

VICTORIA PLACE UPDATE

Executive Summary

The Victoria Place development is a major regeneration project within Woking Town Centre. The development forms the foundation of the transformation of Woking Town Centre delivering new retail, leisure, education, housing and hotel accommodation and linking the existing shopping centres into a single coherent mixed-use centre.

Council approved this regeneration project and development at its meeting in November 2016. This approval considered how the project could be funded and delivered. As a result of limited interest from the private sector, it was approved on the basis that:

- It would be wholly loan funded
- The Council would be the provider of the loan facility through its access to the Public Works Loan Board
- The Council and its partner, Moyallen, would form a joint venture company, Victoria Square Woking Limited, to oversee the project's delivery.

Victoria Square was officially opened by the Mayor of Woking on 23rd March 2022.

The purpose of this report is two-fold:

- **Regeneration – a commissioner's perspective (Section 2 of this report):** To highlight the regeneration that Woking Town Centre is experiencing and delivering, largely through the Victoria Place development and the associated activity and benefits that can be anchored around it.
- **Commercial Performance (Section 3 of this report):** To provide a position statement on issues relating to handing over a completed Victoria Square scheme into operational delivery and performance of the sectors within the scheme now that it has been operating for circa 6 months. The key issues this report will necessarily focus on are:
 - Construction scheme challenges
 - Impact of the Covid Pandemic
 - Impact of the national economic downturn
 - Hotel rain-screen cladding system

The report recognises that this is a regeneration scheme and has not primarily been undertaken in order to generate a commercial return to the Council as the investor. It does however need to report on the commercial performance of the development, whilst also considering the impact that its development and operation has and will have on the wider economic and social vitality of the town centre and trading environment for all businesses and potential investors.

The report also presents a report by the Hawnby Group on the latest financial modelling for this significant regeneration project set against the case presented to the Council in February 2021. Specific attention is drawn to the areas of change which have a significant modelling impact on the peak debt for the project and timescales for when the Victoria Square Woking Limited (VSWL) Joint Venture is modelled to generate sufficient incomes that covers all operating and financing costs.

The report sets out and seeks approval for the additional revolving loan facility requirement now the project has moved from construction into operation. The modelling shows a requirement for further

loan funding of £180m through the period to 2057. This report is however seeking approval to increase the revolving loan facility by £45m to meet the net operating costs of VSWL between December 2022 and March 2027. This is approval for a facility only. The approval for draw down of loan funding will be on the approval of the Council's Director of Finance.

Through the Council's Medium Term Financial Strategy (MTFS) it is reviewing its Capital Financing Requirements, Strategic Asset Management Plans and Investment Strategy. This will inform how the Council will seek to finance the VSWL loan facility.

The original ambition for Woking town centre remains and is most recently set out in the emerging Town Centre Masterplan which seeks to provide a planning vision for sustainable growth guiding new private sector investment into the town such as new homes, a thriving retail and business environment and strengthening Woking's cultural and leisure offer. Along with this, the objectives set out in the Council's Corporate Strategy seek to take forward key elements including a town centre management strategy, parking strategy and a destination place branding proposal to continue to establish that the town is 'open for business'. The objective is to create a vibrant town centre, bringing together a compelling offer of high-quality business, leisure, retail and sustainable living opportunities.

In light of the national economic picture and the Council's financial position, which is reliant on income from assets to secure vital services, it is ever more important to complete the project and capitalise on the investment to lever in new private sector investment into the town.

- Appendix 1: Victoria Square background.
- Appendix 2: National Economic Picture
- Appendix 3: Victoria Square Performance Report
- Appendix 4: Hawnby Group, a summary of the current financial position

Recommendations

The Executive is requested to:

RECOMMEND TO COUNCIL That

- (i) the work to date on the delivery of the regeneration project, to support its completion and the next stages of the regeneration of the town centre, be noted;**
- (ii) a revolving loan facility of £745m be approved, representing an increase of £45m to the £700m revolving loan facility approved in February 2021; and**
- (iii) the development budget be retained at £700m with a reduced scope to exclude elements of the February 2021 approval including the Lockfield Drive pedestrian and cycle bridge, Victoria Way central reservation landscaping and Export House Building Maintenance Unit (BMU) to enable conclusion of the final account with Sir Robert McAlpine.**

Reasons for Decision

Reason: To enable the successful completion of the Victoria Place regeneration project to support the overall vision for the town centre as a vibrant town centre, bringing together a compelling offer of high-quality business, leisure, retail and sustainable living opportunities.

The item(s) above will need to be dealt with by way of a recommendation to Council.

Background Papers: None

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1.0 Introduction

1.1 The Victoria Place development is a major regeneration project within Woking Town Centre. The development forms the foundation of the transformation of Woking Town Centre delivering new retail, leisure, education, housing and hotel accommodation and linking the existing shopping centres into a single coherent mixed-use centre.

1.2 Council approved this regeneration project and development at its meeting in November 2016. This approval considered how the project could be funded and delivered. As a result of limited interest from private sector investment, it was approved on the basis that:

- It would be wholly loan funded
- The Council would be the provider of the loan facility through its access to the Public Works Loan Board
- The Council and its partner, Moyallen, would form a joint venture company, Victoria Square Woking Limited, to oversee the project's delivery.

1.3 The timeline for Council approvals to the revolving loan facility for the project is as follows:

December 2016	£460,000,000	Full Project Approval
December 2017	£505,000,000	Enhanced Fire Safety measures and Additional Car Park Spaces
July 2018	£525,000,000	Acquire a site and Car Park Structural Issues
July 2020	£555,000,000	Recognising issues relating to Covid pending Full Project Review
February 2021	£700,000,000	Full Project Review - Additional Scope, Delays in Construction and Impact of Covid Pandemic

1.4 Victoria Place was officially opened by the Mayor of Woking Borough Council on 23rd March 2022 with the following key scheme features:

- 429 build-to-rent apartments
- 189-bedroom hotel (see Section 3 and Appendix 3 for construction status)
- New 1,393 space car park
- 140,000 sq of retail and leisure space
- 47,000 sq ft of performing arts academy (Italia Conti)
- Two new public spaces and space for a medical centre

1.5 Attached at Appendix 1 is a short background and overview of the development as a regeneration project.

1.6 The purpose of this report is two-fold:

- **Regeneration – A Commissioner’s Perspective (Section 2 of this report):** To highlight the regeneration that Woking Town Centre is experiencing and delivering, largely through the Victoria Place development and the associated activity and benefits that can be anchored around it.
- **Commercial Performance (Section 3 of this report):** To provide a position statement on issues relating to handing over a completed Victoria Square scheme into operational

delivery and performance of the sectors within the scheme now that it has been operating for circa 6 months. The key issues this report will necessarily focus on are:

- Construction scheme challenges;
- Impact of the Covid Pandemic;
- Impact of the national economic downturn;
- Hotel rain-screen cladding system.

