

CABINET



Report subject	Bistro on the Beach redevelopment
Meeting date	24 June 2020
Status	Public
Executive summary	<p>To deliver a new year-round destination visitor attraction and local amenities on Southbourne beach featuring:</p> <ul style="list-style-type: none"> Fully accessible public lift from cliff top car park to promenade with viewing & interpretation point New restaurant with external dining terrace New public toilets and beach office 16 Beach Lodges offering short stay holiday accommodation Spa treatment room facility for Beach Lodge guests <p>Delivery will be subject to securing planning consent.</p> <p>The scheme would be funded via prudential borrowing over 25 years, repaid from new net income from the development.</p> <p>Three options have been considered:</p> <ol style="list-style-type: none"> Comprehensive redevelopment (recommended): Results in a budget surplus Do nothing: a budget pressure Demolition and less comprehensive scheme (kiosk and beach huts): a budget pressure <p>Option of repair to existing facility has been discounted following structural review.</p>
Recommendations	<p>It is RECOMMENDED that:</p> <p>Cabinet & Full Council to approve full redevelopment scheme option 1, to be funded via prudential borrowing.</p>
Reason for recommendations	<ol style="list-style-type: none"> Supports the ambitions and outcomes for the Council's Corporate Plan and Seafront Strategy Resolves a £104k a year budget pressure from lost commercial activity when the current building closes in 2023 Generates significant new revenue after borrowing costs covered, for the Council to support vital services Introduces new public amenities including full accessibility to Southbourne beach for the first time

	<p>5. Introduces a transformational premium year-round visitor attraction, drawing new visitors to the conurbation, contributing to wider economic spend, capitalising on expected growth in 'staycation' domestic holidays</p> <p>6. Replaces existing public amenities (toilets and beach office) which might otherwise be lost when building closes down</p> <p>7. Encourages year-round use of the beach by families staying in Beach Lodges and more accessible year-round restaurant offer which will make for a safer promenade environment for all</p> <p>Targets improved visitor satisfaction rates for Southbourne beach, currently one of the lowest performing beaches within BCP for satisfaction rates</p>
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Corporate Director	Bill Cotton
Contributors	Chris Saunders, Shirley Haider, Noel Oliver, Gareth Dop, Helen Tavener, Andrew Emery, Rebecca Whelan-Edmonds, Andrew Brown, Daniel Povey
Wards	East Southbourne & Tuckton
Classification	For Recommendation

1. Background

- 1.1.1 Current 'Bistro' leisure building at Southbourne will have reached the end of its useful economic life upon termination of current restaurant lease in March 2023
- 1.1.2 This loss will result in a financial pressure of £104k to the Council's Medium Term Financial Plan (MTFP) by 2023, if not earlier due to covid lockdown limiting trading potential in the near-term.
- 1.1.3 The full business case (attached) outlines a comprehensive redevelopment on the same footprint. Key elements of the build include:
- Beach office, public toilets, store
 - Larger restaurant with up to 120 internal covers and 100 external covers plus a separate kiosk
 - 16 overnight stay beach lodges for short term holiday rental
 - A spa facility
 - A 12-person capacity lift linked by walkway to the cliff top car park, providing full access to the promenade
- 1.1.4 Capital Cost Cash Flow: An independent construction cost plan has been prepared by Currie & Brown (see appendix 3). The total project cost,

including a 15% construction contingency is £6.84m (see high level breakdown below)

Item	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total Cost £000's
Demolition Works		215		215
Shell & Core Works		2,260		2,260
Fit Out Works (excl. restaurant)			1,151	1,151
External Works		300	370	670
Prelims, Profit & Overheads			790	790
Cliff Works		103		103
CDM		1	1	2
Inflation			100	100
Professional Fees, inc surveys	100	350	83	533
Statutory Services		16		16
Employers Agent		22	3	25
Legal		10		10
Beach Lodges furnishing			55	55
Sub Total	100	3,277	2,553	5,930
Contingency @15%				910
Grand Total	100	3,277	2,553	6,840

Excluded from this cost summary is the internal fit out of the restaurant and kiosk, which would be specified and undertaken by the restaurant operator once appointed following open market tender. Project timeline proposes to tender and appoint operator spring 2021, prior to site works, winter 2021 – spring 2023.

