for the town centre in the medium to long term and deliver a short to medium-term revenue stream which will support this regeneration.

Strategic & Economic SWOT Analysis

| | |
|---|--|
| <ul style="list-style-type: none"> ▪ Alignment with Council strategy and clear case for intervention ▪ Additional revenue stream to support delivery of regeneration programme and mitigate asset acquisition risk | <ul style="list-style-type: none"> ▪ Organisational capacity and resource ▪ Affordability against wider capital programme aspirations ▪ Capital receipt assumption realisation |
| <ul style="list-style-type: none"> ▪ Alignment of Civic Quarter, Princes Meads and wider town centre regeneration ▪ Proactive management of town centre retail offer, over 7-10 years offers opportunity to improve footfall and local economy ▪ Key regeneration site in the town centre which will unlock delivery of cohesive town centre masterplan, regeneration and town centre strategy | <ul style="list-style-type: none"> ▪ Economic uncertainty and impact on retail market ▪ Acquisition of asset at end of life and associated risks ▪ Uncertain delivery strategy for long term aspirations ▪ Strategic delivery dependencies (Princes Meads/ Civic Quarter etc.) ▪ Public perception of Council acquisition/ intervention |

Figure 5 SWOT Analysis

Summary – Strategic & Economic cases

4.17 In summary;

- The acquisition of the property for regeneration aligns to a number of key strategic aims and policies adopted by the Council.
- The acquisition will facilitate delivery of community aspirations as part of the wider regeneration programme.
- The acquisition will align with delivery of both the Civic Quarter and Princes Meads development to deliver a coherent regeneration masterplan.

(3) Commercial Case

- 3.17 This is a regeneration acquisition, however, given there are no specific plans for a regeneration scheme covering all the land and property and therefore no specific development appraisal for such regeneration scheme, in acquiring land and buildings of this scale and complexity, the Council must ensure that the decision to proceed will not negatively affect the Council's overall financial position. The due diligence and detailed asset report produced by LSHIM (Exempt Appendix C - version 4 December 2022) confirms that the asset will return a net initial yield over 10 years. This report will be further updated at the conclusion of the due diligence and prior to exchange and completion.
- 3.18 Exempt Appendix B provides updated detail on the Meads' and Kingsmead performance and income position as well as outlining the sensitivity analysis and assumptions used to test this model and assess viability.
- 3.19 This income will support the maintenance of the Meads and Kingsmead and any surplus income will be used to facilitate delivery of wider regeneration priorities in line with the revised capital strategy and off-sets the risk of acquiring an asset of this nature.

- 3.20 While it is anticipated that most of the Meads and Kingsmead will be held for 7-10 years there is an opportunity to progress a scheme on Block 3/ 4 more quickly as part of an early development phase. Work is currently underway to explore how the development of these sites could be progressed.
- 3.21 There is also an opportunity to generate further income, further reduce risk to the Council and deliver income to fund the regeneration programme by increasing occupancy in the Business Centre as well as letting vacant units in the shopping centre.
- 3.22 The Council have appointed a professional property management agent who will proactively manage and promote the Meads and Kingsmead combined with investment and enhancement (wayfinding/ signage/ branding etc) to attract new tenants and retain existing tenants in the short to medium term.
- 3.23 As development of the town centre takes place there are opportunities for new leases as businesses look to relocate.

Summary – Commercial case

- 3.24 In summary;
- At the proposed purchase price, the Meads and Kingsmead delivers a yield in the short to medium term which mitigates the risk associated with acquiring an asset of this complexity and condition.
 - Further to this, the income can also be used to facilitate delivery of the Council's wider regeneration aspirations and delivery of the town centre strategy.
 - There is an opportunity to bring forward early regeneration activity with the development of Blocks 3 and 4 prior to the development of the rest of the site.
 - There is an opportunity to generate additional revenue through proactive management and enhance the town centre offer in the short to medium term while other key developments (Civic Quarter and Princes Meads) come forward securing a vibrant town centre offer.

