

Billingham Town Centre Regeneration

Section 151 Officer Advisory Note to Members

4th November 2026

Purpose of the Note

The proposed acquisition and regeneration of Billingham Town Centre presents a number of significant financial, commercial and delivery risks which Members should consider alongside the intended regeneration benefits. It should be read alongside the Cabinet report, supporting professional advice, valuation reports and the independent review commissioned from the Chartered Institute of Public Finance and Accountancy (CIPFA).

This identifies a number of significant risks that arise from the proposed regeneration scheme which includes acquisition of Billingham Town Centre. Although, steps have been taken through the due diligence process to mitigate some of these risks, members must be aware that this does not fully mitigate all of the risks and that considerable potential financial risks still exist with this scheme.

The purpose of this note is not to determine whether Members should proceed with acquisition, but to ensure Members understand the financial, commercial, governance and value for money implications of their decision.

Executive Summary

The proposed acquisition and regeneration of Billingham Town Centre presents a number of significant risks which Members should consider alongside the intended regeneration benefits. Whilst the scheme has been substantially revised, and the removal of prudential borrowing from Phase 1 has significantly reduced affordability risks, important financial, commercial and delivery risks remain.

The principal residual risks relate to:

- Whether the proposed acquisition price represents Value for Money.
- The condition of the asset and potential future investment requirements.
- Securing funding and delivering future phases of regeneration.
- Compliance with grant funding conditions.
- The development of a clear long-term ownership and regeneration strategy.

The independent CIPFA review recognises the strategic regeneration rationale for intervention but highlights concerns regarding Value for Money, acquisition costs, delivery arrangements and long-term plans for the asset. Whilst due diligence and risk mitigation measures have been undertaken, Members should recognise that these actions do not eliminate all risks and significant financial, commercial and delivery risks remain.

The key consideration for Members is whether the regeneration outcomes sought justify the remaining risks and whether they are satisfied that the Council can effectively manage those risks. In reaching a decision, Members should be satisfied that there is a clear regeneration rationale, that the acquisition represents Value for Money, and that appropriate governance, oversight and risk management arrangements are in place.

Given the scale and significance of the proposal, Members should expect the decision and its outcomes to be subject to ongoing scrutiny from auditors, regulators and other stakeholders.

The Prudential Code for Capital Finance in Local Authorities

The Council is required to comply with the necessary financial management regulations that apply to Local Government Finance, including The Prudential Code for Capital Finance in Local Authorities. The Prudential Code was reviewed in 2021 in response to growing borrowing levels across local government for commercial purposes. Local authorities must have regard to the code when considering capital projects.

The code's objectives are to ensure capital investment plans are affordable, prudent and sustainable. The code makes it clear that should not borrow or make capital investment, solely to produce a financial return. This type of investment can expose councils to significant financial risk, and there are several examples across the country where this has led to financial difficulties experienced by some councils in recent years.

The Code does, however, allow councils to undertake capital investment where the primary purpose is regeneration, service delivery or another strategic objective, even where that investment may also generate income or financial benefits. The key consideration is that the regeneration and public benefit case must be the principal driver for the investment.

These requirements apply regardless of how a project is funded. If an investment were judged to be a "debt for yield" or commercially driven investment, it could attract external auditor challenge in relation to the Council's Value for Money arrangements. There is also a risk that the Council could lose future access to borrowing from the Public Works Loan Board (PWLB), which provides local authorities with access to borrowing at rates that are lower than alternative sources of finance. Loss of access to PWLB borrowing would have significant implications for the Council's future capital programme and Medium Term Financial Plan.

Members must be satisfied that there is a clear and robust regeneration case for the proposed capital project in Billingham Town Centre, thus demonstrating compliance with the Prudential Code and supporting the Council's Value for Money obligations.

Value for Money and Asset Valuation

Local authorities have a statutory duty to secure Best Value, meaning they must make arrangements to ensure continuous improvement in the way they exercise their functions, having regard to economy, efficiency and effectiveness. The Council must therefore be able to demonstrate that public money is being used wisely and that investment decisions deliver clear and measurable benefits for residents.

The Council's external auditor, Forvis Mazars, is required to assess the Council's Value for Money arrangements as part of the annual audit process. Their review considers whether the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The Council is required to satisfy itself that this proposal represents Value for Money across the three recognised tests:

- Economy – whether the Council is paying a reasonable price for the asset.
- Efficiency – whether acquisition of the shopping centre is the best way of delivering the Council's regeneration objectives.
- Effectiveness – whether the proposal will achieve the intended regeneration, economic and community outcomes.

