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| Report to: | Cabinet |
| Date: | 17 September 2018 |
| Title: | Regeneration and Development: Sutton Road, Seaford |
| Report of: | Ian Fitzpatrick, Director of Regeneration and Planning |
| Cabinet member: | Councillor Andy Smith, Regeneration and Business Councillor Bill Giles, Finance |
| Ward(s): | Seaford South |
| Purpose of report: | This report sets out development proposals at the combined site on Sutton Road, Seaford known as Downs Leisure Centre. The report also includes a summary of the programme and concludes with a breakdown of the project costs and a financial summary, together with an outline of the status of potential new lettings and negotiations with the existing tenants. |
| Decision type: | Key decision |
| Officer recommendation(s): | <p>(1) To approve the business case outlining the investment potential and development opportunities at Downs Leisure Centre, Sutton Road, Seaford.</p> <p>(2) To approve the capital investment of £17,200,000 (including professional fees) to fund the project up to and including construction, subject to sign off of the proposed leases on terms no less favourable than set out in Appendix D.</p> <p>(3) To delegate authority to the Director of Regeneration and Planning in consultation with the Lead Member for Finance, the Chief Finance Officer, and the Assistant Director – Legal and Democratic Services, to progress the project through the Energy & Sustainability Joint Venture if they consider it appropriate and at an appropriate future stage to decide if the project should be put forward to the JV Steering Board for inclusion as a Part 1 and/or Part 2 project.</p> <p>(4) Delegate authority to enter into a lease (or leases) of the properties to the Director of Regeneration and Planning, in consultation with the Strategic Property Board; such delegation to include authorisation not to dispose by auction or invitation of tenders following public advertisement (sought under Contract Procedure Rule 18.1) for those leases.</p> |

(5) Delegate authority to the Director of Regeneration and Planning to exercise the break clause, or enter into a surrender of the lease in respect of Age Concern.

Reasons for recommendations: A strategic opportunity has arisen to provide a ground-breaking mixed-use development of the Council's landholdings within the Sutton Road site in Seaford known as Downs Leisure Centre. The proposed scheme will create new health space, employment opportunities, and a holistic approach to health and wellbeing for residents.

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1 Information

- 1.1 LDC owns the freehold of the site at Sutton Road, Seaford known as Downs Leisure Centre. A plan of the site is attached at Appendix A.
- 1.2 The site is subject to several leasehold interests, including:
 - (a) Downs Leisure Centre, including car parking, leased to Wave Leisure
 - (b) Downs 60+ Club, leased to Age Concern. The lease contains a landlord's break clause on providing 6 months' notice.
- 1.3 Seaford is the largest town in the district with a population of 24,000. The Town Council is currently developing the Neighbourhood Plan which sets out key objectives for the parish. Seaford has a higher than average instance of over 65s (30% compared to 18% nationally) and a high proportion of jobs in the town are in the health and education sectors.
- 1.4 It is clear from comments within the local community that the provision of health services is an ongoing concern, with both GP surgeries struggling to meet the current demand. Much of the capacity issue relates to the space the two surgeries have available to work in. As new houses are built, the demand for services will increase.
- 1.5 Rather than follow the traditional model of healthcare provision, there is an opportunity to review the existing services and complementary options for improving health and wellbeing for Seaford residents. Wave Leisure Ltd, also located on the Sutton Road site, have a proven track record in delivering health outcomes across the district and have been commissioned to work with a number of surgeries for exercise referral.
- 1.6 There is scope to create new healthcare space, adjacent to the leisure centre with the aim of providing a ground-breaking and more holistic approach to

healthcare. This development proposal offers the opportunity to significantly enhance the existing facilities enjoyed by residents.

1.7 Also, with the capacity issues in mind, officers have worked with consultants to develop a proposal which would provide the following on the site, in addition to the current leisure facilities and residential dwellings:

- (a) New Health Hub – circa 30,000sqft
- (b) New Convenience Food Store – 4,500sqft
- (c) New residential apartments above the food store – 8 No. two bedroom apartments
- (d) Reconfiguration of the leisure centre with a new entrance and offices.
- (e) Provision of a grass mini-pitch
- (f) Re-provision of the 60+ Club within the Leisure Centre
- (g) Extension of the car parking areas to provide a minimum of 270 no. spaces compared to approximately 106 currently. These spaces will be shared by all the uses on the site, leisure, health, retail and the peak demand for parking will vary throughout the day and evening for each type of use.
- (h) Relocation of the vehicle access point along Sutton Road (southern boundary) and an additional vehicular access point to Sutton Drove (northern boundary). The existing primary entry and exit points on Sutton Road and Alfriston Rd would be retained in their current location.

