

COUNCIL MEETING – 22ND FEBRUARY 2024

AGENDA ITEM NO. 6 (5)

**VARIATION TO THE CAPITAL PROGRAMME –
FARNBOROUGH REGENERATION AND LEISURE AND CULTURAL HUB**

A report from the meeting of the Cabinet held on 6th February 2024.

SUMMARY

On 6th February 2024, the Cabinet considered [Report No. REG2402](#) which provided an update on the project for the delivery of the proposed Leisure and Cultural Hub in Farnborough and the associated operator procurement. The report set out options for the next stages of the project. The options took into account the design work undertaken since October 2023, impacts of inflation and the implications for the current funding strategy given the position relating to the Council's future capital programme as set out in the 2024/25 budget report.

The report also provided an update on the Council's successful bid for One Public Estate Brownfield Land Release Fund (BLRF) funding. £1.725m was allocated to the Council to support the regeneration of the Civic Quarter. The funding was for a package of regeneration enabling works including the demolition of the Pinehurst Roundabout decked car park and site preparation and utilities diversions across a number of development plots on the Civic Quarter. The fund timescales require these works to be in contract by March 2024 and land released for housing by 2027.

At the meeting on 6 February 2024 Cabinet:

- (a) Noted the revised costs of the current stage of planning and design work (RIBA Stage 3) of £386,855 and approved an initial £50,000 towards potential redesign work
- (b) Approved the undertaking of a costing exercise by Willmott Dixon on the RIBA 3 designs to provide market tested costs for consideration before the decision to move to the next stage of design and development (RIBA Stage 4)
- (c) Approved a pre-planning public consultation exercise to be undertaken in March 2024 on the designs at the conclusion of the RIBA 3 design process
- (d) Noted the adjustment in the overall project timeline to take into account the market cost exercise and to provide a period for any necessary design revisions as a result of the report and the pre-planning public consultation
- (e) Noted the work being undertaken as part of the Council's Financial Resilience Plan to address the affordability of the current and future capital programme

and the links to the decision to move fully to the next stage of design and development (RIBA stage 4).

- (f) Noted the revised funding strategy for the project given the position set out in 2024/25 budget report and supporting Financial Resilience Plan
- (g) Noted the approach to the demolition of the Pinehurst Car Park and the temporary relocation of the Council's Car Boot sale to the High Street multi-storey car park in Aldershot.
- (h) Agreed that any slippage on the Civic Quarter capital budget in 2023/24 be used to progress elements of the Civic Quarter regeneration programme where this could lead to improved land values in line with the Financial Resilience Plan

Cabinet also made recommendations to the Council as set out in (1) and (2) below in relation to changes to the capital programme.

RECOMMENDATIONS

To progress the next steps in the regeneration of Farnborough and the delivery of the Leisure and Cultural Hub it is recommended to Council that it approve:

- (1) an increase of £255,000 in the Capital budget for 2023/24, funded by a further draw down from the Levelling Up grant for the Leisure and Cultural Hub; and that
- (2) £1.725 million One Public Estate Brownfield Land Release Fund grant to enable the demolition of the Pinehurst Car Park and site preparation and utilities work across plots established by the Civic Quarter Masterplan be included in the 2023/24 and 2024/25 capital programmes as appropriate.

1 INTRODUCTION AND BACKGROUND

- 1.1 Since 2019, the site of the former Farnborough Recreation Centre, Plot B on the Civic Quarter Masterplan (See Figure 1 below) has been identified for the development of a new leisure centre.

