

Cabinet

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Project Update – Pentagon Shopping Centre and Former Debenhams Building

Portfolio Holder: Councillor Naushabah Khan, Portfolio Holder for Housing and Property

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Summary

This report is a project update paper which provides options being considered for the redevelopment of Debenhams and also requests capital additions to deliver the Healthy Living Centre in the Pentagon Centre, a cost which will be reimbursed by the NHS. Finally, the report also seeks approval for virements for reporting clarity purposes.

1. Recommendations

- 1.1 Cabinet is asked to instruct officers to review a potential change of approach to deliver the re development of the Debenhams building, by repaying the capital development cost with future revenue income, as opposed to only reviewing options for repayment via future capital receipts.
- 1.2 Cabinet is asked to recommend to full Council, additions to the Capital Programme, of £2,752,000 for the delivery of the Healthy Living Centre in the Pentagon Centre, noting this figure will be reimbursed by the NHS and is subject to NHS final approvals and S106 contributions.
- 1.3 Cabinet is asked to approve the virement of £869,250 in relation to Wilkinsons unit, from the existing Pentagon Centre future works budget, to deliver the diversification of the first floor of the Pentagon Centre.
- 1.4 Cabinet is asked to recommend to full Council the following virements from the existing Pentagon Centre future works budget, to deliver the diversification of the first floor of the Pentagon Centre.
 - A. £1,245,900 to deliver the Healthy Living Centre
 - B. £1,811,366 to deliver the Innovation Hub

2. Suggested reasons for decisions

- 2.1 Officers will be able to explore alternative potential options which could result in repayment of the capital borrowing via future revenue income, as opposed to capital receipts. The final business case for the redevelopment of Debenhams will require further Cabinet approval.
- 2.2 Additional funding is required, following the design progression and subsequent cost inflation to build out the Healthy Living Centre in the Pentagon Centre. The additional funding will be reimbursed by the NHS.
- 2.3 Lastly, the virements will not impact project delivery, with no change to the funding source/project budgets but will improve reporting clarification. The virements are in line with the decision approved by Council, that a proportion of the underspend on the purchase of the Pentagon Shopping Centre would be utilised for future capital works at the Pentagon Centre. (Minute no.713D, 20 February 2020).

3. Budget and policy framework

- 3.1 In February 2019, Cabinet recommended to Full Council the acquisition of the head lease of the Pentagon Centre and in so doing granted delegated authority to carry out the re-configuration and improvement works to the Pentagon Centre and to manage and let the centre (decision no. 32/2019).
- 3.2 On 21 February 2019, the Council added £45 million to the capital programme to fund the acquisition of the Pentagon Centre.
- 3.3 In 2020 Council approved the virement of the underspend following the acquisition of the Pentagon Centre to a new capital scheme for future capital works at the Pentagon Centre (Minute no.713D, Full Council 20 February 2020).
- 3.4 Full Council in Feb 2022 added £10,348,000 to the Capital Programme to fund the Healthy Living Centre (HLC), on the provision that the NHS would reimburse the full amount.
- 3.5 The Council was awarded c.£9.5m grant funding from the Future High Street Fund (FHSF), to assist with the delivery of the HLC and Innovation Hub on the first floor of the Pentagon Centre, the acquisition and redevelopment of the ground floor of the former Debenhams project, along with other regeneration projects in the heart of Chatham. The £9,497,720 was added to the Capital Programme in 18 February 2021.
- 3.6 It is the responsibility of Cabinet to ensure that expenditure for each capital scheme remains within the budget approved by the Council, it remains the responsibility of Council to approve schemes for inclusion in the capital programme.

