CABINET

COUNCILLOR MARTIN TENNANT
MAJOR PROJECTS AND PROPERTY
PORTFOLIO HOLDER

20th APRIL 2021

REPORT NO. RP2103

KEY DECISION: YES

REGENERATING RUSHMOOR PROGRAMME – UNION STREET, ALDERSHOT REGENERATION SCHEME

SUMMARY AND RECOMMENDATIONS:

SUMMARY:

The purpose of this report is to set out the outcomes and recommendations from the due diligence work undertaken in relation to the delivery options and funding routes for the Council's plans to redevelop land at Union Street, Aldershot and seeks Cabinet approval to move to the next stage of project delivery. It sets out the next steps and funding required to enable development to progress for the different elements of the project and ensure the Council makes best use of external grant funding that has been secured against the scheme.

RECOMMENDATION:

That Cabinet:

1. Note the outcomes of the due diligence set out in this report and in the reports by Grant Thornton UK LLP (Grant Thornton) and Lambert Smith Hampton Investment Management (LSHIM)

2. Considers the risks identified in exempt appendices E and L and the recommendations and next steps proposed by LSHIM and officers in order to progress the scheme as set out in section 5 of this report

3. Agree that the council move forward to the next stage of development as set out in sections 6 and 7 of the report on the basis of :
    a. the Council undertaking the development of the scheme
    b. on completion, the Council retaining the student accommodation and commercial units and disposing of the affordable units to a Registered Provider (RP)
    c. the Board of Rushmoor Homes Limited (RHLtd) be given the option to acquire the remaining residential units.

4. Agree the appointment of Hill Partnerships Limited for technical design and site preliminary works, as set out in Section 6 of the report, pending a final decision to proceed with the scheme by the Council

5. Agree to utilise up to £2.2m Housing Infrastructure Fund grant funding at risk as set out in Section 6 to cover the costs associated with RIBA Stage 4: Technical Design and preliminary works associated with the consented scheme in order to minimise delay in the delivery of the scheme and to note the potential for a further bid to Homes England for delivery and capacity funding.

6. Agree a variation (or other route) to the existing demolition contract as set out in Section 7 of the report to allow for additional site preparatory works to be undertaken

7. Note the next steps and that a further report will be presented to Cabinet in due course to enable a final decision to proceed with the scheme with a recommendation to Council to approve further capital expenditure required to deliver the Union Street development.

1. EXECUTIVE SUMMARY

1.1. The regeneration of land at Union Street in Aldershot Town Centre is a Council priority and planning permission was secured for the scheme in 2020. The consented scheme is for 100 residential units (20% affordable),16 commercial units and 128 rooms of student accommodation intended for the University for the Creative Arts (UCA).

1.2. The Council has commissioned due diligence work to be undertaken by Grant Thornton and Lambert Smith Hampton Investment Management (LSHIM) to enable the Council to;

- Understand the projected development costs and financial viability of the scheme
- Compare different options for undertaking development and construction and the associated procurement approaches
- Compare different scenarios for how the scheme would be dealt with on completion including the extent to which the Council should retain, lease or sell on the different elements of the scheme
- Understand the ongoing financial implications and financing options associated with these scenarios both over the development period and the medium and long term
- Gain a good understanding of the risks associated with the development and ongoing ownership based on the different scenarios

1.3. The due diligence work has now concluded and this report reviews the different stages of the work and draws out the key conclusions at each stage.

1.4. Phase 1 (Section 3 and Appendix A of this report) of the due diligence work focused on high level viability and early evaluation of delivery models through which the Council could bring forward the development.

1.5. Phase 2 (Section 3 and Appendix B of this report) resulted in the preparation of a detailed financial appraisal to assess the financial viability of the scheme, supported by a financial model.

1.6. At the conclusion of the Phase 2 work GT was joined by LSHIM who have been appointed to provide development and property advice. GT undertook soft market testing to test market appetite for funding the scheme. This was important as at the time Public Work Loan Board (PWLB) rates were in line with or higher than the market for lending for such schemes.

1.7. For the next element of Phase 3 (Section 3 of this report) LSHIM undertook financial viability appraisals against a matrix of delivery and funding options. Delivery options were drawn from the Phase 1 and Phase 2 work and focused on (i) the Council as developer and funder, or (ii) the Council's development partnership, Rushmoor Development Partnership (RDP) acting as developer, or (iii) the sale of the site to a third party to develop the scheme as consented. Advice and land valuations demonstrated that the sale of the site would not be a viable option (Section * LSHIM report). The remaining 4 best options from all the completed appraisals were then used by Grant Thornton to undertake detailed financial modelling and cash flow forecasts, in the first instance based on a 15 year period. The four options were as follows;

Scenario 1 – Rushmoor Borough Council (the Council) undertakes the development of the Project. The private and affordable residential units are sold to a Registered Provider (RP); and the commercial and student units are retained by the Council for rent.

Scenario 2 – The Council undertakes development of the Project. The-private residential units are sold to Rushmoor Homes Limited (RHLtd), the affordable housing units are sold to an RP and the commercial and student units are retained by the Council for rent.

Scenario 3 – Rushmoor Development Partnership (RDP) undertakes development of the Project. The private residential units are sold to the open market and affordable units sold to an RP. The commercial and student units are retained by the Council.

Scenario 4 – The RDP undertakes development of the Project. The private residential units are sold to RHLtd, the affordable housing units are sold to an RP and the commercial and student units are retained by the Council for rent.

1.8. Grant Thornton undertook financial modelling assuming PWLB funding which demonstrated that over a 15 year period all 4 options could achieve a surplus with scenarios 2 and 4 both providing a surplus of just over £7m. Key risks in relation to the need to maintain income over the period remain with the Council and RHLtd post development. In option 4 the development risk is shared between the Council and the RDP with the RDP taking a development profit.

1.9. Further modelling was then undertaken to understand the viability of the scheme if the asset was retained. For this modelling the funding period was extended to 37 years and offers from the private sector were modelled assuming a long-term lease arrangement and these were subsequently compared with PWLB funding options.

1.10. In the case of the private sector finance (long term lease) the surpluses from the scheme were also positive (circa £8m) and exceeded those in the 15 year modelling. The private sector funding options provide less flexibility to the ongoing use of the asset. The best performing PWLB option, based on a maturity payment profile provided a scheme surplus of £13.19m.

1.11. The modelling undertaken was to provide the Council with a good understanding of the potential financial impacts of the different development and funding approaches. It should be noted these assessments set out comparisons that support decision making with the initial and ongoing funding of the scheme being undertaken as part of the Council's wider treasury management activities.

1.12. The due diligence showed in all cases modelled that if the Council were to proceed with the scheme based on the current construction costs it could be possible to see a return over time. The scheme is therefore viable based on the assumptions underpinning the model. However, this return would not necessarily cover all the initial land assembly costs.

1.13. There are though a wide range of risks associated with the development and the ongoing ownership and management of the asset once developed and these and the approach to mitigation are set out in the Council's risk matrix at Appendix E of this report.