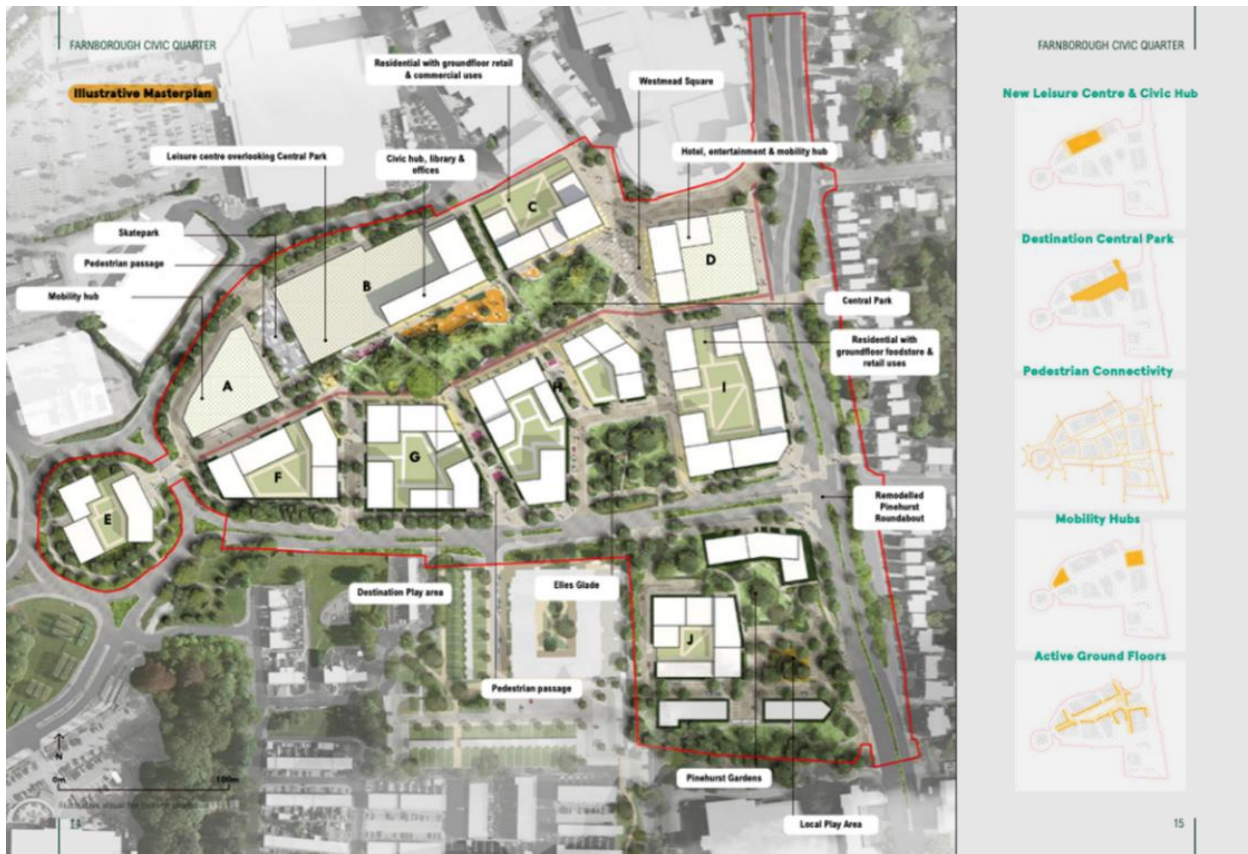


Figure 1 Civic Quarter Development Plots

- 1.2 In January 2023 confirmation was received that the Council's application for £20million funding had been successful. Cabinet reports during 2023 confirmed the scope of the project and received approval for funding for the design development stage (RIBA stage 3). The Memorandum of Understanding was entered into with the Department of Levelling Up, Housing and Communities for the levelling up funding and drawdown from the levelling up grant is now made on a quarterly basis.
- 1.3 The project will deliver co-located Leisure, Library and Cultural facilities. The Leisure offer includes a 6-court sports hall, 8-lane swimming pool, intermediate pool with moveable floor, large fitness suite, studios, soft play and a health suite. The Library and Cultural spaces include dedicated library areas, a digital lab and a range of multi-purpose community rooms. It includes dedicated gallery and community gallery space as well as collaborative spaces for art projects. Spaces will wherever possible be flexible and multipurpose. A large café will also be located on the ground floor. In October cabinet considered two reports REG2307 and REG2308 on 3 and 17 October respectively. These reports enabled the next stages of the project to proceed and confirmed that the design should be to Passiv Haus standard and the Council offices should also be co-located in the Hub, releasing the existing site for sale and redevelopment in accordance with the Civic Quarter Masterplan parameters.

