

**Cabinet Member for Finance**

**January 2021**

**Endorsement: Broadbridge Heath Regeneration Scheme**

**Report by Director of Property and Assets**

**Electoral division: Broadbridge**

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**Summary**

This report proposes the economic regeneration of Broadbridge Heath highway depot through development of a retail park on the site. This project will utilise a County Council owned asset to support the economic regeneration of the site for the benefit of the community and generate a return on investment.

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**Recommendations**

That the Cabinet Member:

- (1) Approves the regeneration of an under-utilised asset to deliver a Retail Park at Broadbridge Heath, Horsham with the allocation of £15.47m from the capital programme to fund the completion of the project to construct a development on this site consisting of up to four units;
  - (2) Authorises entering into pre-let arrangements by way of conditional Agreements to Lease with the four preferred retailers; the Agreements will commit the County Council to the construction of this scheme, to the retailers' specifications, conditional upon satisfactory planning permission and completing the works. The terms of the agreements remain commercially confidential;
  - (3) Delegates authority to the Director of Property and Assets with the Director of Law and Assurance to finalise the terms of the agreements to lease;
  - (4) Authorises the commencement of procurement for the construction contract; and
  - (5) Subject to receipt of satisfactory planning permission delegates authority to the Director of Property and Assets to award the construction contract.
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## **Proposal**

### **1 Background and context**

- 1.1 West Sussex County Council owns land formerly used as a County Highway Depot in Broadbridge Heath, Horsham. The depot was declared surplus to operational requirements in January 2018 (FR17 17/18).
- 1.2 Following the impact of Covid-19 pandemic on the economy, West Sussex County Council is committed to supporting economic recovery and regeneration as set out in the Economy Re-set Plan 2020- 2024 and the creative use of assets as set out in the draft County Council Reset Plan.
- 1.3 In July 2018 the County Council adopted an Asset Management Policy and a new Asset Management Strategy; this included identifying opportunities for income generation schemes and use of key assets to support regeneration and growth. Broadbridge Heath has long been held as an ideal location for a retail development, providing an opportunity for economic regeneration, rather than a capital receipt.
- 1.4 In 2019 a viability study was conducted which concluded that a retail scheme would be the preferred option for regeneration of the site, in line with the Horsham District Local Plan 2015 Policy 6 which states "*Broadbridge Heath Quadrant is an Opportunity Area where redevelopment will reinforce its role as a successful out of town retail location*". A soft marketing exercise concluded there was considerable interest in the site from retailers with strong covenants. The viability study was followed by a more detailed feasibility study and on-site surveys, concluding in a formal ten-week marketing exercise.
- 1.5 The marketing exercise resulted in four retailers being identified, based on the best value bids. The retailers have since agreed Heads of Terms to enter into Agreement to Leases, subject to satisfactory planning permission and other conditions and the Leases with the retailers will be for terms of up to 25 years.
- 1.6 A planning pre-application is due to be submitted to the Horsham District Planners in January 2021.

### **2 Proposal details**

- 2.1 The proposal is to regenerate the Council owned and under-used depot site by constructing four retail units on the site. The units include a discount food store, a DIY store and garden centre, a drive through take-away restaurant and a coffee shop. The site will be landscaped to include appropriate parking facilities and two access points.
- 2.2 West Sussex County Council will be committed to the construction of the scheme through a conditional Agreement for Lease, conditional upon the grant of satisfactory planning permission and completion of the works. The leases will provide an ongoing revenue income stream as a return on the investment.
- 2.3 The units will be designed and built to the individual retailers detailed specification. One retailer will build their own unit with the County Council completing ground works and making a capital contribution by way of a reverse premium.

- 2.4 A new access roundabout is proposed directly into the site across land owned by the County Council, initial pre-app advice from Highways supports this proposal. This work included a Road Safety Audit with recommendations to the designer which have been incorporated and further advice to be considered as part of the full planning application.
- 2.5 The contractor will be procured on a design and build contract with the procurement via an OJEU compliant construction framework.
- 2.6 Once occupied it is proposed that West Sussex County Council procures an estate management company to manage and maintain the communal areas and parking, the cost of which will be fully covered by service charges back to the retailers.
- 2.7 The scheme cost assumptions are as follows:-

Construction	£11,419,666
Other Costs	£3,033,177
Professional fees	£878,531
<b>Total</b>	<b>£15,328,374</b>
Marketing Fees	£136,875
<b>Total</b>	<b>£15,465,249</b>

*(source F&G Feasibility Cost Estimate Report)*

The scheme cost assumptions include costs of constructing a new mini-roundabout and associated S278 costs.

- 2.8 Rental income will be approximately £1m per annum (after the maximum agreed rent free periods of 12 months). This reflects a commercial development yield on rental income of 6.91 %

### **3 Other options considered (and reasons for not proposing)**

- 3.1 Do nothing, the site could remain as an under-utilised depot facility, however as the site has been declared surplus this would not be best use of the property and would lose the opportunity to regenerate the space and support the local economy.
- 3.2 The property could be sold on the market with the benefit of retailers interested in the site, this would generate a capital receipt for WSCC but lose the opportunity to generate income over the long term.

