

Key Decision? Yes

REPORT NO. PG2420

**COUNCIL PROPERTY AND ESTATES – WORK PROGRAMME RESOURCE
REQUIREMENT AND FUTURE CAPITAL COMMITMENTS**

SUMMARY AND RECOMMENDATIONS:

This report provides Cabinet with an update on key activities that need to be undertaken by the Council's property and estates team over the remainder of the current financial year. It identifies the need for additional resources to deliver the current work programme.

The report also identifies the requirement for the use of capital contributions to enable lettings across the Council's current and future estate and request cabinet to make a recommendation to Council to make a new allocation in the Capital Programme for this purpose.

Recommendations

That Cabinet;

- 1) Note the current work programme of the Property and Estates team associated with the Financial Resilience Plan, Management of the Council's commercial and regeneration estate and mobilisation of and post practical completion works at Union Yard, Aldershot
- 2) Note the appointment of additional Building Surveyor Resources to support the work programme as set out in section 2 of the report, to be funded from a mix of existing budgets as set out in the Financial Implications in section 8.
- 3) Recommend the Council to allocate £1.025m of capital receipts to enable the necessary capital contributions/works to enable letting of commercial units at Union Yard, Meads and across the wider portfolio subject to the consideration and approval of individual business cases by the Cabinet.

1. INTRODUCTION

- 1.1. The purpose of this report is to provide cabinet with an update on key activities that need to be undertaken by the property and estates team over the remainder of the current financial year. The report sets out the key tasks and identifies the

need for additional building surveyor resources to ensure that key activities can be completed in accordance with organisational requirements.

- 1.2. The report also sets out a need for capital contributions to enable lettings across the current portfolio, The Meads and Kingsmead shopping centres and new commercial units at Union Yard. The report then seeks delegation to Cabinet for the use of £1m of capital receipts for those capital contributions to be used achieve lettings across the Council's commercial estate. The approval of those contributions to subject to the consideration by Cabinet of a business case/rationale for the expenditure
- 1.3. This is a key decision as it includes a recommendation to Council for an amendment to the Capital programme of over £1m.

2. PROPERTY AND ESTATES WORK PROGRAMME

- 2.1. The Council's property and estates service undertakes a wide range of property management work from managing community buildings and the commercial property portfolio, delivery of day-to-day repairs and maintenance, negotiating leases and assisting tenants, overseeing small capital works and supporting projects in the Council's regeneration programme.
- 2.2. A number of key projects and one-off activities that need to progress in the near future have come together with the day-to-day service requirements placing significant demands on the team. This section of the report sets out this work in more detail and identifies the need for additional building surveyor resources to enable the required work to be progressed alongside the maintenance of day-to-day services.
- 2.3. The team looks after 182 commercial and operational properties and is also responsible for the management of the recently acquired Meads and Kingsmead shopping centre and the mobilisation of Union Yard, Aldershot including the letting of the newly built commercial units. The service currently brings in a gross income of approximately £8m excluding the Meads and new income from Union Yard.
- 2.4. The work programme for the next 9-12 months fall into 4 main areas: (1) Projects which will enable the sale of land and property and delivery of capital receipts in line with the requirements set out in the Financial Resilience Plan; (2) Projects associated with The Meads Business Centre and Kingsmead shopping centre; (3) Post practical Completion works for Union Yard and (4) the implementation of solar panels at Aldershot Pools (Grant funded). More information on each of these areas is provided below.

Land and Property disposals

- 2.5. The Financial Resilience Plan includes the disposal of a number of properties and sites. To prepare these for sale includes works which require management by a qualified building surveyor;

- a) Disposal of part of Frimley Business Park - Support the check-out of tenants and including removal of fixtures and fittings, disposal of large items, environmental investigations, demolition survey and procurement and oversee soft strip
- b) Disposal of Hawley Lane – Relocation of existing tenants as required and associated clearance works
- c) Disposal of Deveraux House – oversight of groundworks and relocation of freehold parking not in the ownership of the Council to enable release of legal covenants.
- d) Disposal of Optrex Business Park – Procurement and oversight of EPC works to industrial units to increase value and certainty of sale.

