South Somerset District Council

Chard Regeneration Programme Finance Update

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Purpose of the Report

1. The purpose of this report is to consider the financial performance of the overall Chard Regeneration Programme, with particular reference to the changes which have shaped the evolution of the programme.

2. District Executive noted at its meeting in July 2021 that the Director of Place and Recovery and the S151 Officer would report back to them in September after undertaking a deep dive review of the financial position of the programme.

Forward Plan

3. This report appeared on the District Executive Forward Plan with an anticipated Committee date of 2 September 2021.

Public Interest

4. This report describes the outcomes arising from the deep dive financial review recently undertaken by the Director of Place and Recovery and the Interim S151 Officer on the Chard Regeneration Programme and the resultant impact on the Council's overall financial position. It also gives a sketch of how the scope of the programme has changed over time and the impacts these have had on the Programme's finances. The Programme has resulted in a brand new, state of the art, Leisure facility for the residents of Chard and the surrounding area. However, there are lessons to be learnt arising from this Programme that could benefit the Council's other regeneration projects and officers are currently preparing a report for a future Strategic Development Board on these issues.

Recommendations

5. That the District Executive recommends to Council:

   a) An increase to the Council's revenue budget for the additional financing and public realm costs as given in Table Three of this report.

b) The use of an additional £2m of the capital receipts earmarked reserve to fund the Programme as proposed by the interim Section 151 Officer and described in paragraph 14.

c) To agree that it is not feasible to enter into a Phase 2 programme of work, unless significant external funding opportunities become available.

d) To agree the inclusion of the gross capital budgets, instead of only the net capital budgets, in the council's over capital programme for the Regeneration Programme (including the Chard Regeneration Programme), as proposed by the interim S151 Officer in paragraph 20.

Current Approved Budget

6. The Regeneration projects are funded through a budget allocation process which uses a net / gross approach to enable works to progress. The broad principle being that over time expenditure up to the gross sum is permissible with the aim of returning to the net budget position and with the net budget being the Council's total financial commitment to fund from its own resources. This approach to budgeting for the regeneration projects, including Chard Regeneration, was approved by Council on 17th May 2018.

7. The current approved net budget for Chard Regeneration is £3m and the gross budget is £20m.

8. The 17 May 2018 presentation to Council set out initial cost and income estimates for the Chard Regeneration programme. The budget is summarised in Appendix A and reflects the diverse range of initiatives that were then being proposed. The programme, as it has now evolved and is presented in this paper, retains many of the original schemes. However, it is fair to say that for a variety of reasons, including inability to secure funding and partner participation, as well as a significant increase in costs in the Leisure Centre construction compared to original estimates, some aspects of the programme will not reach completion.

9. One such aspect is the ambition for the Boden Mill, Holyrood Mill and the Boden Centre. Once completed, these residential development schemes were intended to fund costs elsewhere in the programme. The Boden Mill in particular faces challenges in order to prepare it for sale or development. An application has been made to the Brownfield Land Remediation Fund for £495k to assist with land decontamination and access issues. In the meantime, it is proposed that expenditure on these buildings is halted. However, they remain available for development and it is intended that they could be subject to a new programme in the future if the business case supports this.

10. In summary, the main elements of the programme that will now be delivered include the leisure centre, the High Street Action Zone (HAZ) which is part funded by Historic England, and additional public realm works. The significant elements of the HAZ scheme include building improvement grants and further public realm works.

11. The leisure centre is nearing completion and is expected to open to the public later this year, in November. Expenditure to date is £14.1m and forecast expenditure is £16.5m. The HAZ is in the second year of a 4 year programme.

Gross Expenditure Forecast

12. Current expenditure forecasts are summarised in Table 1 below:

Table 1 - Gross Expenditure Forecast	**£k**
Leisure Centre Costs	16,504
HSHAZ - Town Centre Public Realm	1,537
HSHAZ - Building Improvement Grants and Other Costs	987
HSHAZ - Marketing Strategy	40
Public Realm - Leisure Centre	194
Public Realm - Other	229
Programme Management	225
Pre contract expenditure	248
TOTAL GROSS EXPENDITURE	**19,964**

Project Financing Forecast

13. Table 2 details how it is intended to fund the revised programme:

Table 2 - Project Financing	**£k**
Historic England High Streets HAZ Fund	(1,000)
Historic England 2021-22 HSHAZ uplift grant	(79)
Historic England HSHAZ Cultural Programme grant	(80)
Chard Town Council contribution	(116)
External Funding	**(1,275)**
Regeneration Fund	(2,000)
Medium Term Financial Support Fund	(413)
General Grant Reserves	(15)
Useable capital receipts	(3,000)
Area West Committee's Capital Reserve	(52)
Capital receipts from sale of ring fenced assets	(961)
SDCC Funding excluding External Borrowing	**(6,440)**
Borrowing Requirement	(12,249)
SDCC Funding including External Borrowing	**(18,689)**

TOTAL FUNDING	(19,964)

Note: bracketed figures represent income

14. Most of the specific funding elements are in line with the original funding estimates agreed by Council in 2018. However, £2m of additional useable capital receipts has been allocated to the Chard Regeneration Scheme as part of the annual financing of the capital programme undertaken at year end to prepare the Statement of Accounts. Whilst this exceeds the £1m initially approved, these additional monies will reduce the amount of borrowing required by the Council to fund the balance of this project and the interim S151 Officer recommends this increase. The useable capital receipts reserve stands at £18.075m as at 31/07/21 (this is the position after using the extra £2m to fund this programme).