2.0 Regeneration – A Commissioner’s Perspective

National Economic Picture

- 2.1 As set out in this report at Appendix 2, the national economic picture remains uncertain with a likely recession and underlying trends related to the cost of living and in particular energy costs and inflation.

Woking Borough Council Corporate Strategy

- 2.2 The Council has a Corporate Strategy, Woking for All, which establishes the five strategic priority outcomes the Council is striving to achieve and directs the Council’s funds and investments towards achieving these outcomes. These Priority Outcomes are:

- Healthier Communities
- Engaged Communities
- Greener Communities
- Prospering Communities
- A High Performing Council

- 2.3 The Victoria Place scheme is aligned with and supports the Prospering Communities strategic priority outcome and specifically in regards to developing a *Strong and Sustainable Economy* with a *vibrant town centre that brings together a compelling offer of high quality leisure, retail and sustainable living opportunities*.

- 2.4 The Council has reported on the delivery of the circa 230 priority actions contained within the Woking for All strategy to the October 2022 meeting of the Executive. Some notable actions to highlight in the context of delivering a Strong and Sustainable Economy are:

- Establishing a Digital Centre of Excellence - a high growth – high tech incubator hub with a niche “Green Tech” focus
- Developing ‘Destination Woking’ - a detailed sales and marketing plan
- Implementing a new Way finding in the town centre
- Delivering Celebrate Woking
- Agreeing an over-arching town centre management strategy to support the delivery of a mixed-use centre, supporting local needs while being a shopping destination of choice
- Reviewing the Victoria Arch widening scheme to ensure it is on a sustainable footing
- Securing further commercial investment and activity including a Christmas and cultural offer
- Exploring the use of council and privately owned office space to support flexible working and emerging modern workstyle demands
- Transforming car parking services through the implementation of digital car parking management systems
- Exploring energy efficiency and green energy opportunities
- Maintaining a high quality and safe street scene
- Providing improved safer cycle provision

- Develop a new parking strategy that reflects emerging insights from hybrid working; promoting a night-time and leisure economy; town centre living and the promotion of greener travel
- Exploring and proposing options for the animation of the Victoria Square and Henry Plaza public spaces so that they enhance town centre experience and vitality

2.5 The transformation of the Woking Town Centre is one of the Council's two major regeneration schemes and investments that anchor our strategic intent and priority to delivering Prosperous Communities. The other major regeneration scheme is the Sheerwater Housing Regeneration Project.

2.6 The Victoria Place development and wider public realm improvements continue to transform Woking Town Centre. These have consolidated other initiatives and together have achieved the following:

- 429 homes towards meeting Woking's housing need;
- Woking's retail offer is enhanced with Marks & Spencer, Boots, Moss Bros, Skechers, Gail's Bakery and The Gym Group opening new stores;
- Culinary reputation is growing with recognisable brands, such as Gordon Ramsey Street Burger, Cote, itsu, Loungers and Gail's, joining established independents, such as Araceli's, Komo, and Luciano's.
- Gordon Ramsey's Culinary Academy has opened;
- Premium international hotel brand, Hilton, is to open a 189-bedroom 4* hotel with the largest conference space in Surrey;
- Internationally acclaimed performing arts school, Italia Conti, has closed its sites at Barbican, Clapham and Guildford and relocated to Victoria Place;
- The creation of the new Buzz theatre.
- Woking Market is successfully relocated;
- A new state-of-the-art fire station was delivered;
- Woking Superbowl will bring new leisure and family entertainment;
- Over 1,000 new job opportunities are created, in addition to the employment opportunities offered by business relocations;
- A new 1,393 space car park offers improved visitor experience;
- Public transport and cycle connectivity is improved;
- Public realm throughout Woking Town Centre is transformed;

A Vibrant Town Centre & The Peacocks

2.7 Key to the delivery of this priority is having a compelling high quality retail and mixed use offer which includes assets within and outside of the Council's ownership. In this respect, the performance of the Peacock's Shopping Centre is a key element as it is a component part of the retail experience and journey through the town.

2.8 The administration of Peacocks Centre Limited is common knowledge and is not the subject of this report. Following the administration of Peacocks Centre Limited, the influence and collaboration of any future purchaser will rely on the Council as freeholder and the provisions of the headlease. This requires the new owner of the asset to work in the best interests of both itself and the Council as freeholder. Despite this, the change and wait for a new investor have delayed progress towards a coordinated asset and property management approach.

Highway Works

2.9 Highway works for the scheme have been carried out under a Section 278 agreement. The final phase of S278 works has commenced and will be completed by summer 2023. The scope

of the scheme responds to the paused Victoria Arch replacement Housing Infrastructure Fund project and looks to complete works including a new pedestrian crossing at the end of the High Street to Goldsworth Road albeit with the ability to remove equipment should the HIF project require it. It is considered important that the highway is 'finished' given the importance of an attractive gateway to the town, encouraging visitors to the centre and to return again.

District Heat Network

- 2.10 The vision for the Victoria Square development included the connection of the retail, hotel and residential accommodation to Thameswey's District heat network. Combined Heat and Power networks are one of the solutions supported by the Government in its drive to reduce carbon emissions due to their greater efficiency compared to equipment serving individual properties.
- 2.11 Thameswey took possession of the District Cooling Centre on 15th August 2022 under an interim management service contract ahead of adoption, connection and supply agreements.
- 2.12 As reported to the Executive in March 2022, Thameswey Energy Ltd has been awarded funding through the Government's Heat Networks Investment Project for investment in infrastructure to extend and decarbonise the network of the Poole Road Energy Centre.

