

VICTORIA SQUARE UPDATE

Executive Summary

The Council at its meeting on 30 July 2022 received and approved a confidential recommendation from the Executive to provide additional resources in respect of the Victoria Square Development. The Council received and considered a report from Victoria Square Woking Limited that set out the likely outturn of cost for the Victoria Square development based on the impacts of additional delays to deliver caused, amongst other things, by the Covid lockdown and changed working arrangements necessitated by Covid.

The Council on the 30 July 2020 authorised a £30m increase in the project contingency, total project cost and loan facility.

This report results from extensive work establishing the likely final cost of the project and taking into account a range of activities the Council would normally have financed by the Council but due to the significant revenue impacts of Covid cannot prudently do so.

The report sets out the update on the Project Budget now sought, the optional items that are currently included and report by the Hawnby Group on the financial viability of this significant regeneration project.

Appendix 1 of the report provides some images of the new spaces being created by this regeneration project. The quality of these spaces and activities should positively support the Council as part of its "Post Covid" economic recovery.

Appendices 2 and 3 of the report provide Project Mandates for the two elements of the increased project cost that are optional, Woking Town Centre Wayfinding (£1m) and Lockfield Drive/Victoria Wat Pedestrian/Cycle Bridge (£6m).

The Council is request to approve an overall Project Budget and Loan Facility of £700m as set out in the report.

Recommendations

The Council is requested to:

RESOLVE That

- (i) a provision of £1m be included in the project cost for Woking Town Centre Wayfinding, with implementation being subject to formal approval of detailed proposals by the Executive;**
- (ii) a provision of £6m be included in the project cost for Lockfield Drive/Victoria Arch Pedestrian/Cycle Bridge, with implementation being subject to formal approval of detailed proposals by the Executive; and**
- (iii) the Victoria Square Project Budget and Loan Facility be increased to £700m**

Reasons for Decision

Reason: To enable the successful completion of the Victoria Square regeneration project.

The Council has the authority to determine the recommendations set out above.

- Background Papers:** Confidential Report from W H Stephens for Victoria Square Woking Limited. – Not for publication but previously supplied to all Members of the Council
- Reporting Person:** Ray Morgan, Chief Executive
Email: ray.morgan@woking.gov.uk, Ext: 3333
- Contact Person:** Ray Morgan, Chief Executive
Email: ray.morgan@woking.gov.uk, Ext: 3333
- Portfolio Holder:** Councillor David Bittleston
Email: cllrdavid.bittleston@woking.gov.uk
- Shadow Portfolio Holder:** Councillor Ann-Marie Barker
Email: cllrann-marie.barker@woking.gov.uk
- Date Published:** 5 February 2021

1.0 Introduction

- 1.1 The Victoria Square development is a major regeneration project within Woking Town Centre.
- 1.2 The project has been adversely affected by the need to replace the Red Car Park; this delayed the project from a planned October 2020 completion until May 2021. The Deed of Variation with Sir Robert McAlpine incorporating the Red Car Park in the project was agreed on 14 November 2019.
- 1.3 At the Victoria Square Oversight Panel (Panel) meeting on the 15 January the Panel was advised that there were delays in delivery of the project, particularly the new Red Car Park, and that the contingency was under pressure. Accordingly, it was advised that the adequacy of the contingency would be reviewed. Whilst this was underway, the COVID 19 crisis arose and has had a major impact on the progress of the project; the review was therefore extended to a potential for completion/opening being delayed from April/May 2021 until November/December 2021.
- 1.4 The Oversight Panel met on 1 June 2020 to review the position and a report was submitted to the Executive on 22 June 2020. The Executive met and considered a confidential report that updated it on the circumstances. The report sought an interim increase in the project contingency whilst more detail work was undertaken to establish the likely final delivery cost and the impact on the long terms finances for both the project and the Council.
- 1.5 The Council at its meeting on 30 July 2022 received and approved a confidential recommendation from the Executive to provide additional authority for expenditure in respect of the Victoria Square Development. The Council received and considered the recommendation from the Executive, which had been supported by a report from Victoria Square Woking Limited, that set out the forecast likely outturn of cost for Victoria Square based on the impacts of the delays to deliver the project caused, amongst other things, by the Covid lockdown and changed operation arrangements related to Covid. An increase of £30m was approved at that point on the advice that it would be sufficient to enable the project to proceed whilst more detailed work was undertaken.
- 1.6 This report now seeks approval of a revised project budget to reflect the increased cost of delivering this significant regeneration project in Woking town centre.