15. It should be noted that the Regeneration ear-marked reserve currently contains £2.997m of resources (as at 31/07/21). This fund has benefitted from past contributions relating to the 2018/19 business rates pooling gain and the 2019/20 revenue surplus and £811k will also be added to the fund arising from the Business Rates Pooling Gain made in 2020/21. Future gains may arise in the two financial years 2021/22 and 2022/23 of £2m (although this figure is not guaranteed) which would also be added to the Regeneration Reserve for part funding this, as well as the other regeneration projects. If the gains are insufficient then the gap will need to be financed from further long-term council borrowing. Further information on this will be included in the MTFP refresh report that is going to District Executive in October 2021. An exercise will be undertaken to evaluate all of the funding expectations being placed on this reserve by the regeneration programme, including Yeovil and Wincanton, to fully understand any pressures that exist.

16. Assets with a value of some £2.4m were ring fenced to the project for sale, with the proceeds used to part fund the programme. To-date, no sales have been achieved. Due to the extent of works required to prepare the mill sites and the Boden Centre for sale, these have been removed from this sales schedule. All the remaining properties suffer encumbrances which include shared ownership and access issues. After allowing for these selling costs, it has been assumed that some 75% of the remaining assets' overall value could be achieved over the next three financial years (except the Essex Close Youth Club which is delayed until 2029/30). Progress on achieving these sales will be reported to District Executive as part of the quarterly budget monitoring process.

17. The remaining costs will need to be financed from long-term borrowing as the original plans for part-financing the programme such as making applications to grant making bodies (Sports England for example), undertaking residential development of the mill buildings to generate profits that could be used to finance the programme, and rental contributions from Somerset County Council to occupy space (for a library and for social services) have not come to fruition or are not, after detailed investigation, commercially viable.

Impact on SSDC's capital budget

18. Whilst the projected estimates are forecast to come under the approved gross budget by £36k (see table one) it is proposed to keep the gross budget as the current approval.

19. District Executive and Council are recommended by the interim S151 Officer to report its regeneration projects at the gross expenditure level only and to dispense with the concept of a Net Capital Budget. This will simplify financial reporting and make overall capital expenditure plans, their financing, and potential risks more transparent to key stakeholders. Consequently, no amended Net Capital Budget is given in this report.

20. If District Executive and Council agree with the interim S151's recommendation in paragraph 20 above, the impact on SSDC's capital budget will be an increase of £17m from the net current budget of £3m included in the approved capital programme. Approval from Council to increase the capital programme, to reflect the gross budgets of the Regeneration Programme, instead of net budgets, will be sought later in the year.

Impact on SSDC's revenue budget

21. It is forecast that the borrowing requirement to finance this programme will peak in the current financial year at £12.956m. As ring-fenced capital assets are sold, this will reduce to £12,249m in 2029/30 with the sale of the youth club.

22. The long-term borrowing requirement of £12.249m would result in average financing charges of £423k per annum. This includes both external interest charges and the requirement to set aside amounts to repay the loan principal (known as the Minimum Revenue Provision). Over a 50 year loan term the financing costs arising from this borrowing totals £21.2m.
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23. If, in a possible downside case scenario, the Council needed to replace the funding from future capital receipts (£0.96m), and from future Business Rates Pool gains (£1.00m) with borrowing, the debt would extend to £14.21m. In this case, the associated average annual cost would be £491k and the financing costs over a 50 year loan period become £24.6m.

24. These cost estimates are based on the Council accessing a 50 year annuity loan from the Public Loans Work Board (PWLB) at a prudent rate advised by our treasury management consultants, Arlingclose, of 2.40%. This is the "worst case" scenario as currently the council is borrowing well under this interest rate (using short term council to council borrowing) and it is intended to continue with this borrowing strategy over the next two years. In addition, external borrowing is only ever entered into when the overall cash flow forecast position of the council requires it. Much of the council's borrowing needs are first met by "internal borrowing", that is the temporary use of the council's cash resources instead of these being invested in bank and building society deposits. Given the very low rates of return the council receives from such deposits it is financially beneficial to the Council to use its cash to temporarily fund its borrowing needs.