Car Park

- 2.13 The new red and green car parks have added 1,393 car spaces and 10 motorcycle bays to the Woking portfolio, including 64 disabled/accessible parking bays, 61 parent & toddler bays and 216 electric vehicle charging (EVC) bays (of which 94 are currently active, 16 are for disabled, 12 are parent & toddler).
- 2.14 The February 2021 financial model for Victoria Place included the sale of the new red and green car parks to the Council. This would have provided a capital receipt which would have been used by Victoria Square Woking Limited to cover operating losses.
- 2.15 As of the date of this report, the Council has not acquired the new car parks. Long leases are to be granted so that the Council can manage the new car park assets as part of the town centre portfolio. The financial implications of this position are covered in the finance section to this report.

Lockfield Drive & Victoria Way Pedestrian/Cycle Bridge

- 2.16 In February 2021 the Council approved a provision of £6m be included in the project cost for Lockfield Drive Pedestrian/Cycle Bridge, with implementation being subject to formal approval of detailed proposals by the Executive. Further funding was agreed to secure planting to the Victoria Way central reservation and other funds connected to the delivery of a building maintenance unit for Export House.
- 2.17 A new pedestrian cycle bridge and related works of widening the canal towpath was proposed in order to enhance sustainable access to the town centre and other parts of the Borough. When joined with the proposed cycle and pedestrian enhancements through the Victoria Arch scheme it would 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.
- 2.18 In July 2022 the Executive received a detailed report updating on the Victoria Arch proposal agreeing that the scheme should be paused and reviewed given the scale of additional funding required to complete the scheme.
- 2.19 Given the Victoria Square current financial model and the need for appropriate contingency within the £700m development budget the proposed pedestrian / cycle bridge cannot be progressed at this time. The scheme will however continue to feature as an ambition of this

Council and with the County Council's support, could be subject to future active travel funding opportunities. Officers will actively work with the County to seek external funding for this project recognising its benefits. It is hoped that the proposed new partnership arrangements (November 2022 Executive Report 'Strategic Partnerships') between the Councils would support greater delivery of this and other important pieces of infrastructure.

2.20 Funding to secure planting to the Victoria Way central reservation has been reduced from the £750k budget originally proposed and other funds connected to the delivery of a building maintenance unit for Export House not progressed.

3.0. Commercial Performance

3.1 Appendix 3 provides a performance and overview report from VSWL to the Council covering key areas of the development's progress and activity in addition to some key insights into the company's performance.

3.2 The key areas to draw to the Committee's attention from this report are:

- The general national economic outlook, referred to in Appendix 2, subsequent political and economic shocks and the specific market outlook for town centres and consumer confidence levels present a challenging picture. Rising inflation, increasing interest rates and the prospect of increased taxation will have a direct impact on consumer spending and resulting pressure on retailers, food and beverage operators and the hotel and leisure industry. Support for local businesses and a pragmatic approach to preserving a vital, active and successful town centre should be applied where possible.
- The Hilton Hotel has been delayed by a failed rainscreen cladding system. However, a design solution has been agreed in principle and the replacement programme has started on site. Completion of all associated works is anticipated by 31st October 2023 with opening targeted before the end of 2023. Hilton remains passionate about this exceptional hotel, conference and event centre and will present a full business plan six months prior to opening. The VSWL team will continue to work closely to optimise the benefits for the joint venture and Woking town centre.
- The opening of the Italia Performing Arts Academy in September has brought 600 students and staff to the heart of Woking, benefiting other local businesses, adding vibrancy to public spaces and generating opportunities for growth, student accommodation and performance. This long-term relationship will be carefully managed to get the best for Woking, VSWL and Italia Conti. It should also demonstrate that Woking has capacity for a growing education sector.
- The Marches residential delivers 429 build to rent apartments with associated amenities. This has been a significant success and may prove most resilient in the short-term economic environment. 301 apartments have been let since April 2022 (70%) at rents that are 21% and 11% above average Woking one- and two-bed apartments respectively. Rents are 4% ahead of business plan and demand remains strong. Close work between VSWL and Go Native, the residential manager, will optimise the asset's performance, encourage its dynamic role in the town centre and set a benchmark for further development in Woking.
- The retail component of the scheme has performed reasonably given difficult market conditions. Early pre-lets to Boots and Marks & Spencer helped anchor the scheme, redefine the Woking retail offer and de-risk the business case. The retail, F&B, leisure and educational space is 91% let with secured rents at approximately 3.2% below business plan. Five retail units remain available and one is under offer. Collaboration between the Woking Borough Council property teams, VSWL and the future investor in the Peacocks will market Woking in the best light and respond to a challenging market by increasing

activation of public and private realm, commercialisation. Objectives are to preserve the existing town centre mix, grow revenue and deliver new local, national and international brands. In addition, appropriate relocation of existing businesses will be targeted to release development opportunities that help deliver the town centre masterplan.

4.0 Financial Implications

- 4.1 The Victoria Square regeneration project has been supported by a detailed financial model which has been regularly updated since the original approval of the project in 2016. The model continues to be updated by the team that originally built it, now at Hawby Group, a summary of the current position can be found at Appendix 4.
- 4.2 In February 2021 the loan facility provided by the Council was increased to £700m incorporating additional costs to the scheme of the Covid pandemic and associated delays in delivery and income generation.
- 4.3 The modelling also reflected the latest interest rate forecasts as published by the Council's Treasury Management advisors. At that time, it was forecast that rates would remain substantially below 2% through to March 2024. As this covered the period to completion of construction, the update resulted in a significant benefit to the financial model through reduced financing costs.

Council Loan facility

- 4.4 The Investment Programme and Prudential Indicators, set by the Council in February 2022, included the £700m loan facility to Victoria Square Woking Limited to cover project development costs. These project development costs included the costs to construct the car park.
- 4.5 The Investment Programme also included a further £58m investment for the Council to purchase the car park, as a Council asset, from Victoria Square Woking Limited.
- 4.6 Victoria Square Woking Limited's sale of the car park back to the Council would have enabled them to repay some of the £700m loan facility to the value of £58m, hence reducing the amount of outstanding debt to £642m. Alongside this however VSWL had a need for initial working capital to enable them to cover operating losses of the company as it established and developed its business. VSWL would therefore have had the ability within the revolving Loan Agreement to borrow back up to the £700m facility.
- 4.7 The current modelling assumes that the sale of the car park back to the Council is not undertaken. With this assumption, the modelling shows that peak debt will exceed the current loan facility by £180m by 2057. Of this increase, £58m results from the model now assuming that the company holds the car park rather than disposing of the asset to the Council.
- 4.8 Through this report it is recommended that the loan facility to VSWL be increased by £45m to £745m to meet the net operating costs of VSWL between December 2022 and March 2027. This is required in order for VSWL to be able to meet its operating costs and contractual commitments. Furthermore it provides assurance to the companies auditors that VSWL is able to operate as a going concern whilst making operational losses.
- 4.9 Clearly this increase in the revolving loan provision only addresses the period to 2027 and does not cover the ongoing modelled need for further increases in the loan provision to 2057 and for a further £135m. Over the next five year period VSWL and the Council will continue to review the markets it is operating in and the state of the economy, both which will have a significant impact on the value of the company and its assets. This will inform future options for the company and the Council to leverage additional equity investment and exploit the wider economic benefits enabled by the project.