1.14. It is considered that the advice and conclusions from the due diligence and analysis of risk set out in this report provide sufficient information for the Cabinet to consider the release of £2.2m funding to move to the next stage of development as set out in section 6 of this report. This £2.2m (along with all grant drawn down) will essentially be 'at risk' and in the event that on completion of the final stages of assurance the Council chooses not to proceed further will require repayment to Homes England in line with the funding agreement. However, this work is essential to allow the scheme to progress and enable the completion of the assurance process. This will provide Cabinet with as much certainty as possible before making a final recommendation to the Council to proceed with the scheme.

1.15. The final decisions needed to proceed with the scheme (estimated total costs currently £33m net of grant funding) will be made by Cabinet in due course with a recommendation to Council to approve the capital expenditure and financing once further certainty is achieved in relation to construction cost, future lease/sale arrangements with Rushmoor Homes Limited and registered providers have moved forward, further work on the options for management and letting of the student accommodation have been progressed and the procurement and contract arrangements in respect of construction and development have been concluded.

1.16 Taking the above into account it is recommended that the Cabinet agree that the scheme proceed to the next stage of development and further assurance, financial and legal work proceed on the basis of the Council undertaking development *(“the Base Case”)* with Hill Partnerships Limited being appointed to undertake technical design and site preliminary works as set out in section 6 of the report.

1.17 This recommendation will see the Council proceed with the scheme at risk on the basis that:

- the development proceeds without the prospect of a long-term lease for the student accommodation and instead the Council models a direct let option to students via a management company or entering into a nomination agreement(s) with an education establishment(s) and/or other body requiring student accommodation.
- it is reliant on RHLtd being able to demonstrate it can service the borrowing associated with the acquisition of the residential units on completion
- a sale is agreed to a suitable RP for the affordable units
- it can secure commercial tenants for the ground floor units and the container units

1.18 The recommendations include the Cabinet agreeing to underwrite repayment of the Homes England grant funding in accordance with the funding agreement should the development not proceed.

1.19 A further report will come forward in due course once the key activities in sections 6 and 7 of this report have reached their conclusion.

2. INTRODUCTION

2.1. The regeneration of land at Union Street in Aldershot Town Centre is a Council priority. Delegated authority was provided to the Executive Head of Regeneration and Property (RP2005) to submit planning applications and secure the appropriate permissions as required to enable the Union Street regeneration scheme in Aldershot Town Centre. The planning application was submitted in early March 2020 and was approved by the Development Management Committee on 24 June 2020.

2.2. The Council has entered into contract for the demolition of the existing structures on site, utilising external LEP grant funding, with work commenced in February and due to run to approximately 20 weeks.

2.3. The purpose of this report is to update Cabinet in relation to the due diligence being undertaken on the most appropriate delivery/funding route for the redevelopment of Union Street, Aldershot and seeks Cabinet approval to move to the next stage of project delivery. It sets out the next steps and release of funding required to keep to the development timetable in respect of the different elements of the scheme and ensure the Council makes best use of external grant funding that has been secured against the scheme.

3. BACKGROUND

3.1. The regeneration of Aldershot Town Centre is a corporate priority and Union Street is identified as a key site allocation for regeneration within the Rushmoor Local Plan (adopted February 2019) and the Aldershot Prospectus SPD. It has formed part of the portfolio of sites being progressed by the RDP since its inception in late 2018.

3.2. Following Cabinet approval (RP2005), a planning application was submitted to the Local Authority by the RDP on the 4th March 2020 for a mixed use scheme comprising 100 residential units, purpose built student accommodation (PBSA) (128-bed spaces) for the University for the Creative Arts (UCA) and ground floor commercial uses (2,237sqm GEA) focused around a ‘Creators Yard’. The submission followed on from a period of public consultation in January/February 2020, with two public drop-in sessions held in Aldershot town centre on the 16th and 18th January. From the responses received to the feedback forms, approximately 80% of respondents supported the proposals that were presented and 97% agreed that Aldershot town centre needs regeneration.

3.3. The planning application was validated on the 6th March 2020 and was considered by Development Management Committee at its meeting on 24 June 2020 and agreed subject to suitable legal agreements to secure the required planning obligations.

3.4. Cabinet Report RP2008 set out that the detailed Project Plan associated with the Union Street scheme from the Rushmoor Development Partnership (RDP) was being considered and due diligence was commencing on matters including commercial, property, legal and finance assumptions and procurement options associated with the delivery of the scheme.

3.5. Cabinet approved (RP2011) the procurement of demolition works by means of a procurement framework either as a direct award or through a mini competition. The Southern Housing Group Framework was identified as an appropriate route and a Briefing Document was issued to the companies registered on the framework lot. Only one company expressed an intention to submit a proposal, Hill Partnerships Limited, who were subsequently identified as the preferred partner to oversee the works.

3.6. The Council appointed Lawson Queay to perform the role of Technical Advisor/Employer’s Agent for the purposes of contract negotiations and scrutiny associated with the delivery of the works.

3.7. The demolition works are underway (contract commenced 1st February 2021) and are due to conclude by the end of June 2021.

4. APPROACH TO SCHEME DELIVERY

Outcomes of the Due Diligence process

4.1. Cabinet Report RP2008 set out that the detailed Project Plan associated with the Union Street scheme from the RDP was being considered and due diligence was being undertaken on matters including commercial, property, legal and finance assumptions and procurement options associated with the delivery of the scheme.

4.2. The Council commissioned Grant Thornton to provide due diligence for the scheme, initially based on two scenarios:

- 100 residential units and 16 commercial units for sale and 128 rooms for rental of student accommodation; or
- rental of the residential, student accommodation and commercial units with the same unit numbers as stated above.

4.3. The due diligence is reported in three phases that cover the following:

Phase 1

- Delivery structures – the approach to managing control, risk and return for the Council including an overview of the relative merits of the alternative delivery options available, the governance arrangements and the financial implications to the Council;
- Funding scenarios – appraisal of funding scenarios available for the Scheme, including the use of equity investment, borrowing under the PWLB, grant income and other third-party borrowing;
- High-level affordability – outputs from the financial development appraisal working paper assessment of Scheme viability.

Phase 2

- Preparation of a detailed financial appraisal to assess the financial viability of the scheme, supported by a financial model.

Phase 3

- Soft market testing exercise to seek feedback on the features of a funding solution for the Project;
- Gauge interest in funding the Council’s aspirations to acquire investment properties and regenerate the Civic Quarter, Farnborough (together the “Wider Schemes”); and
- Prepare further financial appraisals and modelling scenarios to assess the viability of the Project with input from LSHIMIM on development assumptions.

4.4. The Council is now in receipt of the final drafts of each of the above documents.

4.5. In addition to the above, the Council is also in receipt of the following companion reports from LSHIM:

- Development Delivery Assessment Report (Appendix D) – focusing on three key matters namely the viability of the project as a development scheme, the range of delivery options available to the Council and how best to proceed with the chosen delivery route;
- High Level Risk Register (Appendix E) – identifying the risks and mitigation measures associated with a broad spectrum of subject matters related to the Project.