- 1.4 Alongside the Hub, the project will deliver a car park (mobility hub), skate park and play area as part of the public realm elements of the Masterplan.
- 1.5 The February 2024 report considered by Cabinet provided an update on the detailed design stage (to RIBA Stage 3 and planning submission) and the forecast project costs. It highlighted potential cost pressures due to increases in materials costs and inflation generally and proposed an approach to gain more certainty prior to moving forward to the next stage of the project whilst still maintaining progress in line with the Levelling Up grant requirements.
- 1.6 The report also provided an update on the leisure operator procurement process and updated the procurement timetable in line with the changes to the main project.
- 1.7 The report then considered the funding strategy for the project in the light of the 2024/25 budget report, the revised medium term financial strategy and the Council's Financial Resilience Plan.
- 1.8 Finally, the report set out next steps for the enabling elements of the Civic Quarter Master Plan overall which can be externally funded from the One Public Estate Brownfield Land Release Fund grant and recommends the inclusion of these works in the Capital Programme.

2 Design Stage (RIBA 3) Update

- 2.1 A full design team was appointed with GT3 Architects as lead consultant to progress design to the end of RIBA Stage 3. The output from this stage is a spatially coordinated design and all documentation to support a planning application.
- 2.2 The project is overseen by the Leisure and Cultural Hub Project Board and work has progressed well and in line with the timetable agreed in October. A public engagement event was held in November where the initial designs were shared and views sought on these and how the proposed spaces in the new building would be used.
- 2.3 The spatial design will be 'frozen' during February to allow the technical consultants to undertake their detailed work and preparation for the supporting planning/technical documents to commence.
- 2.4 The working project budget is currently £68.265m. The October report explained that at the end of RIBA stage 3 we would expect to have a more accurate view of construction costs. The Council's cost consultant, Artelia, has raised the risk of cost pressures resulting from both materials price increases and also the underlying level of inflation. Tender costs being received on other Levelling Up and regeneration projects across the country would support this view.
- 2.5 To help mitigate this risk, and to ensure the project does not move forward with an unrealistic cost estimate, it was proposed to Cabinet that the Council

seek to gain greater cost certainty through a contractor market testing exercise (market tested cost plan) based on the designs at the end of RIBA stage 3. The cost of this will be an additional £38.4k plus VAT which can be funded from the Levelling Up funding.

- 2.6 The Leisure and Cultural Hub Project Board were advised of this position and agreed that Cabinet should be recommended to undertake this additional work at the end of RIBA stage 3. This required some amendment to the current project timelines which are set out in paragraph 2.11 below.
- 2.7 Due to the inclusion of the Council Offices and the decision to design to Passiv Haus and the market testing exercise there are some increases to design fees for RIBA stage 3 as set out in table 1 below:

Table 1 - Design Fees adjustments following October Cabinet report	Cost
Uplift associated with PassivHaus	£88,016
Uplift associated with inclusion of Council office accommodation	£125,405
Planning costs	£85,050
WDC market tested cost plan and design review at RIBA stage 3	£38,384
Site surveys (brought forward from RIBA stage 4)	£50,000
Total	£386,855
Estimated variation from current RIBA 3 budget allocation (£1,240,000 LUF)	£205,000
Estimate for additional redesign following market cost exercise	£50,000
Total additional drawdown from Levelling Up funding (LUF) for RIBA stage 3	£255,000

Table 1 also includes £50,000 to enable site survey work to be undertaken early, again to provide more certainty on implications for future groundworks. The table also includes a further £50,000 to provide an additional budget for limited redesign activities to support the preparation of the planning application if required, after consideration of the Wilmot Dixon report. Use of this budget would be agreed with the Project Board. If changes to the current project budget arising from the market cost report were to be very significant then this would be the subject of a further report to Cabinet. All these costs can be met from the Levelling Up grant and the Cabinet is recommending that the Council increase the 23/24 Capital programme by £255,000.

- 2.8 It is proposed that pre-planning public consultation be undertaken in early March based on the completed RIBA 3 designs. The outcomes from this consultation can then be taken into account alongside any redesign work arising from the market testing report.