- 4.10 The Council will initially and immediately need to undertake borrowing to advance this loan facility when it is required by VSWL. The draw down will be controlled by the Council and phased so that it is only released to match an evidenced cash requirement from VSWL.
- 4.11 The Council will be exploring options to minimise the amount of this loan provision that needs to be provided by borrowing. This will include seeking opportunities to apply receipts from the implementation of the Council's Strategic Asset Management Plan and private sector equity investment.
- 4.12 Details on how the Council will finance this additional loan facility will be the subject of further reporting and monitoring that will be reported through the Medium Term Financial Strategy.

Company Governance

- 4.13 Council considered and approved recommendations related to a new governance model in July 2022. These are currently being implemented for all companies, including the Victoria Square Companies. A new Board member has been appointed (Strategic Director of Corporate Resources) and Shareholder Advisory Group meetings are being scheduled.

5.0 Other Implications

Human Resource/Training and Development

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

Community Safety

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

Risk Management

- 5.3 The extensive risk management arrangements remain in place for the project. The programme and cost 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

- 5.4 Victoria Square has achieved a number of sustainable objectives including the following certification:

- BREEAM 2014 New Construction (Retail) - VERY GOOD
- BREEAM 2014 New Construction (Hotel) - VERY GOOD
- Code for Sustainable Homes (Residential) - Level 4

- 5.5 In addition, the following initiatives have been part of the project:-

- Provision of an on-site energy centre with the capacity to generate heating and cooling for the development;
- Ecology enhancements applied throughout the scheme including green roofs and walls with enhance biodiversity and wildlife habitat;
- All internal and external lighting designed in accordance with CIBSE guidelines;
- Locally sourced materials where possible.

5.6 The Marches has additional features as follows:-

- Over 75% of apartment provision to be adaptable to Lifetime Homes Standard;
- Enhanced sound insulation to achieve acoustic environment above and beyond building regulation requirement to enhance internal environment within the apartments
- Water consumption will be reduced to less than 105 litres per person per day through the specification of efficient fittings;
- Each dwelling is provided with an energy display device, energy efficient white goods, secure and weather proof cycle storage provided and dedicated recyclable waste storage.

5.7 The scheme has set a new benchmark for development in Woking and will help set the standard to exceed on future development and delivery of the Woking Town Centre Masterplan.

Equalities

5.8 There are no equality issues raised by this report.

Safeguarding

5.9 There are no new safeguarding issues raised by this report.

6.0 Consultations

6.1 A Member Briefing was completed at the publication of this report.

REPORT ENDS

Appendix 1 – Victoria Square background

1. The Victoria Square development is a wholly loan funded regeneration project with Woking Borough Council as the sole provider of the loan facility through the Public Works Loan Board.
2. The development was instigated in response to the failure of the market to deliver a fundamental change to both the physical environment of the town centre and to begin a journey to develop it into a vibrant mixed used environment which would be a catalyst for further private sector investment.
3. The Victoria Square regeneration scheme has the common business case characteristics of typical regeneration initiatives:
 - The business cases take a long-term view;
 - They provide lower financial returns and are subject to higher degrees of risk to the investor than the investment market looks for and is prepared to accept;
 - The financial returns to the investor materialise only in the long term;
 - The key benefits from the regeneration flow back into the economy rather than directly back to the investor such as a growth in jobs; growth in business start ups; increase in local average earnings; increased spend in the local economy.
4. In respect of Victoria Square business case, 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.
5. The proposition was to reposition and regenerate Woking town centre with the objectives to bring vibrant retail and leisure, substantial aspirational residential apartments and a destination Hilton hotel and conference centre.
6. In 2006, Woking Borough Council (WBC) commissioned a report into the borough's economic development. It identified the need for a clear vision for Woking Town Centre that would increase residential occupation, deliver employment, attract academic and business occupiers and create more leisure, food, beverage and retail opportunities to better meet the needs of residents, employers and visitors.
7. The first regeneration phase included enhancement works to Jubilee Square, improvements to Woking Library and entrance, whilst creating additional retail and restaurant units featuring alfresco dining options. Further phases followed with improvements to the public realm and pedestrianisation of more parts of the town centre. In addition, WBC promoted new office construction and office refurbishments with private developers and encouraged businesses to relocate to Woking.
8. The creation of a joint venture company between shopping centre owner, Moyallen, and WBC, called Victoria Square Woking Limited (VSWL), was crucial to success. Before construction works could commence existing amenities required relocation. As part of the development:
 - Woking Fire Station was relocated and replaced with a new state-of-the-art station built featuring affordable residential accommodation;
 - Woking Market was moved to create a contemporary street food-style market offering a range of food outlets;
 - Transport improvements better integrated cycle, bus and train travel, along with wider highway infrastructure improvements.