4.6. As agreed by Cabinet in January (RP2101), a Cabinet Working Group consisting of the Major Property and Projects Portfolio Holder, the Corporate Services Portfolio Holder and the Leader of the Labour Group has been established to evaluate the due diligence outputs in preparation for this Cabinet report and recommendation which will need to be agreed by Full Council. In addition, a briefing seminar for all Members was facilitated to ensure that all were informed ahead of any key decisions being made by Cabinet/Full Council.

Phase 1 Report Outcomes

Delivery Structures

4.7. The Phase 1 report sets out 3 delivery structures that are available to the Council, these being:

1) a council-led development approach;
2) a council wholly owned company (WOC) approach; or
3) a joint-venture structure (JV) approach, in which the Council enter into a partnership with another public or private sector partner (JVP).

4.8. A further explanation of each of these delivery structures can be viewed in Section 3 of the report at Exempt Appendix A. Grant Thornton assessed each structure against a number of risk headings as set out below:

- governance and control;
- developer risk;
- price and quality;
- construction risk
- funding risk;
- people resource and expertise;
- returns;
- legal risk;
- revenue risk; and
- complexity and ease of implementation.

4.9. To determine the preferred delivery structure for the Scheme, a scoring matrix was created for discussion with the Council based on the above criteria.

4.10. The Council requires the scheme to start on site this calendar year in order to meet timescales associated with grant payment from Homes England and Enterprise M3 LEP. Therefore, a delivery approach is sought which enables it to progress the Scheme within this timeframe.

4.11. On the basis of the Freeths legal advice, which discounts the ability to deliver the scheme through the RDP (see Legal Implications section below), an approach which provides flexibility and ease of implementation were important factors to arrive at a preferred delivery structure. Both the Council-led and WOC delivery structures appear to meet the overall criteria set by the Council, however, a deciding factor was the flexibility of the WOC delivery structure. A WOC allows the Council the option to retain or dispose of the different types of units and ring-fence activity. The WOC would be able to retain housing as in the absence of a Housing Revenue Account (HRA) the Council is not in a position to do this.

4.12. The JV structure is considered to be more difficult to implement as it would require procurement of a JV partner which would potentially impact detrimentally on the grant funding timescales and given the existing RDP JV partnership (HPL) discounted the scheme based on not meeting their commercial objectives, there is a risk that a different commercial partner may reach the same conclusions.

4.13. In choosing to progress with a Council-led or WOC delivery route, the Council needs to give consideration to the procurement of a construction partner to take forward the development. There are a number of approaches that have been considered and the main routes that could be taken to take forward the scheme are outlined later in this report.

<u>Funding Scenarios</u>

4.14 The Phase 1 report sets out that the Council do not have to restrict themselves to using one type of funding for delivery of the scheme. A mix of funding scenarios, based on the preferred delivery structure, were set out in the report with the three most suitable sources identified against each route as below:

	Council-led Development	**WOC**	**JV**
1	**PWLB** Council may be able to obtain PWLB finance at a favourable rate and PWLB is fairly easy to access.	**Equity** Required for a WOC however, the land can be used an equity investment allowing the Council to retain ownership.	**Equity** The Council may utilise their land as an equity investment. The Council could consider different ways of

			structuring this investment (e.g. through a transfer in return for loan notes that accrues interest).
2	**Senior Debt** Whilst the Council may have to offer suitable security / reliance on overall covenant, it may be able to secure rates comparable to PWLB. Short to medium finance may only be required under a ‘for sale’ option.	**PWLB** Council may be able to obtain PWLB finance at a favourable rate and PWLB is fairly easy to access. Whilst the Council may need to on-lend at a higher margin for State aid compliance, this margin is ultimately paid back to the Council.	**Senior Debt** The JV may require investment over and above that provided by a Council and JVP and therefore is likely to need short to medium term debt funding.
3	**Institutional Pension Fund (IPF)/Income Strip** Provides a long-term funding solution for the cost of development.	**IPF/Income Strip** Provides a long-term funding solution for little upfront investment into cost of development.	**IPF/Income Strip** Provides a long-term funding solution for the cost of development.

4.15. Section 4 of the Phase 1 report sets out further details associated with each of the funding options identified within the table above plus further options that were considered e.g. bond financing.

High Level Viability Assessment

4.16. The final aspect of the Phase 1 report considered the high-level viability of the scheme against the two scenarios set out at paragraph 3.2 based on development assumptions provided by Lambert Smith Hampton Investment Management (LSHIM) and Gleeds in their role as technical advisors to the Council. The complete list of assumptions are provided within Appendix C of the Phase 1 report.

4.17. Based on the assumptions, option one (assuming disposal) was not viable, providing an overall £10.22m net cashflow outflow resulting in a loss. If the Council was to consider the land as a sunk cost, the position would be a surplus of £0.16m.

4.18. A high-level assessment of option two showed that the scheme generates a positive net cashflow over a 40-year operational period of £43.24m. However, the scheme does not generate a surplus to be used as a return until year 34 of 43 (based on 3 years of construction plus 40 years of operation).

4.19. The Phase 1 report concluded that the Council should develop a more detailed financial appraisal considering a number of factors aligned to funding/finance and income/cost.

Phase 2 Report Outcomes

4.20 The Phase 2 report focused on the preparation of a detailed financial appraisal to assess the financial viability of the scheme, including an assessment of:

- the net cashflow over a 40-year Project term under an option to develop and rent commercial, student and private sector rented (PRS) units (noting a sale of the affordable units);
- the three funding scenarios of Council equity alongside Public Works Loan Board (PWLB), an income strip structure and a disposal of the land;
- the Project pre-financing and tax Net Present Value (NPV) and total net cashflows under the three possible funding scenarios;
- the risks associated the Project and the Scenarios tested;
- sensitivities applied to each funding scenario, as agreed with the Council, each run independently of the others, by varying the input assumptions used by the Model;
- commentary on the financial appraisal outputs under a series of financial metrics, agreed with the Council, which include total net cashflow, NPV, and peak debt with our conclusions and next steps;
- review of the proposed Project against the financial reporting requirements of the CIPFA Accounting Code of Practice 2019/20 and provision of a narrative report setting out key disclosure requirements and financial accounting considerations for the Council;
- consideration of the impact on the Council's Minimum Revenue Provision (MRP) of proposed Project based on the statutory guidance applicable for the financial year 2019/20; and
- high level comments on the main tax considerations to cover Corporation Tax, VAT and Stamp Duty Land Tax for the delivery structure to be tested, as concluded in our Phase 1 Report.

4.21 The focus of the report was to work up the scheme option where:

- 82 privately rented units, 16 commercial units and 128 student accommodation rooms are developed for rent; and
- 18 affordable housing units are developed for sale.

