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Report Number **A/19/16**

To: Council
Date: 20 November 2019
Status: Key Decision
Responsible Officer: Andy Blaszkowicz, Assistant Director - Environment & Corporate Assets
Cabinet Member: Councillor David Monk, Leader of the Council
Councillor John Collier, Cabinet Member for Property Management and Grounds Maintenance

SUBJECT: Budget Approval for Folkestone Beach Chalets Scheme

SUMMARY: This report proposes changes to the Council's capital programme including the capital funding implications. The capital works are a request from the Trustees of the Folkestone Parks and Pleasure Grounds Charity to provide capital funding of £500,000 to support the renovation of 16 of existing beach chalets, the demolition of the remaining 58 beach chalets and the installation of 120 new beach chalets at Marine Walk, Folkestone.

RECOMMENDATIONS:

- 1) To receive and note report A/19/16.
- 2) To approve the change to the Council's capital funding programme to include £500,000 to be met from Prudential Borrowing to support the Folkestone Parks and Pleasure Grounds Charity's Folkestone Beach Chalets Scheme.

1. BACKGROUND

- 1.1 The District Council of Folkestone and Hythe, acting as trustee for the Folkestone Parks and Pleasure Grounds Charity, is the landlord of 74 beach chalets at Marine Walk, Folkestone, adjacent to the Lower Sandgate Road.
- 1.2 The net cost of operating the Charity is met through the General Fund and is charged as a special expense to the Council Tax payers of Folkestone & Sandgate.
- 1.3 On 16 October 2019 the Trustees of the Folkestone Parks and Pleasure Grounds Charity considered the Folkestone Beach Chalets Scheme and approved to seek capital funding of £500,000 from the Council to meet the cost of the project.
- 1.4 On 13th November 2019 the report was presented to Cabinet to seek approval from Full Council to provide capital funding of £500,000 to support the renovation of 16 of existing beach chalets, the demolition of the remaining 58 beach chalets and the installation of 120 new beach chalets at Marine Walk, Folkestone.
- 1.5 In summary the scheme provides for the renovation of 16 existing beach chalets, the demolition of the remaining 58 chalets and the acquisition and installation of 120 new chalets on land owned by the Charity at Marine Walk, Folkestone. The proposed scheme will provide the Charity with a sustainable net increase in income helping to improve its financial position over the longer term.
- 1.6 From 1997 to January 2018, all of the beach chalets had been leased to one tenant, who were responsible for the individual rental agreements of each chalet. The general condition of the chalets and infrastructure was deteriorating and the decision was made to terminate the existing lease. On the 4th January 2018 the Huts were brought back into Council control.
- 1.7 At the time the Council agreed to offer leases to the existing chalet occupants that agreed to the council's new terms. The majority of the leases commenced 4th January 2018 and are all coterminous, expiring 4th January 2020. The leases contain a mutual break option, operable from 5th January 2019, however none of the leases have been determined in this way. The leases have been excluded from the protection of the Landlord and Tenancy act 1954 meaning the tenants do not have a right to renew the lease at the end of the expiry date.
- 1.8 All the beach chalets have been inspected externally and any that were empty upon return to the council have additionally been inspected internally. They have had minor works completed where the financial implications were minimal to allow them to be re let for 2 years, these leases run out on the 4th January 2020.
- 1.9 There are 74 chalets, 22 are currently vacant with 52 tenanted. 22 have been withheld because the cost to make them ready for use is nominally in excess of £1000.
- 1.10 For 2019/20 the total annual income generated by leasing the chalets is forecast to be £40,400, with an annual maintenance budget of £20,000 resulting in a projected net income of £20,200 for the year. This position is not considered to be sustainable in future years due to the current condition of the chalets and infrastructure and the increasing decline in their condition.
- 1.11 Since the Council took control of the chalets in 2018 there have been significant interest in the buildings. To date there has been 128 expressions of interest from the

public wishing to lease a chalet. 67 of these reside within the Folkestone/Sandgate area, 19 within the rest of the district and 42 either unknown or outside the district. The interest has been received without the council advertising the space and therefore demand is considered high.

2. PROPOSAL

2.1 In summary, the proposed £500,000 capital scheme is for the following programme of works;

- Renovate the 8 tiered chalets
- Renovate 8 pitched roof chalets (Numbers 20-27).
- Undertake engineering works to stabilise and support the cliff.
- Undertake infrastructure improvements (walls, surfacing, steps, disabled access)
- Undertake drainage improvements
- Install 120 wooden chalets (3 sizes to installed)

3. OPERATING INCOME & EXPENDITURE

3.1 The financial model developed for the Beach Chalets scheme has been based on the following assumptions; *all figures rise by 3% annually.

