

Hastings Towns Fund Programme

Project Adjustment Request – draft options appraisal for re-allocation of funds

January 2023

As discussed at the Town Deal Board meeting 21st September 2022 it was stated that there was considerable financial challenge to the council to delivering two Town Centre Core projects without further support. This Project Adjustment Request arises from the withdrawal of the two projects as follows:

- The redevelopment of Priory Street Car Park - £5.188m of TF monies allocated
- The redevelopment of Priory Meadow – shopping centre (Project 1b) west wing - £1.725m TF monies allocated

Total funds for re-allocation: £6.913m.

A. Reasons for the withdrawal of above projects

Project: Redevelopment of Priory Street Car Park

The first Town Centre Core proposal related to the development of a mixed-use scheme at Priory Street Car Park including the possibility of a commercial leisure offer, wet leisure centre, cultural hub and residential units. The mixed-use development opportunity is currently identified in our Local Plan and also in the draft plan. This is an opportunity to implement those plans.

The above development initiative includes the ESK Building, 23 Priory Street (Xtrax Young People's Centre), 24 Cornwallis Terrace (building adjoining Xtrax) and the undeveloped Sea Change owned site (Priory Street). Queensbury House is also a potential inclusion to the proposal to ensure the regeneration plan is comprehensive and addresses all the blight dereliction issues in this part of the town.

The successful delivery of this project was however dependent upon a number of factors, including overcoming challenges linked to land assembly, car parking, archaeological constraints, private sector investment and the development of a viable scheme which also meets the council's town centre objectives.

The Council considered indicative proposals based on market assessments conducted by Motts McDonald and Aspinall Verdi (Property Regeneration Consultants), with early stakeholder engagement and an online community survey. All options showed a considerable viability gap and as an example two of the options aligned with the ambitions stated in the Town Investment Plan as shown below.

Option 1: Cambridge Mews	
Overview:	A mixed-use development with a municipal swimming pool and commercial leisure and other usages - with an inner 'mews'
Description of facilities:	<ul style="list-style-type: none"> • Residential; approximately 60 units • 8 lane pool & changing facilities • Commercial leisure, e.g., cinema / bowling • Gym / multi use studios • Food and beverage / retail • Performance venue / studio space • Mews / plaza
Financial Viability:	Indicative Development and Construction cost: £59,248,776 Net realisation: £25,689,066 Viability / Funding Gap: -£33,559,710 (0% sensitivity)
Sensitivity test	With various levels of sensitivity allowances related to construction cost and sale value (with an assumption of 20% variance for either element) the funding gap could be as high as £45m and as low as £22m.
Officer Assessment:	A large viability gap due to the provision of the public facilities and the 'mews'

Option 2: Sunken Plaza	
Overview:	A mixed-use development with a municipal swimming pool and commercial leisure and other usages – with a large public courtyard facing Priory Square
Description of facilities:	<ul style="list-style-type: none"> • Residential; approximately 60 units • 8 lane pool, leisure pool & changing facilities • Sport courts / parking under • Children's play destination • Food & beverages / retail • Performance venue / commercial leisure • Sunken plaza
Financial Viability:	Indicative Development and Construction cost: £49,525,030 Net realisation: £21,951,600 Viability / Funding Gap: -£28,473,430 (0% sensitivity)
Sensitivity test	With various levels of sensitivity allowances related to construction cost and sale value (with an assumption of 20% variance for either element) the funding gap could be as high as £37.5m and as low as £19.5m.
Officer assessment	A large viability gap due to the provision of public facilities and the 'sunken plaza'

Both the above development proposals for the car park site were to facilitate the delivery of mixed-use development in the town centre core including new homes. The vision set out in our Town Investment Plan was predicated on unlocking key sites within the Council's ownership to drive delivery of these objectives. However, the cost of delivering this project is extremely high, presenting a real challenge for Hastings Borough Council to deliver them at present.

With the council's current financial position, like many other local authorities, this would have been a significant challenge. The risks in pursuing the above project were assessed to be significant and is therefore now withdrawn from the programme.

Project: Re-purposing of Priory Meadow Shopping Centre

Phase 1 of the repurposing of the shopping centre (former New Look Building) is now complete using £337,000 of the Towns Fund grant. This has brought the Job Centre Plus and the GYM Group to the town centre. HBC directly contributed £99,000 towards this project and New River REIT £554,000 (Total Project value being £990,000). The business case for this project was approved by the Town Investment Panel in November 2021.