4.22 It considered the following scenarios, as agreed with the Council:

- The Council sets up a WOC and funds the development directly, utilising PWLB funding over a 40-year period (including the refurbishment of student accommodation at year 26) (Scenario 1).
- The Council sets up a WOC and funds the development through an income strip funding structure over a 40-year period. However, the refurbishment of student accommodation at year 26 is funded by Council on-lending PWLB to the WOC (Scenario 2).
- The Council directly disposes of the land to a developer, for a capital receipt, who will undertake the project development and delivery. The Council, at practical completion, will take a lease on the commercial units over a 25-year period, based on an offer, yet to be detailed, from a

developer. The developer will retain and operate all other assets developed (Scenario 3). For the avoidance of doubt, under Scenario 3 there will be no requirement for a WOC or for PWLB to be provided to fund the Project.

4.23 Based on the financial viability assessment on a post finance and tax net cashflow (excluding terminal value) Scenario 3 was considered to rank above Scenario 1 and 2, providing a post financing and tax net cashflow of positive £4.20m compared to a negative £40.23m and negative £21.01m under Scenarios 1 and 2 respectively.

4.24 There was a recognition that Scenarios 2 and 3 had not been soft market tested and the Phase 2 report recommended this is undertaken to verify the assumptions that support the viability assessment detailed above, to gauge market appetite for the proposed transaction and generate funder feedback to refine/shape the proposition ahead of a more comprehensive market approach.

4.25 Subsequent to the conclusion of the Phase 1 and 2 reports it was agreed that in the absence of an existing WOC suitable as a development vehicle that, for simplicity, the scenarios modelled would consider the Council's housing company (Rushmoor Homes Limited) as a suitable exit vehicle for the private housing elements of the scheme. Consideration of whether a WOC should be established for development or to hold the asset on completion would be undertaken in the event that a decision is made to progress to the next stage.

Phase 3 Report Outcomes

4.26 As above, the Phase 3 report was commissioned to complete a soft market testing exercise to seek feedback on the features of a funding solution for the scheme. In addition, the report also considered the changes to PWLB borrowing and the impact of the results on the scheme delivery following the outcome of the HM Treasury consultation in November 2020.

4.27 The Council separately engaged property advisors, LSHIM to help prepare development appraisals and provide assumptions to feed into the financial appraisals which are prepared by Grant Thornton to assess viability of the Project.

4.28 Grant Thornton created a long list of potential funders and developers who could be invited to take part in a soft market testing exercise to test appetite for the scheme. Selection criteria were agreed with the Council, upon which to shortlist. The shortlisted funders and developers were selected by the Council with input from both LSHIM and Grant Thornton.

4.29 Two separate memorandums of information were prepared; a Funder Memorandum of Information (FMOI) (Appendix F) and a Developer Memorandum of Information (DMOI) (Appendix G). The FMOI and DMOI both included relevant information relating to the Project, including background and key outputs from the Phase 2 Report.

4.30 Initial conversations were held with each of the shortlisted funders who registered interest in the scheme they were sent the FMOI. Grant Thornton held 1.5 hours meetings with each funder (with attendance from the Council and LSHIM) to discuss the scheme and Wider Schemes (namely the Civic Quarter), with a view to seek indicative terms to fund delivery.

4.31 Following further discussions between the Council and the RDP, the Council received an offer in October 2020 from the RDP to act as developer for the scheme. Given the 'procured' relationship with RDP, Union Street being included in the portfolio of RDP sites and the RDP having undertaken the planning submission, it was agreed it would not be appropriate to pursue further meetings with additional developers.

4.32 In addition, the Council received an unsolicited initial offer from Hammond Student Living (HSL) to purchase the land interest from the Council (as presented in the Phase 2 Report). Following a validation check by GT the Council confirmed that it was prepared to review further detail from HSL to help the Council understand this offer further. A revised offer from HSL was received in February 2021 that contained a joint funding/development management offer to replace its previous offer to purchase the Site.

4.33 To assess the financial viability of the Project, Grant Thornton prepared a number of development scenarios based on assumptions provided by the Council and LSHIM.

4.34 Four 15-year scenarios were tested (15 years being selected as the term based on the first point at which the UCA could choose to break its lease with the Council on the student accommodation) and are set out below:

Scenario	Proposed Funding
Scenario 1 – The Council delivers development of the Project, in which the private and affordable residential units are sold to the open market; and commercial and student units are retained by the Council for rent.	Council uses Prudential Works Loan Board (PWLB) debt to fund the costs, at an assumed interest rate of 1.82% per annum1 for the entire development.
Scenario 2 – The Council delivers the Project, in which: the private residential units are sold to Rushmoor Homes Limited (RHLtd); the affordable housing units are sold to the open market; and the commercial and student units are retained by the Council for rent.	Council use PWLB debt to fund the costs at an assumed interest rate of 1.82% per annum for the entire development. Council on-lend to RHLtd at 5.50%2 per annum to fund RHLtd's purchase of the private residential units from the Council.
Scenario 3 – Rushmoor Development Partnership (RDP) delivers the Project. The private and affordable residential units are sold to open market; and commercial and student units are retained by the Council.	Council use PWLB debt at an assumed interest rate of 1.82% per annum to fund the costs for the student, commercial and 80% of residential development costs. HPL (as part of RDP) fund the remaining 20% of the residential development costs at a rate of 5.00% per annum (with HPL repaid first on the sale of residential units).

Scenario 4 – RDP delivers the Project, in which: the private residential units are sold to RHLtd; the affordable housing units are sold to the open market; and the commercial and student units are retained by the Council for rent.	Council use PWLB debt at 1.82% for student,vcommercial and 80% of residential development. Council on-lend to RHLtd at 5.50% to fund the purchase of the private residential units. HPL (as part of RDP) fund 20% of the residential development cost at a rate of 5.00%3 (repaid first on sale of residential units).

4.35 Feedback from the funder interviews and the HSL offer in February 2021 indicated longer-term solutions to fund the Project of between 30 and 40 years. As a result, Grant Thornton prepared the following scenarios (together the "37-year scenarios"):

Scenario	Proposed Funding
Scenario 5 – The Council delivers development of the Project, in which the following assumptions are used: the Council utilises the Hammond Student Living (HSL) lease finance (£37m) and development management proposal; the private residential, commercial and student accommodation units are retained by the Council for rental purposes; the affordable housing units are sold in the open market at practical completion; and the Council refurbishes the student accommodation at year 16 at a cost of £7.4m.	Under the proposed lease structure, HSL provides £37m of finance on an upfront basis in return for a starting annual lease rent payment of £1m per annum. The lease rent payments commence at the start of the construction phase and are indexed at retail price index (RPI).
Scenario 6 – The Council delivers development of the Project, in which the following assumptions are used: the Council utilises private finance in the form of the Legal & General (L&G) lease proposal (£33.5m); the private residential, commercial and student accommodation units are retained by the Council for rental purposes; the affordable housing units are sold in the open market at practical completion; and the Council refurbishes the student accommodation at year 16 at a cost of £7.4m.	During the soft market testing exercise L&G provided indicative pricing for a long-dated indexed linked lease financing arrangement. Pricing provided by L&G ranged from 2.5% to 3.0% Net Initial Yield (NIY) dependent on the duration of the lease term (e.g., 30,35 or 40 years). This Scenario assumes £33.5m of funding in return for an annual lease payment of circa £0.98m based on a NIY of 2.75% - the mid-point in the range provided by L&G. It is assumed the lease rent is payable from practical completion and indexed at RPI.
Scenario 7 – Same as Scenarios 5 & 6, except the Council uses PWLB debt (£33.5m). In this Scenario it is assumed the Council uses a maturity repayment profile.	Council uses PWLB debt at 1.82%4 to finance the entire development with repayments structured over 37 years on a maturity repayment basis.
Scenario 8 – Same as Scenarios 5 & 6, except the Council uses PWLB debt (£33.5m).	Council uses PWLB debt at 1.79% to finance the entire development with repayments structured over 37 years on an EIP repayment basis.