- 2.9 The next stage of the design work is known as RIBA stage 4. Detailed technical design commences at RIBA Stage 4, preparing all design information required to manufacture and construct the project. This information will be costed by the Contractor and a detailed set of Contractors Proposals and costs are submitted at the end of RIBA Stage 4. Following review and agreement of this information and a contract sum, the Council would then enter into a construction contract and the build will commence.
- 2.10 The 3 October report identified that Cabinet would be asked in February 2024 to give final approval for the appointment of Willmott Dixon under a Pre-Construction Services Agreement (PCSA) to progress design to the end of RIBA Stage 4. Upon appointment the current design team would novate to Willmott Dixon. Approval to procure Willmott Dixon using the Procurement Hub was given by Cabinet in Cabinet report RP2102 and re-validated in March 2023 (REG2303). At the end of RIBA Stage 4 a detailed suite of Contractors Proposals would be submitted for review by the technical team. This information would form the basis of the build contract and final contract sum. Once outstanding matters have been resolved, a Final Business Case would be prepared for approval by Cabinet and Council to secure agreement to enter the build contract. It was anticipated that this would take place in early 2025.
- 2.11 Given the market cost exercise and allowing time for resulting redesign work and subsequent submission of a planning application, the project timeline has been updated. The timeline has also been adjusted to bring the final decision to progress to RIBA stage 4 in line with work being undertaken as part of the Council's Financial Resilience Plan.

Revised Project Timeline

- RIBA Stage 3 concludes February 2024
- Pre-planning public consultation early March 2024
- Market tested cost plan received early May 2024
- Design review/cost engineering May-June 2024
- Planning submission June 2024
- Approval to appoint contractor (PCSA) July 2024
- Commence RIBA Stage 4 July 2024
- Planning approval September 2024
- Contractor Proposals February 2025
- Contract Award May 2025
- Construction 24 months (practical completion May 2027)

3 Cultural Offer

- 3.1 Discussions are underway with Arts Council England on a Rushmoor bid for a Place Partnership Project Grant. This revenue grant is aimed at projects which aim to make a step change in cultural and creative opportunities in places and a long-term difference to the cultural life of the community. A bid of up to £1 million is being scoped to fund a three-year programme of cultural activity which will help to enhance the cultural offer of Farnborough before the opening of the Leisure and Cultural Hub. UK Shared Prosperity Funding, already

allocated for arts and cultural activities, will be used to match investment from the Arts Council.

- 3.2 Rushmoor's bid has the potential to bring high quality arts and culture into the heart of the community. With community engagement and co-creation at its heart it will seek to engage residents in the development of the cultural offer available through the facilities the Leisure and Cultural Hub provides.
- 3.3 Subject to discussions with Arts Council England, the aim is to submit an expression of interest for a grant over the next few weeks. Should the council be invited to submit a full application, the bid will be submitted by June 2024.
- 3.4 This grant would be in addition to any future bid to Arts Council England for the Cultural Development Fund. This fund could help support the capital cost of the Leisure and Cultural Hub.

4 Operator Procurement

- 4.1 The 3 October 2023 Cabinet report set out the need to procure a partner who shares the Council's vision for the new Leisure and Cultural Hub and will operate flexibly with the key users to optimise participative opportunities and benefits for the local community. The new Leisure and Cultural Hub should play a significant role in reducing health inequalities, (physical and mental), increasing levels of physical activity and providing a wide range of cultural activities in a vibrant setting.
- 4.2 It is the Council's view that the contractual arrangements under the current commercial and operational model, are classified as a service concession contract under the Public Concessions Regulations (2016) and furthermore, fall under the scope of the Light Touch Regime services listed under Schedule 3 of the regulations. This allows the Council to determine with a little more flexibility, the specifics of the procurement process that is undertaken. The Council is undertaking a fully advertised procurement process which encompasses aspects of Competitive Dialogue and Competitive Procedure with Negotiation processes as set out within the Public Contracts Regulations (2015).
- 4.3 The individual stages of the procurement process, along with proposed timescales, were outlined in detail in the October 2023 Cabinet Report.
- 4.4 The operator procurement process commenced on 17 November with the issuing of the Contract Notice on the *Find a Tender Service* and *Contracts Finder* portals. On the same day, the Supplier Selection Questionnaire (SSQ) and accompanying documents were issued via the *Pro-Contract / SEBP* portal.
- 4.5 The deadline for submission of the completed SSQ was 11 December, with six major leisure operators responding. Evaluation of the responses assessed various criteria, (legal standing, financial standing, insurance, H&S, relevant experience, etc), to ensure that only operators with sufficient experience and