Phase 2 of the proposal involved further redevelopment of the West Wing of Priory Meadow around Queens Square. This was to provide for a mixed-use development maintaining much of the existing commercial and retail outlets on the ground floor but providing for estimated @62+ new homes on the site.

The indicative project cost for this was estimated at £25.4m delivering approximately 93 housing units. However, this again would also have involved significant investment by the council and its partner (NRR) or a potential private developer, at a time of extreme financial volatility. The project would have also involved complex legal changes to the long lease agreement for the shopping centre, valuations and the profit-sharing agreement between the Council and NRR.

Since the above development proposal Homes England have met with HBC officers and Council leaders and expressed their interest in the following terms: 'Homes England are working with Hastings Borough Council to understand the opportunities that exist and exploring how Homes England can use its resources to support Hastings' regeneration ambitions, as part of the agency's support for the government's levelling up ambitions'.

Although this work is at a very early stage of development and there is no firm commitment it is considered by the council that attempting to take forward such a large development scheme may be an 'ad hoc' solution both to the delivery of new homes and radical repurposing of a key asset in the town centre.

The Council remains committed to the redevelopment of town centre sites, but the high costs means that even with the allocated Towns Fund monies, the Council will not be able to deliver them within the Towns Fund timelines. Therefore, it is proposed the above funds be re-allocated to existing approved projects only.

B. Context in considering the alternatives use of funds

1. **DLUHC Guidance:** new guidance was published in October 2022 which clearly states they will no longer consider new projects for funding as part of any project change request. We also hope this means no further business cases for our profiled projects will need to be submitted.
2. **DLUHC Area Lead feedback:** following recent discussions (December 2022) regarding the re-allocation options, given we had a blanket re-allocation approved in July 2022 (£820k), DLUHC are not likely to look favourably on another all-inflationary re-allocation request. This is so Towns do not regularly submit PARs, cancelling projects to re-allocate fund to others. DLUHC are much more likely to approve a targeted allocation to an existing project which could have substantial and wider measurable economic and social impact.
3. **DLUHC Instructions:** Towns must submit all their business cases and summary documents with Board / Investment Panel approval by end of March 2023 at the latest.
4. Homes England have commissioned some preliminary work to include a property market review and an analysis of the opportunities and constraints at 'Hastings Station Gateway', as well as the development of a high-level vision for the area. The Hastings Station Gateway represents the area around the station. However, at this stage, Homes England are not yet able to commit to any intervention and the scope and parameters of interventions available to Homes England is yet to be confirmed by DLUHC. Any interventions by Homes England will aim to complement the Towns Fund Programme.
5. Inflationary and impact of ongoing recession: the ongoing economic changes since the submission of our investment plan in January 2021 are and will continue to have significant financial impact on the deliverability of our projects, such as:
 - Rising construction costs - [Construction Building Materials - Commentary September 2022 \(publishing.service.gov.uk\)](#); [Building materials and components: monthly statistics - GOV.UK \(www.gov.uk\)](#); [What can we do about rising construction costs? | Construction News](#);
 - Rising inflationary costs – [Ukraine invasion sends UK construction inflation into double figures \(theconstructionindex.co.uk\)](#); [Construction facing 'second wave' of inflation | Construction News](#)
 - Increase in cost of borrowing (where ££ match will now cost more where this is borrowed cash investment). Cost of 50 year borrowing via the PWLB- Public Work Loans Board has risen from under 2% (January 2022) to over 5% (September 2022).

- Market volatility and falling value of the pound – having considerable impact on costs of imported construction materials and goods.

C. Proposed Options for the reallocation of funds

1. **General uplift to all incomplete Town Fund projects** considering the fact many are still in early development and once tenders for construction return the costs are likely to significantly higher.