The Council has made a conditional offer of £13 million, subject to satisfactory completion of due diligence. Due diligence has now been undertaken by DWF, CIPFA and CBRE. The Council has also discussed the proposal with its external auditors.

In its review, CIPFA recognised the strategic regeneration rationale for intervention in Billingham Town Centre but highlighted a number of Value for Money considerations for Members. In particular, CIPFA noted that there remains a wide range of potential valuations for the asset and that an offer of £13 million is towards the upper end of the valuation evidence available to the Council. CIPFA advised that a strong justification is required for any acquisition at this level and highlighted the importance of demonstrating that the agreed purchase price represents value for money for taxpayers. This represents one of the most significant value for money concerns identified by CIPFA.

CIPFA also noted that the Council's approach to the project has evolved over time and that greater clarity is needed regarding the long-term ownership strategy, intended outcomes and future use of the asset.

To strengthen the Value for Money case, CIPFA recommended that the Council:

- Clearly document its negotiation strategy and rationale for the agreed purchase price.
- Refresh and update the business case to reflect the current scheme and test whether the anticipated benefits continue to justify the costs and risks.
- Develop the masterplan further to provide greater certainty around the future redevelopment of the site, including the intended end use, delivery approach, costs, benefits and timescales.
- Continue to assess how the revised scheme will deliver the regeneration outcomes originally envisaged and how success will be measured.

In response to this advice the report to Cabinet includes explanation of the negotiation strategy undertaken as well as a detailed audit trail whereby the £13m offer price was arrived at. The report also includes the valuations and professional advice from CBRE regarding the acquisition strategy. The report also sets out the alternative options, regeneration scheme deliverables and the wider placemaking benefits of the proposed scheme. The report is written in a way to provide members with access to all of the relevant information to allow them to

make an informed decision, including an explanation of what due diligence has been undertaken, alternative options considered and access to all of the relevant information.

Members should be satisfied that the purchase price represents value for money, that the regeneration benefits are clearly evidenced, and that there is a credible strategy for how ownership of the asset will contribute to the long-term regeneration of Billingham Town Centre.

Potential Governance Risks

The Council's external auditors have a number of actions they can undertake if they are dissatisfied with the Council's Value for Money arrangements, which can have serious consequences for the Council. These powers would typically only arise where auditors concluded that the Council had not adequately demonstrated value for money, considered alternatives, managed risks appropriately or complied with the Prudential Framework.

These are described below -

1. Adverse Value for Money Commentary

The external auditors may choose to provide adverse commentary in the auditor's annual report. This would become a matter of public record and could attract scrutiny from stakeholders.

2. Auditor Recommendations

The auditor may issue recommendations requiring the Council to strengthen its decision-making, governance, business cases, risk management or project oversight arrangements. The Council would be expected to formally consider and respond to those recommendations.

3. A Public Interest Report

In more serious cases, the auditor has powers to issue a Public Interest Report. This is a formal public document that requires consideration by Full Council and can attract scrutiny from stakeholders.

4. Increased Scrutiny from Government and Regulators

A significant Value for Money finding can contribute to wider concerns regarding Best Value compliance. The Government has powers under the Local Government Act 1999 where there are concerns that a council is failing, or is at risk of failing, to comply with its Best Value Duty.

Affordability

The proposed Phase 1 regeneration scheme has a total estimated cost of £20 million and is intended to be fully funded from the Council's Local Regeneration Fund allocation. As a result, the proposal does not require prudential borrowing and does not create ongoing borrowing repayment costs for the Council. This represents a significant reduction in financial risk when compared with previous iterations of the scheme.

The original scheme envisaged up to £10 million of prudential borrowing supported by income generated from the shopping centre. However, changes in market conditions, including higher interest rates and uncertainty regarding future income levels, increased the risk that financing costs could exceed income generated by the asset and create pressure on the Council's Medium Term Financial Plan.

The proposed phased approach has therefore been developed to reduce these risks. Phase 1 has been redesigned to operate within the £20 million grant funding allocation, removing the need for borrowing and significantly reducing exposure to interest rate, affordability and income-generation risks.

Future phases of regeneration remain dependent upon securing additional external funding and will be subject to separate business cases and approval processes. Should additional funding not be secured, the Council would need to determine whether further investment remains affordable and represents value for money at that time.