Appendix 2 - National Economic Picture:

- 1 The Organisation for Economic Co-operation and Development (OECD) reported on the UK economy in August 2022. It states that the UK economy recovered from the COVID-19 shock thanks to emergency support measures protecting jobs and incomes and a rapid vaccine rollout, but is slowing amid persisting supply shortages and rising inflation.
- 2 The Bank of England Monetary Policy Report August 2022, identifies four key judgements as follows:-
 - In the baseline forecast, persistently high gas and other commodity prices continue to put upward pressure on global consumer price inflation and depress global growth in the near term before their effects gradually dissipate.
 - Given the sharp decline in household real incomes (1.6% fall in August 2022), consumer spending falls over the next year and the UK economy enters recession. Consumption falls by less than income, however, as households, in aggregate, reduce their saving. GDP growth is weak thereafter, even though the pressures on real incomes ease somewhat.
 - Given elevated recruitment difficulties and strong labour demand, firms respond initially to the weakness in spending by using their existing inputs less intensively. So although economic slack emerges in 2022 Q4, the labour market remains tight over the next year and unemployment only starts to rise above its current level in mid-2023. It reaches 6¼% at the end of the forecast period, with slack building to 3¾% of potential GDP.
 - Domestic price pressures remain strong over the first half of the forecast, as nominal wage growth strengthens and many companies are able to protect their margins. But the building degree of economic slack moderates these forces and inflation expectations adjust downwards quickly as external pressures abate and inflation itself begins to fall. Domestic pressures therefore fade and, conditioned on the market yield curve, inflation is around the 2% target in two years' time and well below it in three years.
3. In addition, Bank staff estimate that underlying quarterly UK GDP growth slowed from 0.9% in 2022 Q1 to 0.5% in 2022 Q2. It is expected to slow further to 0.2% in Q3. This reflects the adverse impact of the very sharp increases in energy, non-energy commodities and tradable goods prices on UK household real incomes and spending.
4. The same report identifies a number of risks, relating to the report and the projections:-
 - There are considerable risks around the projections for global inflation and activity, which largely depend on how current geopolitical tensions evolve.
 - The risks around the projection for GDP growth in the baseline projection are judged to be balanced.
 - The risks around unemployment in the baseline projection are judged to be balanced.
 - The risks around the inflation projection from domestic factors in the baseline projection are judged to be balanced.
5. From a different perspective, Colliers, a major property consultancy, issued a UK Property Snapshot in August 2022. The following observations are relevant to this project, Woking town centre and its regeneration:-
 - UK GDP declined marginally in Q2 (-0.1% q/q) and the impact of the cost-of-living crisis on household spending and ongoing export weakness is contributing to the decline.
 - Forecasters are now predicting a recession in the UK, although the extent of the downturn is anticipated to be much milder than during the global financial crisis.

Victoria Place Update

- Inflation continues to rise and the Bank of England (BoE) predicts a peak of over 13% later this year.
 - In order to combat inflation, it is widely expected that the BoE will raise interest rates to between 2.50% and 3.00%. The GBP/USD exchange rate stands at 1.20 in the middle of August (now lower), down from 1.35 at the beginning of the year.
6. The above outlooks were prepared as at the end of August 2022, since which there has been a period of political and economic uncertainty. For the purposes of the VSWL financial model forecasting, it has been updated following advice we have sought from our Treasury Management advisors. The mandate from Government to the Bank of England has not changed and as such fiscal policies continue to work to retuning and maintaining inflation at 2%. The financial models assumptions for interest rates at 2.5% has been adopted and fits within these fiscal policies.
7. In summary, the general national economic outlook, subsequent political and economic shocks and the specific market outlook for town centres and consumer confidence levels present a challenging picture. Rising inflation, increasing interest rates and the prospect of increased taxation will have a direct impact on consumer spending and resulting pressure on retailers, food and beverage operators and the hotel and leisure industry. Support for local businesses and a pragmatic approach to preserving a vital, active and successful town centre should be applied where possible

Appendix 3 – Victoria Square Performance Report

1.0 Market Outlook

- 1.1 A diverse occupational profile is becoming the norm for town centres previously dominated by retail. As retail demand weakens, other sectors have capitalised and education, health and beauty are now expanding.
- 1.2 There are clear signs that rising inflation and the cost-of-living crisis are having an impact on consumers, with June's retail sales volumes down 6% compared to June 2021 and monthly data showing a decline in six of the past eight months. However, given that the Growth from Knowledge (GfK) consumer confidence index is at a record low, retail sales volumes are holding up better than expected. The share of online sales continues to moderate with latest data suggesting that 25p in every pound is spent online. This is down from a record of 38p during the pandemic and the lowest share since March 2020. Q2 MSCI data shows that some retail sectors have seen a stabilisation in rents, with some even starting to see positive rental growth.
- 1.3 Of the space within the Victoria Square development constructed for retail or leisure/educational use, only 16,250 sq ft remains vacant. This is 8.39% of the new space and is mainly made up of 5 empty retail units and the medical centre. The British Retail Consortium (BRC) reports that across the UK, vacancy rates had improved to 14.1% in the start of 2022 and this puts Woking in a positive position. It should also be noted that the medical centre is included in the numbers and this is being used for the remedial works to the hotel so the space actually available is 10,608 sq ft (5.3%).
- 1.4 Since the opening of Victoria Place, Wolsey place is averaging 112,000 visitors per week and Peacocks Centre 74,000 per week. Both saw numbers fall when the blue and yellow car park were closed but the drop was more marked in the Peacocks Centre. Both have recovered now with figures at 114,600 and 82,000 respectively in September 2022. It is too early to understand the effect of a reduction of the car park charges for Saturday visitors which was implemented to better meet resident and visitor needs, supporting longer stays and to be more competitive compared to other centres.
- 1.5 Marks & Spencer are keen to grow sales levels in the food hall although the company did get a boost when customers were diverted to the red and green car parks due to closure of yellow and blue. Familiarity and collaborative work to improve website information, social media coverage and Apps are seeking to reinforce this improvement across the town centre. Moss Bros saw a rise in sales in June from wedding related business.

2.0 Scheme Construction Current Position

General Scheme Completion

- 2.1 The retail centre and residential elements of the scheme opened on 23rd March 2022 with the final sectional completion achieved on 6 May 2022 (Tower 1 The Marches). The exception is practical completion of the hotel which is the subject of significant cladding remediation work. Sir Robert McAlpine, the main contractor, is now targeting completion of all remaining snagging works in Q4 2022.
- 2.2 All areas have been inspected, with reinspection required to close out snags and outstanding works. Additional snags will be added from further inspections and management/tenant identification.