PROJECTS	Towns Fund Status Allocation		Early Concept (EC) Only (A)	EC and Near Completion (B)	Total with uplift A	Total with uplift B
Green construction, energy and vehicle training centre	£2,638,758	Early Concept	£1,405,590	£1,164,122	£4,044,348	£3,802,880
Hastings Castle	£3,450,069	Early Concept	£1,837,752	£1,522,042	£5,287,821	£4,972,111
Public Realm & Green connections	£2,920,989	Early Concept	£1,555,927	£1,288,631	£4,476,916	£4,209,620
Town Living	£1,037,615	Early Concept	£552,708	£457,757	£1,590,323	£1,495,372
Hastings Commons - Eagle House	£469,527	Early Concept	£250,104	£207,138	£719,631	£676,665
Hastings Commons - 12 Claremont	£2,462,204	Early Concept	£1,311,545	£1,086,232	£3,773,749	£3,548,436
Churchfields	£778,211	Near Completion	£0	£343,318	£778,211	£1,121,529
Hastings co-working, flexible office, community space	£116,732	Near Completion	£0	£51,498	£116,732	£168,230
Former Debenhams Building	£400,000	Near Completion	£0	£176,465	£400,000	£576,465
Priory Meadow shopping centre (Fast Track element)	£349,676	Near Completion	£0	£154,264	£349,676	£503,940
Broadening Futures Together	£417,121	Near Completion	£0	£184,018	£417,121	£601,139
Hastings Commons - Observer Building	£630,472	Near Completion	£0	£278,141	£630,472	£908,613
Hastings Commons - Eagle House - Building Purchase	£435,000	N/A	£0	£0	£435,000	£435,000
Source / Courtyard lift	£65,000	N/A	£0	£0	£65,000	£65,000
To be re-allocated	£6,913,626		£0	£0	£0	£0
TOTALS	£23,085,000		£6,913,626	£6,913,626	£23,085,000	£23,085,000

Definitions:

Early Concept: Business Cases approved, pre-planning approval, pre-tender, subject to significant scope change if costs higher than forecast

Near Completion: Business Cases approved, post-tender, on site, but may have had to de-scoped or may have additional opportunities to expand delivery outputs.

N/A: Not affected by cost changes re inflation

Source Park excluded as completed

Notes:

Uplift A: approximately 53% uplift if funds reallocated to early concept project only

Uplift B: approximately 44% uplift if funds reallocated to all project (early concept & near completion)

Pros and cons

Pros

- Supporting existing projects that are still to tender, reducing the risk of delivery and increasing the likelihood of success for projects already approved
- Extension of the scope of existing projects to deliver more where possible
- Avoids the need to establish a method / justification for reallocation of the funds within the deadline, which may be a challenge

- Towns Fund allocation is fully utilised quickly if approved and projects still able to make adjustment to their scope

Cons

- See B2 above. This option is therefore likely to be rejected by DLUHC
- No assessment of genuine project financial needs, expansion of scope, or value for money
- No clear additionality to the programme outputs and outcomes
- Allocating funding for cost increases may not result in any visible benefit
- Some business cases approved with a phased approach as current budget cannot deliver total project

2. General uplift of 20% (TBA) to incomplete projects and additional funds for projects already having considered delivery on a limited / phased basis (as stated in their business cases).

PROJECTS	Towns Fund Allocation	Status	20% Uplift	Additional Allocation	Total
Green construction, energy and vehicle training centre	£2,638,758	Early Concept	£527,752		£3,166,510
Hastings Castle	£3,450,069	Early Concept	£690,014	£1,889,676	£6,029,759
Public Realm & Green connections	£2,920,989	Early Concept	£584,198	£1,889,676	£5,394,863
Town Living	£1,037,615	Early Concept	£207,523		£1,245,138
Hastings Commons - Eagle House	£469,527	Early Concept	£93,905		£563,432
Hastings Commons - 12 Claremont	£2,462,204	Early Concept	£492,440		£2,954,644
Churchfields	£778,211	Near Completion	£155,642		£933,853
Hastings co-working, flexible office, community space	£116,732	Near Completion	£23,346		£140,078
Former Debenhams Building	£400,000	Near Completion	£80,000		£480,000
Priory Meadow shopping centre (Fast Track element)	£349,676	Near Completion	£69,935		£419,611
Broadening Futures Together	£417,121	Near Completion	£83,424		£500,545
Hastings Commons - Observer Building	£630,472	Near Completion	£126,094		£756,566
Hastings Commons - Eagle House - Building Purchase	£435,000	N/A			£435,000
Source / Courtyard lift	£65,000	N/A			£65,000
To be re-allocated	£6,913,626				
TOTALS	£23,085,000		£3,134,274	£3,779,352	£23,085,000

N.b. Town Living project was also phased but mainly because the second property is still to be acquired. Funding for this second phase is in principle already allocated.