(4) Financial Case

- 3.25 Whilst this is a regeneration asset, the council has undertaken modelling of a range of scenarios set out over a ten-year period to test the affordability of this acquisition, building in a range of risks. Exempt Appendix B of this report sets out the latest version of these scenarios which are based on the revised approach to capital investment agreed by the Cabinet in November. The scenarios bring together the commercial property income cashflow, capital expenditure requirements as identified in due diligence surveys, operational management costs and the Council's financing costs.
- 3.26 They model different assumptions for acquisition price, extent of borrowing vs use of existing capital receipts, interest rates and other financing costs. All scenarios demonstrate a positive benefit to the Council over a 10 year 'hold' period on the assumption that Kingsmead shopping centre would be redeveloped after this point.

- 3.27 For the purpose of the business case, work has been undertaken to develop a realistic but prudent financial model which reduces the revenue financial risk to the Council as far as possible.

Timing and Funding Strategy

- 3.28 Acquisition of the Meads and Kingsmead was originally planned to take place in autumn 2022. However, as a result of the council's financial position and changes to rates of borrowing the original financing strategy of using PWLB borrowing over the life of the Meads and Kingsmead was no longer considered appropriate. Further work was subsequently undertaken to understand how the acquisition could be financed should it go ahead. The approach was set out in the Budget Strategy report considered by Cabinet in November described below.

“The most credible and sustainable way of bringing forward a new capital investment is both to consider the most appropriate way of funding and to carefully think through sequencing of investment, as such the business case is based on the following capital principles:

- *All new capital investment priorities should be funded from either capital receipts or external sources (grants)*
- *The financing of new capital investment should focus on ensuring borrowing is limited to the lowest possible value*
- *Schemes should be sequenced credibly and added each year through only the Budget Setting report – single decision point for investment.*
- *The approach to new capital investment will be based around the following process to ensure that all new investment is prudent, affordable, and sustainable:*
- *Create a hierarchy of new capital investment priorities (officers and Members)*
- *Develop a pipeline of asset disposals ringfenced to fund the new capital investment – timing and value need to be accurate*
- *Complete a global view of cashflows and funding need of the hierarchy.*
- *Determine any resultant borrowing need and test affordability vs. MTFS budget gap”*

- 3.29 Considering the above, the advice of the interim S151 officer in November was that it would be in the Council's interests to defer acquisition to the next financial year in order to offset MRP payments against a full year of income and provide the longest timeframe to secure alternative capital receipts.

Mitigation of Financial Risk

- 3.30 The financial modelling included in Appendix B has been developed based on a set of assumptions to ensure that we can provide a realistic assessment of the risk associated with an acquisition of this scale and complexity.
- 3.31 As expected with an asset of this age and complexity, the due diligence has identified a number of risks and issues which will be mitigated or managed as part of the acquisition, mobilisation, and operational management. Early mobilisation using an experienced Property Management agent will enable the

council to understand these in greater detail and develop clear plans for how these will be addressed.

- 3.32 It is assumed that the Kingsmead shopping centre will continue be run for the next 7-10 years whilst a new Masterplan and subsequent redevelopment schemes are being worked up.
- 3.33 The asset report (Appendix C) has factored all financial and tenancy information provided by KPI and recommendations identified in the planned maintenance and condition surveys.
- 3.34 The Council's property team have reviewed the scope of capital works identified in surveys to develop a planned maintenance and capital spend profile which has been factored into the finance model. These costs have been included in the financial model at a recovery rate of 30% building in additional flexibility should the recovery rate be more in line with that anticipated in the LSH report (60%)
- 3.35 "Pessimistic scenarios" have been used assuming each tenant vacates upon lease expiry or exercises a break option.
- 3.36 Significant rental letting void periods of 18-months have been assumed prior to relet.
- 3.37 Upon the end of an existing lease, it is assumed that units will not relet for between 12-24 months, and upon reletting, a rent-free period of 6-12 months is assumed.

