

Arun District Council

REPORT TO:	Policy and Finance Committee - 24 October 2024
SUBJECT:	Regeneration of The Alexandra Theatre - Progress Report
LEAD OFFICER:	Karl Roberts – Director of Growth and Max Whitehand – Chartered Development Surveyor/Project Development Manager
LEAD MEMBER:	Cllr Lury – Chair
WARDS:	Marine / Hotham
CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION: Regeneration of key areas of the District and the promotion of Arts, Culture, Leisure & Tourism.	
DIRECTORATE POLICY CONTEXT: Regeneration and renewal of key Council assets. Promotion of arts and cultural activities. Promotion of tourist activity and the attraction of visitor footfall to Bognor Regis.	
FINANCIAL SUMMARY: The project budget is currently £15,780,000 comprising: £12,190,396 (levelling up fund grant), £3,000,000 (ADC contribution), £94,290 (UK shared prosperity fund), £82,000 (changing places toilet (CPT) – ADC contribution), £45,000 (photo voltaic panels – ADC contribution) £369k Council funded project management expenditure to date. Any additional expenditure will have to be funded from borrowing unless additional external funding is secured. Retaining the contingency fund within the Council's control will provide an added layer of budgetary control but carries additional risks (see section 8).	

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to update members on the progress of the project to date and seek member agreement for a revised budget to reflect current cost pressures.

2. RECOMMENDATIONS

- 2.1 That the Committee notes the revised programme milestones and agrees that further updates will take the form of briefing notes circulated to all members and future Committee reports will be limited to where a formal decision is required from the Committee.
- 2.2 That the Committee approves the addition of £3 million to the Regeneration of the Alexandra Theatre project budget and includes this in the capital programme.

2.3 That the Committee recommend to Full Council that:

- A) An additional budget provision of £3 million be included in the capital programme for the Regeneration of the Alexandra Theatre project; and
- B) The Council retains control of the contingency sums for the project and thus retains responsibility for funding any matters that fall outside of the agreed construction contract.

3. EXECUTIVE SUMMARY

3.1 The Alexandra Theatre project was proposed as a potential scheme funded by the government's Levelling up Fund. Arun District Council were successful in their bid and secured £12.19M for the project based upon a high-level feasibility design. After the initial design phase, ADC added a further £3 million to the capital programme to help deliver the project. Since that time, inflationary cost pressures in the construction industry have continued to rise, which has led to an industry wide cost increase in delivering projects. This has also led to a number of long-established contractors going bust. As a result, contractors are understandably seeking to minimise the risks to themselves of exposure to further cost inflation and industry uncertainty. A summary of current construction market conditions is provided in Appendix A which sets this in context.

3.2 The following key milestones have been reached with the project to date:

- RIBA design stages 1-3 complete.
- RIBA design stage 4 now fully drafted.
- Purchase of the head lease from Whitbread.
- 2 public consultation exercises & ongoing communications engagement.
- Planning consent achieved.
- Procurement of a main contractor through a detailed tender process.
- Resignation of that contractor.
- Re-procurement & appointment of a new contractor.
- Managed exit of Arun Arts from the building.
- Completed license agreement with Arun Arts for granting ADC access.
- Intrusive survey works ongoing internally/externally of building.
- Detailed asbestos surveys completed across building.
- Internal structural surveys completed.
- Appointed contractor scheduled to complete all final survey/inspection work on site by mid-October 2024.
- Sub-contractor design packages (based upon RIBA3 design), tenders predominantly returned to contractor.
- Additional UKSPF grant secured (£94.3k) with an additional £30k potentially available subject to further investigation.
- Additional PV & CPT funding re-secured into 24/25 FY.
- Discharge of pre-commencement planning conditions now progressing well and to be finalised early Q3 24/25.
- Site set-up and logistics plan has now been finalised and agreed by all stakeholders, in anticipation of a Q3 24/25 start on site.