2.0 Victoria Square Oversight Panel 18 January 2021 and Member Briefing 21 January 2020

- 2.1 Two private sessions have enabled Members to consider in detail the challenges facing the delivery of the project. At these sessions, Members have received advice from various advisors.
- 2.2 Native, the Managing Agents for "The Marches" the 429 apartments included in the project was able to update Members on its positive market research and the level of interest it expects to receive in the residential offer that it considered to be of excellent quality. It also advised that it considered the "Earn Your Deposit" scheme that will operate at The Marches would help secure longer-term tenants. Images of the Residential properties are included in Appendix 3.
- 2.3 Hilton, who will manage the Hotel, also expressed positive views about the quality of the Hotel and it expressed a positive view on recovery in 2022 onwards as the Covid crisis is diminished by the vaccination programme. Images of the Residential properties are included in Appendix 3.

Victoria Square Update

- 2.4 Nash Bond, one of the letting agents that work for Wolsey lace and Peacocks and is also marketing the new Victoria Square provided a realistic update on the retail market but advised that there remained positive interest from “sole traders” and smaller independent groups. The pre lets to Marks and Spencer, Italia Conti, Sports Bowl (relocation from Big Apple), Gails Baker, and Sketchers mean that a significant amount of space already has occupiers. Images of the quality of the commercial space already completed in the Victoria Square development, and within Wolsey Place, are included in Appendix 3. Nash Bond also reported on the positive effect of the Gordon Ramsay announcement about opening in Woking with news that two quality offers have been received for restaurant spaces that went into administration, Café Rouge and Carluccios; the names cannot yet be published.
- 2.5 WH Stephens has provided detailed financial reports on each element of the construction and development costs and answered questions posed by Members. Its detailed report identifies costs of just over £698m; hence, for determining a budget loan approval, £700m is sought.
- 2.6 The updated project cost includes a range of costs that would normally have fallen on Woking Borough Council. Because of the impacts of Covid on the Council’s finances it is not prudent to incur those costs but they are, in the main, considered essential. Appendix 4 sets out the advice to the Oversight Panel and the Member Briefing; only commercially sensitive information has been removed. Of these cost increases since May 2020 £11.8m are associated with the Council and are summarised below

1	The Wolsey Place Sainsbury interface with the Novum roof incorporated modifying the Sainsbury back office area and improving the roof and making the asset watertight and improving insulation.	2,000,000
2	Export House interface, reception, back of house and replacement roof top maintenance equipment.	1,300,000
3	Structural maintenance addressed during the refurbishment of Malls.	750,000
4	Refurbishment and Replanting Victoria Way Central Reservation from Lockfield Drive to the roundabout with Chertsey Road (but excluding the roundabout).	750,000
5	Provision for consequential changes with “Wayfinding” for Woking Town Centre and its approaches arising from the changes caused by the development of Victoria Square.	1,000,000
6	Provision for the Lockfield Drive cycle and pedestrian bridge connecting the improved Victoria Way cycle and footway provision with the canal towpath from the west of the Borough.	6,000,000
	Total	11,800,000

- 2.7 Items 1 to 4 are unavoidable but items 5 and 6 have an element of discretion.
- 2.8 Lockfield Drive/Victoria Way pedestrian cycle bridge and related works of widening the canal towpath and installing cycle facilities in part of Victoria Way (western side) is to enhance sustainable access to the town centre and other parts of the Borough. When joined with the provisions in the Victoria Arch scheme it will provide links to the south down to the Hoe Valley and links between there, the town centre and the east and west of the Borough along the canal towpath. It is a provision of £6m and will be subject to detailed consideration by

the Oversight Panel and approval by the Executive before implementation. The Project Mandate is set out at Appendix 2.

