



Cabinet report

Date **16 JUNE 2022**

Title **DISPOSAL OF FORMER SPA HOTEL SITE, ESPLANADE, SHANKLIN**

Report of **CABINET MEMBER FOR REGENERATION, BUSINESS DEVELOPMENT AND TOURISM, AND CABINET MEMBER FOR STRATEGIC FINANCE, CORPORATE RESOURCES AND TRANSFORMATIONAL CHANGE**

EXECUTIVE SUMMARY

1. The former Shanklin Spa Hotel site is one of six large regeneration opportunities identified by the council in its Regeneration Strategy approved in 2019. It is also a key element of the “Eastern Bay Vision” agreed in 2019. In July 2021 the Regeneration Directorate invited expressions of interest from developers and investors to submit redevelopment proposals for the site which would advance the regeneration of the Bay area.
2. Bids were received by February 2022 and were appraised by IWC’s Regeneration Board using the key criteria outlined below. Accordingly, the recommended proposal set out in this report takes into account the best contribution from those received: to placemaking impact, the Council’s Regeneration and Corporate objectives, the financial proposal, job creation, risk to the Council, deliverability, procurement and added value.
3. The recommended proposal is for a mixed-use regeneration scheme comprising a thirty room Apart-Hotel (the Island’s first); fourteen private apartments with parking over ground floor leisure/retail/commercial unit. The project also proposes seven refurbished office/workshops in the currently derelict rear arches on the site, a new public climbing wall, a communal garden area and forty new public play and display spaces, to be retained by the council.

RECOMMENDATION

Option 1: Cabinet approve the sale of the freehold interest in the Spa site to the preferred bidder as set out in this report. In doing so delegate the authority to approve final terms following this decision to both the Cabinet Member for Regeneration, Business Development and Tourism and the Cabinet Member for Strategic Finance, Corporate Resources and Transformational Change, in consultation with the Director of Regeneration and the councils Section 151 officer.

CONFIDENTIAL/ EXEMPT ITEMS

4. The information relating to the recommended bid has been submitted in confidence and is considered to be commercially sensitive until such time as a disposal has been approved and the transfer documented such that the sensitive information cannot be used by another party, particularly one of the other bidders, to better its own position. Therefore, the identity of the parties and their bids will remain confidential, save for use by Cabinet.
5. The information provided in confidence which is commercially sensitive is contained within Appendices 3 and 4.

BACKGROUND

6. The Shanklin Spa site extends to circa 0.4 hectares (1.0 acre), opposite Hope Beach on Shanklin Esplanade and comprises a public car park, redundant buildings, derelict storage arches, public toilets (closed) and open grassed areas. The Council owns and operates profitably the cliff lift adjacent, and will continue to do so, therefore the lift is excluded from this disposal, as are the cliff face and path. The site is identified in the adopted Regeneration Strategy as one of six key opportunities to deliver significant change for the Island. The site to be disposed of is shown edged red in Appendix 1 (for illustrative purposes only, actual legal boundary to be agreed by the council's Legal team).
7. In July 2021, as part of the councils Regeneration Strategy, the Regeneration Directorate marketed the site to developers and investors, inviting interest in the delivery of a high quality mixed use development which would provide housing and commercial uses for the site and advance the regeneration of the Bay area.
8. Twenty nine parties reviewed the marketing information, six parties confirmed interest, and in February 2022, two submitted detailed bids. Following IWC appraisal and assessment of the bids, the council's Regeneration Board chose the proposal recommended in this report, taking into account key criteria around placemaking, contribution to IWC Regeneration/Corporate objectives, the financial proposal, job creation, risk to IWC, deliverability, procurement and added value.
9. The local Planning Authority provided guidance prior to marketing, that this is a brownfield site suitable for a comprehensive, sustainable, mixed use redevelopment of high-quality design which reflects the character of the area,

respects neighbouring buildings and uses, is mainly residential, resilient to climate change, and includes contributions towards affordable housing, public transport, highway improvements, improvements to the seawall and coastal defences, and replaces lost public parking. The ground floor frontage should also be appropriate to the activity and vitality of the seafront. Whilst in a Conservation Area, the buildings currently on site are confirmed as suitable for demolition or renovation as part of a comprehensive redevelopment.