Whilst the revised approach materially improves affordability, Members should recognise that ownership of the asset will continue to expose the Council to operational, maintenance and commercial risks. Consequently, affordability risks have been significantly reduced, but not eliminated.

Condition Works

Condition surveys undertaken as part of the due diligence process have identified a range of maintenance, repair and capital works requirements across the site. Provision has been included within Phase 1 to address the most urgent issues; however, Members should recognise that the surveys undertaken to date were completed prior to acquisition and therefore have inherent limitations.

Following acquisition, it would be prudent to undertake more detailed intrusive surveys to provide greater certainty regarding the condition of the asset, the extent of works required and the appropriate phasing of investment. As a result, there remains a risk that additional maintenance, repair or capital investment requirements may emerge beyond those currently identified.

Any material increase in condition-related costs could require additional funding and may impact upon the overall affordability and value for money of the project. Members should therefore recognise that asset condition remains a significant residual risk associated with the acquisition.

Funding Terms and Conditions

The proposed scheme is proposed to be funded through the MHCLG Local Regeneration Fund grant of £20m. The Council must ensure that the proposed scheme meets all of the terms and conditions attached to this funding stream. Failure to do so may result in the grant being returned in full or in part to MHCLG, leaving a significant unfunded cost within the

Council's MTFP. Failure to comply with grant conditions could expose the Council to a significant unfunded liability which would present a substantial challenge to the Council's Medium Term Financial Plan and financial sustainability.

The original business case for the scheme was submitted in 2021 under the Levelling Up grant framework. This then became part of the Local Regeneration Fund in 2025. This altered the parameters of the funding, notably rather than this being a grant in isolation, it became part of a far larger pot of funding giving greater flexibilities on its usage.

Whilst officers have engaged extensively with MHCLG regarding the revised scheme, members should recognise that formal confirmation of compliance with grant conditions ultimately rests with MHCLG and ongoing compliance will need to be demonstrated throughout delivery.

Future Funding for Future Phases of Capital Investment

The Council has only secured funding to deliver Phase 1 of the regeneration scheme, totalling £20m. Any future phase is subject to securing additional external funding.

If further external funding is not secured, the Council would need to reassess the affordability, value for money and strategic merits of any subsequent phase before further investment could be considered.

CIPFA have also raised questions on the robustness of the cost estimates for the capital investment. This will need to be refined during the design phase and in the business case development for the TVCA grant application. Cost mitigations will need to be considered and if this still leaves a funding gap, additional funding will need to be identified prior to seeking approval for the Phase 2 scheme.

Long term ownership and redevelopment Strategy

The long-term ownership and redevelopment strategy for the centre continues to evolve and will require further development through the masterplanning process. Members should recognise that ownership of the asset may extend beyond the five-year period modelled by CBRE and this may result in further operational, maintenance and investment costs. Future reports will therefore need to consider the intended end-state for the asset, the preferred delivery model and any associated funding requirements.

Accounting Treatment

The Council must account for the shopping centre asset at Fair Value in the annual statement of accounts. The asset will initially be valued in the accounts as purchase price, however it must then be revalued to reflect fair Value. Based on valuation evidence received to date, there is a risk that the accounting valuation may be lower than the acquisition price, which could result in an impairment adjustment within future financial statements. This would ordinarily be dealt with through statutory accounting adjustments and not impact upon the General Fund.

Members should recognise that any material difference between acquisition cost and subsequent fair value assessments may attract scrutiny regarding the value for money of the acquisition decision.

If the scheme were to be funded through prudential borrowing, this would pose a significant financial risk, because borrowing would be outstanding on an asset with a significantly lower value. This risk has been mitigated by splitting the scheme into two phases and exploring options for alternative funding sources in order to deliver phase 2.

It is also likely that if the Council decides to sell the asset in future, the future capital receipt will be less than the value paid. The Council has mitigated this by removing the prudential borrowing funding from the scheme. This prevents the scenario whereby the Council may have had outstanding debt higher than a potential capital receipt, leaving it with debt repayment costs that cannot be financed, which would cause a pressure on the MTFP.

Financial Context

The Council continues to operate within a particularly challenging financial environment. The Council has continues to see significant demand and cost inflation pressures, which outstrip income levels, leaving a budget gap year on year across the Council's Medium Term Financial Plan. As a result of budgetary pressures, particularly in Adults and Children's Social care, the Council's reserves levels are low.

