This report will be made public on 2 February 2022

Folkestone & Hythe District Council

Report Number **C/21/78**

To: **Cabinet**
Date: **10 February 2022**
Status: **Key Decision**
Responsible officer: **Andy Blaszkowicz – Director Housing & Operations**
Cabinet Members: **Councillor John Collier, Cabinet Member for Property Management & Grounds Maintenance.**

Subject: **Greatstone Holiday Lets (The Varne) – Development Update**

SUMMARY: The report provides an update to Members regarding the current position of the Varne site, Coast Drive, Littlestone. In September 2017 Cabinet (report No C/17/13) approved the development of the land known as the Varne on Coast Drive, Littlestone with the following summary "Outline planning permission was granted last year for 4 large dwellings on this seafront Council owned site. A report has been written that includes an options appraisal to assess how best to meet Council objectives and maximise value for money from the asset".

Cabinet approved Option One of the report - development of the land for holiday lets, to progress the Reserved Matters application and to use Prudential Borrowing to finance the project.

This report updates Members on the Reserved Matters application to achieve detailed planning permission and considers whether development of the site is now the best option following inflation linked to Brexit and Covid-19 and changes to the Public Works Loan Board (PWLB) borrowing regime.

The report also considers a number of offers that have been made for the site that are considered to be above market value.

REASONS FOR RECOMMENDATIONS:

The council has received a number of offers for the disposal of the site which need to be considered by Members. The report also updates Members on the project's planning status.

RECOMMENDATIONS:

1. **To receive and note report number C/21/78.**

2. **To note that a Reserved Matters application was submitted and full detailed planning permission was granted in November 2021.**

3. **To agree that Offer 6 for the disposal of site represents best value to the Council and provide delegated authority to the Director, Housing & Operations to commence legal work to conclude the deal.**

1 BACKGROUND

1.1 In September 2017 Cabinet agreed to develop the site for Holiday Letting as a revenue generating opportunity. The report detailed a business case based on a cost plan prepared by B&M cost consultants in March of the same year. Full Council approved the budget for the scheme of £1.959m on 15 November 2017 (minute 54 refers).

1.2 An open tender procurement for lead consultant was completed in May 2018 resulting in Y&N being appointed. Following extensive exploration of their design and extensive value engineering to reduce cost, the final cost plan in August 2019 showed a total budget requirement of £2.373m. This was in excess of £400k of the approved budget agreed in the Medium Term Capital Plan (MTCP).

1.3 It was decided to re-procure ON Architecture, who were responsible for the outline planning design to try and design the scheme within the agreed budget. The cost plan completed in September 2020 valued the scheme at a total budget of £2.344m. Leaving the scheme over budget by some £385k from the 2017 cost plan. This demonstrated that it would not be possible to deliver the scheme within the agreed budget.

1.4 A significant pressure on the cost (as at December 2020) was the inflation within the construction industry in the period between the B&M cost plan and the final cost plan. According to the BCIS index an inflation rate of 10.63% would need to be applied to the B&M total raising it from £1.959m to £2.120m. This suggests the location and site specific cost pressures and the implications relating to Brexit and Covid-19 are in the region of £223k and inflation of £161k on the BCIS national rate.

1.5 Officers are aware of further significant inflationary rises in the construction market since the On Architecture cost plan was completed which will add further significant budget pressures to the project.

1.6 The financial modelling tool used to assess the initial holiday let viability has been re-run (Dec 2020) using the latest cost plan information. A risk allowance for Brexit and Covid-19 and inflation rates as estimated by the cost consultant were added. With the total budget value of £2.45m and fresh rental figures the scheme would show a revenue deficit of £20,630 in year 1 followed by a positive revenue return rising from £10,076 in year 3 to £122,755 by year 10. This represents 3.9 % return on investment from year 7 onwards. However the average return over the 10 year period of the model is a modest 2.54%. This does not include further inflationary price increases seen in the last year (2021).

The modelling assumes the scheme is financed from prudential borrowing over 50 years at an interest rate of 2% with an annual capital financing cost of £77,700.

1.7 It should be noted that the government's recent changes to the PWLB borrowing regime now explicitly prevent local authorities using prudential borrowing to finance capital expenditure on schemes where the main intention is to generate a commercial return. The changes permit borrowing for housing but in this case the provision of luxury holiday accommodation may be viewed as a project for commercial return. This could potentially jeopardise the council from being able to access relatively cheap PWLB borrowing for its wider capital programme. The risk free option would be to dispose of the undeveloped land now that it has full planning permission and achieve the capital receipt to support the council's future capital investment plans.