- 2.9 Woking Town Centre wayfinding is a provision to enable the Council to change signage to align with both Victoria Square and the consequences of the widening of Victoria Arch. It is a provision of £1m and will be subject to detailed consideration by the Oversight Panel and approval by the Executive before implementation. The Project Mandate is set out at Appendix 3.
- 2.10 Whilst it is a matter of discretion whether or not the Council wishes to undertake the two projects outlined at paragraph 2.8 and 2.9 it is recommended to do so, financed by Victoria Square, to enhance the sustainability of the town centre and provide further support to Post Covid economic. A decision to include a financial provision will not lead to the immediate implementation of either project, both will be reviewed by the Oversight Panel and be subject to Executive approval before implementation.

3.0 Advice from the Director of Finance

- 3.1 As set out in this report the Victoria Square regeneration project has incurred additional costs through delays in the construction, the impact of the Covid-19 pandemic and inclusion of additional scope.
- 3.2 A financial model was built in 2016 to assist the Council in assessing the long-term cashflows ahead of approving the project. During the construction period, the financial model has been routinely updated with changes to assumed income and updates to the planned construction. In 2020, at the outset of the pandemic, a detailed update of the modelling was launched using the expertise of the team at Hawnbly that had built the model.
- 3.3 A key element of the scope was to update the model with the latest construction costs and to reconcile the impacts between the previous version (2017) and the new base case. Preliminary costs forecasts prepared by the project team were initially used in the summer of 2020. As these have been refined the model has been updated to reflect the latest position, however the total costs has not varied substantially from that update which was reported to the Council in July 2020.
- 3.4 Some additional costs have been included which had been previously assumed to be covered by the Council. With the current financial uncertainty the Council could not commit to undertaking these works in the timescales originally proposed. Completing these works would improve the environment in which Victoria Square operates and it is therefore proposed that the project incorporates this additional scope.
- 3.5 The update also included a review of income and other assumptions integral to the model. Initial income assumptions were updated to ensure they remained realistic and where tenants for the commercial spaces have been identified, the agreed arrangements have been incorporated. The average void period has been increased across the commercial units reflecting the more difficult market conditions. Residential rents have been held at the 2017 assumed levels, losing several years of assumed income inflation from the model. The delay in opening also means less income is generated over the model period.
- 3.6 The financial modelling slides attached at Appendix 5 detail the impact of the increased costs and the reduction in income over the 50 years of the modelling. The table below provides a summary:

Impact over 50 years	£m
Programme Delay	108
Covid-19	194
Bandstand Mall & WBC Assets	75
UK Leaving the EU	5
Construction Delay	44
Commercial Lease Update	85
Residential Rental Income	44
Reduced PWLB Borrowing Rate	-253
	302

- 3.7 The project from the outset was a regeneration of the town centre, not an investment. The costs of land assembly, public realm works and improvements to the town centre mean that the income generated would not cover the operational and financing costs for some time. The valuation of the finished property was also expected to be less than the associated construction costs and debt for many years.
- 3.8 In the updated model the date at which income covers operational and financing costs (operating profit) has moved from 2031 in the 2017 model to 2036. The date at which the sale value would cover outstanding debt has moved from 2051 in the 2017 model to 2062 in the updated model. This is shown in the graphs in Appendix 5.
- 3.9 The model assumes sale of the assets in 2071 at the end of modelling period (5 years construction plus 50 years operating). A summary of the current forecast position compared to the 2017 forecast is set out in the table below.

	2017 £m	2021 £m
Assumed Sales Value	686	644
Outstanding Debt	-108	-420
Net Cash on Sale	578	224

- 3.10 Whilst the time taken for the development to move into a positive operating position has extended, it is forecast that by the end of the model debt remaining is reduced to £420m. This represents approximately 65% of the asset value. The model makes allowance for major repairs at £2m plus inflation every 10 years.
- 3.11 The updated model provides improved analysis functionality. Sensitivity analysis has been undertaken with the results summarised below.