10. The proposal recommended in this report includes (subject to planning permission):
 - A 30 room Apart-Hotel
 - 14 residential apartments, each with one allocated car parking space
 - up to 4 retail/commercial units on the ground floor, bringing café culture and a “vibrant and active frontage”
 - 7 refurbished workshops/start-up spaces at the rear, within the existing derelict brick arches
 - a new climbing wall on the existing cliff retaining structure, promoting healthy activity, particularly for young people
 - a landscaped garden for occupiers of the development
 - 40 pay & display public car parking spaces returned to the council
11. The Apart-Hotel would be the first on the Island, offering high quality short and longer term tourism and business visit accommodation, typically for business guests during the working week. Accommodation can be booked for weeks or months at a time and offers a hybrid of hotel services such as room service and cleaning, along with more self-sufficient accommodation similar to serviced apartments such as kitchenette facilities.
12. 14 residential apartments adjoin the Apart-Hotel, sharing the same high quality design elements. Artist’s impressions of the apartments taken from the recommended bid are attached as Appendix 2.
13. The ground floor commercial space comprises up to four retail/leisure/café bar/restaurant units, half of which already has interest from a café/bar operator, creating a vibrant and active frontage to the development and a destination for Shanklin Esplanade, directly opposite the former pier. The design at street level envisages a “public avenue”, with public seating, to promote community engagement whilst enjoying views over the Bay.
14. There are seven derelict arches within the cliff retaining structure and the proposal is to renovate these to provide seven workshop /start-up /incubator units for new businesses and to enable fledgling local enterprises to expand.
15. A new climbing wall is proposed on the retaining wall at the base of the cliff, promoting “healthy activity and (managed) youth activity”.
16. The proposed scheme reduces the number of pay and display car parking spaces, from seventy eight car spaces plus coach spaces to forty pay and display car parking spaces and no coach spaces – a loss of car and coach spaces. The proposal suggests a shuttle bus service could operate to the esplanade, and that

coaches could park in the nearby Atherley Road council car park once holiday makers have been dropped off on the esplanade.

17. The council will work with the developer during the development agreement negotiations to identify any risks and resulting mitigations arising from the development, including ensuring that the climbing wall is safely managed once operational. A community safety audit will be undertaken if necessary.
18. The preferred bidder is an Isle of Wight developer with a proven track record over the last 15 years of delivering redevelopment quickly. They have developed 140 private sector and affordable dwellings and employ 50 Isle of Wight construction workers and consultants. They run an apprenticeship/training programme to enable employees to improve their skills and earning ability.
19. This proposal will therefore create a vibrant centre point for Shanklin Esplanade, for people of all ages to enjoy cafe culture whilst enjoying the views of The Bay; business opportunities for small business to start up or expand; the Island's first Apart-Hotel; a contribution towards either affordable housing or – the buyer suggests - potentially improving the revetment walk between Shanklin and Sandown (whichever is preferred by the local Planning Authority), and a climbing wall to encourage healthy activity. It will generate an estimated 50 jobs, apprenticeships, and in-house training.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

Provision of “affordable” housing for Island Residents

20. Within the Corporate Plan 2021-2025 there are several Key Areas for Action, the first of which is “Provision of “affordable” Housing for Island Residents”. An affordable housing requirement will be part of any planning decision for this development and therefore will add to the Island's supply of affordable housing.

Responding to climate change and enhancing the biosphere

21. As part of the marketing exercise a statement was provided by the local Planning Authority relating to the planning and character of any proposed scheme. In particular this referenced sustainability and resilience to climate change. The buyer has stated that the architectural design is based on a highly efficient block layout using sustainable materials.
22. The second Key Area for Action is “Responding to Climate Change and Enhancing the Biosphere”. The Council has committed to achieving net zero carbon emissions by 2030 in its own business and service delivery, and by 2040 for the Island as a whole. To achieve this in housing development developers must adopt sustainable construction methods. This is a mixed-use scheme and the bidder addresses this in their bid document.

Economic Recovery and Reducing Poverty

23. The proposed development will positively impact the “Economic Recovery and Reducing Poverty” Key Area for Action as the delivery of high quality jobs in the construction of the development, and in the operation of the Apart-Hotel and various commercial uses. The bidder has an established apprenticeship and training programme for its construction team, contributing to skills development and improved earnings capability. The council will be able to ensure the proposed uses are built out through granting a building lease only initially, with the freehold transferring only when the agreed development is complete.
24. The economic impacts of development of this site, with the use of Island based contractors, will make a direct contribution toward residents living in poverty. Indirectly, the terms of the sale of the site will contribute as the Council will benefit from significant ongoing revenue receipts which it will be able to reinvest, according to its priorities, into service delivery. This is in addition to the increased business rates and council tax arising from the development.

Impact on Young People and Future Generations

25. The proposed development will offer a wide range of full and part time employment opportunities and the construction itself will benefit local young people via the developer’s apprentice scheme. The development of climbing wall facility, will also offer new, healthy activity for young people.

