

Arun District Council

REPORT TO:	Economy Committee 13 June 2023
SUBJECT:	Bognor Regis Arcade, Upper floors refurbishment
LEAD OFFICER:	Neil Taylor, Regeneration Consultant
LEAD MEMBER:	Councillor Roger Nash
WARDS:	Hotham / Marine
CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION: Bring the unused upper floors of the Arcade back into residential use will support the Council's Vision in respect of delivering the right homes in the right places. Using our expertise to influence the local housing market, working with the right partners from all sectors, to develop the housing and infrastructure that we need.	
DIRECTORATE POLICY CONTEXT: The Council has a responsibility to bring forward regeneration activity across the district where possible. Bringing the upper floors of the Bognor Regis Arcade back into use will improve the appearance of the arcade and provide 35 new homes. The scheme will bring wider regeneration benefits including increased footfall in the Arcade and High St area, increased perception of security due to there being more activity in the area and increased spend locally. An additional benefit for Arun District Council will be a reduction in maintenance liabilities associated with the Arcade currently and in the future.	
FINANCIAL SUMMARY: The project will require an addition to the capital programme of £7,991,069, of which £7,362,747 will need to be funded from borrowing, in addition to the value of the Brownfield Land Release Fund grant of £628,322. This will create an additional revenue cost of £420,553 per annum. The revenue cost will be partially offset by a net rental income, after management costs, from the scheme which is estimated at £362,160 and a saving in NNDR of £29,747. The net revenue deficit of £28,646 per annum will need to be funded through growth in the medium-term financial plan process for financial year 2024-25 onwards.	

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to explain the current condition of the Bognor Regis Arcade upper floors, the barriers that are preventing its reuse, and seek members consent to refurbish the upper floors into private rented apartments using a potential grant from the Brown Field Land Release Fund and a £7,362,747 investment through the capital programme.

2. RECOMMENDATIONS

That the Economy Committee:

- i. Agrees to the refurbishment of the Bognor Regis Arcade upper floors to provide private rented apartments, at an overall project cost of £7,991,069, subject to the formal offer from One Public Estate of a Brown Field Land Release Fund grant and subject to the addition to the capital programme of that sum by the Policy and Finance Committee.
- ii. Recommends to the Policy and Finance Committee that the project cost of £7,991,069 (including the Brownfield Land Release Fund grant) be added to the capital programme.
- iii. Recommends to the Policy and Finance Committee that the Council accept the BLRF fund grant if it is offered.
- iv. Delegates authority to the Chief Executive in consultation with the Section 151 Officer to deliver the project including selection of the appropriate delivery vehicle, subject regular updates to the Economy Committee.

3. EXECUTIVE SUMMARY

- 3.1 Arun District Council (the Council) acquired the Arcade in Bognor Regis for investment and regeneration purposes in November 2017. The Council's initial focus was on improving the ground floor retail experience and some initial emergency repairs. Consideration then moved to how the upper floors, which have been derelict and largely unused since acquisition, could be brought back into use.
- 3.2 The Council's previous preference was residential accommodation and whilst feasibility studies were prepared in 2019, viability was a barrier to reuse at that time. However, an opportunity has now arisen to access grant funding from the One Public Estate (OPE) Brownfield Land Release Fund (BLRF) that would help with viability. An application was submitted in March 2023 and the outcome is expected to be known shortly.
- 3.3 During early 2023 extensive design, costing and appraisal work has been carried out to find the optimum solution for the upper floors. The team have considered office use, social housing, housing for market sale and private rented housing (see appendices for the detail) however it has become clear that there is little demand for office accommodation of this nature resulting in low returns. Social housing does not give rise to anything like the return needed to deliver the refurbishment and market sale apartments would need to be leasehold and would give rise to issues with the remainder of the building. The most appropriate solution is private rented apartments giving rise to an income stream capable of funding most of the financing cost with the opportunity to sell the whole investment package to another investor on completion.
- 3.4 Even with the private rented housing option, there is no commercial return on the development therefore a third-party developer would not be able make the scheme work financially. To minimise the overall cost, the Council will need to act as developer in this case. It is likely that the project will need to be delivered through one of the Council's existing trading companies or that special purpose

vehicle (trading company) would need to be established for delivery. The total scheme costs and returns are detail in appendix A and the sub appendices. The summary of which is as follows:

Capital Costs

Capital cost of delivery based on the work carried out.	£7,991,069
Grant application to BLRF	(£628,322)
Net cost of delivery	£7,362,747

Revenue Implications

Annual revenue provision of capital borrowing	£420,553
Net rental income after running costs	(£362,160)
Annual Empty property NNDR Currently paid	(£29,747)
Net revenue cost	£28,646

3.5 The net deficit in revenue income will need to budgeted for in the 2024/25 MTFS as an ongoing expenditure. It should be noted that the building currently requires annual repairs due to the nature of dilapidations and therefore in the 'do nothing' scenario, the Council will need to establish an annual maintenance budget. The value of repairs going forward cannot be quantified properly until the building is stopped from deteriorating, however there was a budget for roof repairs for £180,000 in 2022/23 and that level of annual repairs and maintenance could easily continue.