scale were taken forward to the next stage. Following evaluation, results were issued on 19 December. All six suppliers were shortlisted and informed they had progressed to the next stage of the process.

- 4.6 Suppliers were also advised at this stage that the issuing of tender documentation would follow on from a period *'to allow the council the time needed to properly review and finalise the operational, procurement, commercial and contracting strategies'*. This allows the Council sufficient time to review the wider Leisure & Cultural Hub project build delivery timescales and make sure that the suppliers have good certainty on the project that is being submitted for planning as the basis for their bids. This period also provides an opportunity to seek external advice on the implications of HMRC's recent changes to VAT rules for the provision of leisure services by local authorities.
- 4.7 HMRC recently announced that, as local authority leisure services are provided under a statutory framework, they can be treated as *non-business* for VAT purposes. This decision has important implications for local authorities on how they deliver such services. A new 'agency route' – whereby the leisure operator acts as an 'agent' of the Council, rather than as the 'principal' – may provide significant financial benefits, and public service tax experts, PSTAX, have been engaged to advise on whether this model should be considered. They concluded that *'an agency model has the potential to provide VAT-related financial benefits - but it is too early to quantify these or any non-VAT related implications in detail (e.g. leases and NNDR)'*.
- 4.8 The proposed 'Full Market Test Cost Plan' to be commissioned by Willmott Dixon is due to be completed early May 2024 and, in line with the revised timescales above, the bid process will be realigned with the submission of planning and the commencement of RIBA Stage 4. On this basis, and assuming any subsequent redesign work takes 6 to 8 weeks, tender documents could be issued in July 2024.
- 4.9 Implications of HMRC's recent changes to VAT rules for the provision of leisure services by local authorities, and any possible benefits of utilising an agency agreement, may also become clearer during this period.
- 4.10 With the procurement process from this point likely to take around five months, this would mean an operator appointment recommended to Cabinet for approval in December 2024, (earlier, should a final period of negotiation with best and final offers not be required), with the contract awarded early January 2025. Mobilisation of the contract could commence at the Aldershot site from 1 April 2025.
- 4.11 The timetable for the operator procurement runs beyond the existing contract with Places Leisure for the operation of the Aldershot facility which ends on 31 March 2024. Cabinet have already approved an extension to the existing agreement with Places Leisure on the same terms for a period of up to 12 months.

5 Funding Position and Revised Approach to Project Financing

- 5.1 As stated above the working project budget for delivery of the Leisure & Cultural Hub is £68.625m. This includes PassivHaus accreditation, delivery of the Mobility Hub, Skate Park and Play Area as follows.

Leisure, Cultural and Council Offices	Mobility Hub	Skate Park	Play Area	Total
£57,649,000	£9,690,000	£375,000	£550,000	£68,265,000

