

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF ECONOMY COMMITTEE ON 29 MARCH 2022

PART A : REPORT

SUBJECT: River Road, Arundel Garage compound site.

REPORT AUTHOR: Paul Broggi – Property, Estates & Facilities Manager

DATE: 11 February 2022

EXTN: 01903 737506

AREA: Technical Services

EXECUTIVE SUMMARY:

This report seeks to set out the options available to the Council and make recommendation on how to proceed in respect of the future use of the Council's freehold site in River Road Arundel

RECOMMENDATIONS:

That Committee:

- 1** - Approve for the Council to proceed with Option 5 as set out in the Options Viability Appraisal at appendix 1, namely, to demolish existing garages, reconstruct a single four-bedroom dwelling for use as holiday let, managed via hosting company.
- 2** - Delegates to the Group Head of Technical Services, in consultation with the Chair of the Economy Committee, authority to enter into a hosting agreement with a suitable identified company following procurement in accordance with contract standing orders.
- 3** - Delegates to the Group Head of Technical Services, in consultation with the Chair of the Economy Committee, authority to commence procurement of construction management, planning services and construction main contractor to deliver the recommended development on site, including entering contracts as required in accordance with contract standing orders.
- 4** - Approve for the Council to serve notice on the remaining licensees of the existing garages to gain vacant possession of the site.
- 5** - Recommend to Full Council that a supplementary estimate of £485,625 be included within the capital programme to carry out the demolition and replacement of the garages at River Road, Arundel with a holiday let property (option 5).
- 6** – Delegates to the Group Head of Technical Services, in consultation with the Chair of the Economy Committee, authority to submit any necessary planning applications for the purpose of achieving recommendation 1 above.

1. BACKGROUND:

1.1. The Council's site in River Road, Arundel currently houses nine concrete panel, cement fibre roofed garages and two external parking spaces. The garages are in very poor condition. Of the nine units two have been taken out of service due to defects. The roofing material used (fibre cement sheeting) contains Asbestos and accordingly repairs to this agreed and fragile roof are not considered practical or safe. Being old the garage size is small and users have difficulty in accessing with a standard modern family saloon. Officers consider the existing garages to be life expired and beyond economical repair. In addition, they are not considered to be up to the modern standard expected of a garage due to their size and design, accordingly they cannot command the premium rental levels that should be attainable in a town such as Arundel.

A report on this matter was previously considered by the Economy Committee on the 12 October 2021 (link included at Appendix 5). The matter was deferred with a request that a report comes back to the Economy Committee so that further options can be added for unspecified residential development, in consultation with the Town Council and Ward Members.

1.2. In bringing this report back in accordance with the Committee's instruction the viability and prices have been revised. This has been necessary as construction, labour and material prices have seen considerable increase and so the viability assessments completed are adjusted to reflect this change. In addition the revised budget allowance has also been included to ensure the provision of the necessary power supply infrastructure so that future installation of electric vehicle charging points can be accommodated. Implementation of parking charges are not included in the viability costings.

1.3. The existing garages are presently let on a simple licence arrangement requiring one months' notice to bring the licence to an end. The current charge for a garage is £85 per calendar month.

1.4. The committee are reminded that the available site in River Road is small in area (412M² / 0.04 Hectares / 0.101 acres). The site is in the centre of Arundel and is surrounded on three sides by existing residential development with window / openings onto the land. Vacant parking and garages / storage are in short supply in Arundel and therefore this service is in demand. In consulting local estate agents ahead of this exercise, the Council were advised that garage storage was likely to be preferable to open car parking provision. Many houses are small (cottages) with limited space, often with no parking provision. Garage provision would therefore allow alternative storage to vehicles and so would be more flexible and attractive to a prospective tenant, were this the option the Committee wished to pursue.

1.5. The site is located within a densely developed residential area. Recent redevelopment has occurred to the brewery site directly to the north and east of the Council's land. Vacant town centre development land within Arundel is rare and the local economy such that house, therefore land prices, remain high within the town. Officers have completed soft market testing regarding development options for the site and this confirmed that there would be strong interest in the site, were it to be marketed for redevelopment.

This is explored at Option 4 in the Options viability study at appendix 1 providing indicative values.

1.6. The viability studies completed account for risk in that where appropriate they allow for reasonable occupancy rates in relation to projected revenue.

1.7. If the Council proceed with the recommended option (5) then the property and land asset would be retained by the Council. Although it will be held and operated as a holiday let, the capital value of the asset should continue to appreciate in accordance with residential market conditions. This provides the Council with future options / choice in the event the market changes and holiday lettings are no longer considered to provide the Council with best financial return. Market research undertaken by Officers confirms that a modern four bedroom detached dwelling in this location in Arundel would have a current market value circa £1 to £1.1 Million.