Hotel and Hotel Cladding

- 2.3 The joint venture entered into a management agreement with Hilton Hotels in December 2016 and the project has been a collaboration throughout. The 189-room Hilton Hotel includes a significant conference centre and ballroom to bring events and conferences to Woking. Unfortunately, the hotel has been delayed due to a failure of the rainscreen cladding system to its envelope.
- 2.4 The hotel has suffered as a result of a failed cladding system. The original completion date was November 2020. Covid and other delays added 16 months (March 2022) and the remedial works design and procurement add a further 20 months. The result is a target completion date of 31st October 2023 with the Hilton Hotel opening date pre-Christmas 2023. It should be noted that the delay risk sits with Sir Robert McAlpine with substantial delay damages payable under the construction contract.
- 2.5 In October 2021 several exterior cladding panels fell off the building resulting in the closure of Victoria Way to ensure public safety. There are approximately 4,000 panels on the building and a programme was put in place in relation to the implementation of temporary fixing to around 50% of the panels.
- 2.6 The Council has been in regular liaison with both the joint venture's contractor, Sir Robert McAlpine, and its cladding contractor, Lindner Prater, in order to agree a permanent solution which meets practical and investment requirements.
- 2.7 The first Performance Mock-up (PMU) testing of the proposal for the remedial works to the rainscreen cladding system has been undertaken albeit this was delayed in its completion due to the exceptional weather conditions encountered late July / August 2022, which prevented the thermal testing from being carried out until the ambient temperatures reduced.
- 2.8 The PMU results were overall positive, with most of the prescribed test requirements being achieved. However, 15% of key bracket fixings failed leading to a need for retesting. A further set of PMU tests have been re-run with a successful bolt and nylon lock nut fixing solution.
- 2.9 In parallel with the PMU testing, a visual mock up has been installed, tested and passed without issue. Design information for two further aspects has been submitted and is being checked by the Employer's Design Team (EDT). No issues are anticipated that affect the design or remediation programme.
- 2.10 The design and procurement approval process is due to be completed shortly. Board approval, subject to final EDT approval of PMU and VMU test reports and submitted residual design details, was confirmed on 7th October 2022. In this context, panel production has commenced and a start on site has been made after preparatory and enabling works. The current programme is estimating completion of the cladding and all associated works in late October 2023.
- 2.11 Hilton Hotel has been kept fully up to speed during this process and remains committed to opening the hotel in late 2023. The Hilton executive team has confirmed that it is delighted with the hotel and stands by the management agreement despite the delay to opening. Six months ahead of opening, Hilton will provide an updated five year business plan.
- 2.12 The interior of the Hilton Hotel has been completed, subject to some additional post-completion works that have been separated from the main management contract. The opening of the hotel will be carefully coordinated with the Hilton executive team to optimise programme and launch.
- 2.13 The 2018 Hilton business plan estimate showed a first year net operating income (NOI) to VSWL of £1.3m, rising to £2.565m after four years operation. JLL confirmed these figures in

2018 and Knight Frank have assessed the hotel further in 2022 and advised a stabilised NOI of £2.4m.

Signage

- 2.14 External highway signage and wayfinding signage are due to complete in early 2023.
- 2.15 Following a review of the original signage scope, including internal signage within the centre and the car park, it is acknowledged that additional signage is required. An audit of all signage for highways, entrance, car park and pedestrian routes (both arrival and return), has been carried out by Velvet Principle and a project group. This has led to a design proposal for implementation, and ongoing review.

The Medical Centre

- 2.16 The Medical Centre is part of the scheme at ground and first floor, accessed between the Hilton Hotel and Marks and Spencer entrances on Victoria Way. It is also a requirement under the planning consent.
- 2.17 The medical centre is in the possession of Sir Robert McAlpine and the space will provide essential welfare accommodation for delivery of the hotel cladding solution. As a result the expectation is that this shell and core unit will be released in late 2023 for fit-out and operation in 2024.
- 2.18 Surrey and Borders Partnership Foundation Trust continues to show interest in operating a medical centre at Victoria Square. This interest will be developed with the intention of securing an agreement for lease in 2023.

3.0 Operational Performance

Italia Conti

- 3.1 One key element of the development is Italia Conti, a Dance and Drama Academy and a vital ingredient to the Victoria Square scheme as well as the revitalisation of Woking Town Centre. Italia Conti opened for Summer workshops, before VSWL completed its fit out, and full time students arrived on 12th September, bringing a new under-graduate demographic and leading to greater activity in Henry Plaza:
- Italia Conti delivers degree education to Woking town centre
 - 500 to 600 adult undergraduates will attend the academy
 - 200 staff are employed
 - The combined population will create greater diversity and a demographic change
 - The population will support the local consumer economy, especially retailers and food and beverage operators
 - Students will take part-time jobs to support local businesses
 - Generates demand for apartments including the Marches (already 15+ tenancies)
 - Act as a catalyst for new student accommodation initiatives;
 - Local partnerships, including ATG, will support and increase use of Woking's theatre and leisure destinations
- 3.2 It is important that the full benefit of Italia Conti's relocation is taken forward and officers continue to make strong connections with the academy and ATG in order to enhance the overall cultural offer. The creation of the new Buzz theatre adds to the wider cultural offer within the town.

Residential Report

- 3.3 Native Group was appointed as manager of the build to rent (BTR) assets, The Marches, under a management agreement in November 2019. Significant amendments to the residential element of the scheme and its amenities took place as a result of Native's involvement and we are seeing the benefits of this in letting and rental performance.
- 3.4 The marketing process started ahead of completion and on-site marketing and viewings began on 1st April 2022.
- 3.5 The latest Native performance reporting highlights the following:-
- 301 of 429 apartments (70%) have been let
 - Over 262 apartments are occupied
 - Rent roll forecast is £7.3m against a business plan of £7.0m, up 4.3%
 - Average monthly rent is £1,450 with a tenancy length is 16.47 months
 - 1 bed apartments are delivering rents at 21% above Woking PRS market
 - 2 bed apartments are delivering rents at 11% above Woking PRS market
- 3.6 This has been a significant success to date with out-performance of business plan on both leasing and rent, net revenues are passing to the joint venture and the population of the Marches is increasing activity, aspiration and retail, food and beverage and leisure spend in the town centre.