In this Scenario it is assumed the Council uses an Equal Instalments of Principal (EIP) repayment profile.	
Scenario 9 – Same as Scenarios 5 & 6, except the Council uses PWLB debt (£33.5m). In this Scenario, it is assumed the Council uses an annuity repayment profile.	Council uses PWLB debt at 1.82% for entire development over 37 years on an annuity repayment basis.

Due diligence final phase - outcomes

4.36 All scenarios tested appear to be financially viable on the basis that they provide a positive net surplus (cashflow after finance costs) over the Project term and positive net present value (NPV). It should be noted that these positive positions are dependent on the Council achieving the assumed Terminal Value on the retained properties.

4.37 The 37-year scenarios provide the Council with higher net surpluses and NPVs compared to the 15-year scenarios, however, carry more operational risk given the longer term.

4.38 In contrast, the 15-year scenarios, funded by PWLB provide lower net surplus and NPVs, however these provide the Council with the opportunity to refinance at any point in time during the Project's term. This could potentially enable the Council to realise the financial benefits seen in the 37-year scenarios, albeit this will be dependent on the prevailing market and the finance rates at that time.

4.39 The delivery route the Council decides to pursue will be a balanced choice dependent on its risk and reward appetite.

5 LSHIM REPORT

5.1 LSHIM in their role as development and property advisers have on behalf of the Council considered all the outputs from the due diligence. In relation to next steps the report (Appendix D) states;

"*The Council is committed to delivering a beneficial redevelopment of land and property in Union Street Aldershot. Much of the preparatory work relating to securing the site, [obtaining vacant possession], securing planning permission and attracting gap funding support from the Local enterprise Partnership and separately from Homes England has been completed which means that the Council is ready to proceed with implementing the necessary development works.*

LSH has reviewed the current viability of these development proposals and the considered the previous assumption that the scheme will be undertaken through Rushmoor Development Partnership. During the course of this review the Council has received separate advice from Grant Thornton on its financing options, and having regard to this advice the Council has a fairly *evenly balanced choice to make between delivering the scheme through the RDP and alternatively employing suitable advisors who can assist the Council to undertake direct delivery of the scheme.*

As set out [in the report] LSHIM has concluded that whilst this development could be undertaken under the general principles of the RDP the proposed commercial arrangements recommend that the Council creates a different form of delivery vehicle. The delivery vehicle being recommended can include Hill Construction Limited providing building contracting services but arrangements relating to development management, procurement of development finance and development funding will require a commercial solution which represents value for money for the Council as well as a proper recognition of the Council's proposed role and responsibilities."

5.2 Taking this recommended development route forward requires the Council to take a number of significant decisions and these are set out in the LSHIM report and repeated below. Some of those decisions are being taken forward through this report and others will be brought forward over the coming months. The decisions required include:

(1) Confirmation that the Council is ready to proceed having regard to the development, finance and funding obligations set out in this report and the appraisal of anticipated development risks
(2) Project governance arrangements, including formation of a steering group with appropriate expertise, to oversee the proposed development in accordance with best practice, treasury management and Prudential Code requirements
(3) Confirmation of the preferred delivery option, whether it be by the RDP, a form of Direct Delivery or by seeking a delivery partner. Depending on this decision the Council will enter into discussion with Hill Construction Ltd to agree suitable commercial arrangements
(4) That Hill Construction should be offered the opportunity to provide building contract services, and on what basis
(5) That the Council will seek to reduce overall development risk by concluding agreement with UCA on a lease for the 128 student housing units in accordance with the heads of terms dated 7 th February 2020
(6) That the Council will reduce overall development risk and enter into an agreement for lease with a preferred Housing Association to secure the value of the affordable housing
(7) That the Council will reduce overall development risk and confirm whether the 82 residential units will be transferred into Rushmoor Homes and on what basis
(8) That the Council will prepare a Commercial Letting and Investment Plan to ensure the successful letting and occupation of the proposed commercial accommodation in accordance with agreed economic, commercial and social value requirements
(9) That the Council prepare a business plan, programme and financial plan under which the proposed Union Street Scheme can be progressed
(10) That the Council will instruct its legal and commercial advisors to prepare the necessary legal and contractual documentation to progress the proposed development

5.3 In relation to 5.2 (1), the final confirmation to proceed with the scheme will be taken later this year once further work described within this report has been concluded. The development risks are set out at Appendix E. In relation to 5.2 (2), the make up of the Council project team will be strengthened in line with Section 8 of this report.

5.4 In relation to both 5.2 (3) and 5.2 (4), having given appropriate consideration to the financial modelling, the most viable exit strategy comprises a disposal of the private residential units to RHLtd. This means that the Council would take forward the role of developer for the scheme and the offer from the RDP (to acquire the residential for private sale) would be declined. Based on the advice from LSHIM, the preferred option would be to proceed with a direct award to Hill Partnerships Limited (HPL) via a framework appointment as set out in Section 6.

5.5 In relation to 5.2 (6-10), each of these matters is considered in Section 8 of this report and will be considered in greater detail as part of a further report to Cabinet.

5.6 In relation to 5.2 (5), subsequent to the receipt of the LSHIM report the Council was advised by UCA that it has changed its model for student accommodation off campus and would be withdrawing from lease negotiations. As a result, officers have explored alternative options to bring forward the development of the Purpose Built Student Accommodation (PBSA) element of the scheme.

5.7 The Council, as opposed to leasing the space directly to the UCA, has the opportunity to build out the accommodation under a ‘direct let’ basis. This most likely involves appointing a student accommodation management specialist to manage and operate the PBSA under a management agreement. Under such a proposal the management company would charge a fee based on the net income produced by the asset. Officers have undertaken some initial soft market testing and an indicative proposal was received from CRM Students, a prominent organisation working in this market, who would seek to do this on the Council’s behalf and charge a fixed fee of 4.5% of the net income. In order to assess the risks and benefits of this arrangement, the Council has commissioned Avison Young to undertake an occupational and investment market overview, review of the consented scheme and a financial analysis assuming the asset is held and operated by the Council. The scope of the work is set out at Appendix H. Officers will be able to update Cabinet as soon as the findings are available.

5.8 CRM Students have put forward a business proposal for the scheme and, based on their experience, are of the opinion that the rooms would let for between £170 - £175 per week and consider a 98% occupancy rate is achievable. On this basis the student element of the development would produce and annual gross income of £975,190 per annum. Based on their gross income estimates and operating costs, officers consider that the income under a direct let basis may be higher than that achieved under the lease option terms that were agreed in principle with the UCA. Adopting a more conservative rental of £150 per room per week, and a reduced occupancy rate of 90%, the council would still receive an additional £227,934 of income over a 10-year period in comparison to the lease option with UCA modelled by Grant Thornton and LSHIM. An indicative income analysis with various sensitivities over 10 years is included at Appendix I.