- 5.2 £20m funding is from the Levelling Up grant funding and will be used to fund the early phases of the project. Based on the current outline delivery programme, funding from the Council is currently forecast to be required during financial years 25/26 and 26/27. It is possible that further grants will become available which would be used as early as possible which could defer the point at which the council is required to provide funds. Depending on any additional grants received the Council will be required to secure funding for circa £48.2m to enable delivery of the whole project, with around £38m required for the Leisure and Cultural Hub building based on the current estimate.
- 5.3 Work has been underway to develop the options for the long-term financing of the assets delivered by this project. The Council's current 'capital first' approach to financing the Council's capital projects was set out in the Budget Strategy report in November 2022 and reiterated when the 23/24 budget was set by the Council in February 2023. The high-level financing strategy for this project based on this was as follows;
- £20m Levelling Up funding
 - £3-5m Arts Council/additional grants
 - Capital receipt from sale/redevelopment of Council Offices site
 - Capital receipts from 'enabling plots' and serviced Civic Quarter plots
 - PWLB Borrowing – assumed £20m in the Levelling Up fund approval – funded in part by income from operator procurement/hub income
- 5.4 Due to the current and forecast level of interest rates, assumed Government funding levels and the wider economic forecast, a revised Medium Term Financial Strategy (MTFS) was prepared to support the 2024/25 budget report. That report identifies a need to significantly reduce the current debt held by the Council before any further borrowing is undertaken. This means that, in the short-term, capital receipts will be prioritised to reduce existing borrowing.
- 5.5 This has an impact on this project as the programme of land and asset disposals that could have supported investment in the Hub and the wider

regeneration programme will now first be deployed against debt in line with the approach set out in the budget report. Until there is a sufficient reduction in debt and the Council has confidence in both the level and deliverability of a pipeline of future capital receipts, it will not be possible for the Council to undertake further borrowing for this project. As set out in the budget report, a Financial Resilience Plan is now in place and work is underway to provide more certainty on the pipeline of capital receipts. The decision to move to RIBA stage 4, given the intention at the end of that stage to award the construction contract, will now appropriately take place alongside an updated MTFs position in July. This consideration will also benefit from 6 months progress on delivery of the Financial Resilience Plan. The decision is likely to take the form of a Cabinet report setting out project affordability linked to the revised MTFs and propose a financing strategy for the construction and ongoing running of the new building and services.

- 5.6 The project will continue to use estimates of the likely income to be received from the operator when assessing future net running costs of the building until the operator procurement is completed. The cost implications of the move of the Council offices, forecasts of income from tenant rent and the costs of the new 'cultural offer' also need to be estimated during the next stage of the project.

6 Civic Quarter enabling works - One Public Estate Brownfield Land Release Fund

- 6.1 In March 2023, the Council submitted a One Public Estate Brownfield Land Release Fund (BLRF) bid of approx. £2m for funding to facilitate a package of enabling works including the demolition of the Pinehurst Roundabout decked car park alongside site preparation and utilities diversions across Plot I, H1 and H2. The outcome of this bid was successful and a funding allocation of £1.725m was confirmed. The fund timescales dictate that the necessary works need to be in contract by March 2024 and land released for housing by 2027.
- 6.2 In respect of the decked car park demolition, Ridge multidisciplinary consultants have been working alongside the internal regeneration team and Portsmouth procurement team to prepare the tender documentation and this was issued on the ProActis portal on the 8th January 2024. The open tender required contractors to attend a site visit and respond to the tender by early February. Tender returns will be reviewed, and contracts executed by 31st March 2024 to comply with the One Public Estate BLRF deadline.
- 6.3 It is anticipated that the contractor will be in a position to take possession of the Pinehurst car park from mid-May. The work programme will be confirmed as part of the tender process, but the demolition is anticipated to take up to 6 months. Contractors will submit detailed method statements and risk assessment as part of the tender process. It has been requested that pedestrian access will be maintained throughout. It is likely that a small area of Queensmead Car Park will be used for site set up and welfare although this will be confirmed once the tenders are returned and the preferred bidder identified.

- 6.4 The Council will be aware that the Pinehurst car park hosts a popular car boot sale, particularly during the winter months as it benefits from being covered. The last car boot sale will be held in Pinehurst car park in May 2024, after which it will temporarily relocate to Aldershot in the High Street multi-storey car park. This will be communicated to the public closer to the time with regular stall holders being made aware earlier.
- 6.5 The anticipated tender value is £600,000-£750,000 and the final agreed sum will be paid from OPE funding. The remainder of the £1.725m will be allocated to other Farnborough Civic Quarter enabling works including utilities diversions. Topographical and Ground Penetrating Radar surveys are currently underway which will assist with informing the extent of these works.
- 6.6 Outside the parameters of the OPE funding, the Council continues to have positive dialogue with Homes England on options to support and unlock the delivery of wider infrastructure including the highway changes that will maximise the value of a number of the Civic Quarter plots. Cabinet approved a capital budget in August 2023 to assist with progressing these tranches of work. It is not anticipated that the full allocation of Capital will be expended within the current financial year (23/24). In order to enable the Council to progress conversations with Homes England, it is proposed that any shortfall in expenditure in the current year be carried forward into 24/25 to allow for such items as design feasibility to progress as and when required.