3.3 The project has lost programme time, as previously detailed due to a number of contributing factors both in the latter half of 2023 and early/mid part of 2024.

These matters being:

- The time and process required to tender and appoint two consecutive main contractors (one to replace the other).
- The lengthy discussions regarding the vacating of the Theatre by the operators, to reach an acceptable agreement.
- The resolution of matters relating to the discharge of planning conditions.
- The length of time currently being expended working with Neilcott Construction (who are the appointed contractor) finalising full detailed design. This involved the ratification and update of previous RIBA3 (in order to prepare full and detailed project costing via sub-contractor tender packages) and also drafting of full RIBA4 design, to then use this to cost, finalise and agree the project budget.

4. DETAIL

Alexandra Theatre - Programme / Progress

- 4.1 Planning Permission (with delegated powers) granted at committee on 6 September 2023. Drainage condition agreement reached Q2 2024, and planning approval decision notice now issued. As a minimum, fees and c.£180k of construction cost is forecast as attributable to ADC stipulated drainage works. With further detailed design resolution predominantly complete, it is anticipated that this pre-commencement planning condition will shortly be discharged.
- 4.2 Design stage RIBA4 is now completed in draft with detailed input from ADC and Neilcott design teams. This will help ratify and finalise programme, budget and cashflow and will also be used to inform main construction contract formation.
- 4.3 Further Intrusive ground conditions surveys have continued on site in various locations around the external perimeter of the building and also internally. A further deeper borehole is to be completed in October to inform final foundation piled design (this design adds further cost to the project but is necessary given make-up of sub-strata).
- 4.4 Additional asbestos surveys have also recently been completed internally/intrusively (this is the fourth set) in order to mitigate risk (resolution on this was reached in September 2024) ahead of the main contractor commencing on site as a full asbestos strip will be required ahead of the main demolition works being implemented.

- 4.5 The latest draft cost plan (including contingency sums) continues to sit outside budget envelope. Current estimates show that the cost of the majority of the works will be in budget (if current additional forecast contingency sums are absorbed; these will only be used if required). However, this does not account for a number of design matters that need to be resolved (and priced) and ancillary cost items such as project officer costs and running costs associated with the displacement of Arun Arts. With these ancillary costs factored in only a nominal contingency sum remains of the original amount. Whilst these forecast contingency sums are required to temper risk, these would only be utilised if the risks, costs and inflationary matters provisionally costed by the contractor came to fruition. It would, therefore, not be good practice to proceed with the project without these contingency allowances being in place.
- 4.6 Therefore, this report seeks members support to fund these additional contingency costs by adding £3million to the capital programme. From current forecasts it is anticipated that this would be split between £1 million in anticipated additional costs and a further £2 million of contingency.
- 4.7 To further mitigate this, a rigorous Value Engineering (VE) process is ongoing. It is also proposed that these contingency sums remain with the council rather than be incorporated into the construction contract, to give the council greater control over any potential use (although this approach does have risks – see section 8).
- 4.8 In terms of the programme, it is currently anticipated that the contractor will have started on site, with site set-up and hoarding in place and asbestos removal commenced by the time of this meeting. Demolition is anticipated to commence in the first week of December. There will be some abortive costs to cover if the council decided to stop or pause the project because of any budgetary issues related essentially to the contingency sums. There is also an issue regarding the repayment of the grant if the council decides to stop the project completely.
- 4.9 The complications that have needed to be worked through as detailed above now mean completion of the works are scheduled for Q2 2026. Therefore, discussions will now take place with Arun Arts on them starting their new programme shortly after this date.
- 4.10 These unforeseen delays also mean that the council needs to seek the agreement of the government to the revised programme. That request will be submitted shortly although the government have indicated that they will not make any decision on such a request until after the October Budget. Any implications arising from the Budget will be reported at Full Council on 6 November 2024, if necessary.