1.1.5 Images of the current building:





1.1.6 Images of the proposed timber clad new building (below). Note that the new building sits within the footprint of the existing structure with the current depth of public promenade maintained.





1.2 Alternative options considered:

1.2.1 Option 2 do nothing. Results in loss of current asset, due to poor state of the building, by 2023. This places a permanent £104k annual MTFP pressure on the budget and results in loss of amenities such as toilets and potentially puts pressure on the Blue Flag award for this beach, with impacts for the local tourism economy.

1.2.2 Option 3 demolition and replacement with low cost temporary kiosk and toilets. This option would carry a budget pressure as the development would not generate sufficient to cover the cost of the work due to the likely £200k demolition costs for the current building. On top of this, it would also not address the £104k MTFP budget pressure from loss of current commercial activity

1.3 Post covid-19 recovery and growth prospects for domestic tourism:

1.3.1 Prior to Covid-19 the Dorset Tourism Study, prepared for BCP Council and the Dorset LEP identified a strategy for growth for the tourism economy through improving productivity by attracting more visitors off-peak and reducing the impacts of seasonality. The year-round destination proposals in this business case are designed to address this challenge.

1.3.2 Visit England has conducted national consumer sentiment research during the Covid lockdown (April 2020) and has identified coastal areas and the South West in general as being the top destinations domestic holiday makers are looking to re-book. Coastal resorts such as the BCP area should enjoy a faster recovery than city destinations where social distancing and other hygiene confidence-inducing measures may be harder to implement.

- 1.3.3 BCP's tourism sector, through schemes such as this, has an opportunity to take advantage of a post-Covid increase in staycations. In order to capitalise on turning a short-term bounce in demand into a longer-term trend, the resort will need to focus on improving the quality, authenticity of experience and environmental sustainability of its offer with many more tourists continuing to value the impact of their travel on the planet. This proposed Southbourne scheme is well placed to meet this emerging opportunity with an innovative and sustainable destination experience, taking the Council's successful business model with Bournemouth Beach Lodges to the next level.
- 1.3.4 The site currently accommodates 25 day-use only beach huts on the first floor, of which 14 are annuals and 11 casual hire. Under all scenarios considered in this business case, the day use beach huts will not be replaced either within the new development or in the do-nothing option resulting in building closure. This is due to the lack of alternative locations at Southbourne to re-house the huts. Re-provision of the huts within the scheme footprint is not possible due to requirement to generate a high yield per square metre in order to fund scheme costs via borrowing. The new public lift from cliff top to promenade and new amenities will provide wider benefits for BCP residents and visitors. Annual hut tenancies are subject to contract agreement each year with clause provision enabling the Council to terminate if required. The programme anticipates that tenants will be able to retain their current huts through to early September 2021.
- 1.3.5 Ward Councillors for East Southbourne & Tuckton as well as adjacent West Southbourne have been consulted.

2. Summary of financial implications

- 2.1.1 The proposed scheme is to be funded from prudential borrowing over 25 years, paid back from net income generated by the new restaurant and beach lodge operations. Any borrowing will need to be repaid regardless of income generated. The Council would be taking on a fixed debt repayment schedule whilst income streams may be variable. Mitigating this risk, the financial model assumes a higher Invest to Save borrowing rate of 5.5%, as opposed to the current prudential borrowing rate of 2.35%. Sensitivity modelling also shows that income could drop by a further 3% against the mid estimate for the scheme to still be viable.
- 2.1.2 The financial case has been prepared with and reviewed by Strategic Finance and is detailed at Appendix 2.