### **4 Consultation, engagement and advice**

- 4.1 The local member for Broadbridge Heath has been consulted and is supportive of the scheme. The project has been discussed with Horsham District Council officers via the Horsham Growth Board. Lambert Smith Hampton, acting for the County Council held early informal discussions with Horsham Planning officers as Horsham District Council will be the planning authority for the scheme.
- 4.2 Specialist retail and planning advice has been provided by Lambert Smith Hampton. Faithful and Gould, (F&G) the multi-disciplinary partner (MDC) has also provided construction advice. The County Council's Highways and

Transport teams who currently still occupy part of the depot will be formally consulted on the relocation proposals.

## **Finance**

- 4.3 **Appendix A – (available for members only)** details the impact of the development on the revenue account of the County Council. It is assumed that in addition to the rental income from the tenants there will also be savings from the relocation of the services that are currently situated on the site.
- 4.4 Ahead of the development taking place there will be a need to relocate those services that are currently operating from the site. Potential sites have been identified and the one-off cost shown covers the costs of relocation and set up of alternative accommodation. This cost can be accommodated within existing resources.
- 4.5 The effect of the proposal:

### **(a) How the cost represents good value**

The total project costs, net of financing costs, are estimated to be **£15.47m** excluding VAT which is based on the MDC Partnership RIBA Stage 1 feasibility estimate. A breakdown of costs can be seen in Appendix A – *(available for members only)*.

### **Development Yield and Performance Measures:**

A summary of the key financial performance measures is included in Appendix A – *(available for members only)*

**Development Yield** shows the relationship between the total costs and the income the proposed scheme would generate. The proposed scheme provides a yield of 6.91%

**Economic Regeneration** The development also presents the opportunity to regenerate an under-utilized asset for the benefit of the community. A significant number of jobs will be created in the area through both the construction and eventual operation of the retail outlets.

### **(b) Future savings/efficiencies being delivered**

The proposal will provide a long-term revenue return of over £1m per annum before borrowing costs.

### **(c) Human Resources, IT and Assets Impact**

The remaining highway and transport teams which still occupy the depot will be relocated. A solution for each team has been proposed and consultation on these plans with the affected staff will commence in early 2021.

An under-utilised asset will be regenerated supporting the local economy

## 5 Risk implications and mitigations

Risk	Mitigating Action (in place or planned)
The retail market is currently weak and a large-scale retail development may not have the required demand to fill all of the unit's proposed presenting future risk.	This has been mitigated by progressing with a scheme based on pre-let agreements and built to specification units for strong covenant tenants only. There will be no construction of speculative units. The Agreement to Leases will commit the tenants to the scheme and the terms of up to 25 years with average break clause term at 18 years provide long term security, subject to certain conditions.
Internal Rate of Return and Yield calculations may be affected by escalating project costs.	Tenant rents are confirmed so income risk is mitigated once tenants signed up to Agreement for leases. Costs are currently estimated and as such adequate contingency has been made for all potential work that may be required. The build costs are reliant on the right construction companies being used to keep costs down.
The planning application may be rejected, or it may be granted but it may contain conditions which are not acceptable to the retailers who withdraw from the agreement for lease.	Early conversations have been held with the local planning authority and the designs have been developed to comply with the Horsham Local Plan aspirations for the site. A pre-application will be made. Agreements to Lease allow the retailers or WSCC to withdraw from the scheme if planning is not approved or the amendments to the scheme are such that it becomes unviable.
WSCC procurement processes will not allow specialist construction companies to tender for the contract meaning the costs of the project may be higher than estimated.	Procurement have confirmed that a range of contractors can be invited to tender as long as they have worked on a project of this value before.  Lambert Smith Hampton retail advisors to provide list of potential contractors to consider for the tender. F & G to advise on tender process.
Tenant Critical Time Deadlines and liquidated and ascertained damages (LAD) Payments are required as tenants programme dates are not met.	Ensure dates are agreed, achievable, incorporated into master programme and monitored. Enter renegotiations with the tenants as required to reduce commercial risk.
Decanting current site users will result in an increase in costs which may be revenue related.	A decant plan has been worked up and a proposal for each team put forward for consultation. Additional costs can be met from within the proposed revenue savings or from existing resources.

## **6 Policy alignment and compliance**

- 6.1 This proposal aligns with the Asset Management Policy approved in 2018, (FR06(18/19) which has five key objectives, three of which are delivered through this proposal;- "To plan and manage property as a corporate resource for the benefit of the people of West Sussex", "To manage and maintain property effectively, efficiently and sustainably with optimising financial return and commercial opportunities" and "to use land and buildings to stimulate development and growth"
- 6.2 The proposal complies with the new draft County Council 2020/21 Reset Plan which includes the objective Making the best use of resources: Maximising our income and the productivity of our assets, and the County Councils Economy Re-set Plan 2020-24.
- 6.3 Legal implications have been covered elsewhere in this report. This proposal relates to a decision to regenerate an under-utilised asset on a commercial basis and therefore does not have any equality or human rights impact.
- 6.4 Impacts on climate change have been covered in the sustainability appraisal of this proposal and will be reviewed through the detailed design phase, including ensuring whole life costs are assessed to secure the sustainability required.

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### **Contact Officer**

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### **Appendices**

Appendix A – Part II (*available for members only*) Financial Details

Appendix B – Part II (*available for members only*) Site Layout Proposal

### **Background papers**

None