7 Alternative Options

- 7.1 There is an option not to deliver a new facility and use the land for other purposes. This is not in line with Masterplan or Council priorities. Alternative uses for the site have not been assessed but could include use as public open space or other commercial or housing uses. All of these alternative 'exit strategies' would have associated costs and budget implications which would need to be assessed in line with the MTFs. Reinstatement costs for the land would need to be absorbed in the revenue budget if there was no capital project proceeding.
- 7.2 Not providing a new facility would have a significant impact on the leisure procurement and reduce the attractiveness of the current offer to the market.
- 7.3 Re-design of the buildings can also be considered as part of the design process as described above.

8 Consultation

- 8.1 A comprehensive statement of consultation undertaken to date was set out in the 3 October report to Cabinet on this project. Since then, a Public engagement event and other engagement with end users has been undertaken as part of the design processes. The next stage of public consultation will be in March as part of the pre-planning application process.

9 IMPLICATIONS

Risk management

- 9.1 The Council will be accepting a number of risks in proceeding with delivery of this project. These include the usual risks associated with the development and delivery of a capital project of this scale and the associated stakeholder management. While the Council have secured £20,000,000 funding towards the scheme, the Council will be accepting the risk of identifying the remaining funding for the project and the wider scheme as well as the wider revenue implications of delivering the cultural offer.
- 9.2 A detailed project and technical risk register are in place for the project. This is a live document which has been developed during feasibility with input from the Project Team, Technical Advisor and Wilmott Dixon Construction. This will continue to be managed and updated throughout project delivery with risks being closed out as the scheme progresses.
- 9.3 Procurement risks have been mitigated with public procurement compliant frameworks with core project, contractor, and design team appointments already in place.
- 9.4 The top five risks are reviewed at fortnightly project team meetings as well as Programme Board with any significant changes to risk or new risks arising being escalated between meetings if necessary.
- 9.5 Alongside the Risk Register, the Council have an established change management procedure in place. This will document any changes requested during the design phases of the project, assess the cost impact of this and assess the impact to the programme. Any change requests will need formal sign off through a change control form by the Council as client before any of these can be implemented.
- 9.6 The highest scoring wider project risks include:
- Insufficient funding available to proceed with the project results in decision not to progress or change of scope and abortive costs.
 - Grant funding is dependent on project delivery with a risk that costs incurred could need to be covered by the Council if the scheme does not go forward/complete as anticipated.
 - Lack of resource and capacity across the Council to support delivery of the project.
 - Wider Civic Quarter delivery alignment and dependencies unresolved delaying the scheme.
 - Significant ground contamination or other issues.
 - Supply chain, labour and materials shortages resulting in price and programme uncertainty.

Legal Implications

- 9.7 External legal assistance and budget will be required on various aspects of the project, including property, planning and contractual matters. Work will include (but is not limited to) reviewing of consultancy appointments, carrying out necessary due diligence and drafting contractual agreements.

Equalities Impact Implications

- 9.8 The project addresses significant Health and Cultural inequalities as set out in the case for change. An Equality Impact Assessment will be produced during the next phase of the project and updated it as the project progresses.

10 CONCLUSIONS

- 10.1 The Leisure and Cultural Hub project is a significant priority for the Council, and it is important that all reasonable actions are taken to ensure the project can be delivered in line with the Levelling Up timelines. Given the Council's current budget pressures the proposals in this report provide the opportunity to review project costs and revise the approach to project funding in line with the Financial Resilience Plan. The focus of the project over the next year remains to complete the design phase and to develop options for funding based on the delivery of the Civic Quarter Masterplan.

BACKGROUND DOCUMENTS:

Report Nos. REG2307 and REG2308

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