Table 1: Headline summary

	Invest to Save 5.5% rate		
	Worst (£'000s)	Mid (£'000s)	Best (£'000s)
16 Lodges net income	(676)	(772)	(869)
Lodges revenue costs	325	325	325
Lodges net profit	(351)	(448)	(545)
Restaurant lease income	(80)	(90)	(100)
Total net income	(431)	(538)	(645)
Scheme cost	6,849	6,839	6,829
Annual borrowing cost	510	510	510
Net cost / (surplus) to Council	79	(28)	(135)

- 2.1.2 The Invest to Save medium risk rate reflects a Risk Premium uncertainty around future income streams because of Covid 19. Should this risk fall away by 2023 commencement of operations then the net surplus may increase by up to £145k a year reflecting the current prudential borrowing rate of around 2.35%.
- 2.1.3 A full 25-year cash flow forecast has been prepared (Appendix 2) and this shows the scheme generating a net surplus of £2.54m over 25 years

Table 2: Summary 25-year cash flow forecast:

All figures
in £'000s

Income	Assumptions	years 1 - 5	years 6 - 10	years 11 - 15	years 16 - 20	years 21 - 25	Total over 25 years
16 lodges	assume 3% annual increase	(4,101)	(4,754)	(5,512)	(6,390)	(7,407)	(28,164)
restaurant	5-year rent review @ 3% increase	(236)	(455)	(469)	(483)	(498)	(2,141)
Gross Income		(4,337)	(5,209)	(5,981)	(6,873)	(7,905)	(30,305)
Operational Costs							
Annual running costs	assume 2.5% annual increase	1,706	1,931	2,184	2,471	2,796	11,088
Major Repairs	based on 0.8% asset value from year 10	0	68	368	417	471	1,324
Operational Spend		1,706	1,999	2,552	2,888	3,267	12,412
Net surplus before borrowing		(2,631)	(3,210)	(3,429)	(3,985)	(4,638)	(17,893)
Prudential Borrowing	Medium Risk Invest to Save 5.5%	2,550	2,550	2,550	2,550	2,550	12,750
Net Surplus		(81)	(660)	(879)	(1,435)	(2,088)	(5,143)
MTFP pressure (lost income)		520	520	520	520	520	2,600
Net Surplus plus MTFP pressure		439	(140)	(359)	(8915)	(1,568)	(2,543)

2.1.4 Table 1 presents a typical year income projection. Table 2, the 25-year cash flow, includes the net impact of the MTFP pressure from the loss of current

facilities. It should be noted that years 1 to 3 would carry a budget pressure due to rent relief for the first years of operation of the restaurant, reflecting the high set up costs to fit out the facility. We have estimated a fit-out cost of £220k. The restaurant would be handed to the operator as an empty shell.

- 2.1.5 Subject to approval by Cabinet (and full Council) the project would commence August 2020, with site works from September 2021 and complete by May 2023. On-site works in 2022 may necessitate some temporary catering offer and agreement with current tenant to vacate site early. There is an un-costed risk here around early termination of the current restaurant offer in Sept 2021 in order to enable works to deliver the new asset by May 2023. To mitigate this risk it is proposed to develop the scheme to full planning consent and open market tender for future restaurant operation by end of the current financial year 2020/21. This will help to establish the financial and operational impacts of early termination.
- 2.1.6 Due to the time between the decision to approve the capital scheme in June 2020 and the commencement of works in September 2021, cost and income estimates will be reviewed before contractually committing the council to the work. This review can take into account any additional costs arising from any early termination of the current catering concession
- 2.1.7 Covid-19: Reflecting on the current budget challenges as risks around managing Covid-19 it should be noted that projected spend to deliver the project, for the current year 2020/21, would be minimal and largely confined to officer time as we develop and issue a Design and Build Tender.
- 2.1.8 The Treasury is currently consulting on changes to Public Works Loan Board terms that would prevent councils from accessing borrowing for purely commercial investments. Final proposals are not agreed. The scheme proposed in this report brings positive regeneration and service outcomes through investing in an end of life building, providing toilets and a beach office, and improving access to the beach through provision of a lift.

3. Summary of legal implications

- 3.1 The site is owned freehold by the Council with no significant covenants. Wayleave agreements for services connections and diversions will be required and may take time to secure. Negotiations for early surrender of the restaurant lease would be required if it is intended to establish the new facility by 2023.
- 3.2 Comments from Head of Legal:
 - 3.2.1 A preliminary title report needs to be undertaken to flag any show stoppers (including in respect of land over which pedestrian walkway and platform will be located). **Response:** Site is freehold owned by the Council. Cliffs are designated and will require consultation & agreement with Natural England to form the pedestrian walkway. SSE electrical plant equipment is located within

the current building and agreement will be required with Utility provider to rehouse in new build.