- Rental charges set ranging between £850 and £1200 depending on size and type of chalet.
- £14,500 (£100 per chalet) is put aside for annual maintenance. After 5 years this increases to £25,375 (£175 per chalet). Capital financing cost over years 1 to 10 only (see section 4, below). Legal fees are charged at £100 for each lease charged in the first year and 15 expected to turnover per year.
- Management Costs £25 per chalet.
- Insurance £20 per chalet.
- Occupation of the chalets is as follows;
 - Year 1-3 = 80%
 - Year 3-10 = 95%

3.2 Figure 1: Cumulative income shows the financial income over the lifetime of the scheme design.

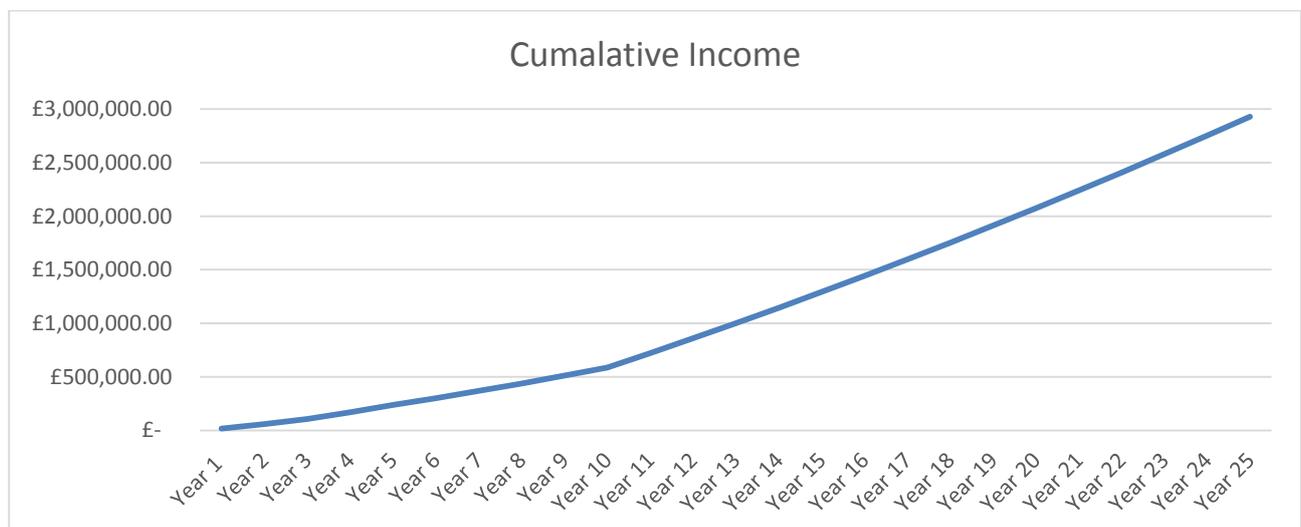


Figure 1: Cumulative Income

3.3 Figure 3: 5 year net income forecast shows the income position after 5 years to the Charity.

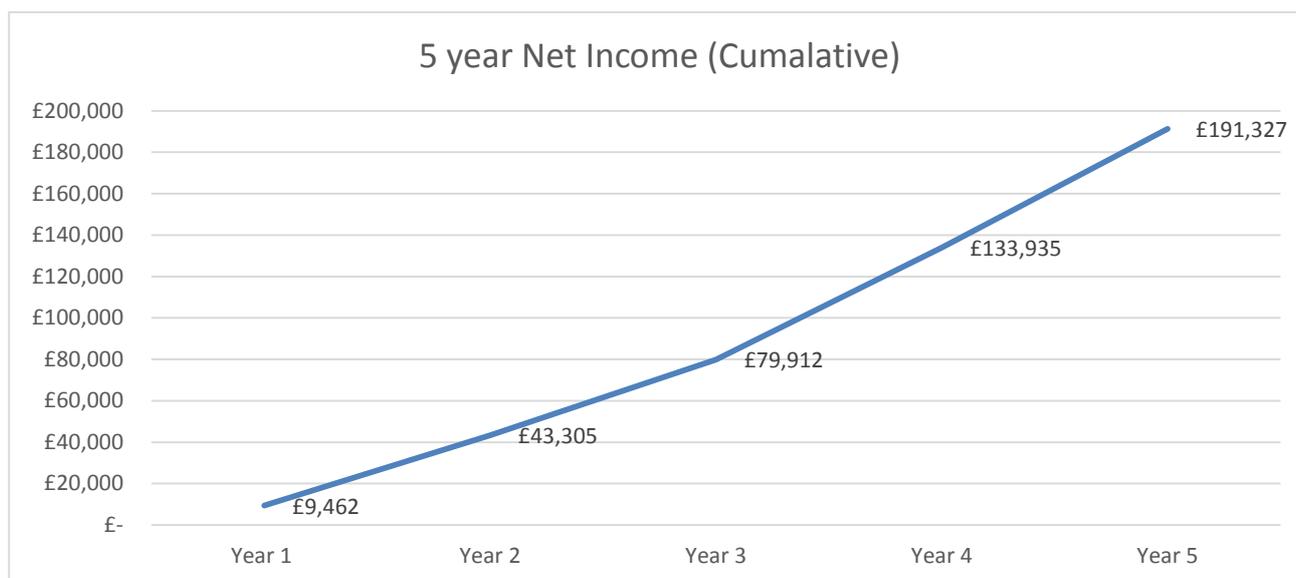


Figure 3: 5 year net income forecast

3.4 Table 1: Annual Net Return details the net income, after all costs, for the proposal to year 10. The reduction in income at year 6 can be attributed to the increase in maintenance cost planned from this point.