The Meads Business Centre and Kingsmead Shopping Centre

- 2.6. In February 2023 the Council determined to purchase The Meads, Kingsmead Shopping Centre and The Meads Business Centre. These assets were acquired for regeneration purposes (Exempt Report REG2302). The Council recognised that it would need to run the shopping centres as part of its property portfolio whilst regeneration plans were developed. This involves carrying out some more significant repairs and maintenance in line with the building condition surveys commissioned as part of the acquisition process.
- 2.7. The Public Sector Decarbonisation Fund provides an opportunity to bid for grant to meet between 30-70% of costs of carrying out decarbonisation works to public sector buildings. This includes commercial assets where publicly owned. An initial assessment suggests that the Meads Business Centre could meet the criteria to secure funding. However further work is required to assess the detail and costs of potential works, to inform the business case for the Meads Business Centre and any bid. The timetable is submission in September with a decision in the new year and the funding has to be spent in the following financial year. It is anticipated that this funding will be available this autumn but is obviously subject to any decision by the new Government and is a competitive process.
- 2.8. At the northern end of the Kingsmead Shopping Centre a public realm improvement scheme has been included as part of the Council's UKSPF programme. The scheme will be undertaken alongside works to create a new unit at the northern entrance to the shopping centre subject to business case and relevant permissions.
- 2.9. Alongside essential repairs and maintenance activity the feasibility of the relocation of the Council offices to The Meads Business Centre is being considered to enable an early release of the Council offices site for disposal as part of the Financial Resilience Plan. An important part of the feasibility work is to understand the full financial implications of works that would need to be undertaken over and above essential maintenance, to enable the effective operation of the Council and ensure appropriate facilities for customers and residents can be enabled as part of any relocation.

- 2.10. All of the above require the involvement of a qualified building surveyor.

Post Practical Completion works for Union Yard

- 2.11. The Council's Union Yard development will reach practical completion by October 2024. As with all major schemes it is important that the scheme carefully monitored and that once handed over any post completion defects are identified and addressed during the period provided by the contract. For continuity the Council would intend to maintain the current building surveyor contracted to the project for this purpose.

Installation of solar panels at Aldershot Pools

- 2.12. Finally, the Council has been able to secure funding for the purchase and installation of solar panels at Aldershot Pools and Lido. These works require procurement and oversight by a qualified building or specialist surveyor.

Implications for staffing resource

- 2.13. An increasing element of work at this time requires qualified building surveyor resources.
- 2.14. The property and estates team consists of 8 permanent posts (See appendix A). Five of these roles require experienced RICS qualified surveyors of which two specifically are required to be building surveyors. Two of the surveyor roles, including the Service Manager, are currently filled by contractors and work alongside the contract building surveyor resource overseeing Union Yard. The Council's current employed Senior Building Surveyor is overseeing the Crematorium refurbishment contract which will not conclude until mid-2025.
- 2.15. The Council continues to try and recruit directly to surveyor roles, however the recruitment market for qualified surveyors is very challenging across the private and public sector. With public sector pay in this profession being well below private sector market levels, permanent recruitment of individuals with the skills and qualities needed remains unlikely in the short term. Additional qualified surveyor capacity would need to be sourced from specialist recruitment agencies.
- 2.16. The Head of Property and Growth has been reviewing the resourcing position in relation to the work programme. Whilst the Council does have sufficient Estate Surveyor capacity, he is of the view there is not currently enough Building Surveyor capacity in the service to undertake the works set out. It is therefore proposed to employ an additional full time contract building surveyor for up to 12 months to work across a number of the above projects.
- 2.17. The role would be funded from a mix of existing capital and revenue funding as set out in section 8 below.

3. CAPITAL CONTRIBUTIONS AND ASSOCIATED WORKS

Union Yard Commercial Units

- 3.1 The Council's development at Union Yard, Aldershot creates 12 new commercial units for letting alongside the 8 containers in the Makers Yard. In August last year Cabinet agreed the approach to the mobilisation of Union Yard including the appointment of lettings agents. Citicentric and Wrather were appointed in November and have been working alongside the Council's team to negotiate and secure lettings for the new units.
- 3.2 In August 2023 Cabinet also agreed to:
- a) Delegate authority to the Executive Head of Property and Growth in consultation with the Major Projects and Property Portfolio Holder, as part of lease negotiations, to offer capital contributions towards fit out in lieu of rent-free periods for properties at Union Yard subject to the criteria below.
 - b) Shell and Core units (requiring substantial fit out) – 3x multiplier based on the annual gross rental value
 - c) White Box units (requiring minimal fit out) – 1x multiplier based on the annual gross rental value
 - d) At that time based on current understanding of potential rental values, the value of contribution across the 12 units could equate to approx. £700,000 but was considered unlikely to reach this level.
- 3.3 Given the uncertainty of budget requirement with a year before practical completion of the development, no budget allocation was made at the time of the August 2023 report. However, as Union Yard is scheduled for practical completion of all elements covered by the construction contract by early October, it is now critical that negotiations on commercial units can be concluded. This means that any funding for capital works agreed as part of leases is made available for those works to be implemented as soon as practicable so that units can open, start generating income and support the success and vibrancy of the Union Yard Scheme.
- 3.4 The original estimate was this could be up to £700K. Based on negotiations and assessment of the market the current estimate is that at least £525K will be required to achieve lettings of all units but it is unlikely to require as much as the £700K originally identified.