3.6 In summary, the proposal is to proceed with the refurbishment of the upper floors at a cost of £7,991,069 subject to ADC receiving a BLRF allocation of £628K. The capital would need to be borrowed at current interest rates. It should be noted that ADC has applied for the BLRF grant and, if offered, ADC have 3 weeks from the offer date to accept the grant and deliver the scheme.

3.7 See appendices for full details.

4. DETAIL

4.1 See appendix A for full detailed report and sub appendices 1-6 for full appraisal details.

5. CONSULTATION

5.1 Planning consent for change of use will be required and a public consultation will be needed.

6. OPTIONS / ALTERNATIVES CONSIDERED

The options considered were:

- **Leaving the upper floors derelict.** This would be likely to result in high one-off maintenance costs in addition to the reputational damage to the Council of owning the arcade in that condition. The ongoing revenue costs are £31,012 per annum in addition to repair and maintenance cost.
- **Social Housing development.** We are advised by our housing team that the scheme would not provide the housing types they need and therefore would not help the Council's portfolio. In addition, the much greater gap funding requirement cause by the lower rental values would increase the revenue requirement.
- **Sale of the whole Arcade.** We are looking at potential sales values of the building as it is and the completed scheme as an investment however this work is still ongoing. It is however unlikely that ADC would recoup its initial investment plus its investment in the ground floor retail units, buy selling the building in its current condition.

7. COMMENTS BY THE GROUP HEAD OF FINANCE/SECTION 151 OFFICER

- 7.1 The costs of the proposals in this report equate to additional capital expenditure of £7,362,747, (after the BLRF grant) and an unfunded revenue budget growth of £28,646 per annum. The latter will be addressed as part of the Council's budget planning process, but savings will need to be identified to fund it.
- 7.2 Whilst the proposals increase budgeted spend, Members should also note that a 'do nothing' option would in all probability be much more expensive for the Council. This is referenced in greater detail in the body of the report.

8. RISK ASSESSMENT CONSIDERATIONS

- 8.1 See appendix 6 for details

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

- 9.1 The project will require the development and completion of appropriate legal agreements, to be prepared by the Legal Services team.

10. HUMAN RESOURCES IMPACT

- 10.1 There are no human resources implications that we are aware of.

11. HEALTH & SAFETY IMPACT

- 11.1 A full health and safety risk assessment will be carried out as part of the construction project.

12. PROPERTY & ESTATES IMPACT

- 12.1 The Arcade is currently managed by an external management company under contract. This contract is due to expire in December of this year. The renewal of this contract will take account of the recommendations of this report.
- 12.2 The recommendations of this report have potential to significantly benefit the ongoing management of the Arcade, resolving the Councils large Non Domestic Rates bill and Service Charge liabilities for the vacant upper floors, as well as bringing the dated structure into an acceptable state of repair and removing the ongoing high risk of large reactive repair bills.
- 12.3 The recommendations of this report will impact the ongoing trade of established commercial tenants on the ground floor. Works will need to be managed to minimise this impact and maintain footfall.
- 12.4 Existing ground floor commercial tenants have a right of access across the intended works compound area for deliveries, bin storage, and maintenance etc. The detail of site setup will need to address this by making alternative provision or establishing safe means for these activities to continue alongside each other.
- 12.5 Appendix A refers to ongoing access by neighbours across the service yard of the Arcade. This unconsented access is currently being contested by the Councils solicitors under instruction of the Property, Estates, and Facilities service.
- 12.6 A full title report and due diligence study will be required to inform the detail and logistics of the project.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

- 13.1 A full Equalities impact assessment will be carried out as part of the project design.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

- 14.1 Significant social value for regenerating a decaying, locally listed, building. The provision of rented homes for which there is high demand. Provision of warm insulated homes with lower energy usage and reduce energy costs.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1 Reduction in vandalism and anti-social behaviour that will result from having the building occupied and active.

16. HUMAN RIGHTS IMPACT

16.1 None

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1 None

CONTACT OFFICER:

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BACKGROUND DOCUMENTS

Appendix A – Main Report

Appendix 1 Architects design pack

Appendix 2 Development appraisal

Appendix 3 Construction cost plan

Appendix 4 MP letter of support

Appendix 5 Programme

Appendix 6 Risks