Table 1: Annual Net Return

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Income	£ 9,462	£ 33,844	£ 36,606	£ 54,024	£ 57,392	£ 52,949	£ 56,057	£ 59,144	£ 62,210	£ 65,253
Gross Income	£ 113,348	£ 116,748	£ 120,250	£ 138,429	£ 142,582	£ 146,735	£ 150,888	£ 155,041	£ 159,194	£ 163,347
Operating Costs	£ 45,640	£ 24,658	£ 25,398	£ 26,160	£ 26,945	£ 35,540	£ 36,585	£ 37,651	£ 38,738	£ 39,848
Financing Costs	£ 58,246	£ 58,246	£ 58,246	£ 58,246	£ 58,246	£ 58,246	£ 58,246	£ 58,246	£ 58,246	£ 58,246

4. FINANCE

4.1 The Charity does not have the resources in hand to meet the £500,000 capital cost of the proposed scheme and will require the Council to meet the cost through a capital contribution. This is suggested to be financed through prudential borrowing on the basis that this scheme generates a net benefit to the Charity and therefore reduces the burden

to the Council on the General Fund. The budget and capital resources for the proposed scheme will need to be approved by the full Council as it is not included in the Council's current capital programme. For the purpose of the financial model for the proposed scheme, the indicative annual capital financing cost is estimated to be £82,000. This means the total finance cost will be £582,000 over the planned borrowing period of 10 years and assumes an interest rate of 3% on a loan from the Public Works Loan Board (PWLB). The financial model for the scheme, outlined in section 3 of this report, provides for the Charity to meet the Council's annual capital financing costs over a 10 year period from the gross additional revenue income generated.

4.2 The proposed additional borrowing of £500,000 can be contained within the Council's existing authorised borrowing limit of £96.5m.

4.3 The proposal returns £2,715,000 over the lifetime of the scheme (25 years).

4.4 The impact to the Charity's revenue budget from the projected net additional income and the demand on the Special Expense met by the Council from the proposed scheme will be taken in to account in future annual budget setting rounds.

5. PROGRAMME OF WORKS

5.1 The council does not need to give notice to bring the leases to an end of the expiry date of the 4th January 2020. The Charity will be offering current tenants first refusal on the new chalets.

5.2 The Engineering & Buildings team will collate a full specification of works to be undertaken. Working with procurement this will be advertised as two separate tenders, one to undertake all the groundworks, and the second to supply and build the chalets.

5.3 Planning permission will have to be applied for.

5.4 Work is anticipated to commence in early February in line with planning permission approval. Works are anticipated to continue for a period of approximately 12 weeks, with a view to have new tenants in the chalets in early May 2020. Officers recommend that the leases are granted for a two year period on a non-secure basis.

6. RISK MANAGEMENT ISSUES

6.1 There is minor risk associated due to the amount of borrowing, however the apparent demand for beach chalets is considered to be suitably high to offset the risk.

7. CONCLUSION

7.1 The proposal set forward within this report returns an immediate, and sustainable return on investment for the Charity helping to improve its financial position with the potential

to reduce some of the financial burden to the Council through the Special Expense charged to the Council Tax payers of Folkestone and Sandgate only.

7.2 Appreciation has been given to the setting and environment that the beach chalets are found in. A high provision of maintenance funding has been put in place to ensure the scheme is self-supporting throughout the 25 year design life.

7.3 Offering internal repairing leases minimises the impact of the maintenance burden on the Council and allows the tenants a restricted option to utilise the chalets as they see fit.

7.4 Providing the option for existing tenant's first refusal on the new chalets should ensure a smooth transition to the service and minimise any reputational risk.

8. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

8.1 Legal Officers Comments (NE)

Legal will ensure that the provisions of the Charities Act 2011 are adhered to.

8.2 Finance Officers Comments (LW)

The main financial implications of the proposed scheme are outlined in section 4 of the report. The Charity does not have internal resources available to it to meet the capital cost of the scheme and therefore will need the Council to approve a capital contribution for this. The indicative capital financing cost has been prepared by Financial Services. The proposed borrowing for this scheme can be contained within the Council's authorised borrowing limit of £96.5m for 2019/20. The net cost of the Charity is met as a Special Expense charged to the Council Tax payers of Folkestone and Sandgate only.

9. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors 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:

None

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Andy Blaszkowicz, Assistant Director Environment and Corporate Assets