A scheme of this nature, inevitably raises potential affordability risks which may impact upon the Council's MTFP. It is feasible that additional costs may arise in relation to condition works or operational costs, project delays, and income levels may fall due to a nationally recognised challenging retail sector.

The main mitigation to this risk is to remove the prudential borrowing from Phase 1 of the scheme, and seek external funding to deliver phase 2, and any future phases. This reduces the financial exposure to interest rate volatility and will allow any additional costs to be met by the potential income stream.

Whilst the current proposal significantly reduces affordability concerns through the use of external funding, Members should recognise that the Council's financial resilience is more limited than in previous years. Consequently, any material adverse financial outcome arising from the acquisition would have a proportionately greater impact upon the Council than would previously have been the case.

Summary

The proposal continues to involve material financial, value for money and delivery risks. The most significant risks relate to value for money, asset condition, future funding requirements and the long-term strategy for the town centre.

However, extensive due diligence has been undertaken and a number of risks have been materially reduced, most notably through the removal of prudential borrowing from Phase 1 and the strengthening of the supporting business case.

The proposal is likely to attract continued scrutiny from auditors, regulators and stakeholders. It is therefore important that Members are satisfied that the regeneration rationale, governance arrangements, value for money considerations and delivery plans provide an appropriate basis for decision-making.

Members must ultimately determine whether the remaining risks are proportionate to, and justified by, the regeneration outcomes sought for Billingham Town Centre.

Appendix A: Response to CIPFA Recommendations

The council has fully considered the issues and recommendations CIPFA have raised within their advice note. Mitigations have been introduced which attempt to reduce these potential risks, however members must be aware that they do not fully remove all risks, and a number of significant risks still exist.

Key Finding / Challenge	Implication	Council Response
Acquisition price towards upper end of valuation evidence	Potential value for money challenge, which could have significant consequences for the Council if the external auditors are dissatisfied.	The Council acknowledges that the proposed acquisition price is towards the upper end of the valuation evidence identified by CIPFA. However, Members are being asked to consider Value for Money in the round, taking into account not only commercial valuation evidence but also the strategic regeneration benefits, alternatives considered, consequences of non-acquisition, negotiation history and the importance of securing site control to enable future regeneration. The rationale for the agreed price and supporting valuation advice is set out within the Cabinet report and accompanying appendices.
Regeneration Objectives	Risk of decisions being based on outdated assumptions.	The report sets out the updated capital investment and deliverables included within Phase 1 of the regeneration scheme. The report also sets out what phase 2 could deliver subject to securing additional funding.
Potential Post – acquisition Options	Uncertainty regarding long-term outcomes and delivery plans.	Elsewhere in the report and appendices is contained the planned specification of Phases 1 and 2. The report also notes that

		future phases will be informed by engagement with residents. The development of business cases for these future phases will include the assessment of exit strategy or longer term ownership benefits.
Potential Impact on the MTFP	Additional revenue costs may arise through debt funded investments.	Debt/prudential borrowing has been removed from the scheme to mitigate this risk. Any potential future proposal that includes the use of prudential borrowing would be subject to a thorough business case and affordability assessment.
Reasonableness of cost estimates	Insufficient capital budget allocation	Contingency has been allocated to both phases of the capital investment. Cost mitigations will be prioritised through the scheme gateways. Additional funding will be sought if necessary.
Demonstrating Value for Money	Failure to adequately demonstrate value for money could lead to significant consequences for the Council.	<p>The Council has thoroughly considered the advice provided by CIPFA regarding Value for Money, and has explained the position in full within the report.</p> <p>Economy – Is the Offer price appropriate in light of the clear strategic rationale for the scheme?</p> <p>Efficiency – is this the best use of resources to deliver the regeneration benefits?</p> <p>Effectiveness – do regeneration deliverables within the scheme meet the Council's wider strategic objectives?</p> <p>The valuations and due diligence information is included with the report and an audit trail of the negotiation strategy for acquisition is included within the report. The report also sets out the regeneration objectives and links with the council's wider strategic objectives.</p>
Funding considerations	Changes to the scheme compared to the original business case for the MHCLG £20m LRF could put the funding at risk.	Officers have engaged extensively with MHCLG regarding the revised scheme. Compliance with grant conditions will continue to be monitored throughout delivery and formal confirmation of compliance ultimately rests with MHCLG.
Useful Economic Life	If debt were used to fund the scheme, potential incorrect accounting treatment of Minimum	Debt has been removed from this scheme so the risk is negated.

	Revenue (MRP)	Provision	
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