Pros and Cons

Pros

- Allocation of general uplift to incomplete projects based on estimated cost inflation increase of 20/25% (TBA). This provides for greater contingency for the projects and more assurance of delivery
- Remaining funds awarded to two projects which already identified significant need of additional funds to deliver all identified phases in their projects
- The two underfunded identified projects are Hastings Castle and the Public Realm and Green Connections proposals – where the scope has been vastly reduced to reflect budgets available.

- Being able to deliver more and or widening the scope of the above two projects will be able to show greater economic impact for the programme – tourism, perception, private and public investment, and value for money.

Cons

- Verification/ assessment may be required to assess impact and level of assurance achieved on delivery of all the projects
- Reworking of BCR and VFM for the Castle and Public Realm and Green connections projects
- No account taken for additional fund requests already from completed projects (Freedom for works to convert an 5000sqf at Debenham, or Owens for repairs to the building windows also at Debenham).
- See B2 above. This option is therefore likely to be rejected by DLUHC

3. A significant uplift to the Public Realm and Green Connections Project (for example 80% - but TBA)

The Public Realm and Green Connections scheme focuses on delivering high quality, relevant catalytic public realm initiatives, bringing nature into the town and promoting active travel:

- Put People first, delivering Healthy Streets that improve air quality and prioritise active travel
- Build identity, highlighting and preserving heritage, character and charm of the town
- Optimise function of the town centre through intuitive wayfinding and improving connection
- Inspire community-led design through local engagement and staged project implementation
- Enhance sense of place by creating distinctive destinations for activity at the heart of the town and
- Design with nature for ecological and climate resilience

The current project status is:

- Business case for phase 1 approved 7 September 2022
 - Project led by ESCC with collaboration of the Garden Town team
 - Benefit cost ratio of 2.5:1; high value for money, high level of certainty
 - Project value £3,400,000 (first phase)
 - Towns Fund grant approved £2,920,989 (inclusive of uplift)
 - Other match funds (for this phase) £479,011
- The ARUP RIBA Stage 1 design concept initial figures place the construction of the whole scheme at between £8.7m to £9.02m (based on April 2022 tender rates)

- The full scheme would widen the level of interventions in the town centre
- Interventions will complement Homes England programme
- As well as additional real outputs and outcomes, indirect benefit of attracting further investment (private/public)
- Allows ambition of project to deliver distinguishing green 'garden town' public realm within the region
- Compliments the other Towns Fund town centre projects

Option 3A - 80% (TBA) with any balance split across all other (early concept and near completion*) projects

PROJECTS	Towns Fund Allocation	Status	80% of Allocation	Balance	Total
Green construction, energy and vehicle training centre	£2,638,758	Early Concept		£232,825	£2,871,583
Hastings Castle	£3,450,069	Early Concept		£304,410	£3,754,479
Public Realm & Green connections	£2,920,989	Early Concept	£5,530,900	£257,725	£8,709,614
Town Living	£1,037,615	Early Concept		£91,550	£1,129,165
Hastings Commons - Eagle House	£469,527	Early Concept		£41,430	£510,957
Hastings Commons - 12 Claremont	£2,462,204	Early Concept		£217,250	£2,679,454
Subtotal					
Churchfields	£778,211	Near Completion		£68,661	£846,872
Hastings co-working, flexible office, community space	£116,732	Near Completion		£10,300	£127,032
Former Debenhams Building	£400,000	Near Completion		£35,290	£435,290
Priory Meadow shopping centre (Fast Track element)	£349,676	Near Completion		£30,850	£380,526
Broadening Futures Together	£417,121	Near Completion		£36,805	£453,926
Hastings Commons - Observer Building	£630,472	Near Completion		£55,630	£686,102
Subtotal					
Hastings Commons - Eagle House - Building Purchase	£435,000	N/A			£435,000
Source / Courtyard lift	£65,000	N/A			£65,000
Subtotal					
To be re-allocated	£6,913,626				
TOTALS	£23,085,000		£5,530,900	£1,382,726	£23,085,000

**The definition of near completion will be determined via the Investment Panel with information from the programme team to avoid conflicts of interest.*

Option 3B - 80% (TBA) with a selected split* of the balance (early concept project), including Hastings Castle (another phased project)