1.8. The Council has consulted with Ward Members and the Town Council regarding the site to provide them with opportunity to confirm their respective view on future use of the Arun District Council's freehold site. Responses received are included at Appendix 4 of this report.

1.9. In accordance with Committee instruction residential options were explored at Option 6 and 6a see appendix 2. Option 6a provides a negative return whereas Option 6 provides a positive return.

Options (6 & 6a) have been disregarded as non-viable. For the Council to retain and privately rent property the premises would have to be held by a separate entity, such as a housing company, this is not an option the Council has available to it.

1.10. As part of the report review Property & Estates consulted with Residential Services to explore the possibility of provision of Council Housing on the site. As clarified at item 1.4 above the site is small thus limiting and complicating development possibilities and the attaining of economies of scale with site set up as presented at larger development sites.

As such Residential Services confirmed that *“due to the very restricted nature of the site, potential development / covenant issues and the very limited development size of this site, offering two possibly three units that this is not a site that Housing would currently be interested in pursuing”*.

1.11. Property & Estates have obtained legal and financial advice (see section 6 below) in relation to the holding of a single residential dwelling and operation via holiday let accommodation under the Council's General Fund Portfolio.

1.12. The proposal directly supports the Council's emerging vision in respect of fulfilling Arun's economic potential. The vision seeks to encourage the development of the district as a key tourist destination, supporting and enabling improvements and activities to increase visitor spend. Performance indicators include the number of hotel and new holiday accommodation delivered, and the increase in number of visitors, length of stay and visitor spend.

2. PROPOSAL(S):

That Committee:

1 - Approve for the Council to proceed with Option 5 as set out in the Options Viability Appraisal at appendix 1, namely, to demolish existing garages, reconstruct a single four-bedroom dwelling for use as holiday let, managed via hosting company.

2 - Delegates to the Group Head of Technical Services, in consultation with the Chair of the Economy Committee, authority to enter into a hosting agreement with a suitable identified company following procurement in accordance with contract standing orders.

3 - Delegates to the Group Head of Technical Services, in consultation with the Chair of the Economy Committee, authority to commence procurement of construction management, planning services and construction main contractor to deliver the recommended development on site, including entering contracts as required in accordance with contract standing orders to deliver the completed building.

4 - Approve for the Council to serve notice on the remaining licensees of the existing garages to gain vacant possession of the site.

5 - Recommend to Full Council that a supplementary estimate of £485,625 be included within the capital programme to carry out the demolition and replacement of the garages at River Road, Arundel with a holiday let property (Option 5).

6 – Delegates to the Group Head of Technical Services, in consultation with the Chair of the Economy Committee, authority to submit any necessary planning applications for the purpose of achieving recommendation 1 above.

3. OPTIONS:

A summary of viability options assessed and presented in this report are detailed below. These options are considered in further detail within the Options Viability Appraisal at appendix 1 of this report.

Options originally assessed within the report previously submitted to the Economy Committee in October 2021 are included at appendix 2 for reference, these are listed as Options **1a, 2a, 3a, 5a, 6 & 6a**. Please note that these options have also been amended to reflect construction price increases and further enabling works for electric vehicle charging, where relevant but have all been disregarded in terms of viability.

3.1 Option 1

Demolish existing garages and reconstruct new garages (8 No.) - Lease out garages with increase on current 2021 rental levels

3.2 Option 2

Demolish existing garages and tarmac site and line paint to provide 10 external parking spaces. Lease out car parking spaces at increased rental level

3.3 Option 3

Demolish existing garages and rebuild 8 garages and retarmac and landscape area and dispose of via leasehold (25 years for £50K).

3.4 Option 4

Freehold disposal of site for development (unconditional terms)