Summary of Sensitivity Analysis	Peak Debt £m	Operating Profit (year)	Valuation exceeds debt (year)	Net Cash on sale in 2071 £m
2017 Model	515	2031	2051	578
2021 Base Model	648	2036	2062	224
Residential 5% reduction in initial rental	656	2038	2063	183
Residential 10% reduction in initial rental	665	2041	2065	142
Residential inflation reduced by 0.5% (to 1.9%)	656	2039	2065	137
Residential inflation reduced by 1% (to 1.4%)	666	2051	2067	58
All income inflation reduced by 0.5%	661	2044	2069	26
Commercial Areas 25% reduction	791	not before 2071	not before 2071	-318
Interest costs 2.44% for remaining loans	753	2051	2070	-5
Residential 3% increase in initial rental	644	2035	2061	249

Sensitivity Notes:

Peak debt is the forecast maximum debt outstanding for the project. It will be affected by the timing of the sale of the Car Park to the Council (£58m).

Operating Profit is when the income generated by the residential, commercial and hotel assets exceeds the running costs and financing costs. This mostly coincides with the date of Peak Debt except where there is planned major refurbishment in the model.

The date the valuation exceeds the outstanding debt on the asset represents the forecast date when selling the asset would be cash repay all loans. The long-term annual increase in sales value of the residential units is 2%.

The model assumes that the assets are all sold in 2071. Net cash on sale of the asset is the amount of cash remaining after any outstanding debt is paid off.

- 3.12 Two of the scenarios provide a negative outcome at the end of the 50 years. The scenario where all commercial rents are reduced by 25% scenario is not considered of significant concern as it is unlikely that such a reduction would be accepted over the full life of the modelling without action taken to repurpose the space.
- 3.13 Interest rates being incurred at 2.44% for the remaining debt relating to the scheme is also considered unlikely. Current rates available through the PWLB are circa 1.75% and the Council's Treasury Management advisors forecast low rates for the foreseeable future. The model assumes 50 year annuity loans which are broadly equivalent to the rate of a 25 year maturity loan.

Forecast rates for maturity loans (certainty rate)

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Mar-23	Mar-24
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5 yr PWLB rate	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%	1.00%
10 yr PWLB rate	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.30%
25 yr PWLB rate	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.80%
50 yr PWLB rate	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%	1.60%

- 3.14 The remaining scenarios modelled provide at least a small surplus of cash over debt at the end of the 50 year period. This includes where Inflation on all income streams reduced by 0.5% where the asset value is still forecast to be marginally greater than the underlying debt. The focus has been on assessing the downside risk, however a positive variance of 3% increase in initial residential rents has been provided for information.
- 3.15 The assumptions in the base model are prudent and reasonable over the 50 year period being considered. There is scope for negative variations in the assumptions which, whilst leading to a longer period before the project is profitable, still result in a valuable asset at the end of the period. The project remains viable.
- 3.16 It is essential that the construction be completed as soon as possible to minimise the continued increase in costs and to start the generation of income from the various assets. This will require access to an increase in the loan facility from the Council. Any further delay will add to the financial pressures set out in this report.

- 3.17 The Investment Programme and Prudential Indicators, also to be considered by the Council at this meeting, reflect the construction costs set out in this report including the £58m cost of the car parks shown as a cost to the Council. It is proposed that the loan facility be increased to cover the total costs of construction including the car park and financing costs. This will allow some flexibility as to the timing of the transfer to the Council.
- 3.18 Overall the regeneration continues to meet the objectives of transforming the town centre, joining the 2 shopping centres, providing new housing and attracting further business and visitor interest in the town.

4.0 Implications

Financial

- 4.1 The financial implications are clear and necessitate an increase of the Project Cost to £700m and the Loan Facility to £700m; an increase of £130m.
- 4.2 The longer-term implications has been assessed through the modelling update. This has confirmed, as set out in the advice from the Director of Finance that “The project remains viable” (paragraph 3.15). In addition the advice concludes that “Overall the regeneration continues to meet the objectives of transforming the town centre, joining the 2 shopping centres, providing new housing and attracting further business and visitor interest in the town” (paragraph 3.18).

Human Resource/Training and Development

- 4.3 Additional work will arise in preparing the financial model, reviewing its outcomes and reporting upon its results.

Community Safety

- 4.4 There are no new community safety issues raised by this report. The social distancing required in the context of COVID 19 so as to ensure the safety of the workforce has given rise to the increase in both delay and cost.

Risk Management

- 4.5 The extensive risk management arrangements remain in place for the project. The implications of COVID 19 have increased the financial risks for the Council, particularly its ability to acquire the new Red and Green car parks upon completion. This will continue to be reviewed.