The Meads, Kingsmead Shopping Centre and Meads Business Centre

- 3.2. The Council purchased the Meads in June 2023. In addition to the repairs and maintenance works identified as part of the work programme, considerable work has been undertaken with agents to let vacant units within the shopping centre. The shopping centre and Blocks 1 and 2 has 6 current vacancies and market engagement shows that capital contributions/works will be required in order to bring the centre into full occupation. In particular it is clear that the North end of the Meads cannot be let without significant reconfiguration and it is likely that to let some other units capital contributions will be required.

- 3.3. The letting of the Meads is important to enable the Council to achieve a stable revenue financial position. In particular, the Northern end of the Meads requires investment as market engagement demonstrates that until this is improved lettings will not be achievable for the vacant unit at the entrance. However, if this is undertaken potential offers have been negotiated which can be moved into legal agreements once the plans/permissions are in place. These proposals are in development. Other units such as the ex-Wilko unit are also likely to require capital contributions. It is likely that at least £400K will be required to achieve letting of these vacancies.
- 3.4. Advice as to the approach to letting and the level of capital contributions is sought from the Council's managing agents and the commercial lettings agents (Citicentric and Wrather) working on lettings at both the Meads and Union Yard.
- 3.5. It is proposed that any requirement for capital contributions/works will be subject to a business case to be considered and agreed by Cabinet applying the advice provided by professional advisers and agents in a similar way to the approach for Union Yard units described above.

Commercial Portfolio

- 3.6. The Council's wider commercial portfolio, by its nature, also experiences vacancies due to the ending of leases. Whilst the Council will require dilapidations – payment for works to return the property to the condition at the beginning of the lease these do not fund necessary improvements to achieve lettings. This often require either capital works or capital contributions. It is positive that the commercial portfolio currently has limited vacancies however in particular letting of vacant office accommodation is very difficult and occupiers expect higher standards and therefore capital contributions/works are required to achieve successful lettings. Currently £100K is estimated to be likely to be required to achieve lettings in the current year if occupiers can be identified.

Assurance and governance

- 3.7. Advice has been sought from the Council's Property Investment Advisors Lambert Smith Hampton which confirms the criteria for capital contributions continues to be in accordance with the market. This is included in Appendix A
- 3.8. In the current market the ability to agree Heads of Terms for lease swiftly is important to secure lettings. It is however, important given the Council's financial situation, that this has member oversight. This can appropriately be provided by Cabinet considering a business case before any lease requiring an associated capital contribution is agreed. Cabinet meetings can be arranged at relatively short notice as opposed to meetings of full Council who would normally agree changes to the Capital programme. The delegation to Cabinet for this purpose is set out at recommendation 3) above.

- 3.9. The proposals in this report enable the delivery of key projects in the Council plan, secure future income and protect the Council's assets. The delivery of capital receipts is a significant element of the Council's Financial Resilience Plan.

4. ALTERNATIVE OPTIONS

- 4.1. It is possible for work to be sequenced and some undertaken at a later date. However, all of the activities identified in the report protect or generate income or support the delivery of capital receipts as set out in the financial resilience plan. Therefore, sequencing of work will mean that capital receipts or income are realised later impacting on the ability of the Council to meet the strategy set out in its Medium-Term Financial Strategy. The delivery of the Financial Resilience Plan has been identified as the key priority for the Council, given the overall financial position.
- 4.2. It is theoretically possible to divert resources from the day-to-day activity. However, this increases the risk of impact on service delivery, the failure of the Council to meet its compliance and health and safety obligations, reduced income and other project delays.
- 4.3. In terms of Capital Contributions, the alternative is to not let units at Union Yard, Meads and across the commercial portfolio where capital contributions are required. This will result in both the direct ongoing loss of income and additional costs such as business rates and service charges as there is no likelihood they can be let in future without such contributions and indirect loss of income loss due to lower rents realised from adjacent properties and increased potential vacancies and reduction of vitality within those elements of the commercial estate. In addition, there will be a loss of capital value. The latter limits the ability of the Council to realise capital receipts in the future.

5. CONSULTATION

- 5.1. Relevant portfolio holders and the Executive Leadership Team,(including the Monitoring Officer and Executive Head of Finance) and the Corporate Manger – Legal Services have been engaged during the development of this report.

6. RISKS

- 6.1. The recommendations in this report seek to mitigate a number of risks identified as follows
- a) Financial Risks – The Council's Medium Term Financial Strategy identifies the need to achieve £40m of capital receipts and that property income is a high risk. The risk of not deploying additional building surveyor resource is that capital receipts will either be delayed or not achieved which would undermine the Council's financial resilience plan and Medium-Term Financial Strategy.

