

Our Ref: 02C002916



23 November 2020

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Dear Martin,

Recommendations – documentation and analysis to support future property investment decisions

Our recommendations are based on a limited scope review of the report “Strategic Acquisition of Property Holdings in Surrey Heath” that went to Council in July 2016, recommending the acquisition of Camberley Town Centre.

The desk-top review was undertaken in the week-ending 20 November 2020. This is neither an audit nor a fundamental review. We have not interviewed any Council Officers or Members in reaching these recommendations. There may be other findings and recommendations of relevance to the Council’s governance and controls processes that are likely to be identified with a deeper review.

We have not reviewed Counsel’s opinion which considers the vires of the Authority to make the investment. This review has focussed on making recommendations for the process and documentation that should accompany future investment decisions, with the purpose of informing the Council’s forthcoming Investment Strategy.

Recommendation 1

Future decision-support documentation should ensure that the public investment purpose, desired outcomes, rationale and objectives are explicit and their fit with the Council’s strategic aims are clear. It should be made clear whether the acquisition of property is for financial investment or for an economic, social or public service delivery purpose. The objectives need to be articulated such that the likelihood of achieving them is understood clearly. Moreover, as the investment approvals progress, confidence in achieving the objectives should grow.

Observations

It is clear that the purpose of the acquisition of The Mall Shopping Centre in 2016 was primarily in support of the stated Council priority to redevelop Camberley Town Centre. It was a public investment in the sense that it allocates funding to an initiative that the market cannot successfully deliver on its own (although minimal evidence of market failure was provided).

The key priorities were expressed in fairly generic terms – e.g. “to increase our strategic influence”, “to assist long term economic wellbeing”, and “to allow the Council a more direct and longer-term control in the future management and direction of Camberley Town Centre. There was not a clear, detailed explanation of the desired outcome(s), acquisition rationale and how the outcome(s) would be achieved. The consequences of not making the acquisition (i.e. the ‘counterfactual’) was not described.

The report did not present the primary rationale for the acquisition as being a financial investment. Our interpretation is that an income-generating asset was acquired for the primary purpose of furthering the Council’s economic, social and place-making goals. The future revenue streams from the asset were intended to fund the acquisition, by covering the cost of finance and repayment of the loan. The acquisition created an imperative for the Council to maximise revenue generated from the lettings to pay for improvements to the asset and town centre. While the primary purpose of the acquisition was regeneration, it was a financial investment too (as acknowledged in paragraph 40).

Recommendation 2

Investment decisions should be based on a business case that is fit for purpose and proportionate to the scale of the decision being made. The HM Treasury Five Case Model provides a leading practice methodology and its adoption will enable the Council to consider value for money taking into account:

- i. Strategic Case
- ii. Economic Case
- iii. Financial Case
- iv. Commercial Case
- v. Management Case

Observations

The information provided to the Council in 2016 was light on detail and systematic analysis. The acquisition of Camberley Town Centre was a material and significant one for the Council and it appears that the information and supporting narrative was not proportionate to the size of the investment decision. It lacked sufficient detail on options, benefits and risks. There were significant gaps that could potentially result in a poor value for money outcome. For example,

the value for money and affordability of the essential improvements (i.e. refurbishment and redevelopment that the vendor would not commit to) were not explored in the report.

Recommendation 3

The Council should consider preparing a programme-level business case for the redevelopment of Camberley Town Centre. This would provide the economic, social and financial rationale for future expenditure and an economic framework for future investment decisions.

Observations

The investment had many characteristics of a programme and should have been appraised as such e.g. the objective of the initiative was the delivery of a social and economic outcome; to secure that outcome involves a set of projects and activities over the life of the investment, there were significant complexity and interdependencies.

Recommendation 4

A range of options should be tested financially and non-financially to an option that provides the best value for money in achieving the strategic aims. The non-financial criteria should include fit with project objectives, strategic alignment, affordability, deliverability. The financial cashflows should cover the economic life of the asset

Observations

Two options were described for this transaction – to buy or not to buy. Other options, such as seeking a partner, joint ventures and alternative routes for town centre revitalisation were not explored. A robust business case should cover a range of options. In this case a rationale for only two to be taken forward for detailed consideration would need to have been provided based on supporting analysis.

Recommendation 5

Future investment decisions should be accompanied by detailed financial modelling demonstrating projected income and expenditure over the life of the investment. Sensitivity testing should be used to assess the impact of changes in key assumptions on viability. Long-term impact on cashflows and balance sheet should be a fundamental part of such long-term decisions. There should also be a quantification where possible of the economic and social benefits.

Observations

The section of Annex A which refers to the financial model provides very little by way of detail or information. We would have expected to see far more financial information to support an acquisition of this size. It is implied in the report that the opportunity to purchase was because refurbishment and redevelopment of the centre was sub-commercial for the vendor, which emphasises the need for robust financial analysis. We would expect the capital costs of lifecycle replacement, refurbishment and redevelopment to have been examined, along with quantification of the value of the social and economic benefits, using established benefit cost ratio techniques.

Recommendation 6

The Council should undertake a robust risk assessment on future investments that is proportionate to the size of the investment. The assessment should consider scenarios and quantify the key risks through considering impact and the likelihood of the risks materialising. Mitigation strategies should be set out and there should be clarity on the unmitigated risk that the Council will be exposed to as a result of the potential transaction and management and commercial arrangements put in place.

Observations

There was reference to potential risks associated with the acquisition, but there was inadequate quantification of the potential risks and their likelihood. We would have expected a range of scenarios covered, including but not limited to interest rate changes and income reductions. There was generally little consideration of mitigation or exit strategies.

Should you wish to clarify any of these points, please do not hesitate to contact me.

Yours sincerely

Guy Brett
Principal
Strategic Business Advisory

For and on behalf of Avison Young (UK) Limited