Retail, Food & Beverage and Leisure Update

- 3.7 New retailers at Victoria Square have significantly increased Woking's attraction to existing shoppers and a wider demographic. The addition of a 50,000 sq ft Marks & Spencer and a 27,500 sq ft Boots provide anchors with improved product lines and a sea-change in retail offer. Skechers and Moss Bros have brought contemporary shoes and men's clothing to Henry Plaza and support the existing range of retailers in the town centre, as well as encouraging others to let space outside the project.
- 3.8 Gail's Bakery and Black Sheep (under offer) add variety to the town centre's already exceptional food and beverage offer and compliment the new and aspiring residential population at The Marches, new students and staff at Italia Conti and, in due course, the hotel and conference visitors. The intention is to develop the food and beverage offer in collaboration with the wider town centre and Victoria Place management to compliment existing operators and support the town centre's success during the current difficult, inflationary, energy cost-impacted environment.
- 3.9 The same approach is adopted with leisure operators including Woking Superbowl (replacing Big Apple) and the Gym Group. Both offer new destinations that will add to the range of activities available within the town centre, drive spend per capita and increase dwell time.
- 3.10 In the context of a challenging market for town centres, the following has been achieved:-
- 12 of 17 units have been let or are under offer, including all larger space
 - 175,500 sq ft of space has been let (91%)
 - 3,300 sq ft of space is under offer (1%)
 - 16,250 sq ft of space is available
 - £1.69m annual rent secured
 - Business plan equivalent estimated at £1.74m
 - Current rent at a 3.2% discount to Business Plan

- 3.11 Recent and emerging lets to Seymours Estate Agents Lark (retail) and Black Sheep Coffee will mean that five units remain available and are being actively marketed. Certainty of the new Peacocks investor and its plans, together with an ever-increasing residential and student population will help and pre-Christmas viewings will show Woking town centre in a good light.

Asset Management & Governance

- 3.12 Asset management is in a state of transition between development and stabilised assets. This will be phased due to the delayed opening of Hilton Hotel and Conference Centre. In addition, the administration and proposed sale of The Peacocks headlease, joint venture structure status post-completion, integration of management with WBC town centre assets including Wolsey Place and the role of WBC complicate the position.
- 3.13 The ambition is for a detailed Asset Management Business Plan in 2023, together with an organogram and resourcing strategy.
- 3.14 The headline objective will be to maximise net income to VSWL whilst optimising the assets' environmental and sustainability performance, meeting all statutory and place objectives including its role in contributing to and knitting together the town centre.
- 3.15 Governance and reporting will be based upon the Business Plan outline with monthly reporting and performance management across a number of areas including the following:
- Rental income against business plan targets and peer town centres
 - Rental growth
 - Rent and service charge debtors
 - Service charge levels and efficiency
 - Retail, leisure and food and beverage turnover
 - Occupancy rates
 - Footfall
 - Car park use and revenue
- 3.16 In the meantime, property management services with Savills, a property consultancy with specialist shopping centre management, are in place with a comprehensive scope and appointment for Victoria Place (Wolsey Place and Victoria Square). This works in collaboration with WBC's property management team and a number of WBC's suppliers to achieve consistency and economies of scale. The ambition is that Savills will develop a detailed proposal for property management services across both Victoria Place and the Peacocks once a new investor is identified.

4.0 Financial Performance

- 4.1 Since the Council approved the Victoria Square regeneration in 2016 the project has been supported by a financial model detailing cash flows over a 5 year construction period followed by 50 years of operations. The model continues to be updated by the team that originally built it, now at Hawaby Group. A summary of the current position is included at Appendix 4.
- 4.2 The model shows the loan finance required during the construction, and additional debt necessary to cover operating losses until the point of peak debt when income generated covers the full financing costs.
- 4.3 Over time the project budget and loan facility have been increased by the Council. The approvals, and reasons for the increases, are shown in the table below.

Pre project approval loan agreements	£55,000,000	Site acquisition and Project development costs
December 2016 Full Project Approval	£460,000,000	
December 2017	£505,000,000	Enhanced Fire Safety measures and Additional Car Park Spaces
July 2018	£525,000,000	To acquired ToysRUs and Car Park Structural Issues
July 2020	£555,000,000	Recognising issues relating to Covid pending full project review
February 2021	£700,000,000	Approved project loan facility

4.4 The financial modelling was last reported to Council in February 2021. This update was based on the following key assumptions:

- Completion of construction, commercial and residential opening in November 2021
- Launch of the hotel in January 2022
- Long term financing based on PWLB rates at 1.7%
- Residential inflation at 2.4%
- Car Park sold to the Council in July 2021
- Sale of remaining asset in 2071 for £644m

4.5 The Council approved a £700m construction budget and revolving loan facility. This enabled the company to complete construction of the asset, sell the car park to the Council for £58m as previously agreed, and cover financing costs until fully covered by income in 2042. The valuation of the asset was forecast to exceed the value of outstanding debt until 2062.

4.6 A summary of the cash position on sale of the asset at the end of the model in 2071 is shown below. It was forecast that there would be £415m of debt outstanding at 31 March 2071, with an asset valued at £644m, generating a surplus on sale of £229m.

February 2021 finance model	
Debt outstanding at end of Model (2071)	£415m
Sale of Asset	-£644m
Cash at 31 March 2071	£229m
Peak Debt (£648m)	2042
Date Sales Value exceeds Debt	2062

4.7 Since 2021 there have been a number of significant changes, both locally and in the national economy. The financial modelling has been updated to reflect revised assumptions.

Increase in interest rates

4.8 In February 2021 interest rates were very low and were forecast to remain at very low levels throughout the period of construction. The forecast provided by the Council's Treasury Management advisors, at the time, together with the latest forecasts are shown below.

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%

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

- 4.9 £640m of Long term 50 year annuity loans have been secured for the project at an average rate of 2.25%. Whilst this is lower than the original 2016 assumption, it is a higher rate than envisaged in 2021 and has a significant impact on the financing costs within the model.
- 4.10 The project is financed by a 50 year annuity loan structure, providing equal annual financing costs (interest and principal). There is also a revolving loan facility which allows the company to draw funds up to the total amount of the facility (£700m) enabling the interest and principal costs of the annuity, to be refinanced until covered by operating revenues. Amounts drawn from the revolving loan facility are assumed at 2.5%.
- 4.11 For the purposes of the VSWL financial model forecasting, it has been updated following advice officers have sought from our Treasury Management advisors. The mandate from Government to the Bank of England has not changed and as such fiscal policies continue to work to retuning and maintaining inflation at 2%. The financial model's assumptions for interest rates at 2.5% has been adopted and fits within these fiscal policies.

Delay in opening

- 4.12 The residential and commercial elements of the scheme were launched in March 2022, a five month delay compared to the February 2021 modelling assumption. Due to the cladding issues, the hotel opening has been delayed 2 years. The model assumes income at 50% for the first year of operation and maintains at launch at previously forecast levels.
- 4.13 The delays have resulted in additional financing costs incurred prior to completion of the construction phase. They also result in an overall reduction in income in the period to 2071, and for the hotel reductions in each year as the initial income has not been inflated.