Sustainability

- 4.6 There are no new sustainability issues raised by this report.

Equalities

- 4.7 There are no new equality issues raised by this report.

Safeguarding

- 4.8 There are no new safeguarding issues raised by this report.

5.0 Consultations

5.1 The Victoria Square Oversight Panel and the Member Briefing have been engaged in preparing the information for this report.

REPORT ENDS

Schedule of Images

The Victoria Square development will join the Peacocks and Wolsey Place centres together and form one integrated centre to be known as “Victoria Place” when it opens later in 2021.

The images included here, are either design representations or photographs

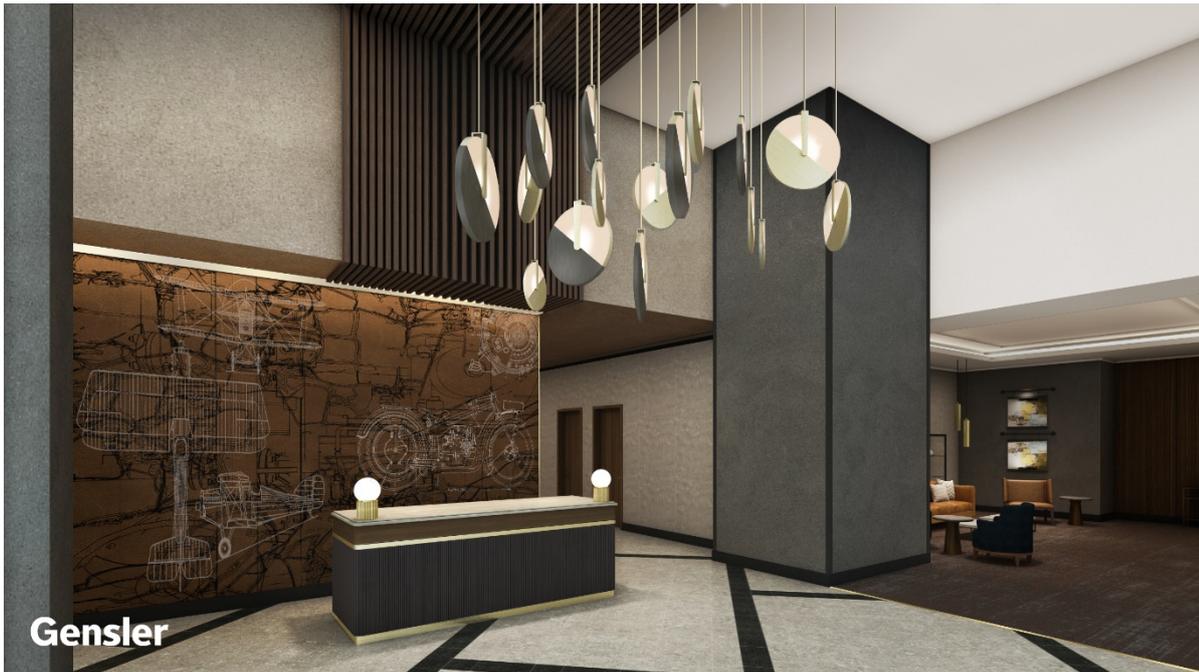
Hotel

The hotel images are all design representations

External view from the Lockfield Road junction with Victoria Way.



Ground Floor entrance lobby accessed from Victoria Way.



Hotel Reception at Level 7 which is accessed by Lift from the Ground Floor Lobby or via the bridge link from the replacement red car park.



The lobby café “Glow” at the Level 7 reception level.



The restaurant “Oxbo” at Level 21



The bar “The Loft” at Level 22.



Retail

There are no design representations for retail as each occupier designs its own fit out. The images scheduled here are photographs of work undertaken by Victoria Square or associated with it to demonstrate the quality of space that is being produced.

Refurbished Wolsey Walk West showing the new Boots.



Boots Interior



New H&T in Wolsey Walk West



New H&T in Wolsey Walk West – Showing refurbished Mall with Boots nearby



Specsavers in Wolsey Place Central Square



Residential

The following are photographs of the first residential apartments that have been fitted out in "The Marches" the residential part of Victoria Place.