5.9 Whilst the demand for student accommodation will be mainly driven by students attending the UCA, there are also a number of other academic institutions in proximity to the Union Street East development which will potentially drive demand for the accommodation. Although UCA are no longer willing to commit to a lease, the Council maintain positive dialogue with them in regards to nominations agreements (a more flexible basis where a university may commit to taking a number of rooms and underwrite the rent for typically a period of 5 or 10 years).

5.10 Savills has provided a PBSA Market Overview (Appendix J) setting out that there are currently 4,810 full time students who attend UCA and only 375 PBSA rooms available in Farnham and Aldershot. This indicates a shortfall in supply. These figures currently equate to a 12.83 student to bed ratio with only 8% of full time students having access to PBSA. This ratio will reduce to 7.71%, with 252 beds being developed in Farnham and then down to 6.42% when Union Street East is completed, leaving a remaining shortfall in PBSA in the Farnham / Aldershot area and indicating ongoing demand which can support RBC constructing the PBSA under a direct-let model.

5.11 Whilst there is demand for PBSA in this location there is a different risk profile associated without a lease in place. RBC face greater operational risk (management of the asset) and income risk associated with the development. These risks are currently being explored in more detail with our advisors LSHIM, Avison Young and Grant Thornton. The potential for increased income from under a direct let model and the wider socio-economic benefits of bringing forward a 128 bed PBSA development to Aldershot need to be balanced against the operational risks to the Council. However, it is considered that there is market evidence of demand to provide sufficient comfort to proceed in the absence of a lease agreement with the UCA.

6 PROCUREMENT OF CONSTRUCTION SERVICES

6.1 Depending on the development option selected either the Council or the RDP will need to appoint a main contractor. In the case of the Council acting as developer there are three routes for the appointment of a construction partner:

- Rushmoor tender in line with current high value tender procedures;
- Mini-competition through a suitable procurement framework e.g. Homes England DPP3;
- Direct Award through a suitable procurement framework in line with the framework rules.

6.2 Utilising an available construction framework can reduce procurement timescales from 6-9 months down to 4-6 weeks and reduce procurement costs. Terms and conditions are pre-agreed under the relevant framework and the contract is by way of a “call-off” from the framework. The Council’s requirements would be scheduled to the contract and the pricing derived from the framework contractors’ schedule of rates or other method laid down by the framework.

6.3 From a Council (as employer) perspective, such frameworks offer greater flexibility to fit procurement processes into business requirements and comfort is provided through pre-agreed terms and conditions/standard tender documentation.

6.4 It is proposed that in order to meet a start on site target within this calendar year, the most effective route to take would be a direct award from an appropriate framework. A “direct award” is an award of contract to a contractor under a framework without going through a “mini-competition” (i.e. without seeking competitive tenders from some or all framework contractors).

6.5 An appropriate framework that allows for a direct award would enable construction to be awarded to a single contractor in whole or in part. The Council will not make a final decision to proceed until June/July, but there is a commitment to be on site this calendar year for construction to align with external funding milestones so it will be beneficial to move forward with the next stage of the development work at the current time.

6.6 It is considered appropriate to recommend the Cabinet to proceed with the next stage of development, known as a pre-construction services agreement (PCSA) with Hill Partnerships Limited, on the assumption that the Council will act as developer. The Council can enter into a PCSA on the basis of a direct award utilising the Catalyst framework.

6.7 As part of the due diligence, Gleeds advised that the Hill construction costs represented value for money. Hill has been working closely with RDP on developing the scheme to date, providing input on pre-planning to ensure that the proposals are buildable. As such, some comfort can be taken from the fact that the cost schedule has been informed by prior knowledge of the site context and aspirations. The cost schedule associated with the PCSA will be validated by Lawson Queay who are acting as the Council’s external technical advisors on the current demolition contract.

7 SCHEME DEVELOPMENT

Technical Design

7.1 Further to section 6 above, having secured planning permission and commenced demolition works, the next stage of work that needs to be commissioned relates to RIBA Stage 4: Technical Design and site preliminary works. This takes the drawings submitted for planning as the baseline and develops the design in sufficient detail e.g. mechanical and electrical (M&E) requirements / structural engineering calculations, to enable a design pack to be prepared which can be passed to the preferred contractor and their supply chain to construct the development. It also enables preliminary works to take place on site to gear up for the construction phase to commence. Undertaking this element of work will help to refine the development costs and aid with progressing lease/disposal discussions with end users including the RHL and Registered Providers.

7.2 As above, this scope of works would be captured through a PCSA. In the event that the Council was to make the decision to use the RDP as developer as part of the final decision making, it will be possible to novate all current contracts, outputs and collateral warranties from the Council directly to the RDP and avoid any delay entering into a main JCT Design and Build contract.

7.3 Homes England has confirmed that it is content for the HIF funding to be applied against Technical Design costs and preliminary works associated with the consented scheme. In order to ensure that the full allocation of funding is spent within the defined timescales (by March 2022), it is proposed that an element of the £5m funding allocation is set against these costs. The most recent estimate of the costs (Appendix K) associated with the consented scheme is approximately £2.2m and is factored into the overall build costs considered as part of the due diligence process.

7.4 As set out in Section 6, a key factor that drives the need to get this stage of works commissioned is the ability to meet the timescales associated with the HIF funding allocation. Secondly it will be important to proceed with construction as quickly as possible to provide certainty to organisations, like UCA, who will take nominations agreements only when there is certainty of completion.

7.5 At present, the Council has been able to allocate approximately £250k of spend against the £5m secured on works associated with the first phase of demolition and a sub-station diversion/upgrade at Princes Gardens. It was the initial intention to allocate a further £1.2m of the allocation against the demolition works that are now underway. However, the more pressing timescales associated with LEP grant funding (by March 2021) meant that the Council had to re-prioritise the spending profile. Consequently, the Council needs to incur approximately £4.75m of spend over the next 11 months against the Union Street scheme or potentially run the risk of losing the grant funding.

7.6 Officers are advised that the work associated with the technical design is expected to take approximately 14-16 weeks to get to a position of having the documentation finalised. The preliminary works associated with the site will add a further 4-5 weeks on the existing demolition contract and see site activity extended to the end of August 2021 based on current programme.

7.7 Agreeing to take forward the technical design and site preliminary works now will provide the opportunity to have collated the necessary outputs within a similar timeframe to the demolition works concluding and provide the best case scenario for commencing on site later this year to allow for further drawdown of remaining funding allocation within the 2021/22 financial year.