If capital contributions/works are not made then income assumed within the property budget for this and future years will not be realised. This will result in a realisation of the risk to property income and require alternative savings/income to be found.

b) Legal risks – Where agreements or sale transactions are not completed, there remains uncertainty and the potential for abortive costs in relation to legal work. Through procuring external and specialist legal advice and assessing the different options available, the legal risks should be minimised.

c) Reputation – The Council has made Union Yard a flagship development to transform Aldershot Town Centre and similarly purchased the Meads with the expectation that through more focused management the centre could help facilitate the regeneration of Farnborough Town Centre. If properties remain vacant and these centres do not become vibrant hubs of activity the Council's reputation is likely to be impaired.

d) Economic – If Union Yard and the Meads are not successful this is likely to have a substantial impact on the vitality and viability of Aldershot and Farnborough Town Centres. The aim of Union Yard was to create a significantly better quality offer that would attract more people to the Town Centre. Similarly the Meads is seen as having been neglected and by changing the image of the centre through a successful lettings strategy it is intended to assist the regeneration of the Town Centre in the short term while the Civic Quarter is brought forward and in the longer term through more substantial regeneration. Inability to let key locations in the centres is likely to undermine these plans.

7. LEGAL IMPLICATIONS

7.1. There are number of legal implications associated with the works set out in this report including advice on:

- a) Contractual obligations on the Council under any funding, commercial and construction contracts;
- b) Procurement requirements and ensuring compliance with the Council's Contract Standing Orders and Public Procurement Regulations 2015;
- c) Property transactions including any freehold sales, leases, licences, wayleaves, release(s) of covenant relating to the works. The Council is under a duty to achieve best value on all property disposals (Section 123 of the Local Government Act). Any disposals made at less than best consideration require the approval of the Secretary of State.
- d) Potential planning restrictions relating to works, including planning agreements, current restrictions on use of land.

7.2. The additional building surveyor resource will be procured through a specialist recruitment agency and the successful candidate will be on a temporary (not fixed term) contract.

7.3. External legal advice will be required due to the specialist and time critical nature of works and should be budgeted for accordingly.

Sophie Thorp, Corporate Manager – Legal Services. has considered and agreed the Legal Implications set out above.

8. FINANCIAL IMPLICATIONS

8.1 The Building Surveyor resource will be funded as follows:

- Revenue budget for The Meads maintenance
- Staffing Vacancies
- Some revenue maintenance budget
- Capitalisation of costs against the Frimley Capital programme allocations
- Grant funding for solar panels for leisure sites

8.2 There is potential to charge some Building Surveyor time to project budgets such as the UKSPF funded projects. This will continue to be reviewed within the financial year and if there are opportunities identified, this will allow some release of revenue savings.

8.3 In compliance with the Financial Procedure Rules (C10), Cabinet have delegated authority to authorise supplementary estimates more than £50,000. There is currently no budget provision in the capital programme to fund the proposed capital contributions to the Union Yard leases. This will require Cabinet to approve a supplementary estimate and Full Council to approve an amendment the Capital Strategy. It is proposed that the capital contributions are funded from the £3.537m of capital receipts already held by the Council to avoid additional borrowing, interest costs and MRP charges to revenue.

9. OTHER RESOURCE IMPLICATIONS

9.1 The proposals add an additional contractor resource to the Council workforce which could be seen as inappropriate given the Council's financial position and need to make service cost reductions. However, the post is required to ensure that the work programme and actions supporting the financial resilience plan are undertaken on a short-term basis. The additional resources will reduce pressure on the existing team which may have benefits in supporting retention of existing employees.

10. EQUALITIES IMPACT

10.1 There are no specific equalities impacts as a result of implementing the recommendations in this report.

11. CONCLUSIONS

11.1 The proposals are being made to enable the Council to deliver its financial resilience plan, improve its assets and enable lettings to preserve income.

- 11.2 The proposals have been discussed with the Leader and Portfolio Holder for Property and Regeneration who support the need for these actions and decisions
- 11.3 The proposals will ensure that Farnborough Town Centre is improved both through the public realm and Meads entrance(subject to business case). Also that lettings can be achieved across Farnborough and Aldershot Town Centres and the wider estate. Finally it will allow ensure expenditure of grant that will lower the Council's energy usage and thereby save money and reduce the carbon impact of the Council's operations.

LIST OF APPENDICES/ANNEXES:

CONFIDENTIAL - Lambert Smith Hampton – Union Yard Retail Incentives

BACKGROUND DOCUMENTS:

CONFIDENTIAL - Lambert Smith Hampton – Union Yard Retail Incentives

CONTACT DETAILS:

Report Author – Tim Mills/ Tim.Mills@rushmoor.gov.uk / (01252)398542

Head of Service – Tim Mills/ Tim.Mills@rushmoor.gov.uk / (01252)398542