

Rother District Council

Report to	-	Cabinet
Date	-	4 November 2019
Report of the	-	Executive Director
Subject	-	Development of Land at Barnhorn Green, Bexhill

Recommendation: It be **RESOLVED:** That:

- 1) £10,000,000 from the approved £35m Property Investment Strategy Capital Programme be allocated for the development of commercial property and a doctors' surgery on land adjacent to Barnhorn Road recently acquired by the Council; and
 - 2) the Executive Director be authorised to:
 - a) develop and submit a detailed planning application for the proposed development;
 - b) procure the works set out in this report and enter into contracts as necessary for the completion of this development; and
 - c) agree the lease with the local Clinical Commissioning Group, GPs, and the East Sussex Health Care Trust.
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Head of Service: Ben Hook

Lead Cabinet Member: Councillor Oliver

Introduction

1. The Council recently acquired land at Barnhorn Road, Bexhill, forming the commercial allocation of the Barnhorn Green mixed-use scheme (known locally as Rosewood Park) for the sum of £600,000 (plus costs of purchase). A plan of the site is attached as Appendix 1.
2. The acquisition followed discussion and approval by the Property Investment Panel (PIP) at its meeting on 25 April 2019. The transfer of land was completed on 5 July 2019.
3. A report to Cabinet on 29 July seeking approval to proceed with development at the site was deferred for further discussion with the PIP, and this updated report is now presented for consideration.

Background

4. The Council acquired the site in order to ensure that development took place in accordance with planning policy and regeneration objectives, and through development to generate an income to the Council over the longer term. The acquisition was therefore made pursuant to delivering against Corporate Plan objectives CA02.09 (Development at Barnhorn Road) and CA02.06 (Development of Key Employment Sites).

5. The land measures approximately 1.5 hectares (3.7 acres), and comprises the commercial element of a larger, mixed use 25.5 hectare (63 acres) scheme. The site forms part of a wider mixed-use development scheme totalling 25.5 hectares, for which outline planning permission was granted in 2014 for housing, a nursing home, doctors' surgery and a primary school (RR/2012/1978/P).
6. The site is of a regular shape, level and has access to an adopted public highway. The site is currently uncultivated grassed fields, with mature hedges, trees and domestic fences along the boundaries. There is one access point to the site, via a new estate road. The main estate road leads off from Barnhorn Road.

Restrictive covenant and overage

7. The seller of the site required that its use be limited to B1, B2, B8 and D1 Use Classes in order to protect their financial interests and prevent the site from being developed for other purposes such as housing. However, once developed, all of these restrictions will fall away and will not bind the Council in the event of any subsequent redevelopment.
8. The site is also subject to an overage agreement, which replaced a previous overage agreement already in existence at the site. Should RDC seek to develop the site for any other purpose other than in accordance with the outline planning (RR/2012/1978/P) or for use classes B1, B2, B8 or D1, then RDC will be liable to beneficiaries under the Overage Agreement for 30% of any uplift in value once planning permission is obtained or is disposed of by the Council.
9. The Overage Agreement will remain in force until the earliest of i) 19 January 2089 or ii) the date all buildings are constructed pursuant to a planning permission.
10. In the case of both restrictive covenants and the overage provision, initial development of the site will cause these to fall away and the Council would not be bound in the event of any future redevelopment on the land.
11. The purchase price for the site at £600,000 (plus costs) therefore reflects its value for commercial development for offices, light industrial and a doctors' surgery in compliance with the outline planning consent and with Local Plan policy and subject to the restrictions referred to above. The price payable for the site without these restrictions would undoubtedly have been far higher, reflecting the possibility of securing some form of residential development. We are aware that the sellers had received interest from residential developers who would have sought to challenge the planning consent in order to secure further housing, contrary to Corporate Plan and planning policy.

Options for Development

12. The site currently has outline planning consent for a doctors' surgery sufficient to accommodate 10 GP's; 2,750sqm (29,602sqft) of B1(a) office floorspace; and 750sqm (8,073sqft) of B1(c) light industrial floorspace. The external valuation report commissioned by the Council prior to purchase was therefore

based on this mix of uses, i.e. a scheme that complies with the current outline planning permission.

13. Based on the Ministry of Housing, Communities and Local Government job density guide, the delivery of 3,500sqm of employment space is expected to generate between 200 and 230 jobs depending on the final use of the buildings.
14. Following discussion with the PIP further advice has been sought from the external valuer to advise on the options for varying the mix of uses, subject to planning consent. The advice indicates that there is proven demand for light industrial accommodation, demonstrated by a number of new schemes coming forward through private sector developers. The demand for office accommodation is less clear however, with limited development activity in recent years. The office schemes brought forward by Sea Change Sussex at Bexhill Enterprise Park and Sovereign Harbour, Eastbourne have both benefitted from public subsidy.
15. Options appraisals have been carried out and presented to the PIP to consider variations to the mix of uses at the site and the likely return to the Council. The following options have been considered:
 - Fully compliant scheme in accordance with the existing outline permission.
 - Revised mix of B1 space assuming 50% offices and 50% light industrial.
 - Revised mix of B1 space assuming 100% offices.
 - Revised mix of B1 space assuming 100% light industrial.
16. All of the above assume development of the surgery in accordance with the outline planning consent. Sensitivity analysis has also taken place to consider variations in build costs, voids and rental levels.
17. These analyses indicate that the lower risk option for the Council would be to increase the proportion of light industrial accommodation at the site, in place of offices which could potentially expose the Council to greater cost and risk. Any such variation would however require a further planning consent.
18. Whilst all of the options considered indicated a net return to the Council, the final mix will only be determined following the appointment of an architect and professional team to prepare a detailed planning application for the site, in discussion with planners as to the most acceptable solution in terms of mix of uses, layout, design etc.

GPs' Surgery

19. In addition to commercial units, the development of a GPs' surgery represents an opportunity for the Council, both to facilitate improved local healthcare facilities and to generate a secure rental income stream for the authority. Following approval for the acquisition of the land, the Council has initiated discussions with the existing local surgery, the Clinical Commissioning Group (CCG) and the East Sussex Healthcare Trust (ESHT) to explore bringing a new surgery forward.
20. Discussions with local healthcare providers are ongoing but have yet to determine how best to progress this element of the site. However, the CCG acknowledges that the development of a new, modern GP facility is necessary to support both the existing population and potential housing growth in the

area. Should the clinical element of the scheme not proceed, the Council would have the option to consider alternative uses for that part of the site, subject to planning.

21. Accordingly officers have also considered the financial impact should the surgery not be delivered and alternative commercial development takes place on that part of the site, as offices or as light industrial. These options also produce a positive return to the Council.

Development Costs

22. As part of the acquisition process, professional advice was commissioned on the likely costs for the development and likely rentals that would be achieved following completion. The following costs were provided:

Construction Costs	Size (sqm)	Cost/sqm	Total
Office Space	2,750	£1,950	£5,362,500
Light Industrial	750	£1,050	£787,500
Doctors Surgery	700	£2,500	£1,750,000
Site Enabling Works	-	-	£450,000
Professional fees (including architects, engineers etc.), surveys, legal costs, and contingency			£1,650,000
			£10,000,000

23. As stated previously, the light industrial space is both cheaper to build and the less risky commercial option than office space; therefore a revision of the mix in favour of light industrial could see the total development costs reduce. However, this is dependent on a revision of the planning allocation and therefore the budget should be set based on the approved scheme.

Income and Finance

24. Upon full completion of the site it is anticipated that combined rental income of the commercial floor space (under the existing approved mix) and doctors' surgery will be in excess of £640,000 gross of voids. The net yield when factoring in borrowing costs and repayments is projected to be in excess of £160,000 per annum.
25. The Council has approved borrowing of £35m for investment under the Property Investment Strategy. The £10m required for this development will be allocated from this Capital Programme item. The additional income generated by this project forms part of the overall financial strategy to reduce the net cost of the Council and achieve a balanced revenue budget. It also contributes to the regeneration strategy for the District, providing jobs and business space.
26. The amount and timing of any borrowing will be subject to the expectations of borrowing rates over the year and the timing of spend. Advice will be taken from the Council's Treasury Management advisors as necessary. Any borrowing will be within the limits set by the Council within its approved Treasury Management Strategy. The effect of the borrowing and its timing will need to be reflected in a future update of the Council's Medium Term Financial Strategy.

Timeline for Delivery

27. Should Cabinet approve the recommendations, officers will begin the procurement of the necessary professional team to bring the scheme forward. It is anticipated that full planning consent will be achieved by March 2020 with enabling works to begin on site soon after. Construction is likely to take place on a phased basis, with a detailed delivery plan developed by the professional team once appointed.

Conclusion and Recommendations

28. This project presents the opportunity for the Council to bring forward a scheme that will bring significant benefit to the local community. It will offer the opportunity for improved healthcare provision and improved local employment opportunities.
29. In addition to the economic and social benefits to the area, this scheme will generate much needed additional income into the Council to support services into the future. It will also deliver on Corporate Plan priorities and Local Plan employment floorspace allocations.
30. It is recommended that Cabinet allocate £10m from the Property Investment Strategy Capital Programme provision. It is also recommended that the Executive Director be granted authority to enter into contracts and bring forward planning applications as necessary for the completion of this scheme. Furthermore, it is recommended the Executive Director be authorised to agree the lease with the local CCG, GPs and the ESHT.

Dr Anthony Leonard
Executive Director

Risk Assessment Statement

The following risks have been identified should the recommendations not be approved:

- The Council has acquired this land as part of the Property Investment Strategy and Corporate Plan (CA02.09) + (CA02.06) with the intention to develop as set out in the report. Should the project not progress then the land will remain undeveloped and be a cost to the Council.
- The much needed expansion in primary healthcare to support the existing population and housing growth in the area would be at risk and in turn limit the potential for development.

The following risks have been identified should the recommendations be approved:

- Failure to rent/sell the final properties could leave the Council unable to service the debt incurred as part of construction.
- Failure to achieve full planning permission.
- Actual costs for construction following procurement processes could result in higher development costs limiting the return on investment.