Variation to Demolition Contract

7.8 The Cabinet authorised the Council to enter into a demolition contract associated with the site clearance of Union Street in July 2020. As part of that contract, the proposed extent of works does not proceed as far as to break up the foundation slabs of each of the buildings as, at the time of the commission, it was not clear as to the construction delivery route and it was considered appropriate to allow for ground condition to be understood clearly by the chosen construction partner. In light of the emerging outcomes from the due diligence process, it is proposed to vary the current scope of contracted works to accommodate the above and facilitate the creation of a pile mat using the debris material held on site.

7.9 This does not constitute commencement of development but rather prime the site for construction to commence. The £2.2m of costs set out above cover this scope of work and Cabinet approval is being sought to approve this work by variation to the existing contract at an additional cost of approx £640,000. It should be noted that this cost assumption has been verified and factored into the due diligence and is not an additional cost over and above what has been modelled.

8 NEXT STEPS

Progressing Lease/Sale Arrangements

8.1 The outputs from the technical design will assist with progressing lease/disposal options. A schedule of Employers Requirements to be incorporated into the construction contract will need to be established prior to the main build contract commencing. These matters will be addressed in a subsequent report to Cabinet in due course.

8.2 RHLtd has initially considered the principle of acquiring the private residential accommodation and have made provision in their business plan to enable this to be considered further and affordability for the company to be assessed. The Council will seek a formal offer from RHLtd over the coming months.

8.3 In respect of the affordable housing, officers will consider the offers presented as part of the due diligence and recommend a disposal route that reflects best consideration following external validation.

8.4 In respect of the student accommodation, officers will conclude the further due diligence and provide a recommendation to Cabinet on how best to progress this element of the scheme in terms of management/operational approach.

8.5 Officers will undertake soft market testing to inform the commercial strategy in relation to the ground floor units and advise Cabinet of a recommended way forward in due course.

Project Resources

8.6 Grant Thornton and LSHIM identified that whatever routes the Council take, it will need to make sure that it has access to the appropriate level of skills and expertise to act as an effective client. The regeneration programme has been revised and the internal project team is being strengthened through the addition of interim additional senior resource with substantial previous experience of delivering complex regeneration schemes. The Council will also need to appoint additional project management, employer's agent and other external technical advisors to make a full development management function as required.

8.7 LSHIM has provided a breakdown of the estimated costs associated with this. On the basis of a direct delivery, the indicative costs associated with a Development Management function are likely to be as follows:

- Senior Development Manager (Director Level) – up to £150k per annum
- Development Manager (Associate Level) – up to £70k per annum
- Project Manager – up to £50k per annum
- Project Administrator – up to £30k per annum

8.8 Set against an estimated delivery timescale of 2.5 to 3 years, this gives rise to an order of cost of approx. £750k - £800k (plus accommodation/expenses). In addition, the Council would need to resource the following:

- Clerk of Works – up to £40k per annum (assumed over 2 years)
- Client Representative – up to £200k per annum (assumed over 2 years)
- Quantity Surveyor – up to £25k (one off cost)
- Legal Services – up to £60k (initial costs relating to contract documentation and state aid/subsidy control advice)

8.9 The above costs are factored into the due diligence that has been undertaken.

8.10 Homes England has set out that there is availability for capacity funding for FY 2021/22 in order to provide support to Council teams and maintain progress in project delivery. This funding can be aligned to project management, cost management, professional services/advice/consultancy. The list is not exhaustive and they are open to other requests.

8.11 Cabinet is asked to note that a request will be presented to Homes England aligned to the breakdown of cost that has been provided by LSHIM and an update will be provided in due course.

9 RISKS AND LEGAL AND FINANCIAL IMPLICATIONS

Risks

9.1 The project has a risk register in place for the development and demolition stages (Appendix L). As the project moves into delivery it will be important for the risk register to be updated reflecting new circumstances and increased levels of risk resulting from the Council undertaking the role of developer and potentially being the sole funder for the scheme.

9.2 The decision to move ahead to the next stage of development of the scheme should be taken after balancing the benefits of the scheme against the substantial costs and risks as set out throughout this report. LSHIM have prepared a table of risks (Appendix E) that the Council will need to consider and mitigate.

9.3 An early risk to consider is the need to make a decision on the development route which enables to project to progress with the Council's regeneration aspirations in accordance with timescales that are driven by external funding milestones (HIF). In order to retain the £5m of funding to assist with scheme costs, the drawdown needs to be allocated by March 2022.

Legal Implications

9.4 As part of the wider due diligence process, the Council sought legal advice from Freeths LLP. A particular focus for the advice was whether the Council could still make use of the RDP as a Development Partner and Development Manager to deliver the Union Street Scheme. This is because the proposed delivery route set out in the Project Plan from the RDP represents a departure from the RDP Partnership Agreement's 50/50 finance and risk sharing model, to the Council providing 100% of the funding for the construction. The RDP would essentially be acting as the Council's Development Manager and appointing Hill Construction to undertake construction of the scheme. This delivery route was proposed because the RDP's assessment of the viability of the Union Street scheme meant that the scheme could not be delivered within the terms of the Partnership Agreement model.

9.5 Freeths has advised that the RDP have broad rights within the Members Agreement to work on schemes identified to it by the Council. As such, there is no difficulty with it carrying out a development management role in principle, and being paid accordingly. The definition of 'Project Plan' within the Members' Agreement anticipates the RDP will undertake this role. Working with the RDP in this manner, whereby the RDP act as development manager to a project plan, would therefore be permissible under the Members' Agreement.

9.6 However, this delivery route would mean that the Council will be fully responsible for funding the Union Street Scheme by way of financial contributions to the RDP so that the RDP may procure the construction of a development by Hill Group. In the absence of any risk sharing (as is proposed in the Union Street Project Plan), then this will require a separate procurement exercise, particularly if it is proposed that Hill will be the construction contractor. This is because where the Council "subsidises" (i.e. fully funds) a scheme, including where RDP enter into the construction contract, it falls under regulation 13 of Public Contracts Regulations 2015. That regulation requires compliance with public procurement rules in order to demonstrate transparency, value for money and competition.

9.7 If it could be demonstrated that there was genuine risk sharing at higher than a token level (i.e. less than 50% but more than 5%) then, on balance, Freeths considered that this would be acceptable in procurement terms as it would meet the principles of joint investment and shared risk.

9.8 In the absence of such risk sharing, as is the case presented as the preferred route within the RDP Project Plan, and assuming the Council is content with Hill Group as the construction contractor to undertake the works, it could comply with public procurement rules by seeking to appoint them direct in another manner, namely through a mini-competition under the Homes England DPP3 route or through a direct 'call-off' appointment under one of several Frameworks where Hill are a member.

9.9 This advice indicates that it will not be possible to consider a delivery route through the RDP and the Council needs to consider alternative options that will facilitate delivery of the scheme in a timely manner that meets milestones in respect of external grant funding.

9.10 The Council has entered into contract with Homes England in respect of the £5m of HIF funding. The contract sets out the milestones that the Council needs to meet in order to secure the funding. The inability to meet these milestones would result in the Council defaulting on its legal obligations and put at risk the funding drawdown.

Financial and Resource Implications

9.11 The report sets out the outcome from the due diligence undertaken on the Union Street scheme and provides members with a significant update on the delivery and financing options for the scheme.