4. Background

- 4.1 In 2020 the Council acquired the former Debenhams building for £2.2m (inc. VAT and stamp duty), utilising the Future High Street Fund. To meet the FHSF outputs the redevelopment of the building must be reviewed, in particular the activation of the ground floor onto the high street.
- 4.2 An addition to the capital programme of £17.8m in 2022 (decision no 87/2022), was approved on the provision that the borrowing would be repaid via future capital receipts. To date none of the £17.8m has been drawn down. The market conditions have changed since this allocation and officers are looking to review alternative measures to redevelop the Debenhams building, ensuring that the key objectives of diversifying the high street, increasing footfall and vibrancy are still met. Alternative delivery options include a number of potential tenant uses including but not limited to; Private Rented Sector (PRS), key worker accommodation, temporary accommodation, retirement living and affordable housing. In order for officers to consider the potential option to repay capital borrowing via future revenue income, as opposed to a future capital receipt, a further Cabinet approval is required.
- 4.3 Once options have been further reviewed, the Cabinet will be requested to approve the final business case for the redevelopment of Debenhams.
- 4.4 In February 2019 the Council approved a £45 million addition to the capital programme to acquire the head lease of the Pentagon Centre. The Council acquired the Pentagon Centre in 2019 at a total cost of almost £37 million. £3 million was vired to fund the subsequent acquisition of the Mountbatten House sub-lease and the circa £5 million balance of the original borrowing approval allocated to fund 'future capital works to the Pentagon Centre' (Minute No. 713D, Full Council 20 February 2020).
- 4.5 The Council acquired the Pentagon Centre in April 2019, knowing that the ground floor was trading well and that the first floor would need investment. Various options have been considered for the redevelopment of the first floor, with the two uses below being progressed;
 - An NHS HLC, this will provide a much-needed medical facility in Chatham.
 - An Innovation Hub, which will be part funded from the Future High Street Fund.
- 4.6 £10,348,000 was added to the Capital programme in February 2022, to deliver the HLC. The designs have progressed to RIBA 4, enabling higher cost certainty and following the further design work and subsequent cost inflation, further funding is required to enable the tender exercise to be undertaken to build out the HLC. A Capital addition of £2,752,000 is being requested, on the provision this funding is reimbursed by the NHS subject to their final approvals and S106 contributions. This addition to the Capital Programme will only be drawn down once the NHS have formally committed the funding and have signed the lease and funding agreement with the Council. Terms regarding the additional capital provided by the NHS will be

subject to negotiation on occupational terms and thereby may have a financial impact, Officers will therefore exercise delegated authority as set out in 8.34 (Commercial Property of the Employee Delegation Scheme.)

- 4.7 In 2020 Cabinet approved the virement of the underspend following the acquisition of the Pentagon Centre to a new capital scheme for 'future capital works at the Pentagon Centre' (Minute no.713D, full Council, 20 February 2020). The Council has been successful in securing grant funding via the Future High Street Fund, for diversification of the first floor of the Pentagon Centre to enable the delivery of the Innovation Hub and HLC. Match funding has been allocated from the remaining funds from the acquisition of the Pentagon Centre to deliver the projects by providing the investment required for the HLC, separation works for the Wilkinsons unit and the Innovation Hub. The virements will not impact project delivery, with no change to the funding source/project budgets but will provide greater reporting clarity.

5. Options

Redevelopment of Debenham's options:

- 5.1 Option 1- Cabinet gives approval for officers to review a potential change of approach to deliver the redevelopment of the former Debenhams building, by repaying the capital development cost with future revenue income, as opposed to future capital receipts.
- 5.2 Option 2- Cabinet decline the proposal for officers to review a potential change of approach to deliver the redevelopment of the former Debenhams building, by repaying the capital development cost with future revenue income, as opposed to future capital receipts.

Capital additions for Healthy Living Centre:

- 5.3 Option 1- Cabinet recommends to full Council to approve the addition to the capital programme, to deliver the Healthy Living Centre and diversify the first floor of the Pentagon Centre.
- 5.4 Option 2- Cabinet decline to recommend to full Council to approve the addition to the capital programme to deliver the Healthy Living Centre and diversify the first floor of the Pentagon Centre.

Cabinet approval for project virements:

- 5.5 Option 1- Cabinet approves the virements for Wilkinsons works to deliver the diversification of the first floor of the Pentagon Centre, for reporting clarity.
- 5.6 Option 2- Cabinet declines the virement for the Wilkinsons to deliver the diversification of the first floor of the Pentagon Centre, for reporting clarity.

Cabinet recommendation to Council for project virements:

- 5.7 Option 1- Cabinet recommends to full Council to approve the virements of existing funding to be apportioned to the individual projects (HLC and Innovation Hub) to enable the delivery of projects at the Pentagon Shopping Centre, for reporting clarity.
 - 5.8 Option 2- Cabinet declines to recommend to full Council to approve the virements of existing funding to undertake the capital works required to deliver the projects (HLC and Innovation Hub) at the Pentagon Shopping Centre, for reporting clarity.
6. Advice and analysis

Redevelopment of Debenham's options:

- 6.1 Option 1- Will enable officers to fully review all options available to redevelop the former Debenhams building, ensuring a strategic use while activating the high street and increasing footfall and vibrancy in the city centre. Cabinet would be requested to approve the final business case at a future meeting, for the redevelopment of Debenhams.
- 6.2 Option 2- Will prevent a full review of options available to re develop the former Debenhams building and may result in lost opportunities to deliver key strategic uses, resulting in the building not achieving its full potential for return on investment and public use.