(5) The Management Case

Approach to Managing the Asset

- 3.38 Eddisons Commercial Ltd ('Eddisons') have been procured to provide a full property management service including handling all estate management matters for the shopping centre including Income Collection, Occupier Management, Contractor Management, Service Charge Administration, and Lease Management.
- 3.39 It was agreed in January 2023 to mobilise the property management company prior to exchange and completion of the acquisition of the Meads and Kingsmead. This will allow consolidation of the due diligence undertaken to date by a highly experienced asset management company. During mobilisation there will be an opportunity to identify any further issues prior to exchange.
- 3.40 In addition to Eddisons role in managing the Meads, the Council property team will also take a proactive role in building relationships with tenants as the landlord. High quality communication and management of our existing tenants is fundamental in ensuring we retain our current tenants and attract new tenants to the Meads and Kingsmead.
- 3.41 The financial model includes budget for managing the marketing and promotion for the Meads and Kingsmead,. Additional funding will be identified for cosmetic improvement and signage works as well as resource to support

promotion as part of the overall budget and capital allocation. This activity will be aligned to the Councils wider Town Centre improvement activities and UKSPF delivery plan.

- 3.42 An expert client-side team has been identified to work with Eddisons and ensure successful operation of the Meads and Kingsmead including the appointment of a dedicated asset surveyor. The client-side property team will work with Eddisons to manage the asset and will engage with legal services on matters related to leases and other asset-related activity as required.
- 3.43 The Eddisons appointment allows the Council to direct award commercial estate agency services as required. The Council's property service team will liaise with the agency team to commission estate agency services when required. It is anticipated that the Eddisons contract manager will oversee all aspects of delivery on a day to day basis, reporting to Executive Head of Property and Growth and Corporate Property Manager.
- 3.44 Working with the Council's property team, LSHIM's role is to be confirmed, but is likely to include covering preparation of the annual business plan for the Meads and Kingsmead, identifying asset / income enhancement opportunities, agreeing capital expenditure programmes and monitoring performance of the property managers. In addition, LSHIM will incorporate the Meads and Kingsmead into their wider portfolio strategy, performance management and monitoring role, reporting into PIAG quarterly.
- 3.45 The Council property team already liaise with a number of external asset and property management organisations. These relationships require significant input on both strategic and operational levels. The addition of the Meads and Kingsmead will require a dedicated internal asset surveyor to support the Executive Head and Growth of Property and Corporate Property Manager in managing client-side functions and realising benefits as outlined in this business case.
- 3.46 The redevelopment of Block 3 and taking forward the Masterplan for the remainder of the Town Centre will be the responsibility of the Regeneration and Development Service and managed through the Council's existing regeneration programme arrangements
- 3.47 Figure 6 below shows the planned management and governance arrangements for the acquired land and property.

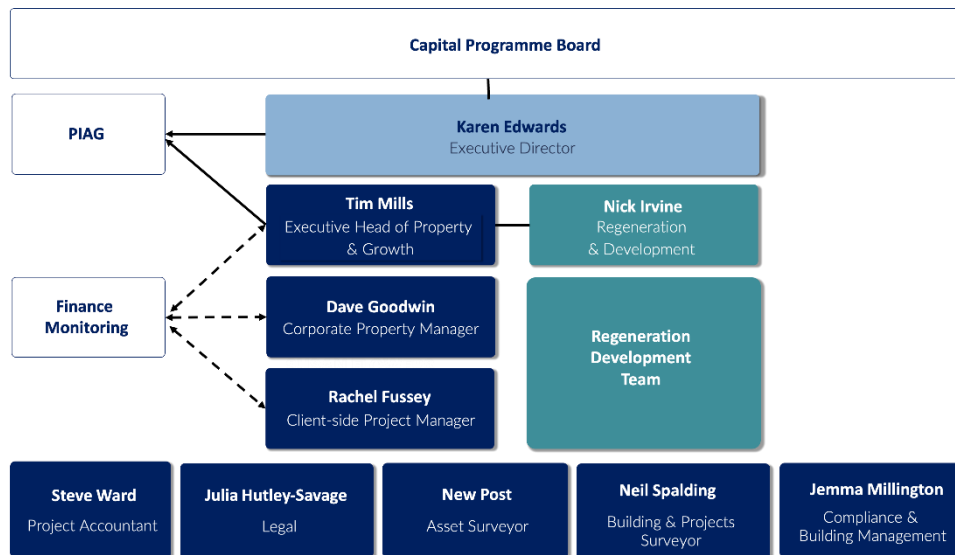


Figure 6 Client-side team and reporting

- 3.48 The operational team will meet every 2 weeks with the core client-side team.
- 3.49 Commercial asset performance will be monitored through PIAG with Executive oversight through the Capital Programme/Regeneration Board which meets every 6 weeks.
- 3.50 The Capital Programme/Regeneration Board will also inform and oversee future regeneration proposals for the site as part of the wider regeneration programme.
- 3.51 In addition to the requirement of a dedicated internal asset surveyor the acquisition will increase the need for legal advice and support on a strategic level and also to support the inhouse property team operationally. The level of legal support required will need to be fully assessed once there is a better understanding of the level of change associated with the asset, some provision for this has been made within the financial modelling.