- 4.11 Utilising our project Comms & PR consultants DevComms and working with our in-house Comms team, we have continued to update communications messaging as required. Ongoing briefings have been given to various ADC teams in order to inform, logistics set up of site, compound, access, and egress by the contractor in relation to any impacts on surrounding areas, programme and approach as well as interrelationship with the Arcade enabling works site set up opposite. These matters are essentially finalized, subject to resolving final queries WSCC highways engineers have raised.
- 4.12 Ongoing work on further grant funding is being undertaken potentially to contribute to costs for both the main construction contract, non-construction related fit-out/furnishing (FF&E) items, and additional sustainability initiatives.

5. CONSULTATION

- 5.1 Stakeholder consultation has been ongoing. Two public consultation exercises have also been undertaken in addition to the statutory consultation as part of the planning process.

6. OPTIONS / ALTERNATIVES CONSIDERED

- 6.1 The council could decide to not increase the budget. In this scenario the council would have to decide either not to continue with the project and absorb the abortive costs spent so far (including the repayment of grant funding already provided by the government) or scale back the project to fit within the available budget, albeit that would likely require further re-design and associated fee costs accordingly. It is worth noting that approximately £1.7m of value engineering has already been applied to the specifications. In any case, the current building does require considerable upgrade and maintenance aside from the major improvements the project would bring (and would mitigate accordingly).

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

- 7.1 The capital costs of the proposals in this report are £3 million and are currently not included in the capital programme. Approval is required by this committee and Full Council to include this amount.
- 7.2 The financing costs on the additional £3 million equate to about £175,000 per annum, based on a lending rate of 5.46% over a 50-year period. This cost is unbudgeted and will need to be included in the council's revenue budget. However, with interest rates expected to decrease, albeit gradually, it is anticipated that this cost can be reduced. Furthermore, the council is currently overachieving its return on investments against budget, which will help to offset further this cost increase.
- 7.3 If the project were to be abandoned at this stage, the council would still incur abortive costs and would be required to repay the associated LUF grant already received from the MHCLG. Currently, the council has received about £3 million in LUF grant for this project and has spent just over £2 million, with spend increasing each day.

7.4 The £2 million contingency must only be used to fund contingency related costs. It cannot be used to fund increases in the scope of the project without further committee approval.

8. RISK ASSESSMENT CONSIDERATIONS

8.1 A comprehensive and live risk register is part of the project documentation.

8.2 Retaining the suggested forecast contingency funds within the council's control will provide an added layer of budgetary control but carries additional risks in that if the contingency funds are exhausted any remaining cost pressures fall on the council rather than the contractor. The scale of the risk is considered low given the amount of preparatory work undertaken on finalising the forecast budget and the intention where possible to purchase materials well in advance of use to help mitigate risk of supply, inflation and delay.

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

9.1 This report complies with the council's constitutional requirements to report to members, and to seek necessary authority, where an addition to the capital programme is required and where additional budget provision is needed.

10. HUMAN RESOURCES IMPACT

10.1 Two temporary members of staff were originally working on the project on behalf of ADC. The contract of one was not renewed in April 2024. The other has remained as the project officer for the project. Costs are being capitalised and charged to the project.

11. HEALTH & SAFETY IMPACT

11.1 The health and safety impacts of the project are reviewed by the consultants at every stage.

12. PROPERTY & ESTATES IMPACT

12.1 The Property, Estates, and Facilities (PEF) team continue to engage with the project team and are briefed of progress. PEF resource is committed in respect of property transactions and works that are required to enable the project. Current and future management of the site rests with PEF, including lease dealings and any retained maintenance liabilities etc.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1 None at this stage.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1 The project is moving to more sustainable heating and cooling solutions as part of the new design. A small grant budget (£45k) has been secured and carried over for inclusion of PV panels, designs to accommodate this are being evaluated.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1 None.

16. HUMAN RIGHTS IMPACT

16.1 None.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1 None.

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Appendix A: Market Condition Update by Mace