Capital additions for Healthy Living Centre:

- 6.3 Option 1- This will assist to enable the delivery of the HLC, with costs to be reimbursed by the NHS. The HLC will provide much needed health care services and facilities in a highly accessible and sustainable location, benefitting from superb public transport links. The contractor will only be appointed once the lease and funding agreement are signed with the NHS.
- 6.4 Option 2- Would prevent the delivery of the HLC and would result in abortive costs being incurred to the Council.

Cabinet approval for project virements and Cabinet recommendation to Council for project virements:

- 6.5 Option 1- Does not impact the individual project budgets, as per the previous Council decision (731D, 20 February 2020), the projects have utilised the funding allocated to the future capital works within the Pentagon Centre, to deliver the diversification of the first floor. The approval of the virement will assist with reporting clarity.
- 6.6 Option 2- Would impact the reporting clarity regarding these projects.

7. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Not being able to review all appropriate options to redevelop the former Debenhams building	This will limit the options available to redevelop the building and could result in no scheme coming forward or a less viable scheme	Approve Redevelopment of Debenhams's option 1	CII
Not securing the required funding to deliver the Healthy Living Centre	This would prevent the project being delivered. The funding will be reimbursed by the NHS	Approve Capital additions for Healthy Living Centre Option 1	CI
Virements declined	Following Council decision 731D, 20 Feb the allocated funding has been committed and/or spent. For clarity of reporting going forward the virements are required	Approve project virements	CII

For risk rating, please refer to the following table (please **retain** table in final report):

Likelihood	Impact:
A Very likely	I Catastrophic
B Likely	II Major
C Unlikely	III Moderate
D Rare	IV Minor

8. Consultation

8.1 The appropriate Portfolio Holders have been consulted throughout the development of the projects.

9. Climate change implications

9.1 The provision of Civic uses and workspace provision in the heart of the town centre, assists with the delivery of living and working locally, in highly accessible locations via sustainable transport, reducing carbon emissions.

9.2 The diversification of the first floor of the Pentagon Centre for these uses results in no new buildings needing to be built, thereby lowering the carbon

footprint for delivering these services. The Healthy Living Centre will be aligning to BREEAM standards.

10. Financial implications

- 10.1 The Council as landlord is responsible for a proportion of the costs involved in diversifying and improving the Pentagon Centre.
- 10.2 The NHS will reimburse the £13.1m, which consists of the previously agreed £10,348,000 and the £2,752,000 recommended in this report. Current arrangements confirm that payments will be made by the NHS, during the course of the construction, thereby minimising any financial exposure to the Council.
- 10.3 The terms agreed with the NHS regarding the additional funding requested may have a financial impact on the occupational terms, Officers will utilize the existing delegated authority as set out in 8.34 (Commercial Property) of the Employee Delegation Scheme to conduct negotiations.
- 10.4 Future potential revenue income options to repay the development cost of Debenhams will be assessed on a case by case basis and ensure a viable delivery route is identified.

11. Legal implications

- 11.1 The Council has a fiduciary duty and under Section 123 of the Local Government Act 1972, the Council is required to obtain best consideration when it grants leases for over seven years of land and property, unless it's using the general disposals consent 2003, the undervalue is less than £2,000,000 and the disposal will help to secure the promotion or improvement of the economic or environmental well-being of the area, or a specific approval is obtained from the Secretary Of State.
- 11.2 The Council has a legal duty under NHS Act 2006 section 2B(1) to take the steps that it considers appropriate to improve the health of people in its area including providing health facilities for the people in its area.
- 11.3 Additions to the capital programme are a matter reserved for Council.
- 11.4 Budgetary virement for values for £150,000-£1m are matters reserved for Cabinet.
- 11.5 Budgetary virement over £1m are also a matter reserved for Council.

Lead officer contact

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Appendices

None

Background papers

[Minutes of Council, 20 February 2020 \(Minute no. 713D\)](#)

[Cabinet Record of Decisions, 5 July 2022 \(decision no 87/2022\)](#)