One Bed Apartment Shower Room



One Bed Apartment Kitchen



One Bed Apartment Bedroom



One Bed Apartment Living Space



Two Bed Apartment Shower Room



Two Bed Apartment Bedroom



Two Bed Apartment Living Space



Two Bed Apartment Kitchen and Living Space



Project Mandate for Lockfield Drive and Victoria Way pedestrian and cycleway link

Prepared by:	Ray Morgan	Project Name:	Lockfield Drive and Victoria Way pedestrian and cycleway link
---------------------	------------	----------------------	---

1. What is the project?

The project has three key elements –

1. The widening of the Basingstoke Canal towpath from the Bridge over the canal at Well Lane to the Lockfield Drive Bridge over the Canal;
2. The provision of a pedestrian/cycle bridge over the canal and adjacent to the exiting accessed by a DDA compliant access ramp from the widened canal towpath and down to the pedestrian/cycle path on Victoria Way
3. The conversion of the highway verge adjacent to 1 Forge End (Cap Gemini building) up to the Forge End junction to join with the revised highway layout being constructed and to be constructed as part of both the Victoria Square development and the Housing Infrastructure project widening Victoria Arch

2. What are the objectives of the project?

To support the Council's sustainable transport objectives of reducing reliance on the motor car and providing enhance pedestrian and cycle access between the residential areas of the Borough and the town centre, bus and railway station.

Upon completion the scheme, taken together with the Victoria Square works and the Housing Infrastructure works, will connect the canal tow path through the Borough (East/West) with the network of pedestrian and cycle improvement already provided through the Hoe Valley, via Woking Park, and enable further improvements in local areas connecting with these key routes.

3. Who will be involved in the project?

This should include the anticipated **Project Manager** and **Project Sponsor** as a minimum.

Person:	Role within project:	SharePoint Access:
Ray Morgan	Initial Sponsor	Yes
Other people to be determined if proposal is supported by Council		Will vary

4. What is the proposed timetable for this project?

What are the proposed start and end dates of the project?

If supported by Council it is proposed to progress the design, provided detailed cost information and seek signoff of the detailed project by the Executive in 2021/22.

Delivery, if approved, would be procured in 2022/23 and delivered in 2023/23 to coincide with the target completion for Victoria Arch replacement by 31 March 2024.

5. Estimate of project cost

Do you have an idea of how much this project will cost to deliver? If so please provide an indication here. The figures used at this stage will not be taken as 100% accurate.

The scale and complexity of the structural issues involved to ensure that the new bridge and the existing road bridge could be separately maintained as required by the highway authority to ensure public safety is significant. Taking into account the experience gained in providing the Chertsey Road canal towpath link bridge by the Lightbox a provision sum of £6m has been assumed.

6. Funding?

Please indicate what funding has been identified: Section 106 monies, revenue budgets, a successful funding bid or grant etc. If funding has not yet been identified clearly state this fact.

The proposal before the Council on 11 February is that the provision of £6m be allowed in the revised funding available to Victoria Square Woking Limited for its development to enable it to pay for the Bridge, by way of financial contribution, if progressed by the Council.

7. Strategic Assessment Score?

Use the Strategic Assessment Spreadsheet to produce a draft priority score for the proposed project.

To be reviewed after Council on 11 February 2021

8. Any other comments?

Are there any other issues/comments you feel should be recorded at this stage?

Surrey County Council as part of its sustainable transport objective initiated the proposal in its bid for funding from EnterpriseM3. The Borough Council supported the initiative and agreed to pay for the bridge link from S.106 or CIL contributions from town centre development. At the time the bridge was provisionally priced at £800,000 but no consideration had been given to the design or technical challenges in achieving it.

Whilst the anticipated developer interest in investing in the town centre has arisen none have yet secured a Planning Consent resulting in the anticipated housing that would provide CIL and other contributions are unlikely to arise in the short term to help pay for this and other infrastructure.

9. Has the mandate been agreed with the Sponsor?

Yes – for the purpose of reporting to Council as part of the Victoria Square Update

Project Mandate for Woking Town Centre Way Finding

Prepared by:	Ray Morgan	Project Name:	Woking Town Centre Way Finding
---------------------	------------	----------------------	--------------------------------

1. What is the project?

The project is to ensure that signage in and around the Woking town centre, both pedestrian and vehicular, is updated to take account of changed location and direction caused by the Victoria Square development and Victoria Arch widening.