Corporate Aims

26. This transaction and the resulting development will deliver significant revenue receipts as set out in the confidential appendix 4, to the benefit of the Isle of Wight Council and its residents, which will contribute toward the Council’s Strategic Finance Aspiration of “Keep the Isle of Wight Council solvent” (net gain of revenue – please see Finance section below.)
27. Corporate aims will be met because the proposal will:

- Enhance businesses’ confidence to invest
- Assist with maintaining a financially balanced and sustainable Council
- Create high quality sustainable architecture improving on the local context
- Provide new residential accommodation, contributing towards housing need targets
- Provide the Island’s first apart-Hotel, offering long term business and tourism stays, with high quality associated expenditure
- Provide new, potentially partially pre-let retail uses in keeping with the local context
- Provide refurbished employment uses, bringing back to life the derelict arches
- Create new community uses, including the climbing wall and public avenue
- Secure future revenue (see Appendix 3 and 4)
- Provide increased Business rates and Council Tax revenue
- Provide revenue from the forty replaced Pay & Display parking spaces

CONSULTATION

28. This report follows a report to the Regeneration Board on the 23 February 2022. The Ward Councillors were consulted in March 2022 and Shanklin Town Council was consulted on Wednesday 18 May 2022. Parking Services have been consulted on the implications for parking revenue and provision.

FINANCIAL / BUDGET IMPLICATIONS

29. There is a clear rationale for the disposal of this site based on both financial and economic grounds on the basis that:

- (1) There is no obvious alternative use for the site that is both deliverable and can provide greater levels of financial, economic and social benefits
- (2) The overall consideration for the site represents good value for money in the context of those social, economic and financial benefits including:
 - a. The social and economic benefits previously described
 - b. The relief to the Council of potential liabilities associated with the derelict site
 - c. The improvement to the Council's overall funding base (Council Tax and Business Rates) albeit that these cannot be relied upon in the medium to longer term due to the complex and inverse relationship it has with the amount of general government funding received
 - d. Offset by a reduction in revenue associated with a loss of car parking spaces of £17,500 per annum

The final terms of the disposal are still to be finalised and a number of options relating to the financial consideration remain available which cannot be concluded until such time as the normal due diligence work, associated with such a disposal has been completed. Nevertheless, there is an option that is agreeable to both parties.

Once the necessary due diligence has been completed, the financial appraisal will be finalised in order to determine which option represents the most favourable outcome to the Council.

30. The financial implications are set out in more detail in the Confidential Appendices 3 and 4.

31. There will be a reduction in parking numbers and revenue but overall, there will be a significant net revenue surplus from the proposed development to the council as set out in Appendix 4.

32. There will be a loss of parking revenue during the construction phase.

33. Redeveloping this site also removes the council's current management and maintenance responsibility for the derelict buildings on site, for which is there is currently no budget allocated.

34. Subject to cabinet approval of this report and section 151 officer consideration of the final project business case agreement will be concluded using the delegations this report provides.

LEGAL IMPLICATIONS

35. There are no unknown legal implications relating to this transaction and the council has the following authority to transact:

36. For the disposal of land, the Council has the power to dispose of property under section 123 of the Local Government Act 1972, which requires it to achieve 'best consideration' in any disposal.

37. For the acquisition of land, the council can acquire property by agreement using its powers under Section 120 of the Local Government Act 1972 for any of their functions or for the benefit, improvement or development of their area and any other enabling powers.

38. In addition, the council could consider using the council's general power of competence under section 1 of the Localism Act 2011 and/or the incidental powers under section 111 of the Local Government Act 1972.

39. The council will be able to ensure the proposed uses are built out through granting a building lease only initially, with the freehold transferring only when the agreed development is complete.

EQUALITY AND DIVERSITY

40. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

41. It is considered that there would be no implications for any of the protected characteristics as a result of this decision to approve.

PROPERTY IMPLICATIONS

42. The sale of this site will remove the on-going requirement to resource its management (both staff time and revenue and capital budgets), especially needed to manage and maintain the derelict buildings at the rear of the site. Whilst derelict buildings remain on site there is also a risk of Corporate Manslaughter if someone were to gain access to the buildings and fatally injure themselves. Demolition is the preferred option for such structures.

43. Many property benefits will flow from this proposal, as the site will be redeveloped, providing much needed housing and start-up commercial space,

the Island's first high quality Apart-Hotel and a greater sense of place for visitors and residents alike with the vibrant and active ground floor frontage, healthy activity opportunities for all ages but particularly the young (the climbing wall) and a greater sense of community for all but particularly older people who will feel more included being able to enjoy both the café culture and seating area of the public avenue while enjoying views of The Bay.

