

This report will become public on 5 September 2017

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **C/17/33**

To: Cabinet
Date: 13 September 2017
Status: Key Decision
Head of Service: Andy Jarrett, Strategic Development Projects.
Cabinet Member: David Monk, Leader of the Council

Subject: Varne, The Green, Coast Drive; Development Proposal.

SUMMARY: Outline planning permission was granted last year for 4 large dwellings on this seafront Council owned site. This report includes an options appraisal to assess how best to meet Council objectives and maximise value for money from the asset.

REASONS FOR RECOMMENDATIONS:

The proposal addresses corporate plan priorities by creating jobs, supporting local businesses, enhancing our tourism offer and generates a future revenue stream for the Council, helping to deliver value for money.

The options appraisal assesses various scenarios and identifies the option of development and holiday letting to be preferred as it creates a future revenue stream which can be used to fund future Council services while allowing for a future capital receipt should a decision be taken in future to dispose of all or part of the asset.

RECOMMENDATIONS:

1. To receive and note report C/17/33.
2. To support Option 1, development and holiday lets, as the preferred option. To seek budget approval from Full Council to meet the indicative capital costs outlined in the report and to use Prudential Borrowing to finance the project.
3. Subject to Full Council approval, to progress Reserved Matters, procure the construction of the 4 houses and prepare a detailed plan for the external management, marketing and letting of the houses to holiday makers and visitors to the district.
4. To delegate the management of the project to the Corporate Director (Strategic Development) in consultation with the Leader.

1 BACKGROUND

- 1.1 The site is adjacent to the Littlestone lifeboat station off Coast Drive, Greatstone (see Appendix A, site location plan). There is outline planning permission for 4 dwellings, reference: Y15/1132/SH (dated 21st January 2016) with “reserved matters” of “details of the appearance and landscaping of the site” yet to be submitted.
- 1.2 An options appraisal has been carried out to investigate how best to maximise benefit from the site which is currently vacant.

2 OBJECTIVES

- 2.1 The purpose for investigating various options for the site is to help meet the Council’s vision:

Investing for the next generation – delivering more of what matters

- 2.2 And to implement proposals to meet key objectives of the Council’s Corporate Plan 2017-2020 particularly:

- *More Jobs - to boost the local economy and increase job opportunities through the development of a major new flexible and quality employment offer;*
- *Appearance Matters - support an attractive and vibrant place to live by enhancing the district’s tourism offer and ensuring an attractive coastline; and*
- *Financial Stability – to deliver value for money and increase the funding available to support corporate initiatives to maximise income and alternative funding schemes.*

3 ASSUMPTIONS AND PROGRESS

- 3.1 The following options were investigated for the site using external specialist advice:
 1. Construct the 4 houses and let as high quality holiday rentals creating an ongoing revenue stream.
 2. Construct the 4 houses and let as market rental creating an ongoing revenue stream.
 3. Construct the 4 houses and sell them to create a capital receipt.
 4. Sale of the undeveloped land to create a capital receipt.

For the three options above involving development activities it has been assumed the same build specification.

Details for each option, below, can be found in Appendix B which can be summarised as:

3.2 Option 1: Development & Holiday Rentals

Development and holiday rental would create a positive revenue stream from the second year which can be used to fund future Council services. This also allows for a future capital receipt should a decision be taken to dispose of all or some of the properties in the future.

3.3 Option 2: Development & Market Residential Rentals

Development for market rental purposes would generate a loss, it is therefore not considered to be a viable option.

3.4 Option 3: Development & Market Sale of Completed Houses

This option creates a positive capital return but is not recommended as other options give a better return to the Council and this option carries with it developer and sales risk to the Council.

3.5 Option 4: Sale of Undeveloped Land

This is a viable option as it creates a positive capital return which exceeds the development model (option 3) and can be achieved with minimal resource input. This would give a capital receipt that would make finance available for other Council funded initiatives.

4 RECOMMENDED OPTION

4.1 There are three options which would give an economically positive outcome and Options 1, 3 and 4 are considered to be viable. However, Option 1, development for the purpose of Holiday Lets is preferred, as it would generate an on-going revenue stream to the Council from year two onwards which will help to support the delivery of Council services in the medium to long term.

4.2 This option is also expected to create significant capital growth in the asset over the medium to long term which could provide a capital receipt from complete or part disposal, should a future decision be made by Cabinet.

4.3 This option will require budget approval from Full Council to be included within the capital programme.

4.4 Subject to Cabinet's decision and budget approval, the next step will be to complete the Reserved Matters, procure the construction of the development with an expectation of being on site in 2018 and contract for external management and promotion of the completed properties for holiday rental programmed for 2019/20.

5 RISK MANAGEMENT ISSUES

5.1 The following risk management areas are highlighted

Risk	Seriousness	Likelihood	Preventative Action
Failure to deliver corporate plan objectives	High	Low	The Council owns the site with outline planning and detailed delivery work is being undertaken.
Detailed analysis shows the site is not financially viable	High	Low	Expert studies and reports demonstrate a range of options and external input will continue to be commissioned through the ongoing development process.
Not achieving holiday rental targets	Medium	Medium	Advice has been sought from external specialists to highlight current market demands and returns. Use well known marketing specialist for management of rentals.
Value for money not realised	Medium	Medium	Detailed financial appraisal has been undertaken to directly support delivery decision.
Expected timescales not met	Medium	Medium	Detailed programme to be developed and monitored with critical dates highlighted. Resources to be secured to deliver the project.

6 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's comments (DK):

There are no legal implications arising directly out of this report although legal advice may be required in the future to implement the Option selected by Cabinet.

6.2 Finance Officer's Comments (LW)

- i) No budget provision currently exists in the approved General Fund capital programme for the works identified in options 1, 2 & 3 of appendix B. If Cabinet support one of these options then budget approval will need to be sought from Full Council.
- ii) Options 1 & 2 have been modelled on the assumption that Prudential Borrowing will be used to finance the capital cost, including providing for

the Minimum Revenue Provision (MRP) charge to the General Fund over the estimated life of the assets.

- iii) The financial assumptions used in the four options have been reviewed by Financial Services and appear reasonable. The modelling clearly shows that the option1, development and rental for holiday purposes, provides a solid and increasing revenue return over time after making a small loss in the first year. Option 2, market residential rents, should be discounted as it is not financially viable. The sale of the undeveloped land provides the best capital receipts return.

7 DIVERSITIES AND EQUALITIES IMPLICATIONS

7.1 There are no diversity or equalities issues arising from this report.

8 CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councilors with any questions arising out of this report should contact the following officer prior to the meeting

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The following background documents have been relied upon in the preparation of this report:

Appendices:

Appendix A: Site Location Plan

Appendix B: Varne Business Case and Options Appraisal (Restricted report)

Appendix 1: Holiday Rent Detailed Cost Projections (Restricted report)

Appendix 2: Market Rent Detailed Cost Projections (Restricted report)

Appendix 3: Build Cost Plan Report (Restricted report)