25. One of the original project assumptions was that the management fee income the Council would receive from a leisure contractor operating the new facility would be

sufficient to fund the costs arising from the borrowing needed and that there would therefore be no impact on the Council's revenue budget arising from this project. A report to District Executive and Council on 15 April this year gave information on the management fee income levels arising from awarding the leisure contract to Freedom Leisure for a 15 year contract period. It was mentioned in that report that the income fees level could have an impact on the overall financing of the Chard Regeneration Project and that further work would be done on the financial modelling of the project.

26. The management fee income agreed with Freedom Leisure for the new Chard leisure facility averages at £191k per annum over the length of the contract. The financial model used estimated fees supplied by a leading leisure consultant and discounted those by 10% for prudence. The model assumed £465k average income per annum.

27. Pursuant to the public realm works within this programme, there will also be a requirement to make payment for on-going maintenance works of the roads to the Highways Authority. This is estimated to cost £50k per annum.

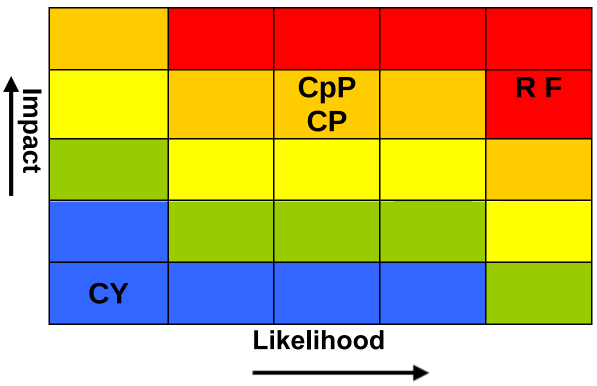
28. Table 3 indicates the average net cost to the Council's revenue budget of the Chard regeneration scheme over the 15 year period of the management contract with Freedom Leisure. After this, the financing charges will continue for the 50 year borrowing period but there is no contracted management fee income.

Table 3 - Chard Regeneration Programme Average Annual Revenue Forecast	**£k**
Finance Costs (including short term finance costs)	427
s278 Highways Maintenance Charge	50
Adjusted Management Fee Income	(191)
NET INCREASE IN COSTS TO THE REVENUE BUDGET	**286**

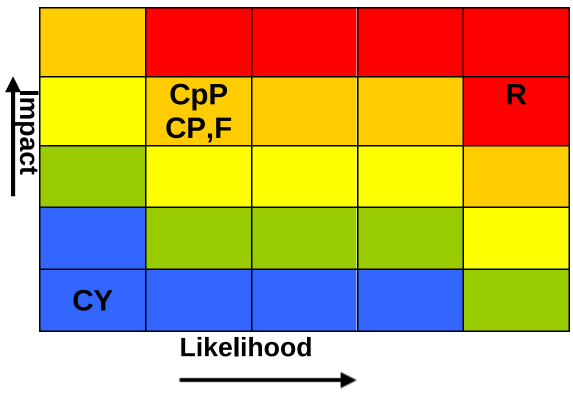
29. The management contract also covers the Council's three other leisure centres in Yeovil and Wincanton. There is value in noting that the average annual management fee under the contract from these other centres is £232k after allowing for estimated decarbonisation costs and the financing costs of capital expenditure required to facilitate the contract. In addition, maintenance liabilities of £225k per annum, which historically remained with SSDC, will now fall to the operator, representing a saving to the revenue budget. It can be seen that this total average annual revenue saving of £457k more than offsets the increase in revenue budget costs from the new leisure centre at Chard.

Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

Categories	**Colours** (for further detail please refer to Risk management strategy)
R - Reputation	High impact and high probability
CpP - Corporate Plan Priorities	Major impact and major probability
CP - Community Priorities	Moderate impact and moderate probability
CY - Capacity	Minor impact and minor probability
F - Financial	Insignificant impact and insignificant probability

Council Plan Implications

The Chard Regeneration Scheme is a specific objective of the Council Plan.

Carbon Emissions and Climate Change Implications

None

Equality and Diversity Implications

This report itself has no direct implications as it relates to financing approach.

Privacy Impact Assessment

There are no identified issues relating to this matter.

Background Papers

Report to Full Council 18 May 2018 - Budget for Chard Regeneration Programme and Yeovil Regeneration Programme

SSDC draft statement of accounts 2020/21

South Somerset District Council

APPENDIX A
CHARD REGENERATION SCHEME
BUDGET – AS APPROVED BY COUNCIL ON 17 MAY 2018

	£k
Core Elements	
New Leisure Centre	7,500
Learning Centre & Boden Mill residential	2,500
Existing Museum & Boden Centre residential	250
Holyrood Lace Mill residential	3,000
Public realm and new town square	2,000
	15,250
Optional Elements	
Health Centre	1,500
Managed workspace	1,200
Food Prep Space	400
Indoor Market	600
Other project costs - demolition preliminaries contingency	1,500
	5,200
Soft Interventions	
Attracting Artisan & Independent Retailers	300
Access Strategy	5
Support for Market Development	2
Events and Promotion	60
	367
TOTAL	**20,817**