Car Park

- 4.14 The updated model holds the car park in the company, with underleases granted to the Council for coordinated management of the car park operation. Instead of incurring a one-off £58m cost of acquisition, it is assumed the Council will pay a management fee to the company of £1.466 per annum, equivalent the interest costs on £58m, inflated annually.

Operating income and expenditure

4.15 As the project moves into the operating phase, the annual income and expenditure have been refined within the model. The income reflects updated rents and phasing for the residential units, and agreed lease terms for the commercial units. Operating and management costs have been included at current estimated levels.

Updated model – key assumptions

4.16 The updated model is based on the following key underlying assumptions

- Revolving loan finance at 2.5%
- Residential inflation at 2.4%
- Residential occupancy rates at 97%
- Construction cost within £700m budget at £650m plus financing costs
- Refurbishment allowance of £2m inflated every 10 years, £500 per residential unit every 2 years
- Sale of asset (including car park) at 31 March 2071

4.17 The changes set out above have had a significant impact on the financial forecast. The debt outstanding at 31 March 2071 is now forecast to be £832m with an asset valuation of £680m at that date resulting in a deficit on sale of £152m. The changes can be summarised:

	£m
Council Feb 2021	229
Increased Financing costs (PWLb rate)	-157
Impact of delay in completion	-174
Income changes including car park mgt fee	50
Operating cost assumptions	-100
November 2022 cash at 2071 after sale of the asset	-152

4.18 In addition the peak debt (maximum debt outstanding) has increased from £648m in February 2021, to £880m in the current modelling, an increase of £232m. Peak debt is in 2057, 15 years later than assumed in February 2021.

November 2022 finance model	
Debt outstanding at end of Model (2071)	£832m
Sale of Asset	-£680m
Cash at 31 March 2071	-£152m
Peak Debt (£880m)	2057
Date Sales Value exceeds Debt	2077

4.19 As set out above, it is forecast that if the asset was sold in 2071 there would be a deficit of £152m. Extending the model for 6 years shows that asset values would cover the outstanding debt in 2077. Once operational the business generates increasing net income before financing costs. Beyond the point of peak debt each year the increasing operating surplus reduces the outstanding debt. This combines with increases to the valuation of the asset to improve the net cash on sale. Appendix 4 shows details of the net cash in each of the years beyond 2071.

Sensitivity Analysis

4.20 The model has been tested to consider the impact of changes in the base assumptions on the cash balance after the 50 year operational period. As residential rents are the most significant element of the income there are a number of scenarios adjusting initial rent achieved as well as the inflation rates applied. As the initial annuity loans are refinanced the company is also sensitive to changes in the interest rate on the revolving loan facility. The results are shown in Appendix 4 and summarised below.

Summary of Sensitivity Analysis

	Net Cash at 31 March 2071 £m	Variance to base case £m
Base Case	-152	0
Residential Rents		
Reduce initial rent by 2.5%	-178	-26
Increase initial rent by 2.5%	-126	26
Increase initial rent by 5%	-100	52
Increase initial rent by 7.5%	-74	78
Rental Inflation		
Reduced by 0.15% to 2.25% pa	-188	-36
Increased by 0.35% to 2.75% pa	-60	92
Increased by 0.5% to 3% pa	-18	134
Initial 2 years rental inflation		
Reduced by 2.5%	-202	-50
Increased by 2.5%	-100	52
Increased by 5%	-47	105
Increased by 7.5%	8	160
Interest Rate on revolving loan		
Reduce by 0.5% to 2%	46	198
Reduce by 0.25% to 2.25%	-52	100
Increase by 0.25% to 2.75%	-254	-102
Increase by 0.5% to 3%	-360	-208
Reflect Link forecast rate for initial 2 years	-164	-12

4.21 The sensitivity analysis shows that relatively small changes in the long term assumptions have a significant impact on the net cash position at the end of the model. As the final development costs and majority of the long term financing is fixed, it is the operating income, costs and revolving loan interest costs which substantially impact the financial position.

- 4.22 As the project moves into its initial operating phase, there remains uncertainty around the long term forecasts. The current economic environment is particularly difficult to forecast with pressure on energy costs leading to high levels of inflation. It remains to be seen how long the impact on prices and interest rates will last, and to what extent it will have a permanent impact on income and costs within the modelling; however it is expected that both inflation and interest rates will return to previous, lower levels over time. There also remains uncertainty around the future sales value of the asset which ultimately will determine the cash balance in 2071.
- 4.23 Whilst indirect benefits to the Council have not been included in the financial model, it is recognised that the regeneration has had a positive impact on the town centre and will continue over time to support the Council's property asset base. There will also be increased Council Tax and Business Rates generated by the residential and commercial properties.
- 4.24 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.

5.0 Next Steps

- 5.1 In parallel with the transition to asset management, a number of initiatives are being promoted to refine and optimise the performance, revenue and customer experience at Victoria Square. These are the result of collaboration with the Woking Borough Council and Victoria Place management teams, Surrey County Council and the Woking Access Group and include the following:-
- Animation and commercialisation of Henry Plaza and Victoria Square
 - A study to optimise the use and animation of Henry Plaza has begun (the original design prevents additional fire load)
 - Placemaking, animation and commercialisation studies for Henry Plaza and Victoria Square will follow the Henry Plaza study
 - An interim solution was delivered to Henry Plaza seating, with positive feedback
 - A further seating study for Henry Plaza will be integrated with the wider exercise
 - Signage across the scheme has been reviewed to resolve gaps in scope; the combined audit report provides signage design and implementation proposals including interfaces between the town centre, pedestrian and cycle arrival and departure, car parks and highways
 - A strategy group including Victoria Place (Savills), VSWL and WBC officers has been established to cover commercialisation, animation and placemaking, seeking to ensure good communication and optimal management and outcomes in terms of activity, net revenue and footfall
 - A detailed review of advertising and digital media is on the agenda as part of the strategy group
 - Let the remaining residential units in The Marches
- 5.2 These and other initiatives will form part of the future asset management business plan and will draw from international and national exemplars, matched with local experience and the needs of local and visitor populations of Woking and Surrey. Setting of targets and measurement of success will follow as part of the business planning process.