2 New Health Facilities

- 2.1 The Health Hub will provide a combined facility for a number of existing health care facilities that are currently located in challenging premises within Seaford. Negotiations with the potential occupiers of the health hub are at an advanced stage, who are very supportive of the proposals.
- 2.2 The new building will include facilities for 21 GPs with support nursing and admin teams and additional facilities such as operating suites for minor surgery. East Sussex Healthcare Trust (ESCHT) would look to provide their community health and out of hospital teams within the Hub.
- 2.3 The exact structure of the letting is being considered. The structure will be informed by the new corporate models that are emerging as part of the new health system within the NHS. Both the CCG and NHS England have given approval to the proposals.
- 2.4 In general terms the letting will be based on:

- (a) Term – 25 years
- (b) Rent – Open market rent to be determined by the District Valuer
- (c) Reviews - subject to 5 yearly RPI linked on a minimum/maximum basis.

3 Additional new facilities

- 3.1 The key driver for the development of the site is the Health Hub, but there is also the opportunity to provide new retail space, 8 residential units, and a new mini pitch. The indicative layout is shown at Appendix B. The new facilities are a key part of the project as the rental income will improve the financial viability of the development and reduce risk for the Council.
- 3.2 It is proposed to sell the housing element to Aspiration Homes (or another Registered Provider) at market terms for the capital value. An appraisal is being carried out on the proposed mix and tenure.
- 3.3 Head of terms have been agreed with a national operator for a lease of the convenience store on the following basis:
 - (a) 15-Year fully repairing and insuring lease
 - (b) 6 month Rent free period
 - (c) Rent at £15.55/sqft
 - (d) Reviews - subject to 5 yearly RPI linked on a minimum (1%) and maximum (4%) basis.
 - (e) 12 allocated parking spaces – not within the demise of the lease.
- 3.4 Additionally, there is an option to provide residential accommodation above the new food store. This is currently designed as 8 No. 2-bedroom apartments. These apartments will be retained by the Council. The form of tenure is currently under consideration – for the purposes of the financial summary of this report, it has been assumed they will be open market rentals.
- 3.5 The existing all weather pitch is very popular, but there is a lack of junior pitches in the area, and in the District. Provision of a junior pitch would go some way to addressing this deficit and would allow for more efficient bookings of the facilities, as well as promoting opportunities for young people to participate in activity.
- 3.6 However, the final proposals for the pitch will be determined based on the findings of the Playing Pitch Strategy due in 2019.

4 Existing tenants

- 4.1 A series of meetings have been held with Wave Leisure. Wave have confirmed their strong support for the proposals and are currently reviewing how they can

adapt their existing layouts to operate in a combined approach with the new Health Hub.

- 4.2 There have been historic discussions between Wave and the GPs on a joint approach in a combined facility, and they work together on a regular basis providing a holistic approach to health and well-being. Both parties appear keen to take this association into an integrated approach with the buildings to provide a seamless approach to the health and leisure facilities - with some shared services such as a communal café facility and seating area.
- 4.3 The approach is to have a faultless transition between the health and leisure facilities, albeit the buildings will be configured so they can be leased as separate entities.
- 4.4 The Downs 60+ Club benefits from a long occupational lease to Age Concern, but this can be terminated on 6 months' notice. Provisional terms have been agreed to relocate the Club inside the Leisure Centre. Wave Leisure would help manage and integrate the Club into the overall structure of running the leisure facility.
- 4.5 The existing residential tenants have not yet been approached. This exercise will be undertaken as part of the pre-planning consultations.
- 4.6 The dedicated residential car parking has been designed as a standalone area outside of the main circulation routes of the new car parking arrangements.

5 Programme schedule

- 5.1 The works will be phased to facilitate continuity of trading for both the leisure centre and the 60+ Club as follows:
 - (a) Phase 1 – new car park to the northern area and reconfigure leisure centre to open to the western façade
 - (b) Phase 2 – construct new leisure layout and 60+ club accommodation.
 - (c) Phase 3 – Construct new health hub and retail/residential.