1.8 The site was valued by Sibley Pares in November 2020 at £460k with full planning permission, set against the value of the site without planning estimated at £30k. The value of the houses completed is estimated at £2m although due to the premium nature of the houses a higher value may be realised.
Officers contacted Sibley Pares in November 2021 to request that the valuation was updated – The RICS registered valuer confirmed that the value of £460k still represented market value.

2. PLANNING

2.1 A Reserved Matters application was considered at the November 2021 Planning Committee and full planning permission was granted with the decision notice being dated 6th December 2021.

2.2 The panning consent will lapse in 2 years from the above date.

3. OFFERS RECEIVED FOR THE SITE

3.1 An approach was made to the Council in autumn 2021 to see if we would consider selling the freehold interest in the site. Following this initial approach an offer of £600k was made in October 2021. Whilst this offer was far in excess of the Council's independent valuation for the site it was decided to appoint Motis Estates to see if a higher value could be realised should members decide to dispose of the site.

3.2 Motis Estates were engaged in late November 2021 and marketed the site for a period of 6 weeks. A further 5 offers were received for the site. The offers are shown in the table below at 3.3.

3.3

Offer	Value
1	£600,000
2	£621,000
3	£675,000 + 1.5% of GDV after sale of units
4	£700,000
5	£705,500
6	**£711,000**

3.4 Motis Estates recommendation is to proceed with **Offer 6** as although Offer 3 has a potential higher figure (depending on final sales figures), they have calculated that the potential GDV of £2,400,000 would equate to £36,000 (1.5%) at the end of the project. This would match the total figure of Offer 6 but add an element of risk.

3.5 The agent's fee for marketing the site is 0.75%.

4. AGREEMENTS NECESSARY

4.1 It is suggested that the Director, Housing & Operations be authorised with the agreement of the Cabinet Member for Property Management and Grounds Maintenance to conclude the disposal contract for the land.

4.2 The Council has incurred £111k in design fees and other preliminary costs for the project to date which have been met from the capital budget of £1.959m and financed from prudential borrowing. The decision to dispose of the site will mean these costs are required to be written off to the General Fund in the current financial year.

5. RISK MANAGEMENT ISSUES

5.1 The following risk management areas are highlighted.

Risk	Seriousness	Likelihood	Preventative Action
Rising construction costs leading to the project being unviable for the Council to proceed with the development.	High	High	Dispose of the site for the highest offer leading to a substantial capital receipt for the Council.

Recent changes to the PWLB borrowing regime could potentially jeopardise the council from being able to access relatively cheap PWLB borrowing for other capital projects within its wider capital programme.	High	High	Dispose of the site for the highest offer leading to a substantial capital receipt for the Council removing the requirement to borrow funds for the project.

6. CONCLUSION

6.1 Following two cost plans the project costs have escalated to a point where they are outside of the current budgetary framework.

6.2 Recent changes to the PWLB borrowing regime could potentially jeopardise the Council from being able to access relatively cheap PWLB borrowing for other capital projects within its wider capital programme.

6.3 Offers have been received from the market for the freehold acquisition of the site that are in excess of the market valuation received from Sibley Pares.

6.4 Officers recommend that **Offer 6** is accepted and the Council dispose of the site.

6.5 The preliminary cost of £111k incurred to date for the scheme is required to be written off to the General Fund.

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 **Legal Implications: (NM)**

The Council has a duty not to dispose of an interest in land for less than the best consideration reasonable obtainable without the consent of the secretary of state. The contents of the report adequately deals with this duty.

Legal Services will be involved with the sale of the land once terms have been agreed.

7.2 **Financial Implications: (LW)**

The key financial implications are outlined in the report. Although the preliminary cost incurred of £111k will have to be charged to the General

Fund in the current financial year, the proposed capital receipt from the sale of the land will qualify under the government's 'Flexible Use of Capital Receipts' Guidance and could be used towards one-off revenue costs delivering ongoing revenue savings or efficiencies. Alternatively the capital receipt will be available to meet the Council's future capital investment plans.

7.3 **Diversities and equalities implications: (AB)**

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

7.4 **Environmental Implications: (AT)**

There are no direct climate change implications arising from this report. The report provides an update for Cabinet on progress with the project and puts forward a proposal for the disposal of the site. The proposed development has approval through outline planning permission 15/1132/SH and reserved matters permission 19/0049/FH. Emissions from the development (construction, energy use, waste, water consumption, etc) would be determined by the requirements of the planning permissions already in place.

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officers prior to the meeting:

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The following background documents have been relied upon in the preparation of this report: None