Benefit realisation

- 3.52 A reserve fund will be created where annual net income will be allocated, and this will be drawn on for delivery of regeneration activities.
- 3.53 The delivery team will prepare an annual budget including revenue forecast and will report against this at quarterly finance review meetings.

Risk Management

- 3.54 A detailed project and technical risk register has been developed for the project and will be used as a key management tool by the internal and external operational delivery teams to manage residual risks and monitor and manage new risks and issues that arise. The risk register is attached at confidential Appendix D.

- 3.55 Risks will be reviewed at monthly monitoring meetings with any significant changes to risk or new risks arising being escalated between meetings if necessary.

Summary – Management Case

- The Council has an existing property service and has appointed expert asset managers to provide expertise and manage the asset on a day to day basis
- Lambert Smith Hampton Investment Management are the Council's appointed asset management advisers and have undertaken the due diligence on this acquisition
- Surplus income from the property will be used to fund regeneration across Farnborough Town Centre and the Civic Quarter
- Redevelopment will be managed through the Council's existing regeneration arrangements

4. Alternative Options

- 4.1 In addition to an assessment of each of the business case dimensions outlined above, the Project Team have also considered the following alternative options:

Do Nothing Option

- 4.2 KPI have expressed their desire to vacate Farnborough. They stood down their developer last year and are currently reducing operational resource in anticipation of completing the acquisition in April 2023.
- 4.3 In the current economic conditions, there are unlikely to be many interested purchasers in developing retail opportunities, in line with the town centre strategy, which means that the development of Block 3 will continue to stall, and town centre regeneration will be further delayed.
- 4.4 There is the possibility of a sale to an alternate purchaser who would bring forward the current scheme which is now out of date and not fit for purpose or propose an alternative which is not in line with the Town Centre Strategy. If the Council doesn't acquire the asset the projected surplus income from the scheme would not be available to support regeneration prior to scheme redevelopment.

Postpone acquisition Option

- 4.5 Whilst this option could provide the Council with further time before incurring borrowing the acquisition has already been deferred from October and delay is unlikely to be welcomed by the vendor and could lead to a sale to an alternative party with the same risks identified above.
- 4.6 The agreed price reduction is subject to achieving completion by the end of April 2023.

Pursue the development agreement

- 4.7 As set out in the earlier report the development proposed for Block 3 was no longer considered fit for purpose and unlikely to be financially viable for the developer. Whilst taking legal action under the development agreement is an option, it is likely to be costly, take significant time and would be unlikely to result in quality development that meet the needs of local people and businesses in the town.

5. RISKS AND IMPLICATIONS

Risks

- 5.1 The Council will be accepting a number of risks in proceeding with this acquisition. These include the usual risks associated with acquisition of commercial property in respect of Blocks 1 & 2 and Kingsmead. In addition, Kingsmead is an older building with the risks that brings and the need to plan for its regeneration. In terms of Block 3 the Council will take on the cost and risk of planning for a new scheme and if it takes forward the development the Council would also be accepting development risk.
- 5.2 There is a strategic risk that the town centre will not support future viable regeneration. However, as identified above, during the due diligence period the Princes Mead shopping centre (located directly to the west of The Meads) has been acquired by Sovereign Housing Association who are working up an outline planning application for housing with commercial to be submitted in Q4 2023 indicating that viable development is possible, albeit housing led.
- 5.3 A detailed project risk register has been prepared and will form part of the detailed business case. The current live register is included at Appendix D and includes mitigation against points raised.