2. What are the objectives of the project?

To support residents and visitor arriving in and moving around Woking town centre.

3. Who will be involved in the project?

This should include the anticipated **Project Manager** and **Project Sponsor** as a minimum.

Person:	Role within project:	SharePoint Access:
Ray Morgan	Initial Sponsor	Yes
Other people to be determined if proposal is supported by Council		Will vary

4. What is the proposed timetable for this project?

What are the proposed start and end dates of the project?

The project needs to be implemented during 2020/21 to coincide with the Victoria Place.

5. Estimate of project cost

Do you have an idea of how much this project will cost to deliver? If so please provide an indication here. The figures used at this stage will not be taken as 100% accurate.

The detailed design of the locations for and the signage, both of changes to building and directions, is yet to be undertaken but based on experience of other major town centre redevelopments a provision of £1m is proposed.

Approval to implement the scheme will be sought from the Executive after consultation with the Victoria Square Oversight Panel.

6. Funding?

Please indicate what funding has been identified: Section 106 monies, revenue budgets, a successful funding bid or grant etc. If funding has not yet been identified clearly state this fact.

The proposal before the Council on 11 February is that the provision of £1m be allowed in the revised funding available to Victoria Square Woking Limited for its development to enable it to pay for the town centre way finding, by way of financial contribution, if progressed by the Council.

7. Strategic Assessment Score?

Use the Strategic Assessment Spreadsheet to produce a draft priority score for the proposed project.

To be reviewed after Council on 11 February 2021

8. Any other comments?

Are there any other issues/comments you feel should be recorded at this stage?

None

9. Has the mandate been agreed with the Sponsor?

Yes – for the purpose of reporting to Council as part of the Victoria Square Update

Copy of briefing note to Oversight Panel and Private Member Briefing.

NB Excludes commercially sensitive data that was included in the original note.

Victoria Square Members Briefing 21 January 2021

Note from

Ray Morgan, Chief Executive

Leigh Clarke Director of Finance

Total Project Costs

The total project cost is some £700m as outlined in the W H Stephens forecast out-turn cost report. The W H Stephens January 2021 report, which updates the May 2020 report, previously reported to Council, shows a forecast out-turn increase from £673m to £698m. A copy of the W H Stephens confidential report has previously been supplied to all Members and will be redistributed in support of this report..

The forecast out-turn includes a number of variance and provision which were not included in the May 2020 report. Of the increase, £11.8m is attributed to Council related costs that it is now proposed the company should meet given the financial pressures facing the Council. A copy of the briefing note submitted to the Oversight Panel is attached for information, its shows the cost movement of £25m from May 2020 and explains the £11.8m.

Two major items totalling £7m are included in the £11.8m; one relates to town centre signage the other to pedestrian cycle facilities. Both of these items will be subject to separate consideration and approval by the Council Executive during 2021/22 but are included here so that provision is made to enable the items to be progressed. If the project does not bear these costs, the Council will not be in a financial position to progress them. These are outlined below:-

Town Centre Signage

The £1m provision for town centre signage is subject to future detailed consideration by the Oversight Panel and approval by the Executive.

Lockfield Drive Pedestrian/Cycle Bridge

The £6m provision for the pedestrian/cycle bridge across the canal at Lockfield Drive bridge will join the canal towpath with a new footway/cycleway to the west of Victoria Way linking with the new Victoria Arch.

Summary of Financial Implications

As outlined in the W H Stephens Forecast Out-turn report and the Financial Model. The project has been impacted by:

- Increased costs of construction.
- Longer construction period with associated costs and delay in income.
- Lower forecast rental income (at least at the start) due to uncertain economic environment on completion.

Mitigated by:

- A lower PWLB interest rate now achievable.

Financial Modelling

Modelling the revised costs and more conservative assumptions shows:

- Higher peak debt (dependent on the timing of the sale of the car parks to the Council).
- Additional years to achieve operational profit (where income covers operational and financing costs).
- Additional years to achieve break even position for sale of the asset.
- However, after 50 years, it is projected that Council will own the asset worth more than the outstanding debt.
- Sensitivity analysis prior to commencing the project showed that debt may not have been fully repaid by the end of the model. The 2017 model forecast it would be 2031 before annual income covered costs.
- The variances have been more significant than envisaged, however income is forecast to reduce outstanding debt only a few years later.
- The Council can continue with the project based on the revised budgets.

