

Arun District Council

REPORT TO:	Policy and Finance Committee - 11 July 2023
SUBJECT:	Bognor Regis Arcade, Upper Floors Refurbishment
LEAD OFFICER:	Neil Taylor – Regeneration Consultant
LEAD MEMBER:	Cllr Matt Stanley
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 Policy & Finance Committee recommends to Full Council – that:

- i) The project cost of £7,991,069 (including the Brownfield Land Release Fund grant [BLRF]) be added to the capital programme;
- ii) The Council accept the BLRF fund grant if it is offered; and.
- iii) Delegates authority to the Chief Executive in consultation with the Section 151 Officer and the Chair of the Economy Committee, to deliver the project including selection of the appropriate delivery vehicle, subject to regular updates being presented 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 be 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 Our consultants, Savills, have been working on discounted cashflows for the upper floor residential development and residential development plus the retail investment on the ground floor. Their full report can be found at appendix 5 to the main report and an executive summary is provided. The headline payback periods for the investment is listed as follows:

Performance Metric	Residential Only Value	Residential and Retail value
Pay Back Period	27 Years	17 years
Return On Investment	3.489%	8.12%
Net Present Value (Surplus)	£650,000	£3,230,000

3.7 The development of the scheme will have wider economic benefits in addition to the economic boost provided by the construction work itself. Our consultants have made an assessment of the wider benefits and identified the key areas as follows;

Realising a saving of c.£30k per annum on empty rates currently incurred on the upper floors by the Council;

Generating c.£60k per annum of Council Tax revenue and a one-off payment of c£51k for New Homes Bonus from the 35 new apartments.

Securing net additional rent of c.£14k per annum from a potential F&B use in the new retail unit.

The residents of 35 new apartments should support c.£412,500 of additional business income in Bognor each year. This will support the local economy in the daytime and evening, including the soon to be improved Regis Centre & Alexandra Theatre.

- 3.8 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.

4. DETAIL

- 4.1 See appendix A for full detailed report and sub appendices 1-8 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:

1. **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. Consultants, Ridge Projects have carried out survey work to assess the maintenance requirements for the building if it is left empty. The results are extensive and are attached as appendix 4 to the main report. The year 1-5 maintenance cost has been identified as £1.97M and would have to be found from the Council's capital and revenue budgets.
2. **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.
3. **Sale of the whole Arcade.** We have been looking at potential sales values of the building as it is. Our consultants Savills have been working on discounted cashflows and our consultants Ridge Projects have been assessing costs. The outcome of that work is detailed in appendices 4 and

5 of the main report. The headlines of that work are that the value of the ground floor retail and the upper floors used for storage would be circa £3.1M however, any purchaser would need to consider the current maintenance costs needed to bring the upper floors into a condition suitable even for storage. The value of that initial maintenance work has been assessed are circa £1.2M. Our consultants, Savills guidance on the current sale value of the whole arcade is between £1.5 - £2m.

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 8 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 Council's 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

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BACKGROUND DOCUMENTS

Appendix A – Main Report

Appendix 1 Information reviewed (in the main report)

Appendix 2 Architects design pack

Appendix 3 Construction cost plan

Appendix 4 High level maintenance plan

Appendix 5 Savills value appraisal

Appendix 6 Updated asbestos report

Appendix 7 Development appraisal

Appendix 8 Risks