44. On completion of the development, the council will own the remaining pay and display car park (forty spaces).

SECTION 17 CRIME AND DISORDER ACT 1998

45. Crime and disorder issues have been discussed and considered. A single landowner will own the site, selling elements (for example long leasehold apartments) or renting elements (the start-up arches). Having a single site ownership will allow the freeholder to keep control of issues that may arise and deal with them quickly. The planning permission will of course ensure that design minimises opportunity for crime and disorder.

46. There is a much greater chance of crime and disorder with the site as it is currently, as there are derelict buildings on site. These will be removed as part of the development proposals.

OPTIONS

47. Option 1: Cabinet approve the sale of the freehold interest in the Spa site to the preferred bidder as set out in this report. In doing so delegate the authority to approve final terms following this decision to both the Cabinet Member for Regeneration, Business Development and Tourism and the Cabinet Member for Strategic Finance, Corporate Resources and Transformational Change in consultation with the Director of Regeneration and the councils Section 151 officer.

48. Option 2: Cabinet approve remarketing the site in the hope of securing an improved proposal

49. Option 3: Cabinet approve not selling the site, to retain it as is.

RISK MANAGEMENT

50. Risk: the proposed buyer may buy and landbank the site.

Risk management: the proposed buyer has an excellent track record of delivering development, including council property, and the method of disposal will ensure that the site must be developed and cannot be land banked (please see heads of terms attached in the confidential appendix 3).

51. Risk: the local Planning Authority may grant a less valuable planning consent than the scheme requires or require conditions considered unduly onerous by the buyer, leading to a reduction in the purchase price or the buyer withdrawing

Risk management: It is considered likely that the preferred bidder would proceed with an amended scheme permitted by the local Planning Authority, their financial bid for the site would simply be reduced accordingly. There remains a risk that the developer may not proceed however, which cannot be mitigated against entirely. If this happens, the council would remarket the development opportunity.

52. Risk: Pay and display parking availability and revenue is reduced

The proposed development will reduce the number of publicly available car spaces to 40 with a commensurate decline in revenue.

Risk management: Lost physical parking is mitigated by the provision of forty new pay and display spaces which will be handed over to the council on completion. Overall, this lost revenue is significantly improved upon, as detailed at Appendix 4. Car users could be encouraged to park at the top of the cliff and use the IWC owned and operated cliff lift to access the Esplanade, benefitting from the scenic experience and contributing to IWC revenues from the lift. The preferred bidder has also suggested a hopper bus from another council car park, or alternatively use of existing bus services.

53. Risk: Local residents within 200 metres of a pay and display car park can buy an annual permit for £196. If all fourteen apartment residents purchase additional parking permits it would reduce parking availability for the public and reduce council revenue.

Risk management: the council will use best endeavours to prevent this through the wording of the legal transfer documents.

54. Risk:: more second homes

Risk management: the residential apartment element of the proposed scheme is restricted to fourteen units, avoiding the risk of a large and largely empty block of second homes. A marketing scheme will be agreed with the developer to ensure that initial marketing is restricted to locals.

55. Risk: the asset will not have achieved best consideration.

Risk management: a wide marketing exercise has been carried out and an independent valuation has been instructed to confirm best consideration will be achieved.

EVALUATION

56. Option 1: Due to the substantial regeneration benefits for The Bay that will flow from this development, in addition to overall improved financial position of the council, the disposal as set out in this report is recommended.

57. Option 2: the marketing/procurement exercise sought a wide range of potential interest and has resulted in a solid proposal from a purchaser with excellent local credentials and a track record of both delivering quickly and working well with the

council. Re-marketing more widely is highly unlikely to improve on this, would likely cost circa £20,000 in fees plus associated delays, and may result in the loss of the current preferred bidder as they would not wish to risk further time and costs by continuing their interest in the site, having already bid. Accordingly, this option is not recommended.

58. Option 3: Not selling the site does not satisfy several of the council's corporate objectives including maximising value from its property assets and will result in on-going revenue and capital costs to the council in terms of officer time and budget to manage dangerous and derelict buildings, for which there is currently no budget allocated. The risk of Corporate Manslaughter also remains. Accordingly, this option is not recommended.

APPENDICES ATTACHED

- Appendix 1: Site plan (for illustrative purposes only)
- Appendix 2: Proposed development (3D visualisations)
- Appendix 3: Agreed Heads of Terms (**confidential**)
- Appendix 4: Financial considerations (**confidential**)

Cabinet will need to consider if it wishes to discuss this report and accompanying appendices in open session, not referring to confidential items or consider the report and appendices in closed session, enabling discussion regarding confidential items

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