Investment Programme

- A number of Council projects have been temporarily suspended from the Investment Programme until the Council's medium term financial position (post pandemic) is more secure.
- Until the future is clearer, it is not possible for the Council to commit to additional town centre works.
- The Victoria Square project incorporating some of these costs would enable the continued investment in the town.

Request to Council

The Council will be requested to authorise the total project cost, based on the forecast out-turn of £700m and a full Loan Facility of £700m.

**Copy of Report to
Victoria Square Oversight Panel 18 January 2021
Briefing Note on W H Stephens Cost Plan Update**

W H Stephens has updated its May cost plan; the latest version has been circulated with this note. The attached appendix highlights the changes since the May report.

This note seeks to bring out the notable changes for discussion.

The continuing challenges posed by Covid has put more cost pressures on the project and increased the risk of delay. The project team are doing their utmost to keep Sir Robert McAlpine on course to enable the centre to open in the autumn but contract practical completion is currently indicating December 2021.

Items 1 & 2 of the W H Stephens report sets out the net movement of an additional construction related cost.

Item 3 of the W H Stephens report sets out the net movement of an additional development related cost of £12,187,100. The major issue relates to the need to acquire the Bandstand Mall units from Peacocks at a cost, including taxes, of £7,950,000. This was previously reported in a confidential report to the Executive. The conversion of the former Fantails Nightclub, an area under the control of the Council as part of the Arts & Entertainment area of the Peacocks, was agreed by the company to accommodate the public performances by Italia Conti. This reduced the demand on the number of weeks use in the Rhoda McGaw Theatre. The new venue will be controlled by the Council and provide additional performance space for community groups. There have been additional costs incurred in respect of incorporating Thameswey's services into the development; it is recognised Thameswey would be economically disadvantaged if it had to finance those costs. Finally, and as a direct cost of delay the disturbance costs payable to the Peacocks and the Council for units in Bandstand Mall, Market Walk and Wolsey Walk, so as to enable rent reductions, has increased.

Item 5 of the W H Stephens report sets out the net movement of an additional development related cost of £11,800,000. This relates to costs that may otherwise have fallen on the Council.

Covid has also changed the Council's own financial position and put its revenues at risk. Whereas there were costs, which Victoria Square could reasonably have expected the Council to pay the Chief Executive has advised the Company that it will not be possible for the Council to do so. The cost update therefore includes a range of costs that could, in other circumstances, have been financed by the Council from loan.

The items, shown as item 5 on the W H Stephens summary of changes which it is proposed the company will finance instead of the Council are set out in the table below :-

	£
1 The Wolsey Place Sainsbury interface with the Novum roof incorporated modifying the Sainsbury back office area and improving the roof and making the asset watertight and improving insulation	2,000,000
2 Export House interface, reception, back of house and replacement roof top maintenance equipment	1,300,000
3 Structural maintenance addressed during the refurbishment of Malls	750,000

Victoria Square Update

4	Refurbishment and Replanting Victoria Way Central Reservation from Lockfield Drive to the roundabout with Chertsey Road (but excluding the roundabout)	750,000
5	Provision for consequential changes with Woking Town Centre and its approaches arising from the changes caused by the development of Victoria Square	1,000,000
6	Provision for the Lockfield Drive cycle and pedestrian bridge connecting the improved Victoria Way cycle and footway provision with the canal towpath from the wets of the Borough	6,000,000
	Total	11,800,000

Of the £11.8m the £6m to meet the cost of the new footway/cycle bridge could be avoided. However when considering it in the context of the wider project and the immense benefit it will provide by improving cycle and pedestrian access to the west of the town, and in due course to the south when Victoria Arch is widened it is considered that the bridge should still be pursued. If it is not financed as part of Victoria Square, the proposal will need to be abandoned as the Council cannot afford to directly finance it.

Ray Morgan
Chief Executive
15 January 2021

Victoria Square Financial Model January 2020

A copy of the Financial Model slides are included as a landscape document