PROJECTS	Towns Fund Allocation	Status	80% of Allocation	Balance	Total
Green construction, energy and vehicle training centre	£2,638,758	Early Concept		£57,725	£2,696,483
Hastings Castle	£3,450,069	Early Concept		£750,001	£4,200,070
Public Realm & Green connections	£2,920,989	Early Concept	£5,530,900		£8,451,889
Town Living	£1,037,615	Early Concept		£225,000	£1,262,615
Hastings Commons - Eagle House	£469,527	Early Concept			£469,527
Hastings Commons - 12 Claremont	£2,462,204	Early Concept		£350,000	£2,812,204
Subtotal					
Churchfields	£778,211	Near Completion			£778,211
Hastings co-working, flexible office, community space	£116,732	Near Completion			£116,732
Former Debenhams Building	£400,000	Near Completion			£400,000
Priory Meadow shopping centre (Fast Track element)	£349,676	Near Completion			£349,676
Broadening Futures Together	£417,121	Near Completion			£417,121
Hastings Commons - Observer Building	£630,472	Near Completion			£630,472
Subtotal					
Hastings Commons - Eagle House - Building Purchase	£435,000	N/A			£435,000
Source / Courtyard lift	£65,000	N/A			£65,000
Subtotal					
To be re-allocated	£6,913,626				
TOTALS	£23,085,000		£5,530,900	£1,382,726	£23,085,000

**Early concept projects including phased projects. Definitions of early concept will be agreed by the Investment Panel with information from the programme team to avoid conflicts of interest.*

Pros and cons

Pros

- Ensures the TF allocation enhances the *aspirational* Homes England programme – focused on the Station Gateway area
- Aligns with advice from DLUHC, who will look more favourably on a targeted re-allocation rather than a more programme-wide blanket re-allocation of funds
- A transformational project working with the Garden Town, HBC and other TF project leads. It will deliver the ‘Garden Town’ concept promoted in the Town Investment Plan.
- The project will invest in future proofing for climate change with improved surface drainage, ecology, and introduce biodiversity – benefiting the whole town
- Makes Hastings an inspiring and world leading exemplar of a biodiverse town centre with huge potential for promotion and tourism because of the leading names associated with it
- Project already shows high levels of BCR and VFM (Castle BCR is 1.2:1, with medium VFM & medium certainty)
- Greater possible assurance of deliverability – with ESCC as lead
- Ensures the funding is allocated to a project that enhances the Town Centre, encouraging increased footfall that supports the other town centre projects
- Ensures funding is allocated to a project which invests in enhanced walking and cycling infrastructure and better wayfinding infrastructure, supporting other town centre projects
- Will help the town to attract private investment including by Homes England when they start their work, with an improved public realm/ walking and cycling infrastructure already in place
- The last major public realm investment in the Town centre was over 25 years ago
- Funding available for public realm interventions is very scarce (whereas future funding opportunities for the Castle project are possibly greater)
- Helps fulfil condition ‘to identify a clear plan and raise additional funds to widen the public realm investment area of the town centre’ stipulated by Investment Panel as part of phase 1 approval

Cons

- Allocating 100% to this project may still not be enough to deliver all improvements sought to all the identified public realm within the scheme in the town centre. Will need to be closely aligned with proposals from Homes England
- Funding could also be split with the Hastings Castle project (as suggested in option 3B) which is also phased with no secure funding for phase 2. However,

the BCR for the project is lower and deliverability risks higher (being an ancient monument)

- The timeline for the Castle Project (phase 2) will be challenging given its heritage status and obtaining all the permissions and implementation by 2026
- Investment in the 'core' of the town centre (rather than the adjoining Castle location) better protects and enhances other private and public investment enabled through the Town Funds programme
- Maintenance of public realm also needs to be considered in the proposal

4. Allocation of funds on a need basis assessed independently by a consultant

Pros and cons

Pros

- An independent assessment of all incomplete projects and funds allocated according to need
- Possibly a much more clearly assessed process which may be more transparent

Cons

- High risk of missing the deadlines for submission of the final documentation for releasing funds
- Higher admin costs by the employment of further consultants
- Projects are all still at early concept stage and costs are unlikely to be fully known until Year 2 / 3.
- Not clear if consultant report / assessment will offer any better options than those already presented
- See B2 above

D. Next Steps

- Options presented to Town Deal Board, 18th January 2023
- Feedback (written) requested from Board (7 working days)
- Investment Panel consider feedback, discussion with DLUHC to finalise option and inform Board (electronically if required)
- PAR drafted for DLUHC approval (with Board co-chair and 151 Officer approvals)
- Submission of PAR by end of March 2023