3.5 Option 5

Construct and Manage Holiday Let - 1 No. four bedroom dwelling

4. CONSULTATION:		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council (see appendix 4)	X	
Relevant District Ward Councillors	X	
Other groups/persons (please specify) Planning Department	X	X
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial	X	
Legal	X	
Human Rights/Equality Impact Assessment	X	
Community Safety including Section 17 of Crime & Disorder Act		X
Sustainability	X	
Asset Management/Property/Land	X	
Technology		X
Other (please explain)		X
6. IMPLICATIONS:		
<u>Financial</u>		
<p>The recommended option (5 - Construct and Manage Holiday let Accommodation - 1 No. four bedroom dwelling) requires capital investment of £486k. This is not included in the capital programme approved by Council on 23 February 2022. If the proposal is supported, a supplementary capital budget will have to be sought from Full Council.</p> <p>The Council would be unable to fund the scheme from PWLB borrowing. Under government regulations, a Council may only borrow from the PWLB for service delivery, housing, regeneration, preventative action and treasury management purposes. PWLB borrowing is therefore excluded.</p> <p>If the Council decided to pursue the option, the recommended funding of the project would be from internal borrowing against the Council's cash balances. The approved capital programme assumes all capital receipts are applied and use of revenue funding is not recommended as the 2022/23 budget includes use of balances of £817k. Further use of revenue balances would place further strain on the Council's revenue budget.</p> <p>The recommended Option 5 at appendix 1 shows a projected annual lettings income of £110k assuming 60% occupancy. The Council would incur hosting costs of £31k and an annual maintenance cost of £5k. In addition, the Council will be required to make a</p>		

minimum revenue provision against the internal borrowing and provide for annual maintenance.

The Council's Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 approved on 9 March 2022 includes the Council's Minimum Revenue Provision statement. This provides that the Council will use the Asset Life method for calculation of MRP. An estimated life of 25 years has been assumed in the analysis below. Investing cash balances will also incur a loss of interest on investments. 1% has been assumed.

	£'000
Cost of Proposal	486
Annual income (60% occupancy)	110
Hosting/Commission Fees	(31)
Annual Maintenance/cyclical replacements	(5)
Minimum Revenue Provision	(20)
Loss of interest on investments	(5)
Projected operating surplus	49

In conclusion, although the proposal is projected to realise an operating surplus, the Council needs to be certain it is acting legally in pursuing it.

Legal

The Council has various powers which can support this project. The two main powers relevant to this project are set out below.

Section 2 of the Local Authorities (Land) Act 1963 allows the Council for the benefit or improvement of their area, to erect any building and construct or carry out works on land. The only requirement is that it is for the benefit or improvement of their area

Section 1 of the Localism Act 2011 (the general power of competence) gives the Council power to do anything that individuals generally may do. However, where in exercise of the general power, a local authority does things for a commercial purpose, the authority must do them through a company.

Sustainability

In proceeding with Option 5 the Council will look to provide a modern, sustainable property allowing to install carbon reduction renewable technology to meet the Council's Carbon reduction commitments. Energy will also be purchase via the Council's corporate contract ensuring all energy is purchased is from sustainable sources.

Asset Management / Property / Land.

The Property & Estates team will be involved in instructing the design, procurement, and contract management of the recommended option as this project would not be delivered in house due to existing commitments. On completion the asset would be externally managed by a suitable identified hosting company. For this to be successful Property & Estates firmly believe that no element of local council involvement should be apparent in the end project. All necessary relevant and required delegated authorities to provide the route through to delivery are included in the recommendations of this report.

Planning Department.

Property & Estates approached the Planning Department regarding an informal enquiry in relation to the proposed recommendations of this report. Informal advice provided indicates that in principle it is unlikely Planners would have objection to either 1 or 2 dwellings on the site described. Clearly and in order to make more meaningful comments on the proposal planners would need to see how the proposed dwelling(s) were sited in order to see whether there was adequate space for amenity/parking and how the proposal related to adjoining development(s). An estimate of the expected CIL payment was also provided by the Planning Department and this has been included in the options viability appraisal for Option 5 in appendix 1.

7. REASON FOR THE DECISION:

The existing garages are in very poor condition and are considered to be life expired.

Continuing their current use is not a viable option and so a decision must be made on the future use of the Council's freehold land.

Recommended option (5) is a financially viable proposal which directly supports the Council's emerging vision in respect of fulfilling Arun's economic potential. The vision seeks to encourage the development of the district as a key tourist destination, supporting and enabling improvements and activities to increase visitor spend. Performance indicators include the number of hotel and new holiday accommodation delivered, and the increase in number of visitors, length of stay and visitor spend.

The land and asset will be retained within the General Fund Asset Portfolio thus providing the Council further option(s) in the future.

For the above reasons the recommended decision within this report is considered to be in the best interests of the Council.

8. BACKGROUND PAPERS:

Appendix 1 - Options Viability Appraisal

Appendix 2 – Options Viability appraisal including previously options with updated costs. These options are not taken forward as viable for the purposes of this report. (Options 1a, 2a, 3a, 5a & 6a).

Appendix 3 - Site location plan

Appendix 4 - Town Council and Ward Councillor responses to consultation on use of Council land at River Road, Arundel.

Appendix 5 – October 2021 Economy Committee

[Link to minutes of Economy Committee meeting 12th October 2021](#)