Legal Implications

- 5.4 The Council has a general power to acquire property through agreement for the delivery of its services and functions, or for the benefit, improvement, or development of the borough (s120 Local Government Act 1972). It also a general power of competence (Section 1 of the Localism Act 2011) which allows it to do anything that individuals generally may do, subject to certain constraints. One of the constraints is that anything done for a commercial purpose must be done through a company. Due to the primary purpose being to regenerate Farnborough Town Centre, it is not acting purely for a commercial purpose and therefore can own The Meads directly without the need for a company.
- 5.5 The Council is permitted to acquire assets provided the primary purpose is regeneration and supporting growth of the local economy rather than for the purpose of generating a commercial return. Acquisitions should promote or improve the economic, social or environmental wellbeing of the Borough.

- 5.6 There are a number of legal implications associated with the acquisition of The Meads and details of these were shared in Appendix D of the January Cabinet Report REG2301 (Exempt).
- 5.7 The Council's project team have undertaken detailed review and consideration of the risks in conjunction with our external legal advisers, Freeths. Mitigation has been put in place in the form of additional budget provision in the financial model and risk analysis, and there is an opportunity to obtain insurance or indemnities against some of the remaining risks as outlined in Confidential Appendix A of this report, Appendix D of the January Cabinet Report REG2301 (Legal issues report) and the risk register at Confidential Appendix D of this report.

Financial and Resource Implications

- 5.8 Members will be aware that the Government recently brought in restrictions affecting the ability of Councils to use Public Works Loan Board (PWLB) borrowing purely for the acquisition of commercial property for income generation purposes. Commercial property acquisitions related to or enabling housing and / or regeneration are acceptable provided the income arising from them is used to support regeneration.
- 5.9 The acquisition of the retail assets are regeneration projects in themselves in that the Council is seeking to secure control of the town centre in order that it can ensure that a placemaking approach is adopted in the future and that by securing ownership the assets contribute to the future of the town. The risk being if the Council doesn't act and with an owner that wishes to leave the borough the assets may not be invested in nor maintained thereby affecting the vibrancy and quality of the town centre.
- 5.10 In accordance with the previously agreed Capital Strategy and the impact on the Medium-Term Financial Strategy as detailed above, there is a need to limit the use of borrowing to fund the acquisition over the medium term. However, due to the lack of immediately available alternative funding sources there will be a need to enter into initial short-term borrowing for the majority of the purchase price until capital receipts from other sites come forward.
- 5.11 The scenarios in Appendix B detail the amount of borrowing required at different purchase price options and also indicate the estimated use of Capital Receipts to be utilised to clear the initial debt. The most likely scenario indicates that debt will require to be funded until early 2025 when the availability and use of capital receipts will enable the facility to be managed free of any debt charges.
- 5.12 The scenarios in Appendix B also indicate the level of net income estimated each year for the next 10 years based on a variety of assumptions regarding both income and expenditure (see paragraphs 4.34 to 4.39 above). The most likely scenario indicates that all of the ongoing running costs and the property maintenance costs can be contained within the level of income received from leases and rentals and that a positive annual cash flow can be achieved in each year of operation. It is anticipated that this positive cash flow will be utilised to support the funding of both ongoing and future regeneration activity.

Equalities Impact Implications

5.13 There are no known Equalities Impact Implications arising as a result of the decision in this report.

6. CONCLUSIONS

6.1 The decision to enter a regeneration acquisition of this scale will always represent a balance of risk and opportunity for a local authority. The Council has undertaken significant due diligence and now has a solid understanding of the risks and issues involved and has, or will, put in place appropriate and available mitigation over the coming months. The risk profile has been reflected in the revised purchase price.

6.2 Ownership of the land and buildings in this report provide the Council with control over what happens next. With that ownership comes the responsibility to take plans forward in a reasonable timescale. In financial terms, the assets would, over the anticipated period before redevelopment, deliver a net surplus which can be used to fund the Council's regeneration activity for priority schemes in Farnborough.

BACKGROUND DOCUMENTS/APPENDICES:

Confidential Appendix A – Price and Acquisition Terms

Confidential Appendix B – Financial and Commercial Position including figures from January update from Lambert Smith Hampton Investment Management

Confidential Appendix C – Asset Plan Report – Kingsmead December 2022 v4 – Lambert Smith Hampton Investment Management

Confidential Appendix D – The Meads Risk Register draft v0.4

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