9.12 Paragraphs 5.6 to 5.11 outline the withdrawal of UCA from lease negotiations and options for a revised approach. This will have a significant impact on the risk profile of the Union Street scheme and will require an updated assessment of the income assumptions. It will be important for the Council to understand the financial risks on the Union Street scheme and whether these can be effectively mitigated.

9.13 There are a number of significant financial implications that the Council will need to consider. Whilst this report does not propose that the scheme is approved, the Council should be aware of the financial risks associated with progressing the scheme and utilising grant funding from Homes England and EM3 LEP.

9.14 The report proposes to utilise up to £2.2m of grant funding to commission the technical design and site preliminary scope of works. This will enable the Council to move to the next phase of the scheme and work through technical issues around scheme design and works. In utilising the grant funding, the Council will be doing so ‘at-risk’. Should the Council subsequently not progress the scheme, grant funding that will have been drawn down may have to be repaid with the wider grant being withdrawn. The Council need to ensure adequate risk mitigation measures have been put in place to ensure eligibility criteria are met throughout the scheme.

9.15 There are a number of Treasury Management implications arising from the scheme that are worth consideration at this stage. The Council, subject to approval of the final design, will be entering into a significant long-term commitment with capital expenditure of approx. £33m to be financed. The Council’s capital expenditure is predominantly financed from prudential borrowing as other sources of finance are limited. The Council has £102m of external debt and further borrowing will need to be undertaken to support the capital programme. The affordability of the Council’s external borrowing should be taken into account prior to a decision to proceed with the scheme. The Council’s borrowing strategy is set out in the Annual Treasury Management Strategy and was approved by Council at the meeting on 25 February 2021.

9.16 Changes to the PWLB Lending Terms in November 2020 require the Council to confirm that its capital expenditure plans are compliant. The PWLB Lending Terms defines 4 activity areas that the government will support through PWLB lending. This includes Regeneration activity with one or more of the characteristics defined below:

- the project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector
- the local authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment
- the project involves or generates significant additional activity that would not otherwise happen without the local authority’s intervention, creating jobs and/or social or economic value
- while some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services

9.17 Access to PWLB lending is dependent on the Council ensuring that it does not undertake capital expenditure in relation to investment assets primarily for yield. For the avoidance of doubt, the Council should not purchase any investment assets regardless of how the acquisition is financed.

9.18 Paragraphs 8.6 to 8.11 of the report outline the need to appoint a client team and engage appropriate external advisors to enable the scheme to progress to the next stage. Indicative costs have been provided by LSHIM. It is likely that a proportion of these costs can be capitalised as the scheme progresses and will need to be included in the scheme cost estimate.

9.19 The Council has been able to fund the cost of external advice received to date from the Regeneration, Property & Major Works earmarked reserve. This reserve is fully utilised over the medium-term and the Medium Term Finacial Strategy (MTFS) did not propose to allocate any further funding to the reserve. Further revenue funding will need be considered as part of the review of year end reserves and balances given the funding gap that is evident of the MTFS period.

9.20 Land assembly costs of approx. £9.5m have already been incurred as a cost of the regeneration to date. The financial modelling undertaken for the Union Street scheme has indicated it may not be possible to recoup this funding in the short term or medium term. The Council will as part of later decisions on the scheme need to consider the final treatment of land assembly costs to ensure the capital financing costs are considered. In the meantime debt interest on borrowing to date in included in the MTFS should be dealt with as a cost of regeneration and whether provision will need to be made in the Council’s revenue budget for recovery of the land value.

Equalities Impact Implications

9.21 There are no known specific equalities impact implications arising from this report.

Alternative Options

9.22 The Cabinet could consider not proceeding with the recommendations set out within this report and choose to cease any further activity on site until the position is clearer, particularly in respect of the student accommodation. There will always be unknown circumstances, uncertainties and element of future visioning required with any major regeneration scheme that takes over 2 years to build and such a delay would put at risk the ability to draw down and make use of the external funding that has been secured to support delivery of the scheme by March 2022.

9.23 A further alternative to consider would be to revisit the scheme mix and seek a variation through the planning process. This is not recommended by officers as it would add significant timescales on delivery to account for scheme re-design, validation and determination followed by the conclusion of a revised legal agreement before planning permission could be issued. That would result in the Council having to relinquish the £5m of funding allocation from the HIF as it would not be feasible to meet milestones set out within the agreement.

9.24 A further option would be to dispose of the site with planning permission in place and a requirement to build out the scheme. However, as the scheme is not viable it would be unlikely to secure a purchaser. An alternative would be to sell the land unincumbered but this would not guarantee the approved scheme was built and there would be no influence over any further schemes put forward.

10 CONCLUSIONS AND RECOMMENDATIONS

10.1 Taking the above into account it is recommended that the Cabinet agree that the scheme proceed to the next stage of development and further assurance, financial and legal work proceed on the basis of the Council undertaking development *("the Base Case")* and Hill Partnerships Limited being appointed as main contractor through a direct award as set out in section 6 of the report.

10.2 This recommendation will see the Council proceed with the scheme at risk on the basis that:

- the development proceeds without the prospect of a long term lease for the student accommodation and instead the Council models a direct let option to students via a management company or entering into a nomination agreement(s) with an education establishment(s) and/or other body requiring student accomodation.
- it is reliant on RHLtd being able to demonstrate it can service the borrowing associated with the acquisiton of the residential units on completion
- a sale is agreed to a suitable RP for the affordable units
- it can secure commercial tenants for the ground floor units and the container units

10.3 The recommendations include the Cabinet agreeing to underwrite repayment of the Homes England grant funding in accordance with the terms of the funding agreement should the development not proceed.

10.4 A further report will come forward in due course once the key activities in sections 6 and 7 of this report have reached their conclusion.

10.5 The recommendations set out within this report align with the 'Place' priority within the Council's Business Plan (April 2019) by continuing to drive forward the regeneration of Aldershot and Farnborough town centres.

BACKGROUND DOCUMENTS:

Cabinet Reports RP2005 and RP2008

Council Meeting 25th July 2019 - Agenda Item no. 5(3) Rushmoor Development Partnership – Approval of Business Plan

Cabinet Report CEX1806
Establishing the Rushmoor Development Partnership

Council Meeting 4th October 2018 – Agenda Item no. 5 Establishing the Rushmoor Development Partnership (RDP)

EXEMPT APPENDICES

Appendix A – Grant Thornton Phase 1 Report

Appendix B – Grant Thornton Phase 2 Report

Appendix C – Grant Thornton Phase 3 Report

Appendix D – LSHIM Development Delivery Assessment Report

Appendix E – LSHIM High Level Risk Register

Appendix F – Grant Thornton Funder Memorandum of Information

Appendix G – Grant Thornton Developer Memorandum of Information

Appendix H – Avison Young Student Market proposal

Appendix I – Student Income Sensitivity Analysis

Appendix J – Savills Aldershot Student Market Summary

Appendix K – Pre-Construction Services Agreement and Demo Contract cost schedule

Appendix L – RBC Union Street Project Risk Register

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