- 3.2.2 Wayleaves are mentioned – the terms should be reviewed to ensure they are wayleaves not leases and whether there are likely to be any relocation issues – these can be particularly costly; **Response:** this is in reference to potential services diversions. Costs based on similar agreements on seafront sites.
- 3.2.3 Procurement compliance advice should be included – this will apply if granting development lease or if tendering works contract
- 3.2.4 Legal fees of £10k seem very low if you have budgeted on the basis that this will require external legal support (and that would largely depend on capacity to undertake this project in addition to the base BAU we do) – that budget would need to cover the cost of legal fees in connection with obtaining VP (advice and deed of surrender), wayleave and title advice including purchasing searches (which can sometimes be hundreds of pounds each depending on the size of the site), drafting agreement for lease and lease; **Response:** to be reviewed further with Legal Team
- 3.2.5 Warren Edge is presumably outside the Bournemouth Development Company arrangement. **Response:** Correct.

4. Summary of human resources implications

- 4.1 A project delivery team has been identified from existing resources within the Destination and Culture team. Support from wider Council services to deliver the project will include: Corp Comms, Legal, Procurement and Property Services as well as Planning. The level of support required is set out in the Full Business Case document, appended to this report.

5. Summary of environmental impact

- 5.1 The scheme is located adjacent to a coastal flood-plain setting with environmentally designated cliffs behind. Full environmental surveys will be required in order to minimise impacts at planning stage. The facility will feature solar power generation and efficient natural ventilation systems to minimise carbon footprint.
- 5.2 The destination offer will be promoted as an eco-lodge experience on one of Britain's best beaches designed to encourage more domestic 'staycations' and offer a high-quality experience that draws a proportion of environmentally aware UK residents away from taking flights for international holidays in the future.

6. Summary of public health implications

- 6.1 The project improves access to leisure and the coastal environment for residents, and visitors, within the BCP area. This will have positive benefits to health. Until covid-19 has been successfully addressed, public health measures to limit the spread of the virus will be required through construction and operation of the new facilities. It is hoped for that health measures will

have relaxed sufficiently by 2023 to enable efficient operation of the new leisure offer

7. Summary of equality implications

- 7.1 The project delivers a transformational improvement in access to Southbourne beach with a level walkway and lift from the cliff top car park down to the promenade level.
- 7.2 Full detail of the equalities implications are set out in the Full Business Case document, appended to this report.

8. Summary of risk assessment

- 8.1 The top project risks and proposed mitigations are identified as:

Overall Project Risk Rating		
Top Project Risks	Gross Risk Rating	Mitigating Actions
Increase to Council's overall debt portfolio	High	5.5% Invest to Save borrowing rate used. Income sensitivity analysis demonstrates a further 3.3% drop in occupancy projection for Beach Lodges would still allow scheme to break even
Budget over-run	High	15% budget contingency included
Programme over-run	High	15% time contingency included
Cliff stability	High	Early survey and assessment. Provisional sum included in budget and based on costs for similar works elsewhere over a larger area (Manor Steps)
Covid related supply chain delays	High	Early engagement with supply chain.
Planning delay	High	Early engagement with Planners. Clear understanding of issues to address. Early engagement with EA critical around Lodges. Precedent set with Manor Steps scheme

- 8.2 A full risk register is included at Appendix 4

9. Background papers

Full Business Case Southbourne. This sets out the full business case and follows HM Treasury Green Book recommended five case Business Case model. It is appended to this report and provides greater detail on the summary points above.

10. Appendices

Appendix 1- Southbourne Design RIBA 2 follow link:

https://bcpcouncil.sharepoint.com/:b:/s/TourismDev/ESRZUCOOe5dFkWJaTcumW_cBGEJr6UdtsUzJiysk5VhCJw?e=a7ZyXI

Appendix 2 - Southbourne Financial Case v4 – **CONFIDENTIAL – Please note should Cabinet wish to discuss the contents of Appendix 2 the meeting will need to go into confidential (Exempt) session.**

Appendix 3 - Southbourne Cost Plan v2

Appendix 4 - Southbourne Risk Register v4