7 Financial appraisal

- 7.1 The projected income and expenditure is illustrated Appendix D (exempt). The figures are indicative as negotiations are still under way with Wave Leisure, the Downs 60+ Club, ESCHT, and the retailer, but give a strong indication of the anticipated results. Using the indicative figures, the blended return on investment would be circa 4.02%
- 7.2 The blended yield meets the criteria set out in the Property Acquisition and Investment Strategy, but reflects that while the scheme contains a commercial element, there are considerable regeneration and community benefits of

providing new health care space alongside improved facilities. Proposed rents have been set to reflect the partnership working between the Council and the CCG to deliver the facilities that Seaford needs, and so that the scheme remains affordable for the CCG.

- 7.3 The appraisal excludes any potential revenue return from a lease to Wave Leisure. There is also scope for a lease to reduce the Council's running cost liabilities (insurance, repairs, etc), which would then deliver additional savings for the Council. Additionally, the proposed lease terms to Wave will reflect the considerable community value and benefit that they provide.
- 7.4 Cabinet has previously set aside £1,500,000 to develop the scheme to the planning stage. Cabinet is now requested to approve an additional sum of £17,200,000 to be funded from borrowing, making a total of £18,700,000. For illustrative purposes, borrowing rates across a 40 year period are currently below 3%.

8 Legal implications

- 8.1 The Council cannot dispose of land held in the general fund for a consideration less than the best that can be reasonably obtained in the market, except with the express consent of the Secretary of State. Disposal includes leasehold sales where the lease term exceeds seven years. The leases mentioned in this report will be let at open market rents advised by expert valuation. This satisfies the requirement to obtain best consideration.
- 8.2 In disposing of any land or interest in land the Council must ensure that it does so in accordance with State aid rules. The European Commission's Communication on the Sale of Land (the "Land Communication") sets out an automatic assumption that no State aid is present in a sale of land and buildings provided its terms are followed. The Land Communication requires the sale of land for "market value" through (i) an open and unconditional bidding process or (ii) an expert valuation. The leases mentioned in paragraphs 2.11 and 2.13 will be let at market value rents advised by expert valuation. This satisfies the requirement to dispose of land in accordance with State aid rules.
- 8.3 The Age Concern lease expires on 31st December 2041 and is a secure business tenancy under the Landlord and Tenant Act 1954. The lease contains a break clause for redevelopment. If the break clause is exercised the current lease will come to an end, but the protected tenancy will remain in force as a statutory continuation lease until brought to an end. This could be done by the service of a section 25 notice bringing the tenancy to an end if there is an appropriate statutory ground. Ground (f) appears to provide grounds for termination, namely that "the landlord intends to demolish or reconstruct the premises comprised in the holding ... and that he could not reasonably do so without obtaining possession of the holding". A key element of ground (f) is that "the landlord intends" to carry out the works. The current proposal is that the Council will develop to "shell" and the incoming tenant will fit out. This should satisfy the landlord intention element of ground (f). It is also possible for the parties to bring the current lease to an end by mutual agreement though a deed of surrender.

- 8.4 Contracts for the supply of works, goods and services should be procured in accordance with the Council's Contract Procedure Rules (CPRs) and all legal requirements.
- (a) It is proposed that the construction element of the project will be progressed through the Energy & Sustainability Joint Venture (JV) if this is considered appropriate. Compliance with CPRs etc. will be achieved if procurement is carried out in accordance with the terms of the JV.
 - (b) Recommendation 4 seeks authority to enter into a lease (or leases) without going to auction or inviting tenders or expressions of interest following appropriate public advertisement. Cabinet has power to authorise leases without going to auction or advertisement (CPR 18.1).

9 Risk management implications

- 9.1 The risk management implications are set out in the body of the report. As the project progresses, there will be a separate risk register.

10 Equality analysis

- 10.1 A relevance assessment has been completed and concluded that because of the nature of the proposal, a more detailed equality analysis is required. This analysis will be carried out in advance of any planning application and as part of the consultation with local people.
- 10.2 The Equality and Fairness Assessment will be a key document to benchmark the expected outcomes of the project and will be reviewed regularly through the lifetime of the project.

11 Appendices

- Appendix A: Plan of proposed development site.
- Appendix B: Indicative layout
- Appendix C: Detailed Cost Plan (exempt)
- Appendix D: Summary of Projected Income